

Consolidated financial statements of

QUEBECOR INC. AND ITS SUBSIDIARIES

Years ended December 31, 2008 and 2007

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

Management's responsibility for financial statements

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Financial statements

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MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Quebecor Inc. and its subsidiaries are the responsibility of management and have been approved by the Board of Directors of Quebecor Inc.

These consolidated financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles and include amounts that are based on best estimates and judgments.

The management of the Company and of its subsidiaries, in furtherance of the integrity and objectivity of the data in the consolidated financial statements, has developed and maintains internal accounting control systems and supports a program of internal audit. Management believes that these internal accounting control systems provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements and that assets are properly accounted for and safeguarded, and that the preparation and presentation of other financial information are consistent with the consolidated financial statements.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Committee, consisting solely of outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee meets with the Company's management, internal auditors and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and formulates the appropriate recommendations to the Board of Directors. The auditor appointed by the shareholders has full access to the Audit Committee, with or without management being present.

These consolidated financial statements have been audited by the auditor appointed by the shareholders and its report is presented hereafter.



Pierre Karl Péladeau
President and Chief Executive Officer



Louis Morin
Vice President and Chief Financial Officer

Montréal, Canada

February 24, 2009

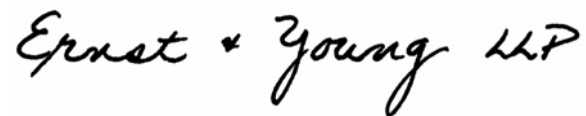
AUDITORS' REPORT TO THE SHAREHOLDERS OF QUEBECOR INC.

We have audited the consolidated balance sheet of Quebecor Inc. and its subsidiaries as of December 31, 2008 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Quebecor Inc. and its subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for the year ended December 31, 2008, in accordance with Canadian generally accepted accounting principles.

The comparative information for 2007, prior to adjustments to reflect discontinued operations as described in note 2 to the financial statements, was audited by other auditors, who expressed an unqualified opinion on these statements in their report dated May 8, 2008.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Chartered Accountants

Montréal, Canada

February 24, 2009

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2008 and 2007
(in millions of Canadian dollars, except earnings per share data)

	2008	2007
Revenues	\$ 3,730.1	\$ 3,365.9
Cost of sales and selling and administrative expenses	2,609.1	2,416.6
Amortization	320.0	291.0
Financial expenses (note 3)	299.1	253.3
Gain on valuation and translation of financial instruments (note 4)	(17.8)	(137.0)
Restructuring of operations, impairment of assets and other special items (note 5)	54.6	11.2
Loss on debt refinancing (note 6)	–	1.0
Impairment of goodwill and intangible assets (note 7)	671.2	5.4
(Loss) income before income taxes and non-controlling interest	(206.1)	524.4
Income taxes (note 9)	139.9	91.5
	(346.0)	432.9
Non-controlling interest (note 21)	150.0	(160.3)
(Loss) income from continuing operations	(196.0)	272.6
Income (loss) from discontinued operations (note 2)	383.3	(1,241.8)
Net income (loss)	\$ 187.3	\$ (969.2)
Earnings per share (note 10)		
Basic		
From continuing operations	\$ (3.05)	\$ 4.24
From discontinued operations	5.96	(19.31)
Net income (loss)	2.91	(15.07)
Diluted		
From continuing operations	\$ (3.05)	\$ 4.19
From discontinued operations	5.96	(19.31)
Net income (loss)	2.91	(15.12)
Weighted average number of shares outstanding (in millions)	64.3	64.3
Weighted average number of diluted shares (in millions)	64.4	64.3

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

	2008	2007
Net income (loss)	\$ 187.3	\$ (969.2)
Other comprehensive income (loss), net of income taxes and non-controlling interest (note 25):		
Unrealized gain (loss) on translation of net investments in foreign operations	3.1	(1.0)
(Loss) gain on valuation of derivative financial instruments	(35.3)	26.3
Other comprehensive loss from discontinued operations	-	(124.8)
Reclassification to income of other comprehensive loss related to discontinued operations (note 2)	326.5	3.4
	294.3	(96.1)
Comprehensive income (loss)	\$ 481.6	\$ (1,065.3)

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

	Capital stock	Retained earnings	Accumulated other comprehensive income (loss) (note 24)	Total shareholders' equity
Balance as of December 31, 2006	\$ 346.6	\$ 1,385.9	\$ (225.7)	\$ 1,506.8
Net loss	–	(969.2)	–	(969.2)
Discontinued operations-				
Redemption of convertible notes	–	8.3	–	8.3
Dividends	–	(12.9)	–	(12.9)
Other comprehensive loss, net of income taxes and non-controlling interest	–	–	(96.1)	(96.1)
Balance as of December 31, 2007	346.6	412.1	(321.8)	436.9
Cumulative effect of changes in accounting policies (note 1(w)(i))	–	(20.6)	–	(20.6)
Net income	–	187.3	–	187.3
Dividends	–	(12.9)	–	(12.9)
Other comprehensive income, net of income taxes and non-controlling interest	–	–	294.3	294.3
Balance as of December 31, 2008	\$ 346.6	\$ 565.9	\$ (27.5)	\$ 885.0

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

	2008	2007
Cash flows related to operating activities		
(Loss) income from continuing operations	\$ (196.0)	\$ 272.6
Adjustments for:		
Amortization of property, plant and equipment	295.7	276.0
Amortization of intangible assets and deferred charges	24.3	15.0
Gain on valuation and translation of financial instruments (note 4)	(17.8)	(137.0)
Impairment of property, plant and equipment (note 5(a))	19.1	–
Impairment of goodwill and intangible assets (note 7)	671.2	5.4
Loss on debt refinancing (note 6)	–	1.0
Amortization of financing costs and long-term debt discount (note 3)	9.3	4.9
Future income taxes (note 9)	127.2	76.3
Non-controlling interest	(150.0)	160.3
Other	(0.3)	6.6
	782.7	681.1
Net change in non-cash balances related to operating activities	(27.5)	51.4
Cash flows provided by continuing operating activities	755.2	732.5
Cash flows provided by discontinued operating activities	20.5	106.7
Cash flows provided by operating activities	775.7	839.2
Cash flows related to investing activities		
Acquisitions of property, plant and equipment	(541.3)	(492.8)
Business acquisitions, net of cash and cash equivalents (note 8)	(146.7)	(438.6)
Acquisitions of intangible assets (note 14)	(567.1)	–
(Increase) decrease in cash and cash equivalents in trust	(0.1)	2.8
Other	2.1	15.8
Cash flows used in continuing investing activities	(1,253.1)	(912.8)
Cash flows used in discontinued investing activities and cash and cash equivalents of Quebecor World Inc. at date of deconsolidation	(117.7)	(230.7)
Cash flows used in investing activities	(1,370.8)	(1,143.5)
Cash flows related to financing activities		
Net decrease in bank indebtedness	(4.6)	(6.9)
Net borrowings (repayments) under revolving and bridge bank facilities	106.2	(105.8)
Issuance of long-term debt, net of financing fees	466.7	789.3
Repayments of long-term debt and unwinding of hedging contracts	(25.7)	(306.7)
Repayment of the Additional Amount payable (note 17)	–	(127.2)
Dividends	(12.9)	(12.9)
Dividends paid to non-controlling shareholders	(32.4)	(53.9)
Other	2.6	(3.2)
Cash flows provided by continuing financing activities	499.9	172.7
Cash flows provided by discontinued financing activities	37.3	265.1
Cash flows provided by financing activities	537.2	437.8
Net (decrease) increase in cash and cash equivalents	(57.9)	133.5
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	1.4	(101.7)
Cash and cash equivalents at beginning of year	66.5	34.7
Cash and cash equivalents at end of year	\$ 10.0	\$ 66.5

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

	2008	2007
Additional information on the consolidated statements of cash flows related to continuing operations		
Cash and cash equivalents at beginning of year	\$ 6.6	\$ 13.9
Net increase (decrease) in cash and cash equivalents	2.0	(7.6)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	1.4	0.3
Cash and cash equivalents at end of year	\$ 10.0	\$ 6.6
Cash and cash equivalents consist of:		
Cash	\$ 10.0	\$ 6.6
Cash equivalents	-	-
	\$ 10.0	\$ 6.6
Changes in non-cash balances related to operations (net of effect of business acquisitions and disposals):		
Accounts receivable	\$ 24.1	\$ (47.8)
Inventories and investments in televisual products and movies	(26.0)	(6.4)
Accounts payable and accrued charges	87.0	44.4
Stock-based compensation	(114.0)	57.4
Other	1.4	3.8
	\$ (27.5)	\$ 51.4
Cash interest payments	\$ 299.1	\$ 270.4
Cash income taxes payments (net of refunds)	24.4	(1.2)

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007
(in millions of Canadian dollars)

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 10.0	\$ 6.6
Cash and cash equivalents in trust (note 19)	5.3	5.2
Accounts receivable (note 11)	484.6	504.0
Income taxes	9.4	10.6
Inventories and investments in televisual products and movies (note 12)	189.3	169.0
Prepaid expenses	31.5	32.9
Future income taxes (note 9)	115.2	195.6
Current assets related to discontinued operations (note 2)	-	1,513.3
	845.3	2,437.2
Property, plant and equipment (note 13)	2,392.4	2,155.4
Future income taxes (note 9)	12.3	54.1
Derivative financial instruments (note 28)	317.9	0.2
Intangible assets (note 14)	858.6	334.4
Other assets (note 15)	115.5	146.8
Goodwill (note 16)	3,516.7	4,081.3
Long-term assets related to discontinued operations (note 2)	-	2,564.5
	\$ 8,058.7	\$ 11,773.9

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)

December 31, 2008 and 2007
(in millions of Canadian dollars)

	2008	2007
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	\$ 12.3	\$ 16.9
Accounts payable and accrued charges	788.6	767.8
Deferred revenue	224.0	202.7
Income taxes	9.8	19.2
Current portion of long-term debt (note 18)	42.3	24.7
Current liabilities related to discontinued operations (note 2)	-	2,557.5
	1,077.0	3,588.8
Long-term debt (note 18)	4,407.1	3,105.8
Exchangeable debentures (note 19)	2.1	79.4
Derivative financial instruments (note 28)	117.3	538.7
Other liabilities (note 20)	114.9	130.6
Future income taxes (note 9)	469.6	385.2
Non-controlling interest (note 21)	985.7	1,263.7
Long-term liabilities and non-controlling interest related to discontinued operations (note 2)	-	2,244.8
Shareholders' equity		
Capital stock (note 22)	346.6	346.6
Retained earnings	565.9	412.1
Accumulated other comprehensive loss (note 24)	(27.5)	(321.8)
	885.0	436.9
Commitments and contingencies (note 26)		
Guarantees (note 27)		
	\$ 8,058.7	\$ 11,773.9

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors,



Jean Neveu, Chairman of the Board



Jean La Couture, Director

QUEBECOR INC. AND ITS SUBSIDIARIES

SEGMENTED INFORMATION

Years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

Quebecor Inc. (the "Company") is a holding company with a 54.7% interest in Quebecor Media Inc., which is engaged, through its subsidiaries, in the following industry segments: Cable, Newspapers, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications. The Cable segment offers television distribution, Internet, business solutions, telephony and wireless services in Canada and operates in the rental of digital video discs ("DVD" units) and games. The Newspapers segment includes the printing, publishing and distribution of daily newspapers, weekly newspapers and directories in Canada and operates Internet sites in Canada, including French- and English-language portals and specialized sites. The Broadcasting segment operates French- and English-language general-interest television networks, specialized television networks, magazine publishing and movie distribution businesses in Canada. The Leisure and Entertainment segment combines book publishing and distribution, retail sales of CDs, books, videos, musical instruments and magazines in Canada, online sales of downloadable music and music production and distribution in Canada. The Interactive Technologies and Communications segment offers e-commerce solutions through a combination of strategies, technology integration, IP solutions and creativity on the Internet and is active in Canada, the United States, Europe and Asia.

These segments are managed separately since they all require specific market strategies. The Company assesses the performance of each segment based on income from continuing operations before amortization, financial expenses, gain on valuation and translation of financial instruments, restructuring of operations, impairment of assets and other special items, loss on debt refinancing, impairment of goodwill and intangible assets, income taxes and non-controlling interest.

During the fourth quarter of 2008, the reporting structure was changed to integrate the Newspapers and the Internet/Portals segments under the same reporting segment. Accordingly, prior period figures in the Company's segmented financial information were reclassified to reflect this change.

The accounting policies of each segment are the same as the accounting policies used for the consolidated financial statements.

Segment income includes income from sales to third parties and inter-segment sales. Transactions between segments are measured at exchange amounts between the parties.

INDUSTRY SEGMENTS

	2008	2007
Revenues		
Cable	\$ 1,804.2	\$ 1,552.6
Newspapers	1,181.4	1,073.9
Broadcasting	436.7	415.5
Leisure and Entertainment	301.9	329.8
Interactive Technologies and Communications	89.6	82.0
Inter-segment	(83.7)	(87.9)
	\$ 3,730.1	\$ 3,365.9

QUEBECOR INC. AND ITS SUBSIDIARIES

SEGMENTED INFORMATION (continued)

Years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

INDUSTRY SEGMENTS (continued)

	2008	2007
Income from continuing operations before amortization, financial expenses, gain on valuation and translation of financial instruments, restructuring of operations, impairment of assets and other special items, loss on debt refinancing, impairment of goodwill and intangible assets, income taxes and non-controlling interest		
Cable	\$ 797.2	\$ 642.7
Newspapers	227.1	232.8
Broadcasting	66.3	59.4
Leisure and Entertainment	20.5	27.0
Interactive Technologies and Communications	5.1	2.8
Head Office	4.8	(15.4)
	\$ 1,121.0	\$ 949.3

	2008	2007
Amortization		
Cable	\$ 227.6	\$ 219.4
Newspapers	62.1	46.3
Broadcasting	14.4	13.2
Leisure and Entertainment	9.6	7.9
Interactive Technologies and Communications	4.3	3.0
Head Office	2.0	1.2
	\$ 320.0	\$ 291.0

QUEBECOR INC. AND ITS SUBSIDIARIES

SEGMENTED INFORMATION (continued)

Years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

INDUSTRY SEGMENTS (continued)

	2008	2007
Additions to property, plant and equipment		
Cable	\$ 404.4	\$ 330.1
Newspapers	86.8	116.0
Broadcasting	21.9	16.2
Leisure and Entertainment	9.1	2.9
Interactive Technologies and Communications	3.6	3.3
Head Office	15.5	24.3
	\$ 541.3	\$ 492.8
	2008	2007
Assets related to continuing operations		
Cable	\$ 5,275.9	\$ 4,460.1
Newspapers	1,788.4	2,426.8
Broadcasting	439.1	407.9
Leisure and Entertainment	189.0	176.9
Interactive Technologies and Communications	105.1	85.9
Head Office	261.2	138.5
	\$ 8,058.7	\$ 7,696.1

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

Quebecor Inc. is incorporated under the laws of Québec.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Quebecor Inc. and its subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

Certain comparative figures for the year 2007 have been reclassified to conform to the presentation adopted for the year ended December 31, 2008.

(b) Changes in accounting policies

On January 1, 2008, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Section 3031, *Inventories*, which provides more extensive guidance on the recognition and measurement of inventories and related disclosures. The new accounting policy is described in note 1(l). On adoption of this new section, in accordance with the transition rules, the Company has adjusted opening retained earnings as if the new rules had always been applied in the past, without restating comparative figures for prior years. While the adoption of this new section impacted the Company's discontinued operations related to Quebecor World Inc. (note 1(w)(i)), it had no impact on the Company's continuing operations.

On January 1, 2008, the Company adopted the CICA Section 1535, *Capital Disclosures*, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections relate to disclosures and presentation of information and did not affect the consolidated financial results. All the disclosure requirements related to these new accounting standards are presented in note 28.

(c) Changes in accounting estimates

The Company estimates the fair value of its derivative financial instruments using a discounted cash flow valuation technique, since no quoted market prices exist for such instruments. In the second quarter of 2008, the Company made some amendments to the technique used in measuring the fair value of its derivatives in a liability position and in an asset position. These amendments change the way the Company factors counterparty and its own non-performance risk in its valuation technique, considering market development and recent accounting guidelines. The cumulative impact of these changes as of December 31, 2008 is a decrease of the fair value of these derivatives by \$22.7 million, an increase of the gain on valuation and translation of financial instruments by \$4.9 million, and a decrease of other comprehensive income by \$27.6 million (before income taxes and non-controlling interest).

(d) Foreign currency translation

Financial statements of self-sustaining foreign operations are translated using the rate in effect at the balance sheet date for asset and liability items, and using the average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in other comprehensive income and are reclassified in income only when a reduction in the investment in these foreign operations is realized.

Foreign currency transactions are translated using the temporal method. Translation gains and losses are included in financial expenses or in gain or loss on valuation and translation of financial instruments, unless hedge accounting is used.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the determination of pension and postretirement benefit costs, key economic assumptions used in determining the allowance for doubtful accounts, the provision for obsolescence, the allowance for sales returns, legal contingencies, the costs for restructuring of operations, the useful life of assets for amortization and evaluation of expected future cash flows to be generated by those assets, the determination of the implied fair value of goodwill and the fair value of assets and liabilities for business purchase price allocation purposes and goodwill impairment test purposes, fair value of long-lived assets for purposes of the impairment of long-lived assets, fair value of broadcasting licences and mastheads for impairment test purposes, provisions for income taxes and determination of future income tax assets and liabilities, and the determination of fair value of financial instruments and derivative instruments. Actual results could differ from these estimates.

(f) Impairment of long-lived assets

The Company reviews long-lived assets with definite useful lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss is recognized when the carrying amount of an asset or a group of assets held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. Measurement of an impairment loss is based on the amount by which the carrying amount of a group of assets exceeds its fair value. Fair value is determined using quoted market prices, when available, or using accepted valuation techniques such as the discounted future cash flows method.

(g) Revenue recognition

The Company recognizes its operating revenues when the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the seller's price to the buyer is fixed or determinable; and
- the collection of the sale is reasonably assured.

The portion of revenue that is unearned is recorded under "Deferred revenue" when customers are invoiced.

Revenue recognition policies for each of the Company's main segments are as follows:

Cable segment

The Cable segment provides services under arrangements with multiple deliverables, for which there are two separate accounting units: one for subscriber services (cable television, Internet, IP telephony or wireless telephone, including connecting fees) and the other for equipment sales to subscribers. Components of multiple deliverable arrangements are separately accounted for, provided the delivered elements have stand-alone value to the customer and the fair value of any undelivered elements can be objectively and reliably determined.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Revenue recognition (continued)

Cable segment (continued)

Cable connection fee revenues of the Cable segment are deferred and recognized as revenues over the estimated average period that subscribers are expected to remain connected to the network. The incremental and direct costs related to cable connection fees, in an amount not exceeding the revenue, are deferred and recognized as an operating expense over the same period. The excess of these costs over the related revenues is recognized immediately in income. Operating revenues from cable and other services, such as Internet access, IP telephony and wireless telephone, are recognized when services are rendered. Revenues from equipment sales to subscribers and their costs are recognized in income when the equipment is delivered and, in the case of wireless phones, revenues from equipment sales are recognized when the phone is delivered and activated. Revenues from video rentals are recorded as revenue when services are provided. Promotion offers related to subscriber services are accounted for as a reduction in the related service revenue over the period of performance of the service contract. Promotion offers related to equipment, including wireless telephones, are accounted for as a reduction in the related equipment sales when the equipment is delivered. Operating revenues related to service contracts are recognized in income over the life of the specific contracts on a straight-line basis over the period in which the services are provided.

Newspapers segment

Revenues of the Newspapers segment derived from circulation and advertising are recognized when the publication is delivered, net of provisions for estimated returns based on the segment's historical rate of returns. Revenues from the distribution of publications and products are recognized upon delivery, net of provisions for estimated returns.

Broadcasting segment

Revenues of the Broadcasting segment, derived from the sale of advertising airtime, are recognized when the advertisement has been broadcast. Revenues derived from subscriptions to specialty television channels are recognized on a monthly basis at the time service is rendered. Revenues derived from circulation and advertising from publishing activities are recognized when the publication is delivered, net of provisions for estimated returns based on the segment's historical rate of returns.

Revenues derived from the distribution of televisual products and movies and from television program rights are recognized when the customer can begin exploitation, exhibition or sale, and the licence period of the arrangement has begun.

Theatrical revenues are recognized over the period of presentation and are based on a percentage of revenues generated by movie theatres. Revenues generated from the distribution of DVDs are recognized at the time of their delivery, less a provision for estimated returns, or are accounted for based on a percentage of retail sales.

Leisure and Entertainment segment

Revenues derived from retail stores, book publishing and distribution activities are recognized on delivery of the products, net of provisions for estimated returns based on the segment's historical rate of returns.

(h) Barter transactions

In the normal course of operations, the Newspapers and the Broadcasting segments offer advertising in exchange for goods and services. Revenues thus earned and expenses incurred are accounted for on the basis of the fair value of the goods and services obtained.

For the year ended December 31, 2008, the Company recorded \$19.2 million of barter advertising (\$19.0 million in 2007).

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments

Classification, recognition and measurement

Financial instruments are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities, and measurement in subsequent periods depends on their classification. The Company has classified its cash and cash equivalents, cash and cash equivalents in trust and bank indebtedness as held-for-trading. Accounts receivable, loans and other long-term receivables included in other assets have been classified as loans and receivables. All portfolio investments included in other assets have been classified as available-for-sale, with the exception of the portfolio investment in AbitibiBowater Canada Inc., which has been designated as held-for-trading. All of the Company's financial liabilities have been classified as other liabilities, with the exception of the exchangeable debentures, which have been classified as held-for-trading.

Financial instruments held-for-trading are measured at fair value with changes recognized in income as gain or loss on valuation and translation of financial instruments. Available-for-sale portfolio investments are measured at fair value or at cost in the case of equity investments that do not have a quoted market price in an active market. Changes in fair value are recorded in other comprehensive income. Financial assets classified as loans and receivables and other financial liabilities are measured at amortized cost, using the effective interest rate method of amortization.

Financing fees related to long-term financing are capitalized in reduction of long-term debt and amortized using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Company uses various derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. The Company does not hold or use any derivative financial instruments for trading purposes. Under hedge accounting, the Company documents all hedging relationships between hedging items and hedged items, as well as its strategy for using hedges and its risk-management objective. It also designates its derivative financial instruments as either fair value hedges or cash flow hedges. The Company assesses the effectiveness of derivative financial instruments when the hedge is put in place and on an ongoing basis.

The Company enters into the following types of derivative financial instruments:

- The Company uses foreign exchange forward contracts to hedge the foreign currency rate exposure on (i) anticipated equipment or inventory purchases in a foreign currency and (ii) principal payments on long-term debt in a foreign currency. These latest foreign exchange forward contracts are designated as cash flow hedges.
- The Company uses cross-currency interest rate swaps to hedge (i) the foreign currency rate exposure on interest and principal payments on foreign currency denominated debt and/or (ii) the fair value exposure on certain debt resulting from changes in interest rates. The cross-currency interest rate swaps that set all future interest and principal payments on U.S.-denominated debt in fixed Canadian dollars are designated as cash flow hedges. The Company's cross-currency interest rate swaps that set all future interest and principal payments on U.S.-denominated debt in fixed Canadian dollars, in addition to converting the interest rate from a fixed rate to a floating rate, or converting a floating rate index to another floating rate index, are designated as fair value hedges.
- The Company uses interest rate swaps to manage the fair value exposure on certain debt resulting from changes in interest rates. These swap agreements require a periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. These interest rate swaps are designated as fair value hedges when they convert the interest rate from a fixed rate to a floating rate, or as cash flow hedges when they convert the interest rate from a floating rate to a fixed rate.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

Under hedge accounting, the Company applies the following accounting policies:

- For derivative financial instruments designated as fair value hedges, changes in the fair value of the hedging derivative recorded in income are substantially offset by changes in the fair value of the hedged item to the extent that the hedging relationship is effective. When a fair value hedge is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged item are amortized to income over the remaining term of the original hedging relationship.
- For derivative financial instruments designated as cash flow hedges, the effective portion of a hedge is reported in other comprehensive income until it is recognized in income during the same period in which the hedged item affects income, while the ineffective portion is immediately recognized in the consolidated statements of income. When a cash flow hedge is discontinued, the amounts previously recognized in accumulated other comprehensive income are reclassified to income when the variability in the cash flows of the hedged item affects income.

Any change in the fair value of these derivative financial instruments recorded in income is included in gain or loss on valuation and translation of financial instruments. Interest expense on hedged long-term debt is reported at the hedged interest and foreign currency rates.

Derivative financial instruments that are ineffective or that are not designated as hedges, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, are reported on a mark-to-market basis in the consolidated balance sheets. Any change in the fair value of these derivative financial instruments is recorded in the consolidated statements of income as gain or loss on valuation and translation of financial instruments.

(j) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are recorded at fair value. As of December 31, 2008, these highly liquid investments consisted mainly of Bankers' acceptances.

(k) Tax credits and government assistance

The Broadcasting and the Leisure and Entertainment segments have access to several government programs designed to support production and distribution of televisual products and movies, as well as music products, magazine and book publishing in Canada. The financial assistance for production is accounted for as a reduction in expenses. The financial assistance for broadcast rights is applied against investments in televisual products or used directly to reduce operating expenses during the year. The financial assistance for magazine and book publishing is accounted for in revenues when the conditions of the government programs are met.

The Interactive Technologies and Communications and the Leisure and Entertainment segments receive tax credits mainly related to their research and development activities and publishing activities. These tax credits are accounted for as a reduction in related costs, whether they are capitalized or expensed, in the year the expenses are incurred, as long as there is reasonable assurance of their realization.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Inventories

Inventories are valued at the lower of cost, determined by the first-in, first-out method, or the weighted average cost method, and net realizable value. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Work in progress is valued at the pro-rata billing value of the work completed.

(m) Investments in televisual products and movies

(i) Programs produced and productions in progress

Programs produced and productions in progress related to broadcasting activities are accounted for at the lower of cost and net realizable value. Cost includes direct charges for goods and services and the share of labour and general expenses related to each production. The cost of each program is charged to cost of sales when the program is broadcast.

(ii) Broadcast rights

Broadcast rights are essentially contractual rights allowing the limited or unlimited broadcast of televisual products or movies. The Broadcasting segment records the broadcast rights acquired as an asset and the obligations incurred under a licence agreement as a liability when the broadcast licence period begins and all of the following conditions have been met: (a) the cost of each program, movies or series is known or can be reasonably determined; (b) the programs, movies or series have been accepted in accordance with the conditions of the broadcast licence agreement; (c) the programs, movies or series are available for first showing or telecast.

Amounts paid for broadcast rights before all of the above conditions are met are recorded as prepaid broadcast rights.

Broadcast rights are classified as short or long term, based on management's estimate of the broadcast period. These rights are amortized when televisual products and movies are broadcast over the contract period, using an amortization method based on future revenues and the estimated number of showings. This amortization is recorded in cost of sales and selling and administrative expenses. Broadcast rights are valued at the lower of unamortized cost or net realizable value. Broadcast rights payable are classified as current or long-term liabilities based on the payment terms included in the licence.

(iii) Distribution rights

Distribution rights relate to the distribution of televisual products and movies. Costs include distribution rights for televisual products and movies and other operating costs incurred that generate future economic benefits. The net realizable value of distribution rights represents the Broadcasting segment's share of the future estimated revenues to be derived, net of future costs. The Broadcasting segment records an asset and a liability for the distribution rights and obligations incurred under a licence agreement when (a) the cost of the licence is known or can be reasonably estimated, (b) the televisual product and movie has been accepted in accordance with the conditions of the licence agreement, and (c) the televisual product or movie is available for distribution.

Amounts paid for distribution rights before all of the above conditions are met are recorded as prepaid distribution rights. Distribution rights are amortized using the individual film forecast computation method based on actual revenues realized over total expected revenues.

Estimates of revenues related to the distribution of television products and movies are examined periodically by Broadcasting segment management and revised as necessary. The value of unamortized costs is reduced to net realizable value, as necessary, based on this assessment. The amortization of distribution rights is recorded in cost of sales and selling and administrative expenses.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in income in the period that includes the substantive enactment date. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

In the course of the Company's operations, there are a number of uncertain tax positions due to the complexity of certain transactions and due to the fact that related tax interpretations and legislation are continually changing. When a tax position is uncertain, the Company recognizes an income tax benefit or reduces an income tax liability only when it is probable that the tax benefit will be realized in the future or that the income tax liability is no longer probable.

(o) Long-term investments

Investments in companies subject to significant influence are accounted for by the equity method. All portfolio investments are classified as available-for-sale, with the exception of the portfolio investment in AbitibiBowater Canada Inc., which is classified as held-for-trading and is accounted for as described in note 1(i). Carrying values of investments are reduced to estimated fair values if there is other than a temporary decline in the value of the investment.

(p) Property, plant and equipment

Property, plant and equipment are stated at cost, net of government grants and investment tax credits. Cost represents acquisition or construction costs, including preparation, installation and testing costs and interest incurred with respect to the property, plant and equipment until they are ready for commercial production. In the case of projects to construct and connect receiving and distribution networks of cable and wireless, the cost includes equipment, direct labour and direct overhead costs. Projects under development may also include advances for equipment under construction. Expenditures for additions, improvements and replacements are capitalized, whereas maintenance and repair expenditures are expensed as incurred.

Amortization is principally calculated on a straight-line basis over the following estimated useful lives:

Assets	Estimated useful life
Buildings	25 to 40 years
Machinery and equipment	3 to 20 years
Receiving, distribution and telecommunication networks	3 to 20 years

Leasehold improvements are amortized over the term of the lease.

The Company does not record an asset retirement obligation in connection with its cable distribution networks. The Company expects to renew all of its agreements with utility companies to access their support structures in the future, making the retirement date undeterminable for these assets.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Goodwill and other intangible assets

Goodwill and intangible assets with indefinite useful lives are not amortized.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared to its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

Intangible assets acquired, such as broadcasting licences and mastheads that have an indefinite useful life, are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset to its fair value, and an impairment loss is recognized in the consolidated statements of income for the excess, if any.

The cost of the spectrum licences for Advanced Wireless Services ("AWS") includes acquisition costs and interest incurred during the development period of the wireless network project, until the network is ready for commercial service.

Other intangible assets with definite useful lives, such as customer relationships and non-competition agreements, are amortized over their useful life using the straight-line method over a 3 to 10-year period.

(r) Exchangeable debentures

The carrying amount of the exchangeable debentures is based on the market price, at the balance sheet date, of the underlying 12.5 million Subordinate Shares of Quebecor World Inc. and the 2.8 million Common Shares of AbitibiBowater Canada Inc. (the "underlying shares") that would have satisfied the debentures' liability had the Company elected to settle the debentures with the underlying shares as of December 31, 2008. At maturity, each exchangeable debenture is exchangeable for the underlying shares based on a fixed conversion factor, determined at the date the debentures were issued. The Company has the option of delivering shares, cash equivalents based on the market price of the underlying shares at the time of exchange, or a combination of cash and shares.

The Company does not use hedge accounting to account for exchangeable debentures, Series Abitibi, or the portfolio investment in AbitibiBowater Canada Inc. Changes in the fair value of these financial instruments, designated as held-for-trading, are offset concurrently in income.

Changes in the fair value of exchangeable debentures, Series 2001, are recorded directly in the consolidated statements of income since these debentures are classified as held-for-trading.

(s) Stock-based compensation

The compensation cost attributable to stock-based awards to employees that call for settlement in cash or other assets at the option of the employee is recognized in operating expenses over the vesting period. Changes in the intrinsic value of the stock option awards between the grant date and the measurement date result in a change in the liability and compensation cost.

The deferred stock unit ("DSU") plan of the Company is recognized as a compensation expense and accrued as liabilities as DSUs are awarded. The DSUs are re-measured at each reporting period until settlement, using the share trading price of the Company and its subsidiaries.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Pension plans and postretirement benefits

(i) Pension plans

The Company offers defined benefit pension plans and defined contribution pension plans to some of its employees. Defined benefit pension plan costs are determined using actuarial methods and are funded through contributions determined in accordance with the projected benefit method pro rated on service, which incorporates management's best estimate of future salary levels, other cost escalations, retirement ages of employees and other actuarial factors. Pension plan expense is charged to operations and includes:

- Cost of pension plan benefits provided in exchange for employee services rendered during the year.
- Amortization of the initial net transition asset, prior service costs and amendments on a straight-line basis over the expected average remaining service period of the active employee group covered by the plans.
- Interest cost of pension plan obligations, expected return on pension fund assets, and amortization of cumulative unrecognized net actuarial gains and losses, in excess of 10.0% of the greater of the accrued benefit obligation, or the fair value of plan assets, over the expected average remaining 13-year service period of the active employee group covered by the plans.

When an event gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement.

Actuarial gains and losses arise from the difference between the actual rate of return on plan assets for a period and the expected rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation.

The Company uses the fair value of plan assets as of the end of the year to evaluate plan assets for the purpose of calculating the expected return on plan assets.

(ii) Postretirement benefits

The Company offers health, life and dental insurance plans to some of its retired employees. The cost of postretirement benefits is determined using actuarial methods and the related benefits are funded by the Company as they become due. The Company amortizes the cumulative unrecognized net actuarial gains and losses, in excess of 10.0% of the accrued benefit obligation, over the expected average remaining service life of the active employee group covered by the plans.

(u) Rates subject to CRTC regulation

The Cable segment's operations are subject to rate regulations on certain services based on geographical regions, mainly by the *Broadcasting Act* (Canada) and the *Telecommunications Act* (Canada), both managed by the Canadian Radio-television and Telecommunication Commission ("CRTC"). Accordingly, the Cable segment's operating revenues could be affected by changes in regulations or decisions made by this regulating body. The Company does not select accounting policies that differ from GAAP, even though the Company is subject to these regulations.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Future changes in accounting standards

In January 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which will replace Section 3062, *Goodwill and Other Intangible Assets*, and which results in the withdrawal of Section 3450, *Research and Development Costs* and Emerging Issues Committee ("EIC") Abstract 27, *Revenues and Expenditures During the Pre-operating Period*, and amendments to Accounting Guideline ("AcG") 11, *Enterprises in the Development Stage*. The new standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, as well as clarifying the application of the concept of matching revenues and expenses, whether those assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the effects of adopting this standard, although it does not expect the adoption will have a material impact on its consolidated financial statements.

(w) Accounting policies of Quebecor World Inc. – Discontinued operations

The following principal accounting policies were specific to Quebecor World Inc.'s operations which were consolidated in the Company's financial statements until January 21, 2008 (note 2):

(i) Changes in accounting policies

Following the adoption of Section 3031, *Inventories*, the following adjustments were recorded in the consolidated financial statements as of January 1, 2008:

- \$32.2 million decrease in inventories.
- \$7.0 million increase in property, plant and equipment.
- \$4.6 million decrease in future income tax liabilities.
- \$20.6 million decrease in retained earnings.

No portion of the adjustment on retained earnings was allocated to non-controlling shareholders of Common Shares of Quebecor World Inc. since their investment was reduced to zero in the consolidated balance sheet as of December 31, 2007, in accordance with Canadian GAAP.

(ii) Revenue recognition

Quebecor World Inc. offered its customers a wide variety of print and print-related services, which usually required that the specifics be agreed upon prior to undertaking the process. Substantially all of Quebecor World Inc.'s revenues were derived from commercial printing and related services under the magazine, retail, catalog, book and directory platforms.

Contract revenue was recognized using the proportional performance method on the basis of output at the pro-rata billing value of work completed. Contract revenues that did not meet the criteria for the proportional performance method were recorded when the agreed services were performed. Quebecor World Inc. also performed logistics and distribution services for the delivery of products related to print services for which the revenues were recognized once freight services were performed.

Revenue was presented in the consolidated statements of income net of rebates, discounts, and amortization of contract acquisition costs. Provisions for estimated losses, if any, were recognized in the period in which the loss was determinable.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Accounting policies of Quebecor World Inc. – Discontinued operations (continued)

(iii) Trade receivables

Transfers of trade receivables under asset securitization programs were recognized as sales when Quebecor World Inc. was deemed to have surrendered control over the trade receivable. Any gains or losses on the sale of trade receivables were calculated by comparing the carrying amount of the trade receivables sold to the sum of total proceeds on the sale and the fair value of the retained interest in such receivables on the date of transfer. The fair value of the retained interest approximated its carrying value, given the short-term nature of the associated cash flows. Costs, including gains or losses on sales of trade receivables, were recognized in income in the period incurred and included in cost of sales and selling and administrative expenses. When Quebecor World Inc. did not meet certain criteria of the *CICA Handbook AcG-12, Transfer of Receivables*, the transfer was recorded as secured financing.

(iv) Inventories

Work in progress of Quebecor World Inc. was measured at the pro-rata billing value for work completed as a result of print services for which revenues had been recognized under the proportional performance method. When the criteria had not been met to allow for revenue recognition, related work in progress was measured as direct costs were incurred.

(v) Property, plant and equipment

Legal obligations associated with site-restoration costs on the retirement of property were recognized in the period in which they were incurred. The obligations were initially measured at fair value and an equal amount was recorded to property, plant and equipment. Over time, the discounted asset retirement obligations accreted due to the increase in the fair value resulting from the passage of time. This accretion amount was charged to income. The initial costs were depreciated over the useful life of the related property or the remaining leasehold engagement, when applicable.

(vi) Contract acquisition costs

Contract acquisition costs consisted of cash payments, free services, or accruals related to amounts payable or credits owed to customers in connection with long-term agreements, and were generally amortized as reductions in revenue rateably over the related contract term or as related sales volume were recognized.

(vii) Stock-based compensation

Quebecor World Inc.'s stock option awards to employees were measured based on the fair value of the options at the grant date and a compensation expense was recognized over the vesting period of the options, with a corresponding increase to contributed surplus. When the stock options were exercised, capital stock was credited by the sum of the consideration paid, together with the related portion previously recorded to contributed surplus. In the case of the Quebecor World Inc. employee share purchase plans, the contribution paid by Quebecor World Inc. on behalf of its employees was considered a compensation expense.

(viii) Pension plans

Quebecor World Inc. used a market-related value as of the end of the year to evaluate plan assets for the purpose of calculating the expected return on plan assets. The market-related value was based on a combination of rigorous historical performance analyses and the forward-looking views of the financial markets, as indicated by the yield on long-term bonds and the price-to-earnings ratios of the major stock market indices.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Accounting policies of Quebecor World Inc. – Discontinued operations (continued)

(ix) Environmental expenditures

Environmental expenditures related to Quebecor World Inc.'s operations were expensed or capitalized as appropriate. Expenditures related to an existing condition caused by past operations that were not expected to contribute to current or future operations were expensed. Liabilities were recorded when environmental assessments and/or remedial efforts were probable, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, could be reasonably estimated.

2. DISCONTINUED OPERATIONS

On January 21, 2008, Quebecor World Inc. and its U.S. subsidiaries were granted creditor protection under the *Companies' Creditors Arrangement Act* in Canada. On the same date, its U.S. subsidiaries also filed a petition for creditor protection under Chapter 11 of the *United States Bankruptcy Code*. As of the date of these filings, the Company concluded that, based on Canadian GAAP, its control over Quebecor World Inc. was lost. Accordingly, the Company's investment in Quebecor World Inc. has no longer been consolidated beginning January 21, 2008. Quebecor Inc.'s investment in Quebecor World Inc. was classified as held-for-trading and its carrying value was valued at zero. Quebecor World Inc.'s activities were also considered as "Discontinued operations" in the consolidated financial statements of Quebecor Inc.

The results of Quebecor World Inc. were reclassified and disclosed in the consolidated statements of income as "Income (loss) from discontinued operations," while cash flows related to these operations were reclassified and disclosed in the consolidated statements of cash flows as "Cash flows (used in) provided by discontinued operations." In addition, assets and liabilities of Quebecor World Inc. as of December 31, 2007 were reclassified and disclosed in the consolidated balance sheet as "assets or liabilities related to discontinued operations."

As of January 21, 2008, the Company's consolidated balance sheet included a net assets deficiency of \$761.3 million, represented by the excess of the liabilities and non-controlling interest related to Quebecor World Inc. over Quebecor World Inc.'s assets. As of January 21, 2008, the Company also had an accumulated other comprehensive loss of \$326.5 million, net of income taxes, that was attributable to Quebecor World Inc., mainly comprised of translation losses on net investments in foreign operations.

The net assets deficiency and the accumulated comprehensive loss were reversed upon deconsolidation on January 21, 2008, generating a net gain of \$399.7 million, net of the \$35.1 million decrease in the income tax asset related to the investment in Quebecor World Inc., as presented below:

Reversal of net assets deficiency	\$	(761.3)
Reclassification to income of accumulated comprehensive loss		326.5
Changes in future income tax asset related to the Company's investment in Quebecor World Inc.		35.1
Net gain recognized upon deconsolidation	\$	(399.7)

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

2. DISCONTINUED OPERATIONS (continued)

The following table provides results from discontinued operations for the years ended December 31, 2008 and 2007:

	2008 ¹	2007
Quebecor World Inc.		
Revenues	\$ 317.6	\$ 6,094.2
Cost of sales and selling and administrative expenses	304.1	5,635.5
Amortization	18.8	337.3
Financial expenses	25.3	193.2
Restructuring of operations, impairment of assets and other special items	–	344.1
Loss on debt refinancing	–	56.1
Impairment of goodwill	–	2,049.4
Loss before undernoted items	(30.6)	(2,521.4)
Income taxes	(13.6)	(321.9)
Dividends on preferred shares, net of income taxes	0.7	32.5
Non-controlling interest	–	(987.3)
	(17.7)	(1,244.7)
Net gain on reversal of net assets deficiency and on reclassification to income of accumulated comprehensive loss, net of income taxes	(399.7)	–
Income (loss) from discontinued operations related to Quebecor World Inc.	382.0	(1,244.7)
Other discontinued operations		
Income from other discontinued operations	1.3	2.9
Income (loss) from discontinued operations	\$ 383.3	\$ (1,241.8)

¹ The year ended December 31, 2008 includes the results of Quebecor World Inc. for the first 21 days of the year.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

2. DISCONTINUED OPERATIONS (continued)

The following table provides information on the assets and liabilities related to discontinued operations as of December 31, 2007:

Current assets	
Cash and cash equivalents	\$ 59.9
Accounts receivable	1,010.8
Inventories	360.9
Other current assets	81.7
	<hr/> 1,513.3
Long-term assets	
Property, plant and equipment	1,965.7
Goodwill	335.7
Other long-term assets	263.1
	<hr/> 2,564.5
Current liabilities	
Bank indebtedness	(71.7)
Accounts payable, accrued charges and deferred revenue	(975.8)
Short-term secured financing and current portion of long-term debt	(1,457.2)
Other current liabilities	(52.8)
	<hr/> (2,557.5)
Long-term liabilities	
Long-term debt	(1,288.0)
Preferred shares	(175.0)
Other long-term liabilities	(481.8)
	<hr/> (1,944.8)
Non-controlling interest	<hr/> (300.0)
Net assets deficiency	<hr/> \$ (724.5) <hr/>

The following table provides a reconciliation of the net assets deficiency related to discontinued operations as of December 31, 2007 to the net assets deficiency as of January 21, 2008:

Net assets deficiency as of December 31, 2007	\$ (724.5)
Net loss of Quebecor World Inc. from January 1, 2008 to January 21, 2008	(17.7)
Cumulative effect of changes in Quebecor World Inc.'s accounting policy (note 1(w)(i))	(20.6)
Reversal of a related parties consolidation entry	1.5
Net assets deficiency as of January 21, 2008	<hr/> \$ (761.3) <hr/>

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

3. FINANCIAL EXPENSES

	2008	2007
Interest on long-term debt and exchangeable debentures	\$ 300.2	\$ 257.3
Amortization of financing costs and long-term debt discount	9.3	4.9
Other	2.4	(3.9)
	311.9	258.3
Interest capitalized to the cost of:		
Property, plant and equipment	(0.3)	(5.0)
Intangible assets	(12.5)	–
	(12.8)	(5.0)
	\$ 299.1	\$ 253.3

4. GAIN ON VALUATION AND TRANSLATION OF FINANCIAL INSTRUMENTS

	2008	2007
(Gain) loss on embedded derivatives and derivative financial instruments for which hedge accounting is not used	\$ (47.2)	\$ 44.3
Loss (gain) on foreign currency translation of financial instruments for which hedge accounting is not used	34.3	(34.8)
Loss (gain) on the ineffective portion of fair value hedges	16.6	(4.8)
Gain on revaluation of exchangeable debentures and a portfolio investment	(21.5)	(146.9)
Loss on revaluation of the Additional Amount payable	–	5.2
	\$ (17.8)	\$ (137.0)

5. RESTRUCTURING OF OPERATIONS, IMPAIRMENT OF ASSETS AND OTHER SPECIAL ITEMS

(a) Newspapers segment

Restructuring costs

The Newspapers segment has been currently facing a fundamental transformation underway in the newspaper industry in recent years, as well as a difficult economic environment affecting its advertising revenues. In this context, in December 2008, the Company initiated a workforce-reduction plan as part of a major restructuring of its Newspapers segment operations across Canada. The Company has also implemented the following restructuring initiatives in the Newspapers segment's operations since 2006:

- Transfer of the printing of several publications to two new printing facilities in Mirabel and Islington, as well as the consolidation of other printing activities.
- Implementation of voluntary and involuntary workforce-reduction programs.
- Introduction of new content management technologies and streamlining of the news gathering process.

As a result of these initiatives, the Newspapers segment recorded restructuring costs of \$33.3 million in 2008 (\$9.9 million in 2007), mainly related to the elimination of positions at several publications.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

5. RESTRUCTURING OF OPERATIONS, IMPAIRMENT OF ASSETS AND OTHER SPECIAL ITEMS (continued)

- (a) Newspapers segment (continued)

Continuity of restructuring costs payable

	2008	2007
Balance at beginning of year	\$ 6.0	\$ 12.7
Workforce-reduction initiatives	33.3	9.9
Payments	(9.6)	(16.6)
Balance at end of year	\$ 29.7	\$ 6.0

Impairment of assets

In the fourth quarter of 2008, the Company concluded that impairment tests were triggered by the restructuring initiatives of December 2008 and the loss of an important printing contract. The Company also concluded that certain long-lived assets were impaired. As a result, an impairment charge of \$19.1 million was recorded related to certain buildings, equipment and machinery.

- (b) Other segments

In 2008, other segments recorded restructuring costs of \$2.3 million (\$1.7 million in 2007).

- (c) Other special items

In 2008, the Company recorded a gain on the sale of businesses and other special items of \$0.1 million (\$0.4 million in 2007).

6. LOSS ON DEBT REFINANCING

On October 5, 2007, Quebecor Media Inc. issued new Senior Notes (note 18 (vii)) for net proceeds of \$672.2 million (including accrued interest of \$16.6 million and before financing fees of \$9.8 million). Quebecor Media used these proceeds and cash on hand to (i) repay in full \$420.0 million of advances under Quebecor Media Inc.'s Senior Bridge Credit Facility (bearing interest at Canadian prime rate or Bankers' acceptance rate plus an applicable margin) entered into to finance the acquisition of Osprey Media Publishing Inc. in August 2007 (note 8) and to terminate this credit facility on October 9, 2007; as well as (ii) repay the Sun Media Corporation term loan "B" and settle related hedging contracts on October 31, 2007 for a total cash consideration of \$277.8 million, resulting in a loss of \$1.0 million.

7. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

The adverse financial and economic environment prevailing at the end of the fourth quarter of 2008 triggered a goodwill and mastheads impairment test at the Newspapers, Leisure and Entertainment, and Interactive Technologies and Communications reporting units. As a result, the Company concluded that these segments' goodwill and mastheads were impaired. The Company is in the process of performing the second step of the goodwill impairment test and a total preliminary estimated goodwill impairment loss of \$631.0 million has been recorded: \$595.0 million in the Newspapers segment, \$10.0 million in the Leisure and Entertainment segment, and \$26.0 million in the Interactive Technologies and Communications segment. The Company will complete the measurement of the goodwill impairment loss as soon as possible and any adjustment to the estimated loss will be recognized in a subsequent reporting period. Finally, the Company has completed its impairment test on mastheads and an impairment loss of \$40.2 million has been recorded.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

7. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS (continued)

When performing the second step of the goodwill impairment test, the fair value of goodwill is determined in the same manner as for a business combination. The Company allocates the fair value of a reporting unit to all of the identifiable assets and liabilities of the reporting unit, whether or not recognized separately, and the excess of the fair value over the amounts assigned to the reporting unit's identifiable assets and liabilities is the fair value of goodwill. In the process of performing the second step of the test, an estimated fair value of \$675.0 million was attributed to intangible assets such as mastheads and customer relationships, without recognition in the books, representing an estimated excess of \$340.0 million, net of future income tax, over the carrying value of these related intangibles assets. Therefore, a lesser portion of the reporting units' fair value was attributed to goodwill. As a result, the magnitude of the estimated goodwill impairment exceeded significantly the reporting units' overall carrying value impairment.

In the fourth quarter of 2007, Quebecor Media Inc. concluded that the goodwill of a reporting unit of its Cable segment related to the DVDs and game rental operations in Ontario was impaired. Accordingly, an impairment charge of \$5.4 million was recorded.

8. BUSINESS ACQUISITIONS

During the years ended December 31, 2008 and 2007, the Company acquired or increased its interest in several businesses and has accounted for these by the purchase method. The results of operations of these businesses have been included in the Company's consolidated financial statements from the date of their respective acquisitions.

2008

- On June 2, 2008, TVA Group Inc., Broadcasting segment, repurchased 3,000,642 Class B shares at a price of \$17.00 per share under a substantial issuer bid for a total cash consideration of \$51.4 million, resulting in goodwill of \$4.3 million. Quebecor Media Inc.'s equity interest in TVA Group Inc. increased from 45.24% to 50.90% following this transaction.
- In February 2008, Quebecor Media Inc. acquired all of the non-controlling interest in Nurun Inc., Interactive Technologies and Communications segment, pursuant to its offer to purchase the shares at a price of \$4.75 per Common Share for a total cash consideration of \$75.2 million, resulting in goodwill of \$40.3 million. Common Shares of Nurun Inc. were delisted from the Toronto Stock Exchange following this transaction.
- Quebecor Media Inc. paid an earn-out of \$5.0 million in the first quarter of 2008 in relation to the 2005 acquisition of Sogides Group Inc., Leisure and Entertainment segment. The payment was recorded as goodwill.
- Quebecor Media Inc. acquired and/or increased its interest in various businesses, mainly in the Newspapers segment, for a total cash consideration of \$15.1 million, a contingent amount payable of \$1.0 million as of December 31, 2008, and additional contingent payments totalling \$6.0 million, based on the achievement of specific conditions in the future. These acquisitions resulted in goodwill of \$11.1 million.

2007

- In August 2007, Quebecor Media Inc. acquired all outstanding units of Osprey Media Income Fund, which subsequently became Osprey Media Publishing Inc. as a result of a corporate reorganization, for a total cash consideration, excluding assumed debt, of \$415.2 million (including transaction costs of \$0.8 million). As part of the acquisition, Quebecor Media Inc. assumed the debt of \$161.8 million under Osprey Media Publishing Inc.'s credit facilities (note 18(xiv)). Osprey Media Publishing Inc. is one of Canada's leading publishers of daily and non-daily newspapers, magazines and specialty publications. Its publications include 20 daily newspapers and 33 non-daily newspapers, together with shopping guides, magazines and other publications.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

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8. BUSINESS ACQUISITIONS (continued)

2007 (continued)

- During the year ended December 31, 2007, Quebecor Media Inc. acquired or increased its interest in several businesses, mainly in the Newspapers segment, for a total consideration of \$20.5 million, resulting in preliminary goodwill of \$17.4 million, which was reduced by \$2.3 million in 2008 when the purchase price allocation was finalized.
- In January 2007, TVA Group Inc. and Sun Media Corporation paid the \$3.4 million balance payable related to the acquisition of Sun TV in 2004.

Business acquisitions for 2008 and 2007 are summarized as follows:

	2008		2007	
		Osprey Media Publishing Inc. ³	Other ³	Total
Assets acquired				
Cash and cash equivalents	\$ 0.5	\$ –	\$ 0.5	\$ 0.5
Non-cash current assets	1.1	38.5	0.4	38.9
Property, plant and equipment	3.1	42.4	0.5	42.9
Intangible assets ²	18.8	233.7	3.2	236.9
Other assets	–	0.3	0.4	0.7
Goodwill ¹	60.7	360.4	15.1	375.5
Non-controlling interest	73.0	–	1.9	1.9
	157.2	675.3	22.0	697.3
Liabilities assumed				
Bank indebtedness	–	(2.3)	–	(2.3)
Non-cash current liabilities	(2.9)	(27.3)	(0.7)	(28.0)
Long-term debt	–	(161.8)	–	(161.8)
Other liabilities	–	(6.8)	–	(6.8)
Future income taxes	(6.1)	(61.9)	(0.8)	(62.7)
	(9.0)	(260.1)	(1.5)	(261.6)
Net assets acquired at fair value	\$ 148.2	\$ 415.2	\$ 20.5	\$ 435.7
Consideration				
Cash	\$ 147.2	\$ 415.2	\$ 20.5	\$ 435.7
Contingent amount payable	1.0	–	–	–
	\$ 148.2	\$ 415.2	\$ 20.5	\$ 435.7

¹ The amount of goodwill that is deductible for tax purposes is \$0.7 million in 2008 (\$3.1 million in 2007).

² In connection with the Osprey Media Publishing Inc. acquisition in 2007, intangible assets are mainly comprised of customer relationship and non-competition agreements with a fair value of \$130.3 million and mastheads with a fair value of \$103.4 million.

³ During the third quarter of 2008, the Company finalized certain purchase price allocations, mainly related to the acquisition of Osprey Media Publishing Inc. in August 2007, which resulted in a reduction in property, plant and equipment of \$11.9 million, an increase in intangible assets of \$3.1 million, a reduction in other assets of \$0.4 million, an increase in other liabilities of \$1.4 million, a reduction in future income tax liabilities of \$3.5 million, and an increase in goodwill of \$7.1 million.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

9. INCOME TAXES

Income taxes on continuing operations are as follows:

	2008	2007
Current	\$ 12.7	\$ 15.2
Future	127.2	76.3
	\$ 139.9	\$ 91.5

The following table reconciles income taxes at the Company's domestic statutory tax rate of 30.9% in 2008 (32.0 % in 2007) and income taxes in the consolidated statements of income:

	2008	2007
Income taxes at domestic statutory tax rate	\$ (63.7)	\$ 167.9
Increase (reduction) resulting from:		
Effect of provincial tax rate differences	(3.1)	3.1
Effect of non-deductible charges, non-taxable income and differences between current and future tax rates	7.6	(35.5)
Change in valuation allowance	8.5	(4.3)
Change in future income tax balances due to a change in substantively enacted tax rates	-	(41.0)
Impairment of goodwill	196.4	-
Other	(5.8)	1.3
Income taxes	\$ 139.9	\$ 91.5

The tax effects of significant items comprising the Company's net future income tax positions are as follows:

	2008	2007
Losses carryforwards	\$ 233.2	\$ 289.7
Accounts payable, accrued charges and deferred revenue	22.5	67.5
Long-term investments	21.4	46.6
Property, plant and equipment	(256.3)	(227.4)
Long-term debt, derivative financial instruments and exchangeable debentures	(176.3)	(127.6)
Goodwill, intangible assets and other assets	(56.6)	(65.4)
Other	3.2	(10.8)
	(208.9)	(27.4)
Valuation allowance	(133.2)	(108.1)
Net future income tax liabilities	\$ (342.1)	\$ (135.5)

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

9. INCOME TAXES (continued)

The current and long-term future income tax assets and liabilities are as follows:

	2008	2007
Future income tax assets:		
Current	\$ 115.2	\$ 195.6
Long-term	12.3	54.1
	127.5	249.7
Future income tax liabilities:		
Long-term	(469.6)	(385.2)
Net future income tax liabilities	\$ (342.1)	\$ (135.5)

As of December 31, 2008, the Company had loss carryforwards for income tax purposes of \$1,120.2 million available to reduce future taxable income, including \$321.6 million that will expire between 2009 and 2028, and \$798.6 million that can be carried forward indefinitely. Of the latter amount, \$778.2 million represents capital losses to be applied against future capital gains.

The Company has not recognized a future income tax liability for the undistributed earnings of its subsidiaries in the current or prior years since the Company does not expect to sell or repatriate funds from those investments, in which case the undistributed earnings might become taxable. Any such liability cannot reasonably be determined at the present time.

10. EARNINGS PER SHARE

Earnings per share are calculated by dividing net income (loss) by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated by taking into account the potentially dilutive effect of the exchangeable debentures Series 2001, the Additional Amount payable and certain stock options of the Company and its subsidiaries.

The following table sets forth the computation of basic and diluted earnings per share:

	2008	2007
(Loss) income from continuing operations	\$ (196.0)	\$ 272.6
Impact of assumed conversion of stock options of the subsidiaries, net of applicable income taxes	-	(2.9)
(Loss) income from continuing operations, adjusted for dilution effect	\$ (196.0)	\$ 269.7
Net income (loss)	\$ 187.3	\$ (969.2)
Impact of assumed conversion of stock options of the subsidiaries, net of applicable income taxes	-	(2.9)
Net income (loss), adjusted for dilution effect	\$ 187.3	\$ (972.1)
Weighted average number of shares outstanding (in millions)	64.3	64.3
Effect of dilutive stock options (in millions)	0.1	-
Weighted average number of diluted shares outstanding (in millions)	\$ 64.4	\$ 64.3

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

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10. EARNINGS PER SHARE (continued)

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of the exchangeable debentures Series 2001 (note 19(i)), the Additional Amount payable (in 2007), and certain stock options of the Company and its subsidiaries, since their impact is anti-dilutive. During the year ended December 31, 2008, 1,667,102 options of the Company's plan (414,148 in 2007), 2,855,969 options of Quebecor Media Inc.'s plan (none in 2007) and 975,155 options of TVA Group Inc.'s plan (348,066 in 2007) were excluded from the diluted earnings per share calculation.

11. ACCOUNTS RECEIVABLE

	2008		2007	
Trade	\$	427.1	\$	449.5
Other		57.5		54.5
	\$	484.6	\$	504.0

12. INVENTORIES AND INVESTMENTS IN TELEVISUAL PRODUCTS AND MOVIES

	2008		2007	
Raw materials and supplies	\$	31.0	\$	23.3
Work in progress		17.3		17.1
Finished goods		91.6		82.7
Investments in televisual products and movies		49.4		45.9
	\$	189.3	\$	169.0

13. PROPERTY, PLANT AND EQUIPMENT

	2008		
	Cost	Accumulated amortization/ depreciation	Net amount
Land	\$ 42.6	\$ -	\$ 42.6
Buildings and leasehold improvements	389.5	79.2	310.3
Machinery and equipment	1,080.6	532.4	548.2
Receiving, distribution and telecommunication networks	2,466.2	1,086.5	1,379.7
Projects under development	111.6	-	111.6
	\$ 4,090.5	\$ 1,698.1	\$ 2,392.4

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	2007		
	Cost	Accumulated amortization/ depreciation	Net amount
Land	\$ 43.2	\$ –	\$ 43.2
Buildings and leasehold improvements	361.1	63.8	297.3
Machinery and equipment	873.2	447.2	426.0
Receiving, distribution and telecommunication networks	2,191.1	921.1	1,270.0
Projects under development	118.9	–	118.9
	\$ 3,587.5	\$ 1,432.1	\$ 2,155.4

14. INTANGIBLE ASSETS

	2008		
	Cost	Accumulated amortization/ depreciation	Net amount
Customer relationships, non-competition agreements and other	\$ 179.1	\$ 41.3	\$ 137.8
Mastheads (Newspapers segment, note 7)	105.6	40.2	65.4
Broadcasting licences	88.3	–	88.3
AWS spectrum licences ¹	567.1	–	567.1
	\$ 940.1	\$ 81.5	\$ 858.6

¹ As a result of the spectrum auction for AWS that ended on July 21, 2008, Quebecor Media Inc. acquired 17 new spectrum licences for AWS, covering all of the province of Québec and certain areas of Ontario, for an aggregate amount of \$554.6 million, which was fully paid by its Cable segment in the third quarter of 2008. In addition, interest costs of \$12.5 million were capitalized to the cost of these licences in 2008. The spectrum licences were issued by Industry Canada on December 23, 2008 for an initial term of 10 years.

	2007		
	Cost	Accumulated amortization/ depreciation	Net amount
Customer relationships, non-competition agreements and other	\$ 166.9	\$ 20.1	\$ 146.8
Mastheads (Newspapers segment)	103.4	–	103.4
Broadcasting licences	84.2	–	84.2
	\$ 354.5	\$ 20.1	\$ 334.4

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

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15. OTHER ASSETS

	2008	2007
Investments in televisual products and movies	\$ 36.0	\$ 27.2
Deferred pension charge (note 30)	22.9	20.7
Deferred connection costs	19.3	18.8
Portfolio investment held in a publicly traded company	1.7	57.5
Other	35.6	22.6
	\$ 115.5	\$ 146.8

16. GOODWILL

For the years ended December 31, 2008 and 2007, the changes in the carrying amounts of goodwill were as follows:

						2008
	Balance as at December 31, 2007	Business acquisitions (disposals)	Impairment (note 7)	Adjustment of purchase price allocation and other		Balance as at December 31, 2008
Cable	\$ 2,576.9	\$ (1.9)	\$ –	\$ –		\$ 2,575.0
Newspapers	1,397.1	9.7	(595.0)	7.1		818.9
Broadcasting	51.4	4.3	–	(1.0)		54.7
Leisure and Entertainment	43.4	5.0	(10.0)	–		38.4
Interactive Technologies and Communications	12.5	40.9	(26.0)	2.3		29.7
Total	\$ 4,081.3	\$ 58.0	\$ (631.0)	\$ 8.4		\$ 3,516.7

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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16. GOODWILL (continued)

						2007
	Balance as at December 31, 2006	Business acquisitions (disposals)	Impairment (note 7)	Adjustment of purchase price allocation and other		Balance as at December 31, 2007
Cable	\$ 2,581.7	\$ 0.6	\$ (5.4)	\$ –		\$ 2,576.9
Newspapers	1,033.4	363.7	–	–		1,397.1
Broadcasting	51.4	0.1	–	(0.1)		51.4
Leisure and Entertainment	43.4	–	–	–		43.4
Interactive Technologies and Communications	11.2	3.1	–	(1.8)		12.5
Total	\$ 3,721.1	\$ 367.5	\$ (5.4)	\$ (1.9)		\$ 4,081.3

17. ADDITIONAL AMOUNT PAYABLE

In July 2007, Quebecor Media Inc. exercised its right to repay the Additional Amount payable in the amount of \$127.2 million. Until its repayment, the value of the Additional Amount payable, resulting from the repurchase of the redeemable preferred shares of a subsidiary in 2003, fluctuated based on a formula established as per the repurchase agreement. Changes in the amount payable were recorded as a loss on valuation and translation of financial instruments in the consolidated statements of income.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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18. LONG-TERM DEBT

	Effective interest rate as of December 31, 2008	Year of maturity	2008	2007
Quebecor Inc.				
Bank credit facility (i)	5.55 %	2010	\$ 77.7	\$ 69.9
Other loan (ii)	4.13 %	2012-2014	35.9	33.1
			113.6	103.0
Quebecor Media Inc. (iii)				
Bank credit facilities (iv)	6.38 %	2011-2013	505.4	439.1
Other credit facility (v)	3.71 %	2015	74.4	66.7
Senior Notes (vi)	7.75 %	2016	634.8	514.8
Senior Notes (vii)	8.81 %	2016	799.1	644.3
			2,013.7	1,664.9
Videotron Ltd. and its subsidiaries (iii)				
Bank credit facility (viii)	3.39 %	2012	207.7	147.7
Senior Notes (ix)	6.59 %	2014	800.4	652.8
Senior Notes (x)	6.44 %	2015	212.4	172.8
Senior Notes (xi)	9.38 %	2018	546.1	—
			1,766.6	973.3
Sun Media Corporation and its subsidiaries (iii)				
Bank credit facilities (xii)	4.10 %	2012	48.5	39.1
Senior Notes (xiii)	7.88 %	2013	245.7	198.9
			294.2	238.0
Osprey Media Publishing Inc. (iii)				
Bank credit facilities (xiv)	3.75 %	2011	132.3	145.3
TVA Group Inc. and its subsidiaries (iii)				
Bank credit facilities (xv)	3.43 %	2010	93.8	56.3
Total long-term debt			4,414.2	3,180.8
Change in fair value related to hedged interest rate risk			52.0	(24.1)
Adjustments related to embedded derivatives			24.7	11.4
Financing fees, net of amortization			(41.5)	(37.6)
			35.2	(50.3)
			4,449.4	3,130.5
Less current portion			42.3	24.7
			\$ 4,407.1	\$ 3,105.8

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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18. LONG-TERM DEBT (continued)

- (i) The credit facility of Quebecor Inc., renewed in November 2008, is a one-year revolving credit facility of \$187.5 million (\$200.0 million in 2007) that can be extended on a yearly basis. In the event it not be extended, the outstanding borrowed amounts would convert into a one-year term loan. The availability under this facility is dependent on the market value of its shares in its subsidiaries. The credit agreement governing this credit facility contains covenants limiting its ability to incur additional indebtedness. The borrowed amounts bear interest at floating rates based on Bankers' acceptance rate, plus a premium or London Interbanking Offered Rate ("LIBOR") rate, plus a premium. The credit facility is secured by a limited number of shares owned in certain Company subsidiaries. In 2008, an amount of \$4.7 million drawn on this facility was converted into a term loan maturing in November 2009.
- (ii) The Company entered into a loan of up to \$35.9 million to finance the expansion of its Head Office. The loan bears interest at Banker's acceptance rate, plus a premium, and has a term of 3 or 5 years, at the option of the Company, from the end of the construction period. The loan is secured by a first ranking hypothec on the head office building. As of December 31, 2008, advances of \$35.9 million had been drawn on the loan (\$33.1 million in 2007).
- (iii) The debts of these subsidiaries are non-recourse to the parent company, Quebecor Inc.
- (iv) The bank credit facilities of Quebecor Media Inc. are comprised of (i) a \$125.0 million term loan "A" credit facility, bearing interest at Bankers' acceptance rate, LIBOR or Canadian prime rate, plus a premium determined by a leverage ratio, and maturing in January 2011, (ii) a US\$350.0 million term loan "B" credit facility, bearing interest at U.S. prime rate, plus a premium of 1.0%, or at LIBOR, plus a premium of 2.0%, and maturing in January 2013, and (iii) a \$100.0 million revolving credit facility, bearing interest at Bankers' acceptance rate, LIBOR or Canadian prime rate, plus a premium determined by a leverage ratio, and maturing in January 2011. These credit facilities contain covenants concerning certain financial ratios and restricting the declaration and payment of dividends and other distributions. They are collateralized by liens on all of the movable property and assets of Quebecor Media Inc. (primarily shares of its subsidiaries), now owned or hereafter acquired. As of December 31, 2008, the credit facilities of Quebecor Media Inc. were secured by assets with a carrying value of \$3,758.7 million (\$4,203.8 million in 2007). Quebecor Media Inc. shall repay the term loan "A" in quarterly repayments equal to 2.5% of the principal amount during the first three years of the term, 5.0% in the fourth year and 12.5% in the fifth year of the term. It shall repay the principal amount of its term loan "B" in quarterly repayments of 0.25% of the principal amount and the balance at the end of the term. As of December 31, 2008, \$4.0 million (none in 2007) was drawn on the revolving credit facility, while \$89.8 million (\$102.0 million in 2007) and \$411.6 million (\$337.1 million in 2007) were drawn under the term "A" and "B" credit facilities respectively.
- (v) The long-term credit facility with Société Générale (Canada) for the Canadian dollar equivalent of €59.4 million, bears interest at Bankers' acceptance rate, plus a premium, and matures in 2015. The facility is secured by all the property and assets of Quebecor Media Inc., now owned and hereafter acquired. This facility mostly contains the same covenants as the bank facilities described in (iv).
- (vi) In January 2006, Quebecor Media Inc. issued Senior Notes of US\$525.0 million in aggregate principal amount for net proceeds of \$609.0 million, before issuance fees of \$9.0 million. The notes bear interest at 7.75%, payable every six months on June 15 and December 15, and mature in March 2016. These notes contain certain restrictions on Quebecor Media Inc., including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions. The notes are unsecured and are redeemable at the option of Quebecor Media Inc. at a decreasing premium, commencing on March 15, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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18. LONG-TERM DEBT (continued)

- (vii) In October 2007, Quebecor Media Inc. issued Senior Notes of US\$700.0 million in aggregate principal amount at a discount price of 93.75% for net proceeds of \$672.2 million, including accrued interest of \$16.6 million and before financing fees of \$9.8 million. The Senior Notes bear interest at 7.75% for an effective interest rate of 8.81%, payable every six months on June 15 and December 15, and mature in March 2016. These notes contain certain restrictions on Quebecor Media Inc., including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions. The notes are unsecured and are redeemable at the option of Quebecor Media Inc. at a decreasing premium, commencing on March 15, 2011.
- (viii) On April 7, 2008, Videotron Ltd. entered into amendments to its Senior Secured Credit Facility, under which commitments under the Senior Secured Credit Facility were increased from \$450.0 million to \$575.0 million and the maturity of the facility was extended to April 2012. Pursuant to these amendments, Videotron Ltd., may, subject to certain conditions, increase the commitments under the Senior Secured Credit Facility by an additional \$75.0 million (for aggregate commitments of \$650.0 million). This credit facility bears interest at Bankers' acceptance or Canadian prime rates, plus a margin, depending on Videotron Ltd.'s leverage ratio. The credit facility is secured by a first ranking hypothec on the universality of all tangible and intangible assets, current and future, of Videotron Ltd. and its subsidiaries. As of December 31, 2008, the credit facility of Videotron Ltd. was secured by assets with a carrying value of \$5,105.9 million (\$4,132.2 million in 2007). The credit facility contains covenants such as maintaining certain financial ratios and some restrictions on the payment of dividends and asset acquisitions and dispositions.
- (ix) In October 2003, a first series of US\$335.0 million in aggregate principal amount of Senior Notes was issued at a discount price of 99.08% for net proceeds of \$445.6 million, before issuance fees of \$7.6 million. In November 2004, a second series of US\$315.0 million in aggregate principal amount of Senior Notes was issued at a premium price of 105.0% for net proceeds of \$405.1 million, including accrued interest of \$8.9 million and before issuance fees of \$7.4 million. These notes bear interest at a rate of 6.875%, for an effective interest rate of 6.59%, payable every six months on January 15 and July 15, and mature in January 2014. The notes contain certain restrictions on Videotron Ltd., including limitations on its ability to incur additional indebtedness, and are unsecured. The Senior Notes are guaranteed by specific subsidiaries of Videotron Ltd. The notes are redeemable at the option of Videotron Ltd., in whole or in part, at any time on or after January 15, 2009, at a decreasing premium.
- (x) On September 16, 2005, US\$175.0 million in aggregate principal amount of Senior Notes was issued at a discount price of 99.5% for net proceeds of \$205.2 million, before issuance fees of \$3.8 million. These notes bear interest at a rate of 6.375%, for an effective interest rate of 6.44%, payable every six months on December 15 and June 15, and mature on December 15, 2015. The notes contain certain restrictions for Videotron Ltd., including limitations on its ability to incur additional indebtedness, and are unsecured. The Senior Notes are guaranteed by specific subsidiaries of Videotron Ltd. The notes are redeemable at the option of Videotron Ltd., in whole or in part, at any time on or after December 15, 2010, at a decreasing premium.
- (xi) On April 15, 2008, Videotron Ltd. issued US\$455.0 million in aggregate principal amount of Senior Notes at a discount price of 98.43% for net proceeds of \$457.3 million, before financing fees of \$9.5 million. The new Senior Notes bear interest at 9.125% for an effective interest rate of 9.375%, payable every six months on June 15 and December 15, and mature on April 15, 2018. These notes are unsecured and contain certain restrictions on Videotron Ltd., including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions. The notes are guaranteed by specific subsidiaries of Videotron Ltd. and are redeemable at the option of Videotron Ltd. at a decreasing premium, commencing April 15, 2013.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

18. LONG-TERM DEBT (continued)

- (xii) The bank credit facilities of Sun Media Corporation are comprised of (i) a revolving credit facility amounting to \$70.0 million, maturing in October 2012, and (ii) a term loan "C" credit facility amounting to \$40.0 million, also maturing in October 2012. The credit facilities are collateralized by liens on all of the property and assets of Sun Media Corporation and its operating subsidiaries, now owned or hereafter acquired. The bank credit facilities contain covenants concerning certain financial ratios and restrictions on the declaration and payment of dividends or other distributions. As of December 31, 2008, the bank credit facilities were secured by assets with a carrying value of \$1,307.6 million (\$1,729.9 million in 2007). Any amount borrowed under the revolving credit facility bears interest at Canadian Bankers' acceptance and/or Canadian prime rate, plus an applicable margin determined by financial ratios. Advances under the term "C" credit facility bear interest at Canadian Bankers' acceptance rate, plus a margin of 1.50% per annum, or Canadian prime rate, plus a margin of 0.50% per annum. As of December 31, 2008, \$10.0 million (none in 2007) was drawn on the revolving credit facility, while \$38.5 million (\$39.1 million in 2007) was drawn down on the term loan "C" credit facilities.
- (xiii) In February 2003, Sun Media Corporation issued US\$205.0 million in aggregate principal amount of Senior Notes at a discount price of 98.29% for net proceeds of \$306.8 million, before issuance fees of \$8.4 million. These notes bear interest at a rate of 7.625%, for an effective interest rate of 7.88%, payable every six months on February 15 and August 15, and mature in February 2013. The notes contain certain restrictions on Sun Media Corporation, including limitations on its ability to incur additional indebtedness or make other distributions, and are unsecured. The notes became redeemable at the option of Sun Media Corporation, in whole or in part, at any time after February 15, 2008, at a decreasing premium.
- (xiv) The credit facilities of Osprey Publishing Inc. are comprised of a revolving credit facility in the amount of \$65.0 million and a term credit facility in the amount of \$133.3 million, maturing in January 2011. The credit facilities bear interest at Canadian prime rate or Bankers' acceptance rate, plus an applicable margin determined by financial ratios, and they contain covenants including, among others, certain financial ratios and restrictions on the declaration and payment of any distributions. The credit facilities are secured by liens on all assets of Osprey Media Publishing Inc. and its subsidiary. As of December 31, 2008, no amount (\$13.4 million in 2007) was drawn on the revolving credit facility and \$132.3 million (\$131.9 million in 2007) was drawn on the term facility.
- (xv) TVA Group Inc.'s revolving credit facility, up to a maximum of \$160.0 million, bears interest at a Canadian chartered bank's prime rate or Bankers' acceptance rate, plus a variable margin determined by certain financial ratios. The credit facility matures on June 15, 2010 and contains certain restrictions, including the obligation to maintain certain financial ratios.

On December 31, 2008, the Company and its subsidiaries were in compliance with all debt covenants.

Principal repayments of long-term debt over the coming years are as follows:

2009	\$	42.3
2010		235.8
2011		166.9
2012		270.3
2013		652.5
2014 and thereafter		3,046.4

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

19. EXCHANGEABLE DEBENTURES

	Effective interest rate as of December 31, 2008	Year of maturity	2008	2007
Series 2001 (i)	1.5 %	2026	\$ 0.4	\$ 21.9
Series Abitibi (ii)	1.5 %	2026	1.7	57.5
			\$ 2.1	\$ 79.4

- (i) Each floating rate debenture, Series 2001, with a principal amount of \$1,000, is exchangeable for 29.41 Subordinate Voting Shares of Quebecor World Inc. presently held by the Company, or 12.5 million Subordinate Shares in total (the "underlying shares"). The debentures are secured by the underlying shares and may be exchanged at any time, at the option of the holder, for the underlying shares at the fixed conversion ratio. The total principal nominal amount of debentures outstanding is \$425.0 million. The Company may, at its option, satisfy its obligation by payment of a cash amount equal to the fair value of the underlying shares at the time of the request. As of December 31, 2008, the market value of the underlying shares was \$0.03 per share (\$1.75 per share as of December 31, 2007). Redemption of the debentures in the first 10 years from the date of issuance may trigger a penalty for the initiator. These debentures bear interest, payable semi-annually, at a rate of 1.5%, plus a floating percentage based on the dividend yield on the underlying shares. Cash and cash equivalents in trust as of December 31, 2008 included an amount of \$3.2 million (\$3.2 million in 2007) related to the interest payment on this debenture.
- (ii) Each floating rate debenture, Series Abitibi, with a principal amount of \$1,000, is exchangeable for 5.1 Common Shares of AbitibiBowater Canada Inc. presently held by the Company, or 2,806,244 Common Shares in total (the "underlying shares"). The debentures are secured by the underlying shares and may be exchanged at any time, at the option of the holder, for the underlying shares at the fixed conversion ratio. The total principal nominal amount of debentures outstanding is \$554.9 million. The Company may, at its option, satisfy its obligation by payment of a cash amount equal to the fair value of the underlying shares at the time of the request. As of December 31, 2008, the market value of the underlying shares was \$0.62 per share (\$20.50 per share as of December 31, 2007). Redemption of the debentures in the first 10 years from the date of issuance may trigger a penalty for the initiator. These debentures bear interest, payable quarterly, at a rate of 1.5%, plus a floating percentage based on the dividend yield on the underlying shares. Cash and cash equivalents in trust, as of December 31, 2008, included an amount of \$2.1 million (\$2.0 million in 2007) related to the interest payment on this debenture.

20. OTHER LIABILITIES

	2008	2007
Accrued pension and postretirement benefits liability (note 30)	\$ 67.7	\$ 61.6
Deferred revenue	35.5	36.7
Stock-based compensation ¹	5.0	26.7
Other	6.7	5.6
	\$ 114.9	\$ 130.6

¹ The current portion of stock-based compensation in the amount of \$4.7 million is included in accounts payable and accrued charges (\$98.6 million in December 2007).

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

21. NON-CONTROLLING INTEREST

Non-controlling interest represents the interest of non-controlling shareholders in the participating shares of Quebecor Inc.'s subsidiaries. As of December 31, 2008, the most significant non-controlling interests were as follows:

Subsidiary	Non-controlling interest	
	% voting	% equity
Quebecor Media Inc.	45.28 %	45.28 %
TVA Group Inc. ¹	0.07 %	49.10 %

¹ TVA Group Inc. is a subsidiary of Quebecor Media Inc. The non-controlling interest percentage represents the interests of non-controlling shareholders in the participating shares of Quebecor Media Inc.'s subsidiaries.

22. CAPITAL STOCK

(a) Authorized capital stock

An unlimited number of Class A Multiple Voting Shares ("A shares") with voting rights of 10 votes per share convertible at any time into Class B Subordinate Voting Shares on a one-for-one basis.

An unlimited number of Class B Voting Shares ("B shares") convertible into A shares on a one-for-one basis, only if a takeover bid for A shares is made to holders of A shares without being made concurrently and under the same terms to holders of B shares, for the sole purpose of allowing the holders of B Shares to accept the offer and subject to certain other stated conditions provided in the articles including the acceptance of the offer by the majority holder.

Holders of B shares are entitled to elect 25% of the Board of Directors of Quebecor Inc. Holders of A shares may elect the other members of the Board of Directors.

(b) Issued capital stock

	A shares		B shares	
	Number	Amount	Number	Amount
Balance as of December 31, 2008 and 2007	21,855,371	\$ 9.7	42,461,651	\$ 336.9

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

23. STOCK-BASED COMPENSATION PLANS

(a) Quebecor Inc. plans

(i) Stock option plan

Under a stock option plan established by the Company, 6,500,000 Class B shares have been set aside for directors, officers, senior employees, and other key employees of the Company and its subsidiaries. The exercise price of each option is equal to the weighted average trading price of the Company's Class B shares on the Toronto Stock Exchange over the last five trading days immediately preceding the granting of the option. Each option may be exercised during a period not exceeding 10 years from the date granted. Options usually vest as follows: 1/3 after one year, 2/3 after two years, and 100% three years after the original grant. Holders of options under the stock option plan have the choice, when they exercise their options, of acquiring the Class B shares at the corresponding option exercise price, or receiving a cash payment from the Company equivalent to the difference between the market value of the underlying shares and the exercise price of the option. The Board of Directors of the Company may, at its discretion, affix different vesting periods at the time of each grant.

The following table gives details on changes to outstanding options for the years ended December 31, 2008 and 2007:

		2008		2007
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance at beginning of year	1,850,065	\$ 31.12	1,735,917	\$ 30.50
Granted	483,065	26.79	114,148	40.66
Cancelled	(15,000)	27.64	-	-
Balance at end of year	2,318,130	\$ 30.24	1,850,065	\$ 31.12
Vested options at end of year	1,676,443	\$ 31.06	1,502,538	\$ 31.10

The following table gives summary information on outstanding options as of December 31, 2008:

Range of exercise price	Number	Outstanding options		Vested options	
		Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
\$ 16.87 to 24.24	392,568	5.93	\$ 22.77	310,045	\$ 22.38
25.87 to 37.28	1,811,414	3.94	31.21	1,328,349	32.81
37.29 to 40.66	114,148	8.87	40.66	38,049	40.66
\$ 16.87 to 40.66	2,318,130	4.52	\$ 30.24	1,676,443	\$ 31.06

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

23. STOCK-BASED COMPENSATION PLANS (continued)

(a) Quebecor Inc. plans (continued)

(ii) Deferred stock unit plan

The Quebecor Inc. deferred stock unit (“DSU”) plan is for the benefit of the Company’s directors. Under this plan, each director receives a portion of his/her compensation in the form of DSUs, such portion representing at least 50% of the annual retainer. Subject to certain conditions, each director may elect to receive up to 100% of the total fees payable for services as a director in the form of units. The value of a DSU is based on the weighted average trading price of the Company’s B shares on the Toronto Stock Exchange over the last five trading days immediately preceding the relevant date. DSUs will entitle the holders thereof to dividends, which will be paid in the form of additional units at the same rate as that applicable to dividends paid from time to time on the Company’s B shares. Subject to certain limitations, the DSUs will be redeemed by the Company when the director ceases to serve as a director of the Company. For the purpose of redeeming units, the value of a DSU shall correspond to the fair market value of the Company’s B shares on the date of redemption. As of December 31, 2008 and 2007, the total number of DSUs outstanding under this plan was 106,794 and 85,968 respectively.

(b) Quebecor Media Inc. stock option plan

Under a stock option plan established by Quebecor Media Inc., 6,180,140 Common Shares of Quebecor Media Inc. have been set aside for officers, senior employees, directors, and other key employees of Quebecor Media Inc. and its subsidiaries. Each option may be exercised within a maximum period of 10 years following the date of grant at an exercise price not lower than, as the case may be, the fair market value of the Common Shares of Quebecor Media Inc. at the date of grant, as determined by its Board of Directors (if the Common Shares of Quebecor Media Inc. are not listed on a stock exchange at the time of the grant) or the five-day weighted average market price ending on the day preceding the date of grant of the Common Shares of Quebecor Media Inc. on the stock exchange(s) where such shares are listed at the time of grant. As long as the Common Shares of Quebecor Media Inc. are not listed on a recognized stock exchange, optionees may exercise their vested options during one of the following periods: from March 1 to March 30, from June 1 to June 29, from September 1 to September 29, and from December 1 to December 30. Holders of options under the plan have the choice at the time of exercising their options to receive an amount in cash (equal to the difference between either the five-day weighted average market price ending on the day preceding the date of exercise of the Common Shares of Quebecor Media Inc. on the stock exchange(s) where such shares are listed at the time of exercise or the fair market value, as determined by the Quebecor Media Inc.’s Board of Directors, and the exercise price of their vested options) or, subject to certain stated conditions, exercise their options to purchase Common Shares of Quebecor Media Inc. at the exercise price. Except under specific circumstances, and unless the Compensation Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules as determined by the Compensation Committee at the time of grant: (i) equally over five years with the first 20% vesting on the first anniversary of the date of the grant; (ii) equally over four years with the first 25% vesting on the second anniversary of the date of grant; and (iii) equally over three years with the first 33 1/3% vesting on the third anniversary of the date of grant. The acquisition of the “right to profit” on certain options may also be subject to performance criteria.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

23. STOCK-BASED COMPENSATION PLANS (continued)

(b) Quebecor Media Inc. stock option plan (continued)

The following table gives summary information on outstanding options granted as of December 31, 2008 and 2007:

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance at beginning of year	7,029,857	\$ 32.25	3,781,767	\$ 21.38
Granted	110,000	46.84	3,359,563	44.38
Exercised	(2,824,012)	19.00	–	–
Cancelled	(472,548)	43.21	(111,473)	29.49
Balance at end of year	3,843,297	\$ 41.05	7,029,857	\$ 32.25
Vested options at end of year	232,903	\$ 32.14	2,517,181	\$ 18.42

During the year ended December 31, 2008, 2,824,012 stock options were exercised and resulted in a cash payment of \$94.1 million by Quebecor Media Inc.

The following table gives summary information on outstanding options as of December 31, 2008:

Range of exercise price	Number	Outstanding options		Vested options	
		Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
\$ 15.19 to 21.75	185,631	5.10	\$ 21.56	72,273	\$ 21.30
22.98 to 33.41	658,103	7.28	30.98	91,511	31.52
37.82 to 50.51	2,999,563	8.64	44.46	69,119	44.28
\$ 15.19 to 50.51	3,843,297	8.23	\$ 41.05	232,903	\$ 32.14

Had the vested options been exercised to purchase Common Shares as of December 31, 2008, the Company's interest in Quebecor Media Inc. would have decreased from 54.72% to 53.99% (54.72% to 53.63% as of December 31, 2007).

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

23. STOCK-BASED COMPENSATION PLANS (continued)

(c) TVA Group Inc. plans:

(i) Stock option plan for senior executives and directors

Under this stock option plan, 2,200,000 Class B shares of TVA Group Inc. have been set aside for senior executives and directors of TVA Group Inc. and its subsidiaries. The terms and the conditions of options granted are determined by TVA Group Inc.'s Compensation Committee. The subscription price of an option cannot be less than the closing price of Class B shares on the Toronto Stock Exchange the day before the option is granted. Options granted prior to January 2006 usually vest equally over a four-year period, with the first 25% vesting on the second anniversary date of the date of grant. Beginning January 2006, and unless the Compensation Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules as determined by the Compensation Committee at the time of grant: (i) equally over five years with the first 20% vesting on the first anniversary of the date of the grant; (ii) equally over four years with the first 25% vesting on the second anniversary of the date of grant; and (iii) equally over three years with the first 33 1/3% vesting on the third anniversary of the grant. The term of an option cannot exceed 10 years. Holders of options under the plan have the choice, at the time of exercising their options, to receive an amount in cash (equal to the number of shares corresponding to the options exercised, multiplied by the difference between the fair market value and the exercise price of the option) from TVA Group Inc. or, subject to certain conditions, exercise their options to purchase TVA Group Inc. Class B shares at the exercise price. The fair market value is defined by the average closing market price for a Class B share in the last five trading days preceding the date on which the option was exercised.

The following table gives details on changes to outstanding options for the years ended December 31, 2008 and 2007:

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance at beginning of year	983,693	\$ 16.16	489,695	\$ 17.59
Granted	–	–	561,875	14.82
Cancelled	(8,538)	15.81	(67,877)	15.52
Balance at end of year	975,155	\$ 16.16	983,693	\$ 16.16
Vested options at end of year	185,144	\$ 19.20	84,082	\$ 20.61

The following table gives summary information on outstanding options as of December 31, 2008:

Range of exercise price	Number	Outstanding options		Vested options	
		Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
\$ 14.50 to 16.40	781,024	8.41	\$ 14.98	56,451	\$ 15.41
16.41 to 21.38	194,131	5.86	20.90	128,693	20.86
\$ 14.50 to 21.38	975,155	7.90	\$ 16.16	185,144	\$ 19.20

Had the vested options been exercised as of December 31, 2008, Quebecor Media Inc.'s interest in TVA Group Inc. would have decreased from 50.90% to 50.51% (45.24% to 45.10% as of December 31, 2007).

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

23. STOCK-BASED COMPENSATION PLANS (continued)

(c) TVA Group Inc. plans (continued):

(ii) Share purchase plan for executives and employees

In 1998, TVA Group Inc. introduced a share purchase plan relating to 375,000 TVA Group Inc. Class B shares for its executives and a share purchase plan relating to 375,000 TVA Group Inc. Class B shares for its employees. Under the plans, participants can acquire shares on certain terms related to their salary. The shares can be acquired at a price equal to 90% of the average closing market price for a TVA Group Inc. Class B share on the Toronto Stock Exchange in the five trading days immediately preceding the first day of the annual subscription period under the plans. The plans also provide financing terms free of interest. No Class B shares have been issued under the plans in the last three years. As of December 31, 2008 and 2007, the remaining balance of TVA Group Inc. Class B Shares that may be issued is 332,643 under the share purchase plan for executives and 229,753 under the share purchase plan for employees.

(d) All stock-based plans

For the year ended December 31, 2008, a net reversal of the consolidated stock-based compensation charge was recorded, in an amount of \$19.4 million (a net charge of \$56.8 million in 2007).

24. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

	Translation of net investments in foreign operations	Cash flow hedges	Total
Balance as of December 31, 2006	\$ (203.8)	\$ —	\$ (203.8)
Cumulative effect of changes in accounting policies	—	(21.9)	(21.9)
Other comprehensive (loss) income, net of income taxes and non-controlling interest	(127.7)	31.6	(96.1)
Balance as of December 31, 2007	(331.5)	9.7	(321.8)
Other comprehensive income (loss), net of income taxes and non-controlling interest	332.5	(38.2)	294.3
Balance as of December 31, 2008	\$ 1.0	\$ (28.5)	\$ (27.5)

No significant amount is expected to be reclassified in income over the next 12 months in connection with derivatives designated as cash flow hedges. The balance is expected to reverse over a 9 1/2-year period.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

25. INCOME TAXES ON COMPONENTS OF OTHER COMPREHENSIVE INCOME (LOSS), NET OF NON-CONTROLLING INTEREST

	2008	2007
(Loss) gain on valuation of derivative instruments	\$ (26.2)	\$ 6.5
Other comprehensive loss from discontinued operations	-	(9.2)
Reclassification in income of other comprehensive loss related to discontinued operations	(14.8)	(1.3)
	\$ (41.0)	\$ (4.0)

26. COMMITMENTS AND CONTINGENCIES

(a) Leases and purchasing agreements

The Company rents premises and equipment under operating leases and has entered into long-term commitments to purchase services, capital equipment, and distribution and broadcasting rights that call for total future payments of \$321.4 million. The minimum payments for the coming years are as follows:

	Leases	Other commitments
2009	\$ 49.2	\$ 83.0
2010	32.9	24.6
2011	24.4	14.0
2012	19.5	4.4
2013	13.8	2.8
2014 and thereafter	40.8	12.0

The Company and its subsidiaries' operating lease expenses amounted to \$43.5 million in 2008 (\$46.1 million in 2007).

(b) Contingencies

- (i) Legal proceedings against certain of the Company's subsidiaries were initiated by another company in relation to printing contracts, including the rescission of printing contracts. As with any litigation subject to a judicial process, the outcome of such proceedings is impossible to determine with certainty. However, management believes that the suits are without merit and intends to vigorously defend its position.

A number of other legal proceedings against the Company and its subsidiaries are pending. In the opinion of the management of the Company and its subsidiaries, the outcome of these proceedings is not expected to have a material adverse effect on the Company's results or on its financial position.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

27. GUARANTEES

In the normal course of business, the Company enters into numerous agreements containing guarantees, including the following:

Operating leases

The Company has guaranteed a portion of the residual values of certain assets under operating leases for the benefit of the lessor. Should the Company terminate these leases prior to term (or at the end of these lease terms) and should the fair value of the assets be less than the guaranteed residual value, then the Company must, under certain conditions, compensate the lessor for a portion of the shortfall. In addition, the Company has provided guarantees to the lessor of certain premises leases, with expiry dates through 2017. Should the lessee default under the agreement, the Company must, under certain conditions, compensate the lessor. As of December 31, 2008, the maximum exposure with respect to these guarantees was \$17.8 million and no liability has been recorded in the consolidated balance sheet. In prior years, the Company has not made any payments relating to these guarantees.

Business and asset disposals

In the sale of all or part of a business or an asset, in addition to possible indemnification relating to failure to perform covenants and breach of representations or warranties, the Company may agree to indemnify against claims related to its past conduct of the business. Typically, the term and amount of such indemnification will be limited by the agreement. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it could be required to pay to guaranteed parties. The Company has not accrued any amount in respect of these items in the consolidated balance sheet. In prior years, the Company has not made any payments relating to these guarantees.

Outsourcing companies and suppliers

In the normal course of its operations, the Company enters into contractual agreements with outsourcing companies and suppliers. In some cases, the Company agrees to provide indemnifications in the event of legal procedures initiated against them. In other cases, the Company provides indemnification to counterparties for damages resulting from the outsourcing companies and suppliers. The nature of the indemnification agreements prevents the Company from estimating the maximum potential liability it could be required to pay. No amount has been accrued in the consolidated balance sheet with respect to these indemnifications. In prior years, the Company has not made any payments relating to these guarantees.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial risk management policies have been established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and in the Company's activities.

From their use of financial instruments, the Company and its subsidiaries are exposed to credit risk, liquidity risk and market risks relating to foreign exchange fluctuations, interest rate fluctuations and equity prices. In order to manage its foreign exchange and interest rate risks, the Company and its subsidiaries use derivative financial instruments (i) to achieve a targeted balance of fixed and variable rate debts and (ii) to set in Canadian dollars all future payments on debts denominated in U.S. dollars (interest and principal) and certain purchases of inventories and other capital expenditures denominated in a foreign currency. The Company and its subsidiaries do not intend to settle their financial derivative instruments prior to their maturity as none of these instruments is held or issued for speculative purposes. The Company and its subsidiaries designate their derivative financial instruments either as fair value hedges or cash flow hedges when they qualify for hedge accounting.

(a) Description of derivative financial instruments

- (i) Foreign exchange forward contracts:

Currencies (sold/bought)	Maturing	Average exchange rate	Notional amount
Quebecor Media Inc.			
\$/€	Less than 1 year	1.6796	\$ 21.6
\$/CHF	Less than 1 year	1.1304	2.6
Sun Media Corporation			
\$/US\$	February 15, 2013	1.5227	312.2
Videotron Ltd. and its subsidiaries			
\$/US\$	Less than 1 year	1.0865	75.5

QUEBECOR INC. AND ITS SUBSIDIARIES

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Description of derivative financial instruments (continued)

(ii) Cross-currency interest rate swaps:

	Period covered	Notional amount	Annual effective interest rate using hedged rate	Annual nominal interest rate of debt	CDN dollar exchange rate on interest and capital payments per one U.S. dollar
Quebecor Media Inc.					
Senior Notes	2007 to 2016	US\$ 700.0	7.69 %	7.75 %	0.9990
Senior Notes	2006 to 2016	US\$ 525.0	7.39 %	7.75 %	1.1600
Term loan "B" credit facilities	2006 to 2009	US\$ 194.5	6.27 %	LIBOR + 2.00 %	1.1625
Term loan "B" credit facilities	2009 to 2013	US\$ 194.5	Bankers' acceptances 3 months + 2.22%	LIBOR + 2.00 %	1.1625
Term loan "B" credit facilities	2006 to 2013	US\$ 145.9	6.44 %	LIBOR + 2.00 %	1.1625
Videotron Ltd.					
Senior Notes	2004 to 2014	US\$ 190.0	Bankers' acceptances 3 months + 2.80%	6.875 %	1.2000
Senior Notes	2004 to 2014	US\$ 125.0	7.45 %	6.875 %	1.1950
Senior Notes	2003 to 2014	US\$ 200.0	Bankers' acceptances 3 months + 2.73%	6.875 %	1.3425
Senior Notes	2003 to 2014	US\$ 135.0	7.66 %	6.875 %	1.3425
Senior Notes	2005 to 2015	US\$ 175.0	5.98 %	6.375 %	1.1781
Senior Notes	2008 to 2018	US\$ 455.0	9.65 %	9.125 %	1.0210

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Description of derivative financial instruments (continued)

(ii) Cross-currency interest rate swaps (continued):

	Period covered	Notional amount	Annual effective interest rate using hedged rate	Annual nominal interest rate of debt	CDN dollar exchange rate on interest and capital payments per one U.S. dollar
Sun Media Corporation					
Senior Notes	2008 to 2013	US\$ 155.0	Bankers' acceptances 3 months + 3.70%	7.625 %	1.5227
Senior Notes	2003 to 2013	US\$ 50.0	Bankers' acceptances 3 months + 3.70%	7.625 %	1.5227

Certain cross-currency interest rate swaps entered into by the Company and its subsidiaries include an option that allows each party to unwind the transaction on a specific date at the then settlement amount.

(iii) Interest rate swaps:

Maturity	Notional amount	Pay/receive	Fixed rate	Floating rate
Osprey Media Publishing Inc.				
December 2010	\$ 50.0	Pay fixed/Receive floating	3.53 %	Bankers' acceptances 3 months
December 2010	\$ 43.3	Pay fixed/Receive floating	2.13 %	Bankers' acceptances 1 month
December 2010	\$ 40.0	Pay fixed/Receive floating	2.73 %	Bankers' acceptances 3 months
Sun Media Corporation				
October 2012	\$ 38.9	Pay fixed/Receive floating	3.75 %	Bankers' acceptances 3 months

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Description of derivative financial instruments (continued)

(iii) Interest rate swaps (continued)

Maturity	Notional amount	Pay/ receive	Fixed rate	Floating rate
TVA Group Inc.				
March 2010	\$ 45.0	Pay fixed/ Receive floating	1.88 %	Bankers' acceptances 1 month

(b) Fair value of financial instruments

The carrying amount of accounts receivable (classified as loans and receivables), accounts payable and accrued charges (classified as other liabilities) approximates their fair value since these items will be realized or paid within one year or are due on demand.

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value of financial instruments (continued)

The carrying value and fair values of long term debt and derivative financial instruments as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Quebecor Inc.				
Long-term debt ¹	\$ (113.6)	\$ (111.4)	\$ (103.0)	\$ (103.0)
Exchangeable debentures	(2.1)	(2.1)	(79.4)	(79.4)
Quebecor Media Inc.				
Long-term debt ¹	(2,013.7)	(1,491.3)	(1,664.9)	(1,646.6)
Cross-currency interest rate swaps	182.5	182.5	(159.8)	(159.8)
Foreign exchange forward contracts	0.1	0.1	(0.3)	(0.3)
Videotron Ltd.				
Long-term debt ¹	(1,766.6)	(1,577.0)	(973.3)	(938.2)
Cross-currency interest rate swaps	69.5	69.5	(241.3)	(241.3)
Foreign exchange forward contracts	9.0	9.0	(4.2)	(4.2)
Sun Media Corporation				
Long-term debt ¹	(294.2)	(242.4)	(238.0)	(234.1)
Cross-currency interest rate swaps and foreign exchange forward contract	(53.0)	(53.0)	(133.1)	(133.1)
Interest rate swap	(3.0)	(3.0)	–	–
Osprey Media Publishing Inc.				
Long-term debt ¹	(132.3)	(128.1)	(145.3)	(145.3)
Interest rate swap	(4.1)	(4.1)	0.2	0.2
TVA Group Inc.				
Long-term debt ¹	(93.8)	(91.4)	(56.3)	(56.3)
Interest rate swap	(0.4)	(0.4)	–	–

¹ The carrying value of long-term debt excludes adjustments to record changes in the fair value of long-term debt related to hedged interest risk, embedded derivatives, or financing fees.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value of financial instruments (continued)

The fair value of long-term debt is estimated based on discounted cash flows using year-end market yields or the market value of similar instruments with the same maturity, or quoted market prices when available. The majority of derivative financial instruments (e.g. cross-currency interest rate swaps) are traded over the counter and, as such, there are no quoted prices. The fair value of derivative financial instruments is therefore estimated using valuation models that project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative instrument and factors observable in external markets, such as period-end swap rates and foreign exchange rates. An adjustment is also included to reflect non-performance risk, impacted by the financial and economic environment prevailing at the date of the valuation, in the recognized measure of the fair value of the derivative instruments by applying a credit default premium to the net exposure of the counterparty or the Company. The fair value of early settlement options recognized as embedded derivatives is determined by option pricing models using market inputs and assumptions, including volatility and discount factors.

Due to the judgment used in applying a wide range of acceptable techniques and estimates in calculating fair value amounts, fair values are not necessarily comparable among financial institutions or other market participants and may not be realized in an actual sale or the immediate settlement of the instrument.

(c) Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial asset fails to meet its contractual obligations.

In the normal course of business, the Company continuously monitors the financial condition of its customers and reviews the credit history of each new customer. As of December 31, 2008, no customer balance represented a significant portion of the Company's consolidated trade receivables. The Company establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. The allowance for doubtful accounts related to continuing operations amounted to \$47.6 million as of December 31, 2008 (\$34.0 million as of December 31, 2007). As of December 31, 2008, 11.3% of trade receivables related to continuing operations were 90 days past their billing date (10.9% as of December 31, 2007).

The Company believes that its product lines and the diversity of its customer base are instrumental in reducing its credit risk, as well as the impact of fluctuations in product-line demand. The Company does not believe that it is exposed to an unusual level of customer credit risk.

From their use of derivative financial instruments, the Company and its subsidiaries are exposed to the risk of non-performance by a third-party. When the Company and its subsidiaries enter into derivative contracts, the counterparties (either foreign or Canadian) must have credit ratings at least in accordance with the Company's credit risk management policy and are subject to concentration limits.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk management

Liquidity risk is the risk that the Company and its subsidiaries will not be able to meet their financial obligations as they fall due or the risk that those financial obligations have to be met at excessive cost. The Company and its subsidiaries manage this exposure through staggered debt maturities. The weighted average term of Quebecor Media Inc.'s consolidated debt was approximately 5.7 years as of December 31, 2008.

Company management believes that cash flows from continuing operations and available sources of financing should be sufficient to cover committed cash requirements for capital investments, working capital, interest payments, debt repayments, pension plan contributions, and dividends in the future. The Company has access to cash flows generated by its subsidiaries through dividends paid by its subsidiary, Quebecor Media Inc.

As of December 31, 2008, material contractual obligations related to financial instruments included capital repayment and interest on long-term debt and obligations related to derivative instruments, less estimated future receipts on derivative instruments. These obligations and their maturities are as follows:

	Total	Less than 1 year	1-3 years	3-5 years	5 years or more
Bank indebtedness	\$ 12.3	\$ 12.3	\$ –	\$ –	\$ –
Accounts payable and accrued charges	788.6	788.6	–	–	–
Long-term debt	4,414.2	42.3	402.7	922.8	3,046.4
Interest payments ¹	1,907.8	259.6	586.2	523.8	538.2
Derivative instruments ²	(176.4)	(0.2)	(0.3)	48.3	(224.2)
Total	\$ 6,946.5	\$ 1,102.6	\$ 988.6	\$ 1,494.9	\$ 3,360.4

¹ Estimate of interest to be paid on long-term debt is based on hedged and unhedged interest rates and hedged foreign exchange rates as of December 31, 2008.

² Estimated future receipts, net of future disbursements, on derivative financial instruments related to foreign exchange hedging.

(e) Market risk

Market risk is the risk that changes in market prices due to foreign exchange rates, interest rates and/or equity prices will affect the value of the Company's financial instruments. The objective of market risk management is to mitigate and control exposures within acceptable parameters while optimizing the return on risk.

Foreign currency risk

Most of the Company's consolidated revenues and expenses, other than interest expense on U.S. dollar-denominated debt, purchases of set-top boxes and cable modems and certain capital expenditures, are received or denominated in Canadian dollars. A large portion of the interest, principal and premium, if any, payable on its debt is payable in U.S. dollars. The Company and its subsidiaries have entered into transactions to hedge the foreign currency risk exposure on 100% of their U.S. dollar-denominated debt obligations outstanding as of December 31, 2008 and to hedge their exposure on certain purchases of set-top boxes, cable modems and capital expenditures. Accordingly, the Company's sensitivity to variations in foreign exchange rates is economically limited.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2008 and 2007

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(e) Market risk (continued)

Foreign currency risk (continued)

The following table summarizes the estimated sensitivity on income and other comprehensive income, before income tax and non-controlling interest, of a variance of \$0.10 in the year-end exchange rate of a Canadian dollar per one U.S. dollar:

	Income	Other comprehensive income
Increase of \$0.10		
U.S. dollar-denominated accounts payable	\$ (0.7)	\$ —
Gain (loss) on valuation and translation of financial instruments and derivative financial instruments	(1.2)	78.2
Decrease of \$0.10		
U.S. dollar-denominated accounts payable	0.7	—
Gain (loss) on valuation and translation of financial instruments and derivative financial instruments	1.2	(78.2)

Interest rate risk and non-performance risk

The Company's and its subsidiaries' revolving and bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers' acceptance rate (BA), (ii) London Interbank Offered Rate (LIBOR) and (iii) bank prime rate (prime). The Senior Notes issued by the Company and its subsidiaries bear interest at fixed rates. The Company and its subsidiaries have entered into various interest rate and cross-currency interest rate swap agreements in order to manage cash flow and fair value risk exposure due to changes in interest rates. As of December 31, 2008, after taking into account the hedging instruments, long-term debt was comprised of 62.8% fixed rate debt and 37.2% floating rate debt.

The estimated sensitivity on financial expense for floating rate debt, before income tax and non-controlling interest, of a 100 basis-point variance in the year-end Canadian Banker's acceptance rate is \$16.0 million.

The estimated sensitivity on income and other comprehensive income, before income tax and non-controlling interest, of a 100 basis-point variance in the discount rate used to calculate the fair value of financial instruments, as per the Company's valuation model, is as follows:

	Income	Other comprehensive income
Increase of 100 basis point	\$ 10.3	\$ (1.6)
Decrease of 100 basis point	(10.3)	1.6

QUEBECOR INC. AND ITS SUBSIDIARIES

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management

The Company's primary objective in managing capital is to maintain an optimal capital base in order to support the capital requirements of its various businesses, including growth opportunities.

In managing its capital structure, the Company takes into account the asset characteristics of its subsidiaries and planned requirements for funds, leveraging their individual borrowing capacities in the most efficient manner to achieve the lowest cost of financing. Management of the capital structure involves the issuance of new debt, the repayment of existing debt using cash generated by operations, and the level of distributions to shareholders. The Company has not significantly changed its strategy regarding the management of its capital structure since the last financial year.

The Company's capital structure is composed of shareholders' equity, bank indebtedness, long-term debt, assets and liabilities related to derivative financial instruments, and non-controlling interest, less cash and cash equivalents and cash and cash equivalents in trust. The capital structure of continuing operations is as follows:

	2008	2007
Bank indebtedness	\$ 12.3	\$ 16.9
Long-term debt	4,449.4	3,130.5
Net (assets) liabilities related to derivative financial instruments	(200.6)	538.5
Non-controlling interest	985.7	1,263.7
Cash and cash equivalents	(10.0)	(6.6)
Cash and cash equivalents in trust	(5.3)	(5.2)
Net liabilities	5,231.5	4,937.8
Shareholder's equity	\$ 885.0	\$ 436.9

The Company is not subject to any externally imposed capital requirements other than certain restrictions under the terms of its borrowing agreements, which relate to permitted investments, inter-company transactions, the declaration and payment of dividends or other distributions.

29. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008, the Company and its subsidiaries made purchases and incurred rent charges with affiliated companies in the amount of \$9.1 million (\$11.8 million in 2007), which are included in cost of sales and selling and administrative expenses. The Company and its subsidiaries made sales to affiliated companies in the amount of \$0.4 million (\$0.4 million in 2007). These transactions were concluded and accounted for at the exchange amount.

In 2007, Quebecor World Inc. sold real estate to a shareholder of the Company for a cash consideration of \$1.4 million, established based on an independent valuation, resulting in a gain of \$1.1 million.

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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30. PENSION PLANS AND POSTRETIREMENT BENEFITS

The Company maintains various flat-benefit plans, various final-pay plans with indexation features from zero to 2%, and defined contribution plans. The Company's policy is to maintain its contribution at a level sufficient to cover benefits. Actuarial valuations of the Company's numerous pension plans were performed at least once in the last three years and the next required valuations will be performed within the next three years.

The Company provides postretirement benefits to eligible retired employees. The costs of these benefits, principally health care, are accounted for during the employee's active service period.

The following tables show a reconciliation of the changes in the plans' benefit obligations and the fair value of plan assets for the years ended December 31, 2008 and 2007, along with a statement of the funded status as of those dates.

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Change in benefit obligations				
Benefit obligations at beginning of year	\$ 649.8	\$ 599.7	\$ 43.5	\$ 40.7
Service costs	20.7	24.9	1.6	1.4
Interest costs	36.7	32.1	2.5	2.0
Plan participants' contributions	12.9	11.1	–	–
Actuarial gain	(159.6)	(34.6)	(12.5)	(1.0)
Benefits and settlements paid	(34.7)	(30.7)	(0.8)	(0.6)
Plan amendments	10.9	5.0	–	–
Curtailment gain	(0.9)	(0.5)	(0.7)	–
Special termination benefits	1.2	10.4	–	–
Business acquisition	–	32.4	–	1.0
Other	1.1	–	1.9	–
Benefit obligations at end of year	\$ 538.1	\$ 649.8	\$ 35.5	\$ 43.5

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 604.0	\$ 560.4	\$ –	\$ –
Actual return on plan assets	(77.7)	5.4	–	–
Employer contributions	24.3	25.5	0.8	0.6
Plan participants' contributions	12.9	11.1	–	–
Benefits and settlements paid	(34.7)	(30.7)	(0.8)	(0.6)
Transfer from other plans	0.8	–	–	–
Business acquisition	–	32.3	–	–
Fair value of plan assets at end of year	\$ 529.6	\$ 604.0	\$ –	\$ –

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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30. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

The plan assets are comprised of:

	2008		2007	
Equity securities	50.7	%	56.8	%
Debt securities	44.9		38.2	
Other	4.4		5.0	
	100.0	%	100.0	%

As of December 31, 2008, plan assets included shares of the Company and its subsidiaries in an amount of \$1.2 million (\$2.2 million as of December 31, 2007).

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Reconciliation of funded status				
Plan deficit	\$ (8.5)	\$ (45.8)	\$ (35.5)	\$ (43.5)
Unrecognized actuarial loss (gain)	5.4	48.6	(2.0)	11.5
Unrecognized net transition (asset) obligation	(4.2)	(4.6)	0.3	0.4
Unrecognized prior service cost (benefit)	28.4	19.9	(3.4)	(4.6)
Valuation allowance	(25.3)	(22.8)	–	–
Net amount recognized	\$ (4.2)	\$ (4.7)	\$ (40.6)	\$ (36.2)

Included in the above benefit obligations and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Benefit obligations	\$ (308.6)	\$ (472.0)	\$ (35.5)	\$ (43.5)
Fair value of plan assets	287.3	417.2	–	–
Funded status – Plan deficit	\$ (21.3)	\$ (54.8)	\$ (35.5)	\$ (43.5)

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30. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Amounts recognized in the consolidated balance sheets are as follows:

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Accrued benefit liability	\$ (27.1)	\$ (25.4)	\$ (40.6)	\$ (36.2)
Deferred pension charge	22.9	20.7	–	–
Net amount recognized	\$ (4.2)	\$ (4.7)	\$ (40.6)	\$ (36.2)

Components of the net benefit costs are as follows:

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Service costs	\$ 20.7	\$ 24.9	\$ 1.6	\$ 1.4
Interest costs	36.7	32.1	2.5	2.0
Actual return on plan assets	77.7	(5.4)	–	–
Current actuarial gain	(159.6)	(34.6)	(12.5)	(1.0)
Current prior service costs	10.9	4.9	–	–
Special termination benefits, curtailment gain and other	0.5	9.9	(0.7)	–
Elements of net benefit costs before adjustments to recognize the long-term nature and valuation allowance	(13.1)	31.8	(9.1)	2.4
Difference between actual and expected return on plan assets	(121.3)	(36.5)	–	–
Deferral of amount arising during the period:				
Actuarial gain	159.6	34.6	12.5	1.0
Prior service costs	(10.9)	(4.9)	–	–
Amortization of previously deferred amounts:				
Actuarial gain	3.5	1.9	0.5	0.6
Prior service benefits (costs)	2.4	2.0	(0.4)	(0.5)
Transitional obligations	(0.5)	(0.5)	–	–
Other	1.2	–	–	–
Total adjustments to recognize the long-term nature of benefit costs	34.0	(3.4)	12.6	1.1
Valuation allowance	2.5	3.3	–	–
Net benefit costs	\$ 23.4	\$ 31.7	\$ 3.5	\$ 3.5

QUEBECOR INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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30. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

The expense related to defined contribution pension plans amounted to \$11.3 million in 2008 (\$11.1 million in 2007).

The total cash amount paid or payable for employee future benefits for all plans, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, totalled \$36.4 million for the year ended December 31, 2008 (\$37.2 million in 2007).

The weighted average rates used in measuring the Company's benefit obligations as of December 31, 2008 and 2007 and current periodic benefit costs are as follows:

	Pension benefits		Postretirement benefits	
	2008	2007	2008	2007
Benefit obligations				
Rates as of year-end:				
Discount rate	7.50 %	5.50 %	7.50 %	5.50 %
Rate of compensation increase	3.50	3.50	3.50	3.50
Current periodic costs				
Rates as of preceding year-end:				
Discount rate	5.50 %	5.00 %	5.50 %	5.00 %
Expected return on plan assets ¹	7.25	7.25	—	—
Rate of compensation increase	3.50	3.50	3.50	3.50

¹ After management and professional fees.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 9.0% for Quebecor Media Inc. plans at the end of 2008. The costs of Quebecor Media Inc.'s plans, as per the estimate, are expected to decrease gradually over the next 10 years to 5.0% and to remain at that level thereafter. A one percentage-point change in the assumed health care cost trend would have the following effects:

Sensitivity analysis	Postretirement benefits	
	1% increase	1% decrease
Effect on benefit cost	\$ 0.9	\$ (0.7)
Effect on benefit obligations	5.5	(4.2)