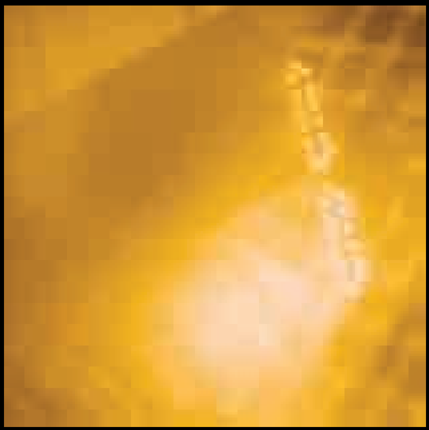
Transcontinental Inc. Annual Report 2007

The Race Towards Excellence

Annual Report 2007



Transcontinental

Highlights

for the years ended October 31

(Unaudited)

(in millions of dollars, except per share data)	2007	Change in %	2006 (restated) [1]
Operations			
Revenues [2]	**$2,326.2**	2	$ 2,282.3
Adjusted operating income before amortization [3] [4]	**350.4**	2	342.7
Operating income	**217.8**	2	212.9
Net income	**120.6**	(11)	135.8
Adjusted net income [3] [5]	**127.2**	(4)	132.2
Cash flow from operating activities before changes in non-cash operating items [3]	**289.1**	7	271.1
Cash flow related to operating activities	**241.0**	13	214.0
Investments			
Acquisitions of property, plant and equipment	**130.2**	14	113.9
Business acquisitions [6]	**132.5**	13	117.0
Financial condition			
Total assets	**2,369.6**	5	2,262.4
Net indebtedness [3] [7]	**489.0**	25	391.3
Shareholders' equity	**1,177.6**	4	1,137.6
Net indebtedness / Total capitalization	**29 %**	12	26 %
Per share data (basic)			
Net income	**$ 1.42**	(9)	$ 1.56
Adjusted net income [3] [5]	**1.50**	(1)	1.51
Cash flow from operating activities before changes in non-cash operating items [3]	**3.41**	10	3.11
Cash flow related to operating activities	**2.84**	16	2.45
Dividends on shares	**0.275**	10	0.250
Shareholders' equity	**14.09**	7	13.23
Average number of shares outstanding (in millions)	**84.9**		87.3
Number of shares at end of year (in millions)	**83.6**		86.0

(1) Financial statements for the year ended October 31, 2006, were restated (See Note 2 in the consolidated financial statements).

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

(3) Please refer to the section "Reconciliation of non-GAAP Financial Measures" on page 45 of this Management's Discussion and Analysis.

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

(5) Adjusted net income refers to net income before impairment of assets and restructuring costs, net of income taxes, and unusual adjustments to income taxes (See Notes 4 and 6 to the consolidated financial statements).

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

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

Letter to Our Shareholders

by Rémi Marcoux

During the past five years, Transcontinental has ranked as one of the top players in its industry.

The real test, for athletes and for businesses, is maintaining success over a long period of time. Year in and year out, we have demonstrated our ability to improve our operating performance despite the challenges posed by economic conditions, competition or technological change.

The Race Towards Excellence **is an innovative concept that will culminate at the same time as the Olympic games in Vancouver in 2010. Given the timeframe, the analogy with sports evolved quite naturally.**

As was the case for our industry as a whole, fiscal 2007 was a more difficult year for Transcontinental. Circumstances like the unprecedented rise in the Canadian dollar versus the U.S. dollar and the mortgage crisis in the United States particularly impacted our results. Since 2003, for instance, the exchange rate alone has reduced our revenues by $181 million, our operating income by $72 million and our adjusted earnings per share by $0.57.

However, throughout this same period, Transcontinental has ranked as one of the top players in its industry. The real test, for athletes and for businesses, is maintaining success over a long period of time. Year in and year out, we have demonstrated our ability to improve our operating performance despite the challenges posed by economic conditions, competition or technological change.

First, our solid balance sheet and ability to generate operating funds provide us with the financial resources to maintain our growth; in the past three years, these resources have enabled us to invest an average of $250 million a year in property, plant and equipment acquisitions and business acquisitions. In capital expenditures alone, our *Evolution 2010* business project calls for an average investment of $120 million per year, without counting special projects like the outsourcing contract to print the *San Francisco Chronicle* and our non-capitalized investments in the digital development of our Media sector. Indeed, one of these special projects involved an investment of more than $50 million to make our Canadian printing plants more competitive on the U.S. market.

Furthermore, we took advantage of the higher Canadian dollar to increase our investments in the United States, particularly in direct marketing and our newspaper printing outsourcing model. We have also used it to make our people more aware than ever of the need for innovation and efficiency improvement. Ultimately, we have come out stronger.

That is why I am confident that we will achieve the financial objectives of *Evolution 2010*, which include an average increase in adjusted earnings per share of 10% a year, excluding the foreign exchange rate impact, and organic growth in revenue of 5% a year.

The communications industry is undergoing a period of rapid and profound change; it also offers many excellent opportunities for development, but we must have the right game plan. It is my conviction that Transcontinental has the strategy, business model, values and leaders to come out ahead.

A Targeted Strategy

Transcontinental has a targeted strategy in terms of both geography and the products and services we offer. Our goal is not to be the biggest in the world, but to be the best in each of our markets and niches.

As a publisher, for instance, our newspaper strategy is based on geographic communities, and our magazine strategy on communities of interest.

Transcontinental is Canada's second-largest publisher of community newspapers, with 172 titles in seven provinces. The vital role these newspapers play in their respective communities makes them irreplaceable partners. In 2007, we acquired new titles in four Canadian provinces. In addition, our magazines are specialized in several niches, including women's and men's magazines, home and garden, sports and leisure, and business and finance. Serving communities of interest, these magazines are the perfect answer to market fragmentation and are a unique asset in the media portfolio. With the addition of several titles in 2007, including the Canadian edition of *More*, Transcontinental has consolidated its position as Canada's leading consumer magazine publisher.

As a printer, we occupy the top spot in most of our niches (flyers and inserts, books, newspapers, direct marketing and commercial products) nation-wide and we are a strong second in magazines and catalogues. We plan to continue to strengthen our position in each of these niches in Canada, as shown by the acquisition of PLM Group, the country's fourth-largest printer and a leader in direct marketing.

Most of our future growth will thus come from international markets, where our strategy is also niche-based.

The United States and Mexico comprise our priority markets. This geographic diversification is a natural outcome of the ever-increasing integration of our economies. We are also employing a niche-based strategy for our products and services, focusing on segments with high growth potential. Our facilities in Pennsylvania, California and Texas make us one of the largest suppliers of integrated direct marketing services in the United States. In book printing, we have specialized in short and medium runs. This expertise earned us the title of designated printer, for the third consecutive volume, of the French-language edition of the Harry Potter series for the Canadian market.

Trend Watch

Our business model is based on developing close relationships with our clients, whether advertisers or consumers. This gives us a better sense of their emerging needs and of major trends in the marketplace. Of these, I can name three that are in the process of changing our industry: personalized advertising, fragmentation of delivery platforms and the shift to using fewer suppliers.

For Transcontinental, personalization is second nature. Our door-to-door distribution network is built on socioeconomic data that can be broken out by region, by neighbourhood and even by street. In addition to flyer printing, our offer to retailers includes value-added services such as data management and loyalty programs. We have thus quite naturally become an important player in the direct marketing industry in North America, a niche that thrives on data management. In 2007, we launched a custom publishing venture, Transcontinental Custom Communications, with Seven Squared, one of the most well-known agencies in this market in the United Kingdom.

As for information technology, our strategy is to offer readers and advertisers multiple channels for attracting and retaining those interested in a given niche. We are doing this by intensifying the development of digital services aimed at attracting the communities served by our publications. These services include cyberbrands, brand extensions, transactional websites, portals and webcasting. The prestige and credibility of our brands are a powerful leveraging tool.

The third trend is the desire of businesses to reduce the number of suppliers with whom they deal. In return, the “select few” must cover the broadest possible range of their customers' needs. This, in fact, is how Transcontinental has always operated. We were the first in Canada to offer retailers a full prepress-printing-distribution service via a one-stop shop. This is the guiding principle behind the way we have reorganized our sales over the past several years, with a focus on promoting cross-selling initiatives.

The culmination of efforts to reduce the number of suppliers is outsourcing, when a client entrusts you with a complete stage of his production chain. This requires a quality of relationship that cannot be improvised or imported: business credibility that is established patiently over the years. Our outsourcing expertise can take various forms. For instance, we offer our customers the possibility of taking over more of their direct marketing campaigns, or of transferring their pre-media services to us, as some major Canadian retailers have already done.

But it is in newspaper printing outsourcing that Transcontinental stands out most in North America. We have developed a unique outsourcing service, starting with prestigious clients like *The Globe and Mail*, *La Presse* and *The New York Times* for the Ontario and Upstate New York markets. A major breakthrough came in November 2006 when we announced a 15-year contract, valued at a billion U.S. dollars (excluding paper), to print the *San Francisco Chronicle*, owned by Hearst Corporation. Production will start in spring 2009. We are optimistic that we will soon announce another new contract.

Outsourcing is an invaluable asset that Transcontinental can use to great advantage in its future growth. Once we become part of a customer's value chain, we become partners in the fullest sense of the word. What we achieve, in fact, is maximum customer loyalty.

Values and Environment

In any enterprise, it is the professional and moral values, at every level of the organization, that distinguish it from other ventures. I am proud of Transcontinental's reputation for acting with integrity and respect in its daily relations not only with investors and business partners, but also with employees and the communities we serve.

Transcontinental has always set the example when it comes to the environment. In 2007, we continued to play a leadership role in this area in our own way, by mobilizing our employees and taking concrete action. We launched *Vision durable*, a magazine devoted to sustainable development, and its website visiondurable.com; we offered book publishers 100% recycled paper at price parity; a seventh printing plant earned FSC certification; and we won many awards in the United States and Canada.

I am particularly proud of two of our initiatives. First, we established a paper purchasing policy that promotes the use of environmentally friendly papers, developed in conjunction with Markets Initiative, a non-profit organization dedicated to protecting forests and biodiversity. Second, our Publi-Sac will be biodegradable by early 2008.

Leadership

Even the best strategy will go nowhere without the people to carry it out across the organization. That is why *Evolution 2010* strongly emphasizes the leadership training of some 1500 managers. But the momentum must come from the top.

Since joining Transcontinental in May 2000, Luc Desjardins has successfully mobilized his troops in the pursuit of excellence, and I wish to pay him a well-earned tribute. He has led Transcontinental through an important stage in its development while continually protecting the interests of our shareholders. Luc will be leaving the company on February 20, 2008, the day of our annual shareholders' meeting. On behalf of the Board of Directors and all of our employees, and my own behalf, I'd like to thank him for the tremendous job he has done and wish him every success in the rest of his career.

One of Luc's great strengths has been his ability to surround himself with a strong management team, at head office and in our three operating sectors. The Board of Directors has thus identified an internal candidate to succeed him: François Olivier, President of the Printing Products and Services sector. François has had an impressive career at Transcontinental. Since 1993, he has worked his way up the ranks, exceeding expectations at every stage. But he is particularly known for developing our newspaper outsourcing model for North America. As an entrepreneur and innovator, François' core priorities are growth and performance. He enjoys solid credibility within the company. Since last September, he has held the position of Chief Operating Officer, to ensure a smooth transition with Luc. Your company is in good hands.

I invite you to read the *Review of Operations*, where Luc and his team present *The Race Towards Excellence*, an innovative concept that will culminate at the same time as the Olympic games in Vancouver in 2010. Given the time-frame, the analogy with sports evolved quite naturally.

In closing, I'd like to thank the members of the Board of Directors for their invaluable contribution to Transcontinental's development. They are exemplary in their efforts to represent the interests of all shareholders.

I'd particularly like to draw attention to the contributions of Hubert T. Lacroix and Robert Chevrier, who are leaving the Board after a number of years of loyal service. On January 1st, 2008, Mr. Lacroix became President and Chief Executive Officer of the Société Radio-Canada-CBC. Mr. Chevrier, for his part, has decided not to renew his term. Mr. Lacroix, as chair of the Human Resources and Remuneration Committee, and Mr. Chevrier, as chair of the Board's Audit Committee, have guided Transcontinental through a period of profound change and new regulatory requirements. On behalf of all our shareholders, I sincerely thank them.

Lastly, I'd like to thank our customers and shareholders for their loyal support year after year, as well as our some 15,000 employees for their dedication and commitment to the company's values.

I look forward to Transcontinental's future with great confidence and optimism. We will continue to demonstrate that we can meet the expectations of our employees, customers and shareholders, the three pillars of the Corporation.

"Rémi Marcoux"
(signed)

Rémi Marcoux, C.M., F.C.A.
Executive Chairman of the Board

January 4, 2008

Review of Operations

by Luc Desjardins

The Race Towards Excellence **is an outstanding tool that supports the long-term goal of the *Evolution 2010* business project.**

We consider *The Race Towards Excellence* our training program, where each Transcontinental unit and our some 15,000 employees will be called upon to continuously improve. By measuring ourselves against the best in each of our disciplines - our business groups - we will establish the conditions that will lead us to excellence.

Olympic athletes train physically and mentally to optimize every aspect of their performance. Similarly, our *The Race Towards Excellence* training program emphasizes four interwoven aspects, which make up *Evolution 2010*: Talent, Sales Growth, Efficiency and Digital.

In a fiscal year marked by the unexpectedly steep rise in the Canadian dollar versus the U.S. dollar and by a sudden mortgage crisis that affected our direct marketing operations in the United States, Transcontinental has once again demonstrated its ability to improve its operating performance under difficult conditions.

Excluding the negative impact of the foreign exchange rate, our annual results are better than 2006 in almost every financial category: growth of 3% in revenues, 9% in adjusted operating income before amortization, 3% in net earnings per share and 11% in adjusted net earnings per share, which is in line with our long-term objective. On this same basis, our adjusted operating income margin before depreciation and amortization rose from 15% to 15.8%, a significant jump.

These are excellent indicators of the Corporation's operating performance in 2007. Year in and year out, we continue to stand out in our industry in North America.

It holds particular promise for the future that organic growth in revenues was close to 3% and adjusted operating income before amortization was up 2%. The increase in operating income stems mainly from commercial products and magazine and catalogue printing, our Mexican operations and door-to-door distribution.

Our organic growth initiatives in 2007 included the launch of new titles, including the Canadian edition of *More* magazine and the magazine *Vision durable*; the joint venture with British agency Seven Squared to set up Transcontinental Custom Communications, which handles custom publishing; the development of digital media platforms in the Media sector; technology investments in our Canadian network of flyer printing plants; and, through our newspaper printing outsourcing model, a 15-year contract valued at over a billion U.S. dollars (excluding paper) to print the *San Francisco Chronicle* and its related products. We also set up a division that is dedicated full-time to the development of our outsourcing offer and operation of our facilities in the United States.

We also continued to grow through acquisitions in our strategic segments, adding community newspapers in four provinces: Nova Scotia, Ontario, Saskatchewan and Quebec. Our portfolio now numbers 172 community papers, for a total of 250 million copies per year. This makes Transcontinental the second-largest player in this segment in Canada.

Similarly, we strengthened our leading position in direct marketing in Canada with the acquisition of PLM Group. Founded in 1987, PLM has about 500 employees in the Greater Toronto area and reported revenues of $126 million in 2006. In addition to direct marketing products and services, PLM offers leading-edge premedia and digital printing services. It has a diversified customer base composed of a number of well-known companies. The integration process is on schedule and now, with facilities in Pennsylvania, Texas, California, Toronto and Montreal, Transcontinental heads a direct marketing network with the capacity to serve all of North America.

Our three operating sectors

Two of our three operating sectors had an excellent year, while the third is in a good position for fiscal 2008.

The Media sector saw 9% growth in revenues and 27% growth in adjusted operating income before amortization. Organic growth in revenues and in adjusted operating income before amortization was 4%. Adjusted operating income margin before depreciation and amortization was up significantly, from 16.9% in 2006 to 19.6% in 2007. Highlights of the year include the successful integration of Chenelière Éducation, Canada's leading publisher of French-language educational resources and a new growth platform for us.

In the Printing Products and Services sector revenues increased slightly and adjusted operating income before amortization was up 4%. Organic growth in revenues was 4% and in adjusted operating income before amortization, 16%. This growth was mainly generated by the Mexico Group, Book Group and Commercial Products Group. Adjusted operating income margin before depreciation and amortization rose appreciably, from 16.3% in 2006 to 16.9% in 2007.

The Marketing Products and Services sector was particularly affected by disturbances related to the installation of new equipment in Canadian flyer printing plants and the fallout from the mortgage crisis in the United States. However, there has been slight organic growth in revenues while the organic growth in adjusted operating income before amortization, mainly generated by the Catalogue and Magazine Group, was not sufficient to offset the above-mentioned negative factors. Adjusted operating income margin before depreciation and amortization declined from 13.6% in 2006 to 12.1% in 2007.

The Race Towards Excellence

I am proud that we have achieved these results in a difficult environment. They show, once again, the relevance of our targeted growth strategy, of our business model that is in touch with emerging trends, and of our values. We also have leadership at every level of the company and a culture of efficiency and excellence that will take us to new heights. To continue to leverage these strengths, we must consistently reinvent ourselves, and that is what we intend to do.

The key growth initiative in 2007 was the launch of *The Race Towards Excellence*, an outstanding tool that supports the long-term goal of the *Evolution 2010* business project, which is to be among the best in each of our business segments. This initiative provides an excellent tool for motivating all of our employees to take ownership of our business project.

We consider *The Race Towards Excellence* our training program, where each Transcontinental unit and our some 15,000 employees will be called upon to continuously improve. By measuring ourselves against the best in each of our disciplines - our business groups - we will establish the conditions that will lead us to excellence.

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Here, each aspect is described by the person driving its success.

Precise movements on a smooth surface: economy of effort and maximum speed.

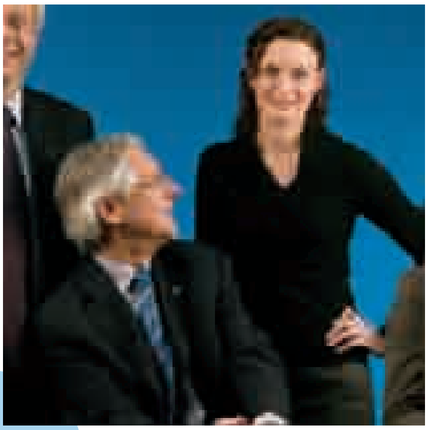
The best strategies go nowhere without the right people to carry them out.

Issue 1
TALENT

In our current economy, talent is the key competitive edge. With the pending shortage of skilled labour and increasing employee mobility, competition to recruit the best people will intensify. The main challenge is to attract, develop and retain talent.

This, in short, is the heart of the Talent issue.

At Transcontinental, we have always believed that to serve our customers and shareholders better than our competitors, we need employees who are motivated, trained, and guided by leaders and who work as a team. The task of creating an interesting work environment where employees can grow and innovate requires leadership across the board. Each leader is also responsible for preparing in-house successors and recruiting the best people to meet requirements in specific areas of expertise.



Over the years, Transcontinental has taken concrete and measurable steps to achieve these objectives, introducing programs aimed at employees, middle managers and senior executives.

The vast majority of our almost 15,000 employees have taken the *Phil – The Three Pillars™* training course, designed to impart Transcontinental's values, objectives and new ways of doing things to employees. This encourages a culture of continuous improvement and employee participation at every level of the company.

We also launched the *Mission: Leadership* program, to broaden responsibility for leadership to about 1500 of our managers at head office and the three operating sectors. The goal is to provide them with common tools to strengthen our culture of continuous improvement, accountability and talent development. More than 85% of our managers have completed this program.

85%

of managers completed Mission: Leadership *training*

Finally, for senior executives, we introduced *360° Feedback*, an evaluation exercise designed to help them set objectives and receive feedback on their behaviour as leaders.

Transcontinental has also instituted a systematic succession plan for all key positions in the company. This ensures that we have high-calibre in-house successors for each position, that we consider candidates from other areas of the company and that we promote the acquisition of new competencies as required. This year we completed the succession plan for the main executive positions and we launched the *Talent Greenhouse* to meet the specific requirements of the *San Francisco Chronicle* printing project.

In 2008, we will be accelerating the development and identification of talent so that we can be more self-sufficient in meeting our talent requirements. First, measures will be implemented so that employees who want to take part in internal project-related initiatives will be able to do so. This will allow a larger number of employees to acquire practical skills while being mentored by more experienced managers. We will also set up simple but effective benchmarks to evaluate the quality of all the Corporation's training programs. Clear objectives will be established and managers will continue to be responsible for fulfilling them jointly with their employees.

These are the main components of the Talent issue. As usual, we will be closely tracking the progress of each initiative, as the company's short, medium and long-term success depends on it. At Transcontinental, it really is the people who make the difference!

Julien Houle
Corporate Vice President,
Human Resources

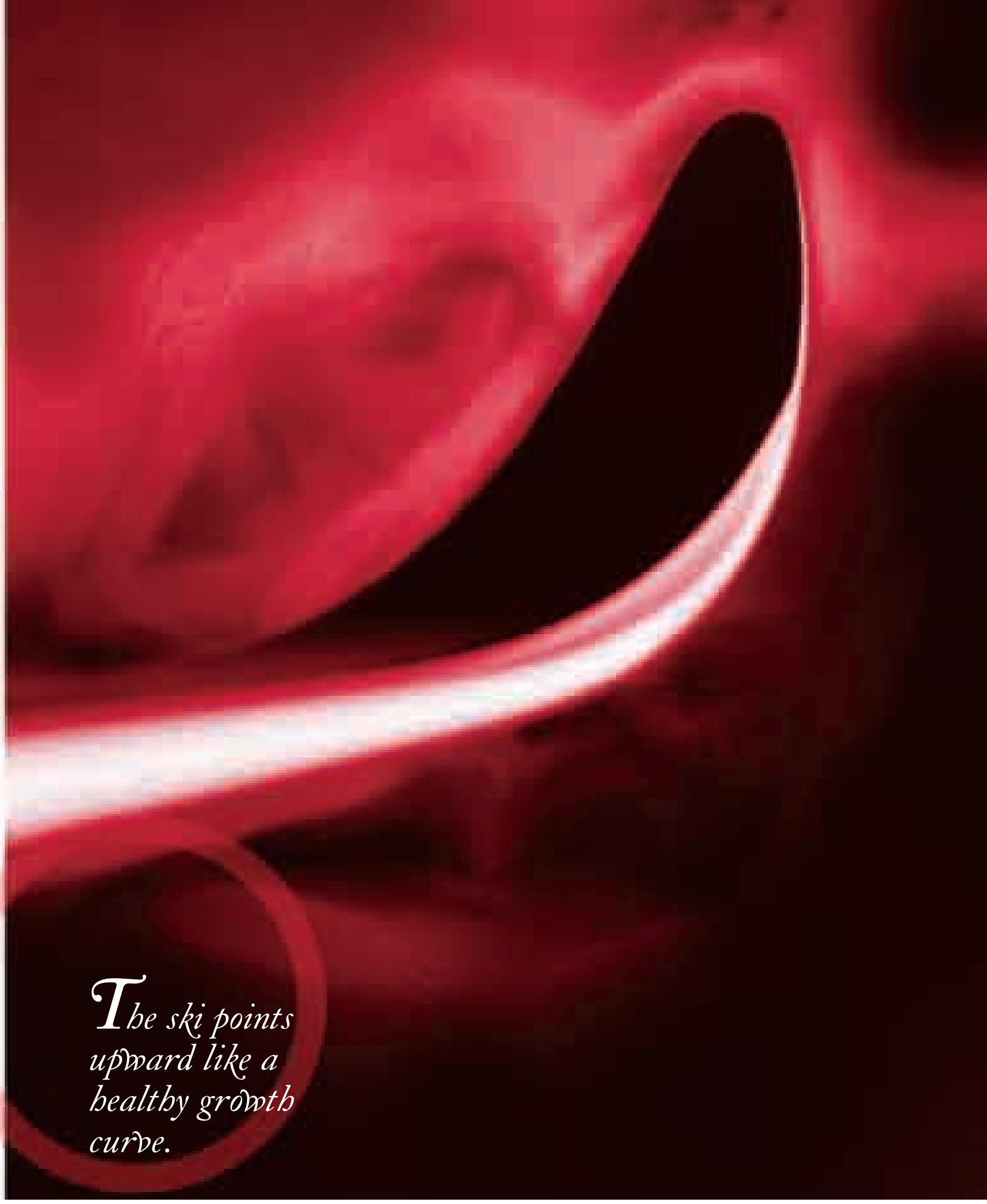
Julien Houle

Issue 2
SALES GROWTH

The unique quality of organic growth in sales is that it is, without question, the most profitable source of revenue. Our partnerships are already in place, we are in contact with our customers and we know their products. That is why the goal of *Evolution 2010* is to achieve an average organic sales growth of 5% per year. The challenge is to develop a truly sales-focused culture, and we are in an excellent position to succeed.

Organic growth derives primarily from the creative and innovative spirit of employees, and creativity and innovation are values that Transcontinental's culture promotes. In the Media sector for instance, our people have been introducing new magazine and newspaper initiatives every year: special issues and supplements, new product and service launches, and digital development.

In 2007, for example, we launched the Canadian edition of *More* magazine, which targets the 40+ female demographic. This niche was underexploited in Canada and our people recognized an excellent



The ski points upward like a healthy growth curve.

The first to the finish line by skilfully anticipating changes in the course.

François Olivier

opportunity. The first six issues have been highly successful with both readers and advertisers, with circulation topping 100,000. We experienced the same success with our new magazine *Vision durable*, which is devoted to sustainable development and the environment. It is the first French-language magazine of its kind in Canada.

Another initiative was the launch of Transcontinental Custom Communications, a custom publishing operation created as a joint venture with British agency Seven Squared. This is a niche with high growth potential and we now offer this service to our Canadian and U.S. customers. Lastly, we have intensified the development of our various digital platforms in the Media sector. For more on this, see Natalie Larivière's comments on the Digital issue, on pages 18 and 19.

In our printing operations, organic growth takes two specific forms: outsourcing and offering a broader line of products and services to existing customers.

Increasingly, companies are focusing on their core competencies; to do

5%

on average per year: target for organic growth in revenues

this, they are looking for alliances or outsourcing that provide a complementary fit. Our business credibility, acquired over years, is a unique asset; it has led customers to entrust us with entire stages of their value chain. In 2007, for instance, another major Canadian retailer outsourced its premedia activities to us. We also took a major step forward in newspaper outsourcing in the United States with an exclusive 15-year contract with the *San Francisco Chronicle*. This led to the creation of a division dedicated to the development of our outsourcing model and management of our facilities in the United States.

We have also multiplied our cross-selling initiatives, especially with large companies. The goal is to offer an expanded line of value-added products and services and to increase sales volume with all of our clients. The renewal of our agreement with the Hudson's Bay Company is an excellent example of this. In addition to printing the flyers for Zellers, The Bay and Home Outfitters, we are also handling the loyalty programs for these banners, as well as a number of other new value-added products and services. About $75 million of this contract, valued at $350 million, is new business for Transcontinental.

When it comes to organic growth, success comes from having people who are highly motivated and trained. To achieve this, 75% of our sales force in Canada and the United States, from sales representatives to sales vice presidents, have taken courses from Wilson Learning, an internationally recognized company. We want to shift the focus of our sales force from a transactional mode to a consulting mode.

Organic growth has become the top priority for businesses. I'm confident that Transcontinental will achieve its target of increasing organic growth in revenues by an average 5% per year for the 2006-2010 period.

François Olivier
Chief Operating Officer

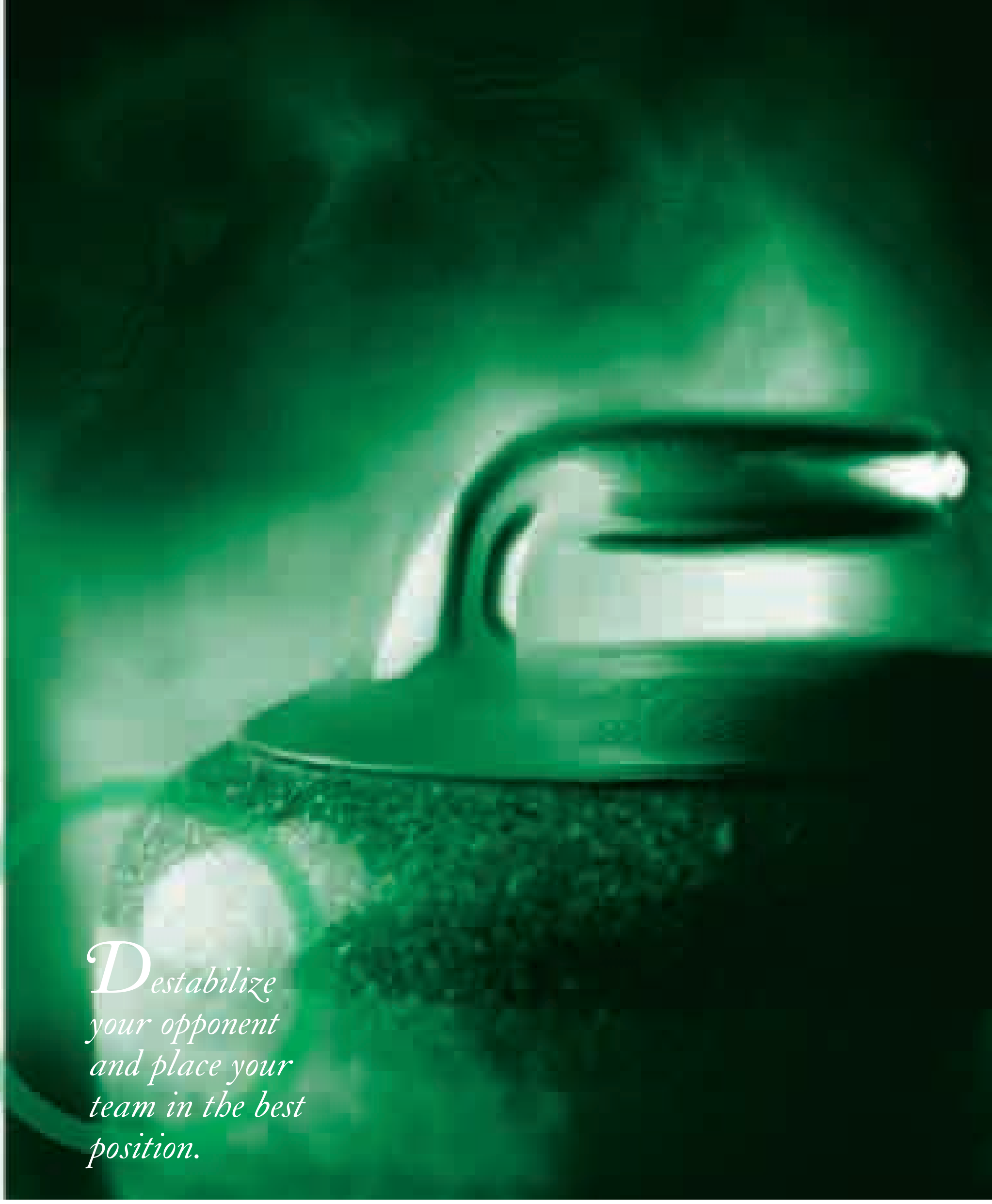
Issue 3

EFFICIENCY

Continuous improvement is a core component of Transcontinental's business culture, and it is vital to the company's survival and success. At each major phase in Transcontinental's development, we have revitalized and renewed this ability; it is in our genes.

Since 2002, almost all of our employees have taken the P*hil – The Three Pillars™* training course, which imparts our values, business objectives and new ways of doing things to employees. This broadens the culture of continuous improvement and employee participation at every level of the organization. Several hundred Kaizen workshops have helped improve administrative and production processes in our three operating sectors.

While this shows that a huge amount of work has been done, improving efficiency is, and must be, an ongoing process. We continually strive to do better.



Aim well while improving quality and the ability to execute.

Réal Boulet

That is the spirit of the Efficiency issue of *Evolution 2010:* to continue on the road to excellence. To help us in this process, we have developed the *Continuous Improvement Roadmap*. The *Roadmap* helps each business unit identify its strengths and weaknesses by measuring itself against the best in the world. But, above all, it helps units prepare an improvement plan to evaluate their progress towards excellence. This systematic approach symbolizes *The Race Towards Excellence*.

Our roadmaps contain the five essential elements for achieving excellence. They are:

- Promote solid leadership and a strong culture of continuous improvement;
- Train employees in continuous improvement and strengthen their engagement;
- Make employees responsible for business process optimization;
- Optimize operational performance by improving manufacturing processes (reducing waste, make ready time and turnaround time, and improving equipment efficiency and reliability);
- Strengthen the emphasis on customer satisfaction by providing leading products and services.

85%

of employees completed training in

Phil - The Three Pillars™

By exposing us to best practices, the roadmaps will help us take continuous improvement to a higher level in each unit. They will also help identify best practices within the company itself and encourage the sharing of knowledge and experience among units.

In terms of efficiency in a more general sense, we have continued to deploy integrated manufacturing software in close to 60% of our printing plants. The standardization of information makes it easier to compare business units and identify best practices. It also makes us more effective with our customers, who are demanding greater standardization and integration of services across the company.

The second initiative involves deployment of the 5S organizational model. A Japanese concept that sets out the principles of a top-notch and safe working environment, 5S stands for five concrete actions: sort, straighten, shine, standardize and sustain. A 5S environment helps improve productivity. For example, a filing system that is standardized and eliminates duplicate recordkeeping saves time and space. Similarly, when employees have the tools they need close at hand, machine make ready goes much faster. Having a clean and dust-free work area improves both the quality of the printed product and the quality of life for employees, and augments their sense of accountability. Many of our plants are already 5S certified and the rest will be certified, or well on the way to it, by the end of 2008.

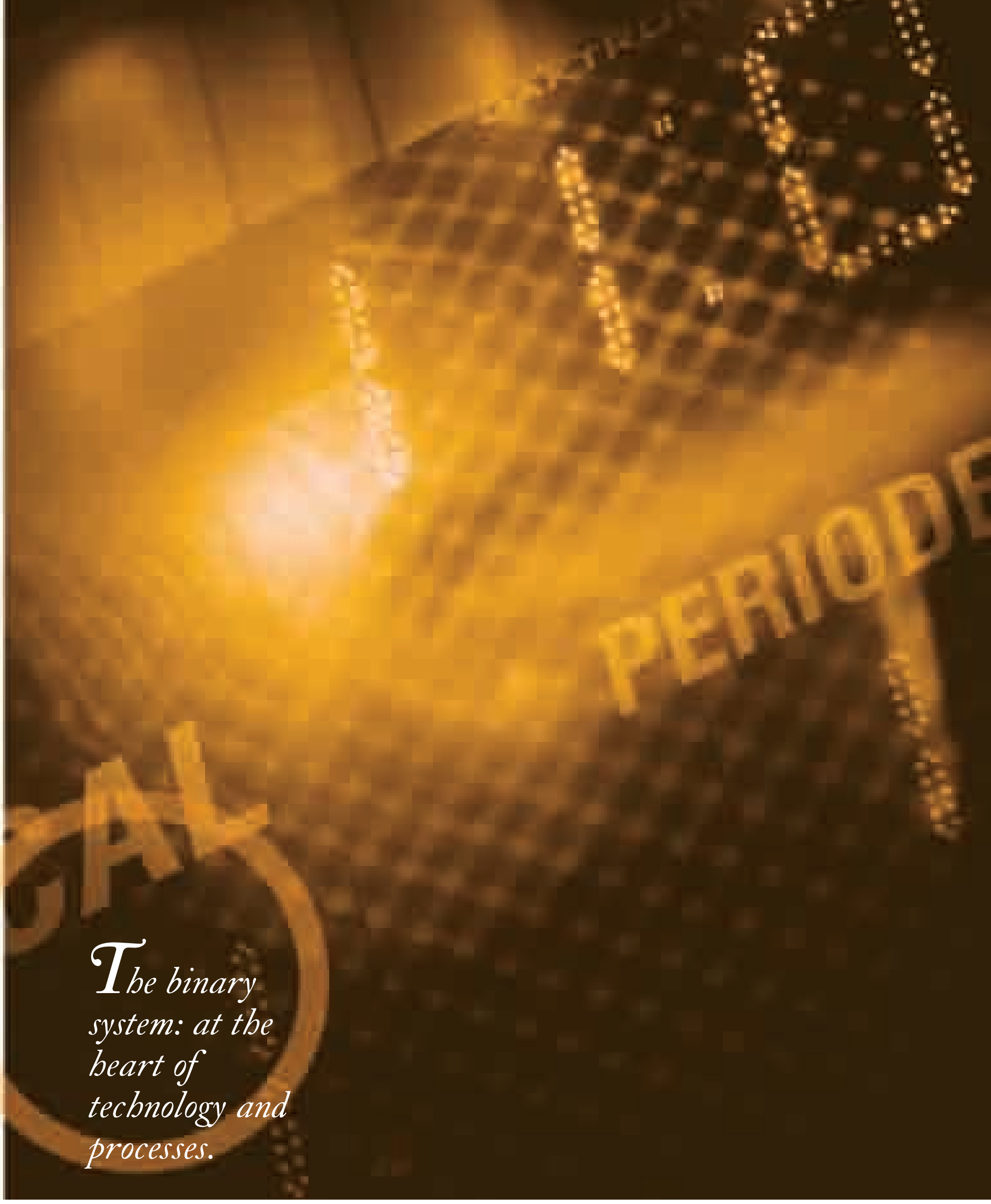
In the current context of strong competition coupled with the unprecedented rise in the Canadian dollar, we must, more than ever, continue to improve our business processes and optimize our assets. For that, we have to find ways to measure our performance, because you can only improve what you can measure.

Réal Boulet
Corporate Vice President,
Efficiency and Innovation

Issue 4
DIGITAL

Transcontinental's mission is to help advertisers reach consumers. This means that most of our revenues come from our customers' advertising budgets. Now, digital media, including the Internet, are radically changing the way we work, get information, consume and entertain ourselves. One study says that by 2011, 18% of the advertising dollar will be spent on the Internet, double the figure for 2006.

As a newspaper and magazine publisher, our challenge is to fully exploit digital technology to expand our product and service offering. Transcontinental is well positioned to do this. We have the content and the advertisers in our print publications, and an established sales force in the most popular Internet segments. Our print brands also have prestige and credibility within their communities of interest, which is a powerful leveraging tool for other media. We believe that traditional and digital media will continue to coexist, support and complement each other.



The binary system: at the heart of technology and processes.

Digital technology is changing how we work, communicate and consume.

In 2007, Transcontinental intensified the development of its digital platforms: cyberbrands, brand extensions, transactional sites, web portals and webcasting. Today, we have more than 120 sites that receive an average of four million unique visitors a month. These sites serve a range of niches: business and finance, fashion and lifestyle, home renovation, design and decoration, gardening, seniors, sports and leisure, local communities and classified ads. Most of these sites are interactive extensions of magazines and daily or weekly newspapers, but others have no print counterpart.

We launched the new lebelage.ca site, aimed at the 50+ community, redesigned lesaffaires.com, the reference for French-language business and financial news in Canada, as well as canadianliving.com and thehockeynews.com. All these sites saw their audiences and loyalty levels increase substantially, with a 29% increase in the number of unique monthly visitors and a 46% increase in the number of pages viewed. Our newspaper *Les Affaires* became the first publication in Canada to directly integrate video webcasting online without going through a TV or cable platform.

Natalie Larivière

120

sites that receive an average of 4 million unique visitors a month

As a publisher, our goals are clear. As a printer, we must also use the power of digital to make life easier for our customers.

That is why we have revamped our premedia service offering over the past several years. Now, major retail customers outsource their premedia activities to us. As an integral part of their value chain, we have become true business partners. In light of technological change, and particularly the Internet, we are also rethinking the ways we communicate with our customers, putting services such as fulfillment, billing and proof approvals online. Finally, we are continually increasing our digital printing capacity to meet the growing demand for short-run printing, particularly for books.

Whether through a "bouquet" of digital products and services in the Media sector, or by embracing digital technology for both pre-printing and post-printing operations, Transcontinental remains at the forefront of technological innovation.

Natalie Larivière
Media Sector President

Conclusion

It's clear our four issues are in good hands and consistent with Transcontinental's evolution to date. In fact, they reflect the key components of our business culture going back to the very origins of the company: a culture based on people, continuous improvement, the ability to do the job right, technological innovation and anticipating the needs of both consumers and advertisers. This culture also includes values that we continually reinforce, such as respect for others, integrity and innovation.

We also have a winning strategy that distinguishes us from most of our competitors in North America: in both publishing and printing we are a niche-based player. In the first year of *Evolution 2010* we refined our strategy and redesigned our game plan in each niche. Our well-defined vision positions us better than ever as we move forward. We identified three segments with high growth potential that will receive special attention in 2008: outsourcing newspaper printing, direct marketing and digital media.

We also have the financial means to support our growth targets, particularly via acquisitions, with a net funded debt to total capitalization ratio of 29% as at October 31, 2007. This is well under the long-term objective of 35% to 50%.

This is my final annual report. After eight splendid years with Transcontinental, I will be leaving the company on February 20, 2008, at our annual shareholders' meeting. I am proud of both the financial and operating results we have achieved during this time. We have the right teams in place at head office and at all three operating sectors. We have a proven decision-making process and structure. And, with *Evolution 2010* and *The Race Towards Excellence*, we have a stimulating business project that all our employees support.

I'd like to take this opportunity to thank, for one last time, those who are the primary source of our present and future success: our some 15,000 employees. As chief executive officer, I always thought of myself as Transcontinental's “chief facilitator,” and I emphasized execution and results. That takes having the right people in the right jobs.

As a company, our people are the best investment we can make. At Transcontinental, that has always been the top item in my business approach. The best strategies will go nowhere without the right people to carry them out at every level of the organization: people who are motivated and qualified, with the ability to adapt to new trends

and technologies, and who can work as a team. Also, people who are guided by leaders who can inspire them, develop talent, promote the company vision and establish a good working environment.

It is precisely this strength in management that made it possible to select an internal candidate as my successor, a candidate who guarantees the continuity and stability that are crucial in today's economic context. This person is François Olivier.

François joined Transcontinental in 1993 and has an impressive track record. He has risen through the ranks, with results that always exceeded expectations, and he enjoys great credibility and great respect inside and outside the company. François became known for developing our newspaper printing outsourcing model for North America, a promising growth segment for Transcontinental. It is to him that we owe our solid partnerships with the daily papers *La Presse, The Globe and Mail* and *The New York Times.* He was also the architect of the November 2006 contract to print the *San Francisco Chronicle,* which was a significant breakthrough for Transcontinental in the United States.

In 2005, he was appointed president of the Printing Products and Services sector, which has 5,000 employees and reported revenues of $718.2 million in 2007. To his recent credit are the recovery in the Commercial Products Group and our Mexican operations. Lastly, he is responsible for sales growth for the Corporation as a whole, a crucial area for our development.

I have worked closely with François for a number of years and our working relationship intensified after his appointment as chief operating officer in September 2007. I know him to be an entrepreneur and innovator whose top priorities are growth and performance.

François is 42 years old and has a B.Sc. from McGill University. He completed the Program for Management Development at Harvard Business School.

On February 20, I will be leaving the company in good hands, and in an excellent position to achieve its goal of creating medium and long-term value for its employees, customers and shareholders. For my part, at age 55, I plan to put my skills and energy to work on new challenges in my profession.

In closing, I'd like to thank our customers throughout North America whose trust in us pushes us to continually strive harder. My sincere thanks also goes to our loyal shareholders. In the years ahead, Transcontinental will continue to demonstrate that it can rise to your expectations.

"Luc Desjardins"
(signed)

Luc Desjardins
President and Chief Executive Officer

Executive Management Committee
From left to right: Jean Blouin, Christine Desaulniers, Jean Denault, Natalie Larivière, Julien Houle, Isabelle Marcoux, Guy Manuel and Benoît Huard.
Additionally, see Luc Desjardins and François Olivier, also members of the Management Committee, on page 8.

Management's Discussion and Analysis

by Benoît Huard

Growth will continue to be challenging in the coming years due to intense competition in some printing segments, while other segments will present opportunities where increased strategic expenses will be needed to further differentiate ourselves. *Evolution 2010* will put more emphasis on our role as a marketing advisor to our customers by developing an even greater knowledge of their markets and integrating ourselves into their value chain.

We will also aim to improve our content, product and service offering, and technology platform so that we can better serve our advertisers, readers and website visitors. Furthermore, we will be stressing organic growth, based on the innovative and creative initiatives of our people, while continuing to target strategic acquisitions.

The purpose of this *Management's Discussion and Analysis* is, as required by regulators, to explain management's point of view on Transcontinental's past performance and future outlook. More specifically, it outlines our development strategy, performance in relation to objectives, future expectations and how we address risk and manage our financial resources. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. It should therefore be read in conjunction with those documents. This *Management's Discussion and Analysis* is dated December 17, 2007.

In this document, unless otherwise indicated, all financial data are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All amounts are in Canadian dollars, and the term "dollar", as well as the symbols "$" and "C$", designate Canadian dollars unless otherwise indicated. In this *Management's Discussion and Analysis* we also use non-GAAP financial measures. Please refer to the section of this report entitled "Reconciliation of Non-GAAP Financial Measures" for a complete description of these measures on page 45.

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

On December 6, 2007, Transcontinental announced that it would be restating its financial statements for prior years as two non-cash accounting errors were identified. First, income tax liabilities at the end of 2006 were understated due mainly to accounting provisions for income taxes on inter-company transactions and to future income tax assets on operating losses considered twice, for years prior to 2006. Second, property, plant and equipment of Mexican subsidiaries were overstated due to amortization calculated using an incorrect cost basis. The impact of these restatements on net income total $19.9 million, of which $2.1 million relates to fiscal 2006 and $17.8 million relates to prior years. The impact of this restatement is a reduction in basic and diluted earnings per share for the year ended October 31, 2006 by $0.02 and $0.03 respectively. All figures pertaining to fiscal 2006 in this *Management's Discussion and Analysis* have been restated accordingly.

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

Caution Regarding Forward-Looking Statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *Securities Act* (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term goals, our outlook, objectives under our *Evolution 2010* business project and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may", "could", "should", "would", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "objective", the use of the conditional tense, and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: management of credit, security of data, market dynamics, liquidity, funding and operational risks; the strength of the Canadian, Mexican and United States' economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar and the Mexican peso; the impact from raw material and energy prices; the seasonal nature of certain businesses, notably the Educational Publishing Group, the effects of changes in interest rates; the effects of competition in the markets in which we operate; the effect of new media; judicial judgments and legal proceedings; our ability to successfully realign our organization, resources and processes; our ability to hire qualified personnel and maintain a good reputation; our ability to complete strategic acquisitions and joint ventures and to integrate our acquisitions and joint ventures successfully; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies, technological changes and new regulations.

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

The forward-looking statements contained herein are based on current expectations and information available as of December 17, 2007.

Highlights

- Revenues for fiscal 2007 increased 2% to $2,326.2 million, from $2,282.3 million, principally as a result of organic growth generated by almost all groups, but primarily from the Mexico Group and the Book Group, in the Printing Products and Services sector and the Distribution Group and the Magazine Group, in the Media sector, as well as the contribution from acquisitions. This growth was partially offset by the negative foreign exchange impact, the paper effect and divestitures and closings.
- Adjusted operating income before amortization increased 2% to $350.4 million, from $342.7 million, principally as a result of acquisitions and organic growth, primarily generated in the Commercial Products Group, the Catalogue and Magazine Group, the Mexico Group and the Distribution Group. This growth was partially offset by the negative foreign exchange impact and negative organic growth in the Retail Group and the Direct Marketing Group. Excluding the exchange rate effect, the increase would have been 9%.

- Adjusted operating income margin before amortization slightly increased to 15.1% in 2007, from 15.0% in 2006. Excluding the exchange rate effect, the margin would have been 15.8% in 2007.
- Restructuring costs totalling $9.7 million before tax ($6.6 million after tax) were charged to income in 2007. Of this amount $9.0 million relates to the ongoing restructuring plan for commercial printing operations, in both the Printing Products and Services and Marketing Products and Services sectors, announced in the first quarter of 2007.
- Net income for the year decreased by $15.2 million, or 11%, from $135.8 million in 2006 to $120.6 million in 2007, primarily due to the negative foreign exchange impact and unusual items. On a per-common-share basis, it decreased 9%, from $1.56 to $1.42, reflecting the positive impact from the Corporation's share buy-back program.
- Adjusted net income, which does not take into account unusual items related to impairment of assets, restructuring costs and income taxes, decreased by 4%, from $132.2 million in 2006 to $127.2 million in 2007, mainly due to the negative foreign exchange impact, higher amortization and financial expenses and a higher effective income tax rate. On a per-common-share basis, it decreased 1%, from $1.51 to $1.50, slightly below the Corporation's publicly stated annual objective of $1.52 to $1.65. If the Canadian dollar had not traded above par in the month of October, we would have finished the year at $1.52, within our annual objective. Excluding the negative foreign exchange impact in 2007, adjusted earnings-per-share would have been $1.68, representing an increase of 11% over 2006.
- Signed an exclusive 15-year contract with Hearst Corporation to print the *San Francisco Chronicle* daily newspaper and its related products, as well as provide complete post-press services. This contract is valued at over US$1 billion in total revenues over the 15-year period and will require investments estimated at US$200 million. The production is slated to begin in the spring of 2009.
- Acquired PLM Group, Canada's fourth-largest printer, for a total cash consideration of approximately $130 million, including debt.
- Announced the appointment of François Olivier as President and Chief Executive Officer effective February 20, 2008.
- Bought back close to 2.5 million shares during fiscal 2007 for a total consideration of $53.1 million, in accordance with our Normal Course Issuer Bid.
- Announced the renewal of our Normal Course Issuer Bid on December 18, 2007.
- Announced the restatement of prior years' financial statements totalling $19.9 million, of which $2.1 million relates to fiscal 2006 and $17.8 million relates to prior years.
- Solid financial position to pursue growth, with a net indebtedness to total capitalization ratio of 29% as at October 31, 2007.
- Management has decided to discontinue the practice of providing specific earnings per share guidance (please see "Outlook" section for more details).

Strategic Orientation Update: Evolution 2010

The largest printer in Canada and sixth-largest in North America, Transcontinental is also the country's leading publisher of consumer magazines and French-language educational resources, and its second-largest community newspaper publisher. Transcontinental distinguishes itself by creating strategic partnerships that integrate the company into its customers' value chain, notably through its unique newspaper printing outsourcing model and its value-added services. From mass to highly personalized marketing, the company offers its clients integrated solutions which include a continent-leading direct marketing offering, a diverse digital platform and a door-to-door advertising material distribution network. Transcontinental is a company whose values, including respect, innovation and integrity, are central to its operation. Transcontinental (TSX: TCL.A, TCL.B) has approximately 15,000 employees in Canada, the United States and Mexico, and reported revenues of C$2.3 billion in 2007.

Evolution 2010, our business project, builds on the achievements of *Horizon 2005* but goes a step further. Transcontinental is adapting and changing to the new realities of increased competition and globalization, a stronger Canadian dollar, technological advances and the emergence of new media channels. We are investing more than ever in our long-term development.

Growth will continue to be challenging in the coming years due to intense competition in some printing segments, while other segments will present opportunities where increased strategic expenses will be needed to further differentiate ourselves. *Evolution 2010* will put more emphasis on our role as a marketing advisor to our customers by developing an even greater knowledge of their markets and integrating ourselves into their value chain. We will also aim to improve our content, product and service offering, and technology platform so that we can better serve our advertisers, readers and website visitors. Furthermore, we will be stressing organic growth, based on the innovative and creative initiatives of our people, while continuing to target strategic acquisitions.

Since the launch of *Evolution 2010*, we have set up working committees and implemented a series of initiatives. In 2007 we introduced the *Race towards excellence* concept. Since our business project ends in 2010, the same year as the Vancouver Winter Olympic Games, an analogy with sports - the idea of athletes training to become the best - was an obvious choice. With this concept we want to create conditions that will allow us to achieve the objectives of *Evolution 2010*. The *Race towards excellence* will also be a unique tool for mobilizing all employees working on our business project.

In some ways, the *Race towards excellence* will be our training program, where every Transcontinental business unit will be called upon to continually improve. By measuring ourselves against the best in each of our disciplines - each of our business groups - together we will create the conditions for achieving excellence. Our training program will focus on four aspects, that is, the four issues of our *Evolution 2010* business project. By working on the four *Evolution 2010* issues within the *Race towards excellence* concept, each business unit will be able to set up the conditions that will allow it to excel at achieving the goals in its strategic plan.

The four issues of our *Evolution 2010* business project are: Talent, Sales Growth, Efficiency and Digital. Below is a description of each issue as well as the initiatives that have been started or completed since the launch of *Evolution 2010* in November 2005.

Talent

Talent gives us a competitive edge. It is our primary asset for rethinking and expanding our product and service offering and making sure the Corporation continues to grow in its North American markets. With the increasing shortages in skilled labor and greater employee mobility, the competition to recruit and retain outstanding people is becoming fiercer. We have made it a priority to develop and train our employees and recruit first-rate candidates. To do so, we must all make sure that our employees are mobilized and work in a challenging and respectful environment, where they can grow and are called upon to innovate.

Therefore, the focus of this issue is to attract, develop and retain the best talent that will enable us to achieve our strategic objectives and foster engagement. Management believes that this can be achieved in six specific ways: (1) identify and define the priority positions that are critical for the success of strategic initiatives (2) plan for succession with highly qualified individuals (3) retain our people by investing in their development (4) develop our ability to teach, coach and pass on knowledge from current to future leaders (5) provide employees with opportunities to achieve their potential and finally (6) provide a culture and an environment in line with employees needs and which foster continuous improvement and innovation.

Since the launch of *Evolution 2010*, we have introduced a number of initiatives to support this vision, and most are still in progress. To develop our talent, we deployed *Mission: Leadership*, a series of training courses that are reinforcing and developing leadership bench strength. To date, over 85% of our managers have completed the courses. We launched the 360-degree Feedback program, an evaluation exercise for our senior managers, to help them set objectives and receive feedback about their behaviors as leaders. 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. To date we have completed succession plans for management-level positions and launched the *Talent Greenhouse*, in which a group of Transcontinental employees are selected to work on the start-up of the *San Francisco Chronicle* project. We deployed a management trainee program for specific functions and launched *Trans-Formation*, an Intranet website dedicated to online training.

To recruit and retain talent, we launched an employer branding initiative, which focuses on building an image of Transcontinental that will attract talent internally and externally in the North American marketplace. We regularly monitor the progress of all these initiatives through our *Talent Issue* program to ensure that our managers improve their skills as talent developers.

Sales growth

Organic sales growth is a natural springboard for growth as the partnerships are already in place, the customers are already talking to us, and we are already familiar with the products. Cross-selling, sales-force training projects and developing new sales opportunities will be the key to our success as these three components both complete and complement one another.

Therefore, the focus of this issue is to increase global organic sales growth by 5% on average per year by maximizing our sales and marketing effectiveness. For our Media sector this translates into the launch of new products and services that complement our activities, while for our two print sectors this means exploit opportunities such as our newspaper outsourcing model and cross-selling initiatives. Management believes that this can be achieved in four specific ways: (1) implement common measurement tools (2) build on our existing sales culture (3) develop a lead generation process and/or systems to ensure the funnel is adequate to hit targets and finally (4) support and remove barriers to promote new products and cross-selling.

Since the launch of *Evolution 2010*, we executed on a number of initiatives to support this vision. On the media side, we launched a number of new products and services that complement our activities using multi-platform brand strategy. First, we focused on developing custom publishing services as we see this as a high growth potential niche for Transcontinental. Custom publishing involves strategic and creative services that achieve a company's marketing objectives by delivering unique branded content to customers using print or digital channels. In line with this strategy we created *CELLIER* magazine, a custom publishing partnership with Société des Alcools du Québec (SAQ). In addition, we started Transcontinental Custom Communications, a joint venture with UK agency Seven Squared to provide custom publishing services to clients in Canada and the U.S.

Furthermore, we launched new magazines. In 2007, after signing an exclusive, multi-year licensing agreement with U.S. publisher Meredith Corporation, we launched the Canadian edition of *More* magazine, which targets women over 40. In its very first year it exceeded our expectations as the number of subscriber copies reached over 70,000, almost double what we had initially expected. As of today, we have published six issues and have reached a circulation of over 100,000. The U.S. version has tripled its circulation since Meredith Corporation launched it in 1998 and it was named 2006 Magazine of the Year by *Advertising Age*. This promising partnership with a major American publisher is a step forward in our strategy to develop innovative products and services. In addition, we launched a new sustainable development magazine (printed on 100% recycled paper): *Vision durable*, which aims at bridging the gap between the concept and implementation of sustained development for Quebec business people.

On the print side, we further developed our newspaper outsourcing model. We first entered the U.S. newspaper printing market in November 2005 by signing a ten-year strategic contract to print the *New York Times* for Toronto and Upstate New York. This strategic contract effectively increased our visibility in the U.S. and ultimately led to the signing of a much larger contract in this market one year later. In fact, we signed an exclusive 15-year contract with Hearst Corporation to print the *San Francisco Chronicle* daily newspaper and its related products, as well as provide complete post-press services. The production is slated to begin in the spring of 2009 in a new plant equipped with state-of-the-art technology in the San Francisco Bay Area. The contract with the *Chronicle* plus the printing of other products at this new facility will surpass US$1 billion in total revenues (US$2 billion including paper) over the 15-year period. This contract with Hearst Corporation is yet another vote of confidence for our market-leading newspaper production model. In fact, we are currently meeting with a number of interested parties and are optimistic about the outcome of these discussions. In line with this strategy, we set up a new division responsible for the management of newspaper printing operations in the U.S. A dedicated team is already in place to further develop sales in this unique newspaper outsourcing model. In addition to developing our newspaper outsourcing model, we have continued to promote cross-selling activities through sales contests, best practice sharing and annual sales events and have had promising results so far.

Efficiency

Improving efficiency is not only a continuous process, it is a way of life, part of our culture. Our business units must strive to continually exceed expectations and find better ways to deliver the final product. In an increasingly competitive and ever-changing marketplace, it is a challenge to increase volume. So we have to focus on improving quality and shortening cycle times. The proposals put forward by our continuous improvement teams give us more information about best practices and will help us take continuous improvement to a whole new level.

Therefore, the focus of this issue is to increase both production and administrative efficiency. Management believes that this can be achieved by focusing on five key elements: (1) promote a strong continuous improvement leadership and culture (2) reinforce employee engagement (3) optimize business processes (4) optimize operational performance and finally (5) reinforce customer focus.

Since the launch of *Evolution 2010*, we have executed on a number of initiatives to support this vision, with most initiatives remaining in progress. First we completed our *Continuous Improvement Roadmap*, the foundation from which to build. This tool takes each of the five steps listed above and describes in detail all the components required to improve productivity and efficiency. It will allow business units to determine their strengths and weaknesses in order to develop action plans that will ultimately help them in their race towards excellence.

Within the *Continuous Improvement Roadmap*, we have focused on two specific areas. First, we deployed our integrated manufacturing software across approximately 60% of our printing plants so far. This initiative will allow for the standardization of information across our printing network and thus facilitate benchmarking between business units. Second, we recently started the implementation of the workplace organization model 5S (sort, straighten, shine, standardize, sustain). 5S is defined as a strong commitment to maintain order and cleanliness. It is the foundation of continuous improvement activities and the promotion of a safe work environment. In essence, the requisite tools for doing one's job are easily accessible, non value-added activities are minimized, all workstations are visually organized, controlled and maintained and there are efficient processes in place for improvement and follow-up.

Digital

Digital technology is relevant for both our media and printing operations. For our media business, the Internet is gaining momentum. In 2011, PricewaterhouseCoopers estimates that 18% of advertising budgets in Canada will be spent on the web, from 9% in 2006. It is crucial that we be part of this shift. We are in a better position than anyone else to succeed. We have the content, advertisers are already using our publications, and our salespeople are already active in the most popular areas of the Web. Similarly, for our print business, digital technology is gaining momentum. What we need to do now is leverage the power of digital technology to make things easier for our printing customers. Whether it is filling orders, approving proofs on the Web or billing, we must constantly re-think our ways of dealing with our customers.

Therefore, the focus of this issue is to broaden our offering through products and services based on digital capabilities. For our Media sector this translates into increasing our revenues coming from the Internet and other digital platforms, while for our two print sectors this means expanding our offer by adding value added services. Management believes that this can be achieved in six specific ways: (1) increase revenue sources from digital (2) develop a multi-platform approach (3) leverage database management capabilities (4) develop a customer-centric culture (5) successfully launch new products in our strong market niches and finally (6) enable electronic exchange of information with clients and partners.

Since the launch of *Evolution 2010*, we have executed on a number of initiatives to support this vision. First, on the media side, we started to increase our digital revenues in five target growth areas: (1) *cyberbrands*: we created a co-publishing agreement for the new Canadian site of online men's lifestyle leader AskMen.com and we acquired the popular user-generated recipe website Recettes.qc.ca (2) *transactional sites*: we launched Merkado.ca an innovative classified ad site for the Quebec market (3) *brand extension*: we opened a new webcasting studio for LesAffaires.com and launched and re-launched a number of web sites for our magazines including LeBelAge.ca, LesAffaires.com, Canadianliving.ca, ServiceVie.ca, thehockeynews.com and visiondurable.com (4) *portals*: we partnered with MSN Sympatico for our TV Guide strategy to the web and to be their exclusive content provider in most of the lifestyle sub-sections of their portal (5) *multi-platform*: we acquired a majority interest in Enixa Media, an in-store flat-screen advertising company. With these initiatives, our network of sites increased their unique monthly visitors by 29% and pages viewed by 46% in 2007 as compared to 2006.

On the print side, we expanded our value added offering, both upstream and downstream, around our core printing operations. For instance, we started the Premedia Group in order to offer our customers an integrated one-stop-shop offering. By consolidating our premedia services under one roof, we are able to sell more complex solutions, a growing trend in this market. Furthermore we increased our digital printing capacity in a number of plants in our network in order to meet the growing demand for shorter print runs. In fact, we recently announced an investment of $2 million for the expansion of our Transcontinental Metrolitho printing plant, based in Sherbrooke, Quebec, which specializes in short-run books. The expansion is expected to be completed by the first quarter of 2008 and will enable us to increase our digital capacity going forward. We also doubled our commingling capacity in order to meet the increasing demand for these services following the U.S. postal rate increases in the past two years. It is our belief that customers will increasingly be looking for postal optimization solutions and those players that are able to offer these services will benefit from a competitive advantage. Finally, with the acquisition of PLM Group, we increased our value-added service offering in direct marketing. PLM's offering complements our own, with wide format digital printing and off-line production work while at the same time strengthens it, with strong digital capabilities and advanced premedia solutions.

Strategic Acquisitions

In parallel to executing *Evolution 2010*, the Corporation plans to continue to grow through acquisitions. In fact, since the launch of *Evolution 2010*, Transcontinental has made a number of acquisitions spanning across five business groups.

On the media side:

- Newspaper Group (publishing): we acquired nine newspapers in Ontario, Quebec, Saskatchewan and Nova Scotia namely *The Triangle News*, *Le Progrès de Coaticook*, *The Oxbow Herald*, *The Grenfell Sun*, *The Broadview Express*, *The Radville Star*, *The Deep South Star*, *The Seaway News* and recently *The Springhill-Parrsboro Record*. While small, these acquisitions are tuck-ins in markets we already serve.
- Educational Publishing Group: in August 2006 we acquired Chenelière Éducation, the leader of French-language educational resources publishing in Canada which gave us a non advertising based complementary growth platform.
- Magazine Group: we acquired six magazines related to home building and renovation from Les Éditions Ma Maison ltée which truly complement our existing *Décormag* and *Mon chalet* titles and confirm our leading position in the Quebec market as well as our position as Canada's leading publisher of consumer magazines.
- Digital Media Group: we acquired a popular user-generated recipe website, Recettes.qc.ca, which complements our women's magazines and websites. We also acquired a majority interest in Enixa Media, an in-store flat screen advertising company.

On the print side:

- In October 2007 we acquired PLM Group, Canada's fourth largest printer. This acquisition will increase our exposure to the growing Canadian direct marketing industry, complement our current Canadian offering and manufacturing platform, enhance our range of value-added digital products and services and provide meaningful access to the Ontario market and strong customer base.

Transcontinental plans to continue to make strategic acquisitions going forward. We expect there will be more opportunities in the U.S. and Canada at more reasonable prices. Nevertheless, the Corporation will maintain its disciplined approach and ensure that the companies it acquires fit its stringent acquisition criteria: (1) fit our core businesses (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 year.

Environmental Responsibility

Transcontinental is committed to implementing ways of doing business that promote sustainable development. Having implemented its first environmental policy in 1993, Transcontinental has often been recognized for its environmental initiatives, including a 2007 award from *PrintAction* magazine in the category Most Progressive Environmental Process. Company-wide environmental policies and procedures are founded on three guiding principles: protection of the environment for present and future generations, reduction of risks and efficiency improvement, and introduction of improved technology and processes.

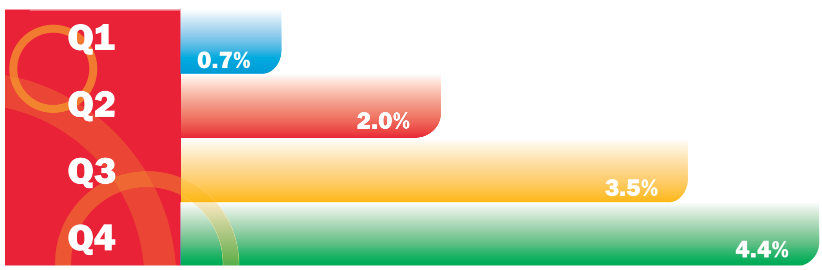
In fiscal 2007, the Corporation executed a number of initiatives which supports this vision. Three of these initiatives were strategic. First, our Book Group introduced and promotes a new paper made from a premium quality 100% post-consumer recycled material at price parity, an environmentally friendly choice for trade book publishers with short, medium and long runs, or even in specialty publications. In addition, we implemented a Paper Purchasing Policy that promotes the use of environmentally preferable papers through a classification process that allows customers to make an informed choice regarding the paper they choose for their printing and publishing needs. Finally, the Corporation recently announced that it has chosen an EPI-certified biodegradable plastic bag for its PubliSac, a well known tool used to distribute marketing material door-to-door to more than 2.8 million 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.

The Corporation also launched a new sustainable development magazine (printed on 100% recycled paper): *Vision durable*, which aims at bridging the gap between the concept and implementation of sustained development for Quebec business people. As a companion to the magazine, Transcontinental Media also launched a new website www.vision-durable.com. Moreover, in April, our magazines *Canadian Living* and *Coup de pouce* invited readers to sign up for the *Green Challenge*. Those who joined received a green-living tip every day in their email and had the opportunity to discuss environmental issues with other *Canadian Living* and *Coup de pouce* readers.

Detailed Analysis of Fiscal 2007 Operating Results

As shown in the table on page 35, a number of factors contributed to the variation between results in fiscal 2007 and fiscal 2006.

2007 Organic Growth in Revenues
Evolution 2010 Objective: 5%



Financial results of *Evolution 2010*

On the next page you will find a table summarizing the financial objectives of *Evolution 2010* and Transcontinental's performance in fiscal 2007 in relation to these objectives. It is important to note that these financial objectives are not to be construed as guidance or forecasts for any individual year, but rather as long-term targets that we strive to achieve over the length of the *Evolution 2010* business project.

- The acquisition of Chenelière Éducation, educational book publisher, and PLM Group, fourth largest printer in Canada, as well as small but strategic acquisitions completed in 2007 and 2006, net of divestitures and closings (notably *TV Hebdo* and conversion of *TV Guide* to a web-only product), contributed $35.8 million to revenues and $18.6 million to adjusted operating income before amortization. Net of amortization, financing and income taxes, the contribution to net income was $5.5 million.

- The paper effect had a $24.6 million negative impact on revenues. This effect includes the variation in the

Financial Objectives	2007	Analysis and Comments
Increase economic value creation (variance compared to previous year)	($18M)	We have been unable to increase the economic value created due a number of factors: the negative impact from foreign exchange, a higher income tax rate, and capital expenditures related to our newspaper outsourcing project as well as newly acquired companies, which have required an outflow of capital and have not yet contributed to earnings.
Grow sales organically by 5% on average per year	3%	While organic growth remains under our 5% target, the Corporation has made significant progress over the last year. We should build on this progress in the coming years as we will reap the benefits from our non-capitalized investments relating to our digital media strategy as well as our first large U.S. newspaper outsourcing contract, among other initiatives.
Grow adjusted earnings per share excluding the foreign exchange impact by 10% on average per year	11%	Our growth has been slightly above our 10% target in fiscal 2007. In coming years, we should continue to grow as we will reap the benefits from our non-capitalized investments relating to our digital media strategy as well as our first large U.S. newspaper outsourcing contract.
Maintain a range of net debt to total capitalization ratio excluding securitization of 35% to 50%	29%	Our net debt to total capitalization ratio remains under our target range. It should trend upward moderately in the next three years as we expect to further leverage the Corporation in order to finance other newspaper outsourcing projects as well as strategic acquisitions.
Invest $120 million on average per year in capital assets (excluding newspaper outsourcing projects)	$92M	Our capital expenditures, excluding newspaper outsourcing projects, were below our objective this year as numerous restructurings and reorganizations have been completed in the past few years.
Sustain dividend growth	10%	The Corporation has continued to sustain its dividend growth in fiscal 2007, increasing its dividend by 10%.

price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for printing operations, these elements affect revenues without impacting adjusted operating income before amortization. For the Media sector, the variation in the price of paper had a positive impact of $4.1 million on adjusted operating income before amortization and $2.8 million on net income.

- Variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts had a major impact on 2007 results, causing a $28.2 million decrease in revenues and a $22.3 million decrease in adjusted operating income before amortization. It is important to note that the variation in average spot exchange rates in 2007 versus 2006 was 2.9% for the CAD/USD and 3.5% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of approximately $12.1 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was $16.1 million. The negative impact of the conversion of results for U.S. and Mexican units was $1.2 million on adjusted operating income before amortization. The negative impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was $15.3 million on adjusted operating income before amortization. Finally, the negative impact of the conversion of balance-sheet items related to the operation of Canadian units denominated in foreign currency was $5.8 million on adjusted operating income before amortization. Taking into consideration amortization, financial expenses and income taxes denominated in foreign currencies, the net negative effect was $15.9 million, representing a 11.7% negative variation on net income.

To help the reader understand the impact of the exchange rate on our revenues, a table showing revenues generated in U.S. dollars, and the geographic breakdown of revenues when converted into Canadian dollars is included on page 36.

Note that in this table, revenues generated by Canadian entities expressed in U.S. dollars decreased slightly by $2.8 million, or 1.4%. After conversion into Canadian dollars, this decrease was much more pronounced and turned into a decrease of $21.5 million, or 8.9%, illustrating the negative impact of the higher Canadian dollar against the U.S. dollar, combined with the effect of the Corporation's hedging program.

The reader will also note that the table on page 36 shows a decline of US$6.1 million, or 2.1%, in revenues generated by our United States entities. This is mainly due to lower volume from our Direct Marketing Group, as a result of difficult market conditions. After conversion into Canadian dollars and adding the revenues from our Mexican operations, the reduction in domestic market revenues outside Canada was C$4.9 million or 1.2%.

- Organic revenue growth was $60.9 million, or 2.7%, in 2007 and was generated by almost all groups at varying degrees. The growth stems mainly from our Printing Products and Services sector, with the Mexico Group and the Book Group; followed by the Media sector, with the Distribution Group and the Magazine Group; and finally the Marketing Products and Services sector, with the Retail Group and the Catalogue and Magazine Group. These groups more than offset lower volume in the Direct Marketing Group, partially the result of product mix changes following the negative impact of the postal rate increase announced in May and recent turmoil in credit markets which, in this case, resulted in one of our important customers going out of business.

Analysis of Main Variances – Consolidated Results

for the year ended October 31, 2007

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income before amortization [1]	%	Net income	%
Results - for Fiscal 2006 (restated)	**$2,282.3**		**$ 342.7**		**$ 135.8**	
Acquisitions/Divestitures/Closures	35.8	1.6 %	18.6	5.4 %	5.5	4.1 %
Existing operations						
Paper effect	(24.6)	(1.1)%	4.1	1.2 %	2.8	2.1 %
Exchange rate	(28.2)	(1.2)%	(22.3)	(6.5)%	(15.9)	(11.7)%
Impairment of assets, restructuring costs and unusual adjustments to income taxes	—	—	—	—	(10.2)	(7.5)%
Organic growth	60.9	2.7 %	7.3	2.1 %	2.6	1.9 %
Results - for Fiscal 2007	**$2,326.2**	**1.9 %**	**$ 350.4**	**2.2 %**	**$ 120.6**	**(11.2)%**

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

- Organic growth in adjusted operating income before amortization was $7.3 million, or 2.1% in 2007. Organic growth was primarily generated in the Commercial Products Group, the Catalogue and Magazine Group, the Mexico Group and the Distribution Group. Growth in our revenues did not fully trickle down to the bottom line for a number of reasons: we made about $6 million of non-capitalized investments in our Media sector, we experienced some disruptions to our operations with press and equipment installations, mainly in the Retail Group, and we were negatively affected by the impact of the credit crunch on our U.S. direct marketing customers.

Amortization

Amortization expense increased by $5.7 million, or 5%, in 2007, to $122.9 million compared to $117.2 million in 2006. This increase results mostly from acquisitions, more specifically Chenelière Éducation Inc. acquired in August 2006, and new machinery and equipment acquired for the book and retail printing manufacturing platform last year.

Impairment of assets and restructuring costs

An amount of $9.7 million before tax ($6.6 million after tax) was accounted for separately in the consolidated statement of income for 2007 as "Impairment of assets and restructuring costs." Of this amount, $9.0 million is related to the restructuring plan for our commercial printing operations in the Printing Products and Services and Marketing Products and Services sectors. Total restructuring costs related to this plan were initially expected to reach $9.2 million within the twelve months following the announcement, but were subsequently revised to $9.5 million

Revenues Generated in U.S. Dollars

for the fiscal years ended October 31

(unaudited)

(in millions of U.S. dollars)	**2007**	Breakdown	2006 (restated)	Breakdown	Change $ 2007 vs 2006	Change % 2007 vs 2006
Revenues generated by Canadian entities	**$ 201.2**	41.3 %	$ 204.0	41.1 %	$ (2.8)	(1.4) %
Revenues generated by US entities	**286.2**	58.7	292.3	58.9	(6.1)	(2.1)
Total revenues	**$ 487.4**	100 %	$ 496.3	100 %	$ (8.9)	(1.8) %

Geographic Distribution of Total Revenues in Canadian Dollars

for the fiscal years ended October 31

(unaudited)

(in millions of Canadian dollars)	**2007**	Breakdown	2006 (restated)	Breakdown	Change $ 2007 vs 2006	Change % 2007 vs 2006
Canada	**$1,705.6**	73.3 %	$ 1,635.3	71.7 %	$ 70.3	4.3 %
U.S. and Mexico						
Imports from Canada	**219.2**	9.4	240.7	10.5	(21.5)	(8.9)
Domestic markets	**401.4**	17.3	406.3	17.8	(4.9)	(1.2)
Total U.S. and Mexico	**620.6**	26.7	647.0	28.3	(26.4)	(4.1)
Total revenues	**$2,326.2**	100 %	$ 2,282.3	100 %	$ 43.9	1.9 %

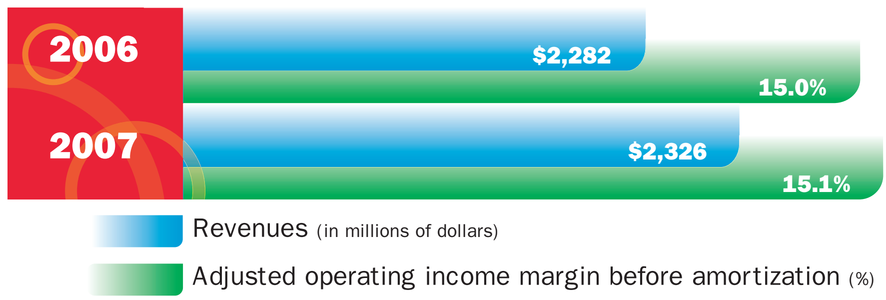
in the third quarter, of which $3.6 million are for an impairment of assets for building and equipment that are no longer necessary in the ongoing operations of the Corporation, $3.4 million are for workforce reduction costs and $2.5 million for the transfer of printing equipment and other costs. This plan includes, among others, the closing of certain smaller facilities and will allow for a significant reduction in operating costs of this business segment in order to re-establish its competitive position.

In 2006, an amount of $12.6 million before tax ($9.1 million after tax) was accounted for as "Impairment of assets and restructuring costs." This amount is related to an impairment of assets representing the trade name of publications acquired in 2003, the consolidation of the Book Group initiated in 2005 and Toronto printing facilities initiated in 2006.

Financial expenses and discount on sale of accounts receivable

When combined, financial expenses and discount on sale of accounts receivable increased $4.3 million, or 11%, from $39.0 million in 2006 to $43.3 million in 2007. This increase is due to the increase in indebtedness related to acquisitions and the share buyback program, as well as the increase in interest rates, partially offset by the decrease in indebtedness related to the strong cash flow generated from operations.

Revenues and Adjusted Operating Income Margin Before Amortization - Consolidated



Income taxes

Income taxes increased by $16.0 million, from $37.6 million in 2006 to $53.6 million in 2007. The income tax rate increased as well, from 21.6% in 2006 to 30.7% in 2007. The 2006 income tax rate was affected by certain unusual items. First, following the Quebec government decision to amend the Taxation Act, Transcontinental had to account for an unusual charge for retroactive taxes and related charges of $8.4 million. This item was partially offset by the effect of the change in statutory tax rates which resulted in a decrease in future income tax liabilities, thus reducing the income tax expense by $6.0 million. Also, the benefit related to the tax losses of U.S. subsidiaries was fully recognized. An amount of $15.1 million was thus accounted for as an increase in future income tax assets.

Excluding all the above-mentioned items, income tax expense for 2006 would have been $50.3 million, for an income tax rate of 28.9% compared to an income tax rate of 30.7% in 2007. The increase in the tax rate for 2007 is due to higher tax rates in foreign jurisdictions, non deductible expenses and various other unfavorable factors partially compensated by a lower statutory tax rate.

Net income

Net income decreased 11%, from $135.8 million in 2006 to $120.6 million in 2007. This decrease is primarily due to the negative foreign exchange impact and unusual items. On a per-common-share basis, it decreased by 9%, from $1.56 to $1.42, reflecting the positive effect of the Corporation's share buy-back program.

Adjusted net income, which does not take into account impairment of assets and restructuring costs and unusual adjustments to income taxes in 2006, decreased by 4%, from $132.2 million in 2006 to $127.2 million in 2007. On a per-common-share basis, it decreased by 1%, from $1.51 to $1.50, reflecting the positive effect of the Corporation's share buy-back program. Transcontinental ended fiscal 2007 slightly below its earnings-per-share objective set at $1.52 to $1.65 at the beginning of the year. If the Canadian dollar had not traded above par in the month of October, we would have finished the year at $1.52, within our annual objective.

Excluding the negative foreign exchange impact in 2007, adjusted earnings-per-share would have been $1.68, representing an increase of 11% over 2006. This measure gives a good indication of the net operational performance in 2007.

Review of Operating Sectors for Fiscal 2007

This review of operating sectors should be read in conjunction with the information presented in the table on page 39 and the information disclosed in the Segmented Information note (note 26) to the Consolidated Financial Statements for the year ended October 31, 2007.

Management believes that adjusted operating income before amortization by business segment used in this section is a meaningful measure of its performance. Management uses this measure in evaluating the Corporation's financial performance by business segment.

Printing Products and Services Sector

Revenues in the Printing Products and Services sector rose from $714.7 million in 2006 to $718.2 million in 2007, an increase of $3.5 million, or 0.5%. Excluding foreign exchange and paper, revenues increased by $26.9 million, or 3.8%. Organic growth was mainly generated in our Mexico and Book groups. The Mexico Group continued to develop business with existing customers with strong successes in the retail and magazine markets, while the Book Group generated new sales following the revamp of its manufacturing platform. The Commercial Products Group generated some organic growth mainly due to a significant special order in the third quarter. Finally, the Newspaper Group had relatively stable revenues as an increase in the use of color and inserts was compensated by a soft advertising market at the start of the year as well as the trend towards declining page counts and circulation.

Adjusted operating income before amortization rose from $116.7 million in 2006 to $121.1 million in 2007, an increase of $4.4 million, or 3.8%. Excluding foreign exchange, it increased $18.2 million, or 15.6%. Organic growth was generated from cost cutting initiatives across all groups, but primarily in the Commercial Products Group, following the reorganization announced at the beginning of the year. The Mexico Group also generated strong growth following its successes in business development. As a result, the adjusted operating income margin before amortization increased from 16.3% in 2006 to 16.9% in 2007.

In 2007, we further developed our newspaper outsourcing model. We signed an exclusive 15-year contract with Hearst Corporation to print the *San Francisco Chronicle* daily newspaper and its related products, as well as provide complete post-press services. The production is slated to begin in the spring of 2009 in a new plant equipped with state-of-the-art technology in the San Francisco Bay Area. The contract with the *Chronicle* plus the printing of other products at this new facility will surpass US$1 billion in total revenues (US$2 billion including paper) over the 15-year period. This contract with Hearst Corporation is yet another vote of confidence for our market-leading newspaper production model. In fact, we are currently meeting with a number of interested

Analysis of Main Variances – Sector Results

for the year ended October 31, 2007

(unaudited)

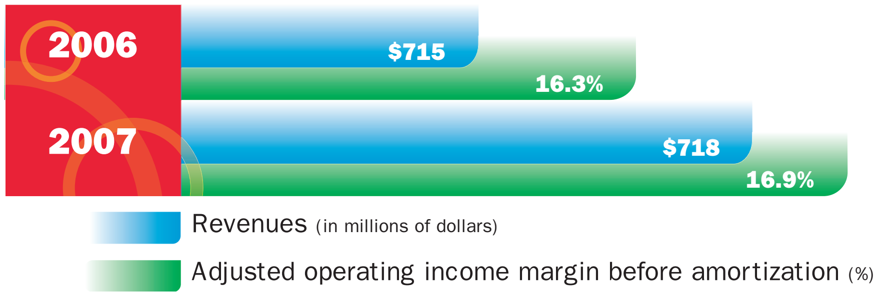
(in millions of dollars)	Printing Products and Services Sector	Marketing Products and Services Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues - for Fiscal 2006 (restated)	**$ 714.7**	**$1,082.2**	**$ 579.8**	**$(94.4)**	**$2,282.3**
Acquisitions/Divestitures/Closures	—	5.3	30.5	—	35.8
Existing operations					
Paper effect	(11.4)	(13.2)	—	—	(24.6)
Exchange rate	(12.0)	(16.2)	—	—	(28.2)
Organic growth	26.9	8.5	23.2	2.3	60.9
Revenues - for Fiscal 2007	**$ 718.2**	**$1,066.6**	**$ 633.5**	**$(92.1)**	**$2,326.2**
Adjusted operating income before amortization - for Fiscal 2006 (restated)	**$ 116.7**	**$ 147.6**	**$ 97.9**	**$(19.5)**	**$ 342.7**
Acquisitions/Divestitures/Closures	—	0.8	17.8	—	18.6
Existing operations					
Paper effect	—	—	4.1	—	4.1
Exchange rate	(13.8)	(8.5)	—	—	(22.3)
Organic growth	18.2	(10.6)	4.1	(4.4)	7.3
Adjusted operating income before amortization - for Fiscal 2007	**$ 121.1**	**$ 129.3**	**$ 123.9**	**$(23.9)**	**$ 350.4**

parties and are optimistic about the outcome of these discussions.

To date, the *San Francisco Chronicle* project continues to progress well and is on schedule. The construction is expected to begin in the first quarter of 2008, the printing equipment has been ordered and the bulk of the ancillary equipment has been purchased. In line with this strategy, we set up a new division responsible for the management of newspaper printing operations in the U.S. A dedicated team is already in place to further develop sales in this unique newspaper outsourcing model.

Furthermore, we announced an investment of $2 million for the expansion of our Transcontinental Metrolitho printing plant, based in Sherbrooke, which specializes in short-run books. The expansion is expected to be completed by the first quarter of 2008 and will enable us to increase our digital capacity, a service offering in high demand. In addition, we printed the French version of the seventh and final book in the Harry Potter series for Canada. This

Revenues and Adjusted Operating Income Margin Before Amortization - Printing Products and Services Sector



represented the third volume of the Harry Potter series in French that we have been awarded since 2003.

In 2008, the Newspaper Group will focus on the development of its newspaper outsourcing model and should continue to benefit from an increase in the use of color and inserts. It is important to note that large U.S. city dailies have experienced significant declines in circulation and advertising over the past year bringing to the forefront the future viability of newspapers in general. The increasing speed at which these declines have occurred have in fact generated increased interest in our outsourcing model. We strongly believe that newspapers will remain a part of the media mix for the long term, albeit we do not know in what proportion. In fact, those who have gone the outsourcing route and have innovated and invested in their content have fared better than those who have not.

In 2008, the Book Group is expected to benefit from its fully ramped-up manufacturing platform. The Commercial Products Group will continue to look for new ways to improve its competitiveness within the current market environment. Starting in 2008, our web-based plant in Boucherville, previously included in the Commercial Products Group, will be transferred in the Marketing Products and Services sector, within the Catalogue and Magazine Group, as the product mix in this plant has evolved, with a greater concentration of catalogue and magazines following successful sales development efforts. Finally, the Mexico Group is expected to continue sales development initiatives across its different market segments as well as leverage its existing customer base while continuing to focus on manufacturing efficiency.

Marketing Products and Services Sector

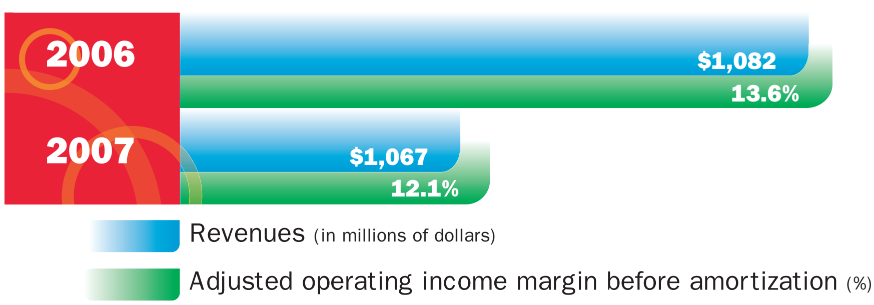
Revenues in the Marketing Products and Services sector decreased from $1,082.2 million in 2006 to $1,066.6 million in 2007, a decrease of $15.6 million, or 1.4%. Excluding acquisitions, paper and foreign exchange, revenues increased $8.5 million, or 0.8%. Organic growth was primarily generated in the Retail Group as a result of new business we developed with existing customers: our Loblaws contract now includes the printing of flyers for the Provigo chain in Quebec while our Hbc agreement allows us to introduce extensive use of our value-added product and service offering. These agreements more than compensated for the softness in volume from our base business. In addition, organic growth was also generated from our Catalogue and Magazine Group due to successful business development initiatives in both Canada and the U.S. The growth in these two groups more than offset the decrease in the Direct Marketing Group which was plagued with reduced volumes, partially the result of product mix changes, following the negative impact of the postal rate increase announced in May and recent turmoil in credit markets which, in this case, resulted in one of our important customers going out of business.

Adjusted operating income before amortization decreased from $147.6 million in 2006 to $129.3 million 2007, a decrease of $18.3 million, or 12.4%.

Excluding foreign exchange and acquisitions, it decreased $10.6 million, or 7.2%. Organic growth was generated in the Catalogue and Magazine Group, as a result of the reorganization in the Ontario facilities last year as well as increased volume from successful business development initiatives. However, organic growth in this group was unable to compensate for the reduced volume in the Direct Marketing Group, as well as margin pressures in the Retail Group stemming from disruptions related to new press and equipment installations, the full year impact from price erosions and the softness in volume from a certain number of retailers. Notwithstanding this, we have positioned our retail platform to operate more efficiently. As a result, the adjusted operating income margin before amortization decreased from 13.6% in 2006 to 12.1% in 2007.

In 2007 we entered into an agreement for an exclusive five-year contract with Hudson's Bay Company for all flyer printing for Zellers, The Bay, Home Outfitters and Hbc Loyalty Programs. The agreement also includes extensive use of Transcontinental's value-added product and service offering that supports its market-leading flyer-printing capabilities, including catalogue printing, the full suite of direct marketing services including database analytics, custom publishing and, in select regions, flyer distribution. The five-year agreement began February 1st, 2007 and is valued at approximately $350 million, of which approximately $75 million is new business for Transcontinental. Furthermore, we started to benefit from an agreement to print the flyers of Loblaw Companies Ltd., renewed in 2006: as of April 1st 2007, the contract also includes printing of flyers for the Provigo chain in Quebec. The contract has an annualized value of over $60 million, of which $20 million is new business from Provigo.

Revenues and Adjusted Operating Income Margin Before Amortization - Marketing Products and Services Sector

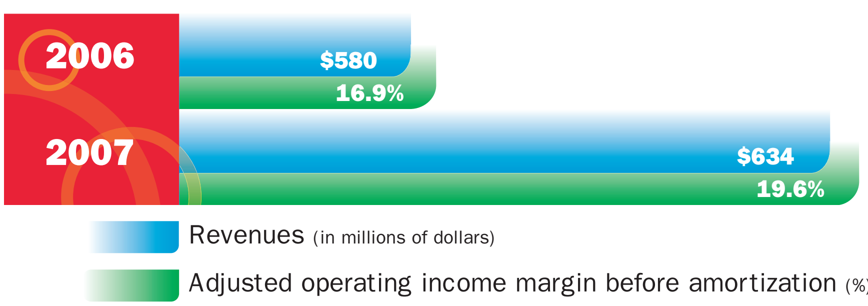


Furthermore, we acquired PLM Group in October 2007, Canada's fourth largest printer. PLM has 470 employees in four facilities in the Greater Toronto Area. In 2006, it reported revenues of $126 million. PLM is a fast-growing company that has skilfully anticipated the new marketing needs of major financial institutions, retailers and publishers. Its primary niche is direct marketing products and services, which are increasingly in demand by businesses. PLM also offers leading edge services such as premedia and digital printing and prints a wide range of marketing-related commercial printing products. PLM boasts state-of-the-art equipment and a diversified customer base that includes many leading companies. With PLM we become the leader in Canada's direct marketing industry while expanding our North American platform in a fast-growing segment.

In 2008, the Direct Marketing Group is expected to leverage its postal optimization solutions in order to meet the growing demand for these services among our customer base, following the postal rate increase last May. Furthermore, this group will continue its vertical diversification strategy away from financial services. However, credit markets continue to be in turmoil and this is having an effect on the purchasing habits of our customers in the financial services vertical, our largest segment. Purchasing decisions such as volume, type of packages and timing of orders are changing. In fact, in the fourth quarter of 2007, our customers involved in this segment reduced their programs by about 10%. At this point, it is difficult to predict when the credit crunch will subside and what impact it will have on our U.S. direct marketing business in 2008. While we do not expect the effect of the credit crunch to taper off before the spring, we are convinced that the growth trend in this industry will resume as it is an effective method to market to consumers.

In 2008, the Marketing Products and Services sector will focus on integrating the PLM Group acquisition. The Retail Group should benefit from the full year impact from the Hbc and Provigo agreements as well as the full ramp-up of its presses and equipment installations. In addition, the Retail Group is expected to continue to develop non-traditional customers, offer more value-added services and develop cross-selling opportunities. The Catalogue and Magazine Group will continue to develop new sales in both Canada and the U.S. It should also benefit from the transfer of the Boucherville plant, from the Commercial Products Group, as it will be able to better leverage its equipment base within the whole group. Finally, the Premedia Group has been negatively affected in 2007 by the shortfall in retail sales and changes in the client environment, where customers have been internalizing work that is simple and outsourcing work that is more complex. Consequently, next year, this group will focus on diversifying its customer base away from retail customers while at the same time capitalizing on the increased interest in data-driven marketing.

Revenues and Adjusted Operating Income Margin Before Amortization - Media Sector



Media Sector

Revenues in the Media sector rose from $579.8 million in 2006 to $633.5 million in 2007, an increase of $53.7 million, or 9.3%. The Chenelière Éducation acquisition and small but strategic acquisitions completed in 2006 and 2007, net of divestitures and closings (notably the sale of *TV Hebdo* and the transition of the paper publication of *TV Guide* to web-only) contributed $30.5 million to revenues. Excluding acquisitions, divestitures and closings, revenue growth was $23.2 million, or 4.0%. Organic growth was generated by all groups: the Distribution Group, driven by national sales; the Magazine Group, driven by a stellar performance from its two flagship magazines *Canadian Living* and *Coup de pouce* as well as the launch of its new magazine *More*; the Digital Media Group, driven by the development of its multiplatform offering; and finally the Newspaper Group fuelled by new and special products.

Adjusted operating income before amortization increased from $97.9 million in 2006 to $123.9 million in 2007, an increase of $26.0 million, or 26.6%. The net contribution from the acquisitions, divestitures and closings mentioned above was $17.8 million. Excluding acquisitions, divestitures, closings and paper, it increased $4.1 million, or 4.2%. Organic growth was primarily generated by the Distribution Group. The Magazine Group did not generate overall organic growth as it was affected by the investments relating to the launch of its new magazine *More*. Similarly, the Digital Media Group was affected by the investments relating to the development of its multiplatform offering. The adjusted operating income margin before amortization increased significantly to 19.6% in 2007 from 16.9% in 2006 primarily due to the acquisition of higher margin businesses as well as the divestiture of under-performing assets.

In 2007 we strengthened our position through tuck-in acquisitions. We acquired *The Radville Star*, *The Deep South Star*, *The Grenfell Sun*, *The Broadview Express* and *The Oxbow Herald* community newspapers in Saskatchewan. These acquisitions are part of our long-term strategy to create a greater presence in Saskatchewan. With five well established papers in the area, we are building a strong editorial presence, and now have great advertising solutions to offer our clients who want an opportunity to expand their reach in Southern Saskatchewan. We also acquired *The Seaway News* located in Ontario which complements our existing eastern Ontario publications. Furthermore, after the end of the year, we acquired *The Springhill-Parrsboro Record* in Nova Scotia, making it a great addition to our portfolio of newspapers in that region. These acquisitions bring Transcontinental Media's newspaper total to 170 community publications across Canada, totalling some 250 million copies annually. In addition, we acquired six home building and renovation magazines from print media group Les Éditions Ma Maison which truly complement our existing *Décormag* and *Mon chalet* titles and confirm our leading position in the Quebec market.

Moreover, we focused on organic growth. We successfully launched the Canadian edition of *More* magazine, targeting women over 40. It exceeded our expectations as the number of subscriber copies reached over 70,000, almost double what we had initially expected. As of today, we have published six issues and have reached a circulation of over 100,000. The U.S. version has tripled its circulation since Meredith Corporation launched it in 1998 and it was named 2006 Magazine of the Year by *Advertising Age*. This promising partnership with a major American publisher is a step forward in our strategy to develop innovative products and services. Moreover, we launched Transcontinental Custom Communications, a joint venture with UK agency Seven Squared to provide custom publishing services to clients in Canada and the U.S. Custom publishing involves strategic and creative services that achieve a company's marketing objectives by delivering unique branded content to customers using print or digital channels.

Over the last decade, we have seen many new media emerge, many new ways not just to disseminate content in all its form, but also to interact, invite contribution, build relationships and engage in conversation. Television and newspapers dominate total global advertising spending, however those sectors have lost the most ground, notably to the Internet and this trend is forecast to continue. The media industry is far more deeply interconnected than five years ago. National advertisers and Media planners are on a trend to increasingly emphasize multimedia marketing strategy that will tap more direct marketing options (on-line, event, branded entertainment, database).

In order to leverage these opportunities, the Media sector will focus on a number of growth areas over the next few years: develop a multiplatform offering and leverage existing relationships, broaden our brand portfolio in high potential communities of interest, grow through value-added marketing services, branded content and through acquisitions in several platforms and marketing services. More specifically, in 2008, the Digital Media Group will pursue the development of its multiplatform offering. In fact, new investments of $8 million ($4 million of which will be expensed) will be made in this group in order to accelerate the

Reconciliation of Non-GAAP Financial Measures

for the years ended October 31

(unaudited)

(in millions of dollars, except per share data)	**2007**	2006 (restated)
Net income	**$ 120.6**	$ 135.8
Non-controlling interest	**0.3**	0.5
Income taxes	**53.6**	37.6
Discount on sale of accounts receivable	**11.1**	8.3
Financial expenses	**32.2**	30.7
Impairment of assets and restructuring costs	**9.7**	12.6
Amortization	**122.9**	117.2
Adjusted operating income before amortization	**$ 350.4**	$ 342.7
Net income	**$ 120.6**	$ 135.8
Impairment of assets and restructuring costs (after tax)	**6.6**	9.1
Unusual adjustments to income taxes	**—**	(12.7)
Adjusted net income	**127.2**	132.2
Average number of shares outstanding (in millions)	**84.9**	87.3
Adjusted earnings per share	**$ 1.50**	$ 1.51
Cash flow related to operating activities	**$ 241.0**	$ 214.0
Changes in non-cash operating items	**(48.1)**	(57.1)
Cash flow from operating activities before changes in non-cash operating items	**$ 289.1**	$ 271.1
Long-term debt	**$ 523.3**	$ 467.9
Current portion of long-term debt	**14.2**	12.7
Cash and temporary investments	**(48.5)**	(89.3)
Net indebtedness	**$ 489.0**	$ 391.3

time to market of various initiatives as well as the execution of marketing strategies.

In 2008, the Distribution Group should continue to grow driven by strong national and local sales as well as through the diversification of its customer base with second tier retailers. The Newspaper Group is expected to gain from the contribution from acquisitions completed in 2007, the development of additional innovative products and its Internet strategy. The Magazine Group will continue to leverage its strong brands and should benefit from the six magazines it acquired in 2007, a full year of *More* magazine and its joint venture in custom publishing. Finally, the Educational Publishing Group will need to reinvest in editorial, production and sales costs for school books in 2008 so it will make it difficult to achieve results ahead of last year for this group.

Inter-Segment and Other Results

Inter-segment and other revenues went from a negative $94.4 million in 2006 to a negative $92.1 million in 2007. The variation is attributable to a decrease in inter-segment revenues. Adjusted operating income before amortization went from a negative $19.5 million in 2006 to a negative $23.9 million in 2007. This increase is explained by certain expenses related to strategic investments to support the *Evolution 2010* business project and various other expenses, partially offset by expenses related to the pension plans offered by the Corporation to its employees and those of its participating subsidiaries.

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. On page 44 is a table reconciling GAAP financial measures to non-GAAP financial measures.

Summary of Quarterly Results

The table on page 46 shows the evolution of the Corporation's quarterly results. Note that stronger results are in the second and fourth quarters, as advertising spending is usually stronger in the spring and fall, generating higher revenues in both publishing and printing operations. The fall is also the strongest period for book printing and for our business segment of educational resources publishing.

Financial Condition, Liquidity and Capital Resources

Operating activities

For fiscal 2007, cash flow from operating activities before changes in non-cash operating items increased from $271.1 million in 2006 to $289.1 million in 2007, primarily due to amortization and future income taxes, partially offset by lower net income. Changes in non-cash operating items resulted in an outflow of $48.1 million in 2007, compared to an outflow of $57.1 million in 2006, mainly due to the timing in the payment of income taxes. As a result, cash flow from operating activities increased from $214.0 million in 2006 to $241.0 million in 2007.

Selected Quarterly Financial Results

(unaudited)

(in millions of dollars, except per share data)	**2007** Q4	Q3	Q2	Q1	2006 (restated) Q4	Q3	Q2	Q1
Revenues	**$ 618**	**$ 551**	**$ 585**	**$ 572**	$ 605	$ 533	$ 576	$ 568
Adjusted operating income before amortization	**101**	**81**	**93**	**76**	97	75	91	79
Adjusted operating income margin before amortization	**16.3%**	**14.8%**	**15.9%**	**13.2%**	16.1%	14.0%	15.9%	13.9%
Operating income	**$ 67**	**$ 51**	**$ 62**	**$ 38**	$ 61	$ 44	$ 58	$ 50
Net income	**39**	**28**	**34**	**20**	51	24	33	27
Per share	**0.46**	**0.33**	**0.40**	**0.24**	0.59	0.28	0.38	0.31
Adjusted net income	**39**	**28**	**35**	**25**	42	28	35	27
Per share	**0.47**	**0.34**	**0.41**	**0.29**	0.48	0.32	0.41	0.31
% of fiscal year	**31%**	**23%**	**27%**	**19%**	32%	21%	27%	20%

Investing activities

During 2007, $126.9 million was invested in property, plant and equipment, net of disposals, an increase of $22.0 million compared to the $104.9 million invested in 2006. Of this amount, $38.1 million relates to the *San Francisco Chronicle* project.

Financing activities

The Corporation paid $23.3 million, or 27.5 cents per share, in dividends in 2007 compared to $21.8 million, or 25 cents per share, in 2006, an increase of 10%. Dividends paid by Transcontinental to Canadian residents are eligible dividends as per the provincial and federal income tax laws.

The Corporation was authorized to purchase for cancellation on the open market, between November 21, 2005 and November 20, 2006, up to 3,578,325 of its Class A Subordinate Voting Shares, representing 5% of the 71,566,506 issued and outstanding Class A Subordinate Voting Shares as of November 11, 2005, and up to 887,015 of its Class B Shares, representing 5% of the 17,740,294 issued and outstanding Class B Shares as of November 11, 2005.

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 of November 7, 2006, and up to 852,907 of its Class B Shares, representing 5% of the 17,058,145 issued and outstanding Class B Shares as of November 7, 2006.

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

For the year ended October 31, 2007, the Corporation purchased 2,354,700 of its Class A Subordinate Voting Shares at a weighted average price of $21.27 for a total consideration of $50.1 million and 137,800 of its Class B Shares at a weighted average

Principal Cash Flows and Financial Condition

for the years ended October 31

(unaudited)

(in millions of dollars)	**2007**	2006 (restated)
Operating activities		
Cash flow from operating activities before changes in non-cash operating items	**$ 289.1**	$ 271.1
Changes in non-cash operating items	**(48.1)**	(57.1)
Cash flow related to operating activities	**241.0**	214.0
Investing activities		
Business acquisitions	**(132.5)**	(117.0)
Acquisitions of property, plant and equipment, net of disposals	**(126.9)**	(104.9)
Increase in other assets	**(28.4)**	(29.9)
Cash flow used in investing activities	**(287.8)**	(251.8)
Financing activities		
Reimbursement of long-term debt, net	**(105.8)**	(7.6)
Increase in revolving term credit facility	**191.3**	—
Redemption of shares, net	**(52.4)**	(64.3)
Dividends on shares	**(23.3)**	(21.8)
Other	**(0.6)**	(0.5)
Cash flow related to (used in) financing activities	**9.2**	(94.2)
Other relevant information		
Net indebtedness	**489.0**	391.3
Shareholders' equity	**1,177.6**	1,137.6
Net indebtedness / total capitalization ratio	**29%**	26%
Credit rating		
DBRS	**BBB high**	BBB high
	Negative trend	Negative trend
Standard and Poor's	**BBB**	BBB
	Stable	Stable

price of $21.69 for a total consideration of $3.0 million. Of the total consideration of $53.1 million, $13.3 million corresponds to the book value and $39.8 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

For the year ended October 31, 2006, the Corporation purchased 2,895,300 of its Class A Subordinate Voting Shares at a weighted average price of $19.03 for a total consideration of $55.1 million and 639,651 of its Class B Shares at a weighted average price of $18.86 for a total consideration of $12.1 million. Of the total consideration of $67.2 million, $17.0 million corresponds to the book value and $50.2 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

Debt instruments

As at October 31, 2007, the Corporation's net indebtedness stood at $489.0 million and its net indebtedness to total capitalization ratio was 29%, compared to 26% in 2006.

As at October 31, 2007, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling $400 million or the U.S - dollar equivalent. An amount of $192 million of this credit facility was used at the end of 2007. The applicable interest rate on this 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, it is currently either, bank prime rate, bankers' acceptance rate + 0.44% or LIBOR + 0.44%. Facility fees of 0.11% are also applicable on the line of credit whether it is drawn or not and utilization fees of 0.05% are applicable if the amount drawn is over $66^{2/3}$% of the line of credit. The committed line of credit is renewable on an annual basis and, if not renewed, it matures five years after its issuance or the last renewal, as the case may be. It was last renewed on August 30, 2007. Under the terms and conditions of the credit agreement, the Corporation must comply with certain restrictive covenants, including the requirement to maintain certain financial ratios. The Corporation is in compliance with all of the covenants under the credit agreements governing these facilities and would continue to be in compliance even if it drew all of the facilities at its disposal.

Contractual Obligations and Commercial Commitments

for the years ending October 31

Type of commitment (in millions of dollars)	2008	2009	2010	2011	2012	Subsequent Years	Total
Long-term debt	$14.6	$ 106.1	$ 5.8	$ 3.5	$ 335.7	$ 75.2	$ 540.9
Other commitments	26.7	24.9	22.4	18.3	15.7	55.2	163.2
Total obligations	$41.3	$ 131.0	$28.2	$21.8	$ 351.4	$ 130.4	$ 704.1

As of October 31, 2007, letters of credit amounting to C$0.2 million and US$4.0 million were drawn on the committed line of credit in addition to the amount presented in the previous paragraph. During the years ended October 31, 2007 and 2006, the Corporation has not been in default under any of its obligations. Other than long-term debt obligations, the Corporation has commitments, mainly comprised of operating leases. The table on page 48 provides the breakdown of these obligations and commitments for the coming fiscal years.

The Corporation is further committed to acquire machinery and equipment. As at October 31, 2007, these commitments represented $76.0 million, including C$31.3 million, US$45.3 million and €1.4 million. Minimum payments required in 2008 and 2009 are $67.4 million and $8.6 million, respectively.

On June 1st, 2007, Unsecured Senior Debentures totalling $100 million matured. These debentures were reimbursed using the existing term revolving credit facility described above.

Off-Balance-Sheet Arrangements (Securitization)

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

As at October 31, 2007, $273 million of accounts receivable ($282 million as at October 31, 2006) had been sold under the accounts receivable securitization program, of which $37 million ($39 million as at October 31, 2006) were kept by the Corporation as retained interest, resulting in a net consideration of $236 million, including C$209 million and US$29 million ($243 million as at October 31, 2006, including C$206 million and US$33 million) which represents the maximum net consideration the Corporation could have obtained on that date in accordance with the program terms and conditions. The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, the Corporation recognized an aggregate discount on sale of accounts receivable of $11.1 million for fiscal 2007 ($8.3 million for 2006). The Corporation is in compliance with all its covenants under the agreements governing this program.

Cash Flow from Operations and Net Funded Debt to Total Capitalization Ratio

(1) Cash flow from continuing operating activities before changes in non-cash operating items.

Critical Accounting Policies and Estimates

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

Goodwill

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

Intangible assets

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

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

Employee future benefits

The accrued benefit obligation is determined by independent actuaries using the projected benefit method prorated on services and is based on management's best economic and demographic estimates. The Corporation amortizes the unrecognized net aggregate actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, over the expected average remaining service life ("EARSL") of the employee group covered by the plans which ranges from 13 to 18 years. The transitional obligation resulting from the initial application of Section 3461 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook in November 2000 is also amortized over the EARSL of the employee group covered by the plans. For the purpose of calculating the expected return on plan assets, the fair market value is used.

Income taxes

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

Changes in Accounting Policies

Financial Instruments - Recognition and measurement

On November 1st, 2006, the Corporation adopted Section 3855 of the CICA Handbook, Financial Instruments - Recognition and measurement. It exposes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the consolidated financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value.

The Corporation has made the following classifications:

- Cash and temporary investments are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Other than temporary investments will be classified as either financial assets held to maturity and will thus be measured at amortized cost or as available-for-sale and will thus be marked-to-market through comprehensive income at each period end.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and 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.

The adoption of this Section is done retroactively without restatement of the consolidated financial statements of prior periods. As at November 1st, 2006, the impact on the consolidated balance sheet of measuring the financial assets and liabilities using the effective interest rate method and of reclassifying the costs directly attributable to the issuance of the long-term debt against long-term debt was an increase in future income tax assets of $0.1 million and a decrease in property, plant and equipment, other assets, long-term debt and opening retained earnings of $1.2 million, $1.8 million, $2.7 million and $0.2 million, respectively.

The impact on the consolidated balance sheet of measuring hedging derivatives at fair value as at November 1st, 2006 was an increase in other assets, future income tax liabilities and other liabilities of $6.5 million, $1.8 million and $0.9 million, respectively, and a decrease in accumulated other comprehensive loss of $3.8 million. Prior periods were not restated.

The Corporation selected November 1st, 2002 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

Financial instruments - Disclosure and presentation

On November 1st, 2006, the Corporation adopted Section 3861 of the CICA Handbook, Financial Instruments - Disclosure and presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives, and defines the information that should be disclosed about them.

Comprehensive income

On November 1st, 2006, the Corporation adopted Section 1530 of the CICA Handbook, Comprehensive Income. It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than the Corporation's shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses resulting from changes in fair value of certain financial instruments.

The adoption of this Section implied that the Corporation now presents a consolidated statement of comprehensive income as a part of the consolidated financial statements. The comparative consolidated financial statements are restated to reflect the application of this Section only for changes in the balances for foreign currency translation of self-sustaining foreign operations.

Equity

On November 1st, 2006, the Corporation adopted Section 3251 of the CICA Handbook, Equity, replacing

Section 3250, Surplus. It describes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, Comprehensive Income.

Hedges

On November 1st, 2006, the Corporation adopted Section 3865 of the CICA Handbook, Hedges. The recommendations of this Section expand the guidelines required by Accounting Guideline 13 (AcG-13), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item.

Non-monetary transactions

In 2005, the CICA issued Section 3831 of the CICA Handbook, Non-Monetary Transactions, replacing Section 3830 of the same name. Under these new standards, the Corporation should measure an asset exchanged or transferred in a non-monetary transaction, initiated in periods beginning on or after January 1st, 2006, at the more reliable measure of the fair value of the asset given up and the fair value of the asset received, unless: the transaction lacks commercial substance; the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange; neither the fair value of the assets received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners. An asset exchanged or transferred in a non-monetary transaction that is not measured at fair value is measured at the carrying amount of the asset given up adjusted by the fair value of any monetary consideration received or given.

The Corporation adopted these new recommendations prospectively. The implementation of these new recommendations did not have a material impact on the Corporation's consolidated financial statements.

Risks and Uncertainties

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

Managing the Corporation's risks is a major factor behind the decisions taken by management with regard to acquisitions, capital investments, disposal of assets, regrouping of plants, or efforts to create synergies among operating sectors. This focus also guides decisions regarding cost-reduction measures, product diversification, new market penetration, and certain treasury movements. Below is a list of major risks the Corporation is exposed to and strategies it is taking to mitigate them.

Competition

Some of the printing niches in which the Corporation operates are highly competitive. Competition is based on price, quality of products and services, range of services offered and time to market. Over the past few years, some of these niches have experienced a reduction in demand resulting in over-capacity and ultimately pricing pressures. However, in the past 18 months large North American printers have consolidated, restructured their operations and added more efficient equipment to their network. As a result, pricing pressures are starting to alleviate. On the media side, magazines and newspapers, whether of general interest or with a special focus, as well as other media (television, radio, Internet and other communication or advertising platforms) compete with Transcontinental's magazines, newspapers, Internet sites and complementary communication platforms for sale of advertising space as well as subscription and newsstand sales in some cases. In addition, the availability in Canada of several magazines published by U.S. publishers also creates competition for Transcontinental's magazines. To mitigate this risk the Corporation continues to focus on continuous improvement programs, cost reduction initiatives and developing value added services and products around its core businesses.

Credit

The Corporation is exposed to credit risk with respect to trade receivables. In order to mitigate this risk the Corporation analyzes and reviews the financial health of its current customers on an ongoing basis and applies rigorous evaluation procedures to all new customers. A specific credit limit is established for each customer and reviewed periodically. Transcontinental is protected against any concentration of credit risk through diversification of its products, customers and suppliers. In fact, the Corporation has a good customer mix. No single customer accounts for more than 5% of its consolidated revenues, and the Corporation's 20 largest customers account for less than 35% of its consolidated revenues. The Corporation also has a credit insurance policy covering most of its major customers. The terms of the policy include the usual covenants and limits regarding the amounts that can be claimed by event and year of coverage.

Difficulty 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 not be able to hire and retain qualified personnel. In order to mitigate this risk, the Corporation has invested in its human capital in the past years and has adopted policies and practices to be better aligned with the market. Please refer to the Talent issue in the Strategic Orientation Update: *Evolution 2010* section of the *Management's Discussion and Analysis* for further details.

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

Currently, credit markets are in turmoil creating concern and cost containment philosophies with companies involved in the sub-prime mortgage market and this is having a ripple effect across the financial services vertical. The large part of our customer base in our direct marketing segment is in this vertical, pressuring short term results. The direct marketing segment represents about 12% of total Corporation revenues.

Environment

The Corporation operates in two industries, printing and publishing, which use large quantities of paper for their day-to-day operations. With society's mounting concern over the protection of the environment as well as sustainable development, Transcontinental's products and services are under pressure to be more environmentally friendly. For instance, the growing concern over the environment could change the consumption habits of consumers and new regulations could force the Corporation to use more expensive environmentally friendly materials in its production process. Having implemented its first environmental policy in 1993, Transcontinental has often been recognized for its environmental initiatives, including a 2007 award from *PrintAction* magazine in the category Most Progressive Environmental Process. Company-wide environmental policies and procedures are founded on three guiding principles: protection of the environment for present and future generations, reduction of risks and efficiency improvement, and introduction of improved technology and processes. To mitigate this risk, the Corporation tries to be at the forefront of its industry in terms of commitment to the environment. In fiscal 2007, the Corporation implemented a Paper Purchasing Policy, chose an EPI-certified biodegradable plastic bag for its PubliSac operations and launched the promotion of a new paper made from a premium quality 100% post-consumer recycled material at price parity in its Book Group.

Exchange of Confidential Information

This risk involves the utilization and manipulation of our customers' confidential information, particularly in direct marketing. The Corporation uses confidential information provided by customers in its production process. The potential dissemination of such information to the wrong individuals could cause significant damage to our customers' relationships with their clients and thus to our own relationships with our customers and could result in legal actions. This risk increased with the acquisition of certain assets of JDM, Inc. in the U.S. in February 2005 and of PLM Group in October 2007. In order to mitigate this risk, various improvement measures to better prevent and control this risk have been implemented. In 2007, our U.S. MailGard operations underwent an information system audit by a nationally recognized assessment firm, authorized by the payment card industry, which resulted in the obtainment of CISP (Card Industry Service Provider) compliant certification. This is one of the highest certifications in information security.

Geographic Distribution and Exchange Rate

In 2007, revenues generated outside Canada represented 27% of consolidated revenues, down from 28% in 2006, due to the combination of lower revenues from U.S. entities, a slight decrease in exports and the negative effect due to the stronger Canadian dollar compared to its U.S. counterpart and the Mexican peso. It is important to note that our current net exposure to the U.S. and Mexican markets, in terms of foreign entities, is limited. However, over time we expect to derive a greater portion of our income in the U.S. and as such we will be more exposed to a translation risk.

To protect itself from the impact of a stronger Canadian dollar, the Corporation will continue to improve efficiency in all sectors, focus on market niches in which it has expertise that will give it a competitive edge, reduce costs, and maintain its ongoing currency-hedging program. The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, Transcontinental attempts to maximize the matching of cash inflows and outflows in the same currency.

Given the major fluctuations in the foreign-exchange rate in the past three years, and especially this past year with the Canadian dollar trading as high as 0.9447 CAD/USD and as low as 1.1855 CAD\USD, a spread of 0.2408 from November 2006 to October 2007, management deems it appropriate to provide details on its currency-hedging program. The program uses forward contracts that mature in one to 24 months. The policy approved by the Corporation's Board of Directors allows hedging of 50% to 100% of net cash flow for a period of one to 12 months, of 25% to 50% for the next 12 months and up to 33% for the subsequent 12 months. The Corporation also uses collars to limit the risk of losses related to the 1- to 12-month portion that is not covered by forward contracts. As at October 31, 2007, the Corporation had sold US$87.3 million, of which US$60.3 million and US$27 million will be sold in 2008 and 2009, respectively, (US$82 million in 2006) using foreign exchange forward contracts related to its strategy of hedging foreign currency cash flows from its exports to the United States. The terms of these forward contracts range from one month to 24 months, with rates varying from 1.0384 to 1.1744. The Corporation was also party to collars totalling US$6 million (US$9.5 million in 2006). The terms of these collar contracts range from three months to eight months, with floor rates at 1.04 and cap rates ranging from 1.0708 to 1.0885. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout fiscal 2007.

Integration of Acquisitions

The integration of acquisitions is always a risk and this risk increases with the size of the acquisition. Integrating operations could cause temporary disruptions to operations 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.

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. At the end of fiscal 2007, the floating rate portion of the Corporation's long-term debt represented 54% of the total while the fixed rate portion represented 46% (25% and 75% respectively in 2006). The floating-rate portion of the long-term debt increased in the past three years: first in 2005 when the Corporation completed its issuance of Senior Unsecured Notes and then in 2007 when the Corporation paid down a fixed rate debt using floating rate debt. Floating-rate debt bears interest at rates based on LIBOR or Bankers' acceptances. In addition, the Corporation expects to draw more heavily on its credit facilities in the next few years to finance major capital expenditure projects linked to its newspaper outsourcing model.

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. It is important to note that while the Corporation has not been directly exposed to the current credit crunch, it has been indirectly affected through its securitization program: interest rates for this program have gone up slightly, albeit it does not represent a significant additional cost to the Corporation. In order to mitigate this risk the Corporation tries to keep a good balance of fixed versus floating rate debt.

During 2007, the Canadian and U.S. central banks maintained their bank rates steady for a large portion of the year. In July, the Canadian central bank slightly increased its bank rate. On the other hand, the U.S. central bank significantly decreased its bank rate following the credit market turmoil in August. The Corporation believes that interest rates for the Canadian and U.S. economies are not likely to trend upward in 2008 and deems that its exposure to interest rates will be subdued in the coming quarters.

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.

New Media

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

Canadian and U.S. Postal Systems' Future Policies

Postal costs are a significant component of our printing customers' cost structures (direct marketing, catalogues and magazines). Postal rate changes can influence the number of pieces that the Corporation's customers are willing to mail. In the past two years, postal rates in the U.S. have increased 6% and 9% respectively on standard mail. While the United States Postal Service (USPS) has indicated that future increases will be linked to the inflation rate, any changes in this policy could have a negative impact on the Corporation's operations. In order to mitigate this risk, the Corporation has increased its investment in postal optimization capabilities which can offer customers a reduction in their postal costs.

Similarly, in Canada, postal costs have increased in the low single digits in the past two years. A significant increase in postal costs would not only affect our printing customers but our Media sector, especially for the distribution of our magazines. Moreover, magazines in Canada benefit from postal subsidies, through the PAP program (Postal Assistance Program). Any significant reduction in these subsidies could have a negative impact on the Corporation's operations.

Finally, there has been growing talk of “do-not-mail” legislation in reference to the direct marketing industry. The Corporation does not believe that such a legislation would be passed in Congress as it would have a detrimental impact on the United States Postal Service, the country's largest employer. Legislations on “do-not-mail” are instituted at the state level. As of October 2007, legislation had been introduced in 15 states. Having said that, if ever such a legislation were passed, it would have a negative impact on the Corporation's direct marketing operations.

Raw Materials and Energy Prices

The primary raw materials the Corporation uses in its two printing sectors are paper, ink and plates. The Corporation is highly dependent on the availability of paper for its day-to-day operations. While the Corporation can benefit from its purchasing power, the current tightening in the paper market, resulting from paper mill closures, could result in a decrease in the supply of paper and thus an increase in paper prices. While paper costs are a pass through for the Corporation's printing operations, an increase in the price of paper could change the consumption habits of our customers. On the other hand, for our Media sector, an increase in the price of paper is typically absorbed in the cost structure. 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.

Energy prices, more specifically natural gas and oil, have been prone to major fluctuations in recent years. While the Corporation expects to be able to pass on a portion of the increase to its customers, the bulk will be absorbed in the current cost structure. As a result, the Corporation has hedging mechanisms in place to mitigate the risk related to fluctuations in natural gas prices in order to minimize the impact on the Corporation's results and financial position. In addition, the Corporation continues to make efforts of finding new ways to reduce energy costs.

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 Event

On December 18, 2007, the Corporation was authorized to purchase for cancellation on the open market, between December 20, 2007 and December 19, 2008, up to 3,333,994 of its Class A Subordinate Voting Shares, representing 5% of the 66,679,889 issued and outstanding Class A Subordinate Voting Shares as of December 10, 2007, and up to 845,271 of its Class B Shares, representing 5% of the 16,905,432 issued and outstanding Class B Shares as of December 10, 2007. The purchases will be 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.

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 future decrease in federal tax rate will reduce both the income tax expense and net future income tax liabilities by approximately $6.5 million during the first quarter of fiscal 2008.

As of November 19, 2007, the Corporation acquired an additional 2% of the shares of PLM Group Ltd. The Corporation owns 100% of the shares of PLM Group Ltd. since that date.

The Corporation purchased 27,400 of its Class A Subordinate Voting Shares at a weighted average price of $20.61 for a total consideration of $0.6 million and 4,000 of its Class B Shares at a weighted average price of $20.75 for a total consideration of

Corporation and its subsidiaries would have been known to them.

$0.1 million between November 1st, 2007 and November 20, 2007 in accordance with its Normal Course Issuer Bid.

Disclosure Controls and Procedures

Transcontinental's President and Chief Executive Officer and its Vice President and Chief Financial Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and the Vice President and Chief Financial Officer, to allow timely decisions regarding required disclosure. The President and Chief Executive Officer and the Vice President and Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as at October 31, 2007, have concluded that the Corporation's disclosure controls and procedures are adequate and effective to ensure that material information relating to the

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the year ended October 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. For the purpose of this evaluation, they considered, among other things, the impact of the accounting errors discovered during the preparation of its fiscal 2007 Consolidated Financial Statements that required a restatement of prior years' financial statements. They concluded that the control deficiencies resulting in these errors did not constitute a material weakness in disclosure controls and procedures, or internal control over financial reporting as of October 31st, 2007. In addition, the Corporation has implemented modifications to enhance its internal controls in these areas. These changes have not affected, nor are they reasonably likely to materially affect, our internal control over financial reporting.

Outlook

In fiscal 2008, the Corporation will continue to focus on its three primary growth areas: newspaper outsourcing, direct marketing and digital media. First, with regards to our newspaper outsourcing model, we will focus on gearing up for the printing of the *San Francisco Chronicle* newspaper in the spring of 2009. In parallel, we will continue to build on discussions with other newspaper publishers and hopefully can announce another similar contract in 2008. Second, with regards to direct marketing, we will focus on diversifying our customer base away from the financial services vertical, leverage our postal optimization solutions and manage the business within the current credit market turmoil context. In addition, we will focus on integrating PLM Group. Finally, with regards to digital media, we will focus on further developing our multiplatform offering with new investments.

Over the past year, Transcontinental has reviewed its practices with respect to the disclosure of information. Given changes in its environment, the Corporation needs to increasingly focus on its medium to long-term development for the benefit of its shareholders. In light of this, management deems it more advisable to discontinue the practice of providing a specific earnings-per-share objective on an annual basis. Going forward, we will continue to provide rolling long term financial objectives, similar to the ones outlined within our *Evolution 2010* business project. In addition, we will continue to provide other forward-looking information such as foreign exchange sensitivity, corporate tax rate, capital expenditures, non-capitalized investments and qualitative statements on the markets and business conditions of our various business units.

In accordance with this new practice, we want to highlight a few factors that will influence our fiscal 2008 results: a negative pre-tax exchange-rate effect of approximately $20 million using a constant exchange rate of 1.00 CAD/USD for the year; additional spending of approximately $8 million ($4 million of which will be capitalized) in our Media sector, relating to a number of new digital initiatives; capital expenditures of approximately $250 million, including $120 million for the *San Francisco Chronicle*; and finally the positive effect from our share buyback program.

Having said this, we would like to reaffirm that this decision in no way diminishes our commitment to transparency with financial markets. We will continue to be forthcoming in discussions with the financial community and clearly communicate the Corporation's long term strategy. In fact, in keeping with the Corporation's commitment to full and open disclosure, we would like to reiterate our commitment to our *Evolution 2010* business project and related financial objectives, in particular: to grow adjusted earnings per share, excluding the foreign exchange impact, 10% on average per year from 2006-2010.

On behalf of Management,

"Benoît Huard"
(signed)

Benoît Huard
Vice President
and Chief Financial Officer

December 17, 2007

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Transcontinental Inc. are the responsibility of management and have been approved by the Board of Directors of the Corporation. The financial statements include some amounts that are based on management's best estimates using reasonable judgement. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

In fulfilling their responsibilities, management of Transcontinental Inc. and its subsidiaries develop and aim to improve accounting and management systems designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements.

The Board of Directors of the Corporation fulfills its responsibility for the financial statements principally through its Audit Committee. The Audit Committee meets with management and the external auditors every quarter to discuss the results of the audit, internal controls and financial reporting matters. The external auditors appointed by the shareholders have unrestricted access to the Audit Committee, with or without the presence of management.

The financial statements have been audited by Samson Bélair/Deloitte & Touche s.e.n.c.r.l., Chartered Accountants, and their report follows.

"Luc Desjardins"
(signed)

Luc Desjardins
President and Chief Executive Officer

"Benoît Huard"
(signed)

Benoît Huard
Vice President and Chief Financial Officer

Auditors' Report to the Shareholders of Transcontinental Inc.

We have audited the consolidated balance sheets of Transcontinental Inc. as at October 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Samson Bélair/Deloitte & Touche s.e.n.c.r.l."
(signed)

Chartered Accountants
Montreal, Canada
December 14, 2007

Consolidated Statements of Income

for the years ended October 31

(in millions of dollars, except per share data)	Notes	2007	2006 (restated Note 2)
Revenues		**$2,326.2**	$2,282.3
Operating costs		**1,707.5**	1,686.1
Selling, general and administrative expenses		**268.3**	253.5
Operating income before amortization, impairment of assets and restructuring costs		**350.4**	342.7
Amortization	**23**	**122.9**	117.2
Impairment of assets and restructuring costs	**4**	**9.7**	12.6
Operating income		**217.8**	212.9
Financial expenses	**5**	**32.2**	30.7
Discount on sale of accounts receivable	**7**	**11.1**	8.3
Income before income taxes and non-controlling interest		**174.5**	173.9
Income taxes	**6**	**53.6**	37.6
Non-controlling interest		**0.3**	0.5
Net income		**$ 120.6**	$ 135.8
Per share (basic)	**16**		
Net income		**$ 1.42**	$ 1.56
Per share (diluted)	**16**		
Net income		**$ 1.42**	$ 1.55
Average number of shares outstanding (in millions)		**84.9**	87.3

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

Consolidated Statements of Comprehensive Income

for the years ended October 31

(in millions of dollars)	**2007**	2006 (restated Note 2)
Net income	**$ 120.6**	$135.8
Other comprehensive loss:		
Unrealized net gains on derivatives designated as cash flow hedges, net of income taxes of $5.0 million for the year ended October 31, 2007	**9.7**	—
Reclassification adjustment for net gains on derivatives designated as cash flow hedges in prior years transferred to net income in the current year, net of income taxes of $2.2 million for the year ended October 31, 2007	**(4.3)**	—
Change in net gains on derivatives designated as cash flow hedges	**5.4**	—
Unrealized net losses on translation of financial statements of self-sustaining foreign operations	**(16.3)**	(3.2)
Other comprehensive loss	**(10.9)**	(3.2)
Comprehensive income	**$ 109.7**	$132.6

Consolidated Statements of Retained Earnings

for the years ended October 31

(in millions of dollars)	Notes	2007	2006 (restated Note 2)
Balance, beginning of year, as previously reported		**$769.0**	$703.1
Adjustments to opening retained earnings	**2**	**(19.9)**	(17.8)
		749.1	685.3
Financial Instruments - Recognition and Measurement	**3**	**(0.2)**	—
Restated balance, beginning of year		**748.9**	685.3
Net income		**120.6**	135.8
		869.5	821.1
Premium on redemption of shares	**16**	**(39.8)**	(50.2)
Dividends on shares		**(23.3)**	(21.8)
Balance, end of year		**$806.4**	$749.1

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

Consolidated Balance Sheets

as at October 31

(in millions of dollars)	Notes	2007	2006 (restated Note 2)
Current assets			
Cash and temporary investments		**$ 48.5**	$ 89.3
Accounts receivable	**7**	**196.9**	176.3
Income taxes receivable	**6**	**1.3**	2.2
Inventories	**8**	**91.0**	92.8
Prepaid expenses and other current assets		**18.4**	17.4
Future income tax assets	**6**	**11.8**	6.3
		367.9	384.3
Property, plant and equipment	**9**	**739.7**	701.3
Goodwill	**10**	**934.6**	881.5
Intangible assets	**11**	**172.5**	165.8
Future income tax assets	**6**	**64.6**	59.1
Other assets	**12**	**90.3**	70.4
		$2,369.6	$2,262.4
Current liabilities			
Accounts payable and accrued liabilities		**$ 400.5**	$ 417.4
Income taxes payable	**6**	**32.3**	52.4
Deferred subscription revenues and deposits		**52.9**	54.2
Current portion of long-term debt	**14**	**14.2**	12.7
		499.9	536.7
Long-term debt	**14**	**523.3**	467.9
Future income tax liabilities	**6**	**108.4**	77.4
Other liabilities	**15**	**58.2**	42.0
		1,189.8	1,124.0
Non-controlling interest		**2.2**	0.8
Commitments, guarantees and contingent liabilities	**24**		
Shareholders' equity			
Share capital	**16**	**395.1**	407.6
Contributed surplus	**18**	**9.2**	6.9
Retained earnings		**806.4**	749.1
Accumulated other comprehensive loss	**19**	**(33.1)**	(26.0)
		773.3	723.1
		1,177.6	1,137.6
		$2,369.6	$2,262.4

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

Approved on behalf of the Board of Directors,

"Rémi Marcoux"
(signed)

Rémi Marcoux
Director

"Robert Chevrier"
(signed)

Robert Chevrier,
Director

Consolidated Statements of Cash Flows

for the years ended October 31

(in millions of dollars)	Notes	2007	2006 (restated Note 2)
Operating activities			
Net income		**$ 120.6**	$ 135.8
Items not affecting cash and cash equivalents			
Amortization	**23**	**149.0**	132.4
Impairment of assets	**4**	**3.6**	6.5
Gain on disposal of assets		**(0.1)**	(1.4)
Future income taxes	**6**	**(1.4)**	(15.6)
Non-controlling interest		**0.3**	0.5
Accrued pension benefit asset and liability	**22**	**8.7**	9.1
Stock-based compensation and other stock-based payments	**17**	**2.6**	2.0
Other		**5.8**	1.8
Cash flow from operating activities before changes in non-cash operating items		**289.1**	271.1
Changes in non-cash operating items	**20**	**(48.1)**	(57.1)
Cash flow related to operating activities		**241.0**	214.0
Investing activities			
Business acquisitions	**21**	**(132.5)**	(117.0)
Acquisitions of property, plant and equipment		**(130.2)**	(113.9)
Disposals of property, plant and equipment		**3.3**	9.0
Increase in other assets		**(28.4)**	(29.9)
Cash flow used in investing activities		**(287.8)**	(251.8)
Financing activities			
Increase in long-term debt		**2.6**	0.6
Reimbursement of long-term debt		**(108.4)**	(8.2)
Increase in revolving term credit facility		**191.3**	—
Dividends on shares		**(23.3)**	(21.8)
Redemption of shares	**16**	**(53.1)**	(67.2)
Issuance of shares	**16**	**0.7**	2.9
Other		**(0.6)**	(0.5)
Cash flow related to (used in) financing activities		**9.2**	(94.2)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**(3.2)**	(0.7)
Decrease in cash and cash equivalents		**(40.8)**	(132.7)
Cash and cash equivalents at beginning of year		**89.3**	222.0
Cash and cash equivalents at end of year		**$ 48.5**	$ 89.3

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

Notes to the Consolidated Financial Statements

for the years ended October 31

(in millions of dollars, except per share data)

1. Significant accounting policies

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

a) Consolidation

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

b) Use of estimates

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

c) Revenue recognition

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

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

Media sector revenues are recognized as follows:

Advertising revenues:

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

Subscription revenues:

Subscription revenues are recorded on an accrual basis rather than when subscriptions are received. These revenues are therefore recorded in deferred subscription revenues 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 book revenues:

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

1. Significant accounting policies (continued)

d) 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.

e) Tax credits

The Corporation benefits from income tax credits related to operating costs and property, plant and equipment, depending on the jurisdiction where they are expended. These credits are accounted for either as a reduction of operating costs or property, plant and equipment.

f) Cash and cash equivalents

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

g) Transfer of receivables

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

h) Inventories

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

i) 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 or fair value.

j) 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.

1. Significant accounting policies (continued)

k) Intangible assets

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

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

l) Deferred charges

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

m) Asset retirement obligations

Legal obligations linked to removal obligations on certain buildings are recorded in the period in which they are incurred. 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 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.

n) Employee future benefits

The accrued benefit obligation is determined by independent actuaries using the projected benefit method prorated on services and is based on management's best economic and demographic estimates. The Corporation amortizes the unrecognized net aggregate actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, over the expected average remaining service life ("EARSL") of the employee group covered by the plans which ranges from 13 to 18 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.

o) Share unit plan

Deferred share units ("DSU") and restricted share units ("RSU") are recognized as a compensation expense on a straight-line basis, over the three-year vesting period. DSUs and RSUs are remeasured at fair market value at each reporting period, until settlement in the case of DSUs or until the vesting date in the case of RSUs, which corresponds to the settlement date, using the trading price of the Corporation's Class A Subordinate Voting Shares. Fair market value variations are accounted for as compensation expense with a corresponding credit to "Other 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.

1. Significant accounting policies (continued)

p) Foreign currency translation

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

q) Financial instruments

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

Hedging relationships:

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

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

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

2. Restatement

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

Amortization of property, plant and equipment

Amortization on property, plant and equipment of the Corporation's Mexican subsidiaries was calculated using an incorrect cost basis. Accordingly, amortization expense and income tax expense for the year ended October 31, 2006 have been increased by $2.9 million and reduced by $0.8 million, respectively. Property, plant and equipment and future income tax liabilities as of October 31, 2006 have been reduced by $12.3 million and $3.4 million, respectively. Opening retained earnings and accumulated other comprehensive loss for the year ended October 31, 2006 have been reduced by $8.0 million and $1.2 million, respectively.

Income taxes

As of October 31, 2006, income taxes payable and future income tax liabilities were globally understated by $9.8 million, mainly due to errors in accounting provisions for income taxes on inter-company transactions and to future income tax assets on operating losses considered twice, for years prior to 2006. Future income tax liabilities and income taxes payable as of October 31, 2006 have been increased by $10.7 million and reduced by $0.9 million, respectively. Opening retained earnings for the year ended October 31, 2006 have been reduced by $9.8 million.

Net income and earnings per share impact

For the year ended October 31, 2006, net income has been reduced by $2.1 million and net basic and diluted earnings per share have been reduced by $0.02 and $0.03, respectively.

3. Changes in accounting policies

a) Financial Instruments – Recognition and measurement

On November 1st, 2006, the Corporation adopted Section 3855 of the CICA Handbook, Financial Instruments – Recognition and measurement. It exposes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the consolidated financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value.

The Corporation has made the following classifications:

- Cash and temporary investments are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.
- Other than temporary investments will be classified as either financial assets held to maturity and will thus be measured at amortized cost or as available-for-sale and will thus be marked-to-market through comprehensive income at each period end.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and 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.

3. Changes in accounting policies (continued)

The adoption of this Section is done retroactively without restatement of the consolidated financial statements of prior periods. As at November 1st, 2006, the impact on the consolidated balance sheet of measuring the financial assets and liabilities using the effective interest rate method and of reclassifying the costs directly attributable to the issuance of the long-term debt against long-term debt was an increase in future income tax assets of $0.1 million and a decrease in property, plant and equipment, other assets, long-term debt and opening retained earnings of $1.2 million, $1.8 million, $2.7 million and $0.2 million, respectively.

The impact on the consolidated balance sheet of measuring hedging derivatives at fair value as at November 1st, 2006 was an increase in other assets, future income tax liabilities and other liabilities of $6.5 million, $1.8 million and $0.9 million, respectively, and a decrease in accumulated other comprehensive loss of $3.8 million. Prior periods were not restated.

The Corporation selected November 1st, 2002 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or another contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

b) Financial instruments – Disclosure and presentation
On November 1st, 2006, the Corporation adopted Section 3861 of the CICA Handbook, Financial Instruments – Disclosure and presentation. This Section establishes standards for presentation of financial instruments and non-financial derivatives, and defines the information that should be disclosed about them.

c) Comprehensive income
On November 1st, 2006, the Corporation adopted Section 1530 of the CICA Handbook, Comprehensive Income. It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than the Corporation's shareholders. These transactions and events include changes in the currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses resulting from changes in fair value of certain financial instruments.

The adoption of this Section implied that the Corporation now presents a consolidated statement of comprehensive income as a part of the consolidated financial statements. The comparative consolidated financial statements are restated to reflect the application of this Section only for changes in the balances for foreign currency translation of self-sustaining foreign operations.

d) Equity
On November 1st, 2006, the Corporation adopted Section 3251 of the CICA Handbook, Equity, replacing Section 3250, Surplus. It describes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, Comprehensive Income.

e) Hedges
On November 1st, 2006, the Corporation adopted Section 3865 of the CICA Handbook, Hedges. The recommendations of this Section expand the guidelines required by Accounting Guideline 13 (AcG-13), Hedging Relationships. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item.

3. Changes in accounting policies (continued)

f) Non-monetary transactions

In 2005, the CICA issued Section 3831 of the CICA Handbook, Non-Monetary Transactions, replacing Section 3830 of the same name. Under these new standards, the Corporation should measure an asset exchanged or transferred in a non-monetary transaction, initiated in periods beginning on or after January 1st, 2006, at the more reliable measure of the fair value of the asset given up and the fair value of the asset received, unless: the transaction lacks commercial substance; the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange; neither the fair value of the assets received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners. An asset exchanged or transferred in a non-monetary transaction that is not measured at fair value is measured at the carrying amount of the asset given up adjusted by the fair value of any monetary consideration received or given.

The Corporation adopted these new recommendations prospectively. The implementation of these new recommendations did not have a material impact on the Corporation's consolidated financial statements.

(in millions of dollars, except per share data)

4. Impairment of assets and restructuring costs

The following table summarizes the impairment of assets and restructuring costs:

	Total			**2007**			2006	
	Charged to income	Forecasted	Liability as at October 31, 2006	**Charged to income**	**Paid**	Liability as at October 31, 2007	Charged to income	Paid
Commercial printing operations [a]								
Printing Products and Services								
Workforce reduction costs	$1.8	$1.8	$ —	**$1.8**	**$0.7**	$1.1	$—	$ —
Transfer of printing equipment and other costs	1.4	1.7	—	**1.4**	**1.4**	—	—	—
Marketing Products and Services								
Workforce reduction costs	1.6	1.6	—	**1.6**	**1.3**	0.3	—	—
Transfer of printing equipment and other costs	0.6	0.8	—	**0.6**	**0.6**	—	—	—
	5.4	5.9	—	**5.4**	**4.0**	1.4	—	—
Printing Products and Services								
Impairment of assets	0.3	0.3	n/a	**0.3**	**n/a**	n/a	—	n/a
Marketing Products and Services								
Impairment of assets	3.3	3.3	n/a	**3.3**	**n/a**	n/a	—	n/a
	$9.0	$9.5	$ —	**$9.0**	**$4.0**	$1.4	$—	$ —
Magazine publishing operations (b)								
Impairment of assets	$6.8	$6.8	n/a	**$ —**	**n/a**	n/a	$6.8	n/a
Toronto printing operations (c)								
Workforce reduction costs	$3.0	$3.0	$ 1.4	**$0.2**	**$1.0**	$0.6	$2.8	$1.4
Transfer of printing equipment and other costs	1.0	1.0	—	**0.4**	**0.4**	—	0.6	0.6
	4.0	4.0	1.4	**0.6**	**1.4**	0.6	3.4	2.0
Impairment of assets	0.2	0.2	n/a	**—**	**n/a**	n/a	0.2	n/a
	$4.2	$4.2	$ 1.4	**$0.6**	**$1.4**	$0.6	$3.6	$2.0
Book printing operations (d)								
Workforce reduction costs	$1.3	$1.3	$ —	**$ —**	**$ —**	$ —	$—	$0.8
Transfer of printing equipment and other costs	3.9	3.9	—	**0.1**	**0.1**	—	2.7	2.7
	5.2	5.2	—	**0.1**	**0.1**	—	2.7	3.5
Impairment of assets	1.6	1.6	n/a	**—**	**n/a**	n/a	—	n/a
	$6.8	$6.8	$ —	**$0.1**	**$0.1**	$ —	$2.7	$3.5

(in millions of dollars, except per share data)

4. Impairment of assets and restructuring costs (continued)

	Total		2007				2006	
	Charged to income	Forecasted	Liability as at October 31, 2006	**Charged to income**	**Paid**	Liability as at October 31, 2007	Charged to income	Paid
Manufacturing strategy (e)								
Printing Products and Services								
Workforce reduction costs	$ 0.3	$0.3	$ —	**$ —**	**$ —**	$ —	$ —	$ —
Marketing Products and Services								
Workforce reduction costs	0.4	0.4	—	**—**	**—**	—	—	0.4
	0.7	0.7	—	**—**	**—**	—	—	0.4
Printing Products and Services								
Impairment of assets	4.9	4.9	n/a	**—**	**n/a**	n/a	—	n/a
Marketing Products and Services								
Impairment of assets	1.9	1.9	n/a	**—**	**n/a**	n/a	—	n/a
	$ 7.5	$7.5	$ —	**$ —**	**$ —**	$ —	$ —	$0.4
Winnipeg printing operations (f)								
Workforce reduction costs	$ 2.2	$2.2	$ —	**$ —**	**$ —**	$ —	$ —	$0.1
Transfer of printing equipment and other costs	1.0	1.0	—	**—**	**—**	—	—	0.2
	3.2	3.2	—	**—**	**—**	—	—	0.3
Impairment of assets	(0.5)	(0.5)	n/a	**—**	**n/a**	n/a	(0.5)	n/a
	$ 2.7	$2.7	$ —	**$ —**	**$ —**	$ —	$ (0.5)	$0.3
Total			$ 1.4	**$9.7**	**$5.5**	$2.0	$12.6	$6.2

a) During the first quarter of fiscal 2007, the Corporation initiated a restructuring plan for its commercial printing operations in the Printing Products and Services and Marketing Products and Services sectors, with an impact of incurring restructuring costs within the twelve months following the announcement.

b) During the fourth quarter of fiscal 2006, the Corporation performed an impairment test on non-amortizable intangible assets by estimating the operating income and future cash flows it expects to generate from the underlying assets. Due to competitive market conditions in the magazine publishing group of the Media sector, the expected operating income and cash flows of certain titles were lower than forecasted for 2005. Consequently, forecasted future results for purposes of the annual impairment test were revised and were insufficient to justify the book value of these trade names. In the Media sector, an impairment of assets of $6.8 million, representing the totality of the book value of these trade names, was thus charged to income for the year ended October 31, 2006.

c) During the second quarter of fiscal 2006, the Corporation adopted a plan for the consolidation of its commercial products and direct-marketing printing facilities located in the Toronto area in the Marketing Products and Services sector. The consolidation is expected to be completed in 2008.

(in millions of dollars, except per share data)

4. Impairment of assets and restructuring costs (continued)

d) During the second quarter of fiscal 2005, the Corporation announced the consolidation of certain book printing operations in the Printing Products and Services sector. The consolidation was completed during the first quarter of 2007.

e) During the first quarter of fiscal 2005, the Corporation announced major investment projects to purchase equipment in the Printing Products and Services and Marketing Products and Services sectors. The projects were completed during the third quarter of 2006.

f) During the fourth quarter of fiscal 2004, the Corporation announced the consolidation of its Winnipeg retail printing operations in the Marketing Products and Services sector. The consolidation was completed during the first quarter of 2006.

5. Financial expenses

	2007	2006
Financial expenses on long-term debt	**$29.9**	$29.2
Other (revenues) expenses	**(0.1)**	1.1
Foreign exchange loss	**2.4**	0.4
	$32.2	$30.7

6. Income taxes

	2007	2006 (restated Note 2)
Statutory tax rate	**32.4%**	33.9%
Effect of foreign tax rate differences	**(2.6)**	(3.6)
Other	**0.9**	(1.4)
Effective tax rate before the following items:	**30.7**	28.9
Effect of changes in statutory tax rates (a)	**—**	(3.5)
Retroactive taxes (b)	**—**	4.9
Reduction in income tax expense arising from the recognition of tax losses (c)	**—**	(8.7)
Effective tax rate	**30.7%**	21.6%

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

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

(in millions of dollars, except per share data)

6. Income taxes (Continued)

c) During the fourth quarter of 2006, future income tax assets related to tax losses of U.S. subsidiaries were fully recognized as management now believes more likely than not that they will be realized. An amount of $15.1 million was accounted for as an increase in future income tax assets.

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

	2007	2006 (restated Note 2)
Current	**$ 55.0**	$ 53.2
Future		
Reduction in income tax expense arising from the recognition of tax losses	**—**	(15.1)
Reduction in future income tax expense arising from the origination and reversal of taxable temporary differences	**(1.4)**	0.5
	$ 53.6	$ 37.6

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

	2007	2006 (restated Note 2)
Losses carried-forward	**$ 69.1**	$ 65.2
Property, plant and equipment, net of tax credits	**(43.4)**	(29.5)
Other assets (liabilities)		
Non-deductible provisions	**11.1**	8.5
Employee future benefits	**8.4**	6.2
Deferred charges	**(5.8)**	(5.6)
Intangible assets and goodwill	**(70.2)**	(56.7)
Other	**(1.2)**	(0.1)
Total future income taxes	**$ (32.0)**	$(12.0)
Future income taxes include the following:		
Future income tax assets - short-term	**$ 11.8**	$ 6.3
Future income tax assets - long-term	**64.6**	59.1
Future income tax liabilities - long-term	**(108.4)**	(77.4)
Total future income taxes	**$ (32.0)**	$(12.0)

The Corporation has unrecorded tax losses of $5.7 million which can be applied against future taxable income through 2027. The Corporation also has unrecorded capital losses of $19.0 million, which can be carried forward indefinitely.

(in millions of dollars, except per share data)

7. Accounts receivable

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

As at October 31, 2007, $273 million of accounts receivable ($282 million as at October 31, 2006) had been sold under the accounts receivable securitization program, of which $37 million ($39 million as at October 31, 2006) were kept by the Corporation as retained interest, resulting in a net consideration of $236 million, including C$209 million and US$29 million ($243 million as at October 31, 2006, including C$206 million and US$33 million) which represents the maximum net consideration the Corporation could have obtained on that date in accordance with the program terms and conditions. The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, the Corporation recognized an aggregate discount on sale of accounts receivable of $11.1 million for fiscal 2007 ($8.3 million in 2006).

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

	2007	2006
Expected loss and dilution rates	**0.2%**	0.2%
Expected weighted average collection period after securitization (days)	**5**	6

As at October 31, 2007, the effect of a 10% change in the expected rates of loss and dilution on receivables would be immaterial on the fair market value of the retained interest. These sensitivities are hypothetical and should be used with caution. The effect of a variation in a particular assumption on the retained interest has been calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

During 2007 and 2006, there were no defaulted receivables repurchased or any deemed collections or defaulted receivables or dilution amounts compensated for by the Corporation.

(in millions of dollars, except per share data)

8. Inventories

	2007	2006
Raw materials	**$ 48.2**	$ 50.6
Work in progress and finished goods	**42.8**	42.2
	$ 91.0	$ 92.8

9. Property, plant and equipment

2007	Cost	Accumulated amortization	Net book value
Land	**$ 25.5**	**$ —**	**$ 25.5**
Buildings	**199.3**	**71.3**	**128.0**
Machinery and equipment	**1,145.6**	**740.2**	**405.4**
Machinery and equipment under capital leases	**40.0**	**7.6**	**32.4**
Other equipment and leasehold improvements	**223.2**	**150.7**	**72.5**
Assets under construction and deposits on equipment	**75.9**	**—**	**75.9**
	$1,709.5	**$ 969.8**	**$ 739.7**
2006 (restated Note 2)			
Land	$ 26.5	$ —	$ 26.5
Buildings	199.1	66.6	132.5
Machinery and equipment	1,127.1	704.3	422.8
Machinery and equipment under capital leases	10.6	6.1	4.5
Other equipment and leasehold improvements	223.2	148.9	74.3
Assets under construction and deposits on equipment	40.7	—	40.7
	$1,627.2	$ 925.9	$ 701.3

Capitalized interest amounted to $1.9 million in 2007 ($0.9 million in 2006).

(in millions of dollars, except per share data)

10. Goodwill

The changes in book value of goodwill are as follows:

2007	Printing Products and Services	Marketing Products and Services	Media	Other activities and unallocated amounts	Consolidated
Balance, beginning of year	**$ 110.5**	**$ 273.2**	**$ 496.9**	**$ 0.9**	**$ 881.5**
Acquisitions (Note 21)	**—**	**75.0**	**9.4**	**—**	**84.4**
Foreign currency translation adjustment	**—**	**(28.2)**	**—**	**—**	**(28.2)**
Other	**(0.2)**	**(0.2)**	**(2.0)**	**(0.7)**	**(3.1)**
Balance, end of year	**$ 110.3**	**$ 319.8**	**$ 504.3**	**$ 0.2**	**$ 934.6**
2006					
Balance, beginning of year	$ 110.5	$ 283.3	$ 420.0	$ 0.9	$ 814.7
Acquisitions (Note 21)	—	—	77.1	—	77.1
Foreign currency translation adjustment	—	(9.6)	—	—	(9.6)
Other	—	(0.5)	(0.2)	—	(0.7)
Balance, end of year	$ 110.5	$ 273.2	$ 496.9	$ 0.9	$ 881.5

(in millions of dollars, except per share data)

11. Intangible assets

2007	Cost	Accumulated amortization	Net book value
Amortizable intangible assets			
Educational book titles	**$ 20.1**	**$ 3.7**	**$ 16.4**
Printing contracts	**17.1**	**6.5**	**10.6**
Customer relationships	**24.5**	**4.1**	**20.4**
Non-compete agreements	**4.9**	**2.2**	**2.7**
	66.6	**16.5**	**50.1**
Non-amortizable intangible assets			
Trade names and circulation	**122.4**	**—**	**122.4**
	$ 189.0	**$16.5**	**$ 172.5**
2006			
Amortizable intangible assets			
Educational book titles	$ 20.1	$ 0.4	$ 19.7
Printing contracts	17.1	5.6	11.5
Customer relationships	12.1	3.6	8.5
Non-compete agreements	5.1	1.3	3.8
	54.4	10.9	43.5
Non-amortizable intangible assets			
Trade names and circulation	122.3	—	122.3
	$ 176.7	$10.9	$ 165.8

12. Other assets

	2007	2006
Investments	**$ 0.9**	$ 0.9
Accrued pension benefit asset (Note 22)	**3.4**	3.0
Deferred charges, net of accumulated amortization	**65.2**	61.3
Deferred financial expenses, net of accumulated amortization	**0.3**	2.3
Fair value of derivative financial instruments	**14.7**	—
Other	**5.8**	2.9
	$90.3	$ 70.4

13. Operating lines of credit

Lenders of the Corporation are unsecured and rank equally. As at October 31, 2007, in addition to the term revolving credit facility disclosed in Note 14, 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. The line of credit is reviewed periodically and does not require commitment fees. It is also renewable annually and is not subject to any restrictive clauses.

The recently acquired subsidiary, PLM Group Ltd ("PLM"), has a revolving line of credit available of $20 million for day to day operating purposes. In addition, PLM has a revolving term loan facility for $10 million. Both facilities are available in Canadian and U.S. dollars. As at October 31, 2007, none of these facilities were drawn. Canadian dollar amounts bear interest at either prime rate plus 0.25% or the banker's acceptance rate plus 1.75%, and U.S. dollar amounts bear interest at the US base rate plus 0.25% or LIBOR plus 1.75%. The amounts available under the facilities may be reduced based on a percentage of accounts receivable and inventory. Security provided on both facilities includes a general security agreement covering all assets of PLM and assignment of accounts receivable, inventories and insurance proceeds. The committed line of credit is renewable annually. Under the terms and conditions of the credit agreement, PLM must comply with certain restrictive covenants including the requirement to maintain certain financial ratios. As of October 31, 2007, PLM was not in default under any of its obligations.

(in millions of dollars, except per share data)

14. Long-term debt

	Effective interest rate as of October 31, 2007	Maturity	**2007**	2006
Unsecured Senior Notes				
Series 2002 A – Tranche 1 – 5.62% (US$75.0)	5.77 %	2012	**$ 70.9**	$ 83.9
Series 2002 A – Tranche 2 – 5.73% (US$50.0)	5.86 %	2014	**47.2**	55.9
Series 2004 A – LIBOR + 0.70% (US$37.5)	6.39 %	2012	**35.4**	42.0
Series 2004 B – LIBOR + 0.70% (US$37.5)	6.39 %	2012	**35.4**	42.0
Series 2004 C – LIBOR + 0.80% (US$15.0)	6.47 %	2014	**14.2**	16.8
Series 2004 D – LIBOR + 0.90% (US$10.0)	6.56 %	2016	**9.5**	11.2
Unsecured Senior Debentures				
Series C – 9.50%	9.50 %	2008	**4.5**	9.1
Series I – 6.05%	6.27 %	2009	**100.0**	100.0
Others – 6.20%	—	—	**—**	100.0
Loans secured by property, plant and equipment having a net book value of $3.2, at fixed rates of 5.69% to 6.28%	5.69% to 6.28 %	2011	**2.8**	0.5
Obligations under capital leases secured by property, plant and equipment having a net book value of $21.6, at fixed rates of 3.3% to 8.0%	3.3% to 8.0 %	2008-2014	**18.7**	5.8
Revolving credit facility	5.63 %	2012	**192.0**	–
Other loans at fixed rates of 0.0% to 8.0%	5.85% to 8.0 %	2008-2014	**7.2**	6.2
Other loans at prime rate	6.25 %	2008	**3.1**	7.2
			540.9	480.6
Unamortized deferred financing expenses			**3.4**	—
Total long-term debt			**537.5**	480.6
Current portion			**14.2**	12.7
			$ 523.3	$ 467.9

(in millions of dollars, except per share data)

14. Long-term debt (continued)

The Series 2002 A Unsecured Senior Notes and the Unsecured Senior Debentures, with the exception of the Series C Debenture which has an annual sinking fund of 9.09%, are redeemable at the greater of par value and the discounted value of future cash flows using an interest rate based on U.S. Treasury Securities and Canadian government bonds, respectively, having similar maturities. Series 2004 A, 2004 B, 2004 C and 2004 D Unsecured Senior Notes are redeemable as of the second anniversary of issuance at a premium of 1.0%, 1.0%, 1.5% and 2.0%, respectively. These premiums decrease by 0.5% at each subsequent anniversary until they become nil. Under the Note Purchase Agreement and the Series C Debenture trust indenture, the Corporation must maintain certain financial ratios.

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

As at October 31, 2007, the Corporation had a committed line of credit in the form of a term revolving credit facility, totaling $400 million or the US dollar equivalent. The applicable interest rate on this 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, it is currently either, bank prime rate, bankers' acceptance rate + 0.44% or LIBOR + 0.44%. Facility fees of 0.11% are also applicable on the line of credit whether it is drawn or not and utilization fees of 0.05% are applicable if the amount drawn is over $66^{2/3}$% of the line of credit. The committed line of credit is renewable on an annual basis and, if not renewed, it matures five years after its issuance or the last renewal, as the case may be. It was last renewed on August 30, 2007. 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, 2007, letters of credit amounting to C$0.2 million and US$4.0 million were drawn on the committed line of credit in addition to the amount presented above.

For the years ended October 31, 2007 and 2006, 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
2008	$ 14.6
2009	106.1
2010	5.8
2011	3.5
2012	335.7
2013 and thereafter	75.2
	$ 540.9

(in millions of dollars, except per share data)

14. Long-term debt (continued)

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

	Capital	Interest	Minimum payments
2008	$ 5.0	$ 1.0	$ 6.0
2009	4.0	0.7	4.7
2010	3.5	0.5	4.0
2011	1.6	0.3	1.9
2012	1.3	0.2	1.5
2013 and thereafter	3.3	0.2	3.5
	$18.7	$ 2.9	$21.6

15. Other liabilities

	2007	2006
Deferred subscription revenues	**$10.6**	$ 9.9
Long-term accrued liabilities	**16.0**	10.9
Accrued pension benefit liability (Note 22)	**29.4**	20.3
Asset retirement obligations	**1.2**	0.9
Fair value of derivative financial instruments	**1.0**	—
	$58.2	$42.0

Asset retirement obligations

Asset retirement obligations relate to estimated future costs to remove leasehold improvements brought to leased properties under operating leases. Future obligations will be settled between 2008 and 2019. To determine the initial recorded liability, the future estimated cash flows have been discounted using the Corporation's credit-adjusted risk-free rate of 5.58% on average. The value of undiscounted estimated cash flows as at October 31, 2007 and 2006 is $1.5 million and $1.3 million, respectively.

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

	2007	2006
Balance, beginning of year	**$ 1.1**	$ 1.2
Business acquisition	**0.3**	—
Accretion expense	**0.1**	0.1
Reversal of liabilities	**(0.1)**	—
Liabilities settled	**—**	(0.2)
Balance, end of year	**1.4**	1.1
Current portion included in accounts payable and accrued liabilities	**0.2**	0.2
	$ 1.2	$ 0.9

(in millions of dollars, except per share data)

16. Share capital

Authorized (unlimited number)

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

	2007		2006	
	Number of shares	**Amount**	Number of shares	Amount
Issued and paid				
Class A Subordinate Voting Shares	**66,704,849**	**$ 372.1**	68,988,866	$ 384.4
Class B Shares	**16,909,672**	**23.0**	17,058,145	23.2
	83,614,521	**$ 395.1**	86,047,011	$ 407.6

Class A Subordinate Voting Shares and Class B Shares

During fiscal years 2007 and 2006, the share capital of the Corporation changed as follows:

	2007		2006	
	Number of shares	**Amount**	Number of shares	Amount
Class A Subordinate Voting Shares				
Balance, beginning of year	**68,988,866**	**$ 384.4**	71,565,227	$ 397.3
Conversion of Class B Shares into Class A Subordinate Voting Shares	**10,673**	**—**	43,777	0.1
Redemption of shares	**(2,354,700)**	**(13.1)**	(2,895,300)	(16.1)
Exercise of stock options	**60,010**	**0.8**	275,162	3.1
Balance, end of year	**66,704,849**	**$ 372.1**	68,988,866	$ 384.4
Class B Shares				
Balance, beginning of year	**17,058,145**	**$ 23.2**	17,741,573	$ 24.2
Conversion of Class B Shares into Class A Subordinate Voting Shares	**(10,673)**	**—**	(43,777)	(0.1)
Redemption of shares	**(137,800)**	**(0.2)**	(639,651)	(0.9)
Balance, end of year	**16,909,672**	**$ 23.0**	17,058,145	$ 23.2

Redemption of shares

The Corporation was authorized to purchase for cancellation on the open market, between November 21, 2005 and November 20, 2006, up to 3,578,325 of its Class A Subordinate Voting Shares, representing 5% of the 71,566,506 issued and outstanding Class A Subordinate Voting Shares as of November 11, 2005, and up to 887,015 of its Class B Shares, representing 5% of the 17,740,294 issued and outstanding Class B Shares as of November 11, 2005.

16. Share capital (continued)

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 of November 7, 2006, and up to 852,907 of its Class B Shares, representing 5% of the 17,058,145 issued and outstanding Class B Shares as of November 7, 2006.

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

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

For the year ended October 31, 2006, the Corporation purchased 2,895,300 of its Class A Subordinate Voting Shares at a weighted average price of $19.03 for a total consideration of $55.1 million and 639,651 of its Class B Shares at a weighted average price of $18.86 for a total consideration of $12.1 million. Of the total consideration of $67.2 million, $17.0 million corresponds to the book value and $50.2 million corresponds to the premium paid. The premium was accounted for as a decrease in retained earnings.

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 1st, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital. For the year ended October 31, 2007, the amount received was $0.7 million, and an amount of $0.1 million was transferred from contributed surplus to share capital. For the year ended October 31, 2006, the amount received was $2.9 million and $0.2 million was transferred from contributed surplus to share capital.

Earnings per share

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

	2007	2006 (restated Note 2)
Numerator		
Net income	**$ 120.6**	$ 135.8
Denominator (in millions)		
Weighted average number of shares	**84.9**	87.3
Dilutive effect of stock options and warrants	**0.1**	0.1
Weighted average diluted number of shares	**85.0**	87.4
Basic earnings per share	**$ 1.42**	$ 1.56
Diluted earnings per share	**$ 1.42**	$ 1.55

(in millions of dollars, except per share data)

16. Share capital (continued)

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

	Three months ended							
	October 31		July 31		April 30		January 31	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Stock options	**605,540**	1,397,100	**612,600**	942,600	**629,420**	1,406,380	**638,340**	1,055,160
Warrants	**—**	350,000	**—**	350,000	**—**	350,000	**—**	350,000

17. Stock-based compensation plans

Stock option plan

Since 1999, the Corporation maintains a stock option plan for the benefit of certain of its officers and senior executives. On January 18, 2005, the Corporation modified its stock option plan. The number of Class A Subordinate Voting Shares authorized for issuance was then increased to 6,078,562. As at October 31, 2007, the number of Class A Subordinate Voting Shares authorized for issuance and the balance of shares that could be issued under this plan were 6,078,562 and 4,884,474, respectively. The stock options granted before March 31, 2005 start to vest after one year at a rate of 20% per year and must be exercised no later than ten years after the grant date. The stock options granted after March 30, 2005 start to vest after one year at a rate of 25% per year and must be exercised no later than seven years after the grant date. Under the plan, each stock option entitles its holder to receive one share upon exercise and the exercise price is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation costs of $2.4 million and $2.0 million were charged to income and as an increase to contributed surplus of shareholders' equity for fiscal 2007 and 2006, respectively.

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

	2007		2006	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of year	**1,834,986**	**$ 18.49**	1,739,368	$ 17.22
Granted	**160,100**	**20.90**	570,400	19.26
Exercised	**(60,010)**	**12.64**	(275,162)	10.64
Cancelled	**(69,770)**	**20.99**	(199,620)	20.51
Balance, end of year	**1,865,306**	**$ 18.79**	1,834,986	$ 18.49
Options exercisable as at October 31	**979,936**	**$ 17.10**	678,486	$ 15.71

As at October 31, 2007, the balance of stock options available for grant under the plan was 3,019,168.

(in millions of dollars, except per share data)

17. Stock-based compensation plans (continued)

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

		Options outstanding			Options exercisable	
2007	Exercise price range	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
	$ 8.70 – 11.13	**340,386**	**3.5**	**$ 9.97**	**340,386**	**$ 9.97**
	$17.80 – 24.01	**1,524,920**	**5.9**	**20.76**	**639,550**	**20.89**
		1,865,306	**5.4**	**$ 18.79**	**979,936**	**$ 17.10**
2006						
	$ 8.70 – 11.13	385,286	4.5	$ 10.02	325,366	$ 9.82
	$17.80 – 24.01	1,449,700	6.8	20.74	353,120	21.14
		1,834,986	6.3	$ 18.49	678,486	$ 15.71

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

	2007	2006
Dividend rate	**1.1%**	0.9%
Expected volatility	**22.6%**	25.0%
Risk-free interest rate	**3.96%**	4.00%
Expected life	**5 years**	5 years

For the years ended October 31, 2007 and 2006, the weighted average fair value of stock options granted was $5.16 and $5.19, respectively.

Share unit plan

On December 14, 2006, the Corporation modified its share unit plan to include additional senior executives. Previously, the only participant in this plan was the President and Chief Executive Officer. The share units are granted in the form of deferred share units ("DSU") or restricted share units ("RSU"). A portion of share units will vest based on economic value creation compared to a target and another portion of share units will vest based on tenure.

For the year ended October 31, 2007, 138,310 DSU and 30,788 RSU (none in 2006) were granted.

As at October 31, 2007, 165,592 DSU and 26,507 RSU were outstanding (33,193 DSU in 2006). The expense recorded in the consolidated statement of income for the year ended October 31, 2007 was $0.2 million. The impact on the consolidated statement of income was negligible for the year ended October 31, 2006. No amount has been paid under the plan for the years ended October 31, 2007 and 2006.

(in millions of dollars, except per share data)

18. Contributed surplus

	2007	2006
Balance, beginning of year	**$ 6.9**	$ 5.1
Compensation costs relating to stock-based compensation plan (Note 17)	**2.4**	2.0
Exercise of stock options (Note 16)	**(0.1)**	(0.2)
Balance, end of year	**$ 9.2**	$ 6.9

19. Accumulated other comprehensive loss

	2007	2006 (restated Note 2)
Balance, beginning of year, as previously reported	**$ —**	$ —
Unrealized net losses on translation of financial statements of self-sustaining foreign operations	**(26.0)**	(22.8)
Financial Instruments - Recognition and measurement (Note 3)	**3.8**	—
Restated balance, beginning of year	**(22.2)**	(22.8)
Change in net gains on derivatives designated as cash flow hedges	**5.4**	—
Unrealized net losses on translation of financial statements of self-sustaining foreign operations	**(16.3)**	(3.2)
Balance, end of year	**(33.1)**	(26.0)

As at October 31, 2007, gains on derivatives designated as cash flow hedges of $7.2 million, net of income taxes of $3.5 million, reported under “Accumulated other comprehensive loss” in the consolidated balance sheet are expected to be reclassified to net income within the next twelve months. The remaining gains of $2.0 million, net of income taxes of $1.0 million, are expected to be reclassified to net income in 2009 and 2010.

The increase over 2006 in Accumulated other comprehensive loss is mainly due to unrealized net losses arising from the translation of foreign currency denominated assets and liabilities of self-sustaining foreign operations, mainly the result of the appreciation of the Canadian dollar compared to the U.S. dollar and the Mexican peso, partially compensated by net gains arising from the evaluation of the derivative financial instruments at fair market value in the consolidated balance sheet.

(in millions of dollars, except per share data)

20. Cash flows

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

	2007	2006 (restated Note 2)
Accounts receivable	**$ (2.7)**	$ 3.2
Income taxes receivable	**0.9**	—
Inventories	**4.5**	6.2
Prepaid expenses and other current assets	**(2.0)**	0.1
Accounts payable and accrued liabilities	**(23.5)**	(28.0)
Income taxes payable	**(20.9)**	(39.4)
Deferred subscription revenues and deposits	**(4.4)**	0.8
	$(48.1)	$(57.1)

Additional Information

Interest paid	**$ 29.4**	$ 26.9
Income taxes paid	**$ 67.5**	$ 96.1

21. Business acquisitions and disposals

2007

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

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

(in millions of dollars, except per share data)

21. Business acquisitions and disposals (continued)

	PLM	Chenelière Education Inc.	Others	Total
Assets acquired				
Working capital	$ 26.9	$ (0.5)	$ 0.4	$ 26.8
Property, plant and equipment	42.4	—	0.4	42.8
Goodwill (tax basis of $3.6 million)	75.0	0.5	8.9	84.4
Amortizable intangible assets	14.8	(0.7)	—	14.1
Other assets	0.4	—	—	0.4
	159.5	(0.7)	9.7	168.5
Liabilities assumed				
Deferred revenues	7.7	—	—	7.7
Long-term debt	18.1	—	—	18.1
Other liabilities	0.3	—	—	0.3
Future income tax liabilities	13.3	(0.4)	—	12.9
Non-controlling interest	1.9	—	—	1.9
	41.3	(0.4)	—	40.9
	$ 118.2	$ (0.3)	$ 9.7	$ 127.6
Consideration				
Cash paid	$ 94.8	$ —	$ 9.4	$ 104.2
Bank overdraft in acquired operations	15.2	—	—	15.2
Balance of sale payable, maturing within one year, bearing no interest	—	(0.3)	0.3	—
Short-term liabilities	8.2	—	—	8.2
	$ 118.2	$ (0.3)	$ 9.7	$ 127.6

PLM Group Ltd.

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

Chenelière Education Inc.

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

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

(in millions of dollars, except per share data)

21. Business acquisitions and disposals (continued)

Others

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

2006

Operating sector	Acquisitions	Date of acquisition
Media	Assets of *The Triangle News*, bi-weekly newspaper in Saskatchewan	October 19, 2006
	100% of the shares of Chenelière Education Inc., educational resources publisher in Canada	August 31, 2006
	50% of the shares of Pecunia Communications Inc., provider of webcast and video communications solutions over Internet Protocol	July 13, 2006
	100% of the shares of Zoupla Communications Inc., Montreal-based publisher of a recipe website and household tips site	June 29, 2006
	Assets of *Le Progrès de Coaticook*, weekly community newspaper in Quebec	May 1st, 2006
	51% of the shares (including the assumed conversion of a convertible debenture) of Enixa Média Inc., in-store digital advertising displays in Quebec	April 12, 2006

These transactions are summarized as follows:

	Chenelière Education Inc.	Others	Total
Assets acquired			
Working capital	$ 23.3	$ (0.3)	$ 23.0
Property, plant and equipment	5.6	0.4	6.0
Deferred charges	13.0	0.1	13.1
Goodwill	73.7	3.4	77.1
Amortizable intangible assets	22.4	—	22.4
Non-amortizable intangible assets	4.6	—	4.6
	142.6	3.6	146.2
Liabilities assumed			
Long-term debt	—	0.4	0.4
Future income tax liabilities	12.1	—	12.1
	12.1	0.4	12.5
	$ 130.5	$ 3.2	$ 133.7
Consideration			
Cash paid	$ 114.9	$ 3.2	$ 118.1
Cash in acquired operations	(1.1)	—	(1.1)
Balance of sale payable, of which $6.3 million bears interest at prime rate (maturing within two years)	15.9	—	15.9
Short-term liabilities	0.8	—	0.8
	$ 130.5	$ 3.2	$ 133.7

(in millions of dollars, except per share data)

22. Employee future benefits

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

Accrued benefit obligation, fair value of plan assets and plan asset composition are measured at the date of the annual financial statements. The most recent actuarial valuation of the pension plans for funding purposes was made as of December 31, 2004. The next required valuation will be as of December 31, 2007, at the latest.

The composition of the pension plan assets is as follows:

	2007	2006
Canadian and foreign stocks	**70%**	64%
Government and corporate bonds	**27**	33
Other	**3**	3
	100%	100%

(in millions of dollars, except per share data)

22. Employee future benefits (continued)

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:

	2007	2006
Accrued benefit obligation		
Balance, beginning of year	**$ 315.8**	$ 275.7
Change in exchange rate	**(1.0)**	(0.4)
Current service cost	**23.2**	22.9
Interest on accrued benefit obligation	**18.3**	16.4
Actuarial (gains) losses	**(5.2)**	5.5
Benefits paid	**(10.6)**	(10.5)
Plan amendments	**0.4**	(3.7)
Employee contributions	**9.2**	9.9
Accrued benefit obligation, end of year	**$ 350.1**	$ 315.8
Fair value of plan assets		
Balance, beginning of year	**$ 258.4**	$ 212.5
Change in exchange rate	**(0.9)**	(0.2)
Actual return on plan assets	**23.3**	31.6
Benefits paid	**(10.6)**	(10.5)
Employer contributions	**14.9**	15.1
Employee contributions	**9.2**	9.9
Fair value of plan assets, end of year	**$ 294.3**	$ 258.4
Plan deficit	**$ (55.8)**	$ (57.4)
Unamortized net actuarial losses	**26.5**	36.7
Unamortized past service costs	**0.2**	0.2
Unamortized transitional obligation	**3.1**	3.2
Accrued benefit liability	**$ (26.0)**	$ (17.3)

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

	2007	2006
Other assets	**$ 3.4**	$ 3.0
Other liabilities	**(29.4)**	(20.3)
	$ (26.0)	$ (17.3)

(in millions of dollars, except per share data)

22. Employee future benefits (continued)

Accrued benefit obligation and fair value of plan assets as at October 31 are the following amounts in respect of plans that are not fully funded:

	2007	2006
Accrued benefit obligation	**$ 336.6**	$ 281.6
Fair value of plan assets	**276.4**	220.9
Funded status – plan deficit	**$ (60.2)**	$ (60.7)

The major assumptions used are as follows:

	2007	2006
Accrued benefit obligation as at October 31		
Discount rate, at year-end	**5.75%**	5.4%
Rate of compensation increase	**4.0 – 5.0%**	4.0 – 5.0%
Benefit cost for years ended October 31		
Discount rate, at previous year end	**5.4%**	5.5%
Expected long-term rate of return on plan assets	**7.15%**	7.5%
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:

	2007	2006
Current service cost	**$ 23.2**	$ 22.9
Interest on accrued benefit obligation	**18.3**	16.4
Actual return on plan assets	**(23.3)**	(31.6)
Actuarial (gains) losses on accrued benefit obligations	**(5.2)**	5.5
Plan amendments	**0.4**	(3.7)
Cost of the defined benefit pension plans before adjustments to recognize the long-term nature of employee future benefit costs	**13.4**	9.5
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets for the year	**4.3**	15.1
Difference between actuarial loss (gain) recognized for the year and actual actuarial loss (gain) on accrued benefit obligation for the year	**5.7**	(4.3)
Difference between amortization of past service costs for the year and actual plan amendments effective for the year	**—**	4.0
Amortization of the transitional obligation	**0.1**	0.1
Defined benefit costs recognized	**$ 23.5**	$ 24.4

(in millions of dollars, except per share data)

22. Employee future benefits (continued)

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

	2007	2006
Employer contributions	**$ 3.2**	$ 3.0

23. Amortization

	2007	2006 (restated Note 2)
Property, plant and equipment	**$ 114.2**	$ 110.3
Intangible assets	**6.2**	3.5
Deferred charges	**2.5**	3.4
	122.9	117.2
Deferred charges, presented in revenues, operating costs and financial expenses	**26.1**	15.2
	$ 149.0	$ 132.4

24. Commitments, guarantees and contingent liabilities

Commitments

Pursuant to various contracts and obligations, mainly for operating leases, the Corporation is committed to future minimum payments of $163.2 million. Minimum payments required over the following years for these commitments are as follows:

2008	2009	2010	2011	2012	2013 and thereafter
$26.7	$24.9	$22.4	$18.3	$15.7	$ 55.2

The Corporation is further committed to acquire machinery and equipment. As at October 31, 2007, these commitments represented $76.0 million, including C$31.3 million, US$45.3 million and €1.4 million. Minimum payments required in 2008 and 2009 are $67.4 million and $8.6 million, respectively.

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 2008 and 2010. 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 $1.3 million. As at October 31, 2007, 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.

24. 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, 2007, 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, 2007, 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, 2007, 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.

Settlement of a lawsuit

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

25. Financial instruments

Stock-based compensation costs risk

During the first quarter of fiscal 2007, the Corporation entered into a total return swap agreement with a financial institution in order to minimize the impact of the fluctuations in its Class A Subordinate Voting Share price on its compensation expense which includes a charge related to its share unit plan as described in Note 17. The Corporation now receives or pays, on a quarterly basis, the difference between the fixed share price of the total return swap and the Class A Subordinate Voting Share price, less any amount previously received or paid. As at October 31, 2007, the total return swap agreement covered 118,000 Class A Subordinate Voting Shares. The term of this total return swap agreement ranges from one to five years, with a fixed price of $21.07. The fair value of the swap agreement, which is negligible as at October 31, 2007, is recorded in the Corporation's consolidated balance sheet with changes in fair value recognized in net income.

25. Financial instruments (continued)

Credit risk

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

The Corporation is protected against any concentration of credit risk through its products, clientele and geographic diversity. In addition, the Corporation has a credit insurance policy covering most of its major customers. The policy contains the usual clauses and limits the amounts that can be claimed by event and year of coverage. The Corporation has concluded long-term contracts with most of its major customers. These contracts contain cost-escalation clauses equivalent to those required by the Corporation's suppliers. The Corporation is exposed to credit risk arising from 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.

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 from European suppliers. It is therefore exposed to foreign exchange risks.

As at October 31, 2007, the Corporation entered into foreign exchange forward contracts to sell US$87.3 million, of which US$60.3 million and US$27.0 million will be sold in 2008 and 2009, respectively, (US$82.0 million in 2006) related to its strategy of hedging foreign currency cash flows from its exports to the United States. The terms of these forward contracts range from one month to 24 months, with rates varying from 1.0384 to 1.1744. The Corporation was also party to collars totaling US$6.0 million (US$9.5 million in 2006). The terms of these collar contracts range from three months to eight months, with floor rates of 1.04 and cap rates from 1.0708 to 1.0885. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout fiscal 2007.

As at October 31, 2007, the Corporation had no foreign exchange forward contracts in connection with its commitments to acquire machinery and equipment in Euro currency (€10.3 million in 2006).

Commodity prices risk

During fiscal 2006, the Corporation started to manage a financial risk related to fluctuations in natural gas prices in order to minimize the impact on the Corporation's results and financial position. The Corporation entered into commodity swap agreements to manage a portion of its natural gas price fluctuation exposure and is now committed to exchange, on a monthly basis, the difference between a fixed price and a floating natural gas price index calculated by reference to the notional amounts. Under this program, 23% of the expected natural gas consumption is hedged for the next three fiscal years. Hedging relationships were effective and in accordance with the risk management objectives and strategies during fiscal 2007.

As at October 31, 2007, the Corporation had purchased commodity swap agreements for 533,000 Gigajoules (615,000 Gigajoules in 2006), of which 333,000, 155,000 and 45,000 Gigajoules will mature in 2008, 2009 and 2010, respectively. The terms of theses commodity swap agreements range from one month to 33 months, with prices varying from $7.38 to $8.97 per Gigajoule.

(in millions of dollars, except per share data)

25. Financial instruments (continued)

Interest rate risk

In 2007, the majority of the Corporation's currently outstanding long-term debt is at floating interest rates. Floating rate debt bears interest at rates based on LIBOR or Bankers' acceptances. The Corporation is also exposed to interest rate fluctuations through its securitization program as the discount on the sale of accounts receivable is based on the rate of commercial paper issued by the trust. The latter generally issues its commercial paper on a monthly basis.

		Interest rate	
	Total loans	Fixed	Floating
Long-term debt			
2007	**$ 537.5**	**$ 249.0**	**$ 288.5**
2006	$ 480.6	$ 360.9	$ 119.7

Fair value

The book value of certain financial instruments maturing in the short-term approximates their fair value. These financial instruments include cash, temporary investments, accounts receivable, accounts payable and accrued liabilities. The table below shows the fair value and the book value of other financial instruments as at October 31, 2007 and 2006. 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.

	2007		2006	
	Fair value	**Book value**	Fair value	Book value
Long-term debt	**$ 539.5**	**$ 537.5**	$ 486.3	$ 480.6
Foreign exchange forward contracts and collars	**$ 14.3**	**$ 14.3**	$ 6.3	$ 1.6
Commodity swap agreements	**$ (0.6)**	**$ (0.6)**	$ (0.8)	$ —

26. Segmented information

The Corporation operates in the communications industry. Sales between sectors of the Corporation are made at fair value. Transactions, other than sales, are made at carrying value.

The corporate office is responsible for financing, development, investor relations and control of the Corporation and offers services in the fields of human resources, information technology, legal affairs, corporate communications, taxation and insurance and risk management.

(in millions of dollars, except per share data)

26. Segmented information (continued)

Operating sectors	2007	2006 (restated Note 2)
Revenues		
Printing Products and Services	**$ 718.2**	$ 714.7
Marketing Products and Services	**1,066.6**	1,082.2
Media	**633.5**	579.8
Other activities and unallocated amounts	**14.7**	12.7
Inter-segment sales		
Printing Products and Services	**(66.3)**	(61.5)
Marketing Products and Services	**(24.1)**	(29.8)
Media	**(16.4)**	(15.8)
Total inter-segment sales	**(106.8)**	(107.1)
	$ 2,326.2	$ 2,282.3
Operating income before amortization, impairment of assets, and restructuring costs		
Printing Products and Services	**$ 121.1**	$ 116.7
Marketing Products and Services	**129.3**	147.6
Media	**123.9**	97.9
Other activities and unallocated amounts	**(23.9)**	(19.5)
	$ 350.4	$ 342.7
Operating income		
Printing Products and Services	**$ 77.1**	$ 74.8
Marketing Products and Services	**62.1**	82.0
Media	**107.9**	80.4
Other activities and unallocated amounts	**(29.3)**	(24.3)
	$ 217.8	$ 212.9
Acquisitions of property, plant and equipment [(1)]		
Printing Products and Services	**$ 67.5**	$ 40.9
Marketing Products and Services	**54.8**	57.1
Media	**10.9**	10.9
Other activities and unallocated amounts	**5.2**	5.0
	$ 138.4	$ 113.9
Amortization of property, plant and equipment, intangible assets and deferrend charges		
Printing Products and Services	**$ 41.0**	$ 39.1
Marketing Products and Services	**61.1**	62.5
Media	**15.5**	10.7
Other activities and unallocated amounts	**5.3**	4.9
	$ 122.9	$ 117.2

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

(in millions of dollars, except per share data)

26. Segmented information (continued)

Operating sectors	As at October 31, 2007	As at October 31, 2006 (restated Note 2)
Assets		
Printing Products and Services	**$ 569.4**	$ 531.9
Marketing Products and Services	**922.2**	787.4
Media	**771.8**	773.3
Other activities and unallocated amounts	**106.2**	169.8
	$2,369.6	$2,262.4

Geographical regions	2007	2006 (restated Note 2)
Revenues		
Canada		
Within Canada	**$1,705.6**	$1,635.3
Exports	**219.2**	240.7
	1,924.8	1,876.0
United States and Mexico	**401.4**	406.3
	$2,326.2	$2,282.3
Operating income before amortization, impairment of assets and restructuring costs		
Canada	**$ 316.6**	$ 301.7
United States and Mexico	**33.8**	41.0
	$ 350.4	$ 342.7
Operating income		
Canada	**$ 210.4**	$ 201.6
United States and Mexico	**7.4**	11.3
	$ 217.8	$ 212.9

(in millions of dollars, except per share data)

26. Segmented information (continued)

Geographical regions	As at October 31, 2007	As at October 31, 2006 (restated Note 2)
Assets		
Canada	**$1,966.1**	$1,807.0
United States and Mexico	**403.5**	455.4
	$2,369.6	$2,262.4
Property, plant and equipment		
Canada	**$ 617.5**	$ 562.6
United States and Mexico	**122.2**	138.7
	$ 739.7	$ 701.3
Goodwill		
Canada	**$ 781.4**	$ 699.7
United States and Mexico	**153.2**	181.8
	$ 934.6	$ 881.5

27. Effect of new accounting standards not yet implemented

a) Inventories

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

b) Financial Instruments - Disclosures

In December 2006, the CICA issued Section 3862, Financial Instruments - Disclosures, replacing Section 3861 - Financial Instruments - Disclosure and Presentation. This Section applies to fiscal years beginning on or after October 1st, 2007. It describes the required disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This Section complements the principles of recognition, measurement and presentation of financial instruments of Sections 3855, Financial Instruments - Recognition and Measurement, 3863, Financial Instruments - Presentation and 3865, Hedges. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

c) Financial Instruments - Presentation

In December 2006, the CICA issued Section 3863, Financial Instruments - Presentation, replacing Section 3861 - Financial Instruments - Disclosure and Presentation. This Section applies to fiscal years beginning on or after October 1st, 2007. It establishes standards for presentation of financial instruments and non-financial derivatives. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

d) Capital Disclosures

In December 2006, the CICA issued Section 1535, Capital Disclosures. This Section applies to fiscal years beginning on or after October 1st, 2007. It establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. The Corporation is currently evaluating the impact of the adoption of this new Section on the consolidated financial statements.

28. Subsequent events

Federal Corporate income tax rate reduction

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 future decrease in federal tax rate will reduce both the income tax expense and net future income tax liabilities by approximately $6.5 million during the first quarter of fiscal 2008.

Business acquisition

As of November 19, 2007, the Corporation acquired an additional 2% of the shares of PLM Group Ltd. The Corporation owns 100% of the shares of PLM Group Ltd. since that date.

Redemption of shares

The Corporation purchased 27,400 of its Class A Subordinate Voting Shares at a weighted average price of $20.61 for a total consideration of $0.6 million and 4,000 of its Class B Shares at a weighted average price of $20.75 for a total consideration of $0.1 million between November 1st, 2007 and November 20, 2007 in accordance with its Normal Course Issuer Bid as described in Note 16.

29. Comparative figures

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

Board of DIRECTORS

Rémi Marcoux, C.M., F.C.A.
Executive Chairman of the Board, Transcontinental Inc.

Isabelle Marcoux
Vice Chair of the Board and Vice President, Corporate Development, Transcontinental Inc.

Luc Desjardins
President and Chief Executive Officer, Transcontinental Inc.

○ **Lucien Bouchard**
Partner, Davies Ward Phillips & Vineberg LLP

○ **Robert Chevrier**
President, Société de gestion Roche Inc.

○ ○ **J.V. Raymond Cyr, O.C.**
Chairman of the Board, Polyvalor Inc.

○ **Claude Dubois**
President, Gestion Phila Inc.

○ **Richard Fortin**
Executive Vice President and Chief Financial Officer, Alimentation Couche-Tard Inc.

○ **Harold "Sonny" Gordon, Q.C.**
Chairman of the Board, Dundee Corporation

○ ○ **Hubert T. Lacroix**
Senior Advisor, Stikeman Elliott LLP

Monique Lefebvre
Psychologist, Executive Coaching, and Consultant in Strategic Management

Pierre Marcoux
Vice President, Business Publications, Transcontinental Media G.P.

○ **André Tremblay**
Managing Partner, Trio Capital Inc.

○ Member of the Audit Committee of the Board of Directors

○ Member of the Human Resources and Compensation Committee of the Board of Directors

○ Member of the Corporate Governance Committee of the Board of Directors

○ Lead Director of the Board of Directors

Dated October 31, 2007

Corporate SENIOR MANAGEMENT

Luc Desjardins
President and Chief Executive Officer

François Olivier
Chief Operating Officer

Jean Blouin
Vice President, Corporate Communications

André Bolduc
Director of Internal Audit

Réal Boulet
Vice President, Efficiency and Innovation

France De Blois
Corporate Controller

Jean Denault
Vice President, Procurement and Technology

Christine Desaulniers
Vice President, Chief Legal Officer and Secretary

Julien Houle
Vice President, Human Resources

Benoît Huard
Vice President and Chief Financial Officer

Isabelle Lamarre
Director, Legal Affairs and Assistant Corporate Secretary

Natalie Larivière
President, Media Sector

Donald LeCavalier
Treasurer

Guy Manuel
President, Marketing Products and Services Sector

Isabelle Marcoux
Vice Chair of the Board and Vice President, Corporate Development

Jennifer F. McCaughey
Director, Investor Relations

Dated October 31, 2007

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Mission

To develop value-added products and services along with multiple delivery channels in order to reach consumers and build loyalty more effectively. To optimize the interests of our employees, our customers and our shareholders.

Guiding Principles

To listen to our customers, anticipate their needs and exceed their expectations.

To make innovation central to our business practices while remaining in the forefront of trends and new technologies.

To promote the development of our employees, their ability to adapt to change and their commitment to continually improving our processes and practices.

To pursue our development through acquisitions and organic growth while creating value for shareholders and maintaining a disciplined approach to financial management.

To be in the vanguard in matters of social responsibility and corporate governance.

Corporate Governance

Transcontinental believes that sound corporate governance is important to running an efficient operation. For a detailed description of the Corporation's governance practices, see the Management Proxy Circular.

Vision

To be the leader in our printing and marketing niches, as well as in the creation and dissemination of content and the delivery of complementary services aimed at communities of interest or specific markets.

PRODUCTION OF ANNUAL REPORT

*Project management:
Corporate Communications
Department of Transcontinental*

*Graphic design and
artistic direction:
Susan Séguin*

*Photography:
Pierre Charbonneau*

Props: Carole Paré

*Translation:
Lucille Nelson
Jessy Lapointe*

*Printing:
Transcontinental Litho Acme*

*Special thanks:
Centre Gilles-Chabot,
Devault La Source du Sport,
Aréna de Mascouche*

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Some shareholders may receive more than one copy of publications such as quarterly financial statements and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise CIBC Mellon Trust Company at 1 800 387-0825.

Shareholders, Investors and Analysts

For further financial information or to order supplementary documentation about the Corporation, please contact the Investor Relations Department or visit the "Investors" section of Transcontinental's web site at www.transcontinental.com.

Information

This annual report is also available in the "Investors" section of Transcontinental's Web site.

The list of Transcontinental's business units is available on the Corporation's Web site.

Des exemplaires en français du rapport annuel, de la notice annuelle, des rapports de gestion et des états financiers trimestriels sont disponibles sur demande en communiquant avec le Service des relations avec les investisseurs ainsi qu'au www.transcontinental.com.

Notice of Annual Meeting of Shareholders

Transcontinental Inc.'s Annual Meeting of Shareholders will be held at 4:00 p.m. on February 20, 2008, at the Hotel Omni Mont-Royal, Salon des Saisons, 1050 Sherbrooke Street West, Montreal, Quebec, Canada.

Media

For general information about the Corporation, please contact the Corporate Communications Department.

Fiscal year-end:
October 31

Fiscal quarter-end:
January 31, April 30, July 31 and October 31

Stock listing:
Class A Subordinate Voting Shares and Class B Shares are listed on the Toronto Stock Exchange under the trading symbols TCL.A and TCL.B, respectively.

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