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For Immediate Release

**TRANSCONTINENTAL INC. FILES PRELIMINARY SHORT FORM BASE SHELF PROSPECTUS
FOR UP TO \$500 MILLION OF DEBT SECURITIES AND PREFERRED SHARES AND
CONSEQUENTLY REVISES 2008 FINANCIAL STATEMENTS**

Montreal (Québec), September 10, 2009 – Transcontinental Inc. announced today the filing with securities regulators in each of the provinces of Canada of a preliminary short form base shelf prospectus relating to debt securities and preferred shares for aggregate proceeds of up to \$500 million. These securities may be offered from time to time, during a 25-month period for which the short form base shelf prospectus remains valid.

Unless otherwise specified in a Prospectus Supplement, Transcontinental may issue securities under this prospectus for general corporate purposes, which may include the repayment of indebtedness and the financing of acquisitions and investments provided market conditions are favourable.

This news release shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale or any acceptance of an offer to buy these securities in any province or territory of Canada in which such offer, solicitation or sale would be unlawful prior to qualification under securities laws of any such province or territory. The securities referred to herein have not been and will not be registered under the United States *Securities Act of 1933*, as amended, or any state securities laws and may not be offered, sold or delivered within the United States of America and its territories and possessions except in certain transactions exempt from such registration requirements. The preliminary short form base shelf prospectus contains important information concerning these securities and is available on SEDAR at www.sedar.com.

In the context of the filing of its preliminary short form base shelf prospectus which includes by reference its audited consolidated financial statements for the year ended October 31, 2008, the Corporation was required to refile these financial statements as a result of the revision of the segmented information to reflect the new organizational structure of the Corporation implemented on November 1, 2008. This revision does not have any impact on other financial information comprised in the financial statements. As a result thereof, the Corporation has amended and refiled its Management's Discussion and Analysis of the financial condition and results of operations for the year ended October 31, 2008.



Given the revision, the following table sets forth the revised revenues and percentage of revenues by operating sector reflecting the new organizational structure of the Corporation for the fiscal years ended October 31, 2008 and 2007 and should be read as replacing the table shown on page 13 of the Corporation's Annual Information Form for the year ended October 31, 2008.

(in millions of dollars except for percentages)	Fiscal Years Ended October 31			
	2008 (\$)	2008 (%)	2007 (\$)	2007(%)
Printing Sector	1,536.7	63.2	1,533.0	65.9
Marketing Communications Sector	341.7	14.1	252.5	10.9
Media Sector	645.3	26.6	632.8	27.2
Inter-segment sales, other activities and unallocated amounts	(94.4)	(3.9)	(92.1)	(4.0)
Total	2,429.3	100	2,326.2	100

The Corporation has also refiled the French version of its unaudited financial statements for the six-month period ended April 30, 2009 as certain references to the notes to the financial statements were inadvertently omitted from the version filed on SEDAR. This refiling does not have any impact on other financial information comprised in the financial statements.

The Corporation's Board of Directors, on the recommendation of management, has concluded that it is necessary to refile the Corporation's audited consolidated financial statements for the year ended October 31, 2008, the Management's Discussion and Analysis for the year ended October 31, 2008 as well as the French version of the unaudited interim consolidated financial statements of the Corporation and the notes thereto for the six-month period ended April 30, 2009. Therefore, the Corporation's financial statements as previously published and filed for the year ended October 31, 2008, the Management's Discussion and Analysis as previously published and filed for the year ended October 31, 2008 and the French version of the unaudited interim consolidated financial statements and the notes thereto as previously published and filed for the six-month period ended April 30, 2009 should no longer be relied upon.

About Transcontinental

Transcontinental provides printing, publishing and marketing services that deliver exceptional value to its clients along with a unique, integrated platform for them to reach and retain their target audiences. Transcontinental is the largest printer in Canada and the sixth largest in North America. It is also Canada's leading publisher of consumer magazines and French-language educational resources as well as the country's second-largest community newspaper publisher. Transcontinental's digital platform delivers unique content through more than 120 websites. Its Marketing Communications Sector provides advertising services and marketing products using new communications platforms supported by database analytics, premedia, email marketing, and custom communications.



Transcontinental is a growing Corporation with a culture of continuous improvement and financial discipline, whose values, including respect, innovation and integrity, are central to its operation.

Transcontinental (TSX: TCL.A, TCL.B) employs approximately 13,000 employees in Canada, the United States and Mexico, and reported revenues of \$2.4 billion in 2008. For more information about the Corporation, please visit www.transcontinental.com.

-30-

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**TRANSCONTINENTAL MAINTAINS MOMENTUM IN FOURTH QUARTER AND REPORTS
EXCELLENT FISCAL 2008 EXCLUDING UNUSUAL ITEMS**

- Growth of 4% in revenues and adjusted operating income before amortization¹; excluding impact of negative foreign exchange rate, growth of 7% in both cases.
- A restructuring charge and goodwill write-off related to direct mail activities in the United States—mainly non-cash items that have no impact on cash assets and cash flow from operating activities—reduced net income from \$120.6 million in 2007 to \$7.9 million in 2008.
- Increase of 11% in adjusted net income¹, which excludes asset impairment, restructuring costs and unusual adjustments to income taxes.
- Increase of 15% in adjusted¹ earnings per share; excluding the negative foreign exchange rate impact, increase of 19%.
- Acquisitions of ThinData, a Canadian leader in permission-based email marketing; Rastar, a U.S. direct marketing company; and Redwood Communications, a North American leader in custom communications.
- Continued digital development of the Media sector, including the launch of weblocal.ca, a Canada-wide search site for local communities.
- Successful launch of *Vita*, Canada's French-language counterpart of *More* magazine.
- Contract extension to 2028, with addition of two new regions, to print the *Globe and Mail*, for total revenues of \$1.7 billion; plus six-year contract with Rogers Communications valued at \$35 - \$40 million per year to print all of Rogers' magazines, starting in 2009.
- Multi-year agreement, in effect since April 2008 and valued at about \$25 million a year, to print flyers for Shoppers Drug Mart-Pharmaprix all across Canada.
- Corporation purchased 2.9 million shares, totalling \$49 million, under its share buy-back program.
- Excellent financial position with a view to continued growth.

Montreal, December 11, 2008 – Transcontinental kept its momentum in the fourth quarter and ended fiscal 2008 with adjusted earnings per share of \$1.73, compared to \$1.50 in 2007, up an appreciable 15%. Adjusted net income, which excludes asset impairment, restructuring costs and unusual adjustments to income taxes, is a good indicator of the Corporation's operating performance. Excluding the negative impact of the foreign exchange rate, adjusted earnings per share would have been \$1.78, an increase of 19% over 2007. The good performance of most of the Corporation's business segments, along with a decrease in the tax rate and interest rates, largely offset the negative impact of the

1. See *Reconciliation of Non-GAAP Financial Measures*, page 7.



financial crisis on the Corporation's direct mail operations in the United States, the average rise in the Canadian dollar compared to its U.S. counterpart, and strategic investments in the Media sector.

"I am proud of our 2008 results, which again demonstrate our ability to grow in tough economic times," said François Olivier, President and Chief Executive Officer of Transcontinental. "We are now reaping the benefits from our investments in our network of printing plants over the past several years, from the development of our brands and their deployment on our digital platforms, as well as from our efforts to continually improve efficiency and reduce costs."

"I am convinced that we have the assets, organizational capability, growth strategy, values and people to stay in the top ranks of our industry in North America. Conditions look difficult for 2009, but we will benefit from the start of our contracts to print Rogers Communications' magazines and the *San Francisco Chronicle* daily, as well as from the full-year impact of the Shoppers Drug Mart-Pharmaprix flyer-printing contract, acquisitions made in 2008 and the launch of new products in the Media sector. I have also asked our people to immediately identify ways we could reduce our production capacity if the economic situation demands it and our action plan is ready."

To conclude, Mr. Olivier said that "we are going to continue to focus on our four priority areas of growth: an integrated marketing communications service offering, an offering of content and solutions on multiple platforms aimed at Canadian women and local communities, and an integrated print service offering for publishers."

The Corporation is in an excellent financial position to continue its growth, with a net indebtedness to total capitalization ratio of 39% as at October 31, 2008, at the low end of the range of 35% - 50% set by management.

New Operating Structure

Transcontinental's primary mission is to help its customers reach and retain their target consumers. Management therefore plans to accelerate the development of new services in advertising personalization and new communication platforms, while strengthening and broadening its core services in publishing and printing. To support this growth strategy, management introduced a new operating structure in early fiscal 2009 and created the Marketing Communications Sector. This third sector (the other two being Media and Printing) will concentrate on the design and development of new marketing services. Initially it will cover the following activities: data analysis, premedia, permission-based email marketing, personalized marketing, custom communications and the printing of marketing products. The Marketing Communications Sector has annualized revenues of about \$400 million.

Financial Highlights

For the 12-month period ended October 31, 2008, consolidated revenues rose 4%, from \$2.33 billion to \$2.43 billion. Adjusted operating income before amortization also rose 4%, from \$350.4 million to \$364.5 million. Excluding the exchange rate effect between the Canadian dollar and its U.S. and Mexican counterparts, which reduced revenues by \$47.9 million and adjusted operating income before



amortization by \$11.7 million, revenues would have grown 7% and adjusted operating income before amortization would have grown 7% as well.

Net income declined from \$120.6 million in 2007 to \$7.9 million in 2008. This is mainly due to the restructuring charge related to the consolidation of direct mail activities in the United States, close to two thirds of which had no impact on cash, and to the write-off of goodwill related to these activities, which represents a non-cash charge that has no effect on liquidity or cash flow from the Corporation's operating activities. Net of applicable income taxes, these unusual items totalled \$141.8 million in the fourth quarter of 2008, or \$1.74 per share. On a per-share basis, net earnings decreased from \$1.42 to \$0.10.

Adjusted net income, which excludes asset impairment, restructuring costs and unusual adjustments to income taxes, rose 11%, from \$127.2 million to \$141.6 million. On a per-share basis, adjusted net earnings increased 15%, from \$1.50 to \$1.73; the higher percentage reflects the positive impact of the Corporation's share buy-back program. Excluding the negative impact of the foreign exchange rate in fiscal 2008, adjusted earnings per share would have been \$1.78, up 19% over 2007. This measurement is a good indicator of the Corporation's operating performance in 2008.

In the fourth quarter, Transcontinental's consolidated revenues rose 6% to \$653 million, versus \$618 million in the same quarter in 2007. Adjusted operating income before amortization increased 8%, from \$100.6 million to \$108.7 million. Excluding the fluctuations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts, which raised revenue by \$1.6 million and adjusted operating income before amortization by \$2.1 million, revenue growth would have been 5% and adjusted operating income before amortization would have been 6%.

Net income decreased from \$38.6 million to a loss of \$94.2 million; on a per-share basis, it dropped from earnings of \$0.46 to a loss of \$1.17. Adjusted net income, which excludes asset impairment, restructuring costs and unusual adjustments to 2007 income taxes, rose 22%, from \$39.3 million to \$48 million; on a per-share basis, adjusted net earnings increased 26%, from \$0.47 to \$0.59. Excluding the impact of the foreign exchange rate, adjusted earnings per share would have grown 21%.

For more detailed financial information, please see *Management's Discussion and Analysis for the Fiscal Year Ended October 31, 2008*, as well as the complete financial statements, at www.transcontinental.com, under "Investors."

Operating Highlights

Here are the main operating highlights, by sector, for fiscal 2008.

Media Sector

- Transcontinental invested about \$8 million in the strategic development of the Media sector, focusing on digital technology. One of the highlights was the launch of weblocal.ca, an online search site for finding and reviewing local businesses and their products and services in communities across Canada. Highly interactive, weblocal.ca generates its content from information



shared by users who can also access reviews on other websites, create a profile, set up a community of friends and neighbours and use the mobile search functions. This initiative reflects management's plan to increase local advertising revenues, a key area of growth for Transcontinental.

Fiscal 2008 was also marked by a series of promising digital initiatives. These included the purchase of Acquisition.biz, the most important marketplace in Canada for buying and selling businesses; the launch of the website recipefeast.com, the English-language version of the very popular site recettes.qc.ca, which now receives close to a million visitors a month; making the popular site thehockeynews.com, which has over 300,000 visitors a month and whose print publication has a readership of more than two million, available via mobile devices (cell phones, Blackberry and Apple's iPhone); and the acceleration of the migration of all community newspapers to a digital platform through a partnership with NewspaperDirect and its leading-edge technology in digital publishing.

Today, Transcontinental has over 120 Web sites whose revenues have increased 30% in the past year, from \$13 million in 2007 to \$17 million in 2008.

- In addition to creating new services, Transcontinental's strategy is to strengthen and broaden its core publishing activities. This led to the launch in September 2008 of *Vita*, the French-language version of Canada's *More* magazine, aimed at women in the 40+ demographic. Building on the unprecedented success of *More* since it was introduced in March 2007, *Vita* reinforces Transcontinental Media's position as Canada's leading consumer magazine publisher, with more than 40 titles.
- Free daily papers are a response to new channels for information delivery, particularly for a young and active readership. Transcontinental pioneered this format in Canada when it introduced the *Métro* paper in Montreal. In February 2008, in partnership with Metro International S.A. and Torstar Corporation, Transcontinental launched the free *Metro* daily in Halifax, Nova Scotia. The launch followed on the decision to stop publishing the Halifax *Daily News*, as management believed a free publication was better suited to the Halifax market.

Marketing Communications Sector

- Once an acquisition has been completed, the challenge is to integrate the new business quickly, efficiently and smoothly. One of the highlights of 2008 was the successful integration of PLM Group and its 500 employees, which surpassed our forecasts for synergies. Located in Toronto, this Canadian direct marketing leader enriches the service offering in the Marketing Communications Sector and offers its clients database analytics, premedia, email marketing and custom communications services.
- In March, Transcontinental acquired ThinData Inc., Canada's leader in permission-based email marketing. ThinData's offering fits in perfectly with Transcontinental's strategy to add new services and offer its customers unique business solutions and the growth objectives foreseen for the first year have been exceeded. ThinData works with Canada's largest marketing and advertising



agencies and has received many awards and prizes for its innovative campaigns. It has about 60 employees.

- In September, Transcontinental announced that it had acquired Rastar, Inc, a U.S. direct marketing company headquartered in Salt Lake City. Rastar specializes in interactive database marketing and variable data digital printing, which enable fully personalized marketing communications. Rastar has annual revenues of about US\$50 million, a workforce of about 350 employees and a customer base that includes many *Fortune 500* companies.
- Custom communications are an important part of Transcontinental's marketing communications offering. In 2008, the Corporation first set up Transcontinental Custom Communications, a joint venture with Seven Squared, one of the top custom publishing agencies in the United Kingdom. Then in November, Transcontinental bought Redwood Custom Communications, a leading North American company headquartered in Toronto. Redwood provides turnkey publishing with personalized content for print and digital channels. Its services include data compilation, research and results tracking, and database marketing. The business has about 130 employees.
- Outsourcing is an asset for Transcontinental's future growth, made possible by the Corporation's great business credibility. In 2008, Loblaw joined other major Canadian retailers who have decided to outsource their premedia services to Transcontinental.

Printing Sector

- With respect to business development, in February Transcontinental signed an exclusive six-year contract to print all of Rogers' 70 magazines, including *Châtelaine*, *Maclean's*, *L'actualité* and *Canadian Business*. This contract, valued at \$35 million - \$40 million a year, is all new business for Transcontinental and takes effect on February 1, 2009. Transcontinental plans to develop this promising partnership by offering Rogers all of its products and services.

Furthermore, in August, Transcontinental announced that it had signed a \$1.7 billion contract to print the *Globe and Mail* until 2028 in most of the *Globe and Mail's* main markets in Canada. This contract takes effect at the end of 2010. In addition to extending the agreements covering the Atlantic provinces, Quebec and Ontario, the contract adds two new markets: Alberta and British Columbia. For Transcontinental, the contract will bring in annual revenues of about \$95 million, of which some \$25 million is new business. In 2009 and 2010, Transcontinental will invest about \$200 million to set up an innovative platform to print newspapers and flyers across Canada, a first in the country.

Lastly, since April, Transcontinental has been printing the flyers for Shoppers Drug Mart-Pharmaprix all across Canada. This multi-year arrangement, valued at about \$25 million a year, represents new business for which the Corporation does not have to make any additional investments.

- Transcontinental is continually investing in its future. As part of its *Evolution 2010* business project, the Corporation is investing an average of \$120 million a year in capital expenditures, close to



double the industry average as a percentage of revenues. This amount excludes capital spending for outsourcing projects like the *San Francisco Chronicle*, which Transcontinental will start printing in 2009. In 2008, the Corporation invested \$273 million in fixed assets.

Major projects included \$60 million to expand the Transcontinental Transmag newspaper printing plant, in Montreal, and purchase state-of-the-art equipment that allows customers to put colour on every page of their publications; a further \$20 million to buy sophisticated equipment for magazine and catalogue printing at Transcontinental Interweb Montréal; and another \$20 million to buy additional equipment to print the Rogers magazines at its printing plant in Owen Sound, Ontario.

- The extreme volatility of the financial markets has had a major impact on the marketing programs of the financial institutions that form a major segment of Transcontinental's direct mail customers in the United States. In October 2008, the Corporation approved a plan to restructure its direct mail activities in the United States by consolidating production from its Warminster, PA facility to its facility in Hamburg, PA. The transfer will be completed in January 2009 and will entail the elimination of 460 jobs. The annual production capacity of Transcontinental Direct USA will drop from 5 billion direct mail pieces to 3.5 billion. This consolidation will result in more efficient production, allowing Transcontinental to maintain its leadership position in this industry in the U.S. The Transcontinental Direct USA subsidiary is one of the Corporation's 14 operating groups; it accounts for about 10% of the Corporation's consolidated revenues.

Sustainable Development

Transcontinental has exercised its leadership in sustainable development in its own way, that is, by mobilizing its employees and taking concrete action. Highlights in 2008 included the following:

- FSC certification of nine more of its facilities in Canada and the U.S. by the Forest Stewardship Council, which certifies that a product meets its social and environmental standards. This brings to 18 the number of Transcontinental's plants that are FSC certified;
- The launch of an oxo-biodegradable Publi-Sac (Ad-Bag). The bag is now made of biodegradable plastic thanks to a technology developed by EPI, a pioneering Vancouver firm in the field of environmental technologies;
- Sponsorship of the National Environment Show, the biggest event of its kind in Quebec, held at the Old Port of Montreal;
- The publication of four new issues of the magazine *Vision durable*, whose mission is to help business people take action to support sustainable development;
- The print customer mail-out of eight issues of *Éco-Questions*, a newsletter that addresses issues, trends and terminology as they relate to the environment and printing;
- And the participation of Transcontinental, with four other major corporations, in a project to improve energy efficiency in cooperation with the *Association québécoise de la maîtrise de l'énergie*.

These initiatives show that Transcontinental management is very committed to sustainable development, and management is convinced that all of these efforts will help it create long-term value for employees, customers and shareholders. Furthermore, this commitment has been recognized, once



again, by Jantzi Social Index® (JSI), an index composed of a select group of 60 Canadian corporations chosen for their performance in the area of social and environmental responsibility. Transcontinental has been on this index since 2004.

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 years ended October 31
(unaudited)

(in millions of dollars, except per share amounts)	2008	2007
Net income	\$ 7.9	\$ 120.6
Non-controlling interest	(0.4)	0.3
Income taxes	(31.0)	53.6
Discount on sale of accounts receivable	9.3	11.1
Financial expenses	30.5	32.2
Impairment of assets and restructuring costs	219.5	9.7
Amortization	128.7	122.9
Adjusted operating income before amortization	\$ 364.5	\$ 350.4
Net income	\$ 7.9	\$ 120.6
Impairment of assets and restructuring costs (after tax)	145.2	6.6
Unusual adjustments to income taxes	(11.5)	-
Adjusted net income	141.6	127.2
Average number of shares outstanding	81.7	84.9
Adjusted earnings per share	\$ 1.73	\$ 1.50
Cash flow related to operating activities	\$ 287.0	\$ 241.0
Changes in non-cash operating items	(12.9)	(48.1)
Cash flow from operating activities before changes in non-cash operating items	\$ 299.9	\$ 289.1
Long-term debt	\$ 602.1	\$ 523.3
Current portion of long-term debt	194.3	14.2
Cash and cash equivalents	(90.7)	(48.5)
Net indebtedness	\$ 705.7	\$ 489.0

Corporate Affairs

On November 14, 2008, Transcontinental announced the immediate appointment of Brian Reid as president of the Printing Sector. This sector comprises services to retailers and publishers of newspapers, magazines, books and catalogues, direct mail activities in the United States and operations in Mexico. It has about 8,500 employees and annualized revenues of over \$1.5 billion. Mr. Reid now also sits on the Corporation's Executive Committee. He joined Transcontinental in 1992 and from 2003 was the Senior Vice President, Catalogue and Magazine Printing Group, Canada and the United States. Mr. Reid is based in Toronto.



Normal Course Issuer Bid – Fiscal 2008

On December 17, 2007, 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 its 66,679,889 issued and outstanding Class A Subordinate Voting Shares as of December 10, 2007, and up to 845,271 of its Class B Shares, representing 5% of its 16,905,432 issued and outstanding Class B Shares as of December 10, 2007.

As at October 31, 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. It also bought 8,000 of its Class B Shares at a weighted average price of \$18.34 for a total consideration of \$0.2 million. The 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.

The Corporation did not buy back any shares in the normal course of business in the fourth quarter.

Dividend

At its December 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 January 23, 2009 to shareholders of record at the close of business on January 5, 2009. On an annual basis, this represents a dividend of \$0.32 per common share.

Additional Information

Upon releasing its fiscal 2008 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

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

The forward-looking information in this release is based on current expectations and information available as of December 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.

-30-

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Amended Management's Discussion and Analysis

For the year ended October 31, 2008

The purpose of this Management's Discussion and Analysis is 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 December 11, 2008 except for the effect of the retrospective adjustments for a change in the Segmented information as described in note 27, which is as of September 10, 2009.

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 23.

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, namely 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 and retain 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 December 11, 2008.

HIGHLIGHTS FISCAL 2008

- Revenues for fiscal 2008 increased 4.4% over fiscal 2007, to \$2,429.3 million, from \$2,326.2 million, principally as a result of the contribution from acquisitions, net of divestitures and closures as well as organic growth. This growth was partially offset by the negative exchange rate effect. Excluding the negative exchange rate effect, revenues would have increased 6.5%.
- Adjusted operating income before amortization increased 4.0% to \$364.5 million, from \$350.4 million, principally as a result of the contribution from acquisitions, divestitures and closures but also organic growth. This growth was partially offset by the negative exchange rate effect. Excluding the negative exchange rate effect, adjusted operating income before amortization would have increased 7.4%.
- Adjusted operating income margin before amortization decreased to 15.0% in fiscal 2008, from 15.1% in fiscal 2007. Excluding the negative exchange rate effect, the adjusted operating income margin would have been 15.2% in fiscal 2008.
- Announced that Transcontinental Direct USA Inc., our direct mail subsidiary in the U.S., will consolidate production from its Warminster, PA facility to its facility in Hamburg, PA. The transfer of production will be complete in fiscal 2009. Total costs related to this consolidation are expected to reach \$35.1 million before tax. Of this total cost, an amount of \$22.7 million before tax (\$15.0 million after tax) was charged to income as restructuring costs in fiscal 2008. In light of the significant and abrupt deterioration of market conditions in the fourth quarter of fiscal 2008, we performed a goodwill impairment test for our U.S. direct mail business. As a result, a non-cash amount of \$192.1 million before tax (\$126.8 million after tax) was charged to income as impairment of assets in fiscal 2008.
- Closed the *Daily News* in Halifax. Total costs related to this closure of \$4.3 million before tax (\$3.1 million after tax) were charged to income as impairment of assets and restructuring costs in fiscal 2008.
- Entered into an agreement with the tax authorities and settled an 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 fiscal 2006 with regards to this obligation. Therefore, a decrease of \$4.5 million in current income tax expense has been recorded to reflect this settlement.
- Net income decreased \$112.7 million, from \$120.6 million in fiscal 2007 to \$7.9 million in fiscal 2008. This decrease is primarily due to an unfavourable variation in unusual items (related mainly to the above-mentioned impairment of goodwill of \$126.8 million after tax, restructuring costs and income taxes), the negative exchange rate effect as well as higher amortization expenses, partially offset by the contribution from acquisitions, divestitures and closures, organic growth and by the reduction in financial expenses and income taxes. On a per-common-share basis, it decreased from \$1.42 to \$0.10.
- Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes, increased \$14.4 million, or 11.3%, from \$127.2 million in fiscal 2007 to \$141.6 million in fiscal 2008. On a per-common-share basis, it increased 15.3%, from \$1.50 to \$1.73. This higher percentage reflects the positive effect of the Corporation's share buy-back program. Excluding the negative exchange rate effect in fiscal 2008, the adjusted earnings-per-share would have been \$1.78, representing an increase of 18.7% over 2007.
- Announced a new operating structure to support our growth strategy by creating the Marketing Communications Sector.
- Acquired Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing; acquired ThinData Inc, Canada's leading permission-based email marketing services firm; and at the beginning of fiscal 2009, we acquired Redwood Custom Communications, a North American leader in custom communications.
- Launched new products: *Vita* magazine, the French edition of *More* magazine for the Canadian market; and *Metro*, a free daily newspaper in Halifax.
- Gained new printing business with a number of clients, including *The Globe & Mail*, Rogers and Shoppers Drug Mart® (Pharmaprix® in Québec).
- Invested over \$193.6 million in four major projects previously announced, namely the *San Francisco*

Chronicle project, the Transmag project, the investment for the new Rogers contract and the Interweb Montreal project.

- Invested approximately \$8.0 million in strategic investments (\$5.0 million was capitalized) related to our strategic initiatives in the Media sector. Our unique monthly visitors increased 10% versus fiscal 2007 while our reach into the total Canadian internet audience increased from 13.2% to 14.7% (as per Com Score).
- Bought back 2.9 million shares during fiscal 2008 for a total consideration of \$48.7 million, in accordance with our Normal Course Issuer Bid. Therefore, over 85% of the authorized repurchases has been completed for the Class A Subordinate Voting shares.
- Increased our quarterly dividend by 14% to \$0.08 per share.
- Solid financial position to pursue growth, with a net indebtedness to total capitalization ratio of 39% as at October 31, 2008, at the low end of our target range.
- DBRS has maintained its BBB (high) rating for Transcontinental Inc. and improved the trend for its Senior Unsecured Debentures
- François Olivier became President and Chief Executive Officer at the Corporation's annual shareholders' meeting on February 20, 2008.

TRANSCONTINENTAL PROFILE

Transcontinental provides printing, publishing and marketing services that deliver exceptional value to its clients and provide a unique, integrated platform for them to reach and retain their target audiences. Transcontinental is the largest printer in Canada and sixth-largest in North America. It is also the country's leading publisher of consumer magazines and French-language educational resources, its second-largest community newspaper publisher, and its digital platform delivers unique content through more than 120 Web sites. Its Marketing Communications Sector provides advertising services and marketing products using new communications platforms supported by database analytics, premedia, email marketing, and custom communications. Transcontinental is a growing company with a culture of continuous improvement and financial discipline, whose values, including respect, innovation and integrity, are central to its operation.

Transcontinental (TSX: TCL.A, TCL.B) has approximately 15,000 employees in Canada, the United States and Mexico, and reported revenues of C\$2.4 billion in 2008.

STRATEGY

Our ultimate goal is to ensure the sustained growth and profitability of Transcontinental while promoting the common interests of its employees, customers and shareholders, the three pillars of the organization. Our strategy is based on several fundamental principles: to be the leader in the markets we serve, to have a disciplined approach to acquisitions, to foster a culture of continuous improvement and to exert financial discipline. These underlying principles are supported by the *Evolution 2010* business project and have served us well in the past.

Having said this, our mission is primarily to help our customers identify, reach and retain their target consumers. We do this by offering products and services in printing, publishing and marketing, which include many new web-based technology platforms that our clients are increasingly using in their marketing campaigns. We plan to continue to adapt to the new realities of our customers in order to help them increase the return on their advertising dollars. In fact, our vision is to build a profitable, North American leadership position as a communications solutions provider.

Trends in the Marketplace

The publishing and printing industries are currently in transition. A number of trends have been underway for some time. Marketing is moving from a mass marketing approach to a one-to-one targeted approach as marketers focus more and more on return on investment and measurability. As such, campaigns are increasingly transitioning from product centric to customer centric as advertisers want to create relationships with consumers rather than push their products. Concurrently, the rise of new media, digital platforms and changing consumer habits coupled with the increasing availability of data and technology to make better use of this data, is creating audience fragmentation, personalization of content, user-generated content and web-based communities. The emergence of the Generation Y is influencing the media mix chosen by marketers and altering the way information is shared and organized in the workplace. In fact, the velocity of certain trends has increased. This is especially true for the rate of adoption of digital technologies and the ensuing migration of advertising dollars toward online platforms.

The ongoing transformation of the media and marketing industries is having a profound impact on the printing industry as a whole. Printed products remain key components in the media mix. In fact, growth is confined to selected niche segments and to players who garner state-of-the-art technologies. These new technologies enable a better response to customers' ever-growing needs while at the same time allows printers to gain operational efficiency.

In addition, macroeconomic factors, including the globalization of markets, the rise of environmental and social consciousness and the volatility of the Canadian dollar, are all having an effect on our business as well as more

recent happenings including the U.S. and Canadian economic slowdown, the financial crisis and the changing state of the U.S. newspaper publishing industry.

Taken as a whole, these new trends have started to have an impact on the demands and expectations of our customers. In fact, they have driven our customers to increasingly experiment with one-to-one marketing, new platforms and an integrated service offering from their suppliers.

A Two-Pronged Strategy

In light of this new environment, we have decided to re-focus our strategy in order to continue to fulfill our mission. We believe we can accomplish this using a two-pronged approach: (1) build on our existing business and (2) develop new opportunities in marketing communications. That is how we believe we can maximize our growth potential.

1) Build on our existing business

We have been in business for over 30 years and have built a solid foundation for future growth. We have core assets that can help us reinvent our business: we master print-based communication products, we have the ability to distribute relevant content with targeted multi-channel reach and we are moving towards becoming a customer centric organization, serving advertisers as well as end-consumers. Over the years we have built credibility in the market through:

- Solid relationships with our customers by delivering quality products and services;
- Strong brands and relevant content in our magazines, newspapers and digital platform by investing strategically;
- State-of-the-art capital assets by investing above the industry average for many years;
- Current and expanded product and service offering by leveraging opportunities both internally and externally through acquisitions;
- A culture of continuous improvement throughout the Corporation by instilling the principles of Kaizen and 5S;
- A strong management team by striking a good balance between internal promotions and external hires.

In fact, this year alone we have significantly developed our existing business of printing and publishing assets. Below is a list of our selected accomplishments in fiscal 2008:

- Awarded \$1.7 billion contract to print *The Globe and Mail* in most of its major markets in Canada until 2028
- Gained a multi-year agreement with Shoppers Drug Mart® (Pharmaprix® in Québec) to print its retail flyers valued at approximately \$25 million per year
- Signed an exclusive 6-year contract for the printing of Rogers complete magazine portfolio valued at approximately \$35-40 million per year, paper included
- Launched *Vita*, the French edition of *More* magazine for the Canadian market
- Launched *Metro* in Halifax
- Acquired several community newspapers

In sum, our existing business is solid and generates considerable cash flow from operations. We strongly believe we can grow above the industry average given the credibility we have built in the marketplace over the years combined with our strong competitive position and healthy balance sheet.

2) Develop opportunities in marketing communications

Transcontinental derives about 80% of its revenues from the marketing budgets of its customers. Traditionally we have been focused on the campaign execution portion of the marketing services value chain. In the future our expertise will increasingly go across the marketing services value chain. As a result, in addition to building on our existing business we will develop new opportunities focused on new platforms, one-to-one advertising and an integrated service offering.

In fact, this year alone we have developed a number of new opportunities both internally and externally through acquisitions. Below is a list of our selected accomplishments in fiscal 2008:

- Acquired Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing
- Acquired ThinData Inc, Canada's leading permission-based email marketing services firm
- Acquired acquisition.biz, Canada's largest web-based platform for buying and selling businesses
- Invested approximately \$8 million in strategic investments in our Media sector, mainly related to our digital assets (weblocal.ca, InMemoriam.ca, recipefeast.com, etc.)
- Gained the complete outsourcing of Loblaws' premedia business
- Acquired Redwood Custom Communications, a North American leader in custom communications, after the end of the year

In sum, we have already started to develop our new integrated service offering for advertisers. We believe the combination of the solid foundation we have built over the years with our existing business coupled with our niche-based strategy and the opportunities that these new trends present puts us in a strong competitive position to leverage opportunities in the long term. In fact, we believe we can grow these new services at a pace that exceeds our overall organic growth objective of 5% on average per year.

Notwithstanding this, we expect to face some headwinds as we execute on these new opportunities. In essence, the looming recession may slow down the growth of these new services; we will have to evolve from a manufacturing focus to a more marketing focus; our selling process will have to become increasingly integrated and finally; we will have to change the market's perception of us as a printer and publisher.

Four Areas of Focus

We have identified four areas of focus we want to develop going forward: (1) Integrated Marketing Services (2) Women Content & Solutions (3) Local Community Content & Solutions and (4) Integrated Solutions Provider for Publishers. Below is a brief description of each area of focus.

- Integrated Marketing Services - The premise is to offer various services across the marketing services value chain. Historically we have offered services primarily in the campaign execution portion of the marketing services value chain. Our current capabilities include email marketing, database, custom communications, premedia and interactive marketing. Our competitive advantages include our existing expertise, new interactive capabilities and customer relationships. Our recent initiatives include the above-mentioned acquisitions which fit this strategy very well.
- Women Content & Solutions - The premise is to offer effective solutions for advertisers trying to reach any specific group of women in Canada. This can be achieved by offering solutions on multiple platforms. Our current capabilities include magazines, websites, merchandising and books. Our competitive advantages include our strong brands, quality content, multi-channel expertise, customer relationships, national coverage

(French and English), database of seven million subscribers and the knowledge of what interests women. Our recent initiatives include the launch of Vita magazine and recipefeast.com.

- Local Community Content & Solutions - The premise is to offer effective solutions for advertisers trying to reach local communities. This can be achieved by offering solutions on multiple platforms. Our current capabilities include newspapers, websites, ad bag and weblocal.ca, a local web search engine. Our competitive advantages include our 400 salespeople, customer relationships locally, local content, partnership for technology, our leadership position in Eastern Canada and the fact that we have a strong market position in printing and distributing activities. Our recent initiatives include the launch of Weblocal.ca, Metro in Halifax and InMemoriam.ca, as well as the migration of our newspapers online using NewspaperDirect and the acquisition of numerous local newspapers.
- Integrated Solutions Provider for Publishers - The premise is to offer value added services for publishers so that they can focus on their core business. Our current capabilities include book printing, magazine printing, newspaper printing and digital printing. Our competitive advantages include our niche focus, proven track record, long term contracts, capital investments above industry average, unique newspaper outsourcing model and our national network of plants. Our recent initiatives include our new business with the *San Francisco Chronicle*, *The Globe and Mail* and Rogers.

New Structure

To support this growth strategy we have made adjustments to our operating structure. Our new structure will comprise three sectors and has been in effect since November 1, 2008.

The Media Sector consists of our magazine, newspaper and book publishing activities, our distribution activities and more than 120 websites. The core competency of the Media Sector is creating top-quality content and deploying it on multiple platforms. Its four groups have been refocused to reflect two of the priority growth areas mentioned above: our offering of content and solutions for Canadian women; and our offering for local communities, which now incorporates our newspaper publishing and distribution activities.

The Printing Sector consists of our services to publishers of newspapers, books and magazines, our Mexican operations, our direct mail activities and our service offering for retailers. Its core competency is manufacturing excellence. It will have a dual challenge: to develop a print offering that is integrated and tailored to publishers – one of our priority areas of growth – as well as retailers; and to continue to improve efficiency and reduce costs.

The Marketing Communications Sector consists of our data analysis, premedia, online direct marketing, one-to-one marketing, custom communications, as well as our printing of marketing products and fulfillment. Its core competency is knowledge of the latest trends in marketing and the new platforms for reaching consumers. The challenge for this team will be to develop an integrated offer in marketing communications services, one of our four priority areas of growth.

Acquisitions

An intrinsic part of our strategy is to grow through strategic acquisitions. We are committed to maintaining a disciplined approach when making acquisitions. We ensure that the companies we acquire fit our stringent acquisition criteria: (1) fit our strategic plan (2) be profitable and growing (3) provide synergies with our operations (4) have good management and compatible corporate culture and (5) be accretive to earnings and EVC positive within a reasonable period of time. In fiscal 2008 we have made a number of strategic acquisitions:

- Redwood Custom Communications (acquired in November 2008, after the year-end) – a North American leader in custom communications. Redwood is a full service marketing and communications company and creates turn-key custom publishing and branded content solutions for both print and digital platforms. Redwood's offering includes data sciences, research and measurement, database marketing, variable printing, photo studio and premedia tools. This makes it an attractive complement to the services offered by Transcontinental's newly created Marketing Communications Sector.
- 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. 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.
- 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.
- 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.
- Community Newspapers: *L'Autre Voix*, *Corriere Italiano*, *The Springhill-Parrsboro Record* and *L'Express le journal d'ici*. While small, these acquisitions are tuck-ins in markets we already serve or adjacent markets.

Evolution 2010

Evolution 2010, the business project that was launched in November 2005, continues to be the backbone of the two-prong strategy highlighted above. *Evolution 2010* identified the key issues underlying our future growth: Talent, Sales Growth, Efficiency and Digital. The focus of the Talent issue is to attract, develop and retain the best talent that will enable us to achieve our strategic objectives and foster engagement; the focus of the Sales Growth issue is to increase global organic sales growth by 5% on average per year by maximizing our sales and marketing effectiveness; the focus of the Efficiency issue is to increase both production and administrative efficiency and finally; the focus of the Digital issue is to broaden our offering through products and services based on digital capabilities.

Below you will find a table summarizing the financial objectives of *Evolution 2010* and Transcontinental's performance in the past three fiscal years in relation to these objectives. It is important to note that these financial objectives are not to be construed as guidance or forecasts for any individual year, but rather as long-term targets that we strive to achieve over the length of the *Evolution 2010* business project.

Financial Objectives	2006	2007	2008	Analysis and Comments
Increase economic value creation (variance compared to previous year)	N/A *	(\$18M)	(\$28M)	We have been unable to increase the economic value created principally as a result of the negative foreign exchange impact as well as capital expenditures related to major projects (the <i>San Francisco Chronicle</i> and Transmag) coupled with acquisitions, all of which have required an outflow of capital and have not yet contributed to earnings.
Grow sales organically by 5% on average per year	0%	3%	2%	While organic growth remains under our 5% target, the Corporation has made significant progress over the last three years. We should build on this progress in the coming years as we will reap the benefits from several wins including the <i>San Francisco Chronicle</i> project, the new Rogers and Shoppers Drug Mart® (Pharmaprix® in Québec) business and the new <i>The Globe and Mail</i> contract to name just a few.
Grow adjusted earnings per share excluding the foreign exchange impact by 10% on average per year	N/A*	11%	19%	We have surpassed our objective since the launch of the business project. We continue to believe we will meet this growth objective at the conclusion of the business project, given our new wins and our strong market position.
Maintain a range of net debt to total capitalization ratio excluding securitization of 35% to 50%	25%	29%	39%	Our net debt to total capitalization ratio stands at 39%, at the low end of the range set by management. We expect this ratio to go up slightly over the next year as we need to finance our previously announced accelerated capital expenditure program.
Invest \$120 million on average per year in capital assets (excluding newspaper outsourcing projects)	\$114M	\$92M	\$131M	Our capital expenditures, excluding newspaper outsourcing projects, were in line with our objective this year as we announced a number of major projects (Transmag, Interweb and RBW Graphics). However, in the next two years these capital expenditures will be reduced as we focus on the <i>San Francisco Chronicle</i> and <i>The Globe and Mail</i> projects.
Sustain dividend growth	19%	10%	13%	The Corporation has continued to sustain its dividend growth in fiscal 2008, increasing its dividend by 13%.

* Due to the restatement of financial results in December 2007, this data is no longer available.

ENVIRONMENT

We recognize the critical nature of environmental issues, and take extensive precautions to protect our natural world. Transcontinental is not a major contributor to Greenhouse Gases (GHG). But that does not mean that we are not concerned about the impact of our activities on air quality. Striving everyday to improve our environmental performance, our company-wide environmental policies and procedures are founded on three main guiding principles: (1) protect the environment for present and future generations, (2) reduce risks and improve efficiencies, and (3) introduce improved technology and processes. The following describes our environmental policies and examples of how we are implementing them.

Policies

- *Paper Purchasing Policy*- Transcontinental promotes the use of environmentally preferable papers. With respect to fibre sourcing, Transcontinental promotes the use of papers with maximized post-consumer and de-inked recycled fibre and also encourages the use of papers made with pre-consumer recovered fibre or alternative fibres in preference to virgin wood fibre. Where virgin wood fibre is required, preference will be given to forest fibre from sustainable forests, certified by a recognized organization, avoiding fibre from high conservation value forests where those values are not protected. Other papers may also be promoted where it can be shown that there is an overall environmental advantage, in keeping with the principles of sustainable development. This will be addressed more systematically as better information becomes available about the environmental aspects of each paper.
- *Compliance to Applicable Legal Requirements*- Transcontinental complies in all material respects with applicable environmental laws, including federal, provincial/state and municipal/local laws.
- *Environment Protection*
 - *Product Stewardship*- Transcontinental recognizes that it shares in the responsibility for the environmental impact of the products it produces. Therefore, we cooperate with other public and private bodies to develop systems for the recovery, re-use and recycling of the company's products.
 - *Eco-Efficiency*- We will strive to improve our products and processes so as to progressively reduce routine discharges of contaminants and to use resources efficiently.
 - *Climate Change and Energy Use*- Transcontinental recognizes the dual challenge of climate change and energy supply security. Therefore, we will maximize the efficiency of our operations and encourage a transition to low carbon fuels and renewable energy.
 - *Waste Management*- Transcontinental will strive to reduce its waste and to re-use and recycle materials. We will strive to minimize the generation of hazardous waste.
 - *Risk Management*- Transcontinental will strive to avoid accidental discharges of contaminants into the environment and will prepare emergency plans so that it can diligently contain and clean up any potential environmental incidents. We evaluate environmental risks prior to acquiring properties or businesses, and prior to changing or undertaking major new activities.
 - *Supply Chain Improvement*- We encourage our suppliers to adopt environmental practices consistent with this policy.

- *Monitoring and Reporting*- We monitor our performance in carrying out this policy.
- *Communication*- Transcontinental foster openness and dialogue with all stakeholders, including employees, regulators, neighbours, shareholders, suppliers, customers and the public, concerning the environmental impacts of Transcontinental activities, and will be responsive to their legitimate concerns.
- *Continuous Improvement*- Transcontinental strives to continuously improve its environmental performance.

Implementation

- We have developed a Classification of Environmental Papers and supporting documentation that will guide the implementation of the Paper Purchasing Policy. The Classification of Environmental Papers can be found on our internet site at www.Transcontinental.com.
- Transcontinental started to use an Environmental Products Inc. (EPI) certified biodegradable plastic bag for its Publi-Sac, a well-known tool used to distribute marketing material door-to-door to households in Quebec and eastern Ontario. The plastic is engineered to degrade and totally fragment in 90 to 120 days and to biodegrade in a further 12 to 24 months after disposal.
- We support the Carbon Disclosure Project (CDP) to reduce the production of CO2. Transcontinental is the only major North American printer to have responded to the CDP questionnaires. Transcontinental's support for the CDP reinforces its position on the environment, while demonstrating its commitment to continually finding new ways to help preserve the planet.
- Numerous other smaller initiatives are conducted across the Corporation every day from promoting the use of public transit to eliminating Styrofoam cups, to initiating car pools.



HIGHLIGHTS
For the years ended October 31
unaudited

(in millions of dollars, except per share data)

	2008	2007	Change %
Operations			
Revenues ⁽¹⁾	\$ 2,429.3	\$ 2,326.2	4
Adjusted operating income before amortization ^{(2) (3)}	364.5	350.4	4
Operating income	16.3	217.8	
Net income	7.9	120.6	
Adjusted net income ^{(2) (4)}	141.6	127.2	11
Cash flow from operating activities before changes in non-cash operating items ⁽²⁾	299.9	289.1	4
Cash flow related to operating activities	287.0	241.0	19
Investments			
Acquisitions of property, plant and equipment	228.7	130.2	
Business acquisitions ⁽⁵⁾	67.3	132.5	(49)
Financial condition			
Total assets	2,620.4	2,401.9	9
Net indebtedness ^{(2) (6)}	705.7	489.0	44
Shareholders' equity	1,106.6	1,177.6	(6)
Net indebtedness / Total capitalization	39%	29%	34
Per share data (basic)			
Net income	\$ 0.10	\$ 1.42	
Adjusted net income ^{(2) (4)}	1.73	1.50	15
Cash flow from operating activities before changes in non-cash operating items ⁽²⁾	3.67	3.41	8
Cash flow related to operating activities	3.51	2.84	24
Dividends on shares	0.310	0.275	13
Shareholders' equity	13.70	14.09	(3)
Average number of shares outstanding (in millions)	81.7	84.9	
Number of shares at end of year (in millions)	80.8	83.6	

⁽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 23 of 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 4 and 6 to the consolidated financial statements).

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

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

DETAILED ANALYSIS OF FISCAL 2008 OPERATING RESULTS

Analysis of Main Variances - Consolidated Results For the Year Ended October 31, 2008 (unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income before amortization ⁽¹⁾	%	Net income	%
Results - for Fiscal 2007	\$ 2,326.2		\$ 350.4		\$ 120.6	
Acquisitions/Divestitures/Closures	101.1	4.3 %	23.8	6.7 %	5.1	4.2 %
Existing operations						
Paper effect	2.3	0.1 %	(1.9)	(0.5) %	(1.4)	(1.1) %
Exchange rate	(47.9)	(2.0) %	(11.7)	(3.3) %	(4.3)	(3.6) %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	-	-	-	(133.7)	(110.8) %
Organic growth	47.6	2.0 %	3.9	1.1 %	21.6	17.9 %
Results - for Fiscal 2008	\$ 2,429.3	4.4 %	\$ 364.5	4.0 %	\$ 7.9	(93.4) %

⁽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 fiscal 2008 and fiscal 2007.

- The acquisition of PLM Group, the fourth largest printer in Canada, and Rastar, Inc., a U.S.-based direct marketing company, as well as small but strategic acquisitions completed in fiscal 2008 and 2007, net of divestitures and closures (notably the *Daily News* in Halifax and the conversion of *TV Guide* to a web-only product), contributed \$101.1 million to revenues and \$23.8 million to adjusted operating income before amortization. Net of amortization, financing and income taxes, the contribution to net income was \$5.1 million.
- The paper effect had a \$2.3 million positive impact on revenues. This effect includes the variation in the price of paper, paper supplied and changes in the type of paper used by customers of 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 \$1.9 million on adjusted operating income before amortization and \$1.4 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 2008 results, causing a \$47.9 million decrease in revenues and a \$11.7 million decrease in adjusted operating income before amortization. It is important to note that the variation in average spot exchange rates in fiscal 2008 versus 2007 was 8.8% for the CAD/USD and 5.5% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of approximately \$31.9 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was \$16.0 million. The negative impact of the conversion of results for the U.S. and Mexican units was \$3.0 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 \$15.7 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 \$7.0 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 \$4.3 million, representing a 3.6% negative variation on net income.

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

**Revenues Generated in U.S. Dollars
For the fiscal years ended October 31
(unaudited)**

(in millions of U.S. dollars)	2008	Breakdown	2007	Breakdown	Change \$ 2008 vs 2007	Change % 2008 vs 2007
Exports from Canada to the U.S.	\$ 213.5	43%	\$ 201.2	41%	\$ 12.3	6.1 %
Revenues generated in the U.S. by U.S. business units	286.8	57%	286.2	59%	0.6	0.2
Total revenues	\$ 500.3	100%	\$ 487.4	100%	\$ 12.9	2.6 %

**Geographic Distribution of Total Revenues in Canadian Dollars
For the fiscal years ended October 31**

(in millions of Canadian dollars)	2008	Breakdown	2007	Breakdown	Change \$ 2008 vs 2007	Change % 2008 vs 2007
Canada	\$ 1,836.8	76%	\$ 1,705.6	73%	\$ 131.2	7.7 %
U.S. and Mexico						
Imports from Canada	215.0	9	219.2	10	(4.2)	(1.9)
Domestic markets	377.5	15	401.4	17	(23.9)	(6.0)
Total U.S. and Mexico	592.5	24	620.6	27	(28.1)	(4.5)
Total revenues	\$ 2,429.3	100%	\$ 2,326.2	100%	\$ 103.1	4.4 %

Note that in this table, revenues generated by Canadian entities expressed in U.S. dollars increased by \$12.3 million, or 6.1%. After conversion into Canadian dollars, this increase was turned into a decrease of \$4.2 million, or 1.9%, illustrating the negative impact of the higher Canadian dollar against the U.S. dollar, combined with the effect of the Corporation's hedging program.

The reader will also note that the above table shows a slight increase of US\$0.6 million, or 0.2%, in revenues generated by our United States entities. This is mainly due to the acquisition of Rastar, Inc. offset by lower volume from our Direct Mail Group, as a result of difficult market conditions. After conversion into Canadian dollars and adding the revenues from our Mexican operations, the reduction in domestic market revenues outside Canada was C\$23.9 million or 6.0%.

- Organic revenue growth was \$47.6 million or 2.0% in fiscal 2008. This growth was primarily generated from the Printing sector, with the Retail Group, Magazine, Book and Catalogue Group and Mexico Group, followed by the Media sector, with the Local Solutions Group, New Media and Digital Solutions Group, Business and Consumer Solutions Group and Educational Book Publishing Group and, lastly, our Marketing Communications sector, with the Content Solutions Group. The growth in these groups was partially offset by the Marketing Communications sector, with lower volume in the printing of marketing products in the Execution and Delivery Group and by the Printing sector, with lower volume in Direct Mail Group and Newspaper Group.
- Organic growth was \$3.9 million, or 1.1% on adjusted operating income before amortization in fiscal 2008. Organic growth was primarily generated from the Printing sector with the Retail Group, Magazine, Book and Catalogue Group, Mexico Group and from the Media sector with the Local Solutions Group. This growth was

partially offset by the Printing sector with lower volume and margin erosion in the Direct Mail Group related to the turmoil affecting financial markets, by the Media sector with strategic investments made in the New Media and Digital Solutions Group and by lower national advertising in the Business and Consumer Solutions Group and finally, by the Marketing Communications sector with lower volume in the printing of marketing products in the Execution and Deliver Group.

Amortization

Amortization expense increased by \$5.8 million, or 4.7% in fiscal 2008, to \$128.7 million compared to \$122.9 million in 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 fiscal 2008, an amount of \$219.5 million before tax, or \$145.2 million after tax, was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of this amount:

- \$22.7 million before tax (\$15.0 million after tax), of which \$15.0 million is non-cash, relates to the consolidation of the direct mail activities in the U.S. of which total costs are expected to reach \$35.1 million before tax;
- \$192.1 million before tax (\$126.8 million after tax), all of which is non-cash, relates to goodwill impairment due to significant and abrupt deterioration of market conditions of our U.S. direct mail business in the fourth quarter of fiscal 2008;
- \$4.3 million before tax (\$3.1 million after tax) 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;
- \$0.4 million before tax (\$0.3 million after tax) relates to the restructuring plan for our marketing product printing operations initiated in fiscal 2007.

In fiscal 2007, an amount of \$9.7 million before tax, or \$6.6 million after tax, was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of this amount, \$9.0 million relates to the restructuring plan for our marketing product printing operations initiated in fiscal 2007; \$0.6 million relates to the consolidation of our marketing 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 by \$3.5 million, or 8.1%, from \$43.3 million in fiscal 2007 to \$39.8 million in 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 amounts for the purchase of property, plant and equipment, business acquisitions and the share buy-back program being in excess of cash flow generated by operations.

Income Taxes

Income taxes decreased by \$84.6 million, from \$53.6 million in fiscal 2007 to a recovery of \$31.0 million in fiscal 2008. Excluding income taxes on impairment of assets and restructuring costs and unusual adjustments to income taxes,

the income taxes would have been \$54.8 million with an income tax rate of 28.0% as compared to \$56.7 million and 30.7% in fiscal 2007. This decrease is mainly due to the geographic distribution of pre-tax earnings but also to a reduction in the statutory tax rate.

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 the 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.

Net Income

Net income decreased by \$112.7 million from \$120.6 million in fiscal 2007 to \$7.9 million in fiscal 2008. This decrease is primarily due to an unfavourable variation in unusual items (related to impairment of assets and restructuring costs and income taxes), by the negative exchange rate effect, by the paper effect as well as higher amortization, partially offset by the contribution from acquisitions, divestitures and closures and the reduction in financial expenses and income taxes. On a per-common-share basis, it decreased from \$1.42 to \$0.10.

Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes, increased \$14.4 million, or 11.3%, from \$127.2 million in fiscal 2007 to \$141.6 million in fiscal 2008. On a per-common-share basis, it increased 15.3% from \$1.50 to \$1.73. This higher percentage reflects the positive effect of the Corporation's share buy-back program.

Excluding the negative exchange rate effect in fiscal 2008, adjusted earnings-per-share would have been \$1.78, representing an increase of 18.7% over 2007. This measure gives a good indication of the net operational performance in fiscal 2008.

REVIEW OF OPERATING SECTORS FOR FISCAL 2008

Analysis of Main Variances – Sector Results For the year ended October 31, 2008 (unaudited)

(in millions of dollars)	Printing Sector	Marketing Communications Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues - Twelve months 2007	\$ 1 533,0	\$ 252,5	\$ 632,8	\$ (92,1)	\$ 2 326,2
Acquisitions/Divestitures/Closures	(0,5)	109,6	(8,0)	-	101,1
Existing operations					
Paper effect	1,3	1,0	-	-	2,3
Exchange rate	(44,7)	(3,2)	-	-	(47,9)
Organic growth (negative)	47,6	(18,2)	20,5	(2,3)	47,6
Revenues - Twelve months 2008	\$ 1 536,7	\$ 341,7	\$ 645,3	\$ (94,4)	\$ 2 429,3
Adjusted operating income before amortization - Twelve months 2007	\$ 231,0	\$ 18,9	\$ 124,5	\$ (24,0)	\$ 350,4
Acquisitions/Divestitures/Closures	(0,1)	18,4	5,5	-	23,8
Existing operations					
Paper effect	-	-	(1,9)	-	(1,9)
Exchange rate	(13,8)	2,1	-	-	(11,7)
Organic growth (negative)	16,4	(6,3)	(9,9)	3,7	3,9
Adjusted operating income before amortization⁽¹⁾ - Twelve months 2008	\$ 233,5	\$ 33,1	\$ 118,2	\$ (20,3)	\$ 364,5

⁽¹⁾A 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 27) to the Consolidated Financial Statements for the year ended October 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 segmented results have been reclassified to reflect the new operating structure.

- **Printing Sector:** comprises the Magazine, Book and Catalogue Group (from the merger of the Magazine and Catalogue Group and the Book Group), the Mexico Group, the Newspaper Group (Print), the Retail Group and the Direct Mail Group.
- **Marketing Communications Sector:** comprises the Business Intelligence and Analytics Group, from the merger of the direct marketing, one-to-one marketing and data analytics activities, the Content Solutions Group, which unites the customer communications, premedia and e-flyer operations, and the Execution and Delivery Group, which comprises marketing products printing, online direct marketing and fulfillment activities.
- **Media Sector:** comprises the Business and Consumer Solutions Group (from the merger of the Consumer Solutions Group and the Business Solutions and Book Publishing Group), the Local Solutions Group (from the merger of the Newspaper Group [Media] and the Distribution Group), the New Media and Digital Solutions Group, as well as the Educational Book Publishing Group.

Printing Sector

Revenues in the Printing sector increased from \$1,533.0 million in fiscal 2007 to \$1,536.7 million in fiscal 2008, an increase of \$3.7 million, or 0.2%. Excluding acquisitions, divestitures, closures, paper and exchange rate effects, revenues increased \$47.6 million, or 3.1%. Organic growth was primarily generated in the Retail Group as a result of new business with Shoppers Drug Mart® (Pharmaprix® in Québec) as well as new business we developed with existing customers last year, specifically Loblaws, which now includes the printing of flyers for all Loblaws banners in Quebec. This new business more than compensated for the reduced volume from certain customers in our base business. Organic growth was also generated from our Magazine, Book and Catalogue Group as a result of new sales development efforts in the educational and trade segments and the revamping of its manufacturing platform. Finally, the Mexico Group contributed to positive growth following successful sales development efforts in the retail and magazine segments. The results of these three groups were partially offset by lower volume and the impact of changes to the product mix in the Direct Mail Group, by the decrease in sales in the catalogue and magazine segments, largely due to the loss of one client early in the year, and a slight reduction in page count and circulation in the Newspaper Group stemming from a soft advertising market.

Adjusted operating income before amortization increased from \$231.0 million in fiscal 2007 to \$233.5 million in fiscal 2008, an increase of \$2.5 million, or 1.1%. Excluding acquisitions, divestitures, closures and exchange rate effects, it increased \$16.4 million, or 7.1%. Organic growth was generated mainly in the Retail Group with higher sales volumes and efficiency improvements subsequent to the installation of new presses last year, in the Magazine, Book and Catalogue Group and the Mexico Group due to increased volumes as well as improved efficiency from past investments which more than compensated for lower volume and margin erosion in the Direct Mail Group as a result of the financial crisis as mentioned above. As a result, the adjusted operating income margin before amortization increased from 15.1% in fiscal 2007 to 15.2% in fiscal 2008. Excluding the negative exchange rate effect, the adjusted operating income margin would have been 15.6% in fiscal 2008.

In fiscal 2008, 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 printing 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 fiscal 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 as well as a reduction in capital expenditures in the Retail Group for the coming years. 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.

Furthermore, we invested \$60 million in state-of-the-art equipment at our Transcontinental Transmag newspaper printing facility in Montreal. This new technology will add colour 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 fiscal 2009 and is part of our strategy to become North America's leader in newspaper printing outsourcing. In line with this strategy, construction on the *San Francisco Chronicle* project is progressing well and is on track to start production in the second half of fiscal 2009. Finally, we continue to have discussions with some newspaper publishers in North America. However, given the deteriorating market conditions in this industry in the U.S. and the deteriorating financial condition of potential customers, and considering our model becomes much more compelling when it includes more than one paper in a given area, we do not expect to sign additional contracts in the near term. Over the longer term, we believe our unique model will help the newspaper industry overcome its challenges.

We invested \$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 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 in the second half of the year 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). We also gained an exclusive six-year contract with Rogers to print its 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 invested approximately \$20 million to expand this plant and acquire a new press and peripheral equipment.

Finally, the Direct Mail Group generated negative organic growth. Higher revenues from our postal optimization solutions were more than offset by lower volume, changes in product mix and pricing pressures due to over capacity in the market as a result of the financial crisis in the U.S., which accelerated in the fourth quarter of fiscal 2008. In order to mitigate the effect of these market conditions on our operations, we took measures to quickly adjust capacity: first we consolidated some facilities in Pennsylvania and reduced our direct and indirect labour force; and secondly we did an extensive capacity review of our U.S. direct mail operations as the ongoing credit market turmoil in the U.S. had further deteriorated. In October 2008, we approved a plan to restructure our direct mail subsidiary in the U.S. It will consolidate production from its Warminster, PA facility to its facility in Hamburg, PA. The transfer of production will be complete in fiscal 2009. At that time, it will have a cost-effective production capacity of 3.5 billion direct mail pieces per year compared to 5.0 billion previously. This capacity will enable it to remain a leader in the direct mail industry in the U.S. while continuing to meet the needs of its customers and providing the flexibility the Corporation needs over the long-term.

In fiscal 2009, the Magazine, Book and Catalogue Group will benefit from the Rogers contract, investments in fiscal 2008, the recently introduced do not call legislation and it will continue to develop new sales in both Canada and the U.S. In addition, this Group is expected to continue to benefit from sales development efforts and efficiency improvements in the book segment following the revamp of its manufacturing platform. The Retail Group will benefit from the full impact of the contract with Shoppers Drug Mart (Pharmaprix in Québec). The Newspaper Group will benefit from the *San Francisco Chronicle* start-up and from additional colour capabilities at its new Transmag facility in the second half of the year. However, it 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, as well as the completion of the *San Francisco Chronicle* project and the \$60 million investment in its Transmag facility. 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. Finally, the Direct Mail Group will mainly work on completing its restructuring plan. Currently, our visibility is limited in this market and we are expecting a significant revenue decrease in fiscal 2009 compared to 2008.

Marketing Communications Sector

Revenues in the Marketing Communications sector increased from \$252.5 million in fiscal 2007 to \$341.7 million in fiscal 2008, up \$89.2 million or 35.3%. Acquisitions (PLM Group, Rastar and ThinData), net of divestitures and closures, contributed \$109.6 million to revenues. Excluding acquisitions, divestitures, closures and paper and

exchange rate effects, revenues were down \$18.2 million or 7.2%. Organic growth came from the Content Solutions Group following the ramp-up of its five-year agreement with Loblaw's, for the complete outsourcing of its premedia business. However, this group was more than offset by the lower volume from marketing product printing activities in the Execution and Delivery Group, stemming from the general deterioration in market conditions.

Adjusted operating income before amortization increased from \$18.9 million in fiscal 2007 to \$33.1 million in fiscal 2008, an increase of \$14.2 million, or 75.1%. Acquisitions, net of divestitures and closures, contributed \$18.4 million. Excluding acquisitions, divestitures, closures and exchange rate effects, adjusted operating income before amortization decreased by \$6.3 million, or 33.3%. In general, organic growth in the Content Solutions Group did not succeed in offsetting lower sales and margin erosion in marketing products printing in the Execution and Delivery Group. The adjusted operating income margin before amortization increased from 7.5% in fiscal 2007 to 9.7% in fiscal 2008. Excluding the exchange rate effect, the adjusted operating income margin would have been 9.0% in fiscal 2008.

We acquired 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 was 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 increase their returns on marketing campaigns. We also 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. In parallel we completed our 100-day integration plan for PLM Group and we surpassed the synergies we had previously anticipated.

In fiscal 2009, the Content Solutions Group will benefit throughout the year from the five-year agreement with Loblaw's for the complete outsourcing of its premedia business, and will also focus on the expansion of its customer base. The Execution and Delivery Group will continue to explore new ways to enhance its ability to compete in the current market context and transform its offer to provide, among other items, more personalized marketing products via ThinData Inc. The Corporation will also benefit from the integration of Rastar, Inc.

Media Sector

Revenues in the Media sector increased from \$632.8 million in fiscal 2007 to \$645.3 million in fiscal 2008, an increase of \$12.5 million, or 2.0%. Divestitures and closures, net of small but strategic acquisitions completed in fiscal 2007 and 2008, had a negative impact of \$8.0 million on revenues. Excluding acquisitions, divestitures and closures, revenue growth was \$20.5 million, or 3.2%. Organic growth was primarily generated by the Local Solutions Group, driven by higher volume from weeklies, dailies and new products, by our distribution operations, driven by national and local sales, by the New Media and Digital Solutions Group, driven by the accelerated development of its multiplatform offering, by the Educational Book Publishing Group, driven by sales development in school books, and lastly by the Business and Consumer Solutions Group, despite the fact that this growth was partially compensated by the negative impact of 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. However, the success of *More* and *Vita* helped to mitigate this effect.

Adjusted operating income before amortization decreased from \$124.5 million in fiscal 2007 to \$118.2 million in fiscal 2008, a difference of \$6.3 million, or 5.1%. Excluding acquisitions, divestitures and closures, and the paper effect, it decreased by \$9.9 million, or 8.0%. In essence, organic growth generated in the Local Solutions Group was more than offset by strategic investments made in the New Media and Digital Solutions Group and lower national advertising in the Business and Consumer Solutions Group. It is important to highlight that investments made in the New Media and Digital Solutions Group are bearing fruit. For instance, its revenues increased by \$4 million or close to

30% and its unique monthly visitors increased 10% versus last year while its reach into the total Canadian internet audience increased from 13.2% to 14.7%. The adjusted operating income margin before amortization decreased from 19.7% in fiscal 2007 to 18.3% in fiscal 2008.

We announced the launch of *weblocal.ca*, an online search site for finding and reviewing local businesses, products or services in communities across Canada. Highly interactive, *weblocal.ca* is driven by content shared by users such as recommendations, ratings and reviews, as well as pictures and videos. In addition to this, users can also access editorial content and reviews from other Web sites, create a profile and build a community of friends and neighbours, and take advantage of mobile search functions. *Weblocal.ca* searches an enriched and complete database of all businesses in Canada, and delivers detailed business information that may include opening hours, payment methods, price lists, and menus, which complements the user-generated content that makes *weblocal.ca* unique. Finally, it will leverage Transcontinental's existing portfolio of daily and community newspapers, magazines and websites.

We also launched the first issue of *Vita* magazine, the French edition of *More* magazine for the Canadian market. *Vita*, like its successful English counterpart *More*, creates content that is relevant to French-Canadian women in their forties. Since Transcontinental announced the launch of *Vita* and *More*, the magazines have gained over 70,000 and close to 125,000 subscriptions, respectively. This addition builds on the success of our *More* magazine in English, which was launched last year. We launched *recipefeast.com*, an English version of the French-language recipe site, *recettes.qc.ca*, which attracts close to one million visitors 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). This site receives close to 300,000 visitors each month and the printed publication counts more than two million readers. Finally, 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 *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 also acquired the community newspapers, *L'Autre Voix*, *Corriere Italiano*, *The Springhill-Parrsboro Record* and *L'Express le journal d'ici*.

In fiscal 2009, the Local Solutions Group should continue to grow driven by strong national and local demand for its distribution services, as well as through the diversification of its customer base. Community newspaper publishing operations are expected to gain from the contribution from acquisitions and new products such as *weblocal.ca* and *Metro*, however, it will continue to be affected by soft advertising particularly from the automotive industry. The Business and Consumer Solutions Group will continue to leverage its strong brands in the Canadian market on an increasing number of different platforms. It should benefit from growth in its new products launched in fiscal 2008 and sales development efforts by deploying more products to a target audience. However, we expect that it will be negatively affected by a softer national advertising environment. The New Media and Digital Solutions Group will benefit from the full year impact from *acquisition.biz* and is expected to pursue the development of its multiplatform offering with the \$12.0 million (\$5.0 million of which will be capitalized) investment that it will make throughout the year. The Educational Book Publishing Group will continue to gain market share particularly through the growth of high school programs in Quebec as part of the ongoing educational reform in that province. It will also continue to invest in editorial, production and sales development for school books. Finally, the newspaper and magazine publishing operations could be impacted by possible paper price increases.

Inter-Segment and Other Activities

Revenues of inter-segment and other activities went from a negative \$92.1 million in fiscal 2007 to a negative \$94.4 million in fiscal 2008. The variation is mainly attributable to a decrease in other activities. Adjusted operating income before amortization went from a negative \$24.0 million in fiscal 2007 to a negative \$20.3 million in fiscal 2008 due mainly to a decrease in the pension plan costs.

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)

	For the years ended October 31	
(in millions of dollars, except per share amounts)	2008	2007
Net income	\$ 7.9	\$ 120.6
Non-controlling interest	(0.4)	0.3
Income taxes	(31.0)	53.6
Discount on sale of accounts receivable	9.3	11.1
Financial expenses	30.5	32.2
Impairment of assets and restructuring costs	219.5	9.7
Amortization	128.7	122.9
Adjusted operating income before amortization	\$ 364.5	\$ 350.4
Net income	\$ 7.9	\$ 120.6
Impairment of assets and restructuring costs (after tax)	145.2	6.6
Unusual adjustments to income taxes	(11.5)	-
Adjusted net income	141.6	127.2
Average number of shares outstanding	81.7	84.9
Adjusted earnings per share	\$ 1.73	\$ 1.50
Cash flow related to operating activities	\$ 287.0	\$ 241.0
Changes in non-cash operating items	(12.9)	(48.1)
Cash flow from operating activities before changes in non-cash operating items	\$ 299.9	\$ 289.1
Long-term debt	\$ 602.1	\$ 523.3
Current portion of long-term debt	194.3	14.2
Cash and cash equivalents	(90.7)	(48.5)
Net indebtedness	\$ 705.7	\$ 489.0

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results (unaudited)

(in millions of dollars, except per share amounts)	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$ 653	\$ 585	\$ 595	\$ 596	\$ 618	\$ 551	\$ 585	\$ 572
Adjusted operating income before amortization	109	83	91	82	101	81	93	76
Adjusted operating income margin before amortization	16.7 %	14.2 %	15.3 %	13.8 %	16.3 %	14.7 %	15.9 %	13.3 %
Operating income	\$ (139)	\$ 51	\$ 56	\$ 48	\$ 67	\$ 51	\$ 62	\$ 38
Net income	(94)	30	38	34	39	28	34	20
Per share	(1.17)	0.38	0.46	0.41	0.46	0.33	0.40	0.24
Adjusted net income	48	30	35	29	39	28	35	25
Per share	0.59	0.38	0.43	0.34	0.47	0.34	0.41	0.29
% of fiscal year	34 %	22 %	25 %	19 %	31 %	23 %	27 %	19 %

The table above shows the evolution of the Corporation's quarterly results. Note that stronger results are in the second and fourth quarters, as advertising spending is usually stronger in the spring and fall, generating higher revenues in both publishing and printing operations. The fall is also the strongest period for book printing and for our business segment of educational resources publishing.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Principal Cash Flows and Financial Condition For the years ended October 31 (unaudited)

(in millions of dollars)	2008	2007
Operating activities		
Cash flow from operating activities before changes in non-cash operating items	\$ 299.9	\$ 289.1
Changes in non-cash operating items	(12.9)	(48.1)
Cash flow related to operating activities	287.0	241.0
Investing activities		
Business acquisitions, net of disposals	(67.3)	(132.5)
Acquisitions of property, plant and equipment, net of disposals	(226.8)	(126.9)
Other	(34.3)	(28.4)
Cash flow used in investing activities	(328.4)	(287.8)
Financing activities		
Reimbursement of long-term debt, net	(26.0)	(105.8)
Increase in revolving term credit facility	177.7	191.3
Redemption of shares, net	(48.1)	(52.4)
Dividends on shares	(25.3)	(23.3)
Other	(0.2)	(0.6)
Cash flow related to financing activities	78.1	9.2
Other relevant information		
Net indebtedness	705.7	489.0
Shareholders' equity	1,106.6	1,177.6
Net indebtedness / Total capitalization ratio	39 %	29 %
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 \$289.1 million in fiscal 2007 to \$299.9 million in fiscal 2008, primarily due to an increase in adjusted operating income before amortization and a reduction in current income tax expense partially offset by an increase in restructuring costs and an increase in contributions to the pension plans. Changes in non-cash operating items resulted in an outflow of \$12.9 million in fiscal 2008, compared to an outflow of \$48.1 million in fiscal 2007. These changes result mainly from variations in the Corporation's securitization program as well as the timing of the payment of income taxes. As a result, cash flow from operating activities increased from a cash generation of \$241.0 million in fiscal 2007 to a cash generation of \$287.0 million in fiscal 2008.

Investing Activities

In fiscal 2008, \$226.8 million was invested in property, plant and equipment, net of disposals, an increase of \$99.9 million compared to the \$126.9 million invested in fiscal 2007. We invested over \$168.7 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 \$25.3 million, or 31.0 cents per share, in dividends in fiscal 2008 compared to \$23.3 million, or 27.5 cents per share, in fiscal 2007, an increase of 13%. 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.

The 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.

For the year ended October 31, 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, over 85% of the authorized repurchases has been completed for the Class A Subordinate Voting shares.

For the year ended October 31, 2007, the Corporation purchased 2,354,700 of its Class A Subordinate Voting Shares at a weighted average price of \$21.27 for a total consideration of \$50.1 million and 137,800 of its Class B Shares at a weighted average price of \$21.69 for a total consideration of \$3.0 million. Of the total consideration of \$53.1 million, \$13.3 million corresponds to the book value and \$39.8 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

Debt Instruments

As at October 31, 2008, the Corporation's net indebtedness stood at \$705.7 million and its net indebtedness to total capitalization ratio was 39%, compared to 29% at the end of fiscal 2007. This ratio is at the low end of the range of our *Evolution 2010* objective to maintain a net debt to total capitalization ratio between 35% and 50%.

As at October 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, divided in two tranches: Tranche A of \$400 million and Tranche B of \$150 million, of which amounts of \$313.0 million and \$86.1 million, respectively, were used as at October 31, 2008. The applicable interest rate on the revolving term credit facility is based on the credit rating assigned by Standard & Poor's Ratings Services. Depending on the form of borrowing chosen by the Corporation, the interest rate applicable

for the line of credit, is currently either, bank prime rate, bankers' acceptance rate + 0.44% or LIBOR + 0.44% on Tranche A and bankers' acceptance rate + 0.575% or LIBOR + 0.575%, on Tranche B. Facility fees of 0.11% and 0.225% are also applicable on Tranche A and B, respectively, whether the line of credit is drawn or not and utilization fees of 0.05% are applicable if the amount drawn on each respective tranche exceeds 66^{2/3}%. Tranche A is renewable on an annual basis and, if not renewed, it matures five years after its issuance or the last renewal, as the case may be. It was last renewed on August 30, 2007. Tranche B is available for a 364-day period starting on May 14, 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 October 31, 2008, letters of credit amounting to C\$1.5 million and US\$4.0 million were drawn on the committed line of credit in addition to the amount presented in the previous paragraph. In 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 table below provides the breakdown of these obligations and commitments for the coming fiscal years.

Contractual Obligations and Commercial Commitments
For the years ending October 31

Type of contract <i>(in millions of dollars)</i>	2009	2010	2011	2012	2013	Subsequent Years	Total
Long-term debt	\$ 194.3	\$ 7.7	\$ 6.4	\$ 495.9	\$ 2.0	\$ 92.7	\$ 799.0
Other commitments	30.5	28.7	24.5	20.8	16.4	57.2	178.1
Total obligations	\$ 224.8	\$ 36.4	\$ 30.9	\$ 516.7	\$ 18.4	\$ 149.9	\$ 977.1

The Corporation is further committed to acquire in 2009 a building and machinery and equipment. As at October 31, 2008, these commitments represented \$122.1 million, including C\$13.1 million, US\$85.9 million, €3.3 million and CHF0.5 million.

During fiscal 2008, the Corporation entered into interest rate swaps on the long-term debt denominated in Canadian dollars, on a notional amount of C\$125 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 4.35% including the applicable margin. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout 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. The accounts receivable securitization program is maturing in August 2009.

As at October 31, 2008, \$291 million of accounts receivable (\$273 million as at October 31, 2007) had been sold under the accounts receivable securitization program, of which \$42 million (\$37 million as at October 31, 2007) was kept by the Corporation as retained interest, resulting in a net consideration of \$249 million, including C\$210 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 \$9.3 million for fiscal 2008 (\$11.1 million for 2007). The Corporation is in compliance with all its covenants under the agreements governing this program.

Critical Accounting Policies and Estimates

The Corporation prepares its consolidated financial statements in Canadian dollars and in accordance with Canadian GAAP. A summary of the significant accounting policies is presented in Note 1 of the consolidated financial statements. Some of the Corporation's accounting policies require estimates and judgments. The most significant areas requiring the use of management estimates and judgements include goodwill, intangible assets, employee future benefits and income taxes.

Goodwill

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

Intangible Assets

Amortizable intangible assets consist of educational book titles, printing contracts, customer relationships and non-compete agreements. These assets are amortized based on historical sales patterns, which vary from 6 to 9 years, for educational book titles, and over the printing contract terms, the customer relationships or the non-compete agreement terms, which vary from 3 to 15 years.

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

Employee Future Benefits

The accrued benefit obligation is determined by independent actuaries using the projected benefit method prorated on services and is based on management's best economic and demographic estimates. The Corporation amortizes the unrecognized net aggregate actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, over the expected average remaining service life ("EARSL") of the employee group covered by the plans which ranges from 10 to 12 years. The transitional obligation resulting from the initial application of Section 3461 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook in November 2000 is also amortized over the EARSL of the employee group covered by the plans. For the purpose of calculating the expected return on plan assets, the fair market value is used.

Income Taxes

The Corporation records income taxes using the liability method of accounting. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount and the tax basis of the assets and liabilities and are measured using tax rates in effect when these differences are expected to reverse in accordance with enacted laws or those substantively enacted at the date of the financial statements. Future income tax assets are recognized only if management believes it is more likely than not that they will be realized.

Changes in Accounting Policies

Financial Instruments – Disclosures

On November 1, 2007, the Corporation adopted Section 3862 of the CICA Handbook, Financial Instruments – Disclosures, replacing Section 3861 – Financial Instruments – Disclosure and Presentation, that the Corporation had adopted on November 1, 2006. 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 of the CICA Handbook, Financial Instruments – Presentation, replacing Section 3861 – Financial Instruments – Disclosure and Presentation, that the Corporation had adopted on November 1, 2006. 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 of the CICA Handbook, 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 26, 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 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.

Effect of New Accounting Standards not yet implemented

Inventories

In March 2007, the CICA issued Section 3031, Inventories, replacing Section 3030, Inventories. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Section 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. The Corporation is currently evaluating the impact of the adoption of the above standards on the consolidated financial statements.

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. The Corporation has determined that the adoption of this new recommendation will not have a material impact on the Corporation's consolidated financial statements.

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.

International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

For the Corporation, the conversion to IFRS will be required for interim and annual financial statements for the year ending October 31, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Corporation is currently preparing its IFRS conversion plan. The plan will be aimed in particular at identifying the differences between IFRS and the Corporation's accounting policies, assessing their impact and, where necessary, analyzing the various policies that the Corporation could elect to adopt.

The Corporation is required to qualitatively disclose its changeover impacts in conjunction with its 2009 and 2010 financial reporting as well as quantitative information with its interim and annual financial reporting for the year ending October 31, 2011. This information will be used by the Corporation to present comparative information in its financial statements for the year ending October 31, 2012.

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 Director of Risk Management is responsible for the overall risk management program of the Corporation. A report on our risk-management program is reviewed once a year 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.

Financial risks

Availability of Capital

The future capital expenditures and acquisitions contemplated by the Corporation will require additional financing. The global financial markets crisis and the anticipated global economic slowdown may extend further and constrain the Corporation's ability to meet its future financing requirements, increase its weighted average cost of capital and cause other cost increases from counterparties also faced with liquidity problems and higher cost of capital. Therefore, risk factors such as disruptions in the capital markets could reduce the amount of capital available or increase the cost of such capital and there can be no assurance that additional financing would be available to the Corporation or, if available, that it can be obtained on a timely basis and on terms acceptable to it. Failure to obtain such additional financing, when and if required, could have a material adverse effect on the Corporation's future growth by limiting acquisitions and capital expenditures. This risk is mitigated by the fact that the Corporation is an investment grade Corporation, has a solid financial position, with a net indebtedness to total capitalization ratio of 39% as at October 31, 2008, at the low end of our target range, and also, generates significant cash flow from operations.

Unsecured Senior Debentures totalling \$100.0 million are maturing in June 2009, a term revolving credit facility of \$150.0 million is maturing in May 2009, of which an amount of \$86.1 million was used at the end of fiscal 2008, and the accounts receivable securitization program of \$300.0 million is maturing in August, 2009. The Corporation is currently examining financing alternatives to ensure adequate capital is available upon maturity of these instruments and to finance future capital requirements. At this time, we believe sufficient capital will be available. However, the cost of this capital is unknown. We expect credit spreads to be much higher but benchmark rates should be lower.

There is no assurance that the Corporation will be able to increase distributions to shareholders by way of dividends and to pursue or implement a new share buy back program.

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. At the end of fiscal 2008, the floating rate portion of the Corporation's long-term debt represented 65% of the total, while the fixed rate portion represented 35% (54% and 46% respectively in fiscal 2007). The floating-rate portion of the long-term debt increased in the past four years: first in 2005 when the Corporation completed its issuance of Senior Unsecured Notes, in fiscal 2007 when the Corporation paid down a fixed rate debt using floating rate debt and then in fiscal 2008 when increasing the use of the line of credit. Floating-rate debt bears interest at rates based on LIBOR or Bankers' acceptances. In addition, the Corporation expects to draw more heavily on its credit facilities in fiscal 2009 to finance major capital expenditures. In fiscal 2008, the Corporation was party to interest rate swaps on long term debt in Canadian dollars, on a nominal amount of \$125 million, to mitigate this risk. These swaps convert the variable interest rate, based on bankers' acceptance rate, into an average fixed interest rate of 4.35%, including applicable margin and mature in September 2012. Taking into consideration the interest rate swaps, the floating rate portion of the Corporation's long-term debt represented 49% of the total while the fixed rate portion represented 51%.

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, but lately due to the turmoil in financial markets the commercial paper is issued on a shorter term basis. It is important to note that while the Corporation has not been directly exposed to the current credit crunch, it has been indirectly affected through its securitization program: commercial paper rates have gone up slightly during a short period, albeit it does not represent a significant additional cost to the Corporation.

In order to mitigate this risk the Corporation tries to keep a good balance of fixed versus floating rate debt.

The U.S. and Canadian central banks have reduced their bank rates since the second quarter of fiscal 2008. The Corporation benefits partially from such reductions in its floating rate debt. The Corporation believes that interest rates for the Canadian and U.S. economies are likely to stay the same in fiscal 2009.

Credit

The Corporation is exposed to credit risk with respect to trade receivables. In order to mitigate this risk the Corporation analyzes and reviews the financial health of its current customers on an ongoing basis and applies rigorous evaluation procedures to all new customers. A specific credit limit is established for each customer and reviewed periodically by the Corporation. Transcontinental is protected against any concentration of credit risk through its products, clientele and geographic diversity. 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 October 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. This 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 twelve-month period ended October 31, 2008.

Pension Plans

Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to the time of retirement and the anticipated long-term rate of return on pension plan assets. Accrued benefit obligation, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation of the pension plans for funding purposes was made

as of December 31, 2007. The next required valuation will be as of December 31, 2010, at the latest. The actuarial funding valuation report determines the amount of cash contributions that the Company is required to contribute into the registered retirement plans. The December 31, 2007 funding report showed the registered retirement plans to be in a solvency deficit position. Therefore, the Corporation is required to make cash funding contributions. As the pension fund assets consist of a mix of bonds and equities, recent market conditions have reduced the market value of the pension fund assets. If this reduced level of pension fund assets persists to the date of the next funding valuation, the Corporation would likely be required to increase its cash funding contributions.

Operational Risks

Economic Cycles

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

- Approximately 45% of consolidated revenues stems from niches that are less exposed to cyclical changes in the economy, such as book, flyer and insert printing, publishing of educational resources, publishing of local and regional newspapers and distribution of advertising material. Also, a large portion of the customer base is in less cyclical sectors, such as food, health, beauty products and home improvement.
- Transcontinental has entered into mid- and long-term agreements ranging from 1 to 15 years with customers who generate from 50% to 60% of revenues in the two printing sectors.
- In the Media sector, Transcontinental benefits from a good mix of local and national advertising. Almost half of advertising revenues generated by this sector come from local advertising, which has been less volatile than national advertising in the last few years.

Competition

Competition is based on price, quality of products and services, range of services offered and time to market. Some of the printing niches in which the Corporation operates are highly competitive. Over the past few years, and especially this past year, these niches have experienced a reduction in demand resulting in over-capacity and continued pricing pressures.

On the media side, magazines and newspapers, whether of general interest or with a special focus, as well as other media (television, radio, Internet and other communication or advertising platforms) compete with Transcontinental's magazines, newspapers, Internet sites and complementary communication platforms for sale of advertising space as well as subscription and newsstand sales in some cases. In addition, the availability in Canada of several magazines published by U.S. publishers also creates competition for Transcontinental's magazines.

To mitigate this risk the Corporation continues to focus on continuous improvement programs, cost reduction initiatives and developing value added services and products around its core businesses. One of our major competitors has filed for creditor protection and the outcome of this proceeding remains uncertain.

Geographic Distribution and Exchange Rate

In fiscal 2008, revenues generated outside Canada represented 24% of consolidated revenues, down from 27% in fiscal 2007, due to the combination of lower revenues from U.S. business units and the negative effect of the stronger Canadian dollar compared to its U.S. counterpart and the Mexican peso partially counterbalanced by an increase in export sales from Canadian plants. It is important to note that our current net exposure to the U.S. and Mexican markets, in terms of foreign entities, is limited. However, in 2009 we expect to derive a greater portion of our income in the U.S. from Rastar, Inc.'s acquisition and the printing of the *San Francisco Chronicle* partially offset by a depressed market for our direct mail activities in the U.S.

The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, Transcontinental attempts to maximize the matching of cash inflows and outflows in the same currency.

This past year the Canadian dollar was trading as high as 1.2889 CAD/USD and as low as 0.9215 CAD/USD, a spread of 0.3674 from November 2007 to October 2008. The policy approved by the Corporation's Board of Directors allows hedging of 50% to 100% of net cash flow 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 also uses collars to limit the risk of losses related to the 1- to 12-month portion that is not covered by forward contracts. As at October 31, 2008, the Corporation had sold US\$136.0 million, of which US\$73.0 million, US\$45.0 million and US\$18 million will be sold in fiscal 2009, 2010 and 2011, respectively, (US\$87.3 million as at October 31, 2007) using foreign exchange forward contracts related to its strategy of hedging foreign currency cash flows from its exports to the United States. The terms of these forward contracts range from one month to 28 months, with rates varying from 1.0087 to 1.2432. As at October 31, 2008, the Corporation was also party to a collar totalling US\$2.0 million maturing in November 2009, with a floor rate of 1.075 and a cap rate of 1.140. (US\$6.0 million as at October 31, 2007). Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout fiscal 2008.

In 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 October 31, 2008, the Corporation entered into a foreign exchange forward contract to purchase, in fiscal 2009, 1.3 million Euros (none in fiscal 2007). The term of this forward contract is for one month, with a rate of 1.5747. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout fiscal 2008.

New Media

The industries in which the Corporation operates are subject to the impact from new media such as the Internet. As a result, advertisers are presented with a greater diversity of media channels in which to spend their advertising dollars. While the total advertising pie has increased approximately 6% on average per year in Canada in the past five years, the growth of advertising on Internet-based technologies has increased significantly more, albeit from a small base, and this trend is forecast to continue. This shift from traditional media to new media could present both risks and opportunities for the Corporation. On the one hand, consumer acceptance for digital media may decrease the demand for printed products. However, an opportunity exists to capture advertising dollars on other digital media platforms. To mitigate this risk and take advantage of this opportunity, Transcontinental has taken the digital turn through its *Evolution 2010* business project. In fact, the Corporation established development areas for its digital media strategy and is currently executing on them.

Difficulty in Hiring Qualified Personnel

Social and demographic trends are making it more challenging to hire and retain qualified personnel. There is a diminishing pool of qualified talent, an increase in professional mobility, an increase in technology use and a high demand for emerging skill sets. There is a risk that the Corporation will have more difficulties to hire and retain qualified personnel. In order to mitigate this risk, the Corporation has invested in its human capital in the past years and has adopted policies and practices to be better aligned with the market. In fiscal 2008, 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 at our sites. We also 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. Finally, we accelerated succession plans for priority positions and constantly assess our leadership depth to meet organizational challenges and ensure on-going identification of successors and acquisition of new skills.

Exchange of Confidential Information

This risk involves the utilization and manipulation of our customers' confidential information, particularly in direct marketing. The Corporation uses confidential information provided by customers in its production process. The potential dissemination of such information to the wrong individuals could cause significant damage to our customers' relationships with their clients and thus to our own relationships with our customers and could result in legal actions. This risk increased with the acquisition of certain assets of PLM Group in October 2007 and Rastar, Inc. in September 2008. In order to mitigate this risk, various improvement measures to better prevent and control this risk have been implemented. In fiscal 2008, we have put security measures in place. We have also conducted privacy training for relevant employees.

Business Development

The Corporation's financial leverage and corporate risk profile is liable to vary from time to time as a result of new developments in its business activities and the investments required to support internal growth as well as external growth through acquisitions. Financial leverage may fluctuate as the Corporation completes further business acquisitions and the risk profile may differ from one acquisition to the other depending on the characteristics of the acquired business and its relevant market. The development of new products or line of business may not necessarily generate the anticipated results or benefits.

Integration of Acquisitions

The integration of acquisitions is always a risk and this risk increases with the size of the acquisition. Integrating businesses could cause temporary disruptions to operations, to labour retention, to client relationships and/or potential loss of business. In addition, the identified synergies may not be fully realized or may take longer to realize than originally anticipated. In order to mitigate this risk, the Corporation respects its strict acquisition criteria, and ensures that each acquisition target undergoes our exhaustive requisition lists with regard to due diligence, and is integrated using our internally developed integration methodology.

Loss of Reputation

The Corporation currently enjoys a good reputation. The risk of losing or tarnishing this reputation could have an important impact on the affairs of the Corporation or its valuation in the stock market. Since its creation, the Corporation has taken important steps to mitigate this risk, mainly by ensuring strong corporate governance.

Environmental Risk

The Corporation operates in two industries, printing and publishing, which use large quantities of paper for their day-to-day operations. With society's mounting concern over the protection of the environment as well as sustainable development, Transcontinental's products and services are under pressure to be more environmentally friendly. For instance, the growing concern over the environment could change the consumption habits of consumers and new regulations could force the Corporation to use more expensive environmentally friendly materials in its production process. To mitigate this risk, the Corporation tries to be at the forefront of its industry in terms of commitment to the environment and in collaboration with its suppliers, is looking on an ongoing basis to reduce its costs. Please refer to the Environment section for further details.

Raw Material and Postal Risks

Raw Materials and Energy Prices

The primary raw materials the Corporation uses in its two printing sectors are paper, ink and plates. It also consumes energy, more specifically natural gas and oil. Fluctuations in raw materials and energy prices are affecting our operations.

First, the current tightening in the paper market, resulting from paper mill closures, has resulted in a decrease in the supply of paper and in turn could result in paper price increases. While paper costs are 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. In order to mitigate this risk, the Corporation does not rely on any one supplier and has agreements with its most important suppliers in order to ensure a stable flow of resources. In addition, some supply agreements contain escalation clauses that index selling prices to fluctuations in raw material costs and currency.

Second, fluctuations in the price of oil, a core ingredient in the composition of ink, have a direct impact on ink prices. While our contracts with our customers provide for escalation clauses based on fluctuations in the price of ink, an 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 colour for example. Finally, fluctuations in the price of oil have an impact on gasoline prices. Any increase thereof would negatively affect our distribution activities in our Media sector. The Corporation also uses approximately one million gigajoules of natural gas per year in its heat-set printing activities. The Corporation has hedging mechanisms in place to mitigate the risk related to fluctuations in natural gas prices in order to minimize the impact on the Corporation's results and financial position. In addition, the Corporation continues to make efforts of finding new ways to reduce energy costs.

Canadian and U.S. Postal Systems' Future Policies

Postal costs are a significant component of our printing customers' cost structures (direct mail, catalogues and magazines). Postal rate changes can influence the number of pieces that the Corporation's customers are willing to mail. In the past few years, postal rates in the U.S. have increased 15% on standard mail. While the United States Postal Service (USPS) has indicated that future increases will be linked to the inflation rate, any changes in this policy could have a negative impact on the Corporation's operations. In order to mitigate this risk, the Corporation has increased its investment in postal optimization capabilities which can offer customers a reduction in their postal costs.

Similarly, in Canada, postal costs have increased in the low single digits in the last few years. A significant increase in postal costs would not only affect our printing customers but our Media sector, especially for the distribution of our magazines. Moreover, magazines in Canada benefit from postal subsidies, through the PAP program (Postal

Assistance Program). Any significant reduction or loss in these subsidies could have a negative impact on the Corporation's operations.

Finally, there has been growing talk of "do-not-mail" legislation in the U.S. in reference to the direct mail industry. The Corporation does not believe that such legislation would be passed in Congress as it would have a detrimental impact on the United States Postal Service, the country's largest employer. "Do-not-mail" legislation is instituted at the state level. As of September 2008, in some states, such legislation had been introduced but not passed. Having said that, if such legislation were to be passed, it would have a negative impact on the Corporation's direct mail operations.

In conclusion, the Corporation continues its stringent approach to risk management, remaining alert to any new risks that could affect its operations and ensuring that its current control measures are effective. Management also continues its structured approach to risk prevention and control and to business continuity planning, which establishes measures to encourage business units to prevent risk, manage organizational change and recover from unforeseeable events more effectively.

Subsequent Events

Business Acquisition

On November 18, 2008, the Corporation acquired 75% of the outstanding shares of Redwood Custom Communications, a North-American leader in custom publishing, headquartered in Toronto with approximately 130 employees. Redwood is a full service marketing and communications company and creates turn-key custom publishing and branded content solutions for both print and digital platforms.

Reorganization of Operating Structure

On November 14, 2008, the Corporation announced it implemented a new operating structure to support its growth strategy by creating the Marketing Communications Sector. This announcement will have an impact on the operational sectors disclosed in Note 27 to the consolidated financial statements. Refer to the Strategy section for more details on the new structure.

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. The President and Chief Executive Officer and the Vice President and Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as at October 31, 2008, have concluded that the Corporation's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

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 year ended October 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

In fiscal 2009, the Corporation will focus on four primary objectives. First, planning and executing the numerous investments announced in the past few months including the combination of the retail and newspaper platforms, while completing the Transmag project and *the San Francisco Chronicle* project. Second, the Corporation will focus on integrating the acquisition of Redwood Custom Communications and Rastar, Inc. Third, the Corporation will complete the restructuring plan of its Direct Mail Group. Finally, the Corporation will focus on organic growth by stressing sales development efforts such as the development of innovative products and cross selling opportunities within our different groups.

Notwithstanding this, it is important not to neglect the effect of the financial crisis and slowdown in the Canadian and U.S. economies on our operations. First, the turmoil in financial markets is having a major negative impact on the confidence level of debt investors which in turn is reducing the availability of capital from many sources and increasing the cost of this capital. Even though we have planned accordingly and remain confident we will be able to fund the refinancing of debt maturing in 2009 and our capital expenditures program, we believe the cost of these funds will be higher than previously anticipated. Furthermore, we anticipate that the economic slowdown will more severely affect three of our businesses:

- Direct mail activities in the U.S. – This business represents about 10% of the Corporation's consolidated revenues but over 50% of its revenues are derived from financial institutions. Given the depressed state of the market, we have already announced a restructuring plan which will reduce our capacity but have almost no visibility on customer demand for 2009;
- Magazine publishing – This business represents about 8% of the Corporation's consolidated revenues. The slowdown in the economy will directly impact the advertising budgets of so-called national advertisers which account for the bulk of this business' customers;
- Marketing products printing – This business represents about 7% of the Corporation's consolidated revenues. It relies heavily on marketing budgets of customers which are typically negatively affected during economic slowdowns.

We will also be affected in some of our other businesses but to a lesser extent. For example, our retail printing and distribution businesses which together account for about 25% of consolidated revenues, have the majority of their customers in industries that are less affected by economic cycles such as food and drug stores; our newspaper printing business, which represents about 9% of consolidated revenues, boasts long term contracts with customers; our book printing and book publishing businesses, which together account for 9% of consolidated revenues, have historically not been linked to economic cycles and, finally our newspaper publishing business, which represents about 10% of consolidated revenues, has close to 90% of its revenues in local advertising which has historically been less affected by economic cycles. Given the severity of the financial crisis and potential economic implications, we have prepared a capacity reduction contingency plan that can be quickly implemented if demand deteriorates rapidly for any of our businesses.

Below is a non-exhaustive list of additional factors that are likely to influence fiscal 2009 results:

- (+) the start of the printing of the *San Francisco Chronicle* in the second half
- (+) the full year impact from the Shoppers Drug Mart® (Pharmaprix® in Québec) business
- (+) the start of the Rogers contract in February 2009
- (+) the contribution of the Redwood Custom Communications and Rastar, Inc. acquisitions
- (+) the cost reduction programs
- (-) capital expenditures of approximately \$275 million, including approximately \$185.0 million for major projects which will generate adequate returns over the longer term but not necessarily in 2009
- (-) additional spending of approximately \$4.0 million in our Media sector, relating to a number of strategic investments
- (-) start up costs of approximately \$6 million for the *San Francisco Chronicle* project, now expensed due to new accounting rules
- (-) increased interest expense
- (-) disruptions related to the start-up of major projects
- (-) amortization expense increased due to major projects

We could also be affected by the variance in the exchange rate between the Canadian dollar and its U.S. counterpart as well as commodity prices, albeit it is difficult to gauge the impact, if any, considering the unprecedented volatility in the current environment.

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

December 11, 2008 except for the effect of the retrospective adjustments for a change in the Segmented information as described in note 27, which is as of September 10, 2009.



REVISED CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31 2008

Auditors' report

To the shareholders of
Transcontinental Inc.

We have audited the consolidated balance sheets of Transcontinental Inc. as at October 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair / Deloitte & Touche s.e.n.c.r.l.¹

Montreal, Canada

December 9, 2008, except for the effect of the retrospective adjustments for a change in the segmented information as described in Note 27, which is as of September 2, 2009.

¹ Chartered accountant auditor permit No. 19705



CONSOLIDATED STATEMENTS OF INCOME
For the years ended October 31

(in millions of dollars, except per share data)

	Notes	2008	2007
Revenues		\$ 2,429.3	\$ 2,326.2
Operating costs		1,781.1	1,707.5
Selling, general and administrative expenses		283.7	268.3
Operating income before amortization, impairment of assets and restructuring costs		364.5	350.4
Amortization	23	128.7	122.9
Impairment of assets and restructuring costs	4	219.5	9.7
Operating income		16.3	217.8
Financial expenses	5	30.5	32.2
Discount on sale of accounts receivable	7	9.3	11.1
Income (loss) before income taxes and non-controlling interest		(23.5)	174.5
Income taxes (recovered)	6	(31.0)	53.6
Non-controlling interest		(0.4)	0.3
Net income		\$ 7.9	\$ 120.6
Per share (basic)			
Net income	16	\$ 0.10	\$ 1.42
Per share (diluted)			
Net income	16	\$ 0.10	\$ 1.42
Average number of shares outstanding (in millions)		81.7	84.9

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



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended October 31

(in millions of dollars)

	2008	2007
Net income	\$ 7.9	\$ 120.6
Other comprehensive loss:		
Unrealized net change in fair value of derivatives designated as cash flow hedges, net of income taxes of (\$8.0) million for the year ended October 31, 2008 (\$5.0 million for the year ended October 31, 2007)	(17.6)	9.7
Reclassification adjustments 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 \$3.4 million for the year ended October 31, 2008 (\$2.2 million for the year ended October 31, 2007)	(7.4)	(4.3)
Net change in fair value of derivatives designated as cash flow hedges	(25.0)	5.4
Unrealized net gains (losses) on translation of financial statements of self-sustaining foreign operations	17.4	(16.3)
Other comprehensive loss	(7.6)	(10.9)
Comprehensive income	\$ 0.3	\$ 109.7

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the years ended October 31

(in millions of dollars)

	Notes	2008	2007
Balance, beginning of year, as previously reported		\$ 806.4	\$ 749.1
Financial Instruments - Recognition and measurement		-	(0.2)
Restated balance, beginning of year		806.4	748.9
Net income		7.9	120.6
Premium on redemption of shares	16	814.3 (32.5)	869.5 (39.8)
Dividends on shares		(25.3)	(23.3)
Balance, end of year		\$ 756.5	\$ 806.4

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



(in millions of dollars)

	Notes	2008	2007
Current assets			
Cash and cash equivalents		\$ 90.7	\$ 48.5
Accounts receivable	7	207.1	196.9
Income taxes receivable	6	4.5	28.8
Inventories	8	99.3	91.0
Prepaid expenses and other current assets		16.1	18.4
Future income taxes	6	28.1	16.6
		445.8	400.2
Property, plant and equipment	9	936.7	739.7
Goodwill	10	842.6	934.6
Intangible assets	11	166.2	172.5
Future income taxes	6	141.0	64.6
Other assets	12	88.1	90.3
		\$ 2,620.4	\$ 2,401.9
Current liabilities			
Accounts payable and accrued liabilities		\$ 442.9	\$ 400.5
Income taxes payable	6	48.3	59.8
Deferred subscription revenues and deposits		49.6	52.9
Future income taxes	6	9.9	4.8
Current portion of long-term debt	14	194.3	14.2
		745.0	532.2
Long-term debt	14	602.1	523.3
Future income taxes	6	101.1	108.4
Other liabilities	15	65.5	58.2
		1,513.7	1,222.1
Non-controlling interest		0.1	2.2
Commitments, guarantees and contingent liabilities	24		
Shareholders' equity			
Share capital	16	379.5	395.1
Contributed surplus	18	11.3	9.2
Retained earnings		756.5	806.4
Accumulated other comprehensive loss	19	(40.7)	(33.1)
		715.8	773.3
		1,106.6	1,177.6
		\$ 2,620.4	\$ 2,401.9

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

Approved on behalf of the Board of Directors,

(s) Rémi Marcoux
Rémi Marcoux
Director

(s) Richard Fortin
Richard Fortin,
Director



CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended October 31

(in millions of dollars)

	Notes	2008	2007
Operating activities			
Net income		\$ 7.9	\$ 120.6
Items not affecting cash and cash equivalents			
Amortization	23	150.8	149.0
Impairment of assets	4	209.0	3.6
Loss (gain) on disposal of assets		0.4	(0.1)
Future income taxes	6	(66.2)	(1.4)
Non-controlling interest		(0.4)	0.3
Net change in accrued pension benefit asset and liability	22	(6.0)	8.7
Stock-based compensation	17	2.3	2.6
Other		2.1	5.8
Cash flow from operating activities before changes in non-cash operating items		299.9	289.1
Changes in non-cash operating items	20	(12.9)	(48.1)
Cash flow related to operating activities		287.0	241.0
Investing activities			
Business acquisitions	21	(67.3)	(132.5)
Acquisitions of property, plant and equipment		(228.7)	(130.2)
Disposals of property, plant and equipment		1.9	3.3
Increase in other assets		(34.3)	(28.4)
Cash flow used in investing activities		(328.4)	(287.8)
Financing activities			
Increase in long-term debt		-	2.6
Repayment of long-term debt		(26.0)	(108.4)
Increase in revolving term credit facility		177.7	191.3
Dividends on shares		(25.3)	(23.3)
Redemption of shares	16	(48.7)	(53.1)
Issuance of shares	16	0.6	0.7
Other		(0.2)	(0.6)
Cash flow related to financing activities		78.1	9.2
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		5.5	(3.2)
Increase (decrease) in cash and cash equivalents		42.2	(40.8)
Cash and cash equivalents at beginning of year		48.5	89.3
Cash and cash equivalents at end of year		\$ 90.7	\$ 48.5

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



1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies:

a) Consolidation

The consolidated financial statements include the accounts of the Corporation and those of its subsidiaries, joint ventures and variable interest entities for which the Corporation is the principal beneficiary. Business acquisitions are accounted for under the purchase method and the results of operations of these businesses are included in the consolidated financial statements from the acquisition date. Investments in joint ventures are accounted for using the proportionate consolidation method and investments in companies subject to significant influence are accounted for using the equity method. Other investments are recorded at cost.

b) Use of estimates

The consolidated financial statements include amounts based on management's estimates and judgements, considering the materiality of these amounts. Actual results could differ from the estimates. The most significant areas requiring the use of management estimates relate to: impairment of assets and restructuring costs, accounting for income taxes, amortization periods of property, plant and equipment, valuation of goodwill and intangible assets, stock-based compensation costs and accounting for employee future benefits.

c) Revenue recognition

Printing and Marketing Communications sectors revenues are recognized when products are shipped or delivered in accordance with the customer contract or when services are rendered and the ability to collect is reasonably assured. Most sales are promptly delivered to clients; consequently, the Corporation does not have significant finished goods in inventory.

Volume discounts are recorded as reductions in revenues in the consolidated statements of income.

Media sector revenues are recognized as follows:

Advertising revenues:

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

Subscription revenues:

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

Distribution revenues:

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

Newsstand revenues:

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

Educational books revenues:

Educational books revenues are recognized upon shipment to customers, since title passes upon shipment.

d) Non-monetary transactions

In the normal course of business, the Corporation offers advertising in exchange for goods and services. The related revenues are accounted for based on the fair value of the goods and services received or given. For the year ended October 31, 2008, the Corporation recognized an amount of \$7.2 million as non-monetary transactions (\$7.3 million for the year ended October 31, 2007).

e) Income taxes

The Corporation records income taxes using the liability method of accounting. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount and the tax basis of the assets and liabilities and are measured using tax rates in effect when these differences are expected to reverse in accordance with enacted laws or those substantively enacted at the date of the financial statements. Future income tax assets are recognized only if management believes it is more likely than not that they will be realized.

f) Tax credits

The Corporation benefits from income tax credits related to operating costs and property, plant and equipment. These credits are accounted for either as a reduction of operating costs or property, plant and equipment.

g) Cash and cash equivalents

Cash and cash equivalents include cash, bank overdraft and temporary investments with original maturities of less than three months. Cash and cash equivalents are presented at fair value.

1. Significant accounting policies (continued)

h) Transfer of receivables

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

i) Inventories

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

j) Vendor rebates

The Corporation records cash consideration received from vendors as a reduction in the price of vendor's products and services and reduces operating costs and related inventory in the consolidated statements of income and balance sheets.

k) Property, plant and equipment

Property, plant and equipment are stated at cost and amortized using the straight-line method over their estimated useful lives, as follows:

Buildings	20 - 40 years
Machinery and equipment	3 - 15 years
Machinery and equipment under capital leases	3 - 15 years
Other equipment	2 - 5 years
Leasehold improvements	Term of the lease

Costs, such as interest, directly incurred for the acquisition or construction of property, plant and equipment are capitalized and amortized over the useful life of the corresponding asset. Assets under construction are not amortized until they are ready for their intended use.

Property, plant and equipment held for sale are stated at the lower of net book value and fair value.

l) Goodwill

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

m) Intangible assets

Amortizable intangible assets consist of educational book titles, printing contracts, customer relationships and non-compete agreements. These assets are amortized based on historical sales patterns, which vary from 6 to 9 years, for educational book titles, and over the printing contract terms, the customer relationships or the non-compete agreement terms, which vary from 3 to 15 years.

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

n) Deferred charges

Deferred charges include incentives, start-up costs and long-term technology project costs, which are amortized on a straight-line basis over 2 to 10 year periods, and educational books prepublication costs, which are amortized over a maximum of 5 years based on historical sales patterns.

o) Asset retirement obligations

Legal obligations linked to removal obligations on certain buildings are recorded in the period in which they are contracted. The obligation is initially measured at fair value using an expected present value technique and is subsequently adjusted for any changes resulting from the passage of time and any changes to the timing of payment or the amount of the original estimate. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized as part of the carrying amount of the related asset by the same amount as the liability and is amortized into income over its remaining useful life.

p) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

1. Significant accounting policies (continued)

q) Employee future benefits

The accrued benefit obligation is determined by independent actuaries using the projected benefit method prorated on services and is based on management's best economic and demographic estimates. The Corporation amortizes the unrecognized net aggregate actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, over the expected average remaining service life ("EARSLS") of the employee group covered by the plans which ranges from 10 to 12 years. The transitional obligation resulting from the initial application of Section 3461 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook in November 2000 is also amortized over the EARSLS of the employee group covered by the plans. For the purpose of calculating the expected return on plan assets, the fair market value is used.

r) Foreign currency translation

Operating foreign subsidiaries, with the exception of sales offices, are considered self-sustaining foreign operations and the current rate method is used to translate their financial statements into Canadian dollars. The resulting translation adjustments are reported under "Accumulated other comprehensive loss" in the consolidated balance sheet and recognized in income only when a reduction of the investment in these foreign operations has been realized. Integrated foreign operations, including foreign sales offices and foreign currency transactions are translated using the temporal method and the foreign exchange gains or losses are recognized in income.

s) Financial instruments

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

Financial assets and liabilities are initially measured at fair value and their subsequent measurement depends of their classification, as described below. The classification depends on the objectives set forth when the financial instruments were purchased or issued, their characteristics and their designation by the Corporation.

The Corporation has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Other than temporary investments are classified as either financial assets held to maturity and are thus measured at amortized cost or as available-for-sale and thus marked-to-market, or measured at cost if there is no quoted market. If they are measured at fair value, variations are recorded through comprehensive income at each period-end.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Bank overdraft, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Derivative financial instruments are measured at fair value. The change in fair value of the effective portion of the hedge is recognized in other comprehensive income, net of income taxes.

Transactions costs are capitalized to the cost of financial assets and liabilities that are not classified as held for trading. Thus, deferred financial expenses related to long-term debt are classified as a reduction of long-term debt and amortized using the effective rate method.

Hedging relationships:

The Corporation maintains proper documentation concerning its risk management objectives and strategies under which hedging activities are derived as well as for the relationships between the various hedging instruments and the hedged items. This process consists of matching all derivative hedging instruments to specific assets and liabilities, to firm commitments or specific anticipated transactions.

In managing its foreign exchange exposure, the Corporation uses various derivative financial instruments to hedge its exposure toward specific anticipated transactions and a portion of its foreign denominated accounts receivable. Consequently, an adjustment is made to the hedged items to reflect the hedge rate.

When a hedging relationship is put in place and throughout its duration, there must be a reasonable assurance that the relationship will remain effective and in accordance with the Corporation's risk management objective and strategy as initially documented. When hedging instruments mature or become ineffective before their maturity and are not replaced within the Corporation's documented hedging strategy, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income as a result of applying hedge accounting are carried forward to be recognized in net income in the same period or periods during which the asset acquired or liability incurred affects net income. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise before the hedging instrument expires, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income as a result of applying hedge accounting are recognized in the reporting period's net income along with the corresponding gains, losses, revenues or expenses recognized on the hedged item.

Derivative financial instruments offering economic hedging without being eligible to hedge accounting are accounted for at fair value with change in fair value recorded in the statement of income.

2. Changes in accounting policies

a) Financial Instruments – Disclosures

On November 1, 2007, the Corporation adopted Section 3862 of the CICA Handbook, Financial Instruments – Disclosures, replacing Section 3861 – Financial Instruments – Disclosure and Presentation, that the Corporation had adopted on November 1, 2006. 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 of the CICA Handbook, Financial Instruments – Presentation, replacing Section 3861 – Financial Instruments – Disclosure and Presentation, that the Corporation had adopted on November 1, 2006. 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 of the CICA Handbook, 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 26, 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.

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

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. The Corporation has determined that the adoption of this new recommendation will not have a material impact on the Corporation's consolidated financial statements.

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.

3. Effect of new accounting standards not yet implemented (continued)

d) International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

For the Corporation, the conversion to IFRS will be required for interim and annual financial statements for the year ending October 31, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Corporation is currently preparing its IFRS conversion plan. The plan will be aimed in particular at identifying the differences between IFRS and the Corporation's accounting policies, assessing their impact and, where necessary, analyzing the various policies that the Corporation could elect to adopt.

The Corporation is required to qualitatively disclose its changeover impacts in conjunction with its 2009 and 2010 financial reporting as well as quantitative information with its interim and annual financial reporting for the year ending October 31, 2011. This information will be used by the Corporation to present comparative information in its financial statements for the year ending October 31, 2012.

4. Impairment of assets and restructuring costs

Over the last few years, the Corporation has initiated restructuring plans as follows :

- a) During the fourth quarter of fiscal 2008, the Corporation initiated a plan to consolidate production from the Warminster and Hamburg facilities in the Hamburg facility. These two facilities are part of the Direct Marketing group of the Printing sector. This consolidation is part of a strategy to adapt production capacity to the current demand and to reduce costs following major impacts of the financial crisis on marketing programs of financial institutions which represent a large portion of the customer base of this group. The restructuring is expected to be completed in 2009.

During the fourth quarter of fiscal 2008, the Corporation also completed an impairment test on the assets of the Direct Marketing group, mainly composed of property, plant and equipment, amortizable intangible assets and goodwill. The Corporation recorded an impairment of the entire amount of goodwill for \$192.1 million, as well as an impairment of intangible assets and property, plant and equipment of \$3.6 million and \$11.4 million, respectively.

- b) During the second quarter of fiscal 2008, the Corporation initiated a restructuring plan for its newspaper operations in the Media sector which included the closing of the *Daily News* in Halifax and the launch of a free daily newspaper, *Metro*, for the Halifax market. During the first quarter of fiscal 2008, the Corporation performed an impairment test on the assets of the *Daily News* in Halifax, mainly comprising non-amortizable intangible assets, and, as a result, recorded an impairment charge of \$1.9 million. The restructuring was completed during the fourth quarter of fiscal 2008.
- c) During the first quarter of fiscal 2007, the Corporation initiated a restructuring plan for its marketing products printing activities in the Printing and Marketing Communications sectors. The restructuring was completed during the fourth quarter of fiscal 2008.
- d) During the second quarter of fiscal 2006, the Corporation adopted a plan for the consolidation of its marketing products printing activities located in the Toronto area in the Marketing Communications sector. The consolidation was completed during the fourth quarter of fiscal 2008.
- e) During the second quarter of fiscal 2005, the Corporation announced the consolidation of certain book printing operations in the Printing sector. The consolidation was completed during the first quarter of 2007.

The following table provides details of these plans :



4. Impairment of assets and restructuring costs (continued)

	Total		2008				2007	
	Charged to income	Forecasted	Liability as at October 31, 2007	Charged to income	Paid	Liability as at October 31, 2008	Charged to income	Paid
(a) Direct marketing operations								
Workforce reduction costs	\$ 7.7	\$ 8.3	\$ -	\$ 7.7	\$ -	\$ 7.7	\$ -	\$ -
Transfer of printing equipment and other costs	-	11.8	-	-	-	-	-	-
	7.7	20.1	-	7.7	-	7.7	-	-
Impairment of assets	207.1	207.1	n/a	207.1	n/a	n/a	-	n/a
	\$ 214.8	\$ 227.2	\$ -	\$ 214.8	\$ -	\$ 7.7	\$ -	\$ -
(b) Newspaper operations								
Media								
Workforce reduction costs	\$ 1.4	\$ 1.4	\$ -	\$ 1.4	\$ 1.4	\$ -	\$ -	\$ -
Transfer of printing equipment and other costs	0.7	0.7	-	0.7	0.7	-	-	-
Printing								
Workforce reduction costs	0.3	0.3	-	0.3	0.3	-	-	-
	2.4	2.4	-	2.4	2.4	-	-	-
Media								
Impairment of assets	1.9	1.9	n/a	1.9	n/a	n/a	-	n/a
	\$ 4.3	\$ 4.3	\$ -	\$ 4.3	\$ 2.4	\$ -	\$ -	\$ -
(c) Marketing products printing activities								
Printing								
Workforce reduction costs	\$ 1.6	\$ 1.6	\$ 0.2	\$ -	\$ 0.2	\$ -	\$ 1.6	\$ 1.4
Transfer of printing equipment and other costs	0.7	0.7	-	0.2	0.2	-	0.5	0.5
Marketing Communications								
Workforce reduction costs	1.8	1.8	1.2	-	1.2	-	1.8	0.6
Transfer of printing equipment and other costs	1.7	1.7	-	0.2	0.2	-	1.5	1.5
	5.8	5.8	1.4	0.4	1.8	-	5.4	4.0
Printing								
Impairment of assets	3.4	3.4	n/a	-	n/a	n/a	3.4	n/a
Marketing Communications								
Impairment of assets	0.2	0.2	n/a	-	n/a	n/a	0.2	n/a
	\$ 9.4	\$ 9.4	\$ 1.4	\$ 0.4	\$ 1.8	\$ -	\$ 9.0	\$ 4.0
(d) Toronto marketing products printing activities								
Workforce reduction costs	\$ 3.0	\$ 3.0	\$ 0.6	\$ -	\$ 0.6	\$ -	\$ 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	-	0.6	-	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	\$ -	\$ 0.6	\$ -	\$ 0.6	\$ 1.4
(e) 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								
Workforce reduction costs			\$ 2.0	\$ 9.4	\$ 3.7	\$ 7.7	\$ 3.6	\$ 3.0
Transfer of printing equipment and other costs			-	1.1	1.1	-	2.5	2.5
Impairment of assets			n/a	209.0	n/a	n/a	3.6	n/a
			\$ 2.0	\$ 219.5	\$ 4.8	\$ 7.7	\$ 9.7	\$ 5.5



5. Financial expenses

	2008	2007
Financial expenses on long-term debt	\$ 29.5	\$ 29.9
Other expenses (revenues)	0.6	(0.1)
Foreign exchange loss	0.4	2.4
	\$ 30.5	\$ 32.2

6. Income taxes

	2008	2007
Statutory tax rate	31.0 %	32.4 %
Effect of foreign tax rate differences	(3.9)	(2.6)
Other	0.9	0.9
Effective tax rate before the following items:	28.0	30.7
Goodwill impairment and restructuring costs (Note 4)	55.0	-
Effect of changes in statutory tax rates (a)	29.8	-
Retroactive taxes (b)	19.1	-
Effective tax rate	131.9 %	30.7 %

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.

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

	2008	2007
Current	\$ 35.2	\$ 55.0
Future		
Reduction of future income taxes related to goodwill impairment and restructuring costs	(74.4)	-
Reduction (increase) in future income tax expense arising from the origination and reversal of taxable temporary differences	8.2	(1.4)
	\$ (31.0)	\$ 53.6

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

	2008	2007
Losses carried forward	\$ 73.5	\$ 69.1
Property, plant and equipment, net of tax credits	(44.1)	(43.4)
Other assets (liabilities)		
Non-deductible provisions	24.3	11.1
Employee future benefits	8.5	8.4
Deferred charges	(8.7)	(5.8)
Intangible assets and goodwill	2.8	(70.2)
Other	1.8	(1.2)
Total future income taxes	\$ 58.1	\$ (32.0)
Future income taxes include the following:		
Future income tax assets - short-term	\$ 28.1	\$ 16.6
Future income tax assets - long-term	141.0	64.6
Future income tax liabilities - short-term	(9.9)	(4.8)
Future income tax liabilities - long-term	(101.1)	(108.4)
Total future income taxes	\$ 58.1	\$ (32.0)

The Corporation has unrecorded tax losses of \$4.6 million which can be applied against future taxable income through 2028. The Corporation also has unrecorded capital losses of \$26.3 million, which can be carried forward indefinitely.



7. Accounts receivable

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

As at October 31, 2008, \$291 million of accounts receivable (\$273 million as at October 31, 2007) had been sold under the accounts receivable securitization program, of which \$42 million (\$37 million as at October 31, 2007) was kept by the Corporation as retained interest, resulting in a net consideration of \$249 million, including C\$210 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 \$9.3 million for fiscal 2008 (\$11.1 million for fiscal 2007).

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

	2008	2007
Expected loss and dilution rates	0.2 %	0.2 %
Expected weighted average collection period after securitization (days)	3.0	5.0

As at October 31, 2008, the effect of a 10% change in the expected rates of loss and dilution on receivables would be immaterial on the fair market value of the retained interest. These sensitivities are hypothetical and should be used with caution. The effect of a variation in a particular assumption on the retained interest has been calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

During 2008 and 2007, there were no defaulted receivables repurchased or any deemed collections or defaulted receivables or dilution amounts compensated for by the Corporation.

8. Inventories

	2008	2007
Raw materials	\$ 58.4	\$ 48.2
Work in progress and finished goods	40.9	42.8
	\$ 99.3	\$ 91.0

9. Property, plant and equipment

	Cost	Accumulated amortization	Net book value
2008			
Land	\$ 50.8	\$ -	\$ 50.8
Buildings	210.1	82.1	128.0
Machinery and equipment	1,201.2	793.5	407.7
Machinery and equipment under capital leases	34.3	10.6	23.7
Other equipment and leasehold improvements	250.0	176.4	73.6
Assets under construction and deposits on equipment	252.9	-	252.9
	\$ 1,999.3	\$ 1,062.6	\$ 936.7
2007			
Land	\$ 25.5	\$ -	\$ 25.5
Buildings	199.3	71.3	128.0
Machinery and equipment	1,145.6	740.2	405.4
Machinery and equipment under capital leases	40.0	7.6	32.4
Other equipment and leasehold improvements	223.2	150.7	72.5
Assets under construction and deposits on equipment	75.9	-	75.9
	\$ 1,709.5	\$ 969.8	\$ 739.7

For the year ended October 31, 2008, capitalized interest on property, plant and equipment amounted to \$4.7 million (\$1.9 million in 2007).



10. Goodwill

The changes in book value of goodwill are as follows:

2008	Printing	Marketing Communications	Media	Other activities and unallocated amounts	Consolidated
Balance, beginning of year	\$ 281.5	\$ 147.9	\$ 504.3	\$ 0.9	\$ 934.6
Acquisitions (Note 21)	-	49.0	3.1	-	52.1
Impairment (Note 4)	(192.1)	-	-	-	(192.1)
Foreign currency translation adjustment	42.1	5.9	-	-	48.0
Balance, end of year	\$ 131.5	\$ 202.8	\$ 507.4	\$ 0.9	\$ 842.6

2007	Printing	Marketing Communications	Media	Other activities and unallocated amounts	Consolidated
Balance, beginning of year	\$ 310.1	\$ 73.6	\$ 496.9	\$ 0.9	\$ 881.5
Acquisitions (Note 21)	-	75.0	9.4	-	84.4
Foreign currency translation adjustment	(28.2)	-	-	-	(28.2)
Other	(0.4)	(0.7)	(2.0)	-	(3.1)
Balance, end of year	\$ 281.5	\$ 147.9	\$ 504.3	\$ 0.9	\$ 934.6

11. Intangible assets

2008	Cost	Accumulated amortization	Net book value
Amortizable intangible assets			
Educational book titles	\$ 20.1	\$ 7.5	\$ 12.6
Printing contracts	14.6	4.7	9.9
Customer relationships	26.8	5.0	21.8
Non-compete agreements	5.4	3.6	1.8
	66.9	20.8	46.1
Non-amortizable intangible assets			
Trade names and circulation	120.1	-	120.1
	\$ 187.0	\$ 20.8	\$ 166.2

2007	Cost	Accumulated amortization	Net book value
Amortizable intangible assets			
Educational book titles	\$ 20.1	\$ 3.7	\$ 16.4
Printing contracts	17.1	6.5	10.6
Customer relationships	24.5	4.1	20.4
Non-compete agreements	4.9	2.2	2.7
	66.6	16.5	50.1
Non-amortizable intangible assets			
Trade names and circulation	122.4	-	122.4
	\$ 189.0	\$ 16.5	\$ 172.5

12. Other assets

	2008	2007
Investments	\$ 0.6	\$ 0.9
Accrued pension benefit asset (Note 22)	4.8	3.4
Deferred charges, net of accumulated amortization	76.0	65.2
Deferred financial expenses, net of accumulated amortization	0.4	0.3
Fair value of derivative financial instruments	0.3	14.7
Other	6.0	5.8
	\$ 88.1	\$ 90.3



13. Operating lines of credit

Lenders of the Corporation and its subsidiaries are unsecured and rank equally. As at October 31, 2008, in addition to the term revolving credit facility mentioned in Note 14, the Corporation had an authorized operating line of credit that amounted to \$4.5 million. As at that date, the Corporation had borrowed an amount of C\$1.1 million and US\$0.7 million on this line of credit. This loan is included in cash and cash equivalents on the balance sheet. The line of credit bears interest at the bank prime rate, is reviewed periodically and does not require commitment fees. It is also renewable annually and is not subject to any restrictive clauses.

14. Long-term debt

	Effective interest rate as of October 31, 2008	Maturity	2008	2007
Unsecured Senior Notes				
Series 2002 A - Tranche 1 - 5.62% (US\$75.0)	5.69 %	2012	\$ 90.3	\$ 70.9
Series 2002 A - Tranche 2 - 5.73% (US\$50.0)	5.80 %	2014	60.2	47.2
Series 2004 A - LIBOR + 0.70% (US\$37.5)	3.58 %	2012	45.2	35.4
Series 2004 B - LIBOR + 0.70% (US\$37.5)	3.58 %	2012	45.2	35.4
Series 2004 C - LIBOR + 0.80% (US\$15.0)	3.66 %	2014	18.1	14.2
Series 2004 D - LIBOR + 0.90% (US\$10.0)	3.75 %	2016	12.0	9.5
Unsecured Senior Debentures				
Series C - 9.50%	-	-	-	4.5
Series I - 6.05%	6.07 %	2009	100.0	100.0
Loans secured by property, plant and equipment				
having a net book value of \$5.6, at fixed rates of 5.69% to 6.54%	5.69% to 6.54 %	2011	5.6	2.8
Obligations under capital leases secured by property, plant and equipment having a net book value of \$23.7, at fixed rates of 3.3% to 8.0%				
	3.3% to 8.0 %	2009-2014	16.4	18.7
Revolving credit facility in Canadian dollars				
	4.05 %	2009-2012	210.0	192.0
Revolving credit facility in U.S. dollars (US\$157.0)				
	4.22 %	2009-2012	189.1	-
Other loans at fixed rates of 0.0% to 8.0%				
	3.27% to 8.0 %	2009-2014	6.9	7.2
Other loans at prime rate				
	-	-	-	3.1
			799.0	540.9
Unamortized deferred financing expenses				
			2.6	3.4
Total long-term debt			796.4	537.5
Current portion			194.3	14.2
			\$ 602.1	\$ 523.3

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

On May 27, 2008, Unsecured Senior Debentures totaling \$4.5 million matured. These have been repaid using the existing term revolving credit facility.

As at October 31, 2008, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling \$550 million or the US dollar equivalent, divided in two tranches, A and B, of \$400 million and \$150 million, respectively.

The applicable interest rate on Tranche A is based on the credit rating assigned by Standard & Poor's Ratings Services. Depending on the form of borrowing chosen by the Corporation, it is currently either, bank prime rate, bankers' acceptance rate + 0.44% or LIBOR + 0.44%. Facility fees of 0.11% also applicable on Tranche A whether it is drawn or not and utilization fees of 0.05% are applicable if the amount drawn is over 66 2/3% of Tranche A. This tranche is renewable on an annual basis and, if not renewed, it matures five years after its issuance or the last renewal, as the case may be. The last renewal request sent by the Corporation has been approved by the bank syndicate and has been in force since August 30, 2007

During the third quarter of fiscal 2008, the Corporation amended its credit agreement to provide an additional tranche ("Tranche B") of an amount of \$150 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, it is currently either bank prime rate, bankers' acceptance rate + 0.575% or LIBOR + 0.575%. Facility fees of 0.225% are applicable on Tranche B, whether it is drawn or not and utilization fees of 0.05% are applicable if the amount drawn is over 66 2/3% of Tranche B.

As at October 31, 2008, the Corporation had borrowed \$313.0 million of Tranche A, including C\$160.0 million and US\$127.0 million, and \$86.1 million on Tranche B, including C\$50.0 million and US\$30.0 million.



14. Long-term debt (continued)

Under the terms and conditions of the credit agreement, the Corporation must comply with certain restrictive covenants, including the requirement to maintain certain financial ratios.

As of October 31, 2008, letters of credit amounting to C\$1.5 million and US\$4.0 million were drawn on the committed line of credit in addition to the amount presented above.

For the years ended October 31, 2008 and 2007, the Corporation has not been in default under any of its obligations.

Principal payments to be made by the Corporation in forthcoming years are as follows:

	Principal payments
2009	\$ 194.3
2010	7.7
2011	6.4
2012	495.9
2013	2.0
2014 and thereafter	92.7
	\$ 799.0

Minimum payments required under capital leases, included in the amounts presented above, are as follows:

	Capital	Interest	Minimum payments
2009	\$ 5.7	\$ 0.8	\$ 6.5
2010	4.9	0.5	5.4
2011	2.5	0.3	2.8
2012	1.2	0.1	1.3
2013	0.8	0.1	0.9
2014 and thereafter	1.3	-	1.3
	\$ 16.4	\$ 1.8	\$ 18.2

15. Other liabilities

	2008	2007
Deferred subscription revenues	\$ 8.0	\$ 10.6
Long-term accrued liabilities	21.6	16.0
Accrued pension benefit liability (Note 22)	24.8	29.4
Asset retirement obligations	1.2	1.2
Fair value of derivative financial instruments	9.9	1.0
	\$ 65.5	\$ 58.2

Asset retirement obligations

Asset retirement obligations relate to estimated future costs to remove leasehold improvements brought to leased properties under operating leases. Future obligations will be settled between 2009 and 2019. To determine the initial recorded liability, the future estimated cash flows have been discounted using the Corporation's credit-adjusted risk-free rate of return of 5.58% on average. The value of undiscounted estimated cash flows as at October 31, 2008 and 2007 is \$1.4 million and \$1.5 million, respectively.

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

	2008	2007
Balance, beginning of year	\$ 1.4	\$ 1.1
Business acquisitions	-	0.3
Accretion expense	0.1	0.1
Reversal of liabilities	(0.2)	(0.1)
Balance, end of year	1.3	1.4
Current portion included in accounts payable and accrued liabilities	0.1	0.2
	\$ 1.2	\$ 1.2



16. Share capital

Authorized (unlimited number)

Class A Subordinate

Voting Shares: subordinate participating voting shares carrying one vote per share, no par value;

Class B Shares: participating voting shares carrying 20 votes per share, convertible into Class A Subordinate Voting Shares, no par value;

Preferred Shares: first and second preferred shares, issuable in series in numbers limited by the Articles of Incorporation, carrying no voting rights except as provided by law or in the Corporation's Articles of Incorporation, entitling the holder to cumulative dividends.

	2008		2007	
	Number of shares	Amount	Number of shares	Amount
Issued and paid				
Class A Subordinate Voting Shares	64,243,743	\$ 357.0	66,704,849	\$ 372.1
Class B Shares	16,534,638	22.5	16,909,672	23.0
	80,778,381	\$ 379.5	83,614,521	\$ 395.1

Class A Subordinate Voting Shares and Class B Shares

During fiscal years 2008 and 2007, the share capital of the Corporation changed as follows:

	2008		2007	
	Number of shares	Amount	Number of shares	Amount
Class A Subordinate Voting Shares				
Balance, beginning of year	66,704,849	\$ 372.1	68,988,866	\$ 384.4
Conversion of Class B Shares into Class A Subordinate Voting Shares	367,034	0.5	10,673	-
Redemption of shares	(2,894,100)	(16.2)	(2,354,700)	(13.1)
Exercise of stock options	65,960	0.6	60,010	0.8
Balance, end of year	64,243,743	\$ 357.0	66,704,849	\$ 372.1
Class B Shares				
Balance, beginning of year	16,909,672	\$ 23.0	17,058,145	\$ 23.2
Conversion of Class B Shares into Class A Subordinate Voting Shares	(367,034)	(0.5)	(10,673)	-
Redemption of shares	(8,000)	-	(137,800)	(0.2)
Balance, end of year	16,534,638	\$ 22.5	16,909,672	\$ 23.0

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.

The 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.



16. Share capital (continued)

During the years 2008 and 2007, the following purchases have been made:

	2008			2007		
	Number of shares purchased	Weighted average price	Total consideration	Number of shares purchased	Weighted average price	Total consideration
Class A	2,894,100	\$ 16.77	\$ 48.5	2,354,700	\$ 21.27	\$ 50.1
Class B	8,000	\$ 18.34	0.2	137,800	\$ 21.69	3.0
			\$ 48.7			\$ 53.1
Book value			\$ 16.2			\$ 13.3
Premium paid			32.5			39.8
			\$ 48.7			\$ 53.1

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 year ended October 31, 2008, the amount received was \$0.6 million, and no amount was transferred from contributed surplus to share capital. For the year ended October 31, 2007, the amount received was \$0.7 million and \$0.1 million was transferred from contributed surplus to share capital.

Earnings per share

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

	2008	2007
Numerator		
Net income	\$ 7.9	\$ 120.6
Denominator (in millions)		
Weighted average number of shares	81.7	84.9
Dilutive effect of stock options and warrants	0.1	0.1
Weighted average diluted number of shares	81.8	85.0
Basic earnings per share	\$ 0.10	\$ 1.42
Diluted earnings per share	\$ 0.10	\$ 1.42

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 the periods below.

	Three months ended							
	October 31		July 31		April 30		January 31	
	2008	2007	2008	2007	2008	2007	2008	2007
Stock options	1,545,195	605,540	1,385,495	612,600	1,387,495	629,420	1,519,340	638,340



17. Stock-based compensation plans

Stock option plan

Since 1999, the Corporation maintains a stock option plan for the benefit of certain of its officers and senior executives. On January 18, 2005, the Corporation modified its stock option plan. The number of Class A Subordinate Voting Shares authorized for issuance was then increased to 6,078,562. As at October 31, 2008, the number of Class A Subordinate Voting Shares authorized for issuance and the balance of shares that could be issued under this plan were 6,078,562 and 4,818,514, respectively. The stock options granted before March 31, 2005 start to vest after one year at a rate of 20% per year and must be exercised no later than ten years after the grant date. The stock options granted after March 30, 2005 start to vest after one year at a rate of 25% per year and must be exercised no later than seven years after the grant date. Under the plan, each stock option entitles its holder to receive one share upon exercise and the exercise price is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation costs of \$2.1 million and \$2.4 million were charged to income and as an increase to contributed surplus of shareholders' equity for fiscal 2008 and 2007, respectively.

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

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	1,865,306	\$ 18.79	1,834,986	\$ 18.49
Granted	159,700	15.51	160,100	20.90
Exercised	(65,960)	9.76	(60,010)	12.64
Cancelled	(138,425)	21.64	(69,770)	20.99
Balance end of year	1,820,621	\$ 18.61	1,865,306	\$ 18.79
Options exercisable as at October 31	1,219,691	\$ 18.31	979,936	\$ 17.10

As at October 31, 2008, the balance of stock options available for grant under the plan was 2,997,893.

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

	Options outstanding			Options exercisable		
	Exercise price range	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
2008						
	\$ 8.85 - 11.13	275,426	2.6	\$ 10.06	275,426	\$ 10.06
	\$ 15.51 - 24.01	1,545,195	5.0	20.14	944,265	20.72
		1,820,621	4.6	\$ 18.61	1,219,691	\$ 18.31
2007						
	\$ 8.70 - 11.13	340,386	3.5	\$ 9.97	340,386	\$ 9.97
	\$ 17.80 - 24.01	1,524,920	5.9	20.76	639,550	20.89
		1,865,306	5.4	\$ 18.79	979,936	\$ 17.10

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

	2008	2007
Fair value of stock options	\$ 4.04	\$ 5.16
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



17. Stock-based compensation plans (continued)

Share unit plan for senior executives

The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted. A portion of share units will vest based on performance targets and another portion of share units will vest based on tenure. DSUs and RSUs are recognized as a compensation expense on a straight-line basis, over the three-year vesting period based on forecasted attainment of targets. DSUs and RSUs are remeasured at fair market value at each reporting period, until settlement in the case of DSUs or until the vesting date in the case of RSUs, which corresponds to the settlement date, using the trading price of the Corporation's Class A Subordinate Voting Shares. Fair market value variations are accounted for as compensation expense with a corresponding credit to "Accounts payable and accrued liabilities" in the consolidated balance sheet. Vested DSUs and RSUs will be paid, at the Corporation's option, in cash or with Class A Subordinate Voting Shares of the Corporation purchased on the open market.

Number of units	DSU		RSU	
	2008	2007	2008	2007
Balance, beginning of year	165,592	33,193	26,507	-
Units granted	-	138,310	194,850	30,788
Units cancelled	(41,119)	(6,347)	-	(4,281)
Units paid	(21,360)	-	-	-
Dividends paid in units	169	436	-	-
Balance, end of year	103,282	165,592	221,357	26,507

The expense recorded in the consolidated statement of income for the year ended October 31, 2008 and 2007 was \$1.0 million and \$0.2 million, respectively. An amount of \$0.4 million has been paid under the plan for the year ended October 31, 2008 (no amount paid in 2007).

Share unit plan for directors

The Corporation offers a deferred share unit plan for its directors. Under this plan, directors may elect to receive either cash or deferred share units for their compensation. When a director elects to participate in this plan, the Corporation credits the account of the director for a number of units equal to the deferred compensation divided by the fair value of Class A Subordinate Voting Shares at the date of grant. When the Corporation pays dividends on Class A Subordinate Voting Shares, the accounts of the directors are credited for the amount in the form of additional units. The variation in fair value is recorded as a compensation expense with the counterpart in "Accounts payable and accrued liabilities" in the consolidated balance sheet. Following cessation of functions as director of the Corporation, a cash payment equal to the market value of the accumulated deferred share units will be made.

Number of units	2008	2007
Balance, beginning of year	79,938	64,942
Directors compensation	36,545	20,273
Units paid	(9,627)	(6,180)
Dividends paid in units	1,765	903
Balance, end of year	108,621	79,938

The expense (reversal) recorded in the consolidated statement of income for the year ended October 31, 2008 and 2007 was \$(0.2) million and \$0.5 million, respectively. An amount of \$0.2 million has been paid under the plan for the year ended October 31, 2008 (\$0.1 million for the year ended October 31, 2007).

18. Contributed surplus

	2008	2007
Balance, beginning of year	\$ 9.2	\$ 6.9
Compensation costs relating to stock-based compensation plans (Note 17)	2.1	2.4
Exercise of stock options (Note 16)	-	(0.1)
Balance, end of year	\$ 11.3	\$ 9.2



19. Accumulated other comprehensive loss

	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	17.4	(25.0)	(7.6)
Balance as at October 31, 2008	\$ (24.9)	\$ (15.8)	\$ (40.7)
Balance as at November 1, 2006, as previously reported	\$ -	\$ -	\$ -
Unrealized losses, net of income taxes	(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	(16.3)	5.4	(10.9)
Balance as at October 31, 2007	\$ (42.3)	\$ 9.2	\$ (33.1)

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

	2009	2010	2011	2012	Total
Losses on derivatives designated as cash flow hedges	\$ (13.1)	\$ (7.1)	\$ (2.2)	\$ (0.3)	\$ (22.7)
Income taxes	4.0	2.1	0.7	0.1	6.9
	\$ (9.1)	\$ (5.0)	\$ (1.5)	\$ (0.2)	\$ (15.8)

20. Cash flows

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

	2008	2007
Accounts receivable	\$ 14.5	\$ (2.7)
Income taxes receivable	(2.9)	0.9
Inventories	(4.5)	4.5
Prepaid expenses and other current assets	4.0	(2.0)
Accounts payable and accrued liabilities	(29.5)	(23.5)
Income taxes payable	12.4	(20.9)
Deferred subscription revenues and deposits	(6.9)	(4.4)
	\$ (12.9)	\$ (48.1)
Additional Information		
Interest paid	\$ 32.0	\$ 29.4
Income taxes paid	\$ 26.6	\$ 67.5



21. Business acquisitions and disposals

2008

For the year ended October 31, 2008, the Corporation made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Marketing Communications	100% of the shares of Rastar, Inc., a US-based direct marketing company that specializes in interactive database marketing and variable data digital printing	September 4, 2008
	90% of the shares of ThinData Inc., Canada's leading permission-based email marketing services firm	March 11, 2008
	2% additional shares of PLM Group Ltd. The Corporation now owns 100% of the shares of PLM Group Ltd.	November 19, 2007
Media	100% of the shares of <i>L'express le journal d'ici</i> , a French-language bi-monthly 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 18, 2007
	Assets of <i>The Springhill-Parrsboro Record</i> , weekly newspaper in Nova Scotia	November 23, 2007

	Rastar	PLM	Other	Total
Assets acquired				
Working capital	\$ (0.1)	\$ 2.5	\$ 0.8	\$ 3.2
Property, plant and equipment	17.2	(0.4)	0.6	17.4
Goodwill (tax basis of \$40.6 million of dollars)	38.4	(3.4)	17.1	52.1
Amortizable intangible assets	-	3.5	1.8	5.3
Future income taxes	-	0.9	-	0.9
Other assets	0.1	-	0.2	0.3
	\$ 55.6	\$ 3.1	\$ 20.5	\$ 79.2
Liabilities assumed				
Notes payable	\$ -	\$ -	\$ 1.2	\$ 1.2
Long-term debt	9.8	-	0.5	10.3
Other liabilities	-	1.9	-	1.9
Future income taxes	-	2.0	0.8	2.8
Non-controlling interest	-	(1.9)	-	(1.9)
	9.8	2.0	2.5	14.3
	\$ 45.8	\$ 1.1	\$ 18.0	\$ 64.9
Consideration				
Cash paid	\$ 46.8	\$ 5.2	\$ 18.2	\$ 70.2
Cash in acquired operations	(1.1)	-	(1.8)	(2.9)
	45.7	5.2	16.4	67.3
Short-term liabilities	0.1	(4.1)	0.1	(3.9)
Long-term liabilities (bearing no interest)	-	-	1.5	1.5
	\$ 45.8	\$ 1.1	\$ 18.0	\$ 64.9

Rastar, Inc.

The purchase price allocation of Rastar, Inc. is preliminary and could change once the valuation of the assets acquired is completed and the final determination of the costs related to the acquisition has been made.



21. Business acquisitions and disposals (continued)

PLM Group Ltd.

During the fourth quarter of 2008, adjustments were made to the purchase price allocation of PLM Group Ltd., acquired October 16, 2007, to reflect the final valuation of the acquired assets and the final determination of the costs related to this acquisition.

Other

The purchase price allocation of all other 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.

2007

For the year ended October 31, 2007, the Corporation made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Marketing Communications	98% of shares of <i>PLM Group Ltd.</i> , commercial printer in the Greater Toronto Area	October 16, 2007
Media	Assets of Seaway News, owner of a weekly newspaper in Cornwall, <i>Seaway News</i> , serving the eastern Ontario region.	July 28, 2007
	Assets of Résonat Distribution Ltée, Québec Site Web.com Ltée and Condo Direct Ltée., owners of <i>Condo Direct</i> and <i>Condo et Loft D'aujourd'hui</i> , magazines related to home building and renovation in Quebec.	June 18, 2007
	100% of the shares of Les Productions Ma Maison Direct Ltée and Magazine des Maisons Neuves du Grand Montréal Ltée, owner of <i>Maison D'aujourd'hui</i> , <i>Maison Direct</i> , <i>MaisonMax.com</i> , <i>MaisonNeuve.com</i> and <i>www.maisonmax.com</i> Web site, magazines and web site related to home building and renovation in Quebec.	June 18, 2007
	100% of shares of The Oxbow Herald Ltd, owner of <i>The Oxbow Herald</i> , weekly newspaper in SouthEast Saskatchewan.	June 14, 2007
	Assets of <i>The Broadview Express</i> and <i>The Grenfell Sun</i> , weekly newspaper in Southern Saskatchewan.	May 1, 2007
	100% of the shares of Radville Star Management, owner of <i>The Radville Star</i> and <i>The Deep South Star</i> , newspaper in Southern Saskatchewan.	December 19, 2006



21. Business acquisitions and disposals (continued)

	PLM	Chenelière Education Inc.	Others	Total
Assets acquired				
Working capital	\$ 26.9	\$ (0.5)	\$ 0.4	\$ 26.8
Property, plant and equipment	42.4	-	0.4	42.8
Goodwill (tax basis of \$3.6 million)	75.0	0.5	8.9	84.4
Amortizable intangible assets	14.8	(0.7)	-	14.1
Other assets	0.4	-	-	0.4
	\$ 159.5	\$ (0.7)	\$ 9.7	\$ 168.5
Liabilities assumed				
Deferred revenues	7.7	-	-	7.7
Long-term debt	18.1	-	-	18.1
Other liabilities	0.3	-	-	0.3
Future income taxes	13.3	(0.4)	-	12.9
Non-controlling interest	1.9	-	-	1.9
	41.3	(0.4)	-	40.9
	\$ 118.2	\$ (0.3)	\$ 9.7	\$ 127.6
Consideration				
Cash paid	\$ 94.8	\$ -	\$ 9.4	\$ 104.2
Bank overdraft of acquired operations	15.2	-	-	15.2
	110.0	-	9.4	119.4
Short-term liabilities	8.2	(0.3)	0.3	8.2
	\$ 118.2	\$ (0.3)	\$ 9.7	\$ 127.6

Chenelière Education Inc.

For the year ended October 31, 2007, adjustments were made to the purchase price allocation of Chenelière Education Inc, which was acquired on August 31, 2006, to reflect the final valuation of the assets acquired and the final determination of the costs related to the acquisition.

For the year ended October 31, 2007, the Corporation paid an amount of \$13.1 million, of which \$0.6 million was included in short-term liabilities and \$12.5 million in balance of sale payable as at October 31, 2006. As at October 31, 2007, the balance in short-term liabilities is \$0.2 million, which is included in "Accounts payable and accrued liabilities" and the balance of sale payable is \$3.1 million, which is included in "Current portion of long-term debt" in the consolidated balance sheet.

22. Employee future benefits

The Corporation offers various contributory and non-contributory defined benefit pension plans and defined contribution pension plans to its employees and those of its participating subsidiaries. For defined benefit pension plans, retirement benefits are generally based on years of service and employees' compensation. Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to the time of retirement and the anticipated long-term rate of return on pension plan assets.

Accrued benefit obligation, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation of the pension plans for funding purposes was made as of December 31, 2007. The next required valuation will be as of December 31, 2010, at the latest.



22. Employee future benefits (continued)

The composition of the pension plan assets is as follows:

	2008	2007
Canadian and foreign stocks	57 %	70 %
Government and corporate bonds	32	27
Cash and temporary investments	11	3
	100 %	100 %

The following table presents the changes in the accrued benefit obligation and the fair value of plan assets, as well as the funded status of the defined benefit plans for the years ended October 31:

	2008	2007
Accrued benefit obligation		
Balance, beginning of year	\$ 350.1	\$ 315.8
Change in exchange rate	1.3	(1.0)
Current service cost	19.0	23.2
Interest on accrued benefit obligation	19.4	18.3
Actuarial gains	(93.1)	(5.2)
Benefits paid	(11.0)	(10.6)
Plan amendments	-	0.4
Transfers from former terminated plans	2.8	-
Employee contributions	9.3	9.2
Accrued benefit obligation, end of year	\$ 297.8	\$ 350.1
Fair value of plan assets		
Balance, beginning of year	\$ 294.3	\$ 258.4
Change in exchange rate	1.3	(0.9)
Actual return on plan assets	(66.5)	23.3
Benefits paid	(11.0)	(10.6)
Employer contributions	21.9	14.9
Employee contributions	9.3	9.2
Transfers from former terminated plans	2.8	-
Fair value of plan assets, end of year	\$ 252.1	\$ 294.3
Plan deficit	\$ (45.7)	\$ (55.8)
Unamortized net actuarial losses	22.6	26.5
Unamortized past service costs	0.1	0.2
Unamortized transitional obligation	3.0	3.1
Accrued benefit liability	\$ (20.0)	\$ (26.0)

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

	2008	2007
Other assets	\$ 4.8	\$ 3.4
Other liabilities	(24.8)	(29.4)
	\$ (20.0)	\$ (26.0)

Accrued benefit obligation and fair value of plan assets as at October 31 are as follows with respect to plans that are not fully funded:

	2008	2007
Accrued benefit obligation	\$ 259.4	\$ 336.6
Fair value of plan assets	213.4	276.4
Funded status - plan deficit	\$ (46.0)	\$ (60.2)



22. Employee future benefits (continued)

The major assumptions used are as follows:

	2008	2007
Accrued benefit obligation as at October 31		
Discount rate, at year-end	7.25 %	5.75 %
Rate of compensation increase	4.0 - 5.0 %	4.0 - 5.0 %
Benefit cost for years ended October 31		
Discount rate, at previous year-end	5.75 %	5.40 %
Expected long-term rate of return on plan assets	7.50 %	7.15 %
Rate of compensation increase	4.0 - 5.0 %	4.0 - 5.0 %

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

	2008	2007
Current service cost	\$ 19.0	\$ 23.2
Interest on accrued benefit obligation	19.4	18.3
Actual return on plan assets	66.5	(23.3)
Actuarial gains on accrued benefit obligations	(93.1)	(5.2)
Plan amendments	-	0.4
Cost of defined benefit pension plans before adjustments to recognize the long-term nature of employee future benefit cost	11.8	13.4
Adjustments to recognize the long-term nature of employee future benefit cost		
Difference between expected return and actual return on plan assets for the year	(89.0)	4.3
Difference between actuarial loss recognized for the year and actual actuarial loss on accrued benefit obligation for the year	93.0	5.7
Difference between amortization of past service costs for the year and actual plan amendments effective for the year	0.1	-
Amortization of the transitional obligation	0.1	0.1
Defined benefit cost recognized	\$ 16.0	\$ 23.5

The cost and total cash amount paid for the defined contribution pension plans for the years ended October 31 is as follows:

	2008	2007
Employer contributions	\$ 2.9	\$ 3.2

23. Amortization

	2008	2007
Property, plant and equipment	\$ 118.1	\$ 114.2
Intangible assets	8.5	6.2
Deferred charges	2.1	2.5
	128.7	122.9
Deferred charges, presented in revenues, operating costs and financial expenses	22.1	26.1
	\$ 150.8	\$ 149.0

24. Commitments, guarantees and contingent liabilities

Commitments

Pursuant to various contracts and obligations, mainly for operating leases, the Corporation is committed to future minimum payments of \$178.1 million. Minimum payments required over the following years for these commitments are as follows:

	2009	2010	2011	2012	2013	2014 and thereafter
	30.5	28.7	24.5	20.8	16.4	57.2

The Corporation is further committed to acquire in 2009 a building and machinery and equipment. As at October 31, 2008, these commitments represented \$122.1 million, including C\$13.1 million, US\$85.9 million, €3.3 million and CHF0.5 million.

Guarantees

In the normal course of business, the Corporation has provided the following significant guarantees to third parties:

a) Sub-lease agreements

The Corporation has entered into sub-lease agreements, for some of its locations under operating leases, with expiry dates between 2009 and 2012. If the sub-lessee defaults under any of these agreements, the Corporation must compensate the lessor for the default. The maximum exposure in respect of these guarantees is estimated at \$1.9 million. As at October 31, 2008, the Corporation has not recorded any liability associated with these guarantees, since it is not probable that the sub-lessee will default under the agreement.

b) Indemnification of third parties

Under the terms of its debt agreements, the Corporation has agreed to indemnify the holders of such debt instruments against any increase in their costs or reduction in the amounts otherwise payable to them resulting from changes in laws and regulations. Furthermore, the Corporation provides certain indemnifications to third parties under the terms of its securitization agreement. These indemnifications require the Corporation to make payments to third parties in the event of (i) changes to certain laws and regulations, (ii) any collection shortfalls resulting from negative changes in foreign currency rates, and (iii) any litigation matters relating to the arrangement and/or underlying receivables sold. These indemnification agreements extend for the term of the agreements and do not have any limit. Given the nature of these indemnifications, the Corporation is unable to reasonably estimate its maximum potential liability payable to third parties. Historically, the Corporation has never made any indemnification payments and as at October 31, 2008, the Corporation has not recorded a liability associated with these indemnifications.

c) Business disposals

As a result of the sale of business operations or assets, the Corporation may occasionally agree to provide indemnity against claims from previous business activities. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that it could be required to pay to guarantee parties. Historically, the Corporation has not made any significant indemnification payments, and, as at October 31, 2008, the Corporation has not recorded any liability associated with these indemnifications.

Contingent liabilities

In the normal course of business, the Corporation is involved in various claims and legal proceedings. Although the resolution of these various cases pending as at October 31, 2008, cannot be determined with certainty, the Corporation believes that their outcome would not likely have a material adverse effect on its financial position and operating results, given the provisions on its books or insurance covering a number of these items.



25. 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 October 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 October 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 twelve-month period ended October 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 October 31, 2008, the maximum exposure to credit risk is \$0.3 million (\$14.7 million as at October 31, 2007) which represents the carrying value of the financial instruments representing assets on the balance sheet of the Corporation.

Past due accounts receivable

	As at October 31 2008
Not past due	\$ 155.8
Past due 1-60 days	17.8
Past due 61-90 days	4.9
Past due more than 90 days	12.5
	191.0
Allowance for doubtful accounts	(10.4)
Other receivables	26.5
	\$ 207.1

Allowance for doubtful accounts

Balance as at November 1, 2007	\$ 10.1
Bad debt expense	4.3
Amounts written off and recoveries	(4.0)
Balance as at October 31, 2008	\$ 10.4

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.



25. Financial instruments (continued)

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 October 31, 2008, the floating rate portion of long-term debt represented 65% (54% as at October 31, 2007) of the total while the fixed rate portion represented 35% (46% as at October 31, 2007).

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, but lately, due to the turmoil in financial markets, the commercial paper is issued on a shorter basis.

During fiscal 2008, in order to mitigate the interest rate risk, the Corporation entered into interest rate swap agreements on long-term debt denominated in Canadian dollars, on a notional amount of \$125 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 4.35% including the applicable margin. Considering the effect of these derivative financial instruments, the floating rate portion of long-term debt represented 49% of the total while the fixed portion represented 51%. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the third quarter of fiscal 2008.

For the year ended October 31, 2008, all things being equal, a hypothetical increase of 0.5% in interest rates would have had the following impact on net income and on other comprehensive loss:

	Year ended October 31, 2008		
	Net income	Other comprehensive loss	
	\$ (2.2)	\$ 2.3	

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

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 October 31, 2008, the Corporation has long-term debt in U.S. dollars for a total amount of US\$388.0 million (US\$227.9 million as at October 31, 2007). The Corporation is therefore exposed to foreign exchange risk.

To mitigate the foreign exchange risk related to its exports to the United States, the Corporation enters into foreign exchange forward contracts. As at October 31, 2008, the Corporation entered into foreign exchange forward contracts to sell US\$136 million, (US\$87.3 million as at October 31, 2007) of which US\$73 million, US\$45 million and US\$18 million will be sold in 2009, 2010 and 2011, respectively. The terms of these forward contracts range from one month to 28 months, with rates varying from 1.0087 to 1.2432. As at October 31, 2008, the Corporation was also party to a collar totalling US\$2 million maturing in November 2009, with a floor rate of 1.075 and a cap rate of 1.14 (US\$6 million as at October 31, 2007). Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year 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 October 31, 2008, the Corporation was party to a foreign exchange forward contract to purchase in 2009 €1.3 million (none in 2007). The term of this forward contract is one month, with a rate of 1.5747. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year 2008.

For the year ended October 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 loss:

	Year ended October 31, 2008		
	Net income	Other comprehensive loss	
U.S. dollar	\$ 8.4	\$ (5.2)	
Euro	n/a	(0.1)	
Mexican peso	0.2	n/a	

A 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 loss.



25. Financial instruments (continued)

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 three fiscal years. Hedging relationships were effective and in accordance with the risk management objectives and strategies of the Corporation throughout the year 2008.

As at October 31, 2008, the Corporation had purchased commodity swap agreements for 552,000 Gigajoules (533,000 Gigajoules as at October 31, 2007), of which 335,000 Gigajoules and 217,000 Gigajoules will mature in 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 year ended October 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 loss:

	Year ended October 31, 2008	
	Net Income	Other comprehensive loss
	\$ (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 loss.

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 17. 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 October 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 39 months, with an option to terminate it before its maturity date without any costs.

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

For the year ended October 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 cash, temporary investments, accounts receivable, accounts payable and accrued liabilities. The table below shows the fair value and the book value of other financial instruments as at October 31, 2008 and 2007. The fair value is determined essentially by discounting cash flows or quoted market prices. The fair values calculated approximate the amounts for which the financial instruments could be settled between consenting parties, based on current market data for similar instruments. Consequently, as estimates must be used to determine fair value, they must not be interpreted as being realizable in the event of an immediate settlement of the instruments.

	2008		2007	
	Fair value	Book value	Fair value	Book value
Long-term debt	\$ 788.6	\$ 796.4	\$ 539.5	\$ 537.5
Foreign exchange forward contracts and collars	(17.4)	(17.4)	14.3	14.3
Commodity swap agreements	(0.3)	(0.3)	(0.6)	(0.6)
Interest rate swap agreements	(4.9)	(4.9)	-	-
Total return swap agreement	(0.1)	(0.1)	-	-



26. Capital management

The Corporation's primary objectives in managing capital are to:

- 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 October 31, 2008, the net indebtedness/total capitalization ratio was 39%. 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, the redemption of shares, the acquisition of Rastar, the depreciation of the Canadian dollar and by a reduction of shareholders' equity related to the impairment of goodwill of the Direct Marketing group. Capital management objectives, policies and procedures were unchanged since the last period.

For the year ended October 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.

27. Segmented information

The Corporation implemented an operating structure to support its growth strategy by creating the Marketing Communications sector and redefining its Printing and Media sectors. Accordingly, throughout these financial statements, figures and disclosures for the 2007 and 2008 fiscal years have been restated to conform to the presentation of the new organizational structure.

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

Operating sectors	2008	2007
Revenues		
Printing sector	\$ 1,536.7	\$ 1,533.0
Marketing Communications sector	341.7	252.5
Media sector	645.3	632.8
Other activities and unallocated amounts	13.1	14.7
Inter-segment sales		
Printing sector	(80.5)	(80.8)
Marketing Communications sector	(7.8)	(9.6)
Media sector	(19.2)	(16.4)
Total inter-segment sales	(107.5)	(106.8)
	\$ 2,429.3	\$ 2,326.2
Operating income before amortization, impairment of assets and restructuring costs		
Printing sector	\$ 233.5	\$ 231.0
Marketing Communications sector	33.1	18.9
Media sector	118.2	124.5
Other activities and unallocated amounts	(20.3)	(24.0)
	\$ 364.5	\$ 350.4
Operating income (loss)		
Printing sector	\$ (65.3)	\$ 137.3
Marketing Communications sector	9.4	1.1
Media sector	98.7	108.7
Other activities and unallocated amounts	(26.5)	(29.3)
	\$ 16.3	\$ 217.8
Acquisitions of property, plant and equipment⁽¹⁾		
Printing sector	\$ 237.1	\$ 114.6
Marketing Communications sector	15.0	7.7
Media sector	14.9	10.9
Other activities and unallocated amounts	6.1	5.2
	\$ 273.1	\$ 138.4

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



27. Segmented information (continued)

Operating sectors	2008	2007
Amortization of property, plant and equipment, intangible assets and deferred charges		
Printing sector	\$ 83.6	\$ 88.7
Marketing Communications sector	23.6	13.6
Media sector	15.6	15.3
Other activities and unallocated amounts	5.9	5.3
	\$ 128.7	\$ 122.9
	As at October 31, 2008	As at October 31, 2007
Assets		
Printing sector	\$ 1,282.7	\$ 1,286.6
Marketing Communications sector	479.2	221.7
Media sector	774.1	772.1
Other activities and unallocated amounts	84.4	121.5
	\$ 2,620.4	\$ 2,401.9
	As at October 31, 2008	As at October 31, 2007
Geographical regions		
Revenues		
Canada		
Within Canada	\$ 1,836.8	\$ 1,705.6
Exports	215.0	219.2
	2,051.8	1,924.8
United States and Mexico	377.5	401.4
	\$ 2,429.3	\$ 2,326.2
Operating income before amortization, impairment of assets and restructuring costs		
Canada	\$ 341.4	\$ 316.6
United States and Mexico	23.1	33.8
	\$ 364.5	\$ 350.4
Operating income		
Canada	\$ 234.3	\$ 210.4
United States and Mexico	(218.0)	7.4
	\$ 16.3	\$ 217.8
	As at October 31, 2008	As at October 31, 2007
Assets		
Canada	\$ 2,106.6	\$ 1,998.4
United States and Mexico	513.8	403.5
	\$ 2,620.4	\$ 2,401.9
Property, plant and equipment		
Canada	\$ 710.8	\$ 617.5
United States and Mexico	225.9	122.2
	\$ 936.7	\$ 739.7
Goodwill		
Canada	\$ 795.1	\$ 781.4
United States and Mexico	47.5	153.2
	\$ 842.6	\$ 934.6



28. Subsequent events

Business acquisition

On November 18, 2008, the Corporation acquired 75% of the outstanding shares of Redwood Custom Communications, a North-American leader in custom publishing, headquartered in Toronto with approximately 130 employees. Redwood is a full service marketing and communications company and creates turn-key custom publishing and branded content solutions for both print and digital platforms.

29. Comparative figures

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