PRESS RELEASE

For Immediate Release

TRANSCONTINENTAL CONTINUES TO IMPROVE PROFITABILITY
ENDS YEAR WITH STRONG FOURTH QUARTER

In the fourth quarter 2009

- Growth of 15% in adjusted operating income before amortization[1] despite 9% decrease in revenues compared to 2008.
- Growth of 12% in adjusted net income applicable to participating shares[2], which excludes unusual items; on a per-participating-share basis, adjusted net income applicable to participating shares[3] rose 12%, from $0.59 to $0.66
- Growth in net income applicable to participating shares, from a loss of $94.3 million to a gain of $43.1 million, primarily due to unusual items; on a per-participating-share basis, net income increased from a loss of $1.17 to a gain of $0.53.

For fiscal 2009

- Decrease of 3% in adjusted operating income before amortization[4] and 6% in revenues compared to fiscal 2008.
- Decrease of 7% in adjusted net income applicable to participating shares[5], which excludes unusual items; on a per-participating-share basis, adjusted net income applicable to participating shares[6] decreased 6%, from $1.72 to $1.61.
- Decrease in net income applicable to participating shares, which went from $6.6 million to a loss of $82.3 million, primarily due to unusual items such as write-off of goodwill; on a per-participating-share basis, net income declined from a gain of $0.08 to a loss of $1.02.
- Rapid implementation of a rationalization plan which generated recurring cost-savings of about $110 million annually, including close to $80 million in 2009.
- Creation of the Marketing Communications Sector dedicated to new services in one-to-one advertising and new communication platforms.
- Acquisitions of Redwood Custom Communications, a leading North American company in multi-platform custom communications, and Conversys, the leading Canadian e-flyer provider.
- Continuation of digital development in the Media Sector, including the highly successful launch of weblocal.ca, a Canada-wide search site for local communities.
- Start of *San Francisco Chronicle* printing under a 15-year contract and implementation of two new six-year printing contracts with Rogers Communications.

[1-2-3-4-5-6] Please see “Reconciliation of Non-GAAP Financial measures” on page 8.

- Conclusion of financing arrangements totalling $888 million, including $100 million from a preferred share placement.

Montreal, December 15, 2009 – Cost savings of close to $80 million from the rationalization plan which Transcontinental quickly instituted to counter the recession and the multiple efficiency gains which resulted; start of major printing contracts, including those for the *San Francisco Chronicle* and Rogers Communications; ongoing investments over the past several years in technology, new media and brand development; and the solid performance of educational book publishing and door-to-door distribution operations: those are the main factors that enabled Transcontinental to improve its profitability from quarter to quarter in 2009 and to end the year with a strong fourth quarter. Reflecting this performance, adjusted operating income before amortization grew steadily during the year, culminating with 15% growth in the fourth quarter. Transcontinental also outdid its performance in 2008 in the past two quarters, despite the continued weakness in the economy.

"I am particularly proud of our operating performance in the fourth quarter—one of the best in our history—and the steady improvement in our financial results over the course of the year in very turbulent conditions," said François Olivier, President and Chief Executive Officer. "We are making it through this serious recession by doing better than most of our main competitors and gaining back much of the ground lost compared to 2008. We are dealing with the recession responsibly and with discipline. We also reacted right from the very start, and we did it in the Transcontinental way, calling on our people across the company to mobilize, be innovative and execute. They responded by coming up with new ways to improve efficiency and cut costs, and put forward original ideas for development. I want to thank them for their commitment, in a difficult time, to the interests of all employees and the long-term health of Transcontinental.

"We also signed financing agreements for a total of $888 million despite the tight credit situation, and we did so at competitive rates. I see this as acknowledgement by investors of our financial credibility, as well as their confidence in our growth strategy and prospects for the future. We plan to maintain our prudent balance between profits, costs, debt and investments.

Mr. Olivier continued, saying "the recurring cost savings of about $110 million a year achieved with our rationalization plan, our financial situation that allowed us in 2009—and will enable us in 2010—to further invest in our development, particularly in digital, and our decision to concentrate our new marketing communication services in a separate sector to encourage their expansion, put us in an excellent position to profit from the business opportunities that will arise in the next year in our continually evolving markets. Transcontinental is now more flexible and focused more than ever on its assets and strategic priorities. I am confident about the future."

As announced at the end of the third quarter, the Corporation has now decided to use the ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization as its primary indicator of financial leverage. Management also set the objective of maintaining this ratio within a target range of 2.00 to 2.50 and expects to achieve that target before the end of fiscal 2011. At October 31, the ratio was at 2.59. Furthermore, as at October 31, 2009, the Corporation's net funded debt to total capitalization ratio was 42%, within the range of 35% - 50% set by Management.

Financial Highlights

In the fourth quarter ended October 31, 2009, Transcontinental recorded consolidated revenues of $594 million down 9% from $653.3 million in the fourth quarter of 2008, while adjusted operating income before amortization increased 15%, from $108.3 million to $124.3 million. The favourable fluctuations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts contributed a positive $0.8 million to revenues and $3.1 million to operating income before amortization.

Net income applicable to participating shares went from a loss of $94.3 million in 2008 to a gain of $43.1 million in 2009, primarily due to the write-off of goodwill related to direct mail operations in the United States and a restructuring charge recognized in the fourth quarter 2008 financial results; on a per-participating-share basis, net income applicable to participating shares rose from a loss of $1.17 to a gain of $0.53. Adjusted net income applicable to participating shares, which excludes asset impairment, rationalization costs and impairment of goodwill and intangible assets, increased 12%, from $47.9 million to 53.7 million; on a per-participating-share basis, adjusted net income applicable to participating shares grew 12%, from $0.59 to $0.66.

For the 12-month period ended October 31, 2009, this strong fourth quarter largely offset the decline in the first two quarters during the middle of the recession. Consolidated revenues were down 6%, from $2.43 billion to $2.29 billion, while adjusted operating income before amortization decreased 3%, from $361.5 million to $349.3 million. The positive impact of the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts added $63.2 million to revenues and $16.6 million to adjusted operating income before amortization. The decline in direct mail activities in the United States accounts for 43% of the decrease in the Corporation's consolidated revenues compared to fiscal 2008, the remainder mainly stems from the disposal of printing and publishing assets, and lower advertising and marketing spending.

Net income applicable to participating shares went from $6.6 million in 2008 to a net loss of $82.3 million in 2009. This decrease is principally due to the impairment of intangible assets, the write-off of assets and the cost of rationalization measures, as well as the write-off of goodwill, which were charged to fiscal 2009 financial results. Net of income taxes, these unusual items totalled $212.5 million for fiscal 2009 as a whole, or $2.63 per participating share. On a per-participating-share basis, net income applicable to participating shares declined from a gain of $0.08 to a loss of $1.02, down $1.10.

Adjusted net income applicable to participating shares, which excludes unusual items, decreased 7%, from $140.3 million to $130.2 million. On a per-participating-share basis, adjusted net income applicable to participating shares decreased 6%, from $1.72 to $1.61.

For more detailed financial information, please see *Management's Discussion and Analysis for the Fiscal Year Ended October 31, 2009* and the full financial statements at www.transcontinental.com, under "Investors."

Rationalization Plan

The Corporation quickly instituted a rationalization plan with the goal of matching Transcontinental's production capacity to demand in each of its markets and the decreased advertising revenues of its magazines and newspapers. Five printing plants were merged or consolidated, two others were sold, eight publications were stopped and two were sold. Close to 2,000 jobs were eliminated, half of them in the direct mail operations in the United States. A set of other temporary measures, ranging from targeted control of hiring to unpaid leaves and shorter workweeks were also instituted across the organization. Senior executives contributed by taking two weeks of unpaid leave but still working, which represents a 4% reduction in salary. In all, the recurring cost savings amounted to about $110 million, of which close to $80 million was achieved in 2009.

Operating Highlights

In 2009, Transcontinental continued to implement it unique two-pronged growth strategy: build the new and strengthen promising traditional activities. This strategy is in line with its mission to help businesses and advertisers identify, reach and keep target consumers through a global and integrated offering. Transcontinental defines itself as a supplier of custom marketing solution on print or digital communications platforms.

Below, in light of this strategy, are the sector highlights for fiscal 2009.

Marketing Communications Sector

Transcontinental's development going forward will be strongly influenced by its ability to offer its customers new services in one-to-one advertising (database analytics, permission-based email marketing and custom communications), as well as new communications platforms. Fiscal 2009 was rich in actions and concrete achievements in this area.

- Creation, in November 2008, of the Marketing Communications sector. The purpose of this sector is to augment Transcontinental's integrated offering by providing customers with solutions based on the development of new one-to-one marketing services and new communication platforms.

- Appointment of Christian Trudeau as President of the Marketing Communications sector. He started his duties in April 2009. From 2004, Mr. Trudeau was President and CEO of Centria Commerce, a company that specializes in e-commerce. Prior to that he was President and CEO of BCE Emergis, a North American leader in e-commerce, and also held executive positions with Bell Canada and the Montreal Stock Exchange.

- The service offering in this new sector was enhanced by two strategic acquisitions in fiscal 2009: Toronto-based Redwood Custom Communications, a North American leader in custom communications, specializing in turnkey solutions that provide personalized content for print and digital; and Conversys, based in London, Ontario, Canada's leading provider of e-flyers, specializing in the repurposing and adaptation of print content into interactive Web-based content.

- As fiscal 2009 came to an end, Management decided to dedicate the Marketing Communications sector to its principal role, concentrating its new services in this sector and transferring its Canadian commercial printing and direct mail operations to the Printing sector. This will help intensify the new and solidify the Corporation's traditional core business.

On the basis of the most recent restructuring in November 2009, the Marketing Communications sector has annualized revenues of about $120 million and more than 800 employees.

Media Sector

The Media sector covers the publishing of magazines, newspapers and books, door-to-door distribution and the management of over 120 Internet sites and portals. This sector has also been very active at building the new while strengthening its core activities.

- In 2009, Transcontinental continued to invest in strategic development of the Media sector, focussing on Web-based services. One of the highlights was the launch of weblocal.ca, a Canada-wide search site that offers local advertisers a showcase on the Internet and helps consumers quickly find, rate and comment on local services. The portal has already exceeded two million unique visitors per month.

- With its strong brands and popular content, Transcontinental has been very successful over the past several years at broadening its presence on the Internet. In 2009, for instance, *Coup de pouce* magazine used its 25th anniversary to launch a new, interactive and consumer-friendly site. For their part, *The Hockey News*, *Canadian Living*, the daily *Métro* paper and the financial and business news publications *Les Affaires*, *Finance et Investissement* and *Investment Executive* can now be accessed via mobile technology.

- In addition to a revenue model based on selling advertising pages in its newspapers and magazines, Transcontinental is now also selling advertising banners on its websites and subscriptions on its portals such as weblocal.ca. Transcontinental reported $27.5 million in revenues from its websites, up 30% over 2008, and these Web-based activities are profitable. Its 120 sites and portals reach an average of more than six million unique visitors per month.

- The creation of the 360 Solutions sales team is a particularly promising development. The goal of this team is to present an integrated offering of print products and digital tools from the Media sector, and even the rest of the company, to major customers. The team already has a number of solid achievements to its credit.

- Door-to-door distribution activities have continued to grow despite the recession, and Publisac (Ad-Bag) continues to prevail as a highly effective and profitable marketing tool for retailers. A number of new clients have been added over the past year. Note that since January 2008, Ad-Bag is made out of oxo-biodegradable plastic certified by Environmental Products Inc. (EPI®).

- Chenelière Éducation, Canada's leading publisher of French-language educational books, had another excellent year in 2009 due in part to the educational reform in Québec. It has won numerous awards for the quality of its products and services. For its part, the daily paper *Métro* is probably one of the only dailies in North America whose revenues have grown, confirming its status as the most-read paper on the Island of Montreal.

The Media sector generated revenues of $607 million in 2009 and has 3,100 employees. The president is Natalie Larivière.

Printing Sector

To promote efficiency, printing activities are now grouped into a single sector, which is the Corporation's most important source of revenues. In 2009, the continuous improvement of efficiency and the introduction of state-of-the-art technologies were central to the advances in this sector.

- The Printing sector has always been distinguished by its efficiency and ability to execute. In 2009, in response to the recession, it embarked on a major review of its assets so that it could systematically adjust costs to demand, plant by plant, group by group and region by region. In addition to many local rationalization measures, units were grouped together and less strategic assets were sold or closed.

- In 2009, capital expenditures were concentrated on the initiatives that were either absolutely necessary or strategic. Transcontinental did, however, continue to benefit from some $500 million in capital investments over the past three years, which put the organization at the head of one of the most modern platforms in North America, particularly with respect to newspapers, flyers and magazines. Its state-of-the-art equipment strengthened its lead in each of its niches. Moreover, two new exclusive six-year contracts with Rogers Communications took effect early in 2009: the first, to print all of Rogers' magazines, and the second, to produce and print its marketing products. These two major gains are added to the full-year impact of the Shoppers Drug Mart-Pharmaprix contract and to the many new customers added in flyer and newspaper printing.

- The printing and distribution activities for the *San Francisco Chronicle*, under a 15-year contract worth US$1 billion (excluding paper), started in July at the new plant in Fremont, California. Transcontinental invested about US$230 million in this new plant which is equipped with the latest technologies allowing for maximum use of colour and glossy paper, a first in the United States. Moreover, the modernization of the Transcontinental Transmag plant in Montreal was completed on time and the new presses started rolling in the second half of fiscal 2009. This required an investment of about $60 million.

- The establishment of a unique Canada-wide newspaper and flyer printing network, a first in Canada, is on schedule. This platform will offer *The Globe and Mail*, under an 18-year and $1.7 billion contract starting at the end of 2010, the possibility of putting colour on each page; it also makes the latest print technologies available to Transcontinental's retail customers. This hybrid manufacturing platform, which represents a total investment of $175 million, is a new way for Transcontinental to specialize its plants and will give it a key edge in terms of synergy and operating efficiency.

On the basis of the most recent restructuring in November 2009, the Printing sector has annualized revenues of $1.57 billion and 8,600 employees. Its president is Brian Reid. Promoted to this position in November 2008, Mr. Reid has been with Transcontinental since 1992. From 2003, he was Senior Vice President of the catalogue and magazine printing group in Canada and the United States.

Reconciliation on 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
(unaudited)

	For the quarters ended October 31		For the years ended October 31	
(in millions of dollars, except per share amounts)	2009	2008	2009	2008
Net income (loss) applicable to participating shares	$ 43.1	$ (94.3)	$ (82.3)	$ 6.6
Dividends on preferred shares	0.5	-	0.5	-
Non-controlling interest	-	-	0.3	(0.4)
Income taxes	12.7	(54.8)	(2.7)	(31.7)
Discount on sale of accounts receivable	0.6	2.2	4.5	9.3
Financial expenses	14.2	7.9	41.0	30.5
Impairment of goodwill and intangible assets	3.3	192.1	172.6	192.1
Impairment of assets and restructuring costs	11.7	23.0	78.0	27.4
Adjusted operating income	86.1	76.1	211.9	233.8
Amortization	38.2	32.2	137.4	127.7
Adjusted operating income before amortization	$ 124.3	$ 108.3	$ 349.3	$ 361.5
Net income (loss) applicable to participating shares	$ 43.1	$ (94.3)	$ (82.3)	$ 6.6
Impairment of assets and restructuring costs (after tax)	7.5	15.4	54.6	18.4
Impairment of goodwill and intangible assets (after tax)	3.1	126.8	157.9	126.8
Unusual adjustments to income taxes	-	-	-	(11.5)
Adjusted net income applicable to participating shares	53.7	47.9	130.2	140.3
Average number of participating shares outstanding	80.8	80.8	80.8	81.7
Adjusted net income applicable to participating shares per share	$ 0.66	$ 0.59	$ 1.61	$ 1.72
Cash flow related to operating activities	$ 82.8	$ 152.4	$ 78.8	$ 284.0
Changes in non-cash operating items	(16.0)	74.8	(168.7)	(12.9)
Cash flow from operating activities before changes in non-cash operating items	$ 98.8	$ 77.6	$ 247.5	$ 296.9
Long-term debt			$ 819.0	$ 602.1
Current portion of long-term debt			7.8	194.3
Cash and cash equivalents			(34.7)	(90.7)
Net indebtedness			$ 792.1	$ 705.7

Sustainable Development

Transcontinental has made sustainable development a priority.

After adopting a forward-looking Paper Purchasing Policy that was more stringent than current standards and certifications, Transcontinental began working with suppliers and customers to help them concretely, as a team, tackle sustainability together. The results of this joint effort continue to be very encouraging. From 2008 to 2009, the use by customers of “Gold” category paper, the best in terms of compliance with sustainable forest management, increased 55%. That follows on a 37% increase between 2007 and 2008; nearly half of our printed products use paper from the Gold category.

Moreover, in 2009, Transcontinental’s 42 printing facilities in Canada and the United States all obtained triple forest product chain-of-custody certification. This guarantees that the paper manufacturing process complies with the most stringent standards for sustainable forest management. Note also that the new Fremont plant, which prints the *San Francisco Chronicle*, is one of the first printing plants in North America to be built to Leadership in Energy and Environmental Design (LEED) standards.

Lastly, this year the Corporation produced its first sustainable development report, prepared using the methodology and guidelines recommended by Global Reporting Initiative (GRI), a highly respected source for methodology. A summary will be available in the 2009 Annual Report and the full report will be available on the Transcontinental site at transcontinental.com in February 2010.

Sustainable development incorporates social progress, economic development and protection of the environment. In 2009, Transcontinental once again made it into the select club of the Best 50 Corporate Citizens, ranked by *Corporate Knights* magazine. The magazine defines a corporate citizen as "a company that fulfills its part of the social contract, while innovating solutions to pressing social and environmental challenges of our time." Transcontinental has been part of this group since 2004.

Financing Activities

In a general context of tight credit, Transcontinental successfully completed, primarily in the second half of fiscal 2009, several refinancing and financing arrangements. These agreements, totalling $888 million, are as follows:

- a private placement of $100 million in unsecured debentures underwritten by the Solidarity Fund QFL, a development capital fund based in Quebec;
- the extension, to August 2010, of the $300 million accounts receivable securitization program put in place in 2001;
- renewed bank credit facilities of $150 million for one year with its bank syndicate; on December 4, 2009, the Corporation reimbursed and cancelled these credit facilities;
- a $100 million credit facility (five years) from the Caisse de dépôt et placement du Québec;
- a $50 million term loan (five years) from the Société générale de financement du Québec;
- a six-year financing agreement for 55.6 million euros ($88.4 million) with major European bank HypoVereinsbank, to acquire production equipment over the next two years;
- and lastly, placement of cumulative rate reset first preferred shares for gross proceeds of $100.0 million.

Management sees these agreements as investor acknowledgement of Transcontinental's financial credibility, as well as concrete evidence of their confidence in the Corporation's growth strategy and prospects.

Corporate Affairs

On October 8, Transcontinental announced the appointment of Pierre Fitzgibbon to the Board of Directors of the Corporation. President and Chief Executive Officer of Atrium Innovations, Mr. Fitzgibbon has enjoyed a 30-year career in public companies and financial institutions and will bring the benefit of his experience to Transcontinental. In another development, J.V. Raymond Cyr decided to leave the Board after 12 years of invaluable service. Over the years, Mr. Cyr contributed to Transcontinental's growth with outstanding professionalism. The Chairman of the Board thanks him on his own behalf and on behalf of all shareholders.

Dividend

At its December 15, 2009 meeting, the Corporation's Board of Directors declared the quarterly dividend of $0.08 per participating share on Class A Subordinate Voting Shares and Class B shares. These dividends are payable on January 28, 2010 to participating shareholders of record at the close of business on January 8, 2010. On an annual basis, this represents a dividend of $0.32 per common share.

Furthermore, at the same meeting, the Board also declared a quarterly dividend of $0.4854 per share on cumulative 5-year rate reset first preferred shares, series D. These dividends are payable on January 15, 2010.

Additional Information

Upon releasing its results for fiscal 2009, 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 the Corporation's Web site at www.transcontinental.com, on the Home Page of the Investors section. The broadcast will be archived for 30 days. To join the call, dial 416-644-3414 or 1 800-733-7571. For media requests for information or interviews, please contact Sylvain Morissette, Vice President, Corporate Communications of Transcontinental, at 514-954-4007.

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 in Mexico, and sixth-largest in North America. It is also the country's leading publisher of consumer magazines and French-language educational resources, the 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, e-flyers, email marketing, and custom communications. Transcontinental is a growth-oriented 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, TCL.PR.D) has approximately 12,500 employees in Canada, the United States and Mexico, and reported revenue of C$2.3 billion in 2009. 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, structural changes in its industries, exchange rate, availability of capital, energy costs, increased competition, as well as the Corporation's capacity to implement its strategic plan and rationalization plan, engage in strategic transactions and integrate acquisitions into its activities. The risks, uncertainties and other factors that could influence actual results are described in the *Management's Discussion and Analysis* and *Annual Information Form*.

The forward-looking information in this release is based on current expectations and information available as of December 15, 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.

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Management's Discussion and Analysis

For the year ended October 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 December 15, 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 25.

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 acquisition 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.

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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: credit risks, security of data, market dynamics, liquidity, financing 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, more particularly the U.S. dollar, the euro and the Mexican peso; the impact from raw material and energy prices; the seasonal and cyclical 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 develop new opportunities through our strategy; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete strategic transactions; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See "Risks and Uncertainties" for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of December 15, 2009.

BUSINESS SUMMARY OF FISCAL 2009

In fiscal 2009, despite the negative impact of the North American recession and the transformations affecting our printing and publishing industries, we generated an operating income before amortization, asset impairment, restructuring charge and impairment of goodwill and intangible assets that was only 3.4% less than in fiscal 2008. Furthermore, our financial results for each quarter in fiscal 2009 improved steadily, evidence of stabilization in the downward pressure on demand for our printing and publishing products and the greater efficiencies achieved through our rationalization measures.

However, the negative impact of the above factors reduced revenues by 5.5% against 2008. In effect, although recently we have observed some improvement in the rate of deterioration in relation to our operations most affected by the economic situation, they were hard hit in 2009. This was true particularly of our direct mail operations, and, to a lesser extent, our marketing products printing and magazine publishing, as well as our printing of magazines, books and catalogues. However, in fiscal 2009, the revenue decline was much less than for most of our peers, due mainly to our diversified operations—our distribution operations and educational book publishing division generated higher revenues than in fiscal 2008—and to the contribution of acquisitions, gains in new customers and an increase in market share, which enabled us to maintain our lead in most of our markets, and to our diversified client base and the effects of the exchange rate.

Early in the fiscal year we implemented rationalization measures in our U.S. direct mail operations in order to cope with the fallout from the financial crisis, which drove down demand significantly in this market. In addition, since we had prepared for an eventual economic slowdown, we were able to react effectively when the North American recession struck. Our rationalization plan announced in February 2009 was deployed promptly and our cost-reduction measures had a significant impact on our fiscal 2009 results. For the Corporation as a whole, we estimate we achieved cost savings of close to $80 million for fiscal 2009 and close to $110 million on an annualized basis. However, our direct mail operations in the United States bore the brunt of the downturn due to the sharp drop in demand from financial institutions, which account for a significant part of our revenues in this business. Net of the paper effect, the exchange rate effect and divestitures and closures, revenues from our direct mail operations were down 46.0% compared to fiscal 2008 and accounts for 43.2% of the decrease in the Corporation's consolidated revenues for fiscal 2009 compared to 2008.

At the operational level, the printing of the *San Francisco Chronicle* started successfully on July 6 under an exclusive 15-year agreement signed with Hearst Corporation in 2006. Our disciplined management of this project enabled us to deliver on time, and the state-of-the-art technologies used in our new plant in Fremont, California allow us to produce higher quality products with maximum efficiency; they also provide us with a flexible platform that can meet the needs of our publishing and retail customers.

In fiscal 2009, the Corporation concluded several financing and refinancing agreements, despite the financial crisis which practically paralyzed the markets for several months. We also completed a placement of 4,000,000 cumulative 5-year rate reset first preferred shares, series D, for gross proceeds of $100.0 million.

Highlights of fiscal 2009

- Revenues for fiscal 2009 were down 5.5% from fiscal 2008, from $2,429.3 million to $2,294.6 million. This decrease is mainly due to the financial crisis, which particularly affected our direct mail operations in the United States, and the North American recession, which reduced print volumes and, to a lesser extent, revenues from magazine and newspaper publishing. The decrease in revenues was limited by the contribution from printing the *San Francisco Chronicle*, new contracts with Rogers and our new marketing communications services, and the growth in our distribution operations and our educational book publishing.
- Operating income before amortization, asset impairment, restructuring charge and impairment of goodwill and intangible assets was down 3.4%, from $361.5 million to $349.3 million. The decrease stems primarily from the lower revenues, partially offset by the impact of our rationalization plan, and the contribution from acquisitions, divestitures and closures, as well as the positive effect of the exchange rate.
- Adjusted operating income margin before amortization increased, from 14.9% in 2008 to 15.2% in 2009. The increase is mainly due to our rationalization measures, which led to an improvement in our operational efficiency.
- Net income applicable to participating shares was down $88.9 million, from $6.6 million in 2008 to a loss of $82.3 million in 2009. The drop stems mainly from an unfavourable variation in unusual items, related primarily to asset impairment, restructuring costs and impairment of goodwill and intangible assets of $212.5 million after tax compared to $145.2 million in 2008, and the increase in financial expenses. On a per-share basis it decreased, from net income applicable to participating shares of $0.08 to a net loss of $1.02.
- Adjusted net income applicable to participating shares, excluding asset impairment, restructuring costs, impairment of goodwill and intangible assets and unusual adjustments to income taxes, was down $10.1 million, or 7.2%, from $140.3 million in 2008 to $130.2 million in 2009. On a per-share basis, it was down 6.4%, from $1.72 to $1.61. The lower decrease in percentage reflects the positive impact of the Corporation's share buy-back program completed in 2008. Net of the positive impact of the exchange rate for fiscal 2009, adjusted earnings per share would have been $1.52, which would have been a decrease of 11.6% compared to fiscal 2008.
- We successfully started printing the *San Francisco Chronicle* daily paper at our new plant in Fremont, California, under an exclusive 15-year agreement signed with Hearst Corporation in 2006.
- Through our rationalization plan, we achieved cost savings of close to $80.0 million, or about $110.0 million on an annualized basis; this involved reducing production capacity and eliminating jobs.
- We made strategic investments of about $9.2 million (of which $4.9 million was capitalized) in our Media sector. Our Web sites have registered close to 4,500,000 unique visitors per month, and our share of the Canadian Internet market has increased from 14.7% to 18.1% (according to ComScore).
- We acquired Redwood Custom Communications, a North American leader in multi-platform custom communications. We also acquired Conversys, Canada's leading supplier of electronic flyers.
- In December 2008, we signed a second six-year contract with Rogers Communications to produce their marketing products; we had already started printing all of their magazines in February 2009.
- We arranged several financing and refinancing agreements during the year: we extended our $300 million securitization of receivables program for an additional year and completed a private placement of $100 million with the Solidarity Fund QFL. We also renewed bank credit facilities of $150 million for one year and obtained a $100 million term loan from the Caisse de dépôt et placement du Québec (CDPQ). Lastly, we received a $50 million term loan from the Société générale de financement (SGF), as well as additional financing of 55.6 million euros ($88.4 million) from HypoVereinsbank.
- We closed a placement of 4,000,000 cumulative 5-year rate reset first preferred shares, series D for gross proceeds of $100.0 million.
- The Corporation maintained its quarterly dividend at $0.08 per share for its Class A and Class B shares.
- As at October 31, 2009, the ratio of net indebtedness (including use of the securitization program) to adjusted operating income before amortization was 2.59 (2.64 at October 31, 2008).

- Early in the year, the Corporation announced that it was introducing a new operating structure to support its growth strategy. The new sector, Marketing Communications, will evolve continually and will focus primarily on the development of multi-platform marketing services.

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 in Mexico, and sixth-largest in North America. It is also the country's leading publisher of consumer magazines and French-language educational resources, the 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, e-flyers, email marketing, and custom communications. Transcontinental is a growth-oriented 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, TCL.PR.D) has approximately 12,500 employees in Canada, the United States and Mexico, and reported revenue of C$2.3 billion in 2009.

STRATEGY

Our ultimate goal is to ensure the 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 and financial management, and to foster a culture of continuous improvement. These underlying principles, which are reflected in our *Evolution 2010* business project, have served us well to date.

Having said this, Transcontinental's mission is to help its 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 marketing dollars. In fact, our vision is to build a profitable, North American leadership position as a communications solutions provider.

Trends in the Marketplace

The Corporation does business in industries that are transforming at a rapid rate. Unprecedented changes are sweeping the publishing and printing industries, presenting both opportunities and risks. Marketing is moving from a mass marketing approach to a one-to-one targeted approach as marketers focus more and more on return on investment and measurability. As such, campaigns are becoming more and more targeted, as advertisers seek to establish and develop a relationship with their customer base. Concurrently, the rise of new media, digital platform and changing consumer habits coupled with the increasing availability of data and technology to make better use of this data, is increasing audience fragmentation, personalization of content, user-generated content and web-based communities. The velocity of certain trends has increased. This is especially true for the rate of adoption of digital technologies and the ensuing migration of advertising dollars toward online platforms.

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

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

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

Our Two-Pronged Strategy

In light of these transformations in our industries, we have re-focused 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 digital and marketing communications. That is how we believe we can maximize our growth potential over the medium and long term.

1) Build on our existing business

Throughout our history we have built a solid foundation for future growth. We have core assets that can help us grow new services: we master print-based communication products, we have strong brands and the ability to distribute relevant content with targeted multi-channel reach and we are moving towards becoming a customer centric organization, service advertisers as well as end-consumers. Below is a list of selected accomplishments in fiscal 2009:

- We started printing the *San Francisco Chronicle* daily paper at our new plant in Fremont, California under a 15-year contract signed in 2006 with Hearst Corporation. The project was completed on schedule and the startup was a success.
- We signed a second six-year contract with Rogers Communications for the production of its marketing products, in addition to having taken over the printing of all of the Rogers magazines in February 2009.
- We completed our capital improvements to Transcontinental Transmag, one of our newspaper printing plants, which is now equipped with state-of-the-art technology that gives us improved colour printing capacities, higher quality and more efficient production.

In sum, our existing business is solid and generates considerable cash flow. We believe we can generate earnings above the industry average given our strong competitive position and our investments in our network of state-of-the-art printing plants.

2) Develop new opportunities in digital and marketing communications

Transcontinental derives the majority of its revenues from the marketing budgets of its customers. For the future, in addition to building on our existing business, we are developing new opportunities focused on new digital platforms, one-to-one advertising and an integrated service offering. Below is a list of our selected accomplishments in fiscal 2009:

- Signed a number of major clients who will benefit from our marketing communication services. While this new business comes from a wide range of industries, the new contracts all follow a common thread: they focus on Transcontinental's ability to provide marketers with a comprehensive set of solutions that are developed to address customers' diverse business needs and expand their marketing mix. Selected customers include Reader's Digest Canada, Shopping Channel, Shoppers Drug Mart - Pharmaprix, Zellers and Purolator Courier.

- Acquired Conversys, the leading e-flyer provider for a number of Canadian retailers. The acquisition enriches 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.

- Acquired Redwood Custom Communications, a North American leader in custom communications on multiple platforms and a full service marketing and communications company that creates turn-key custom publishing and branded content solutions for both print and digital. 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 Marketing Communications Sector, such as database analytics, premedia, email marketing and one-to-one marketing.

- Invested approximately $9.2 million in strategic investments in our Media sector, mainly related to our digital assets.

- Weblocal.ca, our Canada-wide search site for local communities launched in late October 2008, has continued to attract consumers over the past year and now has more than two million visitors a month.

- The Marketing Communications Sector won a total of 25 medals at the Magnus Opus Awards and four awards at the 2009 Pearl Awards, two North American competitions which recognize excellence in content, design, digital and strategy in custom publishing.

- The mobile applications that we launched in September 2008 for the popular magazine *The Hockey News* have been a resounding success. The Hockey News Mobile has become a must-have companion for close to 400,000 hockey fans, who can download timely hockey scores and rich content onto their iPhone or BlackBerry. To a lesser degree, mobile apps have also been introduced for the daily paper *Métro*, *Elle Canada, Canadian Living, Les Affaires, Finance et Investissement* and *Investment Executive*, and the number of downloads is growing.

In sum, we are ramping up the development of our new integrated service offering for advertisers. The solid foundation we have built over the years through our operations, our niche-based strategy and our exploitation of the new directions emerging with the new technologies has put us in a good competitive position to take advantage of opportunities as they arise over the long term. In fact, we plan to deploy these new services at a much faster rate in the coming years.

All this notwithstanding, some challenges will have to be dealt with so that we can maximize the growth of these new services. We must put more emphasis on the development of marketing strategies for our customers. We must also become increasingly integrated in our selling process. Lastly, we must change the market's tendency to consider us only in our role as printer and publisher.

While the current economic environment is somewhat tempering the growth of these new services, we have succeeded in winning many new contracts, which speaks to the relevance of our strategy and the transformation we are currently making in our selling process so that we present a more complete service offering to our customers.

New Structure

In early fiscal 2009, we announced the establishment of a new structure to support the Corporation's growth strategy through the creation of the Marketing Communications Sector. At that time, the strategy involved accelerating the development of new services based on advertising personalization and new communication platforms, while continuing to strengthen and broaden the Corporation's publishing and printing services through its two other sectors.

Subsequently, after a strategic review, we reorganized our Marketing Communications and Printing sectors, and the new structure took effect on November 1, 2009. As a result, all of our Canadian commercial printing and direct mail operations in the Marketing Communications Sector were transferred to the Printing Sector. The aim of this reorganization was to make the development of new integrated and one-to-one marketing communication solutions on multiple platforms the fundamental mission of a separate sector, with print production being concentrated in another sector.

The Printing sector now comprises our services to publishers of newspapers, books, magazines and catalogues, our marketing product printing business, our Mexican operations, our U.S. and Canadian direct mail operations, and our services for retailers. The Marketing Communications sector is now consolidating its offer through a new model based on growing business through specialization. This sector now has five divisions:

- Custom communications: creating custom content and one-to-one media programs by combining a journalistic offering and high-level marketing, to help clients achieve their goals of building a solid relationship with their customer base
- Premedia: offering solutions aimed at creating, managing and transforming visual content for use on multiple platforms.
- One-to-one marketing solutions: developing and implementing one-to-one dialogue strategies so that customers can move from mass communication to highly personalized communication.
- Digital promotions: transforming print promotional material, i.e., flyers and catalogues, into enriched, user-friendly and interactive Web-based content that is distributed via multiple channels.
- Digital printing solutions: developing Internet marketing strategies tied in with digital printing.

As for the Media Sector, its four groups remain unchanged: Business and Consumer Solutions, Local Solutions, New Media and Digital Solutions, and Educational Book Publishing. This sector mainly focuses on two avenues of growth: offering content and solutions for Canadian women, and offering community newspaper publishing and distribution services for local communities.

Major Rationalization Measures

Since November 2008, we have 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., and the printing of marketing products, magazines, books and catalogues, as well as magazine publishing. Below is a summary of what has been accomplished in fiscal 2009:

- About 2,000 layoffs were instituted during the year, slightly more than the announced job cuts. About half of the jobs eliminated were in the United States.
- We ceased the publication of a few print titles, consolidated five printing plants, and sold two plants and two magazines.
- A set of other temporary measures have been initiated including a targeted control of hiring, unpaid leaves and reduced work weeks. The Corporation's senior managers 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 Board members have agreed to freeze their annual fees.

- Other measures were implemented throughout Canada, the United States and Mexico.

All of the announced rationalization measures were implemented before the end of fiscal 2009. The resulting cost savings are in the order of $80.0 million for fiscal 2009 and close to $110.0 million on an annualized basis, more than initially expected. As a result, the total restructuring costs related to this program also slightly exceeded our initial projections.

Total costs related to this program amounted to $104.8 million before tax. For fiscal 2009, costs amounted to $78.0 million before tax, of which $21.1 million is non-cash as the table below illustrates.

RESTRUCTURING COSTS

(in millions of dollars)	2008	2009	Balance 2010	Total
Severances	7.7	40.4	0.9	49.0
Other costs	0.0	16.5	3.2	19.7
Total cash costs	7.7	56.9	4.1	68.7
Impairment of assets (non cash)	15.0	21.1	0.0	36.1
Total costs	22.7	78.0	4.1	104.8

Acquisitions

An intrinsic part of our strategy is to grow through strategic acquisitions. We are committed to maintaining a disciplined approach when making acquisitions. We ensure that the companies we acquire fit our stringent acquisition criteria: (1) fit our strategic plan (2) be profitable and growing (3) provide synergies with our operations (4) have good management and compatible corporate culture and (5) be accretive to earnings and EVC positive within a reasonable period of time. In fiscal 2009 we have made two strategic acquisitions:

- Redwood Custom Communications, acquired in November 2008, is a North American leader in custom communications on multiple platforms. Redwood is a full service marketing and communications company and creates turn-key custom publishing and branded content solutions for both print and digital platforms. Redwood's offering includes data sciences, research and measurement, database marketing, variable printing, photo studio and premedia tools. This makes it an attractive complement to the services offered by Transcontinental's newly created Marketing Communications Sector.
- In January 2009, we acquired Conversys, Canada's leading supplier of electronic flyers. This enriched Transcontinental's existing print and interactive communication offering to major retailers. Conversys employs its multi-channel marketing services to help businesses increase their sales and interact more effectively with their customers by producing a continuous flow of content on a range of media, including websites, email and mobile technology. Conversys excels in its ability to provide content repurposing and hosting services to major retailers.

Evolution 2010

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

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

Financial Objectives	2006	2007	2008	2009	Analysis & Comments
Increase economic value creation (variance compared to previous year).	n/a *	($18 M)	($28 M)	($15 M)	We were unable to increase the economic value created. This was mainly due to the economic situation, the negative impact of the exchange rate, and capital expenditures required for our major projects (the *San Francisco Chronicle, Globe and Mail* and Transmag), which all required capital outlays without yet being able to fully contribute to earnings.
Grow sales organically by 5% on average per year.	0%	3%	2%	-11%	Organic growth is still lower than the 5% objective, mainly due to the North American recession and the turmoil it created in the publishing and printing industries in 2009. However, we believe that we will improve our performance going forward, since we will benefit from many new contracts, especially for the *San Francisco Chronicle* and *The Globe and Mail*.
Grow adjusted earnings per share excluding the foreign exchange impact by 10% on average per year.	n/a *	11%	19%	-11%	We have exceeded our objective since the launch of our business project, except in fiscal 2009 given the negative impact on our operations of the North American recession. However, we believe that our performance will improve in fiscal 2010 due to new business and the fact that we have maintained our lead in most of our niches.
Maintain a range of net debt to total capitalization ratio excluding securitization of 35% to 50%.	25%	29%	39%	42%	Our net debt to total capitalization ratio stands at 42%, within the range set by management. We are expecting this ratio to decrease slightly over the coming year, since capital investments will be lower and the *San Francisco Chronicle* project will generate additional cash flow, thereby reducing the Corporation's net indebtedness.
Invest $120 million on average per year in capital assets (excluding newspaper outsourcing projects).	$114 M	$92 M	$131 M	$86 M	Our capital expenditures, net of newspaper printing outsourcing projects, were lower than our objective this year, since several major projects were completed in 2008.

Sustain dividend growth.	19%	10%	13%	2%	Despite the fact that in 2009 a number of companies reduced their dividends as a result of the havoc created in our markets by the North American recession, our dividend remained at the same level as in 2008.

*Following the restatement of the financial statements in December 2007, this data is no longer available.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

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.

- *Compliance with 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

- Our new plant in Fremont, California is one of the first printing plants to be built to meet the Leadership in Energy and Environmental Design (LEED) standards in the United States and was recently certified LEED Silver.

- 42 of our facilities in Canada and the United States received triple chain-of-custody certification. 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: use of “Gold” and ‘’Gold Plus’’ ranked papers, which meet the highest standards of sustainable forest management, grew 55% from 2008 to 2009, following on an increase of 37% from 2007 to 2008, and now represents nearly half the paper consumed in our printing activities.

- Transcontinental 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 Ad-Bag (Publisac), 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.

- For the fourth year in a row, we are supporting the Carbon Disclosure Project (CDP) to reduce the production of CO_2. 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.

- At the beginning of fiscal 2009 we put in place an Energy Policy whose goal is to reduce energy consumption across the Corporation.

- 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

For fiscal years ended October 31, 2009
(unaudited)

(in millions of dollars, except per share data)

	2009	2008[1]	Change in %
Operations			
Revenues	$ 2,294.6	$ 2,429.3	-6%
Adjusted operating income before amortization [2] [3]	349.3	361.5	-3%
Operating income (loss)	(38.7)	14.3	n/a
Adjusted operating income [2] [4]	211.9	233.8	-9%
Net income (loss)	(81.8)	6.6	n/a
Net income (loss) applicable to participating shares [5]	(82.3)	6.6	n/a
Adjusted net income applicable to participating shares [2] [6]	130.2	140.3	-7%
Cash flow from operating activities before changes in non-cash operating items [2]	247.5	296.9	-17%
Cash flow related to operating activities	78.8	284.0	-72%
Investments			
Acquisitions of property, plant and equipment	261.9	228.7	15%
Business acquisitions [7]	14.4	67.3	-79%
Financial condition			
Total assets	2,549.7	2,615.0	-2%
Net indebtedness [2] [8]	792.1	705.7	12%
Shareholders' equity	1,115.2	1,103.0	1%
Net indebtedness (including utilization of securitization program) / adjusted operating income before amortization [3]	2.59	2.64	-2%
Net indebtedness ratio	42%	39%	3%
Per share data (basic)			
Net income (loss) applicable to participating shares [2] [5]	$ (1.02)	$ 0.08	n/a
Adjusted net income applicable to participating shares [2] [6]	1.61	1.72	-6%
Cash flow from operating activities before changes in non-cash operating items [2]	3.06	3.63	-16%
Cash flow related to operating activities	0.97	3.48	-72%
Dividends on participating shares	0.32	0.32	0%
Shareholders' equity	13.80	13.65	1%
Average number of participating shares outstanding (in millions)	80.8	81.7	
Number of participating shares at year-end (in millions)	80.8	80.8	

(1) Balance sheet items as at October 31, 2008 were adjusted (See Note 2 to the consolidated financial statements)

(2) Please refer to the section "Reconciliation of non-GAAP Financial Measures" on page 25 of this Management's Discussion and Analysis.

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

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

(5) Net income (loss) applicable to participating shares refers to net income (loss) minus accumulated dividends on preferred shares

(6) Adjusted net income applicable to participating shares refers to net income (loss) applicable to participating shares before impairment of assets and restructuring costs and impairment of goodwill and intangible assets less related income taxes and unusual adjustments to income taxes

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

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

DETAILED ANALYSIS OF FISCAL 2009 OPERATING RESULTS

Analysis of Main Variances – Consolidated Results
For the fiscal year ended October 31, 2009
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income (1)	%	Net income (loss) applicable to participating shares	%
Results - for Fiscal 2008	$ 2,429.3		$ 233.8		$ 6.6	
Acquisitions/Divestitures/Closures	51.6	2.1 %	3.6	1.5 %	0.9	13.6 %
Existing operations						
Paper effect	15.1	0.6 %	(0.7)	(0.3) %	(0.5)	(7.6) %
Exchange rate	63.2	2.6 %	13.7	5.9 %	7.1	107.6 %
Organic growth (negative)	(264.6)	(10.9) %	(38.5)	(16.5) %	(17.6)	(266.7) %
Impairment of assets and restructuring costs, impairment of goodwill and intangible assets and unusual adjustments to income taxes	-	-	-	-	(78.8)	n/a %
Results - for Fiscal 2009	$ 2,294.6	(5.5) %	$ 211.9	(9.4) %	$ (82.3)	n/a %

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

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

- The acquisitions made in 2008 and 2009, net of divestitures and closures, added $51.6 million to revenues and $3.6 million to adjusted operating income. Net of impairment of assets, restructuring costs, impairment of goodwill and intangible assets, financing expenses and income taxes, their contribution to net income applicable to participating shares amounted to $0.9 million.

- The paper effect had a $15.1 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 $0.7 million on adjusted operating income and $0.5 million on net income applicable to participating shares.

- The variations in the exchange rates between the Canadian dollar and its U.S. and Mexican counterparts had a considerable impact on the fiscal 2009 results, causing a $63.2 million increase in revenues and a $13.7 million increase in adjusted operating income. It is important to note that the variation in average spot exchange rates in fiscal 2009 versus fiscal 2008 was 17.0% for the CAD/USD and 8.5% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a positive impact of $41.3 million. For export sales from Canadian plants, net of the currency hedging program, the positive impact was $21.9 million. The conversion of results for the U.S. and Mexican units had a negative impact of $1.0 million on adjusted operating income. The positive impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was $16.2 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 $1.5 million on adjusted operating income. Taking into consideration amortization, financial expenses and income taxes denominated in foreign currencies, the net positive effect was $7.1 million.

- Revenues in our base business were down $264.6 million, or 10.9% in fiscal 2009. This decrease stemmed mainly from the Direct Mail Group in the United States and the Magazine, Book and Catalogue Group in the

Printing Sector, followed by the Marketing Products Group in the Marketing Communications Sector, then by consumer magazine and business magazine divisions in the Media Sector. It is important to note that more than 43% of the decrease is attributable to the Direct Mail Group in the United States.

- The negative organic growth in adjusted operating income of $38.5 million, or 16.5% in fiscal 2009 can mainly be attributed to the Marketing Products Group in the Marketing Communications Sector, followed by the Magazine, Book and Catalogue Group and the Direct Mail Group in the Printing Sector, and lastly by the consumer magazine and business magazine divisions in the Media Sector. It is important to point out that our rationalization measures are bearing fruit. Adjusted operating income generated positive organic growth of $4.5 million, or 5.9%, in the fourth quarter of 2009, a marked improvement over the previous quarter.

Amortization

Amortization expense increased by $9.7 million, or 7.6%, to $137.4 million, in fiscal 2009, compared to $127.7 million in fiscal 2008. This increase results mostly from acquisitions, the startup of printing of the *San Francisco Chronicle*, investments completed in the Transcontinental Transmag plant and the exchange rate effect, partially offset by the capital asset write downs related to the rationalization measures.

Impairment of Assets and Restructuring Costs

An amount of $78.0 million before tax ($54.6 million after tax) was accounted for separately in the consolidated statement of income for 2009 as impairment of assets and restructuring costs. Details are as follows:

- Asset impairment of $21.1 million before tax ($15.0 million after tax) relating primarily to production equipment that was no longer required due to reduced activity in some of our business units.

- Restructuring costs of $56.9 million before tax ($39.6 million after tax) related to the consolidation of the direct mail activities in the U.S., announced during the fourth quarter of fiscal 2008, as well as the rationalization measures put in place following the deterioration of demand for the products and services of certain businesses, announced in February 2009.

An amount of $27.4 million before tax ($18.4 million after tax) was accounted for separately in consolidated results for fiscal 2008 as impairment of assets and restructuring costs. Of this amount, $22.7 million was related to consolidation of direct mail operations in the United States, $4.3 million to closure of *The Daily News* newspaper in Halifax and $0.4 million to the plan to restructure our commercial printing operations launched in 2007.

Impairment of Goodwill and Intangible Assets

For fiscal 2009, $172.6 million before tax ($157.9 million after tax) was accounted for separately in the consolidated statement of income as impairment of goodwill and intangible assets. Of this amount, $166.5 million represents goodwill impairment in the Marketing Communications sector, mainly associated with our commercial products printing. The remaining $6.1 million item charged to income is related to the write-off of trade names in the Consumer Solutions Group in the Media Sector. An amount of $192.1 million ($126.8 million after tax) was accounted for separately in the consolidated statement of income as impairment of goodwill and intangible assets in fiscal 2008 and was entirely related to our direct mail operations in the United States.

Financial Expenses and Discount on Sale of Accounts Receivable

When combined, financial expenses and discount on sale of accounts receivable increased by $5.7 million, or 14.3%, from $39.8 million in fiscal 2008 to $45.5 million in fiscal 2009. This increase is mainly due to the increase in net indebtedness related to the purchase of property, plant and equipment, and business acquisitions combined with the exchange rate effect.

Income Taxes

Income taxes increased by $29.0 million, from a recovery of $31.7 million in fiscal 2008 to a recovery of $2.7 million in fiscal 2009. Excluding income taxes on impairment of goodwill and intangible assets, impairment of assets and restructuring costs, as well as unusual adjustments to income taxes, the income taxes would have been $35.4 million, with an income tax rate of 21.4% as compared to $54.1 million and 28.0% in fiscal 2008. This decrease is mainly due to the change in the geographic distribution of pre-tax earnings.

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

Dividends on Preferred Shares

Dividends of $0.5 million on preferred shares were considered with respect to the 4,000,000 cumulative 5-year rate reset first preferred shares, series D issued in October 2009. No preferred shares were in circulation in fiscal 2008.

Net Income Applicable to Participating Shares

Net income applicable to participating shares decreased from $6.6 million in fiscal 2008 to a net loss of $82.3 million in fiscal 2009. This decrease is primarily due to an unfavourable variation in unusual items (related mainly to impairment of goodwill and intangible assets, impairment of assets and restructuring costs), as well as the decrease in adjusted operating income and higher financial expenses, partially offset by the reduction in income taxes and cost savings from rationalization measures. On a per-share basis, net income applicable to participating shares decreased from $0.08 to a loss of $1.02.

Adjusted net income applicable to participating shares, excluding impairment of goodwill and intangible assets, impairment of assets and restructuring costs, as well as unusual adjustments to income taxes, decreased by $10.1 million, or 7.2%, from $140.3 million in fiscal 2008 to $130.2 million in fiscal 2009. Adjusted net income applicable to participating shares decreased 6.4%, from $1.72 to $1.61.

Excluding the positive exchange rate effect for fiscal 2009, net income applicable to participating shares would have been $1.52, which would have been a decrease of 11.6% compared to fiscal 2008. This measurement is a good indicator of the net operating performance for fiscal 2009.

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

(in millions of US dollars)	2009	Breakdown	2008	Breakdown	Change $ 2009 vs 2008	Change % 2009 vs 2008
Exports from Canada to the U.S.	$ 184.7	44.9 %	$ 213.5	42.7 %	$ (28.8)	(13.5) %
Revenues generated in the U.S by U.S. business units	226.5	55.1	286.8	57.3	(60.3)	(21.0)
Total revenues	$ 411.2	100.0 %	$ 500.3	100.0 %	$ (89.1)	(17.8) %

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

(in millions of Canadian dollars)	2009	Breakdown	2008	Breakdown	Change $ 2009 vs 2008	Change % 2009 vs 2008
Canada	$ 1,744.9	76.0 %	$ 1,836.8	75.6 %	$ (91.9)	(5.0) %
U.S. and Mexico						
Imports from Canada	207.3	9.1	215.0	8.9	(7.7)	(3.6)
Domestic markets	342.4	14.9	377.5	15.5	(35.1)	(9.3)
Total U.S. and Mexico	549.7	24.0	592.5	24.4	(42.8)	(7.2)
Total revenues	$ 2,294.6	100.0 %	$ 2,429.3	100.0 %	$ (134.7)	(5.5) %

Note that in this table, revenues generated by Canadian entities expressed in U.S. dollars decreased by $28.8 million, or 13.5%. After conversion into Canadian dollars, the decrease is only $7.7 million, or 3.6%, illustrating the positive impact of the average increase in the U.S. dollar against the Canadian dollar in fiscal 2009 compared to fiscal 2008.

The 5.0%, or $91.9 million, decrease in revenues generated in Canada compared to 2008 is lower than the 5.5% decrease in the Corporation’s consolidated revenues mainly due to our leading position in most of our niches and our diversified operations, and particularly our distribution and educational book publishing operations. With respect to revenues from the domestic U.S. and Mexican markets, the 9.3% decrease compared to 2008 stems essentially from the financial crisis, which greatly affected our direct mail operations in the United States and the sale of a plant in Ohio, partially offset by the revenues generated by the acquisition of Rastar in 2008 and the start-up of printing the *San Francisco Chronicle* in July 2009.

REVIEW OF OPERATING SECTORS FOR FISCAL 2009

Analysis of Main Variances – Sector Results
For the fiscal year ended October 31, 2009
(unaudited)

(in millions of dollars)	Printing Sector	Marketing Communications Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues - for Fiscal 2008	$ 1,536.7	$ 341.7	$ 645.3	$ (94.4)	$ 2,429.3
Acquisitions/Divestitures/Closures	(19.4)	75.5	(4.5)	-	51.6
Existing operations					
Paper effect	16.1	(1.0)	-	-	15.1
Exchange rate	59.0	4.2	-	-	63.2
Organic growth (negative)	(186.8)	(46.9)	(33.8)	2.9	(264.6)
Revenues - for Fiscal 2009	$ 1,405.6	$ 373.5	$ 607.0	$ (91.5)	$ 2,294.6
Adjusted operating income (1) - for Fiscal 2008	$ 147.9	$ 9.5	$ 102.6	$ (26.2)	$ 233.8
Acquisitions/Divestitures/Closures	0.6	1.7	1.3	-	3.6
Existing operations					
Paper effect	-	-	(0.7)	-	(0.7)
Exchange rate	15.1	(1.4)	-	-	13.7
Organic growth (negative)	(25.5)	(12.5)	(9.9)	9.4	(38.5)
Adjusted operating income (1) - for Fiscal 2009	$ 138.1	$ (2.7)	$ 93.3	$ (16.8)	$ 211.9

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

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 28) to the Consolidated Financial Statements for the fiscal year ended October 31, 2009.

Management believes that adjusted operating income by business segment used in this section is a meaningful measure of its financial performance.

Printing Sector

Printing sector revenues decreased from $1,536.7 million in fiscal 2008 to $1,405.6 million in 2009, a drop of $131.1 million, or 8.5%. Excluding divestitures, closures and the paper and exchange rate effects, revenues were down $186.8 million, or 12.2%. Although the recession and the transformation of the printing industry affected all of our printing activities, our direct mail operations in the United States were clearly the hardest hit. Direct mail operations accounted for more than 60% of the negative organic growth recorded by the Printing sector in fiscal 2009, which was primarily related to the major financial crisis in the United States as it forced U.S. financial institutions to decrease the frequency and scope as well as to simplify their direct mail campaigns.

The transformation in the industry also affected revenues in our other printing operations. While the Magazine, Book and Catalogue Group, and the Newspaper Group were particularly affected for a large part of the year by lower circulation and number of pages, the Retail Group and the Mexico Group saw some of their core clients cut back their marketing programs. In addition, still due to the economic context, the Magazine, Book and Catalogue Group experienced a certain slowdown in the export of educational books and catalogues to the United States. These negative factors were however partially offset by the positive impact of the new exclusive contract signed with *Rogers* in fiscal 2008 to print all of Rogers' magazines, which started successfully in the second quarter of 2009. Despite the difficult context, the termination of the Sunday edition of *La Presse* in July and the loss of the contract to print *The New York* Times for the Toronto area in the fourth quarter, the Newspaper Group closed fiscal 2009 with positive growth figures. This is mostly due to the startup of printing the *San Francisco Chronicle* in July. Retail Group revenues were down mainly stemming from the sale of its regional flyer printing plant in Ohio last May following a review of the Corporation's business objectives in that region. On the other hand, lower revenues in the Retail Group were mitigated by the full effect of the contract with *Shoppers Drug Mart-Pharmaprix*, which took effect in the second half of fiscal 2008. Lastly, the downward trend that affected the sector's sales in 2009 had progressively less of an impact over the course of the year, as negative organic growth was only 4.0% in the fourth quarter, including positive organic growth for the Retail Group.

Adjusted operating income decreased $9.8 million, or 6.6%, from $147.9 million in fiscal 2008 to $138.1 million in fiscal 2009. Excluding divestitures, closures and exchange rate effects, adjusted operating income decreased $25.5 million, or 17.2%. Apart from the Retail Group, which had positive organic growth due to significant rationalization measures and its improved operating efficiency, the other groups in the Printing sector posted negative growth in adjusted operating income. However, the rationalization measures instituted throughout the sector, whose positive effects were principally felt in the second half of the year, greatly contributed to limiting the deterioration in adjusted operating income caused by the economic situation.

Overall, the rationalization measures increased the adjusted operating income margin from 9.6% for fiscal 2008 to 9.8% for fiscal 2009, despite the fact that the industry was strongly affected by the recession. Although our direct mail operations in the United States clearly bore the brunt of the recession, we reacted quickly by adjusting our production capacity to respond to the decreased demand. This means that we now have a cost structure that is better adapted to the current demand, and we have consolidated our competitive position.

We completed the following major investment projects:

- *San Francisco Chronicle*: (investment of US$230 million for outsourced newspaper printing under a 15-year contract signed with *Hearst Corporation* in 2006): printing started up successfully, as scheduled, on July 6, 2009.

- Transmag: (investment of close to $60 million for local and regional newspapers): the run-in period for the new presses is now almost completed. Completion of this state-of-the-art technology project has enabled us to upgrade our colour printing capabilities, improve quality and increase production efficiency while considerably reducing the cost structure.

Following the signing, at the end of fiscal 2008, of a $1.7 billion contract to print *The Globe and Mail* daily paper until 2028, fiscal 2009 marked the start of investments in a new $175 million project. The goal of this major project is to set up a new and innovative Canada-wide platform to print newspapers and flyers. It will be the first network to integrate the printing of these two products in Canada. The network will offer the option of adding colour to each page of *The Globe and Mail,* and will also enable us to meet the needs of our retailers. This will result in certain synergies and an improvement in overall efficiency, thanks to more productive equipment, better utilization of our production capacity and reduced paper wastage. This strategic investment will also help reduce capital expenditures in the next few years, particularly in the Newspaper and Retail groups. To date, the project is on schedule and the new printing platform should gradually start operating during the second half of fiscal 2010.

In fiscal 2010, the Newspaper Group will benefit for the entire year from the printing of the *San Francisco Chronicle* and the synergies generated by printing local and regional newspapers on the new presses installed in Transcontinental Transmag in fiscal 2009. However, the Newspaper Group will feel the full negative impact of the termination of the Sunday edition of *La Presse* and the loss of the contract to print *The New York Times* for the

Toronto area. In addition, we expect that the Newspaper Group will continue to be affected by the weakness in the advertising market, which usually manifests as a reduction in the number of pages to be printed. As for the Magazine, Book and Catalogue Group, it will benefit from the positive impact of the new *Rogers* contract for the full year. We believe, however, that this group will continue to suffer from market overcapacity and the transformation in the industry (decreases in number of pages and titles, shorter print runs due to less national advertising, reduction in marketing budgets for catalogues and low demand for specialty and religious works). The Newspaper Group and the Retail Group will both focus on setting up the Canada-wide newspaper and flyer printing network that will print *The Globe and Mail*. The Direct Mail Group in the United States will concentrate on optimizing its operational efficiency and increasing its market share in a market that we believe will improve over the next year.

The Printing sector overall will concentrate on further optimizing its operational efficiency. The rationalization measures deployed throughout fiscal 2009 have already enabled us to reduce our cost structure and improve our operational efficiency and management of our production capacity, which will benefit the sector throughout 2010. In addition, we believe there will be further opportunities to reduce costs going forward through continuous improvement and the implementation of our new combined platform for printing newspapers and flyers. As a result, we are confident that through these initiatives, the Printing sector will be better equipped to perform in a changing industry.

Marketing Communications Sector

Revenues in the Marketing Communications Sector increased from $341.7 million in fiscal 2008 to $373.5 million in 2009, up $31.8 million, or 9.3%. Excluding acquisitions, and paper and exchange rate effects, revenues were down $46.9 million, or 13.7%. Acquisitions (Rastar, ThinData, Redwood Custom Communications and Conversys) added $75.5 million to revenues, partially offset by decreased sales in the Execution and Delivery Group (mainly in marketing products printing), accounting for almost all of the sector’s negative organic growth. Marketing products printing bore the brunt of the North American recession, which had a major negative impact on the marketing budgets of our customers. The decrease was partly counterbalanced by the new exclusive six-year contract with Rogers which began in February 2009. In addition, despite the economic situation and negative organic growth, it is important to point out that we successfully maintained our market share during the year, thanks, among other things, to shifting our offering to provide more personalized marketing products that businesses can use to reach their customers more effectively.

Adjusted operating income decreased from $9.5 million for fiscal 2008 to a loss of $2.7 million in 2009, down $12.2 million. Excluding acquisitions and the exchange rate effect, adjusted operating income decreased $12.5 million. The North American recession forced companies to cut their marketing budgets, which had a significant impact on our Execution and Delivery Group and, more particularly, our marketing products printing operations. The implementation of rationalization measures announced in February 2009 partly tempered the impact of the recession. The Content Solutions Group and Business Intelligence and Analytics Group mainly focused on integrating the new acquisitions, Redwood and Conversys, and on consolidating our technologies, which limited the adjusted operating income generated in fiscal 2009.

The adjusted operating income margin also decreased, from 2.8% for fiscal 2008 to a loss of 0.7% in 2009, given the tough market conditions related mainly to marketing products printing. In addition, due to the widespread cuts in corporate marketing budgets, production overcapacity had a negative effect on prices and, as a result on operating margins during the year. However, we have observed that the pace of the fall in demand for these products has slowed in the past quarter compared to the three earlier quarters in fiscal 2009. In terms of our acquisitions, the weaker operating margin is largely explained by our U.S. digital printing operations, which were negatively affected by the recession in the automobile industry in 2009, since these customers accounted for the major portion of revenues, and by our strategic investments in our digital platforms.

In fiscal 2009, we acquired Conversys, Canada's leading supplier of electronic flyers. We also acquired Redwood Custom Communications, a North American leader in custom communications. Redwood offers a full line of marketing and communication services and creates custom publishing turnkey solutions and personalized content for print and digital. These two acquisitions greatly enrich Transcontinental's existing print and interactive communications offering to major retailers and to customers who deal in basic consumer products.

Despite the negative impact of the recession on our clients' marketing budgets, we signed several new contracts with major brands; they are thus becoming clients of our marketing communication services. Although these new clients come from a wide range of industries, the contracts we have signed are always based on the same reality, that Transcontinental has the capacity to provide them with a comprehensive set of solutions designed to meet their individual business needs, and in doing so to broaden their mix of marketing products. Clients include Reader's Digest Canada, Shopping Channel, Shoppers Drug Mart - Pharmaprix, Zellers and Purolator.

We believe that in fiscal 2010 the emergence of digital platforms will accelerate and, with the assistance of our most recent acquisitions, we plan to take advantage of the opportunities created to offer a unique set of digital solutions. Furthermore, we will ramp up our investments in our new digital technologies in order to support our growth prospects in this expanding market. Our marketing products printing operations, which will come under the Printing Sector in 2010, will benefit from the full effect of the exclusive agreement with Rogers and the rationalization measures deployed in fiscal 2009. Nevertheless, we believe that these operations will continue to be affected by the economic situation and by the evolving needs of our customers.

Media Sector

Revenues in the Media sector declined from \$645.3 million in fiscal 2008 to \$607.0 million in 2009, down \$38.3 million, or 5.9%. Divestitures and closures, partially offset by small but strategic acquisitions in 2008, had a negative impact of \$4.5 million on revenues in 2009. Excluding acquisitions, divestitures and closures, revenues decreased \$33.8 million, or 5.2%. Organic growth in educational book publishing, distribution operations and digital media initiatives was positive in 2009. However the wide-ranging transformation of the publishing industry, coupled with lower national advertising in our consumer and business magazine publishing segments, as well as, to a lesser degree, the decrease in local advertising in our community papers, caused the decrease in revenues in this sector compared to fiscal 2008.

Adjusted operating income was down \$9.3 million, or 9.1%, from \$102.6 million in fiscal 2008 to \$93.3 million in 2009. Excluding acquisitions, divestitures and closures, as well as the paper effect, adjusted operating income decreased \$9.9 million, or 9.6%. The decrease in adjusted operating income is mainly attributable to lower revenues. We instituted aggressive rationalization measures to adjust our cost structure to the current realities of the publishing industry and to mitigate the impact of the decline in revenues. The adjusted operating income margin was down slightly, from 15.9% in fiscal 2008 to 15.4% in 2009. Organic growth generated by our educational publishing and distribution business, combined with the cost reductions achieved through the rationalization initiatives partly offset the lower revenues from consumer and business magazines and community newspapers, as well as strategic investments in digital initiatives. The impact of the rationalization measures was felt more in the last quarter of 2009, which recorded positive growth of \$1.9 million for the sector compared to 2008.

In fiscal 2009, the Media sector continued to expand and enhance its digital offering through numerous strategic investments and the development of new initiatives that emphasize the growth of digital media, notably with the Web site weblocal.ca, which receives more than two million unique visitors per month. Efforts to further integrate sales were also pursued, to offer customers multiple platforms that meet their needs by providing creativity and diversity. Despite the decrease in advertising revenues, most publications maintained and even increased their market share. The community newspaper division made significant changes to its structure, reducing its nine administrative regions to five. We also ceased publishing eight titles such as *Canadian Home and Country* and *Vision Durable*. In addition, we sold *Outdoor Canada* and *Canadian Home Workshop* in the fourth quarter.

In 2010, the Media sector will continue to develop its digital offering. The monetization of new products will continue, particularly for the weblocal.ca site. The sector will also benefit from the restructuring in the community newspaper division aimed at achieving a better fit with market realities, which tend towards the use of complementary platforms to meet the needs of advertisers and readers. The consumer magazines and business publications will continue to leverage their leading brands in the Canadian market on a number of different platforms. Efforts to improve operational efficiency and renewal of the offering will also allow us to keep our competitive advantage. Revenues from national and local advertising will continue to suffer the negative effects of the weak market, especially in the automobile industry and financial services, but we anticipate a certain improvement with the recovery of the Canadian economy. However, our digital operations should continue to grow. The Distribution Division should remain on track despite the economy, and the Educational Book Publishing Group should continue to benefit from the educational reform in Québec.

Inter-Segment and Other Activities

Revenues of inter-segment and other activities went from a negative total of $94.4 million in fiscal 2008 to a negative total of $91.5 million in 2009. The variation is mainly attributable to the decrease in other activities. Adjusted operating income before amortization went from a negative total of $26.2 million in fiscal 2008 to a negative total of $16.8 million in 2009. The variation stems mainly from our rationalization plan.

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
For fiscal years ended October 31
(unaudited)

(in millions of dollars, except per share amounts)		2009		2008
Net income (loss) applicable to participating shares	$	(82.3)	$	6.6
Dividends on preferred shares		0.5		-
Non-controlling interest		0.3		(0.4)
Income taxes		(2.7)		(31.7)
Discount on sale of accounts receivable		4.5		9.3
Financial expenses		41.0		30.5
Impairment of goodwill and intangible assets		172.6		192.1
Impairment of assets and restructuring costs		78.0		27.4
Adjusted operating income		211.9		233.8
Amortization		137.4		127.7
Adjusted operating income before amortization	$	349.3	$	361.5
Net income (loss) applicable to participating shares	$	(82.3)	$	6.6
Impairment of assets and restructuring costs (after tax)		54.6		18.4
Impairment of goodwill and intangible assets (after tax)		157.9		126.8
Unusual adjustments to income taxes		-		(11.5)
Adjusted net income applicable to participating shares		130.2		140.3
Average number of participating shares outstanding		80.8		81.7
Adjusted net income applicable to participating shares per share	$	1.61	$	1.72
Cash flow related to operating activities	$	78.8	$	284.0
Changes in non-cash operating items		(168.7)		(12.9)
Cash flow from operating activities before changes in non-cash operating items	$	247.5	$	296.9
Long-term debt	$	819.0	$	602.1
Current portion of long-term debt		7.8		194.3
Cash and cash equivalents		(34.7)		(90.7)
Net indebtedness	$	792.1	$	705.7

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results
(unaudited)

	2009				2008			
(in millions of dollars, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	595 $	533 $	563 $	604 $	653 $	585 $	595 $	596
Adjusted operating income before amortization	124	86	81	58	108	82	89	82
Adjusted operating income margin before amortization	20,9 %	16,1 %	14,4 %	9,6 %	16,5 %	14,0 %	15,0 %	13,8 %
Operating income (loss)	71 $	46 $	(150) $	(6) $	(139) $	50 $	55 $	48
Adjusted operating income	87	53	47	25	76	51	57	50
Adjusted operating income margin	14,6 %	10,0 %	8,3 %	4,1 %	11,6 %	8,7 %	9,6 %	8,4 %
Net income (loss) applicable to participating shares	43 $	25 $	(144) $	(6) $	(94) $	30 $	37 $	34
Per share	0,54	0,31	(1,79)	(0,08)	(1,16)	0,37	0,45	0,41
Adjusted net income applicable to participating shares	54	31	30	15	48	30	34	28
Per share	0,66	0,39	0,37	0,19	0,59	0,37	0,42	0,34
% of fiscal year	41 %	24 %	23 %	12 %	34 %	22 %	24 %	20 %

The table above shows the evolution of the Corporation's quarterly results. Note the impact on revenues of the North American recession in 2009; the rationalization measures limited the impact of the slowdown on earnings. The fourth quarter is higher than the others since advertising spending is generally higher in the fall; also, it is the peak period for book printing and for our educational book segment.

Financial Condition, Liquidity and Capital Resources

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

(in millions of dollars)	2009	2008
Operating activities		
Cash flow from operating activities before changes in non-cash operating items	$ 247.5	$ 296.9
Changes in non-cash operating items	(168.7)	(12.9)
Cash flow related to operating activities	78.8	284.0
Investing activities		
Business acquisitions, net of disposals	(14.4)	(67.3)
Acquisitions of property, plant and equipment, net of disposals	(245.6)	(226.8)
Other	(25.5)	(31.3)
Cash flow used in investing activities	(285.5)	(325.4)
Financing activities		
Increase (reimbursement) of long-term debt, net	173.4	(26.0)
Increase (decrease) in revolving term credit facility	(89.7)	177.7
Issuance of preferred shares	96.8	-
Issuance of participating shares	0.2	0.6
Redemption of participating shares	-	(48.7)
Dividends on participating shares	(25.8)	(25.3)
Other	(0.6)	(0.2)
Cash flow related to financing activities	154.3	78.1
Other relevant information		
Net indebtedness	792.1	705.7
Shareholders' equity	1,115.2	1,103.0
Net indebtedness (including usage of the securitization program) / adjusted operating income before amortization	2.59	2.64
Net indebtedness / Total capitalization ratio	42 %	39 %
Credit rating		
DBRS	BBB high Stable	BBB high Stable
Standard and Poor's	BBB- Stable	BBB Stable

Operating Activities

Cash flow from operating activities before changes in non-cash operating items declined from $296.9 million in 2008 to $247.5 million in 2009. The change is primarily due to the decrease in adjusted operating income before amortization, higher restructuring costs and higher cash income taxes. Changes in non-cash operating items resulted in an outflow of $168.7 million in 2009, compared to an outflow of $12.9 million in 2008. This difference is mainly due to variations in the Corporation's securitization program, as well as the timing of the payments of certain accounts payable. Consequently, cash flow from operating activities decreased, resulting in an inflow of $78.8 million in fiscal 2009, compared to an inflow of $284.0 million in fiscal 2008.

Investing Activities

In 2009, $245.6 million was invested in property, plant and equipment, net of disposals, an increase of $18.8 million compared to the $226.8 million invested in fiscal 2008. We invested more than $150.0 million in our two major projects previously announced, namely the *San Francisco Chronicle* project, and the project to establish a single Canada-wide platform for newspaper and flyer printing that will be used for the *Globe and Mail* contract, among others.

Financing Activities

The Corporation paid $25.8 million, or 32 cents per share, in dividends in fiscal 2009, compared to $25.3 million, or 31 cents per share in fiscal 2008, an increase of 2.0%. Dividends paid by Transcontinental to Canadian residents are eligible dividends as per provincial and federal income tax laws.

On October 2, 2009, the Corporation closed its public offering of 4,000,000 cumulative 5-year rate reset first preferred shares, series D (the "Series D Preferred Shares") for gross proceeds of $100 million. The Series D Preferred Shares will yield cumulative dividends of 6.75% per annum for the first five years, payable quarterly in January, April, July and October. The dividend rate will be reset on October 15, 2014 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 4.16%. The Series D Preferred Shares are redeemable by Transcontinental on their fifth anniversary and can be converted (subject to certain conditions), at the holder's option into cumulative floating rate preferred shares series E (the "Series E Preferred Shares"), on October 15, 2014, and every five years thereafter. The Series E Preferred Shares will have a cumulative quarterly floating dividend at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.16%. The Series E Preferred Shares are redeemable by Transcontinental and can be converted (subject to certain conditions) at the holder's option into Series D Preferred Shares, on October 15, 2019 and every five years thereafter.

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.

In addition, the Corporation was authorized to purchase for cancellation on the open market, between November 21, 2006 and November 20, 2007, up to 3,448,698 of its Class A Subordinate Voting Shares, representing 5% of the 68,973,966 issued and outstanding Class A Subordinate Voting Shares as at November 7, 2006, and up to 852,907 of its Class B Shares, representing 5% of the 17,058,145 issued and outstanding Class B Shares as at November 7, 2006. The purchases were made in the normal course of business at market prices through the facilities of the Toronto Stock Exchange in accordance with the requirements of the exchange.

For the fiscal year ended October 31, 2009, the Corporation did not request a new buyback program and did not buy back any shares.

For the year ended October 31, 2008, the Corporation purchased 2,894,100 of its Class A Subordinate Voting Shares at a weighted average price of $16.77 for a total consideration of $48.5 million and 8,000 of its Class B Shares at a weighted average price of $18.34 for a total consideration of $0.2 million. Of the total consideration of $48.7 million, $16.2 million corresponds to the book value and $32.5 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

Shares Issued and Outstanding	As at October 31, 2009	As at November 30, 2009
Class A (Subordinate Voting Shares)	64,749,030	65,044,747
Class B (Multiple Voting Shares)	16,045,707	15,749,990
Series D Preferred (with rate reset)	4,000,000	4,000,000

Debt Instruments

As at October 31, 2009, net indebtedness (including usage of the securitization program) to adjusted operating income before amortization ratio stood at 2.59 (2.64 as at October 31, 2008) due to the rise in the Canadian dollar versus the US dollar and the placement of preferred shares. Furthermore, as previously announced the Corporation has set the objective of maintaining this ratio within a target range of 2.00 to 2.50 and expects to achieve this by the end of fiscal 2011. Net indebtedness to total capitalization ratio was 42%, compared to 39% as at October 31, 2008, mainly due to the recent impairment of goodwill and intangible assets charges, as well as the considerable sums invested in capital assets, some of which only started to generate revenues towards the end of the third quarter. The net indebtedness to total capitalization ratio is within the range set by management, that is, between 35% and 50%.

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. On August 5, 2009, the Corporation fixed, using a bond forward, the portion of the rate, based on the Canada bond rate, of the second debenture issued to the Solidarity Fund QFL at 4.343% for the last eight years of its 10-year term, beginning on its second anniversary.

On April 6, 2009, Standard & Poor's downgraded our credit rating to BBB (-) with a stable outlook from BBB with a stable outlook. This downgrade has resulted in a slight increase in spreads, and thereby, in our financing costs. On the other hand, DBRS has not changed its credit rating of BBB (H) with a stable outlook.

On May 5, 2009, the Corporation announced that it reached an agreement with members of its bank syndicate to renew Tranche B of its revolving credit facility for $125.3 million for one year, giving it additional leeway in managing its working capital and capital expenditures or to meet any other specific need. In addition, on July 14, 2009, the Corporation concluded a supplemental credit facility of $24.7 million with Export Development Canada (EDC), adding to this Tranche B.

On May 15, 2009, the Corporation concluded a five-year loan agreement for $100 million with the Caisse de dépôt et placement du Québec. The facility bears interest at bankers' acceptance rate +6.375%, based on the Corporation's credit rating assigned by Standard & Poor's. The Corporation subsequently put into place two interest rate swaps of $50 million each to fix the rate for five years at 8.394%.

In the third quarter of fiscal 2009, the Corporation also obtained a five-year loan of $50 million at 8.25% from SGF Rexfor Inc., based on the Corporation's credit rating assigned by Standard & Poor's.

On July 28, 2009, Transcontinental concluded a six-year financing agreement for €55.6 million ($88.4 million) with the European bank HypoVereinsbank. This financing bears interest at the EURIBOR rate + 1.6%. This financing will be obtained by tranche over a period of about one year. As at October 31, 2009, the Corporation had drawn €23.7 million ($37.7 million) on this financing.

These new credit facilities give Transcontinental the flexibility to pursue its development projects in its print, media and marketing communications sectors in North America. Conditions governing the new financing agreements are not materially more restrictive than other indebtedness and include change of control clauses.

As at October 31, 2009, the Corporation had a committed line of credit in the form of a revolving credit facility, totalling $550 million or the U.S.-dollar equivalent, divided into two tranches: Tranche A of $400 million and Tranche B of $150 million, of which amounts of $131.4 million and $150 million, respectively, were used as at October 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 + 0.615%, or LIBOR + 0.615% on Tranche A and bank prime rate +1.40%, bankers' acceptance rate + 2.40% or LIBOR + 2.40% on Tranche B. Facility fees of 0.135% and 0.850% are also applicable on Tranche A and B, respectively, whether the line of credit is drawn or not, and utilization fees of 0.1% 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 year after its issuance or the last renewal, as the case may be. It was last renewed on August 30, 2007. Tranche B was renewed in the second quarter and matures on May 14, 2010. On December 4, 2009, the Corporation repaid the entire amount used on Tranche B and then cancelled this bank facility. The Corporation's bank credit now consists solely of Tranche A, which matures in September 2012.

As of October 31, 2009, letters of credit amounting to C$0.5 million and US$4.1 million were drawn on the committed line of credit in addition to the amounts presented in the previous paragraph. In fiscal 2009, the Corporation was not in default under any of its obligations.

Apart from its long-term obligations, the Corporation's commitments are mainly comprised of operating leases. The table below shows the breakdown of these obligations and commitments for future years.

Contractual Obligations and Business Commitments
For years ending October 31

Contract type (in millions of dollars)	2010	2011	2012	2013	2014	2015 and following	Total
Long term debt	$ 7.8	$ 64.0	$ 372.4	$ 90.7	$ 226.0	$ 72.8	$ 833.7
Other commitments	98.6	40.7	25.5	21.3	17.6	82.5	286.2
Total commitments	$ 106.4	$ 104.7	$ 397.9	$ 112.0	$ 243.6	$ 155.3	$ 1,119.9

Off-Balance-Sheet Arrangements (Securitization)

Under its securitization agreement, the Corporation sells, on an ongoing basis, certain of its receivables to a trust that has sold its beneficial interest to third-party investors. The maximum net consideration allowable under the program is $300 million, including a maximum of $100 million in U.S. dollars. The program now matures in August 2010.

As at October 31, 2009, $240.3 million of accounts receivable ($291 million as at October 31, 2008) had been sold under the accounts receivable securitization program, of which $128.4 million ($42.0 million as at October 31, 2008) was kept by the Corporation as retained interest, resulting in a net consideration of $111.9 million, including

C$77.3 million and US$32 million ($249.0 million as at October 31, 2008, including C$210.0 million and US$32.0 million). As at October 31, 2009, the maximum net consideration the Corporation could have obtained on those dates in accordance with the program terms and conditions was $202.3 million ($249.0 million as at October 31, 2008). 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 $4.5 million for fiscal 2009 ($9.3 million in fiscal 2008). The Corporation is in compliance with all its covenants under the agreements governing this program.

PRINCIPAL ACCOUNTING ESTIMATES

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

Goodwill

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

Intangible Assets

Intangible assets are accounted for at cost and amortized as follows:

	Term	Method
Customer relationships	12 years	Straight-line
Educational books prepublication costs	Maximum 5 years	On historical sales patterns
Educational book titles	6 - 9 years	On historical sales patterns
Printing contracts	Term of the contract	Straight-line
Non-compete agreements	2 - 5 years	Straight-line
Long-term technology project costs	5 years	Straight-line

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

Pension Plans

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

Income Taxes

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

CHANGES IN ACCOUNTING POLICIES

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. The impact on the balance sheet of prior periods was as follows.

Increase (decrease) (in millions of dollars)	As at October 31, 2008	As at November 1, 2007
Intangible assets	$ 17,9	$ 16,2
Other assets	(23,3)	(18,7)
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 applied retrospectively had the following effects on the results of the fiscal year ended October 31, 2008: operating costs increased by $3.0 million, amortization decreased by $1.0 million and income taxes decreased by $0.7 million.

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, by taking into account the credit risk in the evaluation of derivative financial instruments, the following accounts were reduced: 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.

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Business Combinations

In January 2009, 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.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the likenamed 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.

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.

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 required to qualitatively disclose its changeover impacts in conjunction with its 2009 and 2010 financial reporting as well as quantitative information if available, 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.

The Corporation set up an organizational project management team composed of members from different levels and positions to oversee project coordination and monitoring. Staff with the appropriate qualifications and experience have been assigned to the project.

The Corporation's conversion plan consists of three phases:

<u>Phase 1 – Evaluation</u>
During this phase the Corporation performs a high-level identification of the major differences between IFRS and the Corporation's accounting policies as well as an evaluation of the key areas that may be impacted by the transition to IFRS. A detailed conversion plan will then be developed. Since changes are expected to IFRS standards during the conversion period and could impact the conversion plan, a monitoring process will be established.

<u>Phase 2 – Conversion</u>
In this phase, the Corporation designs and develops solutions to address the differences identified in phase 1. Changes required to the existing accounting policies, financial reporting, information systems, business processes and internal controls will be identified in order to perform conversion to IFRS. Impacts on contractual arrangements are evaluated and modifications made as required. A change management strategy is implemented to respond to the information and training needs of the different stakeholders.

<u>Phase 3 – Implementation</u>
The objective of this final phase is to enable continued IFRS reporting and to facilitate knowledge sharing. Changes identified in phase 2 are implemented and tested to ensure that any difference is addressed prior to the changeover date. The change management strategy initiated in phase 2 continues until completion of the conversion.

The Corporation has completed Phase 1 and began Phase 2 in fiscal 2009. Preliminary evaluation of the differences in the Corporation's accounting policies and primary aspects has been completed, as has the priorization of the standards to be analyzed in Phase 2. The following list contains the IFRS standards currently in effect which have been identified as having a high level of difficulty in implementation or a potentially significant impact on the Corporation's consolidated financial statements. The evaluation is not definitive and the list is not exhaustive. Changes could be made during the changeover to IFRS following a more in-depth analysis and possible changes to existing standards. The standards are as follows:

- First-time adoption of International Financial Reporting Standards (IFRS 1)
- Income Taxes (IAS 12)
- Property, Plant and Equipment (IAS 16)
- Consolidated and Separate Financial Statements (IAS 27)
- Impairment of Assets (IAS 36)
- Financial Instruments – Recognition and Measurement (IAS 39)

As the conversion process is implemented, the Corporation will outline the consequences of the transition to IFRS in its financial disclosures. The following table indicates progress of the IFRS changeover as at October 31, 2009.

	Main Activities	Schedule	Status
Financial Information	Identify and analyze the differences between IFRS and the Corporation's accounting policies. Design and develop solutions to resolve the differences. Select from among the IFRS accounting standards and the exemptions permitted in accordance with IFRS 1. Develop a model for IFRS financial statements, including notes.	Completed before October 31, 2010. Follow up and updates during fiscal 2011.	Completed the preliminary identification and evaluation of differences and selections. In progress: detailed analysis of differences and selection of accounting policies.
	Prepare the opening balance sheet and compile the financial information for preparing the comparative IFRS financial statements.	During fiscal 2011.	To come.
Information Systems and processes	Evaluate the impact of the changes on information systems and processes and make changes as required. Formulate a strategy for compiling information in parallel (based on Canadian GAAP and IFRS) during fiscal 2011 and implement it.	Modify the information systems and processes finalized in time to compile financial information during fiscal 2011. Follow up and update during fiscal 2011.	Terminated: Overall evaluation of potential impact on information systems and processes. Evaluated: Impacts on information systems and processes, with detailed analysis of differences with respect to financial information.
Internal controls	Evaluate the impact of the changes on internal controls on financial information and controls and procedures for communicating information and implement the changes required.	Implement the changes required starting in the first quarter of fiscal 2011. Follow up and updates during fiscal 2011.	Evaluated: Impact on internal controls, plus detailed analysis of differences with respect to financial information.
Training and communication	Identify training needs and provide training.	Training sessions in fiscal 2010 and 2011.	Training given to primary actors in the changeover process.
	Communicate the progress of the changeover plan to stakeholders.	Regular communications in fiscal 2010 and 2011.	Developed: Communication plan with regular communications of the plan as it progresses.
Business	Evaluate impact on the Corporation's contractual undertakings (compliance with restrictive financial clauses, compensation plans, etc.). Make changes required to contractual agreements.	Changes made before October 31, 2011.	Completed: Overall evaluation of potential impacts on agreements. Evaluated: Impact on contractual agreements, plus detailed analysis of differences with respect to financial information.

RISKS AND UNCERTAINTIES

The Corporation attempts to continually reduce its exposure to risks and uncertainties that it may encounter in its operating sectors or treasury situation. As a result, the Director of Risk Management and management continually review together overall controls and preventive measures to ensure they are better matched to significant risks to which the Corporation's operating activities are exposed. 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 the main risks the Corporation is exposed to that could have a significant impact on its financial situation and strategies it is taking to mitigate them.

Financial Risks

Availability of Capital and Use of Financial Leverage

Since the beginning of fiscal 2009, the Corporation has completed the following financing and re-financing activities in order to meet its capital expenditure program needs and to secure additional financial flexibility:

- On February 6, 2009, the Corporation completed a private placement offering of $100 million in unsecured debentures with the Solidarity Fund QFL.
- On February 17, 2009, the Corporation extended its $300 million securitization program for an additional year.
- On May 5, 2009, the Corporation renewed its credit facility of $125.3 million for one year with members of its bank syndicate.
- On May 15, 2009, the Corporation concluded a five-year loan agreement for $100 million from Caisse de dépôt et placement du Québec (CDPQ).
- On July 14, 2009, Export Development Canada (EDC) provided credit facilities of $24.7 million.
- On July 28, 2009, the Corporation obtained a five-year term loan of $50 million from the Société générale de financement du Québec (SGF) and concluded a six-year loan agreement for €55.6 million ($88.4 million) from European bank HypoVereinsbank.
- On October 2, 2009, the Corporation closed a placement of 4,000,000 cumulative rate reset first preferred shares, Series D for gross proceeds of $100.0 million.

Although the Corporation has carried out all these financing and refinancing activities during a major economic crisis, there is no guarantee that additional funds will be available in the future, and if they are, that they will be provided in a timeframe and under conditions acceptable to the Corporation.

Our receivables securitization program of $300.0 million, of which $111.9 million was used as at October 31, 2009, and a committed line of credit (Tranche B) in the form of a revolving credit facility totalling $150.0 million, fully utilized as at October 31, 2009, mature in fiscal 2010. However, it is important to note that the Corporation also has a second committed line of credit (Tranche A) in the form of a revolving credit facility totalling $400.0 million which matures in fiscal 2012, of which $131.4 million (including US$103.0 million) was used by the end of fiscal 2009, which can only be used when Tranche B is fully utilized. On December 4, 2009, the Corporation reimbursed the entire amount and cancelled this Tranche B. The Corporation's term revolving credit now consists of Tranche A only. The Corporation is currently investigating various financing options that will provide it with sufficient capital after these instruments mature and meet its future need for capital. Nevertheless, we currently believe that sufficient capital to meet our needs will be available. The risk is mitigated by the fact that the Corporation is in good financial condition with a ratio of net funded debt (including the securitization program) to adjusted operating income before amortization of 2.59 and the Corporation's available cash flows will be higher in fiscal 2010 given that capital expenditures will be lower than in fiscal 2009.

There is no assurance that the Corporation will be able to increase distributions to shareholders by way of dividends.

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. At the end of fiscal 2009, considering the derivative financial instruments used, the floating rate portion of the Corporation's long-term debt represented 36% of the total, while the fixed rate portion represented 64% (65% and 35%, respectively, in 2008). The fixed rate portion of the debt increased due to the financing arranged during the year. Furthermore, at the end of fiscal 2009, the term revolving credit facility had been used less than at the end of fiscal 2008. The floating rate portion of the debt bears interest at rates based on LIBOR or bankers' acceptance rates. Furthermore, in fiscal 2009, the Corporation fixed, using a bond forward, the portion of the rate, based on the Canada bond rate, of a debenture issued to the Solidarity Fund QFL at 4.343% for the last eight years of its 10-year term, beginning on its second anniversary.

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

In fiscal 2009, the Central and U.S. banks reduced their discount rates and the Corporation partially benefited from these reductions, which eased the cost of its floating rate debt. The Corporation believes that current interest rates in the Canadian and U.S. economies are not likely to change significantly in 2010.

Credit

As a result of the North American recession, the Corporation is currently exposed to a higher credit risk than in the past. To limit this risk, the Corporation has tightened its controls on receivables and senior management is putting greater emphasis on analyzing and reviewing the financial health of its customers; rigorous evaluation procedures are applied to all new customers. A specific credit limit is established for each customer and reviewed periodically by the Corporation. Transcontinental is protected against any concentration of credit risk through its products, clientele and geographic diversity. As at October 31, 2009, the maximum exposure to credit risk related to receivables is the carrying amount. The Corporation also has a credit insurance policy covering most of its major customers, for a maximum amount of $29 million. The policy contains the usual clauses and limits regarding the amounts that can be claimed by event and year of coverage. The Corporation did not file any claim against this credit insurance policy for fiscal year ended October 31, 2009.

Pension Plans

Pension funding is based on actuarial estimates and is subject to limitations under applicable income tax and other regulations. Actuarial estimates prepared during the year were based on assumptions related to projected employee compensation levels to the time of retirement and the anticipated long-term rate of return on pension plan assets. Accrued benefit obligation, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation of the pension plans for funding purposes was made as of December 31, 2007. The next required valuation will be as of December 31, 2010, at the latest. The actuarial funding valuation report determines the amount of cash contributions that the Company is required to contribute into the registered retirement plans. The December 31, 2007 funding report showed the registered retirement plans to be in a solvency deficit position. As the pension fund assets consist of a mix of bonds and equities, the recovery in financial markets in 2009 have increased the market value of the pension fund assets. However, if the financial markets drop significantly again and the pension plans are in a solvency deficit on the date of the next actuarial valuation, the Corporation would likely be required to increase its cash funding contributions.

Operational Risks

Economic Cycles

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

- Approximately 40% of consolidated revenues stems from niches that are less exposed to cyclical changes in the economy, such as book, flyer and insert printing, publishing of educational resources, publishing of local and regional newspapers and distribution of advertising material. Also, a large portion of the customer base is in less cyclical sectors, such as food and beauty products.

- Transcontinental has entered into mid- and long-term agreements ranging from 1 to 15 years with customers who generate more than half the revenues in the Printing Sector.

- In the Media sector, Transcontinental benefits from a good mix of local and national advertising. Almost half of advertising revenues generated by this sector come from local advertising, which has been less volatile than national advertising in the last few years.

Competition

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

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

To mitigate this risk the Corporation continues to focus on continuous improvement programs, cost reduction initiatives and developing value added services and products around its core businesses. Transcontinental is also broadening its digital services offering in its Marketing Communications sector.

Geographic Distribution and Exchange Rate

In fiscal 2009, revenues generated outside Canada represented 24% of consolidated revenues, the same percentage as fiscal 2008. This is due to the depressed market for our U.S. direct mail operations affected by the financial crisis, the sale of a printing plant in Ohio and lower sales in Mexico, offset by the rise in the U.S. dollar versus the Canadian dollar, Rastar's contribution over the entire year and the startup of printing of the *San Francisco Chronicle* in July. In 2010, we expect to derive a greater portion of our income from the United States, since we will be printing the *San Francisco Chronicle* for a full year.

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

This past year, the Canadian dollar was trading as high as 1.3066 CAD/USD and as low as 1.0251 CAD/USD, a spread of 0.2815 between November 2008 and October 2009. 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. As at October 31, 2009, using forward contracts to manage the exchange risk related to its exports to the United States, the Corporation had contracts to sell US$118 million (US$136 million as at October 31, 2008), of which $64 million, $39 million and $15 million will be sold in fiscal 2010, 2011 and 2012, respectively. The terms of these forward contracts range from one month to 25 months, with rates varying from 1.0156 to 1.2946. As at October 31, 2009, the Corporation had not used any collars (US$6 million as at October 31, 2008). Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout 2009.

Subsequent to the end of fiscal 2009, the Corporation arranged a cross-currency swap to convert the interest rate on the financing agreement with European bank HypoVereinsbank at the bankers' acceptance rate plus 255 basis points. Through this financial instrument the Corporation also fixed the exchange rate at 1.5761.

New Media

The industries in which the Corporation operates are subject to the impact from new media such as the Internet. As a result, advertisers are presented with a greater diversity of media channels in which to spend their advertising dollars. The growth of advertising spending on the Internet has been considerably higher than on conventional media, albeit from a small base, and this trend is forecast to continue. This shift from traditional media to new media could present both risks and opportunities for the Corporation. On the one hand, consumer acceptance of digital media may decrease the demand for printed products. However, an opportunity exists to capture advertising dollars on other digital media platforms. To mitigate this risk and take advantage of this opportunity, Transcontinental has taken the digital turn through its *Evolution 2010* business project. The Corporation has established development areas for its digital media strategy and is currently executing on them.

Difficulty in Hiring Qualified Personnel

Social and demographic trends are making it more challenging to hire and retain qualified personnel. There is a diminishing pool of qualified talent, an increase in professional mobility, an increase in technology use and a high demand for emerging skill sets. There is a risk that the Corporation will have more difficulties to hire and retain qualified personnel. We also discussed development plans for our high-potential and promotable executives at the bi-annual Leadership Review process. To ensure execution, each senior leader established specific objectives and committed to provide operational growth opportunities and challenges to further accelerate each person's development. Finally, we accelerated succession plans for priority positions and constantly assess our leadership depth to meet organizational challenges and ensure on-going identification of successors and acquisition of new skills.

Impairment Tests

The Corporation conducts impairment tests that could lead to reductions in asset values and as a result have an unfavourable impact on the Corporation. Under Canadian generally accepted accounting principles, the Corporation must regularly test the impairment of long-term assets to determine whether the value of the asset in question has decreased. When an impairment test results in asset devaluation, it is recorded as a non-cash charge that reduces the Corporation's reported earnings.

Exchange of Confidential Information

This risk involves the utilization and manipulation of our customers' confidential information, particularly in direct marketing. The Corporation uses confidential information provided by customers in its production process. The potential dissemination of such information to the wrong individuals could cause significant damage to our customers' relationships with their clients and thus to our own relationships with our customers and could result in legal actions. This risk increased with the acquisition of Redwood Custom Communications and Conversys. In order to mitigate this risk, various improvement measures to better prevent and control this risk have been implemented. In fiscal 2009, we have put security measures in place. We have also conducted privacy training for relevant employees.

Business Development

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

Integration of Acquisitions

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

Loss of Reputation

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

Participating Shares and Preferred Shares

Share prices may fluctuate and shareholders may not be able to sell participating shares at the issue price or a higher price. The price of participating shares could fluctuate due to a number of factors related to the Corporation's business, including new announcements, changes in the Corporation's operating results, sales of participating shares on the market, not meeting analysts' expectations, the general situation in the printing and publishing industries or in the North American economy. In recent years, participating shares, the shares of other companies operating in the same sectors and the stock market in general have experienced quite substantial price fluctuations that were not necessarily related to the operating performance of the companies concerned. There is no guarantee that the price of participating shares will not continue to fluctuate significantly in the future, unrelated to the Corporation's performance.

Holders of preferred shares may not be able to sell their shares at the issue price or a higher price. The price of preferred shares could fluctuate in response to real or anticipated fluctuations in their credit rating and interest rates, which would also have an impact on the cost at which the Corporation could carry out transactions or obtain financing, and therefore on its liquidity, financial situation or operating results.

Environmental Risk

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

Raw Material and Postal Risks

Raw Materials and Energy Prices

The primary raw materials the Corporation uses in its printing sector are paper, ink and plates. This sector's activities consume energy, i.e., electricity, natural gas and oil. Fluctuations in raw materials and energy prices affect our operations.

The current difficulties in the pulp & paper industry have resulted in a decrease in the supply of paper, which in turn could result in paper price increases. While paper costs are a pass through for our printing sector, the increase in the price of paper can have a negative effect on our printing operations if it changes the purchasing habits of our customers, in terms of number of pages printed for example. Moreover, the increase in the price of paper negatively affects the profitability of the Media sector. In order to mitigate this risk, the Corporation does not rely on any one supplier and has agreements with its most important suppliers in order to ensure a stable flow of resources. In addition, some supply agreements contain escalation clauses that index selling prices to fluctuations in raw material costs and currency.

Furthermore, fluctuations in the price of oil, a core ingredient in the composition of ink, have a direct impact on ink prices. While most of our contracts with customers provide for escalation clauses based on fluctuations in the price of ink, an increase can have a negative effect on our operations if it changes the purchasing habits of our customers in terms of the number of pages printed or a reduction in the use of colour for example. Finally, fluctuations in the price of oil have an impact on gasoline prices. Any increase thereto would negatively affect our distribution activities in the Media sector. In addition, the Corporation continues to make efforts of finding new ways to reduce energy costs.

Future Policies of the Canadian and U.S. Postal Systems

Postal costs are a significant component of our printing customers' cost structures (direct mail, catalogues and magazines). Postal rate changes can influence the number of pieces that the Corporation's customers are willing to mail. In the past year, postal rates in the U.S. have increased 5% on standard mail. While the United States Postal Service (USPS) has indicated that future increases will be linked to the inflation rate, any change in this policy could have a negative impact on the Corporation's operations. In order to mitigate this risk, the Corporation has increased its investment in postal optimization capabilities which can offer customers a reduction in their postal costs.

Similarly, in Canada, postal costs have increased less than 5% in the past year. A significant increase in postal costs would affect not only the customers of our printing operations, but also our Media sector, particularly with respect to the distribution of our magazines. Moreover, magazines in Canada benefit from postal subsidies, through the PAP programs (Postal Assistance Program). Any significant reduction or loss in these subsidies could have a negative impact on the Corporation's obligations.

Finally, there has been growing talk of “do-not-mail” legislation in the U.S. in reference to the direct marketing industry. The Corporation does not believe that such legislation would be passed in Congress as it would have a detrimental impact on the United States Postal Service, the country’s largest employer. “Do-not-mail” legislation is instituted at the state level. As of December 2009, in some states, such legislation had been introduced but not passed. Having said that, if such legislation were to be passed, it would have a negative impact on the Corporation’s direct mail operations.

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

SUBSEQUENT EVENTS

Reorganization of Operating Structure

On December 15, 2009, the Corporation announced a new operating structure to strengthen its positioning in the print and marketing communication markets. The operating structure as described in Note 28 to the consolidated financial statements will thus be modified. Please see the Strategy section for more details on the new structure.

Hedging of Euro-Denominated Debt

On December 1, 2009, the Corporation entered into a cross-currency swap that matures on September 21, 2015 in order to fix the exchange rate on a 55.6 million euros financing arranged with European bank HypoVereinsbank at 1.5761 and convert the interest rate at bankers’ acceptance rate plus 255 basis points.

Reimbursement of Tranche B of Term Revolving Credit

On December 4, 2009, the Corporation reimbursed and cancelled Tranche B of the term revolving credit of $150 million. Tranche B had a maturity date of May 14, 2010. The Corporation’s term revolving credit now consists of Tranche A of $400 million which matures in September 2012.

Ontario Income Tax

On November 16, 2009, the Ontario Tax Plan for More Jobs and Growth Act, 2009 (Bill 218) received first reading in the Ontario legislature. Consequently, the reductions in the provincial income tax rate announced in the Ontario budget on March 26, 2009 have basically taken effect for the purposes of preparing consolidated financial statements under Canadian GAAP. The effect of the future reduction in the provincial income tax rate will be to reduce income tax expense and net future tax liability by approximately $2.4 million in the first quarter of fiscal 2010.

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 to allow timely decisions regarding required disclosure.

The President and Chief Executive Officer and the Vice President and Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as at October 31, 2009, have concluded that the Corporation's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The President and Chief Executive Officer and the Vice President and Chief Financial Officer have supervised the evaluation of the design and effectiveness of internal controls with respect to the Corporation's financial reporting, using the integrated framework for internal controls issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, they concluded that the Corporation's internal system for controlling financial reporting is effective as at October 31, 2009.

The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the year ended October 31, 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 2010, the Corporation will focus on three primary objectives. First, the Corporation will focus more on its digital products, optimizing the contribution of recent acquisitions such as Redwood Custom Communications, Rastar, ThinData and Conversys. We believe that the emergence of digital platforms is an excellent opportunity for our Marketing Communications sector to make itself better known, primarily in the Canadian market. Our most recent acquisitions complement our existing offer of services; this allows us to present unique digital solutions to our existing customers, and to new ones, and in so doing to increase our market share. Secondly, we believe that with the experience we acquired through the successful completion and startup of the project to print the *San Francisco Chronicle*, that the *Globe and* Mail project will be completed by late 2010. Note that this project will account for more than 50% of the Corporation's capital expenditures next year. Moreover, we will continue to print the *San Francisco Chronicle*, which will generate additional cash flows over the course of fiscal 2010. Lastly, given the impact of the rationalization measures implemented in fiscal 2009, we believe that our cost structure is much better adapted to the current realities of the industries in which we operate. We will also emphasize sales development initiatives, such as the development of innovative products and exploiting cross-selling opportunities between different groups. Lastly, we will continue to improve our operational efficiency.

Despite the fact that the negative impact of the North American recession seems to be stabilizing, we believe, although to a lesser extent than in fiscal 2009, that some of our niches will still be vulnerable to market conditions in the coming year :

- Direct mail activities in the U.S. are expected to continue to be affected by reductions in the marketing budgets of our customers, primarily in the financial services industry

- Our marketing product printing operations will also be affected by cuts to marketing budgets
- Our magazine, book and catalogue printing operations will likely continue to feel the impact of lower page numbers and smaller print runs, combined with weakened demand for specialized and religious works
- Our magazine publishing operations will likely continue to experience the impact of cuts to the budgets of "national" advertisers

Below is a non-exhaustive list of additional factors that are likely to influence our results in fiscal 2010:

(+) printing of the *San Francisco Chronicle* for the entire year
(+) new exclusive contract with Rogers for the entire year
(+) full impact of rationalization measures implemented in 2009
(+) contribution of the Redwood Custom Communications and Conversys acquisitions
(-) acquisition of about $175 million in property, plant and equipment, including about $100.0 million for a major project that will generate an adequate return over a longer period, but not in 2010
(-) full impact of termination of printing of the Sunday edition of the daily paper *La Presse*
(-) increase in financial and income tax expense
(-) higher amortization related to recent major projects

Economic instability may also have an impact on the price of goods and the value of the Canadian dollar versus its U.S. counterpart, but at this point in time, given the market volatility, it is hard to assess the scope of that impact.

On behalf of Management,

Benoît Huard
Vice President and Chief Financial Officer

December 15, 2009

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AUDITORS' REPORT TO THE SHAREHOLDERS OF TRANSCONTINENTAL INC.

We have audited the consolidated balance sheet of Transcontinental Inc. as at October 31, 2009 and the consolidated statements of income (loss), comprehensive income (loss), retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at October 31, 2008 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated December 9, 2008.

KPMG LLP*

Chartered Accountants

Montreal, Canada

December 14, 2009

*CA Auditor permit no 10892

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the years ended October 31

(in millions of dollars, except per share data)

	Notes	2009	2008 (Note 2)
Revenues		$ 2,294.6	$ 2,429.3
Operating costs		1,680.8	1,784.1
Selling, general and administrative expenses		264.5	283.7
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		349.3	361.5
Amortization	4	137.4	127.7
Impairment of assets and restructuring costs	5	78.0	27.4
Impairment of goodwill and intangible assets	11 & 12	172.6	192.1
Operating income (loss)		(38.7)	14.3
Financial expenses	6	41.0	30.5
Discount on sale of accounts receivable	8	4.5	9.3
Loss before income taxes and non-controlling interest		(84.2)	(25.5)
Income taxes recovered	7	(2.7)	(31.7)
Non-controlling interest		0.3	(0.4)
Net income (loss)		(81.8)	6.6
Dividends on preferred shares, net of related income taxes		0.5	-
Net income (loss) applicable to participating shares		$ (82.3)	$ 6.6
Net income (loss) per share - basic	18	$ (1.02)	$ 0.08
Net income (loss) per share - diluted	18	$ (1.02)	$ 0.08
Average number of participating shares outstanding (in millions)		80.8	81.7

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the years ended October 31

(in millions of dollars)

	Notes		2009		2008 (Note 2)
Net income (loss)		$	(81.8)	$	6.6
Other comprehensive income (loss):					
Unrealized net change in fair value of derivatives designated as cash flow hedges, net of income taxes of $3.0 million for the year ended October 31, 2009 ($(8.0) million for the year ended October 31, 2008)			9.2		(17.6)
Reclassification adjustments for net change in fair value of derivatives designated as cash flow hedges in prior periods, transferred to income in the current period, net of income taxes of $3.9 million for the year ended October 31, 2009 ($(3.4) million for the year ended October 31, 2008)			6.7		(7.4)
Net change in fair value of derivatives designated as cash flow hedges			15.9		(25.0)
Unrealized net gains on translation of financial statements of self-sustaining foreign operations			4.7		17.4
Other comprehensive income (loss)	21		20.6		(7.6)
Comprehensive loss		$	(61.2)	$	(1.0)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the years ended October 31

(in millions of dollars)

	Notes		2009		2008
Balance, beginning of year, as previously reported		$	756.5	$	806.4
Change in accounting policies - Goodwill and intangible assets	2		(3.0)		(1.7)
Restated balance, beginning of year			753.5		804.7
Net income (loss)			(81.8)		6.6
			671.7		811.3
Premium on redemption of participating shares	17		-		(32.5)
Dividends on participating shares			(25.8)		(25.3)
Balance, end of year		$	645.9	$	753.5

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

CONSOLIDATED BALANCE SHEETS
As at October 31

(in millions of dollars)

	Notes	2009	2008 (Note 2)
Current assets			
Cash and cash equivalents		$ 34.7	$ 90.7
Accounts receivable	8	330.7	207.1
Income taxes receivable		4.1	4.5
Inventories	9	78.2	99.3
Prepaid expenses and other current assets		23.0	16.1
Future income taxes	7	11.9	28.1
		482.6	445.8
Property, plant and equipment	10	978.7	936.7
Goodwill	11	673.4	842.6
Intangible assets	12	181.2	184.1
Future income taxes	7	165.8	141.0
Other assets	13	68.0	64.8
		$ 2,549.7	$ 2,615.0
Current liabilities			
Accounts payable and accrued liabilities		$ 378.3	$ 442.9
Income taxes payable		26.8	48.3
Deferred subscription revenues and deposits		43.7	49.6
Future income taxes	7	0.5	9.9
Current portion of long-term debt	15	7.8	194.3
		457.1	745.0
Long-term debt	15	819.0	602.1
Future income taxes	7	110.0	99.3
Other liabilities	16	48.3	65.5
		1,434.4	1,511.9
Non-controlling interest		0.1	0.1
Commitments, guarantees and contingent liabilities	25		
Shareholders' equity			
Share capital	17	476.5	379.5
Contributed surplus	20	12.9	11.3
Retained earnings		645.9	753.5
Accumulated other comprehensive loss	21	(20.1)	(41.3)
		625.8	712.2
		1,115.2	1,103.0
		$ 2,549.7	$ 2,615.0

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

Approved on behalf of the Board of Directors,

(s) Rémi Marcoux
Rémi Marcoux
Director

(s) Richard Fortin
Richard Fortin,
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended October 31

(in millions of dollars)

	Notes		2009		2008 (Note 2)
Operating activities					
Net income (loss)		$	(81.8)	$	6.6
Items not affecting cash and cash equivalents					
Amortization	4		161.7		149.8
Impairment of assets	5		21.1		16.9
Impairment of goodwill and intangible assets	11 & 12		172.6		192.1
Loss (gain) on disposal of assets			(1.2)		0.4
Future income taxes	7		(31.9)		(66.9)
Net change in accrued pension benefit asset and liability	24		(7.4)		(6.0)
Stock-based compensation	19		4.3		2.3
Other			10.1		1.7
Cash flow from operating activities before changes in non-cash operating items			247.5		296.9
Changes in non-cash operating items	22		(168.7)		(12.9)
Cash flow related to operating activities			78.8		284.0
Investing activities					
Business acquisitions	23		(14.4)		(67.3)
Acquisitions of property, plant and equipment			(261.9)		(228.7)
Disposals of property, plant and equipment			16.3		1.9
Increase in other assets and intangible assets			(25.5)		(31.3)
Cash flow related to investing activities			(285.5)		(325.4)
Financing activities					
Increase in long-term debt			281.8		-
Repayment of long-term debt			(108.4)		(26.0)
Increase (decrease) in revolving term credit facility			(89.7)		177.7
Dividends on participating shares			(25.8)		(25.3)
Redemption of participating shares	17		-		(48.7)
Issuance of participating shares	17		0.2		0.6
Issuance of preferred shares	17		96.8		-
Other			(0.6)		(0.2)
Cash flow related to financing activities			154.3		78.1
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies			(3.6)		5.5
Increase (decrease) in cash and cash equivalents			(56.0)		42.2
Cash and cash equivalents at beginning of year			90.7		48.5
Cash and cash equivalents at end of year		$	34.7	$	90.7

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

1. Significant accounting policies

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

a) Consolidation

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

b) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements of the Corporation. Although management regularly reviews its estimates, actual results could differ from them. The most significant areas requiring the use of management estimates are: provisions, including provisions for bad debts and inventory obsolescence, impairment of assets, restructuring costs, amortization periods of property, plant and equipment and intangible assets, accounting for income taxes, valuation of goodwill and intangible assets, stock-based compensation costs and accounting for pension plans.

c) Revenue recognition

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

Volume discounts and amortization of contracts acquisition costs are recorded as reductions in revenues in the consolidated statements of income.

Media sector revenues are recognized as follows:

Advertising revenues:

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

Subscription revenues:

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

Distribution revenues:

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

Newsstand revenues:

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

Educational books revenues:

Educational books revenues are recognized upon shipment to customers, since the transfer of ownership passes upon shipment under terms of contracts.

d) Non-monetary transactions

In the normal course of business, the Corporation offers advertising in exchange for goods and services. The related revenues are accounted for based on the fair value of the goods and services received or given. For the year ended October 31, 2009, the Corporation recognized an amount of $9.5 million as non-monetary transactions ($7.2 million for the year ended October 31, 2008).

e) Income taxes

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

f) Tax credits

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

g) Cash and cash equivalents

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

1. Significant accounting policies (continued)

h) Transfer of receivables

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

i) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

j) Vendor rebates

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

k) Property, plant and equipment

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

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

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

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

l) Goodwill

Goodwill represents the excess of acquisition cost over fair value of net assets of acquired businesses. Goodwill has an indefinite useful life and is not amortized but tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment.

m) Intangible assets

Intangible assets are stated at cost and amortized as follows:

	Term	Method
Customer relationships	12 years	Straight-line
Educational books prepublication costs	Maximum 5 years	On historical sales patterns
Educational book titles	6 - 9 years	On historical sales patterns
Acquired printing contracts	Term of the contract	Straight-line
Non-compete agreements	2 - 5 years	Straight-line
Long-term technology project costs	5 years	Straight-line

Non-amortizable intangible assets consist of trade names, mainly from acquired magazines and newspapers, and their related circulation. These intangible assets have an indefinite useful life and are not amortized but tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment.

n) Contracts acquisition costs

Contracts acquisition costs are amortized as reductions of revenues using the straight-line method over the related contract term or on sales volumes. Whenever events or changes occur that impact the related contract, including significant declines in anticipated profitability, the Corporation evaluates the carrying value of the contracts acquisition costs to determine whether impairment has occured. These costs are included in other assets in the consolidated balance sheets.

o) Asset retirement obligations

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

p) Impairment of long-lived assets

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

1. Significant accounting policies (continued)

q) Pension plans

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

r) Foreign currency translation

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

s) Financial instruments

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

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

The Corporation has made the following classifications:

- Cash and cash equivalents, as well as derivative financial instruments not designated as hedges, are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Investments are classified as either financial assets held to maturity and are thus measured at amortized cost or as available-for-sale and thus marked-to-market, or measured at cost if there is no quoted market. If they are measured at fair value, variations are recorded through comprehensive income at each period-end.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Bank overdraft, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Derivative financial instruments are measured at fair value. The change in fair value related to the effective portion of the hedge is recognized in other comprehensive income, net of income taxes.

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

Hedging relationships

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

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

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

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

(in millions of dollars, except per share data)

2. Changes in accounting policies

a) General Standards of Financial Statement Presentation

On November 1, 2008, the Corporation adopted Section 1400 of the CICA Handbook, General Standards of Financial Statement Presentation. This Section includes 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:

Increase (decrease)	As at October 31, 2008	As at November 1, 2007
Intangible assets	$ 17.9	$ 16.2
Other assets	(23.3)	(18.7)
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 applied retrospectively had the following effects on the results of the year ended October 31, 2008: increase operating costs by $3.0 million, decrease amortization by $1.0 million and decrease income taxes by $0.7 million.

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, by taking into account the credit risk in the evaluation of derivative financial instruments, the following items were reduced: 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.

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.

d) International Financial Reporting Standards (IFRS)

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

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

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

(in millions of dollars, except per share data)

4. Amortization

	2009	2008 (Note 2)
Property, plant and equipment	$ 125.9	$ 118.1
Intangible assets	11.5	9.6
	137.4	127.7
Intangible assets and other assets, presented in revenues, operating costs and financial expenses	24.3	22.1
	$ 161.7	$ 149.8

5. Impairment of assets and restructuring costs

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

a) During the second quarter of fiscal 2009, the Corporation announced major rationalization measures to address the recession, including substantive cost-cutting measures throughout Canada, the United States and Mexico. The 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, magazine and newspaper advertising placements have been cancelled or postponed by companies that are being affected by the recession. It is expected that these initiatives will be completed in 2010.

b) During the fourth quarter of fiscal 2008, the Corporation initiated a plan to consolidate production from the Warminster and Hamburg facilities in the Hamburg facility. These two facilities are part of the Direct Mail group of the Printing sector. This consolidation is part of a strategy to adapt production capacity to the 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 2010.

c) 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 2008.

d) During the first quarter of fiscal 2007, the Corporation initiated a restructuring plan for its marketing products printing operations in the Printing and Marketing Communications sectors. The restructuring was completed during the fourth quarter of 2008.

e) During the second quarter of fiscal 2006, the Corporation adopted a plan for the consolidation of its marketing products printing facilities located in the Toronto area in the Marketing Communications sector. The consolidation was completed during the fourth quarter of 2008.

The following table provides details of these plans:

	Total		2009				2008	
	Charged to income	Forecasted	Liability as at October 31, 2008	Charged to income	Paid	Liability as at October 31, 2009	Charged to income	Paid
a) Rationalization Measures								
Printing								
Workforce reduction costs	$ 14.8	$ 15.6	$ -	$ 14.8	$ 10.5	$ 4.3	$ -	$ -
Transfer of printing equipment and other costs	1.0	1.0	-	1.0	0.9	0.1	-	-
Marketing Communications								
Workforce reduction costs	10.1	10.2	-	10.1	4.8	5.3	-	-
Transfer of printing equipment and other costs	2.4	2.7	-	2.4	2.4	-	-	-
Media								
Workforce reduction costs	9.0	9.0	-	9.0	5.3	3.7	-	-
	37.3	38.5	-	37.3	23.9	13.4	-	-
Printing								
Impairment of assets	13.2	13.2	n/a	13.2	n/a	n/a	-	n/a
Marketing Communications								
Impairment of assets	4.3	4.3	n/a	4.3	n/a	n/a	-	n/a
Media								
Impairment of assets	1.5	1.5	n/a	1.5	n/a	n/a	-	n/a
	$ 56.3	$ 57.5	$ -	$ 56.3	$ 23.9	$ 13.4	$ -	$ -

(in millions of dollars, except per share data)

5. Impairment of assets and restructuring costs (continued)

	Total		2009				2008	
	Charged to income	Forecasted	Liability as at October 31, 2008	Charged to income	Paid	Liability as at October 31, 2009	Charged to income	Paid
b) Direct mail operations								
Workforce reduction costs	$ 14.2	$ 14.2	$ 7.7	$ 6.5	$ 13.5	$ 0.7	$ 7.7	$ -
Transfer of printing equipment and other costs	13.1	16.0	-	13.1	7.8	5.3	-	-
	27.3	30.2	7.7	19.6	21.3	6.0	7.7	-
Impairment of assets	17.1	17.1	n/a	2.1	n/a	n/a	15.0	n/a
	$ 44.4	$ 47.3	$ 7.7	$ 21.7	$ 21.3	$ 6.0	$ 22.7	$ -
c) Newspaper operations								
Media								
Workforce reduction costs	$ 1.4	$ 1.4	$ -	$ -	$ -	$ -	$ 1.4	$ 1.4
Transfer of printing equipment and other costs	0.7	0.7	-	-	-	-	0.7	0.7
Printing								
Workforce reduction costs	0.3	0.3	-	-	-	-	0.3	0.3
	2.4	2.4	-	-	-	-	2.4	2.4
Media								
Impairment of assets	1.9	1.9	n/a	-	n/a	n/a	1.9	n/a
	$ 4.3	$ 4.3	$ -	$ -	$ -	$ -	$ 4.3	$ 2.4
d) Commercial printing operations								
Printing								
Workforce reduction costs	$ 1.6	$ 1.6	$ -	$ -	$ -	$ -	$ -	$ 0.2
Transfer of printing equipment and other costs	0.7	0.7	-	-	-	-	0.2	0.2
Marketing Communications								
Workforce reduction costs	1.8	1.8	-	-	-	-	-	1.2
Transfer of printing equipment and other costs	1.7	1.7	-	-	-	-	0.2	0.2
	5.8	5.8	-	-	-	-	0.4	1.8
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	$ -	$ -	$ -	$ -	$ 0.4	$ 1.8
e) Toronto printing operations								
Workforce reduction costs	$ 3.0	$ 3.0	$ -	$ -	$ -	$ -	$ -	$ 0.6
Transfer of printing equipment and other costs	1.0	1.0	-	-	-	-	-	-
	4.0	4.0	-	-	-	-	-	0.6
Impairment of assets	0.2	0.2	n/a	-	n/a	n/a	-	n/a
	$ 4.2	$ 4.2	$ -	$ -	$ -	$ -	$ -	$ 0.6
Total								
Workforce reduction costs			$ 7.7	$ 40.4	$ 34.1	$ 14.0	$ 9.4	$ 3.7
Transfer of printing equipment and other costs			-	16.5	11.1	5.4	1.1	1.1
Impairment of assets			n/a	21.1	n/a	n/a	16.9	n/a
			$ 7.7	$ 78.0	$ 45.2	$ 19.4	$ 27.4	$ 4.8

(in millions of dollars, except per share data)

6. Financial expenses

		2009		2008
Financial expenses on long-term debt	$	37.1	$	29.5
Other expenses		2.6		0.6
Foreign exchange loss		1.3		0.4
	$	41.0	$	30.5

7. Income taxes

	2009	2008 (Note 2)
Statutory tax rate	30.9 %	31.0 %
Effect of foreign tax rate differences	(9.6)	(3.9)
Other	0.1	0.9
Effective tax rate before the following items:	21.4	28.0
Effect of income tax rate differences on impairment of assets and restructuring costs (Note 5)	8.0	5.4
Effect of income tax rate differences on impairment of goodwill and intangible assets (Notes 11 & 12)	(26.2)	45.8
Effect of changes in statutory tax rates (a)	-	27.5
Retroactive taxes (b)	-	17.6
Effective tax rate	3.2 %	124.3 %

a) On December 13, 2007, Bill C-28 received third reading in the House of Commons. Accordingly, the federal corporate income tax rate reductions announced in the October 30, 2007 Economic Statement became substantively enacted for the purpose of preparing the consolidated financial statements in accordance with Canadian GAAP. This decrease in federal tax rate reduced both the income tax expense and net future income tax liabilities by $7.0 million during the first quarter of 2008.

b) During the second quarter of 2008, the Corporation entered into an agreement with the tax authorities and settled its obligation regarding Bill 15 (Quebec) enacted in June 2006 for an amount of $3.9 million. An amount of $8.4 million had been provided for in the third quarter of 2006 with regards to this obligation. A decrease of $4.5 million in current income tax expense has therefore been recorded to reflect this settlement.

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

		2009		2008 (Note 2)
Current	$	29.2	$	35.2
Future				
Reduction of future income taxes related to impairment of assets and restructuring costs		(23.4)		(9.1)
Reduction of future income taxes related to impairment of goodwill and intangible assets		(14.7)		(65.3)
Increase in future income tax expense due to other temporary differences		6.2		7.5
	$	(2.7)	$	(31.7)

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

		2009		2008 (Note 2)
Losses carried forward	$	110.1	$	91.8
Property, plant and equipment, net of tax credits		(42.5)		(44.1)
Other assets (liabilities)				
Non-deductible provisions		4.0		5.8
Pension plans		3.5		8.5
Intangible assets and goodwill		(0.3)		2.8
Other		(7.6)		(4.9)
Total future income taxes	$	67.2	$	59.9
Future income taxes include the following:				
Future income tax assets - short-term	$	11.9	$	28.1
Future income tax assets - long-term		165.8		141.0
Future income tax liabilities - short-term		(0.5)		(9.9)
Future income tax liabilities - long-term		(110.0)		(99.3)
Total future income taxes	$	67.2	$	59.9

The Corporation has unrecorded tax losses of $30.3 million, mainly in certain U.S. states, which matures between 2019 and 2029, that can be applied against future taxable income. The Corporation also has unrecorded capital losses of $17.1 million, which can be carried forward indefinitely.

(in millions of dollars, except per share data)

8. Accounts receivable

On February 17, 2009, the Corporation has extended its accounts receivable securitization agreement, put in place on August 17, 2001 until August 2010, whose maximum net consideration is $300.0 million, including a maximum of US$100.0 million. The securitization agreement is subject to conditions similar to those of the previous agreement. Under this agreement, the Corporation sells, on an continuous basis, some of its accounts receivable to a trust who has sold the beneficial rights to investors unrelated to the Corporation. The Corporation has retained servicing responsibilities, resulting in a 0.5% subordinated interest with respect to the transferred receivables. No asset or liability related to the management of accounts receivable has been recorded since the fees the Corporation receives are close to the associated costs. In addition, the Corporation has retained interest in the trust, including a cash reserve and rights to future excess cash flows generated by the trust. Retained interest is recorded in accounts receivable of the Corporation, and their fair value approximates the cost given the short period of recovery of the underlying receivables. The investors and the trust have no recourse on the Corporation's other assets for failure of debtors to pay when due, other than the Corporation's retained interest and an amount, not to exceed 3.5% of the net consideration received, related to the balance of certain significant customers in excess of the normal concentration limit specified in the agreement. During 2009 and 2008, there were no defaulted receivables repurchased or any deemed collections or defaulted receivables or dilution amounts compensated for by the Corporation.

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

	As at October 31, 2009	As at October 31, 2008
Accounts receivable sold	$ 240.3	$ 291.0
Retained interest	128.4	42.0
Net consideration	$ 111.9	$ 249.0
Net consideration in Canadian dollars	$ 77.3	$ 210.0
Net consideration in U.S. dollars (US$32 million in 2009 and 2008)	$ 34.6	$ 39.0

As at October 31, 2009, the maximum net consideration that the Corporation could have obtained in accordance with the agreement terms and conditions was $202.3 million ($249.0 million as at October 31, 2008).

9. Inventories

	2009	2008
Raw materials	$ 40.9	$ 58.4
Work in progress and finished goods	37.3	40.9
	$ 78.2	$ 99.3

10. Property, plant and equipment

2009	Cost	Accumulated amortization	Net book value
Land	$ 49.9	$ -	$ 49.9
Buildings	326.9	85.4	241.5
Machinery and equipment	1,262.3	757.4	504.9
Machinery and equipment under capital leases	28.6	11.6	17.0
Other equipment	197.7	138.0	59.7
Leasehold improvements	42.2	25.3	16.9
Assets under construction and deposits on equipment	88.8	-	88.8
	$ 1,996.4	$ 1,017.7	$ 978.7

2008	Cost	Accumulated amortization	Net book value
Land	$ 50.8	$ -	$ 50.8
Buildings	210.1	82.1	128.0
Machinery and equipment	1,201.2	793.5	407.7
Machinery and equipment under capital leases	34.3	10.6	23.7
Other equipment	199.3	140.5	58.8
Leasehold improvements	50.7	35.9	14.8
Assets under construction and deposits on equipment	252.9	-	252.9
	$ 1,999.3	$ 1,062.6	$ 936.7

For the year ended October 31, 2009, capitalized interest on property, plant and equipment amounted to $3.1 million ($4.7 million in 2008).

(in millions of dollars, except per share data)

11. Goodwill

The changes in book value of goodwill are as follows:

2009	Printing sector	Marketing Communications sector	Media sector	Other activities and unallocated amounts	Total Corporation
Balance, beginning of year	$ 131.5	$ 202.8	$ 507.4	$ 0.9	$ 842.6
Acquisitions (Note 23)	-	(1.3)	0.5	-	(0.8)
Impairment	-	(166.5)	-	-	(166.5)
Foreign currency translation adjustment	(0.3)	(1.6)	-	-	(1.9)
Balance, end of year	$ 131.2	$ 33.4	$ 507.9	$ 0.9	$ 673.4
2008					
Balance, beginning of year	$ 281.5	$ 147.9	$ 504.3	$ 0.9	$ 934.6
Acquisitions (Note 23)	-	49.0	3.1	-	52.1
Impairment	(192.1)	-	-	-	(192.1)
Foreign currency translation adjustment	42.1	5.9	-	-	48.0
Balance, end of year	$ 131.5	$ 202.8	$ 507.4	$ 0.9	$ 842.6

During fiscal year 2009, the Corporation has conducted its annual impairment test of goodwill. In assessing whether or not there is an impairment, the Corporation uses a combination of approaches to determine the fair value of a reporting unit, including both the discounted cash flows and the market approaches. Under the market approach, the Corporation estimates the fair value of the reporting unit by multiplying normalized earnings before amortization, interest and income taxes by multiples based on market inputs. If there is an indication of impairment, the Corporation uses a discounted cash flow model in estimating it. The future cash flows are based on the Corporation's estimates and include consideration for expected future operating results, economic conditions, savings associated with the restructuring plans and a general outlook for the industry in which the reporting unit operates.

Due to difficult economic conditions, the Corporation recorded, for the year ended October 31, 2009 an amount of $166.5 million as impairment of goodwill in the Marketing Communications sector, mostly related to commercial printing activities. For the year ended October 31, 2008, an amount of $192.1 million as impairment of goodwill has been recorded in the Printing sector, related to direct mail activities.

12. Intangible assets

2009	Cost	Accumulated amortization	Net book value
Amortizable intangible assets			
Customer relationships	$ 35.2	$ 6.8	$ 28.4
Educational books prepublication costs	51.9	34.0	17.9
Educational book titles	20.0	10.9	9.1
Acquired printing contracts	14.6	5.5	9.1
Non-compete agreements	6.0	5.1	0.9
Long-term technology project costs	12.7	7.8	4.9
Other	2.6	2.1	0.5
	143.0	72.2	70.8
Non-amortizable intangible assets			
Trade names and circulation	110.4	-	110.4
	$ 253.4	$ 72.2	$ 181.2
2008			
Amortizable intangible assets (Note 2)			
Customer relationships	$ 26.8	$ 5.0	$ 21.8
Educational books prepublication costs	44.1	28.2	15.9
Educational book titles	20.1	7.5	12.6
Acquired printing contracts	14.6	4.7	9.9
Non-compete agreements	5.4	3.6	1.8
Long-term technology project costs	4.4	3.1	1.3
Other	9.6	8.9	0.7
	125.0	61.0	64.0
Non-amortizable intangible assets			
Trade names and circulation	120.1	-	120.1
	$ 245.1	$ 61.0	$ 184.1

During fiscal year 2009, the Corporation recorded an impairment of trade names of $9.9 million related to Business and Consumers Solutions Group in the Media sector, including $3.8 million resulting of restructuring initiatives presented in Note 5. During fiscal 2008, an impairment of intangible assets of $3.6 million was recorded in impairment of assets and restructuring costs related to direct mail activities in the Printing sector and is presented in Note 5.

(in millions of dollars, except per share data)

13. Other assets

	2009	2008 (Note 2)
Contracts acquisition costs	$ 45.8	$ 52.7
Investments	1.0	0.6
Accrued pension benefit asset (Note 24)	6.1	4.8
Fair value of derivative financial instruments	7.7	0.3
Other	7.4	6.4
	$ 68.0	$ 64.8

14. Operating line of credit

Lenders of the Corporation and its subsidiaries are unsecured and rank equally. As at October 31, 2009, in addition to the term revolving credit facility disclosed in Note 15, the Corporation had an authorized operating line of credit that amounted to $4.5 million. As at that date, the operating line of credit was not drawn. The line of credit bears interest at the bank prime rate, is payable on demand, not subject to any restrictive covenant and requires no commitment fee.

15. Long-term debt

	Effective interest rate as of October 31, 2009	Maturity	2009	2008
Unsecured Senior Notes				
Series 2002 A - Tranche 1 - 5.62% (US$75.0)	5.69 %	2013	$ 81.1	$ 90.3
Series 2002 A - Tranche 2 - 5.73% (US$50.0)	5.80 %	2015	54.1	60.2
Series 2004 A - LIBOR + 0.70% (US$37.5)	1.10 %	2012	40.6	45.2
Series 2004 B - LIBOR + 0.70% (US$37.5)	1.10 %	2012	40.6	45.2
Series 2004 C - LIBOR + 0.80% (US$15.0)	1.19 %	2014	16.2	18.1
Series 2004 D - LIBOR + 0.90% (US$10.0)	1.28 %	2016	10.8	12.0
Unsecured Senior Debentures Series I - 6.05%	- %	-	-	100.0
Loans secured by property, plant and equipment having a net book value of $4.2	5.69% to 6.54 %	2011-2014	4.3	5.6
Obligations under capital leases secured by property, plant and equipment having a net book value of $19.1	3.30% to 8.00 %	2010-2014	10.7	16.4
Revolving credit facility in Canadian dollars	2.68 %	2012	170.0	210.0
Revolving credit facility in U.S. dollars (2009 - US$103.0; 2008 - US$157.0)	0.98 %	2012	111.4	189.1
Unsecured Debentures - Solidarity Fund QFL				
Series 1 - 8.06%	8.21 %	2014	50.0	-
Series 2 - 6.77%	6.92 %	2011	50.0	-
Term loan - SGF Rexfor Inc. - 8.25%	8.60 %	2014	50.0	-
Term credit facility - Caisse de dépôt et placement du Québec				
Banker's acceptance rate + 6.375%	7.21 %	2014	100.0	-
Term loan - HypoVereinsbank - EURIBOR + 1.60% (€23.7 million)	3.99 %	2015	37.7	-
Other loans at contractual rates of 0.00% to 8.00%	3.27% to 8.00 %	2011-2016	6.2	6.9
			833.7	799.0
Issuance costs of long-term debt at amortized cost			6.9	2.6
Total long-term debt			826.8	796.4
Current portion			7.8	194.3
			$ 819.0	$ 602.1

The Series 2002 A Unsecured Senior Notes are redeemable at the greater of par value and the discounted value of future cash flows using an interest rate based on U.S. Treasury Securities, having similar maturities. Series 2004 A, 2004 B, 2004 C and 2004 D Unsecured Senior Notes are redeemable at their nominal value, except for Series 2004 D, which is redeemable at a premium of 0.5% as of October 31, 2009. Under the Note Purchase Agreement, the Corporation must maintain certain financial ratios.

During the third quarter of fiscal 2009, Unsecured Senior Debentures totalling $ 100.0 million matured and were repaid out of the revolving term credit facility.

(in millions of dollars, except per share data)

15. Long-term debt (continued)

As at October 31, 2009, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling $550.0 million or the US dollar equivalent, divided in two tranches, A and B, of $400.0 million and $150.0 million, respectively. As at October 31, 2009, the Corporation had borrowed $131.4 million on Tranche A, including C$20.0 million and US$103.0 million, and $150.0 million on Tranche B. On December 4, 2009, the Corporation repaid and cancelled the Tranche B revolving credit facility of $150.0 million. The maturity of Tranche B was May 14, 2010. Henceforth, the term revolving credit facility of the Corporation will consist solely of Tranche A which matures in September 2012.

The applicable interest rate on Tranche A is based on the credit rating assigned by Standard & Poor's. Depending on the form of borrowing chosen by the Corporation, it is currently either, bank prime rate, bankers' acceptance rate + 0.615% or LIBOR + 0.615%. Facility fees of 0.135% are applicable on Tranche A, whether it is drawn or not, and utilization fees of 0.10% are applicable if the amount drawn is over 66 2/3% of Tranche A. This tranche may be renewed on an annual basis and, if not renewed, it matures five years after its issuance or the last renewal, as the case may be. The last renewal request sent by the Corporation has been approved by the bank syndicate and has been in force since August 30, 2007.

During the third quarter of fiscal 2009, the Corporation extended its revolving credit facility ("Tranche B") by 364 days. The renewal of a portion of $125.3 million was executed on May 5, 2009 and another portion of $24.7 million on July 14, 2009, for a total of $150 million. The applicable interest rate on Tranche B is based on the credit rating assigned by Standard & Poor's. Depending on the form of borrowing chosen by the Corporation, the interest rate applicable as at October 31, 2009 was, either prime rate + 1.40%, bankers' acceptance rate + 2.40% or LIBOR + 2.40%. Facility fees of 0.85% are applicable on Tranche B, whether it is drawn or not.

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

As of October 31, 2009, letters of credit amounting to C$0.5 million and US$4.1 million were drawn on the committed line of credit in addition to the amount presented above.

During the second quarter of fiscal 2009, the Corporation closed a private placement offering of $100.0 million comprised of two unsecured debentures of $50.0 million, with the Solidarity Fund QFL. The first has a term of five years and bears interest at a rate of 8.06%, payable every six months. The second has a term of 10 years and bears interest at a rate of 6.77%, payable every six months, for the first two years. The Solidarity Fund QFL may request that the Corporation repurchase the second debenture on its second anniversary. The rate for the last eight years will be negotiated in the six months preceding the second anniversary of the second debenture. The rate will be based on the Canada bonds rate for the same term plus a premium based on the Corporation's credit rating. On August 5, 2009, the Corporation entered into a bond forward contract of $50.0 million, which matures on November 5, 2010, to lock the portion of the rate of the second debenture based on the Canada bonds rate at 4.34% for the last eight years of its 10-year term, beginning on its second anniversary.

During the third quarter of fiscal 2009, the Corporation concluded a five-year term loan of $50.0 million with SGF Rexfor Inc. The loan bears interest at 8.25%, payable every three months, based on the Corporation's current credit rating assigned by Standard & Poor's.

During the third quarter of fiscal 2009, the Corporation concluded a five-year credit facility of $100.0 million with Caisse de dépôt et placement du Québec. The facility bears interest at bankers' acceptance rate + 6.37%, based on the Corporation's current credit rating assigned by Standard & Poor's. The Corporation has subsequently entered into two interest rate swaps of $50.0 million each to lock the rate for five years at 8.39%.

In the case of a change of control of the Corporation, the terms of conditions of the loans received from Solidarity Fund QFL, SGF Rexfor Inc. and Caisse de dépôt et placement du Québec, state that the principal and accrued interest could become due.

The term loan with SGF Rexfor Inc. and the credit facility from Caisse de dépôt et placement du Québec are redeemable after their second anniversary, at a penalty of 2% of the principal repaid on the third year, 1% on the fourth year and without any penalty thereafter. The two unsecured debentures of the Solidarity Fund QFL are redeemable following their second anniversary, at the higher of par value or the discounted value of future cash flows using an interest rate based on the yield of Canadian government bonds for a similar term.

During the third quarter of fiscal 2009, the Corporation concluded a six-year financing of €55.6 million ($88.4 million) with European bank HypoVereinsbank, to acquire various production equipment over the next two years. This financing will be drawn in tranches, based on equipment delivery dates. This financing is payable in equal instalments including principal plus interests, every six months from the date of the last payment, which cannot be later than July 2010 and it bears interest at EURIBOR + 1.60%. On December 1st, 2009, the Corporation entered into a six-year cross currency swap agreement, to lock the exchange rate at 1.5761 and to convert the interest rate to banker's acceptance rate plus 2.55%.

For the years ended October 31, 2009 and 2008, the Corporation has not been in default under any of its obligations.

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

	Principal payments
2010	$ 7.8
2011	64.0
2012	372.4
2013	90.7
2014	226.0
2015 and thereafter	72.8
	$ 833.7

(in millions of dollars, except per share data)

15. Long-term debt (continued)

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

	Principal	Interest	Minimum payments
2010	$ 4.9	$ 0.5	$ 5.4
2011	2.5	0.3	2.8
2012	1.2	0.1	1.3
2013	0.8	0.1	0.9
2014	1.3	-	1.3
	$ 10.7	$ 1.0	$ 11.7

16. Other liabilities

	2009	2008
Deferred subscription revenues	$ 4.3	$ 8.0
Long-term accrued liabilities	20.0	21.6
Accrued pension benefit liability (Note 24)	18.7	24.8
Asset retirement obligations	1.0	1.2
Fair value of derivative financial instruments	4.3	9.9
	$ 48.3	$ 65.5

17. Share capital

Authorized (unlimited number)

Class A Subordinate Voting Shares:	subordinate participating voting shares carrying one vote per share, no par value;
Class B Shares:	participating voting shares carrying 20 votes per share, convertible into Class A Subordinate Voting Shares, no par value;
Preferred Shares:	first and second preferred shares, issuable in series in numbers limited by the Articles of Incorporation, carrying no voting rights except as provided by law or in the Corporation's Articles of Incorporation, entitling the holder to cumulative dividends.

	2009		2008	
Issued and paid	Number of shares	Amount	Number of shares	Amount
Participating shares				
Class A Subordinate Voting Shares	64,749,030	$ 357.9	64,243,743	$ 357.0
Class B Shares	16,045,707	21.8	16,534,638	22.5
	80,794,737	379.7	80,778,381	379.5
Preferred Shares				
Cumulative 5-Year Rate Reset First Preferred Shares, Series D	4,000,000	96.8	-	-
		$ 476.5		$ 379.5

During fiscal years 2009 and 2008, the share capital of the Corporation changed as follows:

	2009		2008	
	Number of shares	Amount	Number of shares	Amount
Class A Subordinate Voting Shares				
Balance, beginning of year	64,243,743	$ 357.0	66,704,849	$ 372.1
Conversion of Class B Shares into Class A Subordinate Voting Shares	488,931	0.7	367,034	0.5
Redemption of shares	-	-	(2,894,100)	(16.2)
Exercise of stock options	16,356	0.2	65,960	0.6
Balance, end of year	64,749,030	$ 357.9	64,243,743	$ 357.0
Class B Shares				
Balance, beginning of year	16,534,638	$ 22.5	16,909,672	$ 23.0
Conversion of Class B Shares into Class A Subordinate Voting Shares	(488,931)	(0.7)	(367,034)	(0.5)
Redemption of shares	-	-	(8,000)	-
Balance, end of year	16,045,707	$ 21.8	16,534,638	$ 22.5

(in millions of dollars, except per share data)

17. Share capital (continued)

	2009 Number of shares	2009 Amount	2008 Number of shares	2008 Amount
Cumulative 5-Year Rate Reset First Preferred Shares, Series D				
Balance, beginning of year	-	$ -	-	$ -
Issuance of shares	4,000,000	96.8	-	-
Balance, end of year	4,000,000	$ 96.8	-	$ -

On October 2, 2009, the Corporation issued 4 000 000 Cumulative 5-Year Rate Reset First Preferred Shares, Series D (the "Series D Preferred Shares") for a gross amount of $100.0 million. The Series D Preferred Shares have a fixed cumulative annual dividend of 6.75% for the first five years, payable quarterly in January, April, July and October. As of October 15, 2014, the cumulative annual dividend will be equivalent to the 5-Year Government of Canada Bond Yield, plus 4.16% for the next five years. These Series D Preferred Shares are redeemable by the Corporation every five years and convertible (under certain conditions), to the holder's option, in Cumulative Floating Rate First Preferred Shares (the "Series E Preferred Shares"), effective October 15, 2014, and every five years thereafter on that date. The Series E Preferred Shares will have a cumulative quarterly dividend equivalent to the yield of Treasury Bills of the Government of Canada maturing within three months plus 4.16%. These Series E Preferred Shares will be redeemable by the Corporation after five years and will be convertible (under certain conditions), to the holder's option, into Series D Preferred Shares, as of October 15, 2019, and every five years subsequently at that date.

Redemption of shares

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

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

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

During the fiscal years 2009 and 2008, the following redemptions have been made:

	2009 Number of shares purchased	2009 Weighted average price	2009 Total consideration	2008 Number of shares purchased	2008 Weighted average price	2008 Total consideration
Class A Subordinate Voting Shares	-	$ -	$ -	2,894,100	$ 16.77	$ 48.5
Class B Shares	-	$ -	-	8,000	$ 18.34	0.2
			$ -			$ 48.7
Book value			$ -			$ 16.2
Premium paid			-			32.5
			$ -			$ 48.7

Exercise of stock options

When officers and senior executives exercise their stock options, the amounts received from them are credited to share capital. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital. For the year ended October 31, 2009, the amount received was $0.2 million, and no amount was transferred from contributed surplus to share capital. For the year ended October 31, 2008, the amount received was $0.6 million and no amount was transferred from contributed surplus to share capital.

18. Net income (loss) per share

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

	2009	2008 (Note 2)
Numerator		
Net income (loss) applicable to participating shares	$ (82.3)	$ 6.6
Denominator (in millions)		
Weighted average number of participating shares - basic	80.8	81.7
Weighted average number of dilutive options	-	0.1
Weighted average number of participating shares - diluted	80.8	81.8
Net income (loss) per share - basic	$ (1.02)	$ 0.08
Net income (loss) per share - diluted	$ (1.02)	$ 0.08

In the calculation of the diluted earnings per share, 1,566,045 stock options were considered anti-dilutive as at October 31, 2009 (1,545,195 in 2008), since their exercise price was greater than the average value of Class A Subordinate Voting Shares during the period. Therefore, these stock options were excluded from the calculation.

19. Stock-based compensation plans

Stock option plan

The Corporation offers a stock option plan for the benefit of certain of its officers and senior executives. The number of Class A Subordinate Voting Shares authorized for issuance and the balance of shares that could be issued under this plan as at October 31, 2009 were 6,078,562 and 4,802,158, respectively. The stock options granted before March 31, 2005 start to vest after one year at a rate of 20% per year and must be exercised no later than ten years after the grant date. The stock options granted after March 30, 2005 start to vest after one year at a rate of 25% per year and must be exercised no later than seven years after the grant date. Under the plan, each stock option entitles its holder to receive one share upon exercise and the exercise price is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation costs of $1.6 million and $2.1 million were charged to income and as an increase to contributed surplus of shareholders' equity for fiscal 2009 and 2008, respectively.

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

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	1,820,621	$ 18.61	1,865,306	$ 18.79
Granted	317,700	9.64	159,700	15.51
Exercised	(16,356)	9.88	(65,960)	9.76
Cancelled	(115,390)	19.15	(138,425)	21.64
Balance end of year	2,006,575	$ 17.23	1,820,621	$ 18.61
Options exercisable as at October 31	1,415,620	$ 18.65	1,219,691	$ 18.31

As at October 31, 2009, the balance of stock options available for grant under the plan was 2,795,583.

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

	Options outstanding				Options exercisable	
	Exercise price range	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
2009						
	$ 8.85 - 11.13	570,700	4.1	$ 9.83	257,050	$ 10.06
	$ 15.51 - 24.01	1,435,875	3.9	20.17	1,158,570	20.55
		2,006,575	4.0	$ 17.23	1,415,620	$ 18.65
2008						
	$ 8.85 - 11.13	275,426	2.6	$ 10.06	275,426	$ 10.06
	$ 17.80 - 24.01	1,545,195	5.0	20.14	944,265	20.72
		1,820,621	4.6	$ 18.61	1,219,691	$ 18.31

(in millions of dollars, except per share data)

19. Stock-based compensation plans (continued)

The table below summarizes the assumptions used to calculate the weighted average fair value of stock options granted on the date of grant using the Black-Scholes model as at October 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. A portion of share units will vest based on performance targets and another portion of share units will vest based on tenure. DSUs and RSUs are recognized as a compensation expense on a straight-line basis, over the three-year vesting period based on forecasted attainment of targets. DSUs and RSUs are remeasured at intrinsic value at each reporting period, until settlement in the case of DSUs or until the vesting date in the case of RSUs, which corresponds to the settlement date, using the trading price of the Corporation's Class A Subordinate Voting Shares. Intrinsic value variations are accounted for as compensation expense with a corresponding credit to accounts payable and accrued liabilities in the consolidated balance sheet. Vested DSUs and RSUs will be paid, at the Corporation's option, in cash or with Class A Subordinate Voting Shares of the Corporation purchased on the open market.

	DSU		RSU	
Number of units	2009	2008	2009	2008
Balance, beginning of year	103,282	165,592	221,357	26,507
Units granted	44,081	-	384,865	194,850
Units cancelled	(20,674)	(41,119)	(57,414)	-
Units paid	-	(21,360)	-	-
Dividends paid in units	1,181	169	-	-
Balance, end of year	127,870	103,282	548,808	221,357

The expense recorded in the consolidated statement of income for the year ended October 31, 2009 and 2008 was $1.9 million and $1.0 million, respectively. No amount has been paid under the plan for the year ended October 31, 2009 ($0.4 million for the year ended October 31, 2008).

Share unit plan for directors

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

Number of units	2009	2008
Balance, beginning of year	108,621	79,938
Directors compensation	54,521	36,545
Units paid	-	(9,627)
Dividends paid in units	4,641	1,765
Balance, end of year	167,783	108,621

The expense (reversal) recorded in the consolidated statements of income for the year ended October 31, 2009 and 2008 was $0.8 million and $(0.2) million, respectively. No amount has been paid under the plan for the year ended October 31, 2009 ($0.2 million for the year ended October 31, 2008).

(in millions of dollars, except per share data)

20. Contributed surplus

	2009	2008
Balance, beginning of year	$ 11.3	$ 9.2
Compensation costs relating to stock option plan (Note 19)	1.6	2.1
Balance, end of year	$ 12.9	$ 11.3

21. Accumulated other comprehensive loss

	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as at November 1, 2007	$ (42.3)	$ 9.2	$ (33.1)
Net change in unrealized gains (losses), net of income taxes	17.4	(25.0)	(7.6)
Balance as at October 31, 2008	$ (24.9)	$ (15.8)	$ (40.7)
Change in accounting policies - Goodwill and intangible assets (Note 2)	(0.6)	-	(0.6)
Balance as at October 31, 2008 - restated	(25.5)	(15.8)	(41.3)
Change in accounting policies - Credit risk and fair value of financial assets and financial liabilities (Note 2)	-	0.6	0.6
Balance as at November 1, 2008 - restated	(25.5)	(15.2)	(40.7)
Net change in unrealized gains, net of income taxes	4.7	15.9	20.6
Balance as at October 31, 2009	$ (20.8)	$ 0.7	$ (20.1)

As at October 31, 2009, the amounts expected to be reclassified to net income are as follows:

	2010	2011	2012	2013	2014	Total
Gains (losses) on derivatives designated as cash flow hedges	$ (2.6)	$ (0.2)	$ 0.5	$ 1.6	$ 1.5	$ 0.8
Income taxes recovered (expensed)	0.7	0.1	(0.1)	(0.4)	(0.4)	(0.1)
	$ (1.9)	$ (0.1)	$ 0.4	$ 1.2	$ 1.1	$ 0.7

22. Cash flows

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

	2009	2008
Accounts receivable	$ (143.6)	$ 14.5
Income taxes receivable	0.4	(2.9)
Inventories	18.7	(4.5)
Prepaid expenses and other current assets	(4.1)	4.0
Accounts payable and accrued liabilities	(12.8)	(29.5)
Income taxes payable	(21.5)	12.4
Deferred subscription revenues and deposits	(5.8)	(6.9)
	$ (168.7)	$ (12.9)
Additional Information		
Interest paid	$ 38.8	$ 32.0
Income taxes paid	$ 43.8	$ 26.6

(in millions of dollars, except per share data)

23. Business acquisitions and disposals

2009

During the year ended October 31, 2009, the Corporation made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Marketing Communications	100% of the shares of Conversys, first Canadian provider of electronic flyers.	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

Rastar, Inc.
During fiscal year 2009, adjustments were made to the purchase price allocation of Rastar, Inc., acquired September 4, 2008, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The table below presents these adjustments.

ThinData
During fiscal year 2009, adjustments were made to the purchase price allocation of ThinData, acquired March 11, 2008, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The amount of these adjustments is negligible.

The fair value of net assets acquired is summarized as follows:

	Rastar	Other	Total
Assets acquired			
Working capital	$ (0.3)	$ 2.6	$ 2.3
Property, plant and equipment	(6.8)	2.0	(4.8)
Goodwill (tax basis adjustment of $(7.1))	(7.1)	6.3	(0.8)
Amortizable intangible assets	13.8	0.8	14.6
Future income taxes	0.7	0.3	1.0
	$ 0.3	$ 12.0	$ 12.3
Liabilities assumed			
Long-term debt	$ -	$ 0.4	$ 0.4
Other liabilities	1.3	0.3	1.6
Future income taxes	(1.2)	0.6	(0.6)
	0.1	1.3	1.4
	$ 0.2	$ 10.7	$ 10.9
Consideration			
Cash paid	$ 0.2	$ 10.8	$ 11.0
Cash in acquired operations	-	(0.4)	(0.4)
	0.2	10.4	10.6
Short-term liabilities	-	0.3	0.3
	$ 0.2	$ 10.7	$ 10.9

Other
The purchase price allocation of all other acquisitions 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.
During fiscal year 2009, the Corporation paid an amount of $3.8 million, which was included in the short-term liabilities as at October 31, 2008.

(in millions of dollars, except per share data)

23. Business acquisitions and disposals (continued)

2008

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

Operating sector	Acquisitions	Date of acquisition
Marketing Communications	100% of the shares of Rastar, Inc., a US-based direct marketing company that specializes in interactive database marketing and variable data digital printing.	September 4, 2008
	90% of the shares of ThinData, Canada's leading permission-based email marketing services firm.	March 11, 2008
Media	100% of the shares of *L'express le journal d'ici,* a French-language bi-monthly newspaper serving the city of Saint-Lin-Laurentides, in Quebec.	June 13, 2008
	Assets of Acquizition.biz, Canada's largest Web-based platform for buying and selling businesses.	May 7, 2008
	Assets of *L'Autre Voix* , weekly newspaper in the eastern Quebec City area.	December 21, 2007
	Assets of *Corriere Italiano* , weekly newspaper serving the Italian community in Montreal area.	December 18, 2007
	Assets of *The Springhill-Parrsboro Record* , weekly newspaper in Nova Scotia.	November 23, 2007

The fair value of net assets acquired is summarized as follows:

	Rastar	PLM	Other	Total
Assets acquired				
Working capital	$ (0.1)	$ 2.5	$ 0.8	$ 3.2
Property, plant and equipment	17.2	(0.4)	0.6	17.4
Goodwill (tax basis of $40.6 million)	38.4	(3.4)	17.1	52.1
Amortizable intangible assets	-	3.5	1.8	5.3
Future income taxes	-	0.9	-	0.9
Other assets	0.1	-	0.2	0.3
	$ 55.6	$ 3.1	$ 20.5	$ 79.2
Liabilities assumed				
Notes payable	$ -	$ -	$ 1.2	$ 1.2
Long-term debt	9.8	-	0.5	10.3
Other liabilities	-	1.9	-	1.9
Future income taxes	-	2.0	0.8	2.8
	9.8	3.9	2.5	16.2
	$ 45.8	$ (0.8)	$ 18.0	$ 63.0
Consideration				
Cash paid	$ 46.8	$ 3.3	$ 18.2	$ 68.3
Cash in acquired operations	(1.1)	-	(1.8)	(2.9)
	45.7	3.3	16.4	65.4
Short-term liabilities	0.1	(4.1)	0.1	(3.9)
Long-term liabilities (bearing no interest)	-	-	1.5	1.5
	$ 45.8	$ (0.8)	$ 18.0	$ 63.0

PLM Group Ltd.

During fiscal year 2008, adjustments were made to the purchase price allocation of PLM Group Ltd., acquired October 16, 2007, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition. The table above presents these adjustments. In addition, during fiscal year 2008, the Corporation acquired an additional 2% of the shares of PLM Group Ltd. for $1.9 million, which was included in non-controlling interest as at October 31, 2007.

(in millions of dollars, except per share data)

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

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

The composition of the pension plan assets is as follows:

	2009	2008
Canadian and foreign stocks	67 %	57 %
Government and corporate bonds	31	32
Cash and temporary investments	2	11
	100 %	100 %

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

	2009	2008
Accrued benefit obligation		
Balance, beginning of year	$ 297.8	$ 350.1
Change in exchange rate	(0.3)	1.3
Current service cost	12.9	19.0
Interest on accrued benefit obligation	22.4	19.4
Actuarial losses (gains)	20.3	(93.1)
Benefits paid	(13.6)	(11.0)
Plan amendments	(0.2)	-
Plans compression	0.3	-
Employee contributions	9.3	9.3
Transfers from (to) other plans	(5.7)	2.8
Accrued benefit obligation, end of year	$ 343.2	$ 297.8
Fair value of plan assets		
Balance, beginning of year	$ 252.1	$ 294.3
Change in exchange rate	(0.2)	1.3
Actual return on plan assets	39.1	(66.5)
Benefits paid	(13.6)	(11.0)
Employer contributions	24.5	21.9
Employee contributions	9.3	9.3
Transfers from (to) other plans	(4.2)	2.8
Fair value of plan assets, end of year	$ 307.0	$ 252.1
Plan deficit	$ (36.2)	$ (45.7)
Unamortized net actuarial losses	20.8	22.6
Unamortized past service costs	-	0.1
Unamortized transitional obligation	2.8	3.0
Accrued benefit liability	$ (12.6)	$ (20.0)

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

	2009	2008
Other assets	$ 6.1	$ 4.8
Other liabilities	(18.7)	(24.8)
	$ (12.6)	$ (20.0)

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

	2009	2008
Accrued benefit obligation	$ 327.7	$ 259.4
Fair value of plan assets	289.0	213.4
Funded status - plan deficit	$ (38.7)	$ (46.0)

(in millions of dollars, except per share data)

24. Pension plans (continued)

The major assumptions used are as follows:

	2009	2008
Accrued benefit obligation as at October 31		
Discount rate, at year-end	6.5 %	7.25 %
Rate of compensation increase	3,5 - 4,5 %	4,0 - 5,0 %
Benefit cost for years ended October 31		
Discount rate, at previous year-end	7.25 %	5.75 %
Expected long-term rate of return on plan assets	7.50 %	7.50 %
Rate of compensation increase	4,0 - 5,0 %	4,0 - 5,0 %

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

		2009		2008
Current service cost	$	12.9	$	19.0
Interest on accrued benefit obligation		22.4		19.4
Actual return on plan assets		(39.1)		66.5
Actuarial losses (gains) on accrued benefit obligation		20.3		(93.1)
Losses on plans compression		1.2		-
Cost of defined benefit pension plans before adjustments to recognize the long-term nature of employee future benefit cost	$	17.7	$	11.8
Adjustments to recognize the long-term nature of employee future benefit cost				
Difference between expected return and actual return on plan assets for the year		19.6		(89.0)
Difference between actuarial losses (gains) recognized for the year and actual actuarial losses (gains) on accrued benefit obligation for the year		(20.4)		93.0
Difference between amortization of past service costs for the year and actual plan amendments effective for the year		0.1		0.1
Amortization of the transitional obligation		0.1		0.1
Defined benefit cost recognized	$	17.1	$	16.0

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

		2009		2008
Employer contributions	$	3.2	$	2.9

25. Commitments, guarantees and contingent liabilities

Commitments

The Corporation is committed under various leases of premises and contracts to acquire a building, machinery and equipment, to make payments until 2028. Minimum payments required over the following years for these commitments are as follows:

		2010		2011		2012		2013		2014		2015 and thereafter		Total
Premises lease contracts	$	31.8	$	29.2	$	25.5	$	21.3	$	17.6	$	82.5	$	207.9
Building, machinery and equipment acquisition contracts		66.8		11.5		-		-		-		-		78.3
	$	98.6	$	40.7	$	25.5	$	21.3	$	17.6	$	82.5	$	286.2

Guarantees

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

a) Sub-lease agreements

The Corporation has entered into sub-lease agreements, for some of its locations under operating leases, with expiry dates between 2010 and 2014. If the sub-lessee defaults under any of these agreements, the Corporation must compensate the lessor for the default. The maximum exposure in respect of these guarantees is estimated at $1.9 million. As at October 31, 2009, the Corporation has not recorded any liability associated with these guarantees, since it is not probable that the sub-lessee will default under the agreement.

(in millions of dollars, except per share data)

25. Commitments, guarantees and contingent liabilities (continued)

b) Indemnification of third parties

Under the terms of its debt agreements, the Corporation has agreed to indemnify the holders of such debt instruments against any increase in their costs or reduction in the amounts otherwise payable to them resulting from changes in laws and regulations. Furthermore, the Corporation provides certain indemnifications to third parties under the terms of its securitization agreement. These indemnifications require the Corporation to make payments to third parties in the event of (i) changes to certain laws and regulations, (ii) any collection shortfalls resulting from negative changes in foreign currency rates, and (iii) any litigation matters relating to the arrangement and/or underlying receivables sold. These indemnification agreements extend for the term of the agreements and do not have any limit. Given the nature of these indemnifications, the Corporation is unable to reasonably estimate its maximum potential liability payable to third parties. Historically, the Corporation has never made any indemnification payments and as at October 31, 2009, the Corporation has not recorded a liability associated with these indemnifications.

c) Business disposals

As a result of the sale of business operations or assets, the Corporation may occasionally agree to provide indemnity against claims from previous business activities. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that it could be required to pay to guarantee parties. Historically, the Corporation has not made any significant indemnification payments, and, as at October 31, 2009, the Corporation has not recorded any liability associated with these indemnifications.

Contingent liabilities

In the normal course of business, the Corporation is involved in various claims and legal proceedings. Although the resolution of these various cases pending as at October 31, 2009, cannot be determined with certainty, the Corporation believes that their outcome would not likely have a material adverse effect on its financial position and operating results, given the provisions on its books or insurance covering a number of these items.

26. Financial instruments

Credit risk

The Corporation is exposed to credit risk with respect to trade receivables. It is also exposed to credit risk as part of its ongoing activities relative to its cash and cash equivalents and derivatives assets.

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

Due to the diversification of its products, its customers and its geographic coverage, the Corporation is protected against any concentration of credit risk. As at October 31, 2009, no single customer accounts for more than 5% of consolidated accounts receivable, and the Corporation's 20 largest customers accounts for less than 25% of its consolidated accounts receivable. As at October 31, 2009, the maximum credit risk exposure for receivables corresponds to their carrying value. The Corporation also has a credit insurance policy covering most of its major customers, for a maximum amount of $29.0 million. The policy contains the usual clauses and limits regarding the amounts that can be claimed by event and year of coverage. The Corporation did not file any claim against this credit insurance policy for the year period ended October 31, 2009.

The Corporation determines past due receivables by considering the type of clients, historical payment terms and in which sector the clients conduct business. On a quarterly basis, allowance for doubtful accounts and past due receivables are reviewed by management. The Corporation records impairment only on receivables for which the recoverability is not reasonably certain.

The Corporation is exposed to credit risk arising from derivative financial instruments if a counterparty fails to meet its obligations; however, it does not foresee such an occurrence since it deals only with recognized financial institutions with superior credit ratings. As at October 31, 2009, the maximum exposure to credit risk is $11.9 million ($0.3 million as at October 31, 2008) which represents the carrying value of the financial instruments representing assets on the balance sheet of the Corporation.

Past due accounts receivable	As at October 31 2009	As at October 31 2008
Not past due	$ 274.2	$ 155.8
Past due 1-60 days	19.6	17.8
Past due 61-90 days	5.2	4.9
Past due more than 90 days	13.4	12.5
	312.4	191.0
Allowance for doubtful accounts	(12.2)	(10.4)
Other receivables	30.5	26.5
	$ 330.7	$ 207.1

Allowance for doubtful accounts

	2009	2008
Balance, beginning of year	$ 10.4	$ 10.1
Bad debt expense	8.2	4.3
Amounts written off and recoveries	(6.4)	(4.0)
Balance, end of year	$ 12.2	$ 10.4

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

(in millions of dollars, except per share data)

26. Financial instruments (continued)

Liquidity risk

The Corporation is exposed to liquidity risk with respect to accounts payable, long-term debt, derivatives and contractual obligations.

The table below presents the contractual maturities of financial liabilities as at October 31, 2009.

	Carrying amount	Contractual cash flows	1 year or less	1 - 3 years	3 - 5 years	More than 5 years
Non-derivative financial liabilities						
Accounts payable and accrued liabilities (1)	$ (373.7)	$ (373.7)	$ (373.7)	$ -	$ -	$ -
Long-term debt	(826.8)	(964.5)	(42.2)	(498.3)	(349.4)	(74.6)
Long-term accounts payable (2)	(9.3)	(9.3)	-	(8.5)	(0.8)	-
	$ (1,209.8)	$ (1,347.5)	$ (415.9)	$ (506.8)	$ (350.2)	$ (74.6)
Derivative financial liabilities						
Foreign exchange forward contracts						
Outflow	$ -	$ (128.2)	$ (63.3)	$ (64.9)	$ -	$ -
Inflow	6.6	134.6	65.5	69.1	-	-
Commodity swap agreements	(0.8)	(0.8)	(0.8)	-	-	-
Interest rate swaps	(3.6)	(4.7)	(5.5)	(2.2)	3.0	-
Bond forward	(1.3)	(1.3)	-	(1.3)	-	-
Total return swap agreement	(0.1)	(0.1)	(0.1)	-	-	-
	0.8	(0.5)	(4.2)	0.7	3.0	-
	$ (1,209.0)	$ (1,348.0)	$ (420.1)	$ (506.1)	$ (347.2)	$ (74.6)

(1) Excludes derivatives
(2) Excludes non-financial liabilities

The Corporation believes that future cash flows generated by operations and access to additional liquidity through capital and banking markets will be adequate to meet its financial obligations. In addition, the Corporation has concluded long-term contracts with most of its major customers. These contracts contain cost-escalation clauses equivalent to those required by the Corporation's suppliers.

Interest rate risk

The Corporation is exposed to market risks related to interest-rate fluctuations. In order to mitigate this risk, the Corporation aims to maintain an adequate balance of fixed versus floating rate debt. As at October 31, 2009, the floating rate portion of long-term debt represented 63% (65% as at October 31, 2008) of the total while the fixed rate portion represented 37% (35% as at October 31, 2008).

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.

As at October 31, 2009, in order to mitigate the interest rate risk, the Corporation entered into interest rate swap agreements on long-term debt denominated in Canadian dollars, on a notional amount of $225.0 million, including $125.0 million maturing in September 2012 and $100.0 million maturing in May 2014. These swap agreements convert the variable interest rate, based on bankers' acceptance rate, into an average fixed interest rate of 6.16% including the applicable margin. Considering the effect of these derivative financial instruments, the floating rate portion of long-term debt represented 36% of the total while the fixed portion represented 64%. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout fiscal year 2009.

During fiscal 2009, the Corporation entered into a bond forward contract of $50.0 million, which matures on November 5, 2010, to fix the portion of the rate of the second debenture issued to Solidarity Fund QFL based on the Canada bonds rate at 4.34% for the last eight years of its 10-year term, beginning on its second anniversary.

(in millions of dollars, except per share data)

26. Financial instruments (continued)

For the years ended October 31, 2009 and 2008, all things being equal, the following variation in interest rates would have had the following impact on net income and on other comprehensive loss:

	Year ended October 31, 2009		Year ended October 31, 2008	
	Net income	Other comprehensive loss	Net income	Other comprehensive loss
Increase of 1.00% in interest rate	$ (2.8)	$ 8.3	$ (4.4)	$ 3.2
Decrease of 0.25% in interest rate	0.7	(2.1)	1.1	(0.8)

Foreign exchange risk

The Corporation has operations in the United States and Mexico, exports its products to the United States and purchases machinery and equipment in U.S. dollars and Euros. In addition, as at October 31, 2009, the Corporation has long-term debt in U.S. dollars and Euros for a total amount of US$331.9 million and €23.7 million (US$388.0 million and no amount in euros as at October 31, 2008) . The Corporation is therefore exposed to foreign exchange risk.

To mitigate the foreign exchange risk related to its exports to the United States, the Corporation enters into foreign exchange forward contracts. As at October 31, 2009, the Corporation entered into foreign exchange forward contracts to sell US$118.0 million, (US$136.0 million as at October 31, 2008) of which US$64.0 million, US$39.0 million and US$15.0 million will be sold in fiscal years 2010, 2011 and 2012, respectively. The terms of these forward contracts range from one month to 25 months, with rates varying from 1.0156 to 1.2946. As at October 31, 2009, the Corporation was not party to any collar (US$6.0 million as at October 31, 2008). Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the year 2009.

For the years ended October 31, 2009 and 2008, all things being equal, an hypothetical strengthening of 10.0% of the U.S. dollar and Euro against the Canadian dollar would have had the following impact on net income and on other comprehensive loss:

	Year ended October 31, 2009		Year ended October 31, 2008	
	Net income	Other comprehensive loss	Net income	Other comprehensive loss
U.S. dollar	$ 1.5	$ (8.7)	$ 7.4	$ (10.8)
Euro	(3.2)	-	-	(0.1)

A hypothetical weakening of 10.0% of the U.S. dollar and Euro against the Canadian dollar would have the opposite impact on net income and other comprehensive loss.

Stock-based compensation costs risk

The Corporation is exposed to a financial risk related to stock-based compensation costs. Potential fluctuations in its Class A Subordinate Voting Share price would have an impact on the charge related to its share unit plan as described in Note 19. During the first quarter of fiscal 2007, the Corporation entered into a total return swap agreement with a financial institution in order to minimize this financial risk. The Corporation now receives or pays, on a quarterly basis, the difference between the fixed share price of the total return swap and the Class A Subordinate Voting Share price, less any amount previously received or paid. During the second quarter of fiscal 2008, the Corporation modified the total return swap to increase the total number of share units covered by the total return swap. As at October 31, 2009, the total return swap agreement covered 154,000 Class A Subordinate Voting Shares at an average fixed price of $20.01. The remaining term of this total return swap agreement is 27 months, with an option to terminate it before its maturity date without any penalty.

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

For the years ended October 31, 2009 and 2008, all things being equal, an hypothetical strengthening or weakening of 5.0% of the Class A Subordinate Voting Share price would have had a negligible impact on net income and other comprehensive income (loss).

(in millions of dollars, except per share data)

26. Financial instruments (continued)

Fair value

The book value of certain financial instruments maturing in the short-term approximates their fair value. These financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The table below shows the fair value and the book value of other financial instruments as at October 31, 2009 and 2008. The fair value is determined essentially by discounting cash flows or quoted market prices. The fair values calculated approximate the amounts for which the financial instruments could be settled between consenting parties, based on current market data for similar instruments. Consequently, as estimates must be used to determine fair value, they must not be interpreted as being realizable in the event of an immediate settlement of the instruments.

	2009		2008	
	Fair value	Book value	Fair value	Book value
Long-term debt	$ 838.6	$ 826.8	$ 788.6	$ 796.4
Foreign exchange forward contracts	6.6	6.6	16.9	16.9
Commodity swap agreements	(0.8)	(0.8)	(0.2)	(0.2)
Interest rate swap agreements	(3.6)	(3.6)	(4.7)	(4.7)
Bond forward	(1.3)	(1.3)	-	-
Total return swap agreement	(0.1)	(0.1)	(0.1)	(0.1)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data

2009	Level 1	Level 2	Level 3	Total
Foreign exchange forward contracts	$ -	$ 6.6	$ -	$ 6.6
Commodity swap agreements	-	(0.8)	-	(0.8)
Interest rate swap agreements	-	(3.6)	-	(3.6)
Bond forward	-	(1.3)	-	(1.3)
Total return swap agreement	-	(0.1)	-	(0.1)
	$ -	$ 0.8	$ -	$ 0.8

27. Capital management

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

- Optimize leverage position by targeting a net debt (including utilization of the securitization program) to operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets ratio between 2.0 and 2.5;
- Maintain an investment grade credit rating;
- Preserve its financial flexibility in order to benefit from potential opportunities as they arise.

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

The Corporation now uses as a main indicator to measure leverage the net debt (including utilization of the securitization program) to operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets ratio. For calculation purposes, net debt refers to long-term debt, current portion of long-term, debt plus bank overdraft and utilization of the securitization program, less cash and cash equivalents.

As at October 31, 2009, the net debt (including utilization of the securitization program) to operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets ratio was 2.59. As at October 31, 2008, the same ratio was 2.64. The variation of this ratio was mainly due, first, by the reduction of net debt related to the issuance of preferred shares and the Canadian dollar appreciation, which offset the increase in debt from the important program of capital investments and, secondly, the decrease in operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets.

For the year ended October 31, 2009, the Corporation has not been in default under any of its obligations regarding the term revolving credit facility, the securitization program and other financial obligations.

(in millions of dollars, except per share data)

28. Segmented information

At the beginning of the fiscal year, the Corporation announced the implementation of a new operating structure to support its growth strategy by creating the Marketing Communications sector. The operating sectors were modified to reflect the implementation of this new operating structure. The comparative figures have been reclassified in order to present the information in accordance with the new operating structure.

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

Operating sectors	2009	2008
		(Note 2)
Revenues		
Printing sector	$ 1,405.6	$ 1,536.7
Marketing Communications sector	373.5	341.7
Media sector	607.0	645.3
Other activities and unallocated amounts	7.7	13.1
Inter-segment sales		
Printing sector	(71.3)	(80.5)
Marketing Communications sector	(9.6)	(7.8)
Media sector	(18.3)	(19.2)
Total inter-segment sales	(99.2)	(107.5)
	$ 2,294.6	$ 2,429.3
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		
Printing sector	$ 224.2	$ 230.5
Marketing Communications sector	24.0	33.1
Media sector	110.4	118.2
Other activities and unallocated amounts	(9.3)	(20.3)
	$ 349.3	$ 361.5
Operating income (loss)		
Printing sector	$ 88.8	$ (67.3)
Marketing Communications sector	(186.1)	9.4
Media sector	76.7	98.7
Other activities and unallocated amounts	(18.1)	(26.5)
	$ (38.7)	$ 14.3
Acquisitions of property, plant and equipment (1)		
Printing sector	$ 210.4	$ 237.1
Marketing Communications sector	14.0	15.0
Media sector	10.5	14.9
Other activities and unallocated amounts	7.0	6.1
	$ 241.9	$ 273.1

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

Amortization of property, plant and equipment and intangible assets	2009	2008
Printing sector	$ 86.1	$ 82.6
Marketing Communications sector	26.7	23.6
Media sector	17.1	15.6
Other activities and unallocated amounts	7.5	5.9
	$ 137.4	$ 127.7

(in millions of dollars, except per share data)

28. Segmented information (continued)

Operating sectors	As at October 31, 2009	As at October 31, 2008 (Note 2)
Assets		
Printing sector	$ 1,470.2	$ 1,277.3
Marketing Communications sector	301.6	479.2
Media sector	763.9	774.1
Other activities and unallocated amounts	14.0	84.4
	$ 2,549.7	$ 2,615.0

Geographical regions	2009	2008 (Note 2)
Revenues		
Canada		
Within Canada	$ 1,744.9	$ 1,836.8
Exports	207.3	215.0
	1,952.2	2,051.8
United States and Mexico	342.4	377.5
	$ 2,294.6	$ 2,429.3
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		
Canada	$ 326.5	$ 338.7
United States and Mexico	22.8	22.8
	$ 349.3	$ 361.5
Operating income (loss)		
Canada	$ 3.5	$ 231.6
United States and Mexico	(42.2)	(217.3)
	$ (38.7)	$ 14.3

	As at October 31, 2009	As at October 31, 2008 (Note 2)
Assets		
Canada	$ 2,097.1	$ 2,106.3
United States and Mexico	452.6	508.7
	$ 2,549.7	$ 2,615.0
Property, plant and equipment		
Canada	$ 648.9	$ 710.8
United States and Mexico	329.8	225.9
	$ 978.7	$ 936.7
Goodwill		
Canada	$ 670.0	$ 795.1
United States and Mexico	3.4	47.5
	$ 673.4	$ 842.6

29. Subsequent events

Reorganization of operating structure

On November 1st, 2009, following a strategic review conducted with senior managers to consolidate Transcontinental's leading position in the printing, media and marketing communications markets, management has decided to transfer all of its Canadian commercial printing activities from the Marketing Communications Sector to the Printing Sector. This consolidation of the printing activities in one sector and the concentration of the marketing communications multiplatform integrated solutions in another sector will accelerate the development of Transcontinental's new products and services for customers and strengthen its position in its core activities.

Ontario Corporate income tax rate reduction

On November 16, 2009, the Ontario Tax Plan for More Jobs and Growth Act (2009), Bill 218 received first reading in the Legislative Assembly of Ontario. Accordingly, the corporate tax rate reductions announced in the March 26, 2009 Ontario budget became substantively enacted for the purpose of preparing the consolidated financial statements in accordance with Canadian GAAP. This future decrease in provincial tax rate will reduce both the income tax expense and net future income tax liabilities by approximately $2.4 million during the first quarter of fiscal 2010.

Hedging on debt in euro currency

On December 1st, 2009, the Corporation entered into a cross currency swap agreement, with a maturity of six years, to lock the exchange rate and convert the interest rate on a term loan of €55.6 million concluded with European bank HypoVereinsbank, bearing interest at EURIBOR plus 1.60%. This instrument locks the exchange rate at 1.5761 and converts the interest rate to the bankers' acceptance rate plus 2.55%.

Repayment of the Tranche B of the revolving credit facility

On December 4, 2009, the Corporation reimbursed and cancelled Tranche B of the term revolving credit of $150.0 million. This tranche would have matured on May 14, 2010. Henceforth, the Corporation's term revolving credit now consists of Tranche A of $400 million which matures in September 2012

30. Comparative figures

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