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**ANNUAL INFORMATION FORM**

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January 27, 2009  
Fiscal Year Ended October 31, 2008

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Note: In this Annual Information Form, all dollar figures are in Canadian dollars, unless otherwise specified. All the information contained in this Annual Information Form is up to date as of October 31, 2008, unless otherwise specified.

## Item 1 - Corporate Structure

### 1.1 Name and Incorporation

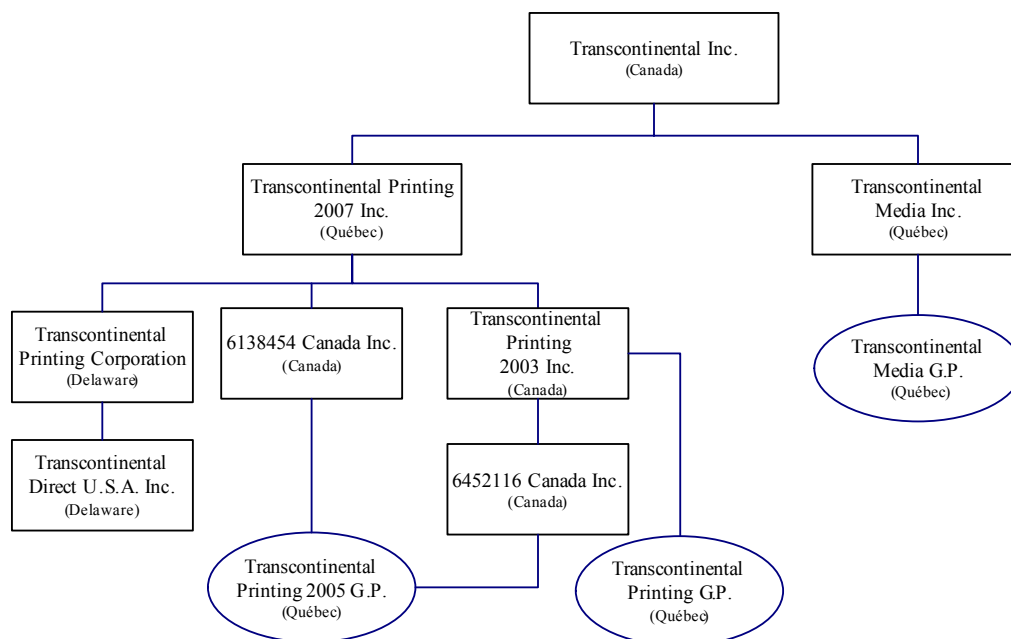
Transcontinental Inc. (the "Corporation") was incorporated under the *Canada Business Corporations Act* by a Certificate of Incorporation dated March 3, 1978. A Restated Certificate of Incorporation was issued to the Corporation on October 7, 1988 containing amendments pertaining to the name of the Corporation, the number and appointment of directors of the Corporation and the share capital of the Corporation. Since the issuance of the Restated Certificate of Incorporation, the Articles of Incorporation have again been modified. Specifically, on March 27, 2003, the Corporation modified its corporate name from G.T.C. Transcontinental Group Ltd. to Transcontinental Inc. and split the number of Class A Subordinate Voting Shares and the number of Class B Shares on the basis of two Class A Subordinate Voting Shares for each Class A Subordinate Voting Share held and two Class B Shares for each Class B Share held, all of which took effect on April 10, 2003.

The registered office of the Corporation is located at 1 Place Ville Marie, Suite 3315, Montréal, Québec, Canada H3B 3N2.

In this Annual Information Form, the term "Corporation" means Transcontinental Inc. and the terms "Transcontinental" and "we" mean, according to the context, the Corporation, its subsidiaries (which include, for purposes of this Annual Information Form, partnerships, trusts and other unincorporated business entities) and other affiliated entities of the Corporation, or one or more of its affiliated entities.

### 1.2 Intercorporate Relationships

The following corporate chart is a list of the most important direct and indirect subsidiaries and other affiliated entities of the Corporation as of October 31, 2008, indicating their jurisdiction of incorporation. All of the shares or units of such subsidiaries and other affiliated entities are held directly or indirectly by the Corporation.



## **Item 2 - General Development of the Business**

### **2.1 General Information**

#### **2.1.1 The Corporation**

We provide printing, publishing and marketing services that deliver exceptional value to our clients and provide a unique, integrated platform for them to reach and retain their target audiences. We are the largest printer in Canada and sixth-largest in North America. We are also the country's leading publisher of consumer magazines and French-language educational resources, its second-largest community newspaper publisher, and our digital platform delivers unique content through more than 120 Web sites. Our new Marketing Communications Sector provides advertising services and marketing products using new communications platforms supported by our activities in database analytics, premedia, email marketing, and custom communications. We are a company with a culture of continuous improvement and financial discipline, whose values, including respect, innovation and integrity, are central to its operation. As of October 31, 2008 we had approximately 15,000 employees in Canada, the United States and Mexico, and we reported revenues of C\$2.4 billion in fiscal 2008.

#### **2.1.2 Management of the Corporation**

We favour decentralized management so as to further optimize the development of our operating sectors and provide customer services that are both flexible and rapid.

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

### **2.2 Three-year History**

The events that have influenced the general development of our business over the past three completed fiscal years are the following:

#### **2008**

- Launch of *weblocal.ca*, a local search site to "Find, rate, share" Canadian businesses;
- Launch of *Vita*, the French edition of *More* magazine;
- Award to Transcontinental Custom Communications of a multi-year contract by Canada Post to publish *Smart Moves<sup>TM</sup>* - The Guide for your new home, its existing magazine for Canadian Moving households;
- Announcement by Transcontinental Media of its working with NewspaperDirect to migrate its newspapers to digital editions;
- Acquisition of Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing, which enable fully personalized marketing communications;
- Execution of an exclusive 18-year contract with The Globe and Mail, a division of CTV GlobeMedia Publishing Inc. to print *The Globe and Mail* daily newspaper for all of the Canadian markets except Saskatchewan and Manitoba;
- Acquisition of *L'Express le journal d'ici*, a French newspaper published every two weeks that serves the city of Saint-Lin-Laurentides in Québec;

- Acquisition of Acquisition.biz, Canada's largest Web-based platform for buying and selling businesses;
- Announcement that the daily newspapers *The Globe and Mail* and *La Presse*, both printed by us, have been accepted into the International Newspaper Color Quality Club for 2008;
- Acquisition of ThinData Inc., Canada's leading permission-based marketing services firm;
- Announcement of an investment of \$20 million in state-of-the-art equipment for Transcontinental Interweb Montréal, our South Shore printing facility;
- Execution of an exclusive 6-year contract for the printing of Rogers' complete magazine portfolio;
- Announcement of the closing of *The Daily News* in Halifax and of the launch of a free daily newspaper, *Metro*, for Halifax residents in partnership with Metro International S.A. and Torstar Corporation;
- Acquisition of the newspaper *L'Autre Voix* based in the Côte-de-Beaupré region of Québec;
- Acquisition of the Italian-language weekly newspaper *Corriere Italiano* based in the Montreal Area;
- Acquisition of *The Springhill-Parrsboro Record* based in the Northern Nova Scotia region;
- Selection of an Environmental Products Inc. certified biodegradable plastic bag for our Publi-Sac.

## 2007

- Appointment of Mr. François Olivier as President and Chief Executive Officer, effective February 20, 2008;
- Implementation of a paper purchasing policy that promotes the use of environmentally preferable papers through a classification process that allows clients to make an informed choice regarding the paper they choose for their printing and publishing needs;
- Acquisition of PLM Group Ltd. based in Markham, Ontario, a company whose niche is direct marketing products and services. PLM also offers leading edge services such as premedia and digital printing and prints a wide range of marketing related commercial printing products;
- Chosen by French publisher Les Éditions Gallimard to print *Harry Potter et les reliques de la mort* for the Canadian market, the seventh and final book in the Harry Potter series;
- Launch by Transcontinental Media of Transcontinental Custom Communications, a joint venture with Seven Squared, a United Kingdom agency, to provide custom publishing services to clients in Canada and the United States;
- Acquisition of the weekly newspaper *Seaway News* based in Cornwall, Ontario;
- Announcement of an investment of \$2 million for the expansion of our Transcontinental Metrolitho print plant located in Sherbrooke, Québec, which is specialized in short-run book, perfect bound, hard cover and bound book production;
- Acquisition of six magazines related to home building and renovation in Québec - *Maison D'aujourd'hui*, *Condo et Loft D'aujourd'hui*, *Maison Direct*, *Condo Direct*, [maisonsneuves.com](http://maisonsneuves.com) et [maisonmax.com](http://maisonmax.com);

- Recipient of the Best Magazine of the Year at The Canadian Society of Magazine Editors 2007, Editors' Choice Awards for Transcontinental Media's publications *Canadian Gardening* and *The Hockey News*;
- Acquisition of weekly newspaper *The Oxbow Herald* based in southeast Saskatchewan;
- Acquisition of the weekly newspapers *The Grenfell Sun* and the *Broadview Express* based in southern Saskatchewan;
- Launch of *Vision Durable*, a new business magazine aimed at bridging the gap between the concept and implementation of sustainable development for Québec business people;
- Introduction by our Book Group of a new paper made from 100% post-consumer recycled material at price parity;
- Launch of the first issue of the Canadian edition of *More* magazine, which targets women over 40;
- Acquisition of the community newspapers *The Radville Star* and *The Deep South Star* based in southern Saskatchewan;
- Execution of an exclusive 5-year contract with Hudson's Bay Company for all flyer printing for Zellers, The Bay, Home Outfitters and the HBC Loyalty Program;
- Sale of our interest in *TV Hebdo*, a television programming guide;
- Execution of an exclusive 15-year agreement with Hearst Corporation to print *The San Francisco Chronicle* daily newspaper and related products, as well as to provide complete post-press services.

## **2006**

- Acquisition of the bi-weekly newspaper *The Triangle News* based in Coronach, Saskatchewan;
- Acquisition of all of the shares of 4130901 Canada Inc., a leader in the creation, development, adaptation, translation, publishing, commercialization and distribution of French-language educational resources and operating principally under "Chenelière Éducation";
- Launch of the magazine *CELLIER*, a high-end publication aimed at customers interested in learning more about wines and spirits, where we are the designated publisher;
- Acquisition of all of the shares of Zoupla Communications Inc., the Montréal-based publisher of the recipe website [recettes.qc.ca](http://recettes.qc.ca) and household tips [trucsmaison.com](http://trucsmaison.com);
- Official opening of our book printing plant in Louiseville, Québec, following an investment of more than \$20 million;
- Announcement of an investment of \$25 million for the acquisition of a press and peripheral equipment and expansion of the building in Saint-Hyacinthe, Québec, which is specialized in flyer and insert printing;
- Combination of our commercial printing and direct-marketing facilities in the Toronto area whereby production was ceased at Transcontinental O'Keefe Toronto and transfer of the equipment to the Transcontinental Direct Toronto facility;

- Acquisition of *Le Progrès* of Coaticook weekly community newspaper and the two regional directories serving the residents of Coaticook county in Québec's Eastern Township region;
- Opening of a new webcasting studio for the business and financial news of lesaffaires.com;
- Launch of the new free classified listing portal, merkado.ca;
- Execution of a co-publishing partnership for the new Canadian version of the world's number-one online men's lifestyle magazine, AskMen.com.

## **2.3 Significant Acquisition**

During our fiscal year ended October 31, 2008, we did not complete any significant acquisition.

## **2.4 Strategic Orientation Update**

### **2.4.1 General**

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

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

### **2.4.2 Trends in the marketplace**

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

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

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

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

### **2.4.3 A two-pronged strategy**

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

#### ***Build on our existing business***

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

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

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

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

- Launched *Metro* in Halifax;
- Acquired several community newspapers.

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

### ***Develop opportunities in marketing communications***

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

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

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

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

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

#### **2.4.4 Four areas of focus**

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

### ***Integrated Marketing Services***

The premise is to offer various services across the marketing services value chain. Historically, we have offered services primarily in the campaign execution portion of the marketing services value chain. Our current capabilities include email marketing, database, custom communications, premedia and interactive marketing. Our competitive advantages include our existing expertise, new interactive capabilities and customer relationships. Our recent initiatives include the above-mentioned acquisitions which fit this strategy very well.

### ***Women Content & Solutions***

The premise is to offer effective solutions for advertisers trying to reach any specific group of women in Canada. This can be achieved by offering solutions on multiple platforms. Our current capabilities include magazines, websites, merchandising and books. Our competitive advantages include our strong brands, quality content, multi-channel expertise, customer relationships, national coverage (French and English), database of seven million subscribers and the knowledge of what interests women. Our recent initiatives include the launch of *Vita* magazine and [recipefeast.com](http://recipefeast.com).

### ***Local Community Content & Solutions***

The premise is to offer effective solutions for advertisers trying to reach local communities. This can be achieved by offering solutions on multiple platforms. Our current capabilities include newspapers, websites, ad bag and [weblocal.ca](http://weblocal.ca), a local web search engine. Our competitive advantages include our 400 salespeople, customer relationships locally, local content, partnership for technology, our leadership position in Eastern Canada and the fact that we have a strong market position in printing and distributing activities. Our recent initiatives include the launch of [weblocal.ca](http://weblocal.ca), *Metro* in Halifax and [InMemoriam.ca](http://InMemoriam.ca), as well as the migration of our newspapers online using NewspaperDirect and the acquisition of numerous local newspapers.

### ***Integrated Solutions Provider for Publishers***

The premise is to offer value added services for publishers so that they can focus on their core business. Our current capabilities include book printing, magazine printing, newspaper printing and digital printing. Our competitive advantages include our niche focus, proven track record, long term contracts, capital investments above industry average, unique newspaper outsourcing model and our national network of plants. Our recent initiatives include our new business with the *The San Francisco Chronicle*, *The Globe and Mail* and Rogers.

## **2.4.5 Evolution 2010**

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

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

<b>Financial Objectives</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Analysis and Comments</b>
Increase economic value creation (variance compared to previous year):	N/A <sup>(1)</sup>	(\$18M)	(\$28M)	We have been unable to increase the economic value created principally as a result of the negative foreign exchange impact as well as capital expenditures related to major projects ( <i>The San Francisco Chronicle</i> and <i>Transmag</i> ) coupled with acquisitions, all of which have required an outflow of capital and have not yet contributed to earnings.
Grow sales organically by 5% on average per year	0%	3%	2%	While organic growth remains under our 5% target, the Corporation has made significant progress over the last three years. We should build on this progress in the coming years as we will reap the benefits from several wins including <i>The San Francisco Chronicle</i> project, the new Rogers and Shoppers Drug Mart® (Pharmaprix® in Québec) business and the new <i>The Globe and Mail</i> contract to name just a few.
Grow adjusted earnings per share excluding the foreign exchange impact by 10% on average per year	N/A <sup>(1)</sup>	11%	19%	We have surpassed our objective since the launch of the business project. We continue to believe we will meet this growth objective at the conclusion of the business project, given our new wins and our strong market position.
Maintain a range of net debt to total capitalization ratio excluding securitization of 35% to 50%	25%	29%	39%	Our net debt to total capitalization ratio stands at 39%, at the low end of the range set by management. We expect this ratio to go up slightly over the next year as we need to finance our previously announced accelerated capital expenditure program.
Invest \$120 million on average per year in capital assets (excluding newspaper outsourcing projects)	\$114M	\$92M	\$131M	Our capital expenditures, excluding newspaper outsourcing projects, were in line with our objective this year as we announced a number of major projects ( <i>Transmag</i> , <i>Interweb</i> and <i>RBW Graphics</i> ). However, in the next two years these capital expenditures will be reduced as we focus on <i>The San Francisco Chronicle</i> and <i>The Globe and Mail</i> projects.
Sustain dividend growth	19%	10%	13%	The Corporation has continued to sustain its dividend growth in fiscal 2008, increasing its dividend by 13%.

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

## 2.5 Strategic Acquisitions

An intrinsic part of our strategy is to grow through strategic acquisitions. We are committed to maintaining a disciplined approach when making acquisitions. We ensure that the companies we acquire fit our stringent acquisition criteria: (1) fit our strategic plan, (2) be profitable and growing, (3) provide synergies with our operations, (4) have good management and compatible corporate culture, and (5) be accretive to earnings and EVC positive within a reasonable period of time. Since October 31, 2007 we have made a number of strategic acquisitions.

In November 2008 (after fiscal year end), we acquired Redwood Custom Communications, a North American leader in custom communications. Redwood is a full service marketing and communications company and creates turn-key custom publishing and branded content solutions for both print and digital platforms. Redwood's offering includes data sciences, research and measurement, database marketing, variable printing, photo studio and premedia tools. This makes it an attractive complement to the services offered by Transcontinental's newly created Marketing Communications Sector.

In September 2008, we acquired Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing, which enable fully personalized marketing communications. Rastar's industry experience, combined with its digital printing expertise, will allow us to further expand our integrated marketing services offering and enable our clients to achieve the best possible returns on their marketing campaigns.

In May 2008, we acquired Acqizition.biz, Canada's largest Web-based platform for buying and selling businesses. Acqizition.biz offers more than 1,500 listings representing over 20 sectors of activity, including services, manufacturing, warehousing, processing, technology, retail, transport, the restaurant industry and lodging. We are committed to serving targeted communities of interest – in this case business people, and more specifically entrepreneurs. Integrating a digital platform like this with our business publications truly complements our offering for this community.

In March 2008, we acquired ThinData Inc., Canada's leading permission-based email marketing services firm. ThinData's offering fits perfectly with our integrated marketing services growth strategy which includes expanding our premedia, database management, direct marketing and analytics and e-marketing capabilities to deliver unique solutions to our clients and our media properties.

During the course of fiscal 2008, we also acquired several Community Newspapers: *L'Autre Voix*, *Corriere Italiano*, *The Springhill-Parrsboro Record* and *L'Express le journal d'ici*. While small, these acquisitions are tuck-ins in markets we already serve or adjacent markets.

## 2.6 Environmental Responsibility

We are committed to implementing ways of doing business that promote sustainable development. Having implemented our first environmental policy in 1993, we have often been recognized for our environmental initiatives, including a 2007 award from *PrintAction* magazine in the category Most Progressive Environmental Process. Company-wide environmental policy and procedures are founded on three guiding principles: (1) protection of the environment for present and future generations, (2) reduction of risks and efficiency improvement, and (3) introduction of improved technology and processes.

In fiscal 2007, our Book Group introduced and now 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.

We 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 Québec business people.

In fiscal 2008, with a view to environment protection, we have committed to the following.

- Product Stewardship - We recognize that we share in the responsibility for the environmental impact of the products we produce. Therefore, we cooperate with other public and private bodies to develop systems for the recovery, re-use and recycling of the Corporation's products.
- Eco-Efficiency - We strive to improve our products and processes so as to progressively reduce routine discharges of contaminants and to use resources efficiently.
- Climate Change and Energy Use - We recognize the dual challenge of climate change and energy supply security. Therefore, we will maximize the efficiency of our operations and encourage a transition to low carbon fuels and renewable energy.
- Waste Management - We strive to reduce our waste and to re-use and recycle materials. We strive to minimize the generation of hazardous waste.
- Risk Management - We strive to avoid accidental discharges of contaminants into the environment and will prepare emergency plans so that it can diligently contain and clean up any potential environmental incidents. We evaluate environmental risks prior to acquiring properties or businesses, and prior to changing or undertaking major new activities.
- Supply Chain Improvement - We encourage our suppliers to adopt environmental practices consistent with this policy.
- Monitoring and Reporting - We monitor our performance in carrying out this policy.
- Communication - We foster openness and dialogue with all stakeholders, including employees, regulators, neighbours, shareholders, suppliers, customers and the public, concerning the environmental impacts of Transcontinental's activities, and will be responsive to their legitimate concerns.
- Continuous Improvement - We strive to continuously improve our environmental performance.

In order to ensure implementation of our environmental policies, we have executed the following.

- We have developed a Classification of Environmental Papers and supporting documentation that will guide the implementation of the Paper Purchasing Policy. The Classification of Environmental Papers can be found on our internet site at [www.transcontinental.com](http://www.transcontinental.com).
- We have started to use an Environmental Products Inc. (EPI) certified biodegradable plastic bag for our Publi-Sac, a well-known tool used to distribute marketing material door-to-door to households in Québec 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.
- As at October 31, 2008, 11 of our plants had received the Chain of Custody certification from FSC for the use of environmentally friendly paper made of fibre from well managed forest or from recycled fibres. In 2009, all of our plants should be FSC and PEFC certified.

- We support the Carbon Disclosure Project (CDP) to reduce the production of CO<sub>2</sub>. We were the only major North American printer to have responded to the CDP questionnaires. Transcontinental's support for the CDP reinforces our position on the environment, while demonstrating our commitment to continually finding new ways to help preserve the planet.
- Numerous other smaller initiatives are conducted across the Corporation every day from promoting the use of public transit to eliminating Styrofoam cups, to initiating car pools.

## **2.7 Changes to the Organizational Structure**

At the beginning of fiscal 2008, our Transcontinental Boucherville printing plant located in Boucherville, Québec was moved into our Catalogue and Magazine Group from our Commercial Products Group.

To support our growth strategy, on November 14, 2008, a new operating structure was announced. Our new structure will comprise three sectors: the Media Sector, the Printing Sector and the Marketing Communications Sector.

### ***The Media Sector***

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

### ***The Printing Sector***

The Printing Sector consists of our services to publishers of newspapers, books and magazines, our Mexican operations, our direct mail activities and our service offer for retailers. Its core competency is manufacturing excellence. It will develop a print offering that is integrated and tailored to publishers as well as retailers and continue to improve efficiency and reduce costs. That is why we have put all our magazine and book printing activities under one group. Our Direct Mail Group in the United States comes under the Printing Sector.

### ***Marketing Communications Sector***

The Marketing Communications Sector consists of our data analysis, premedia, online direct marketing, one-to-one marketing, custom communications, as well as our printing of marketing products (formerly called commercial products) and fulfilment. Its core competency is knowledge of the latest trends in marketing and the new platforms for reaching consumers.

## **Item 3 - Narrative Description of the Business**

In this Annual Information Form, given the presentation of our consolidated financial statements, we will describe our business based on the structure that was in place as at October 31, 2008 and not on the new operating structure.

### **3.1 Operating Sectors**

The following table sets forth the revenues and the percentage of revenues by operating sector for the fiscal years ended October 31, 2008 and 2007.

**Fiscal Year Ended October 31**

<b>(in millions of dollars except for percentages)</b>	<b>2008 (\$)</b>	<b>2008 (%)</b>	<b>2007 (\$)</b>	<b>2007(%)</b>
Printing Products and Services Sector <sup>(1)</sup>	624.0	25.7	634.7	27.3
Marketing Products and Services Sector <sup>(1)</sup>	1,252.2	51.5	1,150.1	49.4
Media Sector	647.5	26.7	633.5	27.2
Inter-segment sales, other activities and unallocated amounts	(94.4)	(3.9)	(92.1)	(3.9)
<b>Total</b>	<b>2,429.3</b>	<b>100</b>	<b>2,326.2</b>	<b>100</b>

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

### **3.2 Economic Cycles**

A significant risk that we face and over which we have no control is related to economic cycles. 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 10% of our total revenues. However, because we have a development strategy based on becoming a leader in market niches that have high growth potential, and because we are well diversified, we have successfully reduced our exposure to economic cycles, without, of course, eliminating their occurrence or controlling their magnitude. We believe we mitigate this risk by the very nature of the composition of our operations as described below.

- Approximately 45% of our consolidated revenues stems from niches that are less exposed to cyclical changes in the economy, such as book, flyer and insert printing, publishing of educational resources, publishing of local and regional newspapers and distribution of advertising material. Also, a large portion of the customer base is in less cyclical sectors, such as food, health, beauty products and home improvement.
- We have entered into mid and long-term agreements ranging from one to 18 years with customers who generate from 50% to 60% of revenues in the two printing sectors.
- In the Media sector, we benefit from a good mix of local and national advertising. Almost half of advertising revenues generated by this sector come from local advertising, which has been less volatile than national advertising in the last few years.

### **3.3 Printing Sectors**

As of October 31, 2008, we were operating 67 production plants in Canada, the United States and Mexico. Management believes that our strategic focus on achieving plant specialization and reducing costs in the printing products that we create has allowed us to offer our customers superior quality products at very competitive prices.

### **3.3.1 Services, Equipment and Manufacturing Process**

#### *Services*

We operated 67 production plants in Canada, the United States and Mexico, allowing us to offer our customers a complete line of specialized services for the production of printed material, from the beginning to the end of the graphical production line:

- premedia and prepress services such as campaign planning and data management, creative services, digital photography, digital asset management, remote proofing, digital file transfer and computer-to-plate;
- printing services including production on sheet-fed press, heat-set and cold-set web presses, ink jet printers, laser and digital printers, and screen printing;
- postpress services including finishing, lamination/coating, binding/stitching and folding, customized ink jet printing, surprinting, branding, trimming and inserting;
- distribution services including postal management and shipping.

Given the geographic location of our plants and the type of equipment we have, we are able to serve local, regional and national markets. The simultaneous printing of a single product in several plants leads to a reduction in transportation costs for the customer and allows for shorter lead times. Our operating flexibility allows us to transfer work from one plant to another to meet production deadlines while enabling us to handle contingencies.

#### *Equipment and Manufacturing Process*

We operate 221 presses and several ultramodern printers spread out over our plants. The fleet of equipment includes:

- heat-set web offset presses;
- cold-set web offset presses;
- sheet-fed presses;
- ink jet printers;
- laser printers;
- digital printers;
- large format presses.

The equipment and manufacturing process allow for short make-ready time, speed in printing, superior reproduction quality and product differentiation. Most of our presses and printers are computer-controlled, and many have in-line finishing capabilities. Technical compatibility between presses gives tremendous flexibility and allows us to adapt easily to last-minute changes and ensure delivery seven days a week.

The quality of printing services is ensured by expert staff in compliance with industry standards. We currently use the services of the laboratories of the Québec Institute of Graphic Communications (QIGC). These ultramodern installations allow for the ongoing analysis of the inks, papers and other raw materials used by our network of plants. We share the results with our suppliers in order to quickly correct any problems or discrepancies, thus ensuring our high level of quality.

We use the offset printing process. This process is characterized by the transfer of a printing plate image to a rubber surface, called a blanket, which is mounted on a cylinder. The blanket is first rolled over the printing plate in order to receive the image, which is then transferred to paper. There are several types of offset printing

processes: sheet-fed and web, heat-set and cold-set. The web printing process consists of printing on rolls of paper while the sheet-fed printing process consists of printing on sheets of paper. Short-run printing is generally best served by sheet-fed, while longer run printing is generally best served by web.

Heat-set web offset printing involves a press using a dryer to fix or dry instantaneously the oil-based inks. This process provides great speed (up to 90,000 copies per hour) and a better quality of printing on higher quality coated paper. This process is used mainly to print magazines, periodicals, catalogues, flyers, newspaper inserts, tabloids, books, directories and direct mail products. We own 82 heat-set web offset presses.

Cold-set offset printing involving a press that does not use a dryer; rather ink is absorbed into the paper and dries by oxidation. This process is used mainly to print newspapers, books printed in black and white, directories and certain types of flyers. We own 40 cold-set web offset presses.

We operate 99 sheet-fed presses which allow us to offer the highest quality services for books, commercial printing, entertainment and direct mail products.

The majority of our production plants are equipped with prepress equipment that allows carrying out the various stages of graphic production with the help of digital technology. Skills developed by us with electronic prepress equipment are used in all markets to further reduce production lead time while increasing the opportunity for last-minute changes.

We are able to provide our customers with direct digital imaging services that streamline the process of preparing pages for print, and allow use of data from other vehicles such as the Internet. We have also installed direct computer-to-plate production systems for offset printing in our production plants, which eliminate the costly and time-consuming film preparation in print productions.

### ***ISO Certifications***

We have received the ISO 9000, ISO 9001 and the ISO 9002 certifications for some of our plants. Furthermore, some of our plants located in Québec and Ontario are certified ISO 14000 and ISO 14001 with respect to environmental quality standards.

### **3.3.2 Customers and Competition**

Although we are the largest printer in Canada, the printing industry is highly competitive with respect to most categories of products and regions and is North American in scope in several categories. Some of the industry's markets are currently oversupplied in several geographic regions in North America. Some North American companies involved in those printing activities have greater capacity and financial resources than we do. We compete in certain segments with several large firms in North America, including R.R. Donnelley & Sons Company, Cenveo, Inc., Quebecor World Inc. and Quad/Graphics, Inc, as well as with numerous regional printers. With respect to certain other niche markets where delivery lead times are not as crucial, competition is intensifying as a result of the increased penetration of Asian printing companies, especially from China, in the North American market.

We believe that the major competitive factors in the printing business are quality and product innovation, the range of services offered, pricing, the availability of printing time with the appropriate equipment and state-of-the-art technology, delivery lead times, distribution capacity and customer service. We believe that, primarily due to the continued excess capacity in the industry, there has been downward pricing pressure in many market segments in recent years and it has led to increased competition in the printing industry.

No single customer of the Printing Products and Services Sector or the Marketing Products and Services Sector has accounted for more than 15% of such sectors' combined revenues during the last two fiscal years. Furthermore, we have entered into contracts with a significant number of our major customers in the Printing

Products and Services Sector and Marketing Products and Services Sector. Such contracts have terms between one to 18 years and generally have price adjustment clauses based on volume, cost of raw materials, labour and/or the Consumer Price Index. Moreover, niche markets such as sheet-fed printing and the printing of direct marketing materials are not typically subject to long-term contracts with customers.

### 3.3.3 Geographic Distribution

The following table sets forth the revenues and the percentage of revenues based on their geographic distribution for the Printing Products and Services Sector and the Marketing Products and Services Sector for the fiscal years ended October 31, 2008 and 2007.

#### Revenues by Geographic Region

(in millions of dollars except for percentages)	Fiscal Year Ended October 31			
	2008 (\$)	2008 (%)	2007 (\$)	2007 (%)
Revenues generated from plants in Canada	1,194.9	66.7	1,073.8	63.3
Exports from plants in Canada	215.0	12.1	219.2	13.0
Revenues generated from plants in the United States and in Mexico	377.5	21.2	401.4	23.7
Total	1,787.4	100	1,694.4	100

### 3.3.4 Raw Materials and Energy Prices

The primary raw materials we use in our two printing sectors are paper, ink and plates. We are highly dependent on the availability of paper for our day-to-day operations. While we can benefit from our 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 our 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, we do not rely on any one supplier and have agreements with our 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 we expect to be able to pass on a portion of the increase to our customers, the bulk will be absorbed in the current cost structure. As a result, we have hedging mechanisms in place to mitigate the risk related to fluctuations in natural gas prices in order to minimize the impact on our results and financial position. In addition, we continue to make efforts of finding new ways to reduce energy costs.

In conclusion, we continue our stringent approach to risk management, remaining alert to any new risk that could affect our operations and ensuring that our 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.

### 3.3.5 Printing Products and Services Sector

As of October 31, 2008, the Printing Products and Services Sector was combining printing services for publishers and commercial clients (such as newspapers, books, commercial printing of catalogues, brochures,

annual reports and other financial documents, posters and specialized packaging). This sector also includes our Mexican operations.

### ***Newspaper Group***

Outsourcing the printing of daily newspapers is part of a growing trend among several publishers who wish to concentrate solely on editorial content while printing companies are contracted to print these products under long-term contracts.

We are the leading printer of newspapers in Canada. Newspapers are produced in 16 of our plants located in seven provinces, of which seven are specialized. The list of customers is comprised of more than 150 newspapers across the country, including 22 dailies (in which our 11 dailies are included). The dailies include *The Globe and Mail* in its principal markets (the Atlantic Provinces, Québec and Ontario), *La Presse* for its overall market, *The New York Times* for Toronto and Upstate New York as well as the *National Post* in British Columbia, *The Telegram* in Newfoundland and Labrador, *Le Droit* in Québec and Ontario, *Le Soleil* in Québec City, *Le Nouvelliste* in Trois-Rivières and *Metro* in Montréal and in Halifax.

On August 25, 2008, we announced that we had signed an exclusive 18-year contract with The Globe and Mail, a division of CTV GlobeMedia Publishing Inc., to print *The Globe and Mail* in most of its major markets in Canada until 2028. This contract represents an extension of existing contracts with *The Globe and Mail* in the Atlantic provinces, Québec and Ontario, and adds two new markets: Alberta and British Columbia. The printing will be done in Halifax, Montréal, Toronto, Calgary and Vancouver. The contract takes effect on January 1, 2011. In 2009 and 2010, we will invest approximately \$200 million in a new and innovative Canada-wide platform for newspaper and flyer printing, the first Canadian network to integrate the printing of these two products. This network will provide the capacity to deliver colour on every page for *The Globe and Mail*, and it will also address the needs of our retail customers on the flyer side.

On March 12, 2008, the daily newspaper *The Globe and Mail* and *La Presse*, both printed by us, have been accepted into the International Newspaper Color Quality Club for 2008.

On November 17, 2006, we announced that we had 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. Production is expected to begin in the second half of 2009 in a new plant equipped with state-of-the-art technology in the San Francisco Bay Area. The contract with *The San Francisco Chronicle* plus the printing of other products at this new facility is expected to surpass US\$1 billion (excluding paper) in total revenues over the 15-year period. Total investments will amount to more than US\$200 million.

*The San Francisco Chronicle* project is progressing on both schedule and budget. The construction of the new facility started in March 2008, after the required permits were received from the proper authorities. The plant shell is near completion while interior finishing work is underway. Some of the printing equipment as well as a portion of the ancillary equipment has been already installed. The remainder is currently being delivered at the site. Commissioning of the production and building equipment will commence in the first semester of 2009.

We are monitoring the changes in the newspaper industry and we are still pursuing the development of our unique newspaper outsourcing model and to that effect, we have been in discussions with several newspaper publishing groups throughout 2008. However, given the deteriorating market conditions in this industry in the United States, and the deteriorating financial condition of potential customers, and considering our model becomes much more compelling when it includes more than one paper in a given area, we do not expect to sign additional contracts in the near term. Over the longer term, we believe our unique model will help the newspaper industry overcome its challenges.

### ***Book Group***

We are one of North America's leading book printers and Canada's largest book printer. Our three specialized plants, located in Québec, offer printing services for various products (educational, trade, religious, cookbooks, yearbooks and maps) with a vast array of options: soft and hard covers, a variety of formats and bindings and personalized versions. We have developed expertise in the short-run printing of books, in particular for the educational market, using traditional and digital technologies. In addition to our printing services, we routinely work with book publishers to help them with choices regarding distribution channels and inventory management.

### ***Commercial Products Group***

For several customers such as financial institutions, pharmaceutical corporations, retailers and manufacturing companies, printed material is the vehicle of choice for efficiently promoting their image as well as their products and services. Therefore, commercial printing includes various printed materials used in marketing which can be offered in a multitude of forms and sizes and in a large variety of formats: catalogues, brochures, inserts, posters, financial documents, annual reports, direct marketing tools and specialized packaging being some of the products offered.

The Commercial Products Group has 14 production plants specializing in commercial printing located in Québec and the Atlantic Provinces. These business entities provide integrated services required to develop and deliver customized printing campaigns.

### ***Mexico Group***

As one of the largest printers in Mexico we operate three printing plants and one distribution network, two plants located in the Mexico City area and one plant located in the city of Toluca, an hour from Mexico City, and employ over 1,200 people. With a population of over 100 million in Mexico, management believes this market offers long term growth potential. Services offered include printing of flyers for the retail market, newspapers, magazines, school books and books, catalogues and commercial material. Other services include prepress, premedia and finishing capabilities, including binding, on-press gluing and stitching in line capabilities. The distribution operation provides door-to-door and other types of delivery of over 6.5 million flyers and newspapers per month for both large and small retailers. We are one of the largest printer of flyers material in Mexico, providing printing and related services to large supermarkets and specialty stores in all of Mexico.

### **3.3.6 Marketing Products and Services Sector**

The Marketing Products and Services Sector combines printing services for products geared to commercial customers (retailers, advertising agencies, financial institutions and corporations). These products include, among others, flyers, inserts, magazines, catalogues and complementary services such as digital prepress, database management, Internet solutions and direct marketing.

### ***Retail Group***

We are the leading printer of retail flyers and inserts in Canada with a network of retail plants mainly in Canada and Mexico. We are the only Canadian printer that operates such an extensive network, bringing our customers faster turnaround times, lower freight costs and a setting that allows us to fulfill all of our clients' needs. Having such a vast printing network means we can serve national, regional and local customers, predominantly in the food, drug, home improvement and specialty retailer categories. We print flyers for major national customers at several different plants simultaneously while ensuring consistency and quality. High speed folders allow for multi-version capabilities to aid retailers in more effective targeting. We are one of the first companies to

provide retailers with a complete prepress-printing-distribution service via a one-stop shopping model, including design and layout; and we continue to add capabilities that support our customers' evolving needs.

### ***Catalogue and Magazine Group***

With seven specialized plants located in Québec, Ontario, Manitoba and Saskatchewan, we print more than 260 magazines, as well as all of the magazines published by Transcontinental's Media Sector (see the information set forth hereunder in Section 3.4.5).

We also print catalogues for major retailers. We offer specialized services and capabilities such as variable printing and packaging, sorting, addressing and mailing capabilities enabling clients to personalize the overall package sent to their customers at the lowest possible mailing cost.

On February 28, 2008, we announced our plans to invest \$20 million in state-of-the-art equipment for Transcontinental Interweb Montréal, our South Shore of Montréal printing facility, to ensure that we will continue to provide customers with top quality newspapers and commercial printed products, including catalogues and magazines.

On February 15, 2008, we signed an exclusive six-year contract for the printing of Rogers' complete magazine portfolio. Rogers is Canada's largest magazine publisher with over 70 consumer, business and professional magazines in Canada, including *Chatelaine*, *Maclean's*, *L'Actualité* and *Canadian Business*. The six-year contract which takes effect on February 1, 2009, valued at approximately \$35 to \$40 million per year, represents all new business for us.

In October 2007, we acquired PLM Group Ltd., Canada's fourth largest printer. PLM has 457 employees in four facilities in the Greater Toronto Area. PLM 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 became the leader in Canada's direct marketing industry while expanding our North American platform in this segment.

### ***Direct Marketing Group***

We work in partnership with our customers as well as their advertising agencies and graphic design studios to better understand their needs and to be in a position to propose innovative materials as well as finishing solutions. Our business entities control all of the production stages in order to ensure that our customers are fully satisfied. Whether it be at the prepress stage or at the printing, personalization and finishing stages, these entities use the best equipment available as well as the expertise of skilled professionals accustomed to the daily challenges provided by complex projects that are both diverse and numerous. We are concerned with making sure that the marketing material put out by our customers stands out from the competition and has the desired impact.

The Direct Marketing Group has seven production plants specializing in direct marketing and commercial printing located in Pennsylvania, California and Texas. These business entities provide integrated services required to develop and deliver customized direct marketing campaigns.

Transcontinental Direct U.S.A. Inc. has significant capabilities in litho printing, personalization, finishing, inserting and commingling, strategically located across the United States, which complement its other skills in database design and management, fulfillment, statement processing and printing and print-to-mail disaster recovery.

Manufacturers or service-oriented businesses must constantly maximize the information contained in their databases in order to better target their promotional material and drive return on their marketing investment. We offer our customers marketing support as well as our expertise in executing original and high-quality campaigns, thus maximizing the results of each dollar invested.

We are the only direct marketer with a geographic platform that covers all of North America. As a result of the financial crisis in the United States, in October 2008, we approved a plan to restructure our direct mail subsidiary in the United States. It will consolidate production from its Warminster, PA facility to its facility in Hamburg, PA. The transfer of production will be complete in fiscal 2009. At that time, it will have a cost-effective production capacity of 3.5 billion direct mail pieces per year compared to 5.0 billion previously. This capacity will enable it to remain a leader in the direct mail industry in the United States while continuing to meet the needs of its customers and providing the flexibility the Corporation needs over the long-term.

The Marketing Products and Services Sector also has two business entities specializing in database management located in Ontario and Pennsylvania. Working in conjunction with clients, these entities help collect, manage and analyze customer data, develop knowledge-based marketing programs and track and measure program results.

### ***Rastar***

In September 2008, we acquired Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing. This acquisition will allow us to expand our marketing communications service offering and provide us access to Rastar's many Fortune 500 companies' clients in diversified verticals such as the automotive, consumer goods and retail industries. Rastar's thought leadership in interactive database marketing, combined with our vision and scope, will help our clients to develop and execute personalized dialogue strategies driven by database analytics. Rastar's production facilities, which include state-of-the-art digital printing technology as well as other printing, mailing and fulfillment capabilities, will help us to deliver a complete integrated solution to our clients.

### ***Premedia Group***

The Premedia Group was formed to reflect the strategic deployment of value-added services. With four locations located in Québec and Ontario, and other in-plant solutions throughout the network, this Group provides complete outsourcing of advertising creation and management of digital services to its customers, a strategic gateway to recruiting and keeping clients. Premedia services offered include advertising design, campaign planning and development, photography, page assembly, and other premedia production services. Our Premedia Group provides integrated marketing solutions through database management and analytics, driving improved marketing performance of creative advertising campaigns. The Premedia Group also includes a team of technical resources dedicated to development and deployment of technology-enabled production solutions to streamline customer interactions with us, and increase production efficiency for publishing and marketing document creation.

With the acquisition of ThinData Inc., completed in February, 2008, we will be able to complete our offering, as email marketing becomes a key element of an integrated direct marketing offering. ThinData is Canada's leading permission-based email marketing services firm; it brings a new platform for growth as well as a new expertise to Transcontinental.

## **3.4 Media Sector**

As the fourth largest press Group in Canada, the Media Sector combines our magazines, local and regional newspapers and educational book publishing activities, digital media activities and our Canadian distribution activities. This sector is known under the name of Transcontinental Media.

With our portfolio of approximately 36 magazines, we are the leading consumer magazine publisher in Canada. We have two categories of magazines: (i) consumer publications which benefit with leading positions in the Canadian market such as *Canadian Living*, *Homemakers*, *Style at Home*, *Canadian Gardening*, *Good Times*, *More* and *Elle Canada* together with *Canadian Home Workshop* and *Outdoor Canada*, as well as their French language counterparts *Coup de Pouce*, *Madame*, *Décormag*, *Fleurs*, *Plantes et Jardins*, *Le Bel Âge*, *Vita* and *Elle Québec*; and (ii) business publications such as *Investment Executive*, *Les Affaires* and *Magazine Commerce*. With our newspaper portfolio that includes 11 dailies and 170 weekly, bi-weekly, and monthly newspapers published in the provinces of Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, Québec, Ontario and Saskatchewan, we are the second largest publisher of community newspapers in Canada. With over 5,800 titles in print used in the majority of educational institutions offering courses in the French-language in Canada, we are North America's largest French-language educational publisher covering all grade levels, from kindergarten through university, as well as related sectors such as adult education, vocational training and teacher's professional resources.

### **3.4.1 Customers and Competition**

No single customer of the Media Sector has accounted for more than 15% of the sector's revenues during the last two years.

The overall activities of the Media Sector allow advertising customers to reach consumers in the most efficient manner for them by using products suitable to their needs.

The revenues of the Magazine Group are generated by its advertising revenues as well as through subscription and newsstand sales. We are the second largest publisher of magazines in Canada and the largest publisher of consumer-oriented magazines. Magazines geared to consumers constitute the largest part of our sales. Magazines published by others, whether of general interest or with a special focus, as well as the other medias (television, radio, Internet and other communication or advertising platforms) compete with our magazines for sales of advertising space and subscription and newsstand sales. In particular, the availability in Canada of several magazines published by American publishers creates significant competition for our magazines.

The revenues of the Newspaper Group are derived primarily from advertising, from subscription and newsstand sales as well as from flyer distribution. We are the second leading publisher of local and regional newspapers in Canada and the first in Eastern Canada. We reach more than 2.4 million households per week with our weekly newspapers, 1.2 million in the Montréal region alone. Because of their level of penetration and strong credibility, our local and regional newspapers are an excellent information tool within their community as well as an ideal vehicle for any advertising campaign. In some markets, other existing local and regional newspapers as well as other media (television, radio, Internet and other communication or advertising platforms) compete with the Newspaper Group regarding sales of advertising space and subscription, and newsstand sales.

By distributing approximately three billion printed products per year and other products each week to more than four million homes, the Distribution Group is a leader in the distribution market in the Province of Québec. The Distribution Group competes for distribution of advertising material and other products with daily and weekly newspapers, direct mail services and some regional distribution companies. We believe that the major competitive factors in the distribution business are pricing, quality of service, delivery lead times, targeted distribution and market penetration.

The revenue base of the Educational Publishing Group is diversified by market, customer, subject and title. Its principal customers are departments of education, school boards, elementary and high schools, Cégeps, colleges and vocational schools, community colleges, universities and, in some cases, foreign distributors. This Group operates in all three sectors of the Canadian French language educational publishing industry and its competitors differ in each of these three sectors. Its competitors include Groupe Modulo, Les Éditions du Renouveau Pédagogique Inc. and Les Éditions CEC.

The revenues of the Digital Media Group are derived solely from online advertising. Overall, our properties reach more than four million unique visitors per month across Canada in both French and English. The Group markets more than 120 websites derived from our leading print brands and from specific cyberbrands. In Canada, our properties are the leading destinations for niche communities - women and business owners - and offer online content in growing categories such as food, family, health, home, gardening, decor, TV entertainment, business news and sports.

### 3.4.2 Geographic Distribution

The following table sets forth the revenues and the percentage of revenues based on their geographic distribution for the Media Sector for the fiscal years ended October 31, 2008 and 2007.

#### Revenues by Geographic Region

(in millions of dollars except for percentages)	Fiscal Year Ended October 31			
	2008 (\$)	2008 (%)	2007 (\$)	2007 (%)
Canada	628.8	100	617.1	100
United States	—	—	—	—
Total	628.8	100	617.1	100

### 3.4.3 Raw Materials

Paper is the primary raw material used in our publishing activities. To increase our purchasing power, we combine our purchases of raw materials for our three operating sectors. For more information on this particular topic, see Section 3.3.4 - Raw Materials and Energy Prices.

### 3.4.4 Seasonal Variations

Generally, our Media Sector's revenues are subject to seasonal variations, with increases in both the second and fourth fiscal quarters. In particular, the Educational Publishing Group's revenues are highly seasonal with the majority of the revenues occurring in the months of June to September to correspond with the traditional back-to-school season of educational institutions.

### 3.4.5 Media Sector

#### *Magazine Group*

The Magazine Group publishes approximately 36 regular titles. Through our magazines, we serve Canadian readers from coast to coast in both official languages. We give advertisers access to a readership that is not only national, but one that also offers significant added value that arises from the prestige of our brands. We have two categories of specialized titles: consumer publications and business publications. We are the largest publisher of consumer-oriented magazines and the second largest publisher of magazines in Canada.

We consider the brand names of the Magazine Group as major assets, such brand names being associated to magazines with a large circulation and recognized for the quality of their content.

The following table provides a list of our various titles published by the Magazine Group, the number of issues per year and their circulation as of June 30, 2008, the most recent date at which information is available.

<i>Magazines</i>	<i>Number of issues by year</i>	<i>Circulation</i>
<u>Consumer Publications</u>		
Canadian Gardening	8	150,032 <sup>(1)</sup>
Canadian Home & Country	8	120,508 <sup>(1)</sup>
Canadian Home Workshop	9	108,449 <sup>(1)</sup>
Canadian Living	12	510,079 <sup>(1)</sup>
Condo Direct	16	27,000 <sup>(3)</sup>
Coup de Pouce	12	215,321 <sup>(1)</sup>
Décormag	10	85,768 <sup>(1)</sup>
Elle Canada (Les Publications Transcontinental-Hachette inc.)	12	130,393 <sup>(1)</sup>
Elle Québec (Les Publications Transcontinental-Hachette inc.)	12	88,355 <sup>(1)</sup>
Fleurs, Plantes et Jardins	7	72,060 <sup>(1)</sup>
Good Times	11	155,365 <sup>(1)</sup>
Guide de l' Acheteur	1	5,500 <sup>(3)</sup>
Hockey Business News	5	5,400 <sup>(3)</sup>
Homemakers	9	379,536 <sup>(2)</sup>
Le Bel Âge Magazine (Les Publications Senior inc.)	11	136,479 <sup>(1)</sup>
Le Journal du Bel Âge (Les Publications Senior inc.)	10	70,000 <sup>(3)</sup>
Madame	9	96,552 <sup>(2)</sup>
Maison d'aujourd'hui	2	35,000 <sup>(3)</sup>
Maison Direct	26	48,000 <sup>(3)</sup>
Maisonneuve.com	11	21,000 <sup>(3)</sup>
Mon Chalet	6	32,029 <sup>(3)</sup>
More	6	140,768 <sup>(3)</sup>
Ottawa at Home	4	30,000 <sup>(3)</sup>
Outdoor Canada	8	90,108 <sup>(1)</sup>
Québec Vert	8	5,500 <sup>(3)</sup>
Style at Home	12	227,579 <sup>(1)</sup>
The Hockey News	42	100,034 <sup>(1)</sup>
Vancouver Magazine	10	48,866 <sup>(2)</sup>
Vita	1	57,000 <sup>(3)</sup>
Western Living	10	183,411 <sup>(2)</sup>
<u>Business Publications</u>		
Affaires Plus	12	83,136 <sup>(1)</sup>
Finance et Investissement	15	14,047 <sup>(2)</sup>
Investment Executive	16	48,014 <sup>(3)</sup>

<i>Magazines</i>	<i>Number of issues by year</i>	<i>Circulation</i>
Les Affaires	52	81,152 <sup>(1)</sup>
Magazine Commerce	12	41,293 <sup>(1)</sup>
Vision Durable <sup>(4)</sup>	N/A	N/A

(1) Latest statistics from the Audit Bureau of Circulation (A.B.C.).

(2) Latest statistics from Canadian Circulation Audit Board (C.C.A.B.).

(3) Internal statistics.

(4) *Vision Durable* was distributed with the *Magazine Commerce* until November 2008. It is now independently distributed.

Transcontinental Media, through its subsidiary Les Éditions Transcontinental Inc., also publishes books in French and English destined to Canadian consumers. In addition to publishing management and personal finance books, Les Éditions Transcontinental Inc.'s original specialty, it also publishes more than 35 practical books in several niches: psychology, self-help, work and career, cooking, consumption, health, leisure and sports. Its catalogue contains almost 300 titles.

We are also involved in several consumer and trade shows as well as in the creation of conferences aimed at giving business people and financial players information and knowledge relevant to their business needs. We own rights to a number of shows including the *Canadian Home Workshop Show* and the *Canadian Home & Country Show*. These consumer and trade shows and conferences provide additional exposure and awareness of our brands and offer advertisers further opportunities to market within targeted environments via sampling, signage and interactive contests at our booths.

In August 2007, we announced the launch of Transcontinental Custom Communications, a joint venture with UK agency Seven Squared, to provide custom publishing services to clients in Canada and the United States. Custom publishing involves strategic and creative services that achieve a company's marketing objectives by delivering unique branded customized content to customers using print or digital channels. In addition, Transcontinental Custom Communications offers fully integrated relationship marketing services that include database marketing, research, variable printing, photo studio and premedia tools. On September 17, 2008 Transcontinental Custom Communications was awarded a multi-year contract by Canada Post to publish *Smart Moves™* - The Guide for your new home, its existing magazine for Canadian moving households. We will be handling all of the creative design, editorial content, printing, distribution, and fulfillment of *SmartMoves™* magazine.

On November 18, 2008 we acquired Redwood Custom Communications Inc., a North American leader in custom publishing headquartered in Toronto. Redwood is a full service marketing and communications company and creates turnkey custom publishing and branded content solutions for both print and digital platforms.

### ***Newspaper Group***

We publish local and regional newspapers in the Provinces of Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, Québec, Ontario and Saskatchewan. With a total circulation of approximately 250,000 copies for the dailies and approximately 2.4 million copies for the weeklies, these newspapers are preferred communication tools in the communities and regions which they service.

The newspaper's notoriety is due to the importance of the role that it plays in a community. Some of these papers have been published for more than 100 years: *The Telegram* (St. John's, Newfoundland and Labrador - 1879), *The Guardian* (Charlottetown, Prince Edward Island - 1887), *Moose Jaw Times-Herald* (Moose Jaw, Saskatchewan - 1889), *The Truro Daily News* (Truro, Nova Scotia, 1891), *The Amherst Daily News* (Amherst,

Nova Scotia - 1893), *The Prince Albert Daily Herald* (Prince-Albert, Saskatchewan - 1894), *The Western Star* (Corner Brook, Newfoundland and Labrador - 1900) and *l'Union de Victoriaville* (Victoriaville, Québec - 1866).

The local and regional newspapers are recognized both for the quality of their writing and their production, as indicated by the several prestigious awards which they receive each year. Always attentive to the needs of its readers and advertisers, the Newspaper Group regularly conducts market studies which enable it to consistently improve the quality of its products. Moreover, this Group publishes a large number of theme inserts, special sections, directories and other publications which respond to the specific needs both of advertisers and readers.

A list of the local and regional newspapers published by us as of June 30, 2008, the most recent date at which information is available, is attached hereto as Schedule A.

We are part of a group that publishes *Métro* in Montréal, a free tabloid that is distributed Monday to Friday in 67 of Montréal's 68 metro stations and in 574 other points, including 74 McDonald's restaurants. We are also part of a group that publishes *Metro* in Halifax, a free daily newspaper that is distributed in the Halifax vicinity.

On September 16, 2008, we entered into an agreement with NewspaperDirect to migrate our newspapers to digital editions as part of our ongoing online strategy and our commitment to implement technology that makes life easier for our customers. Twelve of our publications have been released as full-featured digital editions, including *The Journal - Pioneer*, *The Western Star*, *The Guardian*, *la Nouvelle Union* and *The Telegram*, with plans to roll out the remaining titles over the next few months. The new editions can be accessed from any web browser and will give subscribers instant access to a digital replica of the full printed editions of the newspapers on PCs, Macs, Smartphones, iPhones, and Blackberry and iPod Touch devices, often before they hit the newsstands. For advertisers, it means that their print ads will also be online and will give them the ability to have more options to enhance and make their advertisements more interactive for readers.

### ***Distribution Group***

Developed for the door-to-door distribution in Québec of newspapers printed mainly by us, as well as flyers and advertising material, the Distribution Group has since added new products and services to its distribution activities to become the leader in this industry in Eastern Canada. We also have distribution operations in various areas in Newfoundland and Labrador, Nova Scotia, Prince Edward Island, Saskatchewan and Ontario.

Our distribution network enables us to offer our customers a wide range of products and services enabling them to reach targeted consumers. We also offer, through our Canadian Media Network division, a Pan-Canadian distribution brokerage service. Our solutions reach more than 12 million Canadian households every week, delivering samples and advertising items right to consumers' doors. These innovative and popular products, such as the Publi-Sac, deliver over three billion pieces of advertising items a year. Advertisers can target customers based on criteria such as age, family size, family income and consumption habits.

We offer our customers innovative products and services such as:

- The Publi-Sac, a plastic bag containing flyers, advertising material and newspapers that is delivered at the consumer's door or mailbox. The Publi-Sac reaches three million households in Québec every week, delivering 97% market penetration. The Publi-Sac has been well received and valued in Québec for years. In fact, over 50 million advertising items are delivered to more than three million households every week;
- The Publi-Sac Media, a Publi-Sac on which advertising messages are printed;
- The Ad-Stand, a display stand located in the lobby of multi-unit residential buildings and in which flyers and newspapers are made available to residents;

- The Marketing and Geomarketing Service which, by directly accessing the Print Measurement Bureau database of Statistics Canada and with the help of the Arc View software cartography program which enables the correlation of data with geography, provide a targeted distribution of advertising material for a given product to specific markets defined by the demographic and geographic factors established by customers, such as age, income, size of family and consumption habits;
- The Themed-Bags, namely Publi-Sacs in which the flyers revolve around a specific theme.

With our computerized systems, we handle the distribution by means of databases that enable us to segment the market and to target customers based on socio-demographic consumer attributes such as household income and purchasing preferences. In addition, by calculating the precise number of copies to be distributed, these systems provide advertisers with a maximum return on their advertising dollar. We rely on a team of contractors operating independently who ensure distribution to households and business establishments. We maintain a rigorous and on-going control over distribution points and provide our customers with services that allow them to measure the effectiveness of particular flyers and to target consumers.

In early 2008, we began using a biodegradable plastic bag for our Publi-Sac. The plastic is engineered to degrade and totally fragment in 90 to 120 days and to biodegrade in further 12 to 24 months after disposal.

### ***Educational Publishing Group***

The Educational Publishing Group specializes in the creation, development, adaptation, translation, publishing, commercialization and distribution of French-language educational resources, including textbooks, teachers' guides, activity books, digital resources and other related materials and resources. Its product lines cover all grade levels, from kindergarten through university, as well as related sectors such as adult education, vocational training and teachers' professional resources.

We are a preferred collaborator of the ministries of education of all Canadian provinces and territories and are the only educational publisher that has published French-language materials for all departments of education across Canada. This Group's mission is to publish quality materials and resources required for teaching and learning to support Canadian educators and students in the implementation of learning programs and course planning.

Our operations are divided into three main divisions which serve the three main school markets (the school market in Canada outside Québec, the school market in Québec and the higher education market). We are the leading publisher in the French school market in Canada outside Québec and in the French higher education publishing market in Canada. This Group benefits from a revenue base that is diversified by market, customer, subject and title. In addition to its catalogue of over 5,800 existing or previously published titles (commonly referred to as the backlist), the Educational Publishing Group has over 300 titles currently being developed for the current or future school years (commonly known as the frontlist). On average, the vast majority of its publishing revenue has been derived from its backlist and the balance from its frontlist demonstrating the quality of titles selected and validating investments historically made. The Educational Publishing Group's strong brands include Chenelière/McGraw Hill, Beauchemin, Chenelière Éducation, Gaëtan Morin Éditeur and Graficor.

### ***Digital Media Group***

We added the Digital Media Group in response to the changing face of the media industry. Information is increasingly being distributed on a digital platform and creating interactive communities of interest has become a major trend. The share of the Internet in advertising has grown significantly in recent years. As publisher, Transcontinental Media distributes some of the content of its magazines and newspapers over the Internet.

Many of our magazines have their own websites. Moreover, our Media Sector operates a business and finance portal (lesaffaires.com), which is an extension of its newspaper *Les Affaires*. The Newspaper Group operates more than 80 local and regional websites that are the local reference with respect to virtual community information.

The Digital Media Group's strategy is to increase our revenues derived from our digital platform and launch new products and services that complement our activities. To achieve these goals, we are leveraging our existing brands such as *Coup de pouce* and *Canadian Living*, developing cyberbrands focusing on specific communities of interest such as leveraging our local position by offering related services on the Internet, and extending content dissemination through various channels.

In line with this strategy, a new version of lesaffaires.com was launched at the end of September 2007. This new version is much more aligned with the publication. In addition, this version of the site drives traffic and generate audience for and from the full set of our business content (*Magazine Commerce* and *Affaires Plus*). After the purchase in 2006 of recettes.qc.ca and its integration, a new version of the site was launched in October 2007. This new version enriches the user experience and offers more opportunities to advertisers. At the same time that we were celebrating the 60<sup>th</sup> anniversary of *The Hockey News*, a new site was launched which includes new features such as videos from the NHL and blogs. The site lebelage.ca was launched in August 2007, targeting the 50+ community. In 2008, we have invested in the launch of several other sites as weblocal.ca, InMemoriam.ca and recipefeast.com.

### **3.5 Reorganizations**

We regularly proceed with legal reorganizations of some of our subsidiaries and affiliated entities in order, among other considerations, to improve our organizational structure or our products and services offering, none of which have had a material effect on our activities, operations or financial results except for the changes figuring in Section 2.7 - Changes to the Organizational Structure.

### **3.6 Environmental Regulations**

We are subject to laws and regulations regarding the environment. These laws and regulations relate to the production, storage, transportation, disposal and emission into the environment of various substances. Permits are required for the operation of our business. We are also subject to and comply with various laws and regulations, which allow regulatory authorities to require us to proceed with the cleanup of any environmental contamination of our own sites and at facilities where our waste is or has been disposed of. In addition, we ensure compliance with environmental standards by means of an audit program carried out with the help of a firm specializing in environmental issues.

The Board of Directors of the Corporation adopted an environmental policy with respect to the entire Corporation. In connection with this policy, an environment handbook was prepared and information and continuous training sessions are held for the benefit of the employees concerned. We also have staff members working to ensure compliance with applicable environmental standards. Our environmental policy is founded on the following guiding principles: protect the environment for present and future generations; reduce risks and improve efficiencies; and introduce improved technology and processes.

Our commitment with respect to the environment is reflected, among other things, by the use of short cut-off presses for the printing of flyers, which allows for substantial savings in paper. In addition, paper waste is recycled and specialized firms are retained to process or eliminate used inks, solvents, plates and films in accordance with applicable laws and regulations. We promote the use of environmentally friendly paper and some of our plants are FSC (Forest Stewardship Council) approved.

In October 2007, we announced the implementation of a paper purchasing policy that promotes the use of environmentally preferable papers. With respect to fibre sourcing, we promote the use of papers with

maximized post-consumer and de-inked recycled fibre and also encourage the use of papers made with pre-consumer recovered fibre or alternative fibres in preference to virgin wood fibre. Where virgin wood fibre is required, preference will be given to forest fibre from sustainable forests, certified by a recognized organization, avoiding fibre from high conservation value forests where those values are not protected. Other papers may also be promoted where it can be shown that there is an overall environmental advantage, in keeping with the principles of sustainable development. This will be addressed more systematically as better information becomes available about the environmental aspects of each paper.

On March 28, 2008, we announced that we remained a constituent on the Jantzi Social Index®, a socially screened, market capitalization weighted common stock index modeled on the S&P / TSX/60. We have held this position since March 2004.

### **3.7 Human Resources**

As of October 31, 2008, we had approximately 15,000 employees. The following table presents the approximate breakdown of our employees of our operating sectors as of October 31, 2008. Employees at head office and other shared services are excluded.

<b>Description</b>	<b>Number of employees as of October 31, 2008</b>
Printing Products and Services Sector	4,400
Marketing Products and Services Sector	6,900
Media Sector	3,300

As at December 15, 2008, 2,912 of our employees were represented by certified associations under 27 active and separate collective agreements. These agreements expire at different dates up to February 2013. Three collective agreements were renewed during the last year. There are presently five collective agreements covering 162 of our employees under negotiation and four collective agreements covering 159 employees will expire in 2009.

With respect to our non-unionized employees, the working conditions, which are periodically revised, are governed by agreements between the various business units involved and their employees.

### **3.8 Properties**

We believe that our owned and leased facilities are adequately equipped and maintained regarding existing and planned operations. Substantially all of our properties and equipment are free and clear of any security interests in favour of lenders.

### **3.9 Risk Factors**

The risk factors related to the Corporation and our activities are described on pages 31 to 37 and 39 of our Management's Discussion and Analysis for the year ended October 31, 2008. Among other things, the important factors which may affect the results of the Corporation include, but are not limited to, availability of capital and increase in cost of capital derived therefrom; the effects of interest-rates' fluctuations; credit risk with respect to trade receivables; funding of pension plans; economic cycles; the effects of competition in the markets in which we operate; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar and the Mexican peso; the impact of new media such as the Internet on our industry; availability and cost of qualified personnel; the utilization and manipulation of our customers' confidential information; business development; our ability to complete strategic acquisitions and to integrate our acquisitions successfully; losing our good reputation would have an important impact on our affairs and

valuation on the stock market; market pressure to be environmentally friendly; availability and cost of raw materials and energy; Canadian and U.S. postal systems' future policies; other factors which may affect future results including, risks associated with our operations outside the United States and Canada, timely development and introduction of new products and services, changes in tax laws, changes in environmental laws, changes in occupational health and safety requirements, technological changes and the resulting need for additional capital expenditures, new regulations; possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

The heading "Risks and Uncertainties" under our Management's Discussion and Analysis for the year ended October 31, 2008 is therefore incorporated herein by reference and will be updated on a quarterly basis under the heading "Risks and Uncertainties" of the Management's Discussion and Analysis quarterly report.

#### **Item 4 - Selected Consolidated Financial Information**

##### **4.1 Dividends**

Each holder of Class A Subordinate Voting Shares and Class B Shares of the Corporation is entitled to receive the dividends that the Board of Directors can declare at its discretion. However, in the past, our policy has been to pay a quarterly dividend in cash. It should be noted however that our policy has been to retain the major portion of our cash flows in order to finance our growth. Currently, there are no restrictions preventing us from paying dividends.

The following table presents a summary of the cash dividends per share declared and paid by the Corporation to all holders of its Class A Subordinate Voting Shares and Class B Shares over the last three fiscal years:

##### **Fiscal Years Ended October 31**

2006	\$0.25
2007	\$0.275
2008	\$0.31

##### **4.2 Subsequent Event**

On December 11, 2008, the Board of Directors of the Corporation declared a quarterly dividend of \$0,08 per share to all holders of the Corporation's Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on January 23, 2009 to all shareholders of record as of the close of business on January 5, 2009.

#### **Item 5 - Capital Structure of the Corporation**

##### **5.1 General Description of the Capital Structure**

The Corporation is authorized to issue an unlimited number of Class A Subordinate Voting Shares, an unlimited number of Class B Shares and an unlimited number of Preferred Shares, all without par value.

The following table sets forth the principal rights of the shares that the Corporation is authorized to issue:

<b>Class of Shares</b>	<b>Rights</b>
Class A Subordinate Voting Shares:	<p><i>Voting Rights</i> The Class A Subordinate Voting Shares entitle the holders thereof to one vote per share.</p> <p><i>Dividends:</i> The Class A Subordinate Voting Shares entitle the holders thereof to receive, <i>pari passu</i> with the holders of Class B Shares, any and all dividends declared by the Corporation.</p> <p><i>Conversion:</i> The Class A Subordinate Voting Shares can be converted into Class B Shares on the basis of one for one when a takeover bid is made directly or indirectly to the Majority Group (as defined in the Articles). Moreover, they confer the same privilege when the majority group makes a takeover bid.</p> <p><i>Dissolution:</i> The holders of Class A Subordinate Voting Shares are entitled, <i>pari passu</i> with the holders of Class B Shares, to share the remaining assets of the Corporation following its dissolution.</p>
Class B Shares:	<p><i>Voting Rights:</i> The Class B Shares entitle the holders thereof to 20 votes per share.</p> <p><i>Dividends:</i> The Class B Shares entitle the holders thereof to receive, <i>pari passu</i> with the holders of Class A Subordinate Voting Shares, any and all dividends declared by the Corporation.</p> <p><i>Conversion:</i> The Class B Shares can, at any time, be converted into Class A Subordinate Voting Shares on the basis of one for one.</p> <p><i>Dissolution:</i> The holders of Class B Shares are entitled, <i>pari passu</i> with the holders of Class A Subordinate Voting Shares, to share the remaining assets of the Corporation following its dissolution.</p>
Preferred Shares:	<p><i>Issuance in Series:</i> First Preferred Shares and Second Preferred Shares can be issued in series.</p> <p><i>Voting Rights:</i> The Preferred Shares do not entitle the holders thereof to vote or assist at any meeting of shareholders unless required pursuant to the <i>Canada Business Corporations Act</i>.</p> <p><i>Dividends:</i> The Preferred Shares entitle the holders thereof to receive preferential cumulative dividends.</p>

Class of Shares	Rights
	<p><i>Dissolution:</i> In the event of the liquidation or dissolution of the Corporation, holders of Preferred Shares are entitled to receive, for each such share held by them, a sum equal to the consideration received by the Corporation upon the issuance of such shares.</p>

## 5.2 Ratings

Transcontinental has received the following credit ratings from Standard & Poors Ratings Services ("S&P") and DBRS Limited ("DBRS").

	S&P	DBRS
Corporate Rating	BBB/Stable	–
Senior Unsecured Debt	BBB/Stable	–
Senior Unsecured Debentures	–	BBB (High) / Stable

### *Standard & Poors Ratings Services*

A S&P Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they become due. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor.

S&P credit ratings range from AAA to D, which represent the range from the highest to lowest quality. According to S&P, the BBB rating is the fourth highest of 10 major rating categories. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An obligor rated "BBB" has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

An outlook notation indicates the possible direction in which a rating may move over the next six months to two years. "Positive" means it may be raised; "Negative" means it may be lowered; and "Stable" means it is unlikely to change.

### *DBRS Limited*

According to DBRS, credit ratings are forward-looking measures that assess an issuer's ability and willingness to make timely payments of principal and interest. Credit ratings are not buy, hold, or sell recommendations, but rather the result of qualitative and quantitative analysis focusing solely on the credit quality of the issuer and its underlying obligations.

DBRS credit ratings range from AAA to D, which represent the range from the highest to lowest quality. According to DBRS, the BBB rating is the fourth highest of 10 major rating categories. Each rating category is denoted by the subcategories "high" and "low".

The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. The AAA and D categories do not utilize "high", "middle" and "low" as differential grades. Long-term debt rated

BBB is of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

Each DBRS rating category is appended with one of three rating trends - "Positive", "Stable", or "Negative". The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

### **5.3 Normal Course Issuer Bid**

We have been authorized to purchase for cancellation on the open market, between November 21, 2006 and November 20, 2007, up to 3,448,698 of our Class A Subordinate Voting Shares, representing 5% of our 68,973,966 issued and outstanding Class A Subordinate Voting Shares as of November 7, 2006, and 852,907 of our Class B Shares, representing 5% of our 17,058,145 issued and outstanding Class B Shares as of November 7, 2006. We have also been authorized to purchase for cancellation on the open market between December 20, 2007 and December 19, 2008, up to 3,333,994 of our Class A Subordinate Voting Shares, representing 5% of our 66,679,889 issued and outstanding Class A Subordinate Voting Shares as of December 10, 2007, and up to 845,271 of our Class B Shares, representing 5% of our 16,905,432 issued and outstanding Class B Shares as of December 10, 2007.

During the 12-month period ended October 31, 2008, we purchased 2,894,100 of our Class A Subordinate Voting Shares at a weighted average price of \$16.77 for a total consideration of \$48.5 million and 8,000 of our Class B Shares at a weighted average price of \$18.34, for a total consideration of \$146,720.

### **Item 6 - Management's Discussion and Analysis of the Financial Condition and Results of Operations**

A discussion and analysis by management of the financial condition and results of operations for the fiscal year ended October 31, 2008 is presented in our Management's Discussion and Analysis for the year ended October 31, 2008, which is incorporated herein by reference. To complement such management's discussion and analysis, reference is made to the Consolidated Financial Statements for the years ended October 31, 2008, and 2007 and the Notes to Consolidated Financial Statements, which Consolidated Financial Statements and Notes are incorporated herein by reference.

### **Item 7 - Market for Securities**

Our Class A Subordinate Voting Shares and our Class B Shares are listed for trading on the Toronto Stock Exchange under ticker symbols TCL.A and TCL.B, respectively.

During the fiscal year ended October 31, 2008, we repurchased 2,894,100 Class A Subordinate Voting Shares and 8,000 Class B Shares for an aggregate amount of \$ 48.7 million.

The following tables present the monthly price variations as well as the volume of operations with respect to the Class A Subordinate Voting Shares and the Class B Shares on the Canadian market for the fiscal year ended October 31, 2008.

### Class A Subordinate Voting Shares - TCL.A

Month	High (\$)	Low (\$)	Volume
November 2007	21.14	17.31	3,341,423
December 2007	18.90	15.44	3,692,160
January 2008	16.49	13.90	5,512,447
February 2008	17.37	14.40	3,031,931
March 2008	18.75	14.56	4,170,051
April 2008	19.97	17.82	2,626,262
May 2008	20.81	17.52	1,855,306
June 2008	18.12	15.70	2,710,233
July 2008	16.75	13.99	3,123,059
August 2008	16.73	14.27	2,634,915
September 2008	16.50	12.56	2,276,749
October 2008	15.49	10.23	5,991,221
Total			40,965,757

### Class B Shares - TCL.B

Month	High (\$)	Low (\$)	Volume
November 2007	20.93	18.50	18,202
December 2007	19.00	16.00	10,040
January 2008	16.00	13.52	12,752
February 2008	17.20	14.53	37,452
March 2008	18.75	15.50	19,071
April 2008	19.17	17.50	35,722
May 2008	20.00	17.59	6,111
June 2008	17.60	17.20	1,529
July 2008	17.16	14.30	4,003
August 2008	15.91	15.20	2,800
September 2008	16.86	13.00	9,038
October 2008	13.79	11.70	54,903
Total			211,623

### Item 8 - Directors and Officers

The names of our directors, their city of residence, their principal occupation, the year since each has exercised their mandate, the number of Class A Subordinate Voting Shares and Class B Shares of the Corporation that the directors owned beneficially or over which they exercised control or direction, as well as the number of share units held by the directors pursuant to the Deferred Share Units Plan of the Corporation, as of October 31, 2008 are indicated below.

Name		Principal Occupation	Director Since	Number of Class A Subordinate Voting Shares	Number of Class B Shares	Number of Deferred Share Units
Lucien Bouchard Montréal, Québec	□	Partner, Davies Ward Phillips & Vineberg LLP (law firm)	2001	1,128	–	15,248
J.V. Raymond Cyr, O.C. Montréal, Québec	◇ ▽ ○	Corporate Director	1997	6,000	–	16,181
Claude Dubois Montréal, Québec	□	President, Gestion Phila Inc. (holding company)	1978	142,572 <sup>(1)</sup>	4,000 <sup>(1)</sup>	14,478
Richard Fortin Longueuil, Québec	○	Chairman of the Board, Alimentation Couche-Tard Inc. (distribution - convenience stores)	2004	1,000	–	12,184
Harold "Sonny" Gordon, Q.C. Sunny Isles, Florida United States	▽	Chairman of the Board, Dundee Corporation (financial services - corporations and investment funds)	1993	–	1,000	14,977
Monique Lefebvre Montréal, Québec	▽	Psychologist, Executive Coaching and Consultant in Strategic Management and Governance and Chair of Héma-Québec Foundation	2000	1,000	–	9,585
Isabelle Marcoux <sup>(2)</sup> Montréal, Québec		Vice Chair of the Board and Vice President, Corporate Development, Transcontinental Inc.	2005	4,000	1,000	–
Pierre Marcoux <sup>(2)</sup> Île-des-Sœurs, Québec		Vice President, Business Solutions and Book Publishing Group, Transcontinental Media G.P.	2005	5,000	1,000	–
Rémi Marcoux C.M, O.Q., F.C.A. Montréal, Québec		Executive Chairman of the Board, Transcontinental Inc.	1978	–	13,209,840 <sup>(2)</sup>	–
François Olivier <sup>(2)</sup> Montréal, Québec		President and Chief Executive Officer, Transcontinental Inc.	2008	2,740	–	–
François R. Roy Montréal, Québec	○	Vice Principal (Administration and Finance), McGill University	2008	–	–	1,102

Name		Principal Occupation	Director Since	Number of Class A Subordinate Voting Shares	Number of Class B Shares	Number of Deferred Share Units
Lino A. Saputo, Jr. Montréal, Québec	□	President and Chief Executive Officer, Saputo Inc. (consumer products-food processing)	2008	–	–	2,793
André Tremblay Montréal, Québec	▽	Managing Partner, Trio Capital inc. (private equity fund)	2007	–	–	6,602

◇ Lead Director.

○ 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.

(1) Of which 137,572 Class A Subordinate Voting Shares and 4,000 Class B Shares are held by Gestion Phila Inc., a holding company controlled by Mr. Claude Dubois.

(2) The 13,209,840 Class B Shares are held by Capinabel Inc. The shares of Capinabel Inc. are held in direct and indirect ownership by Mr. Rémi Marcoux and members of his immediate family. Mr. Rémi Marcoux has control over Capinabel Inc. The shares of Capinabel Inc. represent 66.89% of the voting rights attached to the outstanding participating shares of the Corporation. Ms. Isabelle Marcoux and Mr. Pierre Marcoux are members of Mr. Rémi Marcoux's immediate family. Mr. Olivier is the husband of Ms. Isabelle Marcoux.

Each director remains in office until the following annual shareholders' meeting or until the election or appointment of his successor, unless he resigns or his office becomes vacant as a result of his death, removal or other cause.

The following table sets forth the names, city of residence and position held with the Corporation of each officer<sup>(1)</sup> of the Corporation.

Name and city of residence	Position held with the Corporation
Jean Blouin <sup>(2)</sup> Montréal, Québec	Vice President, Corporate Communications
André Bolduc Outremont, Québec	Director of Internal Audit
Réal Boulet Chateauguay, Québec	Corporate Vice President, Efficiency and Innovation
France De Blois Laval, Québec	Corporate Controller
Jean Denault Saint-Mathias-sur-Richelieu, Québec	Corporate Vice President, Procurement and Technology
Christine Desaulniers Town of Mount-Royal, Québec	Vice President, Chief Legal Officer, and Corporate Secretary
Julien Houle Kirkland, Québec	Corporate Vice President, Human Resources
Benoît Huard Lorraine, Québec	Vice President and Chief Financial Officer
Isabelle Lamarre Île-des-Sœurs, Québec	Director, Legal Affairs and Assistant Corporate Secretary
Natalie Larivière Île-des-Sœurs, Québec	President, Media Sector

<b>Name and city of residence</b>	<b>Position held with the Corporation</b>
Donald LeCavalier Montréal West, Québec	Corporate Treasurer
Guy Manuel <sup>(3)</sup> Toronto, Ontario	President, Marketing Products and Services Sector
Isabelle Marcoux Montréal, Québec	Vice Chair of the Board and Vice President, Corporate Development
Rémi Marcoux Montréal, Québec	Executive Chairman of the Board
Jennifer McCaughey Candiac, Québec	Director, Investor Relations
François Olivier Montréal, Québec	President and Chief Executive Officer

- (1) Brian Reid became President, Printing Sector on November 13, 2008 and Sylvain Morissette has been appointed Vice President, Corporate Communications effective February 2, 2009.
- (2) Jean Blouin retired from the Corporation effective January 12, 2009.
- (3) Guy Manuel stepped down as President, Marketing and Services Sector on November 13, 2008. He will be leaving the Corporation on January 30, 2009.

The directors and officers of the Corporation who have not held their principal occupation with the Corporation for more than five years have had the following principal occupations during the last five years (except where a director or officer has occupied more than one position in the same company or an affiliate thereof, only the date of his appointment to his current position is indicated):

- Ms. France De Blois became Corporate Controller on April 26, 2007. From 1993 until 2007, she occupied different positions with Sanofi-Aventis, lastly as Director, Financial and Administrative Services (a pharmaceutical company);
- Ms. Christine Desaulniers became Vice President, Chief Legal Officer, and Corporate Secretary, on November 21, 2005. Until November 2005, she had been partner at the Montréal office of the law firm Stikeman Elliott LLP;
- Ms. Isabelle Lamarre became Director, Legal Affairs and Assistant Corporate Secretary on May 22, 2007. From 2001 until 2007 she had been a partner at the Montréal office of the law firm Lavery, de Billy LLP;
- Mrs. Natalie Larivière became President, Media Sector, effective August 7, 2006. Previously, she was President and General Manager of Archambault Group Inc. (a member of the Quebecor Media group of companies) (a media company);
- Mr. Donald LeCavalier became Corporate Treasurer on July 24, 2006. Before such date, he was Treasurer of Transat A.T. Inc. (a tourism company) from August 2000 until April 2006;
- Mr. Sylvain Morissette becomes Vice President, Corporate Communications on February 2, 2009. Before such date, he was President and General Manager of the Association of Quebec Advertising Agencies from 2006 until 2009 and National Director, Corporate Communications and Public Relations of Rona Inc. (a hardware retailer) from 1998 until 2006;
- Mr. François Olivier became President and Chief Executive Officer of Transcontinental Inc. on February 20, 2008. Since September 2007, he was Chief Operating Officer of Transcontinental Inc. Prior thereto, he was President, Printing Products and Services from 2005 until 2007 and held other various positions, including Senior Vice President, Newspaper Group from 1999 until 2005.

- Mr. Brian Reid became President, Printing Sector on November 13, 2008. Since 2004, he was Senior Vice President, Catalogue and Magazine Group. Prior thereto, he held various other positions, including General Manager of Transcontinental RBW, Transcontinental LGM and Transcontinental Coronet from 2002 to 2004.
- Mr. François R. Roy is Vice Principal (Administration and Finance) of McGill University since June 2007. From March 2000 until May 2003 he was Chief Financial Officer of Telemedia (a portfolio company).

As of October 31, 2008, the directors and officers of the Corporation (other than Mr. Rémi Marcoux), as a Group, beneficially owned, directly or indirectly, 206,098 Class A Subordinate Voting Shares and 7,000 Class B Shares of the Corporation, then representing approximately 0.32% and 0.04% respectively of the outstanding shares of each such class.

To the best knowledge of the Corporation, no proposed director, as at January 8, 2009, or within 10 years before January 8, 2009; (a) is or has been subject to a cease trade order, an order similar to a cease trade order or an order that denied a company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer of that company; (b) is or has been subject to a cease trade order, an order similar to a cease trade order or an order that denied a company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer of that company and which resulted from an event that occurred while that person was acting in such capacity; (c) is or has been a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (d) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets, with the exception of

- (i) Mr. Cyr who was a director of Air Canada when it voluntarily filed for protection under the *Companies' Creditors Arrangement Act* (the "CCAA") in April 2003 and was a director of Cable Satisfaction International Inc. when it voluntarily filed for protection under the CCAA in July 2003. Air Canada successfully emerged from the CCAA proceedings and was restructured pursuant to a plan of arrangement in September 2004 and Cable Satisfaction International Inc.'s second amended and restated plan of arrangement and reorganization was approved by its creditors and sanctioned by the Québec Superior Court in March 2004. Mr. Cyr is no longer a director of Air Canada nor of Cable Satisfaction International Inc.;
- (ii) Mr. Gordon, who was a director of Great Northern Paper, Inc., a private U.S. corporation, until June 3, 2002, approximately seven months before such corporation filed for an arrangement under Chapter II of the U.S. Bankruptcy Code on January 9, 2003, followed by liquidation on May 22, 2003 pursuant to Chapter 7 of said Act. Mr. Gordon is no longer a director of Great Northern Paper, Inc.;
- (iii) Mr. Roy who was a director of Komunik Corporation until April 1, 2008, approximately eight months before such corporation voluntarily filed for protection under the CCAA on November 18, 2008. Mr. Roy is no longer director of Komunik Corporation; and
- (iv) Mr. Tremblay who was a director and President and Chief Executive Officer of Microcell Telecommunications Inc., when it asked for and was granted protection under the CCAA on January 3, 2003. On May 1, 2003, Microcell Telecommunications Inc. successfully emerged from the CCAA proceedings. Mr. Tremblay is no longer a director of Microcell Telecommunications Inc.

Furthermore, to the best knowledge of the Corporation, no proposed director of the Corporation has been as at January 8, 2009 subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable shareholder in deciding whether to vote for a proposed director.

## **Item 9 - Transfer Agent and Registrar**

The transfer agent and registrar of our shares is CIBC Mellon Trust Company ("CIBC Mellon"), having a place of business at 2001 University Street, Suite 1600, Montréal, Québec, H3A 1A6. CIBC Mellon also has offices in Toronto.

## **Item 10 - Proceedings**

In the normal course of business, we are involved in various legal proceedings. Legal proceedings resulting from our activities in the Printing or Media sectors could have adverse effects both with respect to costs and to our reputation. In order to manage this risk, we, in addition to having a civil liability insurance policy, often limit our potential responsibility with respect to damages under the contracts which we sign regarding our printing activities, and with respect to our media activities, we provide our journalists with information sessions and continuous training in addition to signing specific contracts with freelancers.

## **Item 11 - Material Contracts**

No material contract outside the ordinary course of business was entered into by the Corporation during the last two years.

## **Item 12 - Information Regarding the Audit Committee**

### **12.1 Charter of the Corporation's Audit Committee**

The charter of the Corporation's audit committee is included in Schedule B.

### **12.2 Composition of the Audit Committee**

The Corporation's Audit Committee is composed of the three following persons:

<b>Name of the Director</b>	<b>Independent</b>	<b>Financially Literate</b>
J.V. Raymond Cyr	x	x
Richard Fortin, acting as Audit Committee Chair	x	x
François R. Roy	x	x

### **12.3 Background and Related Experience**

#### ***Mr. J.V. Raymond Cyr***

Mr. Cyr has more than 40 years of experience in the telecommunications industry. He spent most of his career with Bell Canada where he held several key positions. He was chairman of the board of BCE Inc. from 1989 to 1993 and Chairman and Chief Executive Officer of Bell Canada from 1992 until his retirement in 1996. He was also director of Nortel Networks Corporation and SPAR Aerospace Ltd. Throughout his career, Mr. Cyr received many awards in recognition of his achievements in the telecommunications industry. He was appointed

an Officer of the Order of Canada in 1988 and was granted an Honorary Doctor of Laws degree by Concordia University in Montréal in 1988. He has been a member of the audit committees of several publicly traded companies. Mr. Cyr is a member of the *Ordre des ingénieurs du Québec*.

***Mr. Richard Fortin***

Mr. Richard Fortin has a Bachelor in Administration with a major in Finance from Laval University. Throughout his career, he has constantly remained on top of any new accounting rules. He worked for more than 13 years in the banking industry, holding various management positions, namely as Vice President, Québec for the Société Générale (Canada). As such, Mr. Fortin was called upon to analyze numerous financial statements and to familiarize himself with generally accepted accounting principles. Mr. Fortin is currently Chairman of the Board of Alimentation Couche-Tard Inc., a publicly traded corporation. Previously, he was Executive Vice President and Chief Financial Officer of Alimentation Couche-Tard Inc. since 1986.

***Mr. François Roy***

Mr. François R. Roy is Vice-Principal (Administration and Finance) of McGill University since June 2007. From March 2000 until May 2003, he was Chief Financial Officer of Telemedia Corporation, a private portfolio company. From August 1998 until March 2000, he was Executive Vice President and Chief Financial Officer of Quebecor Inc. From August 1997 until July 1998, he was Executive Vice President and Chief Financial Officer of Avenir Inc. Mr. François R. Roy also holds an MBA from the University of Toronto and is a member and chairman of audit committees for several public and private corporations.

#### **12.4 Reliance on Certain Exemptions**

We have not at any time during our last fiscal year relied on any exemption set out in Multilateral Instrument 52-110.

#### **12.5 Policies and Procedure Regarding Prior Approval**

The Audit Committee has adopted rules regarding the scope of the services provided by the external auditor, which rules have been implemented as of its fiscal year starting on November 1, 2002. Our external auditor provides audit-related services to the Corporation and its subsidiaries, audit-related or connected services, consulting services regarding research and development credits as well as tax-related consulting services. We will not give our external auditor any mandates to provide certain non-audit and non-tax related services to the Corporation and its subsidiaries, such as bookkeeping or other services related to the accounting books or financial statements or regarding the design and implementation of financial disclosure systems, services related to evaluation, actuarial services, internal auditing services, investment banking services and legal services. With respect to all other non-audit and non-tax related consulting services, management must obtain the prior approval of its Audit Committee.

#### **12.6 Fees Relating to the Services of the External Auditor**

The following table sets forth, by category, the fees incurred by and payable to the external auditor of the Corporation, Samson Bélair Deloitte & Touche LLP, for the fiscal years ended October 31, 2008 and 2007:

Category of Fees (in thousands of dollars)	2008 (\$)	2007 (\$)
Auditing fees	1,445.3	1,168.6
Fees for audit-related or connected	252.1	208.2
Compliance with taxation requirements and consulting services thereto	406.8	355.8
Other fees	-	78.3
Total	2,104.2	1,810.9

Auditing fees include total fees paid to Samson Bélair Deloitte & Touche LLP for auditing the annual consolidated financial statements and other regulatory audits and filings.

Fees for audit-related or connected services included the total fees related to auditing services paid to Samson Bélair Deloitte & Touche LLP, in particular for auditing the pension plans and for consulting services with respect to accounting and financial disclosure standards.

Tax-related fees include the total fees related to tax services paid to Samson Bélair Deloitte & Touche LLP, in particular for consulting services regarding our compliance with income tax laws, tax planning in the preparation of our tax returns as well as regarding capital taxes and sales taxes. Samson Bélair Deloitte & Touche LLP also offers consulting services with respect to tax credits for scientific research and experimental development.

Other fees include the total fees related to other services paid to Samson Bélair Deloitte & Touche LLP for all other services rendered to the Corporation that do not fall under any of the above-mentioned categories, in particular services related to financial structuring.

At the Annual and Special Meeting of its shareholders scheduled for February 19, 2009, the Corporation will be proposing that shareholders appoint KPMG LLP as auditor of the Corporation.

### Item 13 - Forward-Looking Statements

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

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: management of credit, security of data, market dynamics, liquidity, funding and operational risks; the strength of the Canadian, Mexican and United States' economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, namely the U.S. dollar and the Mexican peso; the impact from raw material and energy prices; the seasonal nature of certain businesses, notably the Educational Publishing Group, the effects of changes in interest rates; the effects of

competition in the markets in which we operate; the effects of new media and the corresponding shift of advertising revenue to new platforms; judicial judgments and legal proceedings; our ability to successfully realign our organization, resources and processes; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete strategic acquisitions and joint ventures and to integrate our acquisitions and joint ventures successfully; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies, technological changes and new regulations.

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

When relying on forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the risk factors set forth in this Annual Information Form and other uncertainties and potential events, including those set forth in our Management's Discussion and Analysis for the year ended October 31, 2008, as updated in our interim Management's Discussion and Analysis issued since then.

#### **Item 14 - Additional Information**

Additional information, including remuneration of directors and officers, loans to officers, stock options, share units and interest of insiders in material transactions is, where applicable, contained in our Management Proxy Circular for our Annual General Meeting of Shareholders. Additional financial information is provided in the comparative consolidated audited financial statements of the Corporation for the year ended October 31, 2008. A copy of these documents may be obtained, free of charge from our Secretary or our Director, Investor Relations at 1 Place Ville Marie, Suite 3315, Montréal, Québec, H3B 3N2. These documents can also be obtained on SEDAR's website ([www.sedar.com](http://www.sedar.com)) or on our website ([www.transcontinental.com](http://www.transcontinental.com)).

In addition, when securities of the Corporation are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed, the following documents may be obtained free of charge from our Secretary or our Director, Investor Relations:

- (i) A copy of this Annual Information Form, together with a copy of any document or portion thereof incorporated by reference therein;
- (ii) A copy of the comparative financial statements of the Corporation for its most recently completed financial year together with the report of the auditors thereon and a copy of any interim financial statements of the Corporation subsequent to financial statements for its most recently completed financial year;
- (iii) A copy of the Corporation's Management Proxy Circular for its most recent Annual Meeting of Shareholders; and
- (iv) A copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus.

At any other time, a copy of the documents referred to in subparagraphs (i), (ii) and (iii) above will be provided free of charge from our Secretary or our Director, Investor Relations.

A copy of this Annual Information Form can be obtained, free of charge, from our Secretary or our Director, Investor Relations at 1 Place Ville Marie, Suite 3315, Montréal, Québec, H3B 3N2, on SEDAR's website ([www.sedar.com](http://www.sedar.com)) or on the Corporation's website ([www.transcontinental.com](http://www.transcontinental.com)).

**Schedule A**  
**List of the newspapers of Transcontinental**

The following table provides a list of the local and regional newspapers published by Transcontinental and their circulation as of June 30, 2008, the most recent date at which information is available.

<u>Daily Newspapers</u>	<u>Circulation</u>		
<u>Prince Edward Island</u>		The Kings County Advertiser	5,769 <sup>(2)</sup>
The Journal Pioneer	8,907 <sup>(6)</sup>	The News Weekender	18,000 <sup>(2)</sup>
The Charlottetown Guardian	20,766 <sup>(6)</sup>	The Daily News Weekender	22,000 <sup>(2)</sup>
<u>Nova Scotia</u>		A and G Transaction	12,000 <sup>(2)</sup>
Metro	35,000 <sup>(4)</sup>	Transaction	26,000 <sup>(2)</sup>
The News (New Glasgow)	7,826 <sup>(6)</sup>	The Market	17,000 <sup>(2)</sup>
The Truro Daily News	6,704 <sup>(6)</sup>	Springhill-Pasboro Record	1,660 <sup>(2)</sup>
The Cape Breton Post	25,018 <sup>(6)</sup>	<u>New Brunswick</u>	
Amherst Daily News	3,161 <sup>(6)</sup>	Sackville Tribune Post	2,588 <sup>(4)</sup>
<u>Newfoundland</u>		<u>Prince Edward Island</u>	
The Telegram (St-John)	27,536 <sup>(6)</sup>	Island Market Place	7,500 <sup>(4)</sup>
The Western Star	7,381 <sup>(6)</sup>	<u>Saskatchewan</u>	
<u>Québec</u>		The Southwest Booster	19,475 <sup>(2)</sup>
Métro	143,000 <sup>(5)</sup>	The Triangle News	1,000 <sup>(2)</sup>
<u>Saskatchewan</u>		Rural Roots, Prince Albert	30,134 <sup>(2)</sup>
The Prince Albert Daily Herald	7,189 <sup>(6)</sup>	Moose Jaw This Week Sunday	
The Moose Jaw Times Herald	8,290 <sup>(4)</sup>	Times	18,458 <sup>(2)</sup>
<u>Weekly Newspapers</u>		The Radville Star	1,097 <sup>(2)</sup>
<u>Newfoundland</u>		The Deep South Star	1,016 <sup>(2)</sup>
The Charter	1,014 <sup>(5)</sup>	The Grenfell Sun	1,084 <sup>(2)</sup>
The Southern Gazette	3,771 <sup>(5)</sup>	The Broadview Express	516 <sup>(2)</sup>
The Labradorian	1,962 <sup>(5)</sup>	The Oxbow Herald	1,139 <sup>(2)</sup>
The Aurora	1,648 <sup>(5)</sup>	<u>Québec and Ontario</u>	
The Compass	4,526 <sup>(5)</sup>	Journal de Rosemont	60,651 <sup>(1)</sup>
Packet	4,882 <sup>(5)</sup>	Progrès de Villeray	24,746 <sup>(1)</sup>
The Beacon	4,610 <sup>(5)</sup>	Journal Le Plateau	35,010 <sup>(1)</sup>
The Pilot	3,493 <sup>(5)</sup>	Courrier Ahuntsic	33,642 <sup>(1)</sup>
Coaster	1,646 <sup>(5)</sup>	Le V-M	20,207 <sup>(1)</sup>
The Norwester	3,116 <sup>(5)</sup>	Progrès de St-Léonard	31,464 <sup>(1)</sup>
The Gulf News	2,842 <sup>(5)</sup>	Guide Montréal Nord	36,575 <sup>(1)</sup>
The Georgian	1,810 <sup>(5)</sup>	Flambeau Mercier / Hochelaga-	
The Northern Pen	5,054 <sup>(5)</sup>	Maisonneuve	56,044 <sup>(1)</sup>
TV Preview	55,000 <sup>(5)</sup>	Informateur de Rivières-des	
TV Today	40,000 <sup>(6)</sup>	Prairies	20,093 <sup>(1)</sup>
<u>Nova Scotia</u>		Avenir PAT / Montréal-Est	44,495 <sup>(1)</sup>
The Hants Journal	2,908 <sup>(2)</sup>	Courrier Laval Jeudi	121,240 <sup>(1)</sup>
The Digby County Courier	1,778 <sup>(2)</sup>	Courrier Laval Dimanche	121,220 <sup>(1)</sup>
The King County Register	5,218 <sup>(2)</sup>	Le Trait d'Union	56,037 <sup>(1)</sup>
The Annapolis County Spectator	3,119 <sup>(2)</sup>	Journal Le Courier	55,472 <sup>(1)</sup>
The Shelburne County Coast		Courrier Laval Weekly News	14,123 <sup>(4)</sup>
Guard	3,745 <sup>(2)</sup>	Messenger de Verdun	25,710 <sup>(1)</sup>
The Queens County Advance	2,652 <sup>(2)</sup>	Messenger de Lasalle	34,290 <sup>(1)</sup>
Armdale Clayton Park News	34,453 <sup>(2)</sup>	Messenger de Lachine / Dorval	25,440 <sup>(1)</sup>
Dartmouth Cole Harbour News	31,514 <sup>(2)</sup>	La Voix Pop	27,970 <sup>(1)</sup>
The Bedford-Sackville News	24,954 <sup>(2)</sup>	Nouvelles St-Laurent	28,653 <sup>(1)</sup>
Sunday Post	44,000 <sup>(2)</sup>	L'Express d'Outremont	23,163 <sup>(1)</sup>
Amherst Citizen	3,300 <sup>(2)</sup>	Courrier Bordeaux-Cartierville	17,780 <sup>(1)</sup>
The Yarmouth County Vanguard	4,790 <sup>(2)</sup>	Magazine Île-des-Sœurs	9,800 <sup>(1)</sup>
		Cités Nouvelles	50,000 <sup>(1)</sup>
		The Chronicle	52,532 <sup>(4)</sup>
		The Monitor	34,812 <sup>(4)</sup>

Westmount Examiner	9,611 <sup>(4)</sup>
L'Action du Mercredi	49,381 <sup>(1)</sup>
L'Action du Weekend	49,565 <sup>(1)</sup>
L'Express Montcalm	25,273 <sup>(1)</sup>
L'Écho d'Autray	18,266 <sup>(1)</sup>
L'Écho de Maskinongé	12,364 <sup>(4)</sup>
Hebdo Rive-Nord du mercredi	54,521 <sup>(1)</sup>
Hebdo Rive-Nord du samedi	48,738 <sup>(1)</sup>
Hebdo Rive-Nord les Méandres	16,686 <sup>(1)</sup>
Hebdo Rive-Nord les Riverains	37,280 <sup>(1)</sup>
La Nouvelle Union	31,092 <sup>(1)</sup>
La Nouvelle Union Week-End	44,797 <sup>(1)</sup>
L'Avenir de l'Érable	11,086 <sup>(1)</sup>
Le Reflet du Lac	26,222 <sup>(1)</sup>
L'Express Édition du mercredi	46,036 <sup>(1)</sup>
L'Express du dimanche	47,764 <sup>(1)</sup>
Le Progès de Coaticook	8,818 <sup>(1)</sup>
La nouvelle d'Embrun	16,330 <sup>(1)</sup>
La Revue de Gatineau Édition du mercredi	89,750 <sup>(1)</sup>
La Revue de Gatineau Édition du samedi	89,847 <sup>(1)</sup>
Le Bulletin	12,956 <sup>(1)</sup>
La Petite Nation	9,885 <sup>(1)</sup>
The Star	33,855 <sup>(4)</sup>
L'Express d'Orleans	12,000 <sup>(1)</sup>
The Weekly Journal Orleans	54,300 <sup>(4)</sup>
Ottawa Business Journal	20,000 <sup>(4)</sup>
Le Lac St-Jean	22,395 <sup>(1)</sup>
L'Étoile du lac	14,379 <sup>(1)</sup>
La Voix du Sud	28,550 <sup>(1)</sup>
L'Appel	58,520 <sup>(1)</sup>
Charlesbourg Express	28,327 <sup>(1)</sup>
Beauport Express	29,279 <sup>(1)</sup>
L'Actuel	44,083 <sup>(1)</sup>
Québec Express	46,339 <sup>(1)</sup>
Québec Hebdo	199,648 <sup>(1)</sup>
Hebdo Journal	51,000 <sup>(1)</sup>
Hebdo St-Maurice	31,070 <sup>(1)</sup>
Courrier Sud	21,350 <sup>(1)</sup>
Mékinac des Chenaux	13,136 <sup>(1)</sup>
L'Écho de La Tuque	6,727 <sup>(1)</sup>
Seaway News	36,000 <sup>(4)</sup>
Corriere Italiano	11,899 <sup>(1)</sup>
L'Autre Voix	14,604 <sup>(1)</sup>
Québec Hebdo	199,648 <sup>(1)</sup>

***Bi-Weekly Newspapers*** ***Circulation***

<u><i>Newfoundland</i></u>	
The Adviser-Monday	2,589 <sup>(5)</sup>
The Adviser-Thursday	3,043 <sup>(5)</sup>

***Monthly Newspapers*** ***Circulation***

<u><i>Prince Edward Island</i></u>	
Atlantic Post Calls	750 <sup>(4)</sup>
Island Harwest	5,000 <sup>(4)</sup>
PEI Seniors	25,000 <sup>(4)</sup>
Live Summerside	3,500 <sup>(4)</sup>

<u><i>Nova Scotia</i></u>	
Farm Focus	15,000 <sup>(4)</sup>
Nova Scotia Business Journal	60,000 <sup>(4)</sup>
The Burnside News	7,000 <sup>(4)</sup>
The Souwester	6,000 <sup>(4)</sup>
Valley Values	15,000 <sup>(4)</sup>

<u><i>Québec</i></u>	
Mon Toit	17,250 <sup>(4)</sup>
L'Express de Montréal	700,000 <sup>(4)</sup>
La Parole d'Affaires	45,500 <sup>(4)</sup>
Le Jacques-Cartier	110,880 <sup>(1)</sup>
Montréal Express Édition Centre	120,121 <sup>(4)</sup>
Montréal Express Édition Mont-Royal	102,962 <sup>(4)</sup>
Montréal Express Édition Sud	120,555 <sup>(4)</sup>
Montréal Express Édition Ouest	130,344 <sup>(4)</sup>
Le Journal Agricole	3,700 <sup>(4)</sup>
Mauricie Express	100,000 <sup>(4)</sup>
Le Courrier du Lac	7,200 <sup>(4)</sup>

***Bi-Monthly Newspapers*** ***Circulation***

<u><i>Nova Scotia</i></u>	
Pictou County Real Estate Guide	10,000 <sup>(4)</sup>

<u><i>Saskatchewan</i></u>	
The Northern Visitor	10,500 <sup>(4)</sup>

<u><i>Québec</i></u>	
Edition de Quartier – Laval des Rapides / Pont-Viau	26,876 <sup>(1)</sup>
Edition de Quartier - Sud-Est de Laval	20,375 <sup>(1)</sup>
Edition de Quartier – Vimont / Auteuil	19,969 <sup>(1)</sup>
Edition de Quartier – Journal Ste-Dorothée	24,112 <sup>(1)</sup>
Edition de Quartier – Ste-Rose / Fabreville	24,224 <sup>(1)</sup>
Journal de l'Habitation	25,550 <sup>(1)</sup>
Express Montcalm	25,273 <sup>(1)</sup>

***Other Periodicals*** ***Circulation***

<u><i>Nova Scotia</i></u>	
Annapolis Valley Real Estate Guide	15,000 <sup>(4)</sup>
Fishing 411	6,000 <sup>(4)</sup>
Yuletide Preparations	9,000 <sup>(4)</sup>
Atlantic Canada Group Tour Planner	8,000 <sup>(4)</sup>
New England Tour Planner	8,000 <sup>(4)</sup>
Ontario Group Tour Planner	8,000 <sup>(4)</sup>
Western Canada Group Tour Planner	8,000 <sup>(4)</sup>
Atlantic Construction and Transportation Journal	60,000 <sup>(4)</sup>
Halifax Regional Municipality Business Parks Directory	8,000 <sup>(4)</sup>

Québec

Voir vert	20,000 <sup>(1)</sup>
Courrier Sud Étudiant	21,350 <sup>(1)</sup>
Constructo	20,000 <sup>(4)</sup>
Constructo Magazine	6,500 <sup>(4)</sup>
Forum Agricole-Agroalimentaire- Forestier	11,000 <sup>(4)</sup>
L'Express Étudiant	14,000 <sup>(4)</sup>
Le Cahier de l'Expo Agricole de l'Étoile du Lac	14,412 <sup>(1)</sup>
Le Canard de Lachine	18,760 <sup>(4)</sup>
Le Canard de Lasalle	33,413 <sup>(4)</sup>
Le Canard de Verdun	24,677 <sup>(4)</sup>
Le Grand Express Drummondville	60,392 <sup>(4)</sup>
Tour de l'île	14,000 <sup>(4)</sup>

Génération Boomers	47,640 <sup>(4)</sup>
Ottawa HR	20,000 <sup>(5)</sup>
Ottawa Technology Industry Guide	20,000 <sup>(5)</sup>
Ottawa at Home	30,000 <sup>(5)</sup>

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- (1) Latest statistics of the ODC Certified Distribution Inc.
  - (2) Latest statistics of the Canadian Community Newspaper Association (C.C.N.A.).
  - (3) Latest statistics of the Ontario Community Newspaper Association (O.C.N.A.).
  - (4) Internal statistics.
  - (5) Latest statistics of the Canadian Circulation Audit Board (C.C.A.B.).
  - (6) Latest statistics of the Audit Bureau of Circulation (A.B.C.).

## **Schedule B**

### **Mandate of the Audit Committee**

The Audit Committee of Transcontinental Inc. (the "Corporation") is composed exclusively of independent directors who have no direct or indirect material relationship with the Corporation or any of its subsidiaries or affiliated companies. A material relationship is defined as any relationship that, in the opinion of the Board of Directors, could reasonably impede upon the exercise of the independent judgement of a member of the Committee. The Board of Directors must appoint a minimum of three of its members to sit on the Audit Committee, one of whom shall serve as Committee Chairman and all of whom shall be financially literate. Two members shall constitute a quorum. The responsibilities of the Audit Committee are established by the Board of Directors and include the following:

- (i) helping members of the Board of Directors to fulfill their obligations, in particular their obligation with respect to overseeing the procedures regarding financial information;
- (ii) improving the credibility and objectivity of financial information;
- (iii) recommending to the Board of Directors the nomination of the external auditor and approving its remuneration;
- (iv) ensuring better lines of communication between directors and external auditor;
- (v) ensuring of the independence of external auditor;
- (vi) favouring the implication of directors by encouraging in-depth discussions between directors, management and external auditor;
- (vii) examining and approving the mandate of external auditor and the nature and scope of the audit that it is to conduct and receiving from such auditor an official written statement attesting to its independence;
- (viii) monitoring the work of the external auditor retained to prepare or deliver the audit report or to carry out other auditing, inquiry or certification services for the Corporation, including resolving any issues between management and the external auditor with respect to financial information;
- (ix) approving beforehand all of the non-auditing services that the external auditor of the Corporation must carry out for the Corporation or its subsidiaries in order to allow the Committee to carry out an orderly evaluation of the repercussions of the services on the independence of the external auditor. In particular, examining and authorizing all fees paid to the external auditor for work other than tax or audit related for amounts in excess of those determined by the Audit Committee from time to time. This responsibility of the Audit Committee cannot be delegated to the management of the Corporation in any way whatsoever;
- (x) examining and approving the mandate, the organization and the independence of the internal auditors of the Corporation, including the scope of its responsibilities, goals and work programs as well as its staff and its policy with respect to the presentation of information;
- (xi) examining the accounting principles and practices followed by the Corporation, including all material changes made thereto during the fiscal year and ensuring that they are adequate given the circumstances and in compliance with the laws and regulations in effect;

- (xii) monitoring and assessing the efficiency and integrity of the Corporation's internal controls and management information systems after consultation with the external auditor, the internal auditors of the Corporation and the Chief Financial Officer of the Corporation;
- (xiii) examining the financial data in the Corporation's quarterly financial statements, including management's discussion and analysis, as well as the impact of a major sale or acquisition on the disclosure of financial information;
- (xiv) examining the annual and quarterly consolidated financial statements of the Corporation, including the notes related thereto, management's discussion and analysis relating thereto, the press releases regarding the annual and quarterly results, as well as the auditor's report to shareholders, and recommending that the Board of Directors approves the annual and quarterly consolidated financial statements of the Corporation, management's discussion and analysis relating thereto and the press releases regarding the annual and quarterly results;
- (xv) discussing with the external auditor any restrictions imposed on the scope of its work and any problems arising with respect to its auditing of the Corporation and its subsidiaries;
- (xvi) examining the recommendations that the internal auditors and the external auditor bring to the attention of the management of the Corporation and which they consider important with a view to improving accounting practices, internal controls and management information systems;
- (xvii) ensuring that procedures are implemented regarding the reception, the conservation and the processing of complaints received by the Corporation regarding accounting, internal accounting controls or auditing and regarding the confidential and anonymous delivery by any employees of the Corporation of concerns regarding debatable issues with respect to accounting or auditing;
- (xviii) examining and approving the hiring policies of the Corporation regarding the current and former associates and employees of the current external auditor and the former external auditor of the Corporation;
- (xix) ensuring the implementation of a process enabling management to identify the major risks the Corporation is facing and taking all necessary measures or requesting that such measures be taken to manage such risks; in this respect, making inquiries with respect to the insurance portfolio, the currency position, any pending and threatened litigation as well as any contingent liabilities of the Corporation and its subsidiaries, reviewing the level of provisions with respect to the Corporation's accounts and evaluating their adequacy;
- (xx) examining, in conjunction with management and external auditor, any new financial or regulatory requirements that could affect the presentation of the Corporation's financial information;
- (xxi) notifying the Board of Directors of the Corporation of any conflict between the external auditor and the management of the Corporation which the Committee did not settle within a reasonable time period;
- (xxii) in order to allow it to fulfill the obligations mentioned hereinabove, the Audit Committee shall have unlimited access, at any time, directly or through duly appointed representatives, to the pertinent registers and accounting systems of the Corporation, to its external auditor, to its internal auditors, to its accounting staff and management staff and to any independent legal counsel or other counsel deemed appropriate by the Committee and has the authority to fix their remuneration for such services. The external auditor as well as the internal auditors of the Corporation and the management staff shall also have unlimited access to the Audit Committee; and

(xxiii) meeting privately on a regular basis with the internal auditors and the external auditor, without management being present, to discuss the management of the Corporation's financial affairs and internal controls.

The Audit Committee reports to the Board of Directors after every Committee meeting.