

**TRANSCONTINENTAL PURSUES RATIONALIZATION PLAN,
SOME ACTIVITIES AFFECTED BY RECESSION IN FIRST QUARTER**

- Slight growth in revenues, from \$596 million in first quarter 2008 to \$604.1 million in 2009; excluding acquisitions and positive impact of paper prices and exchange rate, revenues down 10%, mainly due to U.S. direct mail activities, but also magazine publishing and commercial products printing.
- Adjusted operating income before amortization decreased 29%, from \$82.4 million to \$58.3 million.
- Due to negative organic growth and an unfavourable variance in unusual items, net income declined from \$34.1 million to a loss of \$6.4 million; on a per-share basis, net income fell from \$0.41 to a loss of \$0.08.
- Adjusted net income, which excludes unusual items, decreased from \$28.4 million to \$15.1 million; on a per-share-basis, it declined from \$0.34 to \$0.19.
- Instituted rationalization plan, with elimination of 1500 jobs, for a total of \$75 million in cost-cutting measures on an annualized basis, including \$50 million in 2009.
- Financing agreements total \$400 million to date, including \$100 million in new funds.
- Signing, in December 2008, of a second six-year contract, worth \$150 million, with Rogers Communications to produce its marketing products.
- Very high traffic volume following November launch of weblocal.ca, a Canada-wide site for finding and rating local businesses and services, with 1.8 million unique visitors in the past 30 days.

Montreal, March 12, 2009 – The sharp and sudden onset of the recession affected some of Transcontinental's activities in the first quarter 2009. On a comparable basis, year over year, excluding acquisitions and the positive impact of paper prices and the exchange rate, Transcontinental's consolidated revenues were down by 10% and adjusted operating income before amortization decreased by 38% in the first quarter of 2009. U.S. direct mail activities, magazine publishing and commercial products printing were particularly affected by the cancellation, decrease or postponement of promotional and advertising campaigns, mainly by financial institutions and car manufacturers.

To deal with this situation, the Corporation continued with its rationalization plan to protect its financial health and adjust production capacity to demand, particularly in its U.S. direct mail and commercial printing operations, and to address the drop in magazine advertising revenues. It also instituted a series of other cost-saving measures throughout the Corporation. These initiatives are expected to reduce costs by about \$75 million on an annualized basis, including \$50 million in 2009. Under this plan, certain plants and publications have already been shut down, and others are slated for closure in the future. About 1500 jobs have been eliminated, of which about half are in the United States. Senior



managers have decided to contribute to cost-cutting efforts by working two weeks without pay, which amounts to a 4% pay cut. For the Board Chair and the Chief Executive Officer, it will amount to 10%. Board members have agreed to a freeze on their retainers.

"We are confronting a situation that Transcontinental has never had to deal with before," said François Olivier, President and CEO. "We are determined to protect the financial health of our business even as we continue to integrate the new marketing services and communication platforms that our customers are demanding. The situation is a difficult one in human terms, but we are acting in the best interests of our employees and shareholders. We have asked our people to use their initiative and creativity to help us weather this storm. We are monitoring the situation very closely and will make the necessary adjustments if the situation deteriorates further."

"These measures, combined with several new contracts that take effect in 2009, will put us in a better position in the second half of the year," Mr. Olivier said. "This includes our two new contracts to print Rogers Communications' magazines and produce its marketing products, which took effect at the beginning of the second quarter, and our contract to print the *San Francisco Chronicle*. Thanks to our sound financial position, strong brands, investments in leading-edge technology for our printing network, and the introduction of new marketing services and new communications platforms, we will be able to seize the opportunities that will inevitably turn up in this environment, while maintaining a prudent balance between our profits, costs, debt and investments."

As at January 31, 2009, the Corporation's net funded debt to total capitalization ratio was 43%, midway between the 35% - 50% long-term objective set by management.

Financial Highlights

In the first quarter ended January 31, 2009, Transcontinental recorded consolidated revenues of \$604.1 million, compared to \$596 million in the same quarter of 2008. The contribution from acquisitions and the positive impact of paper prices and the exchange rate were almost entirely cancelled out by negative organic growth, stemming mainly from U.S. direct mail activities, the decline in magazine advertising revenue and the difficult commercial printing market. Adjusted operating income before amortization was down 29%, from \$82.4 million to \$58.3 million, for the same reasons as above, in addition to strategic investments in the Media Sector and, following the introduction of new accounting standards, the start-up costs of certain projects in the Printing Sector, which must now be immediately expensed.

Net income declined from \$34.1 million in the first quarter 2008 to a loss of \$6.4 million, a decrease of \$40.5 million that stems mainly from negative organic growth, as well as an unfavourable variance in unusual items, particularly impairment of assets and restructuring costs. On a per-share basis, net income decreased from \$0.41 to a loss of \$0.08.

Adjusted net income, which excludes unusual items related to asset impairment, restructuring costs and income tax adjustments, decreased from \$28.4 million to \$15.1 million. On a per-share basis, adjusted net income decreased from \$0.34 to \$0.19.



For more detailed financial information, please see *Management's Discussion and Analysis for the First Quarter Ended January 31, 2009*, at www.transcontinental.com, under "Investors."

Operating Highlights

Here are the main operating highlights for the year to date.

- Early in fiscal 2009, Transcontinental adopted a new operating structure, which primarily involved the creation of the Marketing Communications Sector. The core business for this new sector is the creation and development of services in advertising personalization, new communications platforms and marketing products printing. Transcontinental then enriched its service offering in this sector by making two strategic acquisitions: Toronto-based Redwood Custom Communications, a North American leader in custom communications, which creates turnkey custom publishing and branded content solutions for both print and digital platforms; and Conversys, located in London, Ontario, Canada's leading print-to-Web provider, which specializes in the seamless transformation of print materials such as flyers into interactive Web content.
- As Canada's leader in direct marketing, in December 2008 Transcontinental signed a second six-year contract, worth \$150 million, to produce all of Rogers Communications' direct marketing products and print a variety of other marketing communication products. This new contract comes on the heels of another six-year contract, which took effect in February 2009, to print all of Rogers' magazines.
- In November 2008, Transcontinental launched weblocal.ca, a Canada-wide Web site for finding and rating local businesses and their products and services. Highly interactive, weblocal.ca generates its content from information entered by users. In the past 30 days alone, the site has attracted 1.8 million unique visitors. This is a remarkable achievement that bodes well for its commercialization phase. This initiative will allow Transcontinental to generate new revenue and enrich its multi-channel offering to local advertisers.
- In newspaper printing, work on the plant that will print the *San Francisco Chronicle* is on time and production will start in June 2009. Also, modernization of Transcontinental Transmag in Montreal is almost finished and the new presses will start up in the third quarter 2009.

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 first quarter ended January 31,
(unaudited)

(in millions of dollars, except per share amounts)	Three months ended January 31	
	2009	2008
Net income (loss)	\$ (6.4)	\$ 34.1
Non-controlling interest	0.3	0.3
Income taxes	(9.0)	2.4
Discount on sale of accounts receivable	1.7	3.1
Financial expenses	7.4	8.5
Impairment of assets and restructuring costs	31.3	1.9
Adjusted operating income	\$ 25.3	\$ 50.3
Amortization	33.0	32.1
Adjusted operating income before amortization	\$ 58.3	\$ 82.4
Net income (loss)	\$ (6.4)	\$ 34.1
Impairment of assets and restructuring costs (after tax)	21.5	1.3
Unusual adjustments to income taxes	-	(7.0)
Adjusted net income	15.1	28.4
Average number of shares outstanding	80.8	83.5
Adjusted earnings per share	\$ 0.19	\$ 0.34
Cash flow related to operating activities	\$ 9.5	\$ 33.0
Changes in non-cash operating items	(35.0)	(35.5)
Cash flow from operating activities before changes in non-cash operating items	\$ 44.5	\$ 68.5
Long-term debt	\$ 672.1	\$ 544.2
Current portion of long-term debt	179.1	14.5
Cash and cash equivalents	(25.2)	(33.2)
Net indebtedness	\$ 826.0	\$ 525.5



Financing Activities

In February 2009, the Corporation announced financing agreements totalling \$400 million. The first was a new private placement offering of \$100 million in unsecured debentures underwritten by the Solidarity Fund QFL, a development capital fund based in Quebec. The second extends, to August 2010, the Corporation's \$300 million accounts receivable securitization program set up in 2001.

In this period of tight and expensive credit, management views this as investors' recognition of Transcontinental's solid financial situation and as evidence of their confidence in the Corporation's growth strategy and future prospects. Management expects that it will be able to cover all of its financing needs for 2009 in the near future.

Sustainable Development

In 2007, Transcontinental adopted a forward-looking Paper Purchasing Policy which goes well beyond existing standards and certifications. Since then, managers have taken steps to make our suppliers and customers more aware of this policy and to help them move forward with us. The Corporation is proud to announce the concrete and verifiable results of our day-to-day efforts: from 2007 to 2008, Transcontinental customers' use of "Gold" ranked papers, which meet the highest standards of sustainable forest management, rose by 37%. This trend intensified in the first quarter.

Furthermore, by the end of the first quarter, Transcontinental's 45 printing facilities in Canada and the United States had all obtained triple chain-of-custody certifications, ensuring that papermaking processes meet the most demanding standards for sustainable forest management.

Corporate Affairs

On November 14, 2008, Transcontinental announced the immediate appointment of Brian Reid as President of the Printing Sector. This sector comprises Transcontinental's services to retailers and publishers of newspapers, magazines, books and catalogues, as well as direct mail activities in the United States and operations in Mexico. It reports revenue of about \$1.5 billion a year. Mr. Reid joined Transcontinental in 1992 and has been very successful at every stage of his career. From 2003 he was Senior Vice President, Catalogue and Magazine Printing Group for North America. He is also on the Corporation's Executive Committee.

On January 8, 2009, Transcontinental announced the appointment of Sylvain Morissette to the position of Vice President, Corporate Communications, effective February 2. Reporting to the President and CEO, Mr. Morissette is a member of the Corporation's Executive Committee. Mr. Morissette brings Transcontinental the benefit of more than 20 years in corporate communications, including eight years as a member of the Rona management team. When he joined Transcontinental, he was President and CEO of the Association of Quebec Advertising Agencies.



Dividend

At its March 12, 2009 meeting, the Corporation's Board of Directors maintained the quarterly dividend of \$0.08 per share on Class A Subordinate Voting Shares and Class B Shares. These dividends are payable on April 24, 2009 to shareholders of record at the close of business on April 6, 2009. On an annual basis, this represents a dividend of \$0.32 per share.

Additional Information

Upon releasing its quarterly results, Transcontinental will hold a conference call for the financial community today at 4:15 p.m. (ET). Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on Transcontinental's Web site, 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

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 operations in Canada, the United States and Mexico, and reported revenue of C\$2.4 billion in 2008. For more information about the Corporation, please visit www.transcontinental.com.

Note: This press release contains certain forward-looking statements concerning the future performance of the Corporation. Such statements, based on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, many of which are beyond the Corporation's control, including, but not limited to, the economic situation, exchange rate, availability of Capital, energy costs, increased competition, the Corporation's capacity to implement its strategic plan and rationalization plan, 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 March 12, 2009. 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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Management's Discussion and Analysis

For the first quarter ended January 31, 2009

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 March 12, 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 19.

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 book publishing activities, 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 March 12, 2009.

HIGHLIGHTS OF THE FIRST QUARTER OF FISCAL 2009

- Revenues for the first quarter of fiscal 2009 increased 1.3% over the first quarter of 2008, to \$604.1 million, from \$596.0 million. Excluding acquisitions, net of divestitures and closures as well as the favourable effect of paper, including paper price increase, and exchange rate, revenues decreased 10.3% of which approximately half is attributed to the direct mail activities in the U.S. while magazine publishing activities and printing of marketing products were also affected, but to a lesser extent.
- Adjusted operating income decreased 49.7% to \$25.3 million, from \$50.3 million. The decrease is due to the paper price increase and the negative organic growth which results mainly from lower revenues as well as strategic investments in new titles and digital initiatives and the increase of start-up costs expensed for major projects previously announced due to new accounting rules. The negative organic growth was partially offset by the contribution from acquisitions, net of divestitures and closures and the favourable exchange rate effect.
- Adjusted operating income margin decreased to 4.2%, from 8.4%. The decrease is largely attributed to the sharp drop in margin for direct mail activities in the U.S., driven by a severe slowdown in demand for our products which more than compensated for cost reduction measures, the decrease in national advertising in magazine publishing activities as well as the increase in start up costs now expensed and the strategic investments made in the development of new titles and digital initiatives.
- Net income decreased \$40.5 million, from \$34.1 million in the first quarter of 2008 to a loss of \$6.4 million in the first quarter of fiscal 2009. This decrease is primarily due to the decrease in adjusted operating income, an unfavourable variation in unusual items (related mainly to impairment of assets, restructuring costs and unusual adjustments to income taxes), partially offset by the reduction in financial expenses and income taxes. On a per-common-share basis, it decreased from \$0.41 to a loss of \$0.08.
- Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes, decreased \$13.3 million, or 46.8%, from \$28.4 million in the first quarter of fiscal 2008 to \$15.1 million in the first quarter of fiscal 2009. On a per-common-share basis, it decreased \$0.15 from \$0.34 to \$0.19.
- On February 18, 2009, we announced major rationalization measures to address the lower level of activity, including the consolidation of our direct mail activities in the U.S. as previously announced in November 2008. Some 1500 jobs are to be eliminated and substantive cost-cutting measures are being implemented throughout Canada, the United States and Mexico. These measures will reduce costs by approximately \$75 million on an annualized basis, including \$50 million in 2009. Total costs are expected to reach approximately \$56.6 million before tax. An amount of \$31.3 million before tax (\$21.5 million after tax), of which \$18.8 million is non-cash, was charged to income as restructuring costs and impairment of assets in the first quarter.
- On February 17, 2009, we extended our \$300 million securitization program for an additional year which now matures in August 2010.
- On February 6, 2009, we completed a private placement offering of \$100 million in unsecured debentures. These debentures were underwritten by the Solidarity Fund QFL, a development capital fund based in Quebec.
- Acquired Conversys Inc., the leading Canadian Print-to-Web provider that specializes in the seamless transformation of print marketing materials such as flyers and catalogues into rich, interactive Web content that is user-friendly and brand-consistent across multiple channels.
- Acquired Redwood Custom Communications, a North American leader in custom communications.
- In December, 2008, we signed a second contract of six years, valued at \$150 million, with Rogers Communications for the production of its marketing products.
- Received triple chain of custody certification of forest products in all 45 of our facilities in Canada and the United States. This certification designates that the process by which paper is made promotes sustainable forest management standards. Transcontinental has been certified by the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) and Programme for the Endorsement of Forest Certification (PEFC).

- Announced a new operating structure to support our growth strategy by creating the Marketing Communications Sector.
- Invested over \$60 million in two major projects previously announced, namely the *San Francisco Chronicle* project and the Transmag project.
- Launched weblocal.ca in October 2008, an online search site for finding and reviewing local businesses, products or services in communities across Canada which reached 1,800,000 unique monthly visitors during the last month. Our overall unique monthly visitors increased 37% versus the first quarter of fiscal 2008 while our reach into the total Canadian Internet audience increased from 16.9% to 17.3% (as per Com Score).
- Maintained our quarterly dividend at \$0.08 per share.
- Solid financial position with a net indebtedness to total capitalization ratio of 43% as at January 31, 2009, in the middle of our target range.
- Announced the appointment of Brian Reid as President of Transcontinental's Printing Sector and Sylvain Morissette as Vice-President, Corporate Communications.

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 14,000 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.

A Two-Pronged Strategy

In light of the 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. Below is a list of our selected accomplishments in fiscal 2009:

- In December, 2008, we signed a second contract of six years, valued at \$150 million, with Rogers Communications for the production of its marketing products.
- Invested over \$60 million in the two major projects we previously announced, namely the *San Francisco Chronicle* project and the Transmag project.

- Launched a new mobile application for the *Canadian Living* magazine in December 2008. Subscribers to *Canadian Living* magazine have access to their favourite women's magazine on their BlackBerry or iPhone simply by entering the address m.canadianliving.com. The free mobile applications for popular magazine *The Hockey News* have been a resounding success. Launched this past September, The Hockey News Mobile has become a must-have companion for more than 110,000 hockey fans, who can download timely hockey scores and rich content onto their iPhone or BlackBerry.
- Received triple chain of custody certification in all 45 of our facilities in Canada and the United States. This certification designates that the process by which paper is made promotes sustainable forest management standards. Transcontinental has been certified by the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) and Programme for the Endorsement of Forest Certification (PEFC).

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 new 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. Below is a list of our selected accomplishments in fiscal 2009:

- Acquired Conversys Inc., the leading Canadian Print-to-Web provider that specializes in the seamless transformation of print marketing materials such as flyers and catalogues into rich, interactive Web content that is user-friendly and brand-consistent across multiple channels. The acquisition complements Transcontinental's existing print and interactive communications offering to major retailers. Conversys's multi-channel marketing services enable businesses to increase sales and more effectively interact with their customers by delivering a continuous flow of digital content through various media, including Web sites, email, and mobile devices. Conversys excels in providing content conversion and hosting services to large scale retail organizations.
- Acquired Redwood Custom Communications, a North American leader in custom communications headquartered in Toronto. 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 also 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, such as database analytics, premedia, email marketing, one-to-one marketing and the printing of marketing products.
- Invested approximately \$2.3 million in strategic investments in our Media sector, mainly related to our digital assets.
- Our recently formed Marketing Communications Sector won a total of seven awards at the 2008 Pearl Awards, the North American competition which recognizes excellence in content, design, digital and strategy in custom publishing. Transcontinental Custom Communications and Redwood Custom Communications are both subsidiaries of Transcontinental's Marketing Communications Sector.

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 faster pace than our traditional business.

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

For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Major Rationalization Measures

On February 18, 2009, we announced major rationalization measures in order to maintain our solid financial position and to address the severe slowdown in demand for certain of our products and services, particularly in our direct mail activities in the U.S., printing of marketing products and magazine publishing. Other measures are being implemented throughout Canada, the United States and Mexico. These measures will reduce costs by approximately \$75 million on an annualized basis, including \$50 million in 2009. Some plants or magazine titles were closed and others will follow. Consequently, approximately 1500 jobs are to be eliminated, of which half are located in the U.S. The Corporation's senior managers have decided to take two weeks of unpaid leave but to work throughout that period which represents a salary decrease of 4%. The Executive Chairman of the Board and the President and Chief Executive Officer have reduced their salary by 10% and the members of the Board, have agreed to freeze their annual fees.

This rationalization comes at a cost, but in the medium term it will protect the Corporation's financial health. Total costs are expected to reach approximately \$56.6 million before tax of which \$18.8 million is non-cash.

New Structure

To support our growth strategy we have made adjustments to our operating structure. Our new structure comprises three sectors and has been effective 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: 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 and fulfillment of marketing products. 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.

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 fosters 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.

Certification and Implementation

- We received triple chain of custody certification in all 45 of our facilities in Canada and the United States. This certification designates that the process by which paper is made promotes sustainable forest management standards. Transcontinental has been certified by the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) and Programme for the Endorsement of Forest Certification (PEFC).
- In 2007, Transcontinental adopted a forward-looking Paper Purchasing Policy which goes well beyond existing standards and certifications. Since then, managers have taken steps to make our suppliers and customers more aware of it and to help them move forward with us. The Corporation is proud to announce the concrete and auditable results of our day-to-day efforts: from 2007 to 2008, Transcontinental customers' use of "Gold" ranked papers, which meet the highest standards of sustainable forest management, rose by 37%. And this trend has intensified in the first quarter.
- 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.

Selected financial data Unaudited

(in millions of dollars, except per share data)	Three months ended January 31		
	2009	2008 ⁽¹⁾	Change in %
Operations			
Revenues	\$ 604.1	\$ 596.0	1
Adjusted operating income before amortization ^{(2) (3)}	58.3	82.4	(29)
Operating income (loss)	(6.0)	48.4	-
Adjusted operating income ^{(2) (4)}	25.3	50.3	(50)
Net income (loss)	(6.4)	34.1	-
Adjusted net income ^{(2) (5)}	15.1	28.4	(47)
Cash flow from operating activities before changes in non-cash operating items ⁽²⁾	44.5	68.5	(35)
Cash flow related to operating activities	9.5	33.0	-
Investments			
Acquisitions of property, plant and equipment	98.7	31.3	-
Business acquisitions ⁽⁶⁾	11.7	3.0	-
Financial condition			
Total assets	2,552.1	2,336.0	9
Net indebtedness ^{(2) (7)}	826.0	525.5	-
Shareholders' equity	1,083.3	1,193.7	(9)
Net indebtedness / Total capitalization	43%	31%	39
Per share data (basic)			
Net income (loss)	\$ (0.08)	\$ 0.41	-
Adjusted net income ^{(2) (5)}	0.19	0.34	(44)
Cash flow from operating activities before changes in non-cash operating items ⁽²⁾	0.55	0.82	(33)
Cash flow related to operating activities	0.12	0.40	-
Dividends on shares	0.08	0.07	14
Shareholders' equity	13.41	14.40	(7)
Average number of shares outstanding (in millions)	80.8	83.5	
Number of shares at end of period (in millions)	80.8	82.9	

⁽¹⁾ Balance sheet items as at January 31, 2008 were restated (See Note 2 in the consolidated financial statements).

⁽²⁾ Please refer to the section "Reconciliation of Non-GAAP Financial Measures" on page 19 in this Management's Discussion and Analysis.

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

⁽⁴⁾ Adjusted operating income refers to operating income before impairment of assets and restructuring costs.

⁽⁵⁾ Adjusted net income refers to net income before impairment of assets and restructuring costs, net of income taxes, and unusual adjustments to income taxes

⁽⁶⁾ Total consideration in cash or otherwise for businesses acquired through the purchase of shares or assets.

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

DETAILED ANALYSIS OF FIRST QUARTER 2009 OPERATING RESULTS

Analysis of Main Variances - Consolidated Results For the First Quarter Ended January 31, 2009 (unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income (⁽¹⁾)	%	Net income	%
Results - First Quarter 2008	\$ 596.0		\$ 50.3		\$ 34.1	
Acquisitions/Divestitures/Closures	28.9	4.8 %	3.5	6.9 %	2.1	6.1 %
Existing operations						
Paper effect	12.2	2.0 %	(1.5)	(2.9) %	(1.1)	(3.2) %
Exchange rate effect	28.7	4.8 %	2.4	4.7 %	0.8	2.3 %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	-	-	-	(27.2)	(79.7) %
Negative organic growth	(61.7)	(10.3) %	(29.4)	(58.4) %	(15.1)	(44.2) %
Results - First Quarter 2009	\$ 604.1	1.3 %	\$ 25.3	(49.7) %	\$ (6.4)	(118.7) %

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

As shown in the above table, a number of factors contributed to the variation between results in the first quarter of fiscal 2009 and the first quarter of fiscal 2008.

- The acquisitions of Rastar, Inc., ThinData Inc., Redwood Custom Communications and Conversys Inc., as well as small but strategic acquisitions, net of divestitures and closures (notably *the Daily News* in Halifax), contributed \$28.9 million to revenues and \$3.5 million to adjusted operating income. Net of financing and income taxes, the contribution to net income was \$2.1 million.
- The paper effect had a \$12.2 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. For the Media sector, the variation in the price of paper had a negative impact of \$1.5 million on adjusted operating income and \$1.1 million on net income.
- The variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts had a significant impact on 2009 results, causing a \$28.7 million increase in revenues and a \$2.4 million increase in adjusted operating income. During the first quarter of fiscal 2009, the exchange rate effect is mainly due to the variation in the exchange rate between the Canadian dollar and its U.S. counterpart. The average spot exchange rate was 1.2577 for the CAD/USD in the first quarter of fiscal 2009 versus 0.9815 for the CAD/USD in the first quarter of fiscal 2008. The variation in average spot exchange rates in the first quarter of fiscal 2009 versus to the first quarter of fiscal 2008 was 3.6% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a positive impact of approximately \$22.2 million. For export sales from Canadian plants, net of the currency hedging program, the positive impact was \$6.5 million. The positive impact of the conversion of results for the U.S. and Mexican units was \$0.6 million on adjusted operating income. The positive impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was \$6.0 million on adjusted operating income. Finally, the negative impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was \$4.2 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net positive effect was \$0.8 million, representing a 2.3% positive variation on net income.

- The negative organic growth in revenues of \$61.7 million, or 10.3%, in the first quarter of fiscal 2009 was largely attributed to our direct mail activities in the U.S. following the financial crisis and accounted for approximately half of the total decrease. The recession in Canada mainly affected our printing of marketing products activities, driven by a general deterioration of market conditions and our magazine publishing activities, driven by a decrease in national advertising. Our printing businesses of magazine, book, catalogue, newspaper and retail and our newspaper publishing business were also affected by the recession but to a much lesser extent, driven by lower volume. Premedia activities, following the ramp-up of our five-year agreement with Loblaws and book publishing activities, driven by sales development in school books partially compensated the negative organic growth.
- The negative organic growth in adjusted operating income of \$29.4 million, or 58.4% in the first quarter of fiscal 2009 resulted mainly from lower revenues as well as the strategic investments in new titles and digital initiatives and the increase of start-up costs expensed for major projects previously announced due to new accounting rules. In the first quarter of fiscal 2009, there was no significant impact from the rationalization measures yet.

Impairment of Assets and Restructuring Costs

In the first quarter of fiscal 2009, an amount of \$31.3 million before tax (\$21.5 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Details are as follows:

- Impairment of assets of \$18.8 million before tax (\$13.2 million after tax) related to machinery and equipment no further necessary considering the lower level of activity of certain businesses.
- Restructuring costs of \$12.5 million before tax (\$8.3 million after tax) related to the consolidation of the direct mail activities in the U.S. announced during the fourth quarter of fiscal 2008. Further rationalization measures were announced in February 2009 following the deterioration of demand for the products and services of certain businesses, including the direct mail activities in the U.S. Total costs are expected to reach \$37.8 million before tax. The consolidation of direct mail activities in the U.S. will be complete during fiscal 2009.

In the first quarter of fiscal 2008, an amount of \$1.9 million before tax (\$1.3 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. The total amount relates to the restructuring plan for our newspaper printing operations, initiated in the first quarter of fiscal 2008, which included the closing of *the Daily News* in Halifax and the launch of a free daily newspaper, *Metro*, for the Halifax market. The restructuring plan was completed in the fourth quarter of fiscal 2008.

Financial Expenses and Discount on Sale of Accounts Receivable

When combined, financial expenses and discount on sale of accounts receivable decreased by \$2.5 million, or 21.6%, from \$11.6 million in the first quarter of fiscal 2008 to \$9.1 million in the first quarter of fiscal 2009. This decrease is mainly due to the decrease in interest rates and the interest capitalized for major projects, partially offset by the increase in net indebtedness related to the purchase of property, plant and equipment, business acquisitions and the exchange rate effect.

Income Taxes

Income taxes decreased by \$11.4 million, from \$2.4 million in the first quarter of fiscal 2008 to a recovery of \$9.0 million in the first quarter of fiscal 2009. Excluding income taxes on impairment of assets and restructuring costs and unusual adjustments to income taxes, the income taxes would have been \$0.7 million with an income tax rate of 4.4% as compared to \$10.0 million and 25.8% in the first quarter of fiscal 2008. This decrease is mainly due to the change in the geographic distribution of pre-tax earnings and various other factors.

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. These decreases 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 \$40.5 million from \$34.1 million in the first quarter of fiscal 2008 to a loss of \$6.4 million in the first quarter of fiscal 2009. This decrease is primarily due to negative organic growth in adjusted operating income and an unfavourable variation in unusual items (related mainly to impairment of assets, restructuring costs and unusual adjustments to income taxes), partially offset by the reduction in financial expenses and income taxes. On a per-common-share basis, it decreased from \$0.41 to a loss of \$0.08.

Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes, decreased \$13.3 million, or 46.8%, from \$28.4 million in the first quarter of fiscal 2008 to \$15.1 million in the first quarter of fiscal 2009. On a per-common-share basis, it decreased \$0.15 from \$0.34 to \$0.19.

Excluding the favourable exchange rate effect in the first quarter of 2009, adjusted earnings-per-share would have been \$0.18 representing a decrease of 47.1% over the first quarter of 2008. This measure gives a good indication of the net operational performance in the first quarter of 2009.

REVIEW OF OPERATING SECTORS FOR THE FIRST QUARTER OF 2009

Analysis of Main Variances – Sector Results For the First Quarter Ended January 31, 2009 (unaudited)

(in millions of dollars)	Printing Sector	Marketing Communications Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues - for the First Quarter 2008	\$ 386.6	\$ 82.2	\$ 146.8	\$ (19.6)	\$ 596.0
Acquisitions/Divestitures/Closures	-	30.2	(1.3)	-	28.9
Existing operations					
Paper effect	12.1	0.1	-	-	12.2
Exchange rate effect	26.9	1.8	-	-	28.7
Negative organic growth	(46.1)	(7.6)	(5.6)	(2.4)	(61.7)
Revenues - for the First Quarter 2009	\$ 379.5	\$ 106.7	\$ 139.9	\$ (22.0)	\$ 604.1
Adjusted operating income (1)					
- for the First Quarter 2008	\$ 39.5	\$ 2.2	\$ 16.3	\$ (7.7)	\$ 50.3
Acquisitions/Divestitures/Closures	-	2.6	0.9	-	3.5
Existing operations					
Paper effect	-	-	(1.5)	-	(1.5)
Exchange rate effect	1.4	1.0	-	-	2.4
Negative organic growth	(20.9)	(3.9)	(7.9)	3.3	(29.4)
Adjusted operating income (1)					
- for the First Quarter 2009	\$ 20.0	\$ 1.9	\$ 7.8	\$ (4.4)	\$ 25.3

⁽¹⁾ Adjusted operating income refers to operating income before 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 16) to the Consolidated Financial Statements for the first quarter ended January 31, 2009.

Management believes that adjusted operating income 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 the first quarter of fiscal 2009 segmented results have been reclassified to reflect the new operating structure:

1) the Print Sector includes the Magazine, Book and Catalogue Group (merge 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;

2) the Marketing Communications Sector includes the Custom Communications Group (Redwood Custom Communications and Transcontinental Custom Communications transferred from the Consumer Solutions Group, previously called the Magazine Group in the Media Sector), the One-to-One Marketing Group (Rastar, Inc.), the Premedia Group, the Online Direct Marketing Group (ThinData Inc.), the Data Analytics Group (Transcontinental Database Marketing unit transferred from the Premedia Group), the Marketing Products Group – Ontario (PLM and Yorkville plants transferred from the Magazine and Catalogue Group) and the Marketing Products Group – Quebec and Atlantic Provinces.

3) the Media Sector includes the Consumer Solutions Group (previously called the Magazine Group), the Business Solutions and Book Publishing Group (merge of the business magazines transferred from the Consumer Solutions Group and the Book Publishing Group, previously called the Educational Publishing Group), the Local Solutions Group (merge of the Newspaper Group (Media) and the Distribution Group) and the Digital Solutions Group.

Printing Sector

Revenues in the Printing sector decreased from \$386.6 million in the first quarter of fiscal 2008 to \$379.5 million in the first quarter of fiscal 2009, a decrease of \$7.1 million, or 1.8%. Excluding the favourable effect of paper and exchange rate, revenues decreased \$46.1 million, or 11.9%.

The negative organic growth in revenues in the first quarter of fiscal 2009 was largely attributed to our direct mail activities in the U.S. which represents a decrease of approximately US\$22.8 million, or 34.7%. The decrease was driven by lower volume due to a severe slowdown in demand for our products following the financial crisis in the U.S.

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 in the third quarter of fiscal 2008; secondly we announced in November 2008 that we did an extensive capacity review of our U.S. direct mail operations in the fourth quarter of fiscal 2008 and we transferred the production from Warminster, PA facility to the facility in Hamburg, PA. in the first quarter of fiscal 2009; and thirdly we announced in February 2009 additional rationalization measures which will be put in place throughout fiscal 2009.

Taking into consideration the measures mentioned above, the direct mail operations will have a production capacity of between 2.0 and 2.5 billion direct mail pieces per year compared to 3.5 billion as previously announced. The additional reduction is due to rationalization measures to address the severe slowdown in demand for our products. 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.

The recession also affected our other printing businesses but to a lesser extent. The decrease in revenue was driven by lower volume from the magazine and catalogue printing activities, largely attributed to the loss of one customer at the beginning of fiscal 2008, the book printing activities, mainly due to the trade and religious markets, the newspaper printing activities, as a result of a soft advertising market and the retail flyer printing activities due to softness in volume from certain customers in our base business. The new business with Shoppers Drug Mart® (Pharmaprix® in Québec) helped to mitigate the overall decrease in revenue.

Adjusted operating income decreased from \$39.5 million in the first quarter of fiscal 2008 to \$20.0 million in the first quarter of fiscal 2009, a decrease of \$19.5 million, or 49.4%. Excluding the favourable effect of the exchange rate, adjusted operating income decreased \$20.9 million, or 52.9%. The negative organic growth is primarily due to the lower revenues as well as the increase in start up costs of approximately \$1.6 million now expensed for the major projects due to new accounting rules. In the first quarter of fiscal 2009, there was no significant impact from the rationalization measures yet.

Adjusted operating income margin decreased from 10.2% in the first quarter of fiscal 2008 to 5.3% in the first quarter of fiscal 2009, a decrease of 4.9%. The decrease is attributed to the start up costs now expensed, the sharp drop in margin for direct mail activities, driven by a severe slowdown in demand for our products which more than compensated for cost reduction measures and a less significant drop for the magazine, book and catalogue printing activities, mainly due to the loss of one customer at the beginning of fiscal 2008. The margin for the retail printing activities and newspaper printing activities was relatively stable.

We are currently completing construction of a brand new facility near San Francisco where we will print the *San Francisco Chronicle* for Hearst Corporation under a 15-year contract starting in the summer of 2009. In February 2009, Hearst announced it had incurred losses with this newspaper in the last few years and that it needed to reduce its costs significantly. If such cost reductions were not attained, it would consider either selling the paper or close it. It made it clear however that the paper survival is the desired outcome. Further to discussions with Hearst, the preparation of the plant continues as scheduled. For the *San Francisco Chronicle*, the outsourcing of its printing is part of the strategy to reduce its costs and give the *Chronicle* industry-leading colour reproduction capabilities. The contract signed with Hearst Corporation provides for indemnification should the *San Francisco Chronicle* cease publication or be sold.

We will invest approximately \$175 million, rather than the previously announced \$200 million, throughout 2009 and 2010 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. The project is progressing as planned.

An investment of approximately \$60 million is being made throughout 2008 and 2009 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 was expanded. This project is expected to be completed in the second quarter of the year.

In fiscal 2009, the Print Sector will focus on the execution of its rationalization program, including direct mail activities in the U.S. The Magazine, Book and Catalogue Group will benefit from the Rogers contract, starting in the second quarter of fiscal 2009. The Newspaper Group will benefit from the *San Francisco Chronicle* start-up and will benefit from additional colour capabilities from its new Transmag facility in the second half of the year. It will also focus on the planning and execution of *The Globe and Mail* project. The Retail Group will benefit from the full year impact from the Shoppers Drug Mart® agreement.

Marketing Communications Sector

Revenues in the Marketing Communications sector increased from \$82.2 million in the first quarter of fiscal 2008 to \$106.7 million in the first quarter of fiscal 2009, an increase of \$24.5 million, or 29.8%. Acquisitions (Rastar, Inc., ThinData, Inc. and Redwood Custom Communications) contributed \$30.2 million to revenues. Excluding acquisitions and exchange rate effect, revenues decreased \$7.6 million, or 9.2%. Organic growth generated from the premedia activities, following the ramp-up of its five-year agreement with Loblaws for the complete outsourcing of its premedia business, was more than compensated by lower volume due to a general deterioration of market conditions in the business of printing of marketing products.

Adjusted operating income decreased from \$2.2 million in the first quarter of fiscal 2008 to \$1.9 million in the first quarter of fiscal 2009, a decrease of \$0.3 million, or 13.6%. Acquisitions contributed \$2.6 million. Excluding acquisitions and exchange rate effect, adjusted operating income decreased by \$3.9 million. The decrease is primarily due to the lower revenue. In the first quarter of fiscal 2009, there was no significant impact from the rationalization measures yet.

Adjusted operating income margin decreased from 2.7% in the first quarter of fiscal 2008 to 1.8% in the first quarter of fiscal 2009, a decrease of 0.9%. Excluding acquisitions, the margin decreased 3.6% which was mainly due to price pressures in the printing of marketing products. The margin from the premedia business was stable.

We acquired Conversys Inc., the leading Canadian Print-to-Web provider that specializes in the seamless transformation of print marketing materials such as flyers and catalogues into rich, interactive Web content that is user-friendly and brand-consistent across multiple channels. The acquisition complements Transcontinental's existing print and interactive communications offering to major retailers. Conversys's multi-channel marketing services enable businesses to increase sales and more effectively interact with their customers by delivering a continuous flow of digital content through various media, including Web sites, email, and mobile devices. Conversys excels in providing content conversion and hosting services to large scale retail organizations. The integration is progressing well.

We acquired Redwood Custom Communications, a North American leader in custom communications headquartered in Toronto. 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 the Marketing Communications Sector. The integration is progressing well.

In fiscal 2009, the Marketing Communications Sector will focus on the execution of its rationalization and integration programs. The Marketing Products Group will continue to look for new ways to improve their competitiveness within the current market environment and migrate their product offering to more one to one marketing products. The Premedia Group will benefit from the full year impact of the five-year agreement with Loblaws, for the complete outsourcing of its premedia business and will also focus on the expansion of its customer base. The sector will also benefit from the integration of Rastar, Inc., ThinData Inc., Redwood Custom Communications and Conversys Inc. These acquisitions will add approximately \$95 million in revenues in fiscal 2009.

Media Sector

Revenues in the Media sector decreased from \$146.8 million in the first quarter of fiscal 2008 to \$139.9 million in the first quarter of fiscal 2009, a decrease of \$6.9 million, or 4.7%. Divestitures and closures, net of small but strategic acquisitions completed in 2008, had a negative impact of \$1.3 million on revenues. Excluding acquisitions, divestitures and closures, revenues decreased \$5.6 million, or 3.8%.

The negative organic growth in revenues is primarily due to a decrease in national advertising in magazine publishing activities in Canada and, to a lesser extent, to lower revenue from the weeklies and dailies, partially offset by higher inserts in the newspaper publishing activities. The distribution activities were relatively stable. The decrease in revenues was partially offset by the book publishing activities, driven by sales development in school books, the success of *More* and *Vita* and finally, the accelerated development of digital initiatives.

Adjusted operating income decreased from \$16.3 million in the first quarter of fiscal 2008 to \$7.8 million in the first quarter of fiscal 2009, a decrease of \$8.5 million, or 52.1%. Excluding acquisitions, divestitures and closures, and the paper effect, it decreased by \$7.9 million, or 48.5%. The decrease is mainly due to lower revenues as well as strategic investments made in the development of new titles and the multiplatform offering, mainly digital initiatives.

It is important to highlight that investments made in digital and new products are bearing fruit. For instance, the revenues from digital initiatives increased by \$1.6 million or close to 45.0% and its unique monthly visitors increased 37% versus the first quarter of fiscal 2008 while its reach into the total Canadian Internet audience increased from 16.9% in the first quarter of fiscal 2008 to 17.3% in the first quarter of fiscal 2009. Launched in October 2008, weblocal.ca, an online search site for finding and reviewing local businesses, products or services in communities

across Canada, reached 1,800,000 unique monthly visitors which is much more than expected. This success in generating traffic bodes well for the monetization phase which is just starting. Furthermore, *Vita* and *More* have gained over 80,000 and close to 130,000 subscriptions, respectively, since Transcontinental announced the launch of both magazines.

The adjusted operating income margin decreased to 5.6% in the first quarter of fiscal 2009 from 11.1% in the first quarter of fiscal 2008, a decrease of 5.5% which is largely attributed to the decrease in national advertising in magazine publishing activities as well as the strategic investments made in the development of new titles and digital initiatives. The margins for newspaper publishing, distribution and book publishing activities were relatively stable.

In fiscal 2009, the Media Sector will also focus on the execution of its rationalization program. The Local Solutions Group is expected to gain from the contribution from acquisitions and new products such as *weblocal.ca* and *Metro*. However, newspaper publishing activities will be affected by soft advertising, particularly from the automotive industry, and by paper price increases. The distribution activities should prove resilient considering the diversification of its customer base. The 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 the consumer magazine publishing activities will still be negatively affected by a softer national advertising environment and by paper price increases. The Business Solutions and Book Publishing Group will benefit from the full year impact from *acquisition.biz* but we expect that the business magazine publishing activities will still be negatively affected by lower advertising revenue from the automotive industry and financial institutions. Book publishing activities should continue to gain market share particularly through the growth of secondary programs in Quebec as part of the ongoing educational reform in that province. The sector will pursue the development of its multiplatform offering, mainly digital initiatives, albeit in a prudent and targeted way.

Inter-Segment and Other Activities

Revenues of inter-segment and other activities went from a negative \$19.6 million in the first quarter of fiscal 2008 to a negative \$22.0 million in the first quarter of fiscal 2009. The variation is mainly attributable to a decrease in other activities. Adjusted operating income went from a negative \$7.7 million in the first quarter of fiscal 2008 to a negative \$4.4 million in the first quarter of fiscal 2009 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)

(in millions of dollars, except per share amounts)	Three months ended January 31	
	2009	2008
Net income (loss)	\$ (6.4)	\$ 34.1
Non-controlling interest	0.3	0.3
Income taxes	(9.0)	2.4
Discount on sale of accounts receivable	1.7	3.1
Financial expenses	7.4	8.5
Impairment of assets and restructuring costs	31.3	1.9
Adjusted operating income	\$ 25.3	\$ 50.3
Amortization	33.0	32.1
Adjusted operating income before amortization	\$ 58.3	\$ 82.4
Net income (loss)	\$ (6.4)	\$ 34.1
Impairment of assets and restructuring costs (after tax)	21.5	1.3
Unusual adjustments to income taxes	-	(7.0)
Adjusted net income	15.1	28.4
Average number of shares outstanding	80.8	83.5
Adjusted earnings per share	\$ 0.19	\$ 0.34
Cash flow related to operating activities	\$ 9.5	\$ 33.0
Changes in non-cash operating items	(35.0)	(35.5)
Cash flow from operating activities before changes in non-cash operating items	\$ 44.5	\$ 68.5
Long-term debt	\$ 672.1	\$ 544.2
Current portion of long-term debt	179.1	14.5
Cash and cash equivalents	(25.2)	(33.2)
Net indebtedness	\$ 826.0	\$ 525.5

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results (unaudited)

	2009		2008		2007			
(in millions of dollars, except per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	\$ 604	\$ 653	\$ 585	\$ 595	\$ 596	\$ 618	\$ 551	\$ 585
Adjusted operating income before amortization	58	109	83	91	82	101	81	93
Adjusted operating income margin before amortization	9.6 %	16.7 %	14.2 %	15.3 %	13.8 %	16.3 %	14.7 %	15.9 %
Operating income (loss)	\$ (6)	\$ (139)	\$ 51	\$ 56	\$ 48	\$ 67	\$ 51	\$ 62
Adjusted operating income	25	76	51	58	50	68	52	62
Adjusted operating income margin	4.1 %	11.6 %	8.7 %	9.7 %	8.4 %	11.0 %	9.4 %	10.6 %
Net income (loss)	\$ (6)	\$ (94)	\$ 30	\$ 38	\$ 34	\$ 39	\$ 28	\$ 34
Per share	(0.08)	(1.17)	0.38	0.46	0.41	0.46	0.33	0.40
Adjusted net income	15	48	30	35	28	39	28	34
Per share	0.19	0.59	0.38	0.43	0.34	0.47	0.34	0.41
% of fiscal year	- %	34 %	22 %	25 %	19 %	31 %	23 %	27 %

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 back-to-school period is also the strongest 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 First Quarter Ended January 31, 2009 (unaudited)

(in millions of dollars)	2009	2008
Operating activities		
Cash flow from operating activities before changes in non-cash operating items	\$ 44.5	\$ 68.5
Changes in non-cash operating items	(35.0)	(35.5)
Cash flow related to operating activities	9.5	33.0
Investing activities		
Business acquisitions, net of disposals	(11.7)	(3.0)
Acquisitions of property, plant and equipment, net of disposals	(98.6)	(31.3)
Other	(2.2)	(5.5)
Cash flow used in investing activities	(112.5)	(39.8)
Financing activities		
Reimbursement of long-term debt, net	(1.9)	(1.6)
Increase in revolving term credit facility	46.8	8.4
Redemption of shares, net	-	(10.9)
Dividends on shares	(6.5)	(5.8)
Other	(0.5)	(0.3)
Cash flow related to (used in) financing activities	37.9	(10.2)
Other relevant information		
Net indebtedness	826.0	525.5
Shareholders' equity	1,083.3	1,193.7
Net indebtedness / Total capitalization ratio	43 %	31 %
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 decreased from \$68.5 million in fiscal 2008 to \$44.5 million in fiscal 2009, primarily due to a decrease in adjusted operating income before amortization, an increase in restructuring costs and in contributions to the pension plans partially offset by a reduction in current income tax expense. Changes in non-cash operating items resulted in an outflow of \$35.0 million in fiscal 2009, compared to an outflow of \$35.5 million in fiscal 2008. As a result, cash flow from operating activities decreased from a cash generation of \$33.0 million in fiscal 2008 to a cash generation of \$9.5 million in fiscal 2009.

Investing Activities

In the first quarter of fiscal 2009, \$98.6 million was invested in property, plant and equipment, net of disposals, an increase of \$67.3 million compared to the \$31.3 million invested in the first quarter of fiscal 2008. We invested over \$60.0 million in the two major projects we previously announced, namely the *San Francisco Chronicle* project and the Transmag project.

Financing Activities

The Corporation paid \$6.5 million, or 8.0 cents per share, in dividends in the first quarter of fiscal 2009 compared to \$5.8 million, or 7.0 cents per share, in the first quarter of fiscal 2008, an increase of 14.3%. Dividends paid by Transcontinental to Canadian residents are eligible dividends as per 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.

During the first quarter of fiscal 2009, the Corporation did not pursue its share buy back. Therefore, over 85% of the authorized repurchases has been completed for the Class A Subordinate Voting shares. Furthermore, the Corporation did not implement a new share buy back program.

During the first quarter of 2008, the Corporation purchased 718,300 of its Class A Subordinate Voting Shares at a weighted average price of \$15.07 for a total consideration of \$10.8 million and 4,000 of its Class B Shares at a weighted average price of \$20.76 for a total consideration of \$0.1 million. Of the total consideration of \$10.9 million, \$4.0 million corresponds to the book value and \$6.9 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

As at January 31, 2009, there were 64,665,692 Class A Subordinate Voting Shares and 16,112,689 Class B Multiple Voting Shares of the Corporation issued and outstanding, for a total of 80,778,381 shares issued and outstanding.

Debt Instruments

As at January 31, 2009, the Corporation's net indebtedness stood at \$826.0 million and its net indebtedness to total capitalization ratio was 43%, compared to 39% as at October 31, 2008 and 31% as at January 31, 2008. This ratio is in the middle of our *Evolution 2010* objective to maintain a net debt to total capitalization ratio between 35% and 50%.

As at January 31, 2009, 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 \$377.6 million and \$70.8 million, respectively, were used as at January 31, 2009. 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 January 31, 2009, letters of credit amounting to C\$0.6 million and US\$4.1 million were issued under the committed line of credit in addition to the amount presented in the previous paragraph. During the first quarter of fiscal 2009, the Corporation has not been in default under any of its obligations. Other than long-term debt obligations, the Corporation has commitments, mainly comprised of operating leases.

The Corporation is committed to acquire machinery and equipment and to complete the construction of a building. As at January 31, 2009, these commitments represented \$183.7 million, including US\$61.1 million, €64.0 million and C\$5.8 million. Minimum payments required in 2009 and 2010 are equivalent to \$131.3 million and \$52.4 million, respectively.

On February 6, 2009, the Corporation completed a private placement offering of \$100 million in unsecured debentures. These debentures were underwritten by the Solidarity Fund QFL, a development capital fund based in Quebec. The placement is comprised of two debentures of \$50 million each. The first has a term of five years and bears interest, payable every six months, at a rate of 8.06%. The second has a term of ten years and bears interest, payable every six months, at a rate of 6.77% for the first two years. The rate for the following eight years will be set at the beginning of that period at the then prevailing market rate. The Solidarity Fund QFL has a put option on this second debenture on its second anniversary. Other conditions governing these two debentures are customary and no more restrictive than other indebtedness.

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.

On February 17, 2009, the Corporation extended its \$300 million securitization program for an additional year. The maximum net consideration allowable in the program is \$300 million, including a maximum of \$100 million in U.S. dollars. The program, established in 2001, now matures in August 2010. Under its securitization agreement, the Corporation will continue to sell some of its accounts receivables on a continuous basis to a trust, managed by RBC Capital Markets, that has sold its beneficial interest to third-party investors. Terms and conditions of this extension reflect the current environment and remain attractive compared with other sources of financing.

As at January 31, 2009, \$313 million of accounts receivable (\$291 million as at October 31, 2008) had been sold under the accounts receivable securitization program, of which \$41 million (\$42 million as at October 31, 2008) was kept by the Corporation as retained interest, resulting in a net consideration of \$272 million, including C\$232 million and US\$32 million (\$249 million as at October 31, 2008, including C\$210 million and US\$32 million) which represents the maximum net consideration the Corporation could have obtained on those dates in accordance with the program terms and conditions. The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, the Corporation recognized an aggregate discount on sale of accounts

receivable of \$1.7 million for the three-month period ended January 31, 2009 (\$3.1 million for the same period in 2008). 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 as at October 31, 2008. 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. Management evaluates its estimates on an ongoing basis using historical experience and other factors, including the current economic environment. As future events or changes in circumstances and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Changes in Accounting Policies

General Standards of Financial Statement Presentation

On November 1, 2008, the Corporation adopted the revised version of Section 1400 of the CICA Handbook, General Standards of Financial Statement Presentation, to include requirements for assessing and communicating the ability of an entity to continue its operations. The adoption of this Section did not have a significant impact on the consolidated financial statements.

Inventories

On November 1, 2008, the Corporation adopted Section 3031 of the CICA Handbook, Inventories, replacing Section 3030, Inventories. 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 adoption of this Section did not have a significant impact on the consolidated financial statements.

Goodwill and Intangible Assets

On November 1, 2008, the Corporation adopted Section 3064 of the CICA Handbook, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and development costs. The Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including intangible assets developed internally. The adoption of this Section was applied retrospectively with restatement of consolidated financial statements of prior periods.

On November 1, 2007, the write-off of the deferred start up costs on the balance sheet had the effect of reducing other assets by \$2.5 million, retained earnings by \$1.7 million and future income tax liabilities by \$0.8 million.

On October 31, 2008, the write-off of the deferred start up costs on the balance sheet had the effect of reducing other assets by \$5.4 million, retained earnings by \$3.0 million and long-term future income tax liabilities by \$1.8 million and increasing accumulated other comprehensive loss by 0.6 million.

The adoption of this Section did not have any effect on the results of the three-month period ended January 31, 2008.

Credit risk and fair value of financial assets and financial liabilities

On November 1, 2008, the Corporation adopted the recommendations of EIC-173 of the CICA Handbook, Credit risk and fair value of financial assets and financial liabilities. This abstract explains that the credit risk specific to the entity and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The adoption of these recommendations is done retrospectively without restatement of consolidated financial statements of prior periods. On November 1, 2008, taking into account credit risk in the evaluation of derivative financial instruments had the effect of reducing accounts payable and accrued liabilities by \$0.2 million, other liabilities by \$0.6 million, future income tax asset by \$0.2 million and accumulated other comprehensive loss by \$0.6 million.

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.

Effect of New Accounting Standards not yet implemented

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination. The Corporation is currently evaluating the impact of the adoption of the above standards on the consolidated financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the like-named Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements. The Corporation is currently evaluating the impact of the adoption of the above standards on the consolidated financial statements.

Non-controlling Interests

In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated Financial Statements. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the accounting of the non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination. The Corporation is currently evaluating the impact of the adoption of these new standards on the consolidated financial statements.

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

Unsecured Senior Debentures totalling \$100.0 million are maturing in June 2009, term revolving credit facility of \$150.0 million is maturing in May 2009, of which an amount of \$70.8 million was used at the end of the first quarter of fiscal 2009 and projected capital expenditures for fiscal 2009 amount to approximately \$250 million. As at February 6, 2009, the Corporation completed a private placement offering of \$100 million in unsecured debentures. The Corporation expects it will continue to generate significant cash flow from operations and is currently pursuing many financing alternatives to finance these 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.

The accounts receivable securitization program of \$300 million which was to mature in August, 2009 was extended for an additional year on February 17, 2009.

The risk of availability of capital 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 43% as at January 31, 2009, in the middle of our target range.

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 the first quarter of fiscal 2009, the floating rate portion of the Corporation's long-term debt represented 52% of the total, while the fixed rate portion represented 48% taking into consideration the interest rate swaps (49% and 51% respectively as at October 31, 2008). The Corporation had completed a private placement offering of \$100 million in unsecured debentures as at February 6 which bears interest at fixed rate. However, the Corporation expects to draw more heavily on its credit facilities in fiscal 2009 to finance major capital expenditures.

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 in the first quarter of fiscal 2009 compared to the fourth 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 did not encounter a significant increase in bad debts in the first quarter of fiscal 2009 but acknowledges that the scarcity and cost of financing will probably result in customers trying to extend payment terms which will increase the credit risk. Credit procedures, both with new and existing customers, were therefore tightened and senior management's involvement was increased. The Corporation is still protected from significant bad debts with a credit insurance policy and no claims were submitted under this policy in the first quarter. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Pension Plans

As the pension fund assets consist of a mix of bonds and equities, the market value of the pension fund assets deteriorated further due to market conditions in the first quarter of fiscal 2009 compared to the fourth quarter of fiscal 2008. If this reduced value of pension fund assets persists to the date of the next funding valuation which will be as of December 31, 2010, at the latest, the Corporation would likely be required to increase its cash funding contributions. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Operational Risks

Economic Cycles

A significant risk that Transcontinental faces and over which it has no control is related to economic cycles. During the first quarter of fiscal 2009, our direct mail business, magazine publishing business and printing of marketing products business were largely affected by the financial crisis in the U.S. and the recession in Canada. Due to the magnitude of the economic slowdown almost all our other businesses were affected but to a lesser extent since our diversification helps to reduce our exposure to economic cycles. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

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 quarter, these niches have experienced a reduction in demand resulting in over-capacity and continued pricing pressures. To mitigate this risk the Corporation continues to focus on cost reduction. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Geographic Distribution and Exchange Rate

Our net exposure to the exchange rate between the Canadian dollar and the U.S. dollar and Mexican pesos has changed materially in the first quarter of fiscal 2009 versus the first quarter of fiscal 2008, due to the combination of lower revenues from U.S. business units due to financial crisis in the U.S. and lower revenue from the export from Canadian plants. The exchange rate between the Canadian dollar and its U.S. counterpart has fluctuated significantly in the first quarter of fiscal 2009 versus the first quarter of fiscal 2008. The spot exchange rate was 1.2577 CAD/USD on average in the first quarter of fiscal 2009 and 0.9815 CAD/USD on average in the first quarter of fiscal 2008.

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. 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 January 31, 2009, the Corporation had contracts to sell US\$128.5 million, of which US\$55.5 million, US\$51.0 million and US\$22.0 million will be sold in fiscal 2009, 2010 and 2011, respectively, (US\$136.0 million as at October 31, 2008) 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 26 months, with rates varying from 1.0075 to 1.2875. As at January 31, 2009, 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\$2.0 million as at October 31, 2008). Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the first quarter of fiscal 2009.

New Media

No major changes have occurred in the first quarter of fiscal 2009. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Difficulty in Hiring Qualified Personnel

No major changes have occurred in the first quarter of fiscal 2009. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Exchange of Confidential Information

No major changes have occurred in the first quarter of fiscal 2009. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Business Development

No major changes have occurred in the first quarter of fiscal 2009. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Integration of Acquisitions

No major changes have occurred in the first quarter of fiscal 2009. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Loss of Reputation

No major changes have occurred in the first quarter of fiscal 2009. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Environmental Risk

No major changes have occurred in the first quarter of fiscal 2009. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Raw Material and Postal Risks

Raw Materials and Energy Prices

The prices of the raw materials such as paper and ink as well as energy prices, primarily natural gas, are starting to stabilize due to lower demand in the printing industry. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Canadian and U.S. Postal Systems' Future Policies

No major changes have occurred in the first quarter of fiscal 2009. For more information, please refer to Management's Discussion and Analysis for the year ended October 31, 2008.

Subsequent Events

On February 6, 2009, the Corporation completed a private placement offering of \$100 million in unsecured debentures. These debentures were underwritten by the Solidarity Fund QFL, a development capital fund based in Quebec. The placement is comprised of two debentures of \$50 million each. The first has a term of five years and bears interest, payable every six months, at a rate of 8.06%. The second has a term of ten years and bears interest, payable every six months, at a rate of 6.77% for the first two years. The rate for the following eight years will be set at the beginning of this period at the then prevailing market rate. The Solidarity Fund QFL has a call option on this second debenture on its second anniversary.

On February 17, 2009, the Corporation extended a \$300 million securitization program for an additional year. The program, established in 2001, now matures in August 2010. Transcontinental will continue to sell some of its accounts receivables on a continuous basis to a trust managed by RBC Capital Markets. Terms and conditions of this extension reflect the current environment.

On February 18, 2009, the Corporation announced major rationalization measures to address the severe slowdown in demand for its products and services, particularly in its direct mail activities in the U.S., printing of marketing products and magazine publishing. Other measures are being implemented throughout Canada, the United States and Mexico. Some 1500 jobs are to be eliminated, of which half are located in the U.S.

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the quarter ended January 31, 2009 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, manage the balance sheet, preserve cash and control capital expenditures; second, execute its rationalization program, including the direct mail activities in the U.S.; third, plan and execute the numerous investments announced in the past few months including *the Globe and Mail*, Transmag, and *San Francisco Chronicle* projects; finally, integrate the acquisitions of Conversys Inc., Redwood Custom Communications and Rastar, Inc.

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 completed a private placement offering of \$100 million in unsecured debentures, extended for an additional year, until 2010, our accounts receivable securitization program of \$300 million, planned accordingly and remain confident we will be able to obtain sufficient capital to refinance our debt maturities in 2009 and our capital expenditures program, we believe interest expense will be higher than in fiscal 2008. Furthermore, we anticipate that the recession will more severely affect three of our businesses:

- Direct mail activities in the U.S – This business represents about 9% 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 in November 2008 and rationalization measures in February 2009 which will reduce our capacity;
- Magazine publishing – This business represents about 7% of the Corporation's consolidated revenues. The slowdown in the economy will directly impact the advertising budgets of national advertisers which account for the bulk of this business' customers;
- Printing of marketing products (previously called commercial printing) – This business represents about 11% of the Corporation's consolidated revenues. It relies heavily on marketing budgets of customers which are typically negatively affected during economic slowdowns.

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 contracts in February 2009
- (+) the contribution of the Redwood Custom Communications, Rastar, Inc. and Conversys inc. acquisitions
- (+) the reduction of approximately \$50 million in costs in 2009 related to the rationalization measures
- (-) the capital expenditures of approximately \$250 million, including approximately \$185 million for major projects which will generate adequate returns over the longer term but not necessarily in 2009
- (-) the start up costs of approximately \$8 million for major projects, now expensed due to new accounting rules
- (-) the disruptions related to the start-up of major projects
- (-) the amortization expense increase 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, our ultimate goal remains to ensure the sustained growth and profitability of Transcontinental over the long term. In order to continue to do this we must strike a delicate balance between investing for the future and dealing with the ramifications from the current financial crisis.

On behalf of Management,

A handwritten signature in black ink, appearing to read 'B. Huard', with a long, sweeping flourish extending upwards and to the right.

Benoît Huard
Vice President and Chief Financial Officer

March 12, 2009.



CONSOLIDATED STATEMENTS OF INCOME
unaudited

(in millions of dollars, except per share data)	Three months ended	
	January 31	
	2009	2008
Revenues	\$ 604.1	\$ 596.0
Operating costs	471.9	442.9
Selling, general and administrative expenses	73.9	70.7
Operating income before amortization, impairment of assets and restructuring costs	58.3	82.4
Amortization (Note 4)	33.0	32.1
Impairment of assets and restructuring costs (Note 5)	31.3	1.9
Operating income (loss)	(6.0)	48.4
Financial expenses (Note 6)	7.4	8.5
Discount on sale of accounts receivable (Note 9)	1.7	3.1
Income (loss) before income taxes and non-controlling interest	(15.1)	36.8
Income taxes (recovered) (Note 7)	(9.0)	2.4
Non-controlling interest	0.3	0.3
Net income (loss)	\$ (6.4)	\$ 34.1
Per share (basic) (Note 10)		
Net income (loss)	\$ (0.08)	\$ 0.41
Per share (diluted) (Note 10)		
Net income (loss)	\$ (0.08)	\$ 0.41
Average number of shares outstanding (in millions)	80.8	83.5

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



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
unaudited

(in millions of dollars)	Three months ended	
	January 31	
	2009	2008
Net income (loss)	\$ (6.4)	\$ 34.1
Other comprehensive income (loss):		
Unrealized net change in fair value of derivatives designated as cash flow hedges, net of income taxes of (\$1.8) million ((\$1.4) million in 2008)	(5.8)	(2.8)
Reclassification adjustments for net change in fair value of derivatives designated as cash flow hedges in prior periods, transferred to net income in the current period, net of income taxes of (\$1.5) million (\$0.8 million for the same period in 2008)	3.3	(1.4)
Net change in fair value of derivatives designated as cash flow hedges	(2.5)	(4.2)
Unrealized net gains (losses) on translation of financial statements of self-sustaining foreign operations	(5.4)	4.0
Other comprehensive loss (Note 13)	(7.9)	(0.2)
Comprehensive income (loss)	\$ (14.3)	\$ 33.9

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

(in millions of dollars)	Three months ended	
	January 31	
	2009	2008
Balance, beginning of period, as previously reported	\$ 756.5	\$ 806.4
Change in accounting policies - Goodwill and intangible assets (Note 2)	(3.0)	(1.7)
Restated balance, beginning of period	753.5	804.7
Net income (loss)	(6.4)	34.1
	747.1	838.8
Premium on redemption of shares (Note 10)	-	(6.9)
Dividends on shares	(6.5)	(5.8)
Balance, end of period	\$ 740.6	\$ 826.1

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



CONSOLIDATED BALANCE SHEETS
unaudited

(in millions of dollars)	As at January 31 2009	As at October 31 2008 (Note 2)
Current assets		
Cash and cash equivalents	\$ 25.2	\$ 90.7
Accounts receivable (Note 9)	201.9	207.1
Income taxes receivable	2.3	4.5
Inventories	91.5	99.3
Prepaid expenses and other current assets	18.1	16.1
Future income taxes	19.6	28.1
	358.6	445.8
Property, plant and equipment	947.0	936.7
Goodwill	850.0	842.6
Intangible assets	163.2	166.2
Future income taxes	152.9	141.0
Other assets	80.4	82.7
	\$ 2,552.1	\$ 2,615.0
Current liabilities		
Accounts payable and accrued liabilities	\$ 365.8	\$ 442.9
Income taxes payable	33.2	48.3
Deferred subscription revenues and deposits	52.5	49.6
Future income taxes	2.5	9.9
Current portion of long-term debt	179.1	194.3
	633.1	745.0
Long-term debt	672.1	602.1
Future income taxes	93.7	99.3
Other liabilities	69.8	65.5
	1,468.7	1,511.9
Non-controlling interest	0.1	0.1
Commitments (Note 15)		
Shareholders' equity		
Share capital (Note 10)	379.5	379.5
Contributed surplus (Note 12)	11.8	11.3
Retained earnings	740.6	753.5
Accumulated other comprehensive loss (Note 13)	(48.6)	(41.3)
	692.0	712.2
	1,083.3	1,103.0
	\$ 2,552.1	\$ 2,615.0

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



CONSOLIDATED STATEMENTS OF CASH FLOWS
unaudited

(in millions of dollars)	Three months ended	
	January 31	
	2009	2008
Operating activities		
Net income (loss)	\$ (6.4)	\$ 34.1
Items not affecting cash and cash equivalents		
Amortization (Note 4)	37.9	39.0
Impairment of assets (Note 5)	18.8	1.9
Gain on disposal of assets	(0.1)	-
Future income taxes	(14.0)	(8.8)
Non-controlling interest	0.3	0.3
Net change in accrued pension benefit asset and liability	(2.4)	3.0
Stock-based compensation (Note 11)	0.2	0.9
Other	10.2	(1.9)
Cash flow from operating activities before changes in non-cash operating items	44.5	68.5
Changes in non-cash operating items	(35.0)	(35.5)
Cash flow related to operating activities	9.5	33.0
Investing activities		
Business acquisitions (Note 14)	(11.7)	(3.0)
Acquisitions of property, plant and equipment	(98.7)	(31.3)
Disposals of property, plant and equipment	0.1	-
Increase in other assets	(2.2)	(5.5)
Cash flow used in investing activities	(112.5)	(39.8)
Financing activities		
Increase in long-term debt	-	0.1
Reimbursement of long-term debt	(1.9)	(1.7)
Increase in revolving term credit facility	46.8	8.4
Dividends on shares	(6.5)	(5.8)
Redemption of shares (Note 10)	-	(10.9)
Other	(0.5)	(0.3)
Cash flow related to (used in) financing activities	37.9	(10.2)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	(0.4)	1.7
Decrease in cash and cash equivalents	(65.5)	(15.3)
Cash and cash equivalents at beginning of period	90.7	48.5
Cash and cash equivalents at end of period	\$ 25.2	\$ 33.2
Additional information		
Interest paid	\$ 11.5	\$ 12.0
Income taxes paid	19.3	15.3

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

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

1. Significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), using the same accounting policies as outlined in Note 1 and Note 2 to the consolidated financial statements for the year ended October 31, 2008, except for the changes in accounting policies disclosed in Note 2. The operating results for the interim periods are not necessarily indicative of full-year results due to the seasonality of certain operations of the Corporation. Results of operations are significantly influenced by the advertising market, which is stronger in the second and fourth quarters. The back-to-school period is also the strongest for book printing and for our business segment of educational resources publishing.

2. Changes in accounting policies

a) General Standards of Financial Statement Presentation

On November 1, 2008, the Corporation adopted the revised version of Section 1400 of the CICA Handbook, General Standards of Financial Statement Presentation, to include requirements for assessing and communicating the ability of an entity to continue its operations.

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

b) Inventories

On November 1, 2008, the Corporation adopted Section 3031 of the CICA Handbook, Inventories, replacing Section 3030, Inventories. 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 adoption of this Section did not have a significant impact on the consolidated financial statements.

c) Goodwill and Intangible Assets

On November 1, 2008, the Corporation adopted Section 3064 of the CICA Handbook, Goodwill and Intangible Assets, which supersedes Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and development costs. The Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including intangible assets developed internally.

The adoption of this Section was applied retrospectively with restatement of consolidated financial statements of prior periods. The effect on balance sheet items of prior periods were as follows:

	As at October 31 2008	As at November 1 2007
Increase (decrease)		
Other assets	\$ (5.4)	\$ (2.5)
Future income tax liabilities - long-term	(1.8)	(0.8)
Retained earnings	(3.0)	(1.7)
Accumulated other comprehensive loss	0.6	-

The adoption of this Section did not have any effect on the results of the three-month period ended January 31, 2008.

d) Credit risk and fair value of financial assets and financial liabilities

On November 1, 2008, the Corporation adopted the recommendations of EIC-173 of the CICA Handbook, Credit risk and fair value of financial assets and financial liabilities. This abstract notes that the credit risk specific to the entity and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives.

The adoption of these recommendations was applied retrospectively without restatement of consolidated financial statements of prior periods. On November 1, 2008, taking into account credit risk in the evaluation of derivative financial instruments had the effect of reducing accounts payable and accrued liabilities by \$0.2 million, other liabilities by \$0.6 million, future income tax assets by \$0.2 million and accumulated other comprehensive loss by \$0.6 million.

3. Effect of new accounting standards not yet implemented

a) Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination.

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

b) Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the like-named Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements.

c) Non-controlling Interests

In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated financial statements. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination.

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

4. Amortization

(in millions of dollars)	Three months ended January 31	
	2009	2008
Property, plant and equipment	\$ 30.7	\$ 29.4
Intangible assets	2.3	2.7
	33.0	32.1
Intangible assets, presented in revenues, operating costs and financial expenses	4.9	6.9
	\$ 37.9	\$ 39.0

5. Impairment of assets and restructuring costs

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

- On February 18, 2009, the Corporation announced major rationalization measures to address the recession. Including the initiative described in b), some 1500 jobs are being eliminated and substantive cost-cutting measures are being implemented throughout Canada, the United States and Mexico. In recent weeks, the rapid deterioration of the economy has reduced the communication and marketing investments of a number of customers of the Corporation. Therefore, commercial printing projects, direct mail projects and magazine advertising placements have been cancelled or postponed by companies that have been hit by the recession. During the first quarter of fiscal 2009, the Corporation has performed a depreciation test on property, plant and equipment and on intangible assets of the entities affected by these measures. It is expected that the restructuring costs will affect the results of the next quarters of 2009 and that these initiatives will be completed in 2009.
- 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 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 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. The restructuring was completed during the fourth quarter of fiscal 2008.
- During the first quarter of fiscal 2007, the Corporation initiated a restructuring plan for its commercial printing operations in the Printing and Marketing Communications sectors. The restructuring was completed during the fourth quarter of fiscal 2008.
- During the second quarter of fiscal 2006, the Corporation adopted a plan for the consolidation of its commercial products and direct marketing printing facilities located in the Toronto area in the Marketing Communications sector. The consolidation was completed during the fourth quarter of fiscal 2008.



5. Impairment of assets and restructuring costs (continued)

The following table provides details of these plans:

Three months ended January 31

(in millions of dollars)	Total		2009				2008	
	Charged to income	Forecasted	Liability as at October 31, 2008	Charged to income	Paid	Liability as at January 31, 2009	Charged to income	Paid
(a) Rationalization Measures								
Printing								
Workforce reduction costs	\$ -	\$ 12.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer of printing equipment and other costs	-	5.1	-	-	-	-	-	-
Marketing Communications								
Workforce reduction costs	-	0.9	-	-	-	-	-	-
Transfer of printing equipment and other costs	-	0.2	-	-	-	-	-	-
Media								
Workforce reduction costs	-	3.6	-	-	-	-	-	-
	-	21.8	-	-	-	-	-	-
Printing								
Impairment of assets	16.5	16.5	n/a	16.5	n/a	n/a	-	n/a
Marketing Communications								
Impairment of assets	1.2	1.2	n/a	1.2	n/a	n/a	-	n/a
Media								
Impairment of assets	1.1	1.1	n/a	1.1	n/a	n/a	-	n/a
	\$ 18.8	\$ 40.6	\$ -	\$ 18.8	\$ -	\$ -	\$ -	\$ -
(b) Direct mail operations								
Workforce reduction costs	\$ 10.3	\$ 11.8	\$ 7.7	\$ 2.6	\$ 8.7	\$ 1.6	\$ -	\$ -
Transfer of printing equipment and other costs	9.9	11.9	-	9.9	2.4	7.5	-	-
	20.2	23.7	7.7	12.5	11.1	9.1	-	-
Impairment of assets	207.1	207.1	n/a	-	n/a	n/a	-	n/a
	\$ 227.3	\$ 230.8	\$ 7.7	\$ 12.5	\$ 11.1	\$ 9.1	\$ -	\$ -
(c) Newspaper operations								
Media								
Workforce reduction costs	\$ 1.4	\$ 1.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer of printing equipment and other costs	0.7	0.7	-	-	-	-	-	-
Printing								
Workforce reduction costs	0.3	0.3	-	-	-	-	-	-
	2.4	2.4	-	-	-	-	-	-
Media								
Impairment of assets	1.9	1.9	n/a	-	n/a	n/a	1.9	n/a
	\$ 4.3	\$ 4.3	\$ -	\$ -	\$ -	\$ -	\$ 1.9	\$ -
(d) Commercial printing operations								
Printing								
Workforce reduction costs	\$ 1.6	\$ 1.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.1
Transfer of printing equipment and other costs	0.7	0.7	-	-	-	-	-	-
Marketing Communications								
Workforce reduction costs	1.8	1.8	-	-	-	-	-	0.2
Transfer of printing equipment and other costs	1.7	1.7	-	-	-	-	-	-
	5.8	5.8	-	-	-	-	-	0.3
Printing								
Impairment of assets	3.4	3.4	n/a	-	n/a	n/a	-	n/a
Marketing Communications								
Impairment of assets	0.2	0.2	n/a	-	n/a	n/a	-	n/a
	\$ 9.4	\$ 9.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.3

5. Impairment of assets and restructuring costs (continued)

(in millions of dollars)	Total		2009				2008	
	Charged to income	Forecasted	Liability as at October 31, 2008	Charged to income	Paid	Liability as at January 31, 2009	Charged to income	Paid
(e) Toronto printing operations								
Workforce reduction costs	\$ 3.0	\$ 3.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.1
Transfer of printing equipment and other costs	1.0	1.0	-	-	-	-	-	-
	4.0	4.0	-	-	-	-	-	0.1
Impairment of assets	0.2	0.2	n/a	-	n/a	n/a	-	n/a
	\$ 4.2	\$ 4.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.1
Total								
Workforce reduction costs			\$ 7.7	\$ 2.6	\$ 8.7	\$ 1.6	\$ -	\$ 0.4
Transfer of printing equipment and other costs			-	9.9	2.4	7.5	-	-
Impairment of assets			n/a	18.8	n/a	n/a	1.9	n/a
			\$ 7.7	\$ 31.3	\$ 11.1	\$ 9.1	\$ 1.9	\$ 0.4

6. Financial expenses

(in millions of dollars)	Three months ended January 31	
	2009	2008
Financial expenses on long-term debt	\$ 7.0	\$ 8.2
Other expenses	0.3	0.4
Foreign exchange loss (gain)	0.1	(0.1)
	\$ 7.4	\$ 8.5

For the three-month ended January 31, 2009, capitalized interest on property, plant and equipment amounted to \$1.6 million (\$0.8 million for the same period in 2008).

7. Income taxes

	Three months ended January 31	
	2009	2008
Statutory tax rate	30.9 %	31.9 %
Effect of foreign tax rate differences	(20.7)	(5.3)
Other	(5.8)	(0.8)
Effective tax rate before the following items:	4.4	25.8
Effect of income tax rate differences on impairment of assets and restructuring costs (Note 5)	55.2	(0.3)
Effect of changes in statutory tax rates (a)	-	(19.0)
Effective tax rate	59.6 %	6.5 %

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. These decreases in federal tax rate reduced both income tax expense and net future income tax liabilities by \$7.0 million during the first quarter of fiscal 2008.

8. Pension plans

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

(in millions of dollars)	Three months ended January 31	
	2009	2008
Pension plans		
Defined benefit pension plans	\$ 4.2	\$ 6.0
Defined contribution pension plans	0.7	0.8
	\$ 4.9	\$ 6.8

9. Accounts receivable

The Corporation sells its accounts receivable through a securization program, which matures in August 2010 as stated in Note 17, whose maximum net consideration is \$300 million, including a maximum of US\$100 million. Under the program, the Corporation will sell, on a continuous basis, some of its accounts receivable to a trust who has sold the beneficial rights to investors unrelated to the Corporation.

The following table provides details of accounts receivable sold under this program :

(in millions of dollars)	As at January 31 2009	As at October 31 2008
Accounts receivable sold	\$ 313.0	\$ 291.0
Retained interest	41.0	42.0
Net consideration	272.0	249.0
Net consideration in Canadian dollars	\$ 232.0	\$ 210.0
Net consideration in U.S. dollars	\$ 32.0	\$ 32.0

For the three-month period ended January 31, 2009, the Corporation recognized an aggregate discount on sale of accounts receivable of \$1.7 million (\$3.1 million for the same period in 2008)

10. Share capital

Earnings per share

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

(in millions of dollars)	Three months ended January 31	
	2009	2008
Numerator		
Net income (loss)	\$ (6.4)	\$ 34.1
Denominator		
Weighted average number of shares outstanding - basic	80.8	83.5
Dilutive effect of stock options and warrants	-	0.1
Weighted average number of shares outstanding - diluted	80.8	83.6
Basic earnings (loss) per share	\$ (0.08)	\$ 0.41
Diluted earnings (loss) per share	\$ (0.08)	\$ 0.41

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 these periods.

	Three months ended January 31	
	2009	2008
Stock options	1,641,160	1,519,340

Redemption of shares

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

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

Purchases were made in the normal course of business at market prices through the facilities of the Toronto Stock Exchange in accordance with the requirements of the exchange.



10. Share capital (continued)

During the three-month periods ended January 31, 2009 and 2008, the following purchases have been made:

	Three months ended January 31					
	2009			2008		
	Number of shares purchased	Weighted average price	Total consideration (in millions of dollars)	Number of shares purchased	Weighted average price	Total consideration (in millions of dollars)
Class A	-	\$ -	\$ -	718,300	\$ 15.07	\$ 10.8
Class B	-	\$ -	\$ -	4,000	\$ 20.76	\$ 0.1
			\$ -			\$ 10.9
Book value			\$ -			\$ 4.0
Premium paid			-			6.9
			\$ -			\$ 10.9

11. Stock-based compensation plans

Stock option plan

As at January 31, 2009, 2,096,496 stock options were outstanding, of which 1,475,651 could be exercised.

For the three month periods ended January 31, 2009 and 2008, 317,700 and 159,700 stock options were granted with a weighted average exercise price of \$9.64 and \$15.51, respectively.

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

	2009	2008
Fair value of stock options	\$ 3,90	\$ 4,04
Assumptions:		
Dividend rate	1,4 %	1,2 %
Expected volatility	32,2 %	26,0 %
Risk-free interest rate	2,09 %	3,65 %
Expected life	5 years	5 years

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.

The following table provides details of this plan:

Number of units	Three months ended January 31			
	2009	2008	2009	2008
	DSU		RSU	
Balance, beginning of period	103,282	165,592	221,357	26,507
Granted units	44,081	-	384,865	188,505
Cancelled units	(13,688)	(19,851)	(19,888)	-
Balance, end of period	133,675	145,741	586,334	215,012

The expense (reversal) recorded in the consolidated statements of income for the three-month periods ended January 31, 2009 and 2008 were (\$0.1) million and \$0.3 million, respectively. No amount has been paid under the plan for the three-month periods ended January 31, 2009 and 2008.

11. Stock-based compensation plans (continued)

Share unit plan for directors

The Corporation offers a deferred share unit plan to its directors. Under this plan, directors can choose to receive cash or deferred stock units as compensation.

The following table provides details of this plan:

Number of units	Three months ended January 31	
	2009	2008
Balance, beginning of period	108,621	79,938
Directors compensation	14,989	9,848
Dividends paid in units	983	389
Balance, end of period	124,593	90,175

The expense reversal recorded in the consolidated statements of income for the three-months ended January 31, 2009 and 2008 were \$0.2 million and \$0.3 million, respectively. No amount has been paid under the plan for the three-months periods ended January 31, 2009 and 2008.

12. Contributed surplus

(in millions of dollars)	Three months ended January 31	
	2009	2008
Balance, beginning of period	\$ 11.3	\$ 9.2
Compensation costs relating to stock option plan	0.5	0.6
Balance, end of period	\$ 11.8	\$ 9.8

13. Accumulated other comprehensive loss

(in millions of dollars)	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Com- prehensive Loss
	Balance as at November 1, 2008, as previously reported	\$ (24.9)	\$ (15.8)
Change in accounting policies - Goodwill and intangible assets (Note 2)	(0.6)	-	(0.6)
Change in accounting policies - Credit risk and fair value of financial assets and financial liabilities (Note 2)	(25.5)	(15.8)	(41.3)
Balance as at November 1, 2008, restated	(25.5)	(15.2)	(40.7)
Net change in unrealized gains/losses, net of income taxes	(5.4)	(2.5)	(7.9)
Balance as at January 31, 2009	\$ (30.9)	\$ (17.7)	\$ (48.6)
Balance as at November 1, 2007, as previously reported	\$ (42.3)	\$ 9.2	\$ (33.1)
Net change in unrealized gains/losses, net of income taxes	4.0	(4.2)	(0.2)
Balance as at January 31, 2008	\$ (38.3)	\$ 5.0	\$ (33.3)

As at January 31, 2009, 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	\$ (11.8)	\$ (7.9)	\$ (3.4)	\$ (1.4)	\$ (24.5)
Income taxes recovered	3.4	2.1	0.9	0.4	6.8
	\$ (8.4)	\$ (5.8)	\$ (2.5)	\$ (1.0)	\$ (17.7)

14. Business acquisitions

During the three-month period ended January 31, 2009, the Corporation made the following acquisitions:

Operating sector	Acquisition	Date of acquisition
Marketing Communications	100% of the shares of Conversys, first Canadian provider of online publication.	January 21, 2009
	75% of the shares of Redwood Custom Communications, North America's leading custom communications provider.	November 18, 2008
Media	100% of the shares of That's the spirit.com, marketing and promotions consulting company.	December 12, 2008

(in millions of dollars)		Total
Assets acquired		
Working capital, net	\$	2.8
Property, plant and equipment		2.1
Goodwill (tax basis of nil)		6.3
	\$	11.2
Liabilities assumed		
Long-term debt	\$	0.4
Other liabilities		0.3
Future income tax liabilities		0.3
		1.0
	\$	10.2
Consideration		
Cash paid	\$	10.6
Cash in acquired operations		(0.5)
		10.1
Short-term liabilities		0.1
	\$	10.2

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

PLM Group Ltd

For the three months period ended January 31, 2009, the Corporation has paid an amount of \$1.6 million. This amount was included in the short term liabilities as at October 31, 2008.

15. Commitments

Building and machinery and equipment

The Corporation is committed to acquire machinery and equipment and to complete the construction of a building. As at January 31, 2009, these commitments represented \$183.7 million, including US\$61.1 million, €64.0 million and C\$5.8 million. Minimum payments required in 2009 and 2010 are the equivalent of \$131.3 million and \$52.4 million, respectively.

16. Segmented information

In November 2008, the Corporation announced it had implemented a new operating structure to support its growth strategy by creating the Marketing Communications sector. The operating sectors have been modified to reflect the implementation of that new operating structure. The comparative figures have been reclassified in order to present the information in accordance with the new sectors.

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

(in millions of dollars)	Three months ended	
	January 31	
	2009	2008
Revenues		
Printing sector	\$ 379.5	\$ 386.6
Marketing Communications sector	106.7	82.2
Media sector	139.9	146.8
Other activities and unallocated amounts	1.7	4.3
Inter-segment sales		
Printing sector	(16.0)	(16.6)
Marketing Communications sector	(2.8)	(2.5)
Media sector	(4.9)	(4.8)
Total inter-segment sales	(23.7)	(23.9)
	\$ 604.1	\$ 596.0
Operating income before amortization, impairment of assets and restructuring costs		
Printing sector	\$ 40.9	\$ 60.6
Marketing Communications sector	8.6	7.9
Media sector	11.8	20.3
Other activities and unallocated amounts	(3.0)	(6.4)
	\$ 58.3	\$ 82.4
Operating income (loss)		
Printing sector	\$ (9.0)	\$ 39.5
Marketing Communications sector	0.7	2.2
Media sector	6.7	14.4
Other activities and unallocated amounts	(4.4)	(7.7)
	\$ (6.0)	\$ 48.4
Acquisitions of property, plant and equipment ⁽¹⁾		
Printing sector	\$ 53.7	\$ 26.8
Marketing Communications sector	3.2	5.0
Media sector	2.3	1.5
Other activities and unallocated amounts	1.2	0.4
	\$ 60.4	\$ 33.7
Amortization of property, plant and equipment and intangible assets		
Printing sector	\$ 20.9	\$ 21.1
Marketing Communications sector	6.7	5.7
Media sector	4.1	4.0
Other activities and unallocated amounts	1.3	1.3
	\$ 33.0	\$ 32.1

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

16. Segmented information (continued)

(in millions of dollars)	As at January 31 2009	As at October 31 2008
Assets		
Printing sector	\$ 1,244.8	\$ 1,146.5
Marketing Communications sector	472.0	610.0
Media sector	791.8	774.1
Other activities and unallocated amounts	43.5	84.4
	\$ 2,552.1	\$ 2,615.0
Goodwill		
Printing sector	\$ 133.5	\$ 133.4
Marketing Communications sector	207.9	200.9
Media sector	507.7	507.4
Other activities and unallocated amounts	0.9	0.9
	\$ 850.0	\$ 842.6

17. Subsequent events

Financing from Solidarity Fund QFL

On February 6, 2009, the Corporation closed a private placement offering of \$100 million comprised of two unsecured debentures of \$50 million each with the Solidarity Fund QFL. The first has a term of five years and bears interest, payable every six months, at a rate of 8.06%. The second has a term of ten years and bears interest, payable every six months, at a rate of 6.77% for the first two years. The Solidarity Fund QFL has a call option on this second debenture on its second anniversary.

Extension of the securization program

On February 17, 2009, the Corporation obtained an extension of its \$300 million securitization program for an additional year. The program, established in 2001, now matures in August 2010. Transcontinental will continue to sell some of its accounts receivable on a continuous basis to a trust managed by RBC Capital Markets. Terms and conditions of this extension reflect current market conditions.

Rationalization measures

On February 18, 2009, the Corporation announced major rationalization measures to address the recession. Details of these measures and the costs related to them are presented in Note 5.

18. Comparative figures

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