MANAGEMENT DISCUSSION AND ANALYSIS

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CORPORATE PROFILE

This Management Discussion and Analysis covers the main activities of Quebecor Inc. in the second quarter of 2019 and the major changes from the previous financial year. Quebecor Inc. is a holding company with an interest in Quebecor Media Inc., one of Canada's largest telecommunications and media groups. On June 22, 2018, Quebecor Media Inc. became a wholly owned subsidiary of Quebecor Inc.

Quebecor Media Inc. operates in the following business segments: Telecommunications, Media, and Sports and Entertainment. Quebecor Media Inc. is pursuing a convergence strategy that captures synergies among its properties and leverages the value of content for the benefit of multiple distribution platforms. Unless the context otherwise requires, "Quebecor" or the "Corporation" refers to Quebecor Inc. and its subsidiaries, and "Quebecor Media" refers to Quebecor Media Inc. and its subsidiaries.

On May 11 and June 22, 2018, Quebecor Media repurchased a total of 16,064,215 of its Common Shares held by CDP Capital d'Amérique Investissements inc. ("CDP Capital"), a subsidiary of the Caisse de dépôt et placement du Québec, for a total aggregate purchase price of $1.54 billion, paid in cash. On June 22, 2018, Quebecor purchased 1,564,696 Common Shares of Quebecor Media held by CDP Capital in consideration of the issuance of a convertible debenture in the principal amount of $150.0 million, convertible into Class B Subordinate Voting Shares ("Class B Shares") of Quebecor. Upon completion of these transactions, the Corporation's interest in Quebecor Media increased from 81.53% to 100.0%.

On January 1, 2019, the Corporation adopted on a fully retrospective basis the new rules under IFRS 16 which set out new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides lessees with a single accounting model for all leases, with certain exemptions. In particular, lessees are required to report most leases on their balance sheets by recognizing right-of-use assets and related financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The adoption of IFRS 16 had significant impacts on the consolidated financial statements since all of the Corporation segments are engaged in various long-term leases relating to premises and equipment. Under IFRS 16, most lease charges are now expensed as a depreciation of the right-of-use asset, along with interest on the related lease liability. Since operating lease charges were recognized as operating expenses as they were incurred under previous standard, the adoption of IFRS 16 has changed the timing of the recognition of these lease charges over the term of each lease. It has also affected the classification of expenses in the consolidated statements of income. Principal payments of the lease liability are now presented as financing activities in the consolidated statements of cash flows, whereas under the previous standard these payments were presented as operating activities. The impact of adoption of IFRS 16 on a fully retrospective basis is described under "Changes in Accounting Policies."

Table 2 provides a reconciliation of adjusted EBITDA to net income without restatement of comparative figures following adoption of IFRS 16, as permitted under International Financial Reporting Standards ("IFRS"). Form F1 in Canadian securities regulatory authorities' *Regulation 51-102 respecting Continuous Disclosure Obligations* stipulates that if a choice made in applying a change in accounting policies has a material effect, as is the case with IFRS 16, the Corporation may explain its choice and discuss the effect on its financial performance.

This report should be read in conjunction with the information in the consolidated financial statements and Management Discussion and Analysis for the financial year ended December 31, 2018. All amounts are stated in Canadian dollars ("CAN") unless otherwise indicated.

DISCONTINUED OPERATIONS

On January 24, 2019, Videotron Ltd. ("Videotron") sold its 4Degrees Colocation Inc. ("4Degrees Colocation") data centre operations for an amount of $261.6 million, which was fully paid in cash at the date of transaction. An amount of $0.9 million relating to a working capital adjustment was also paid by Videotron in the second quarter of 2019. The determination of the final proceeds from the sale is however subject to certain adjustments based on the realization of future conditions over a period of up to 10 years. Accordingly, a gain on disposal of $97.2 million, net of income taxes of $18.5 million, was accounted for in the first quarter of 2019, while an amount of $53.1 million from the proceeds received at the date of transaction was deferred in connection with the estimated present value of the future conditional adjustments. The results of operations and cash flows of these businesses were reclassified as discontinued operations in the consolidated statements of income and cash flows.

In this Management Discussion and Analysis, only continuing operating activities of Quebecor Media are included in the analysis of its segment operating results.

HIGHLIGHTS SINCE END OF FIRST QUARTER 2019

- Quebecor's revenues totalled $1.06 billion in the second quarter of 2019, an $18.2 million (1.8%) increase from the same period of 2018.

Telecommunications

- The Telecommunications segment grew its revenues by $12.0 million (1.4%) and its adjusted EBITDA by $20.2 million (4.7%) in the second quarter of 2019. Without restatement of comparative figures following adoption of IFRS 16, adjusted EBITDA increased $30.3 million (7.2%).
- Videotron significantly increased its revenues from mobile telephony ($15.6 million or 11.9%) and Internet access ($7.1 million or 2.6%) in the second quarter of 2019.
- Videotron's total average billing per unit ("ABPU") was $50.20 in the second quarter of 2019, compared with $49.68 in the same period of 2018, a $0.52 (1.0%) increase. Mobile ABPU was $52.56 in the second quarter of 2019 compared with $53.70 in the same period of 2018, a $1.14 (-2.1%) decrease due in part to the popularity of bring your own device ("BYOD") plans.
- Subscriber-connections to the mobile telephony service increased by 38,300 in the second quarter of 2019 compared with an increase of 31,900 in the same period of 2018.
- On May 14, 2019, Videotron announced that it had placed No. 1 on the Top-Rated Workplaces: Best in Québec list, based on reviews left by employees on Indeed, Canada's top job site.
- On April 10, 2019, Videotron purchased 10 blocks of low-frequency spectrum in the 600 MHz band in Innovation, Science and Economic Development Canada's ("ISED Canada") latest commercial mobile spectrum auction. The licences, covering Eastern, Southern and Northern Québec, as well as Outaouais and Eastern Ontario regions, were acquired for $255.8 million.

Media

- On June 5, 2019, TVA Group Inc. ("TVA Group") announced that it needed to make deep budget cuts to preserve its leading position in Québec and protect the production of original French-language content in Québec. The cuts had been made necessary by the challenging business environment and competitive landscape, which has been undermining the television industry for years, combined with the lack of decisive action by regulatory authorities, which have not modernized the system in order to keep Québec and Canadian companies competitive. TVA Group's budget reduction plan affects all its segments and entails the elimination of 68 positions.
- On April 1, 2019, TVA Group closed the acquisition of the companies in the Incendo Media inc. ("Incendo Media") group, a Montréal-based producer and distributor of television programs for international markets, for a cash consideration of $11.1 million (net of cash acquired of $0.9 million) and a balance payable at fair value of $6.8 million. An estimated $0.9 million is receivable as of June 30, 2019 following post-closing adjustments.

Financial transactions

- On July 15, 2019, Quebecor Media prepaid its term loan "B" and settled the related hedging contracts for a total cash consideration of $340.9 million.

NON-IFRS FINANCIAL MEASURES

The financial measures not standardized under IFRS that are used by the Corporation to assess its financial performance, such as adjusted EBITDA, adjusted income from continuing operating activities, cash flows from segment operations and free cash flows from continuing operating activities of the Quebecor Media subsidiary, are not calculated in accordance with, or recognized by IFRS. The Corporation's method of calculating these non-IFRS financial measures may differ from the methods used by other companies and, as a result, the non-IFRS financial measures presented in this document may not be comparable to other similarly titled measures disclosed by other companies.

Adjusted EBITDA

In its analysis of operating results, the Corporation defines adjusted EBITDA, as reconciled to net income under IFRS, as net income before depreciation and amortization, financial expenses, gain (loss) on valuation and translation of financial instruments, restructuring of operations and other items, income taxes and income from discontinued operations. Adjusted EBITDA as defined above is not a measure of results that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Corporation uses adjusted EBITDA in order to assess the performance of its investment in Quebecor Media. The Corporation's management and Board of Directors use this measure in evaluating its consolidated results as well as the results of the Corporation's operating segments. This measure eliminates the significant level of impairment and depreciation/amortization of tangible and intangible assets and is unaffected by the capital structure or investment activities of the Corporation and its business segments.

Adjusted EBITDA is also relevant because it is a significant component of the Corporation's annual incentive compensation programs. A limitation of this measure, however, is that it does not reflect the periodic costs of tangible and intangible assets used in generating revenues in the Corporation's segments. The Corporation also uses other measures that do reflect such costs, such as cash flows from segment operations and free cash flows from continuing operating activities of the Quebecor Media subsidiary. The Corporation's definition of adjusted EBITDA may not be the same as similarly titled measures reported by other companies.

Table 1 provides a reconciliation of adjusted EBITDA to net income as disclosed in Quebecor's condensed consolidated financial statements.

Table 1
Reconciliation of the adjusted EBITDA measure used in this report to the net income measure used in the condensed consolidated financial statements
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Adjusted EBITDA (negative adjusted EBITDA):				
Telecommunications	**$ 450.0**	$ 429.8	**$ 873.0**	$ 847.0
Media	**5.7**	0.5	**6.9**	0.6
Sports and Entertainment	**(1.5)**	(0.6)	**(2.2)**	(1.3)
Head Office	**0.8**	(3.8)	**(2.0)**	(4.5)
	455.0	425.9	**875.7**	841.8
Depreciation and amortization	**(188.6)**	(187.2)	**(377.1)**	(373.9)
Financial expenses	**(82.8)**	(80.3)	**(164.9)**	(158.8)
Gain (loss) on valuation and translation of financial instruments	**16.4**	(75.6)	**2.1**	(105.2)
Restructuring of operations and other items	**(17.3)**	(2.0)	**(25.8)**	(8.5)
Income taxes	**(44.3)**	(28.2)	**(82.2)**	(67.4)
Income from discontinued operations	**–**	1.1	**97.5**	1.8
Net income	**$ 138.4**	$ 53.7	**$ 325.3**	$ 129.8

Adjusted EBITDA without restatement of comparative figures

Table 2 provides a reconciliation of adjusted EBITDA to net income without restatement of comparative figures following adoption of IFRS 16.

Table 2

Reconciliation of the adjusted EBITDA measure used in this report to the net income measure used in the condensed consolidated financial statements, without restatement of comparative figures following the adoption of IFRS 16

(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Adjusted EBITDA (negative adjusted EBITDA):				
Telecommunications	**$ 450.0**	$ 419.7	**$ 873.0**	$ 827.6
Media	**5.7**	(0.7)	**6.9**	(1.8)
Sports and Entertainment	**(1.5)**	(2.0)	**(2.2)**	(4.1)
Head Office	**0.8**	(2.8)	**(2.0)**	(2.7)
	455.0	414.2	**875.7**	819.0
Depreciation and amortization	**(188.6)**	(178.9)	**(377.1)**	(357.5)
Financial expenses	**(82.8)**	(78.1)	**(164.9)**	(154.3)
Gain (loss) on valuation and translation of financial instruments	**16.4**	(75.6)	**2.1**	(105.2)
Restructuring of operations and other items	**(17.3)**	(2.0)	**(25.8)**	(8.5)
Income taxes	**(44.3)**	(27.9)	**(82.2)**	(66.9)
Income from discontinued operations	**–**	1.1	**97.5**	1.8
Net income	**$ 138.4**	$ 52.8	**$ 325.3**	$ 128.4

Adjusted income from continuing operating activities

The Corporation defines adjusted income from continuing operating activities, as reconciled to net income attributable to shareholders under IFRS, as net income attributable to shareholders before gain (loss) on valuation and translation of financial instruments, restructuring of operations and other items, net of income tax related to adjustments and net income attributable to non-controlling interest related to adjustments, and before the income from discontinued operations attributable to shareholders. Adjusted income from continuing operating activities, as defined above, is not a measure of results that is consistent with IFRS. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Corporation uses adjusted income from continuing operating activities to analyze trends in the performance of its businesses. The above-listed items are excluded from the calculation of this measure because they impair the comparability of financial results. Adjusted income from continuing operating activities is more representative for forecasting income. The Corporation's definition of adjusted income from continuing operating activities may not be identical to similarly titled measures reported by other companies.

Table 3 provides a reconciliation of adjusted income from continuing operating activities to the net income attributable to shareholders' measure used in Quebecor's condensed consolidated financial statements.

Table 3

Reconciliation of the adjusted income from continuing operating activities measure used in this report to the net income attributable to shareholders' measure used in the condensed consolidated financial statements

(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Adjusted income from continuing operating activities	**$ 136.2**	$ 105.9	**$ 247.6**	$ 195.4
Gain (loss) on valuation and translation of financial instruments	**16.4**	(75.6)	**2.1**	(105.2)
Restructuring of operations and other items	**(17.3)**	(2.0)	**(25.8)**	(8.5)
Income taxes related to adjustments[1]	**4.6**	12.4	**6.7**	14.5
Net income attributable to non-controlling interest related to adjustments	**0.3**	0.3	**1.1**	1.4
Discontinued operations	**–**	1.0	**97.5**	1.5
Net income attributable to shareholders	**140.2**	$ 42.0	**$ 329.2**	$ 99.1

1 Includes impact of fluctuations in income tax applicable to adjusted items, either for statutory reasons or in connection with tax transactions.

Cash flows from segment operations

Cash flows from segment operations represents adjusted EBITDA, less additions to property, plant and equipment and to intangible assets (excluding disbursements for licence acquisitions and renewals), plus proceeds from disposal of assets. The Corporation uses cash flows from segment operations as a measure of the liquidity generated by its segments. Cash flows from segment operations represents funds available for interest and income tax payments, expenditures related to restructuring programs, business acquisitions, licence acquisitions and renewals, payment of dividends, reduction of paid-up capital by Quebecor Media, repayment of long-term debt and purchase of non-controlling interest. Cash flows from segment operations is not a measure of liquidity that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. Cash flows from segment operations is used by the Corporation's management and Board of Directors to evaluate cash flows generated by its segments' operations. The Corporation's definition of cash flows from segment operations may not be identical to similarly titled measures reported by other companies. Tables 8 and 9 provide a reconciliation of cash flows from segment operations to cash flows provided by continuing operating activities reported in Quebecor's condensed consolidated financial statements.

Free cash flows from continuing operating activities of the Quebecor Media subsidiary

Free cash flows from continuing operating activities of the Quebecor Media subsidiary represents cash flows provided by its continuing operating activities calculated in accordance with IFRS, less additions to property, plant and equipment and to intangible assets (excluding disbursements for licence acquisitions and renewals), plus proceeds from disposal of assets. Free cash flows from continuing operating activities is used by the Corporation's management and Board of Directors to evaluate cash flows generated by the operations of the Quebecor Media subsidiary. Free cash flows from continuing operating activities represents Quebecor Media's available funds for business acquisitions, licence acquisitions and renewals, payment of dividends, reduction of paid-up capital, repayment of long-term debt and share repurchases. Free cash flows from continuing operating activities is not a measure of liquidity that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. The Corporation's definition of free cash flows from continuing operating activities may not be identical to similarly titled measures reported by other companies.

Table 9 provides a reconciliation of free cash flows from continuing operating activities of Quebecor Media to cash flows provided by continuing operating activities reported in Quebecor's condensed consolidated financial statements.

KEY PERFORMANCE INDICATORS

Revenue-generating unit

The Corporation uses revenue generating unit ("RGU"), an industry metric, as a key performance indicator. An RGU represents, as the case may be, subscriptions to the cable Internet, cable television and Club illico over-the-top video service ("Club illico") services, and subscriber connections to the mobile telephony and cable telephony services. RGU is not a measurement that is consistent with IFRS and the Corporation's definition and calculation of RGU may not be the same as identically titled measurements reported by other companies or published by public authorities.

Average billing per unit

The Corporation uses ABPU, an industry metric, as a key performance indicator. This indicator is used to measure monthly average subscription billing per RGU. ABPU is not a measurement that is consistent with IFRS and the Corporation's definition and calculation of ABPU may not be the same as identically titled measurements reported by other companies.

Mobile ABPU is calculated by dividing the average subscription billing for mobile telephony services by the average number of mobile RGUs during the applicable period, and then dividing the resulting amount by the number of months in the applicable period.

Total ABPU is calculated by dividing the combined average subscription billing for cable Internet, cable television, Club illico, mobile telephony and cable telephony services by the total average number of RGUs from cable Internet, cable television, mobile telephony and cable telephony services during the applicable period, and then dividing the resulting amount by the number of months in the applicable period.

ANALYSIS OF CONSOLIDATED RESULTS OF QUEBECOR

2019/2018 second quarter comparison

Revenues: $1.06 billion, an $18.2 million (1.8%) increase.

- Revenues increased in Telecommunications ($12.0 million or 1.4% of segment revenues), Media ($3.6 million or 1.9%), and Sports and Entertainment ($4.4 million or 11.9%).

Adjusted EBITDA: $455.0 million, a $29.1 million (6.8%) increase. Without restatement of comparative figures following adoption of IFRS 16, adjusted EBITDA increased $40.8 million (9.9%).

- Adjusted EBITDA increased $20.2 million (4.7%) in the Telecommunications segment. Without restatement of comparative figures following adoption of IFRS 16, the segment's adjusted EBITDA increased by $30.3 million (7.2%).
- Adjusted EBITDA increased in Media ($5.2 million).
- Negative adjusted EBITDA increased in Sports and Entertainment ($0.9 million).
- There was a favourable variance at Head Office ($4.6 million) due to a decrease in the stock-based compensation charge.
- The change in the fair value of Quebecor Media stock options resulted in a $3.4 million favourable variance in the stock-based compensation charge in the second quarter of 2019 compared with the same period of 2018. The change in the fair value of Quebecor stock options and in the value of Quebecor stock-price-based share units resulted in a $3.3 million favourable variance in the Corporation's stock-based compensation charge in the second quarter of 2019.

Net income attributable to shareholders: $140.2 million ($0.55 per basic share) in the second quarter of 2019, compared with $42.0 million ($0.18 per basic share) in the same period of 2018, an increase of $98.2 million ($0.37 per basic share).

- The main favourable variances were:
  - $92.0 million favourable variance in gains on valuation and translation of financial instruments, including $92.7 million without any tax consequences;
  - $29.1 million increase in adjusted EBITDA;
  - $13.5 million favourable variance in non-controlling interest.
- The main unfavourable variances were:
  - $16.1 million increase in the income tax expense;
  - $15.3 million unfavourable variance in the charge for restructuring of operations and other items;
  - $2.5 million increase in financial expenses.

Net income attributable to shareholders without restatement of comparative figures following adoption of IFRS 16 was $140.2 million in the second quarter of 2019, compared with $41.3 million in the same period of 2018, a $98.9 million increase.

Adjusted income from continuing operating activities: $136.2 million ($0.53 per basic share) in the second quarter of 2019, compared with $105.9 million ($0.45 per basic share) in the same period of 2018, an increase of $30.3 million ($0.08 per basic share) or 28.6%.

Depreciation and amortization charge: $188.6 million in the second quarter of 2019, a $1.4 million increase.

Financial expenses: $82.8 million in the second quarter of 2019, a $2.5 million increase. Additions to financial expenses were caused mainly by higher average indebtedness as a result of debt financing a portion of the repurchase of the Quebecor Media shares held by CDP Capital in the second quarter of 2018 and lower interest revenues generated by liquidity. Reductions in financial expenses were due to a lower average interest rate on the debt.

Gain on valuation and translation of financial instruments: $16.4 million in the second quarter of 2019 compared with a $75.6 million loss in the same period of 2018. The $92.0 million favourable variance was essentially due to a $92.7 million favourable variance, without any tax consequences, in gains and losses on embedded derivatives related to convertible debentures.

Charge for restructuring of operations and other items: $17.3 million in the second quarter of 2019, compared with $2.0 million in the same period of 2018, a $15.3 million unfavourable variance.

- A $2.0 million net restructuring charge was recognized in the second quarter of 2019 in connection with cost-reduction initiatives in the Corporation's various segments ($2.0 million in the second quarter of 2018). A $15.3 million charge for impairment of assets was also recognized in connection with restructuring initiatives.

Income tax expense: $44.3 million (effective tax rate of 26.6%) in the second quarter of 2019, compared with $28.2 million (effective tax rate of 18.0%) in the same period of 2018, a $16.1 million unfavourable variance. The increase in the effective tax rate reflects recognition of tax benefits in the second quarter of 2018. The increase in the income tax expense was due to the increase in the effective tax rate and the impact of the increase in taxable income for tax purposes. The effective tax rate is calculated considering only taxable and deductible items.

2019/2018 year-to-date comparison

Revenues: $2.08 billion, a $43.5 million (2.1%) increase.

- Revenues increased in Telecommunications ($34.0 million or 2.0% of segment revenues), Media ($3.1 million or 0.9%), and Sports and Entertainment ($7.6 million or 10.3%).

Adjusted EBITDA: $875.7 million, a $33.9 million (4.0%) increase. Without restatement of comparative figures following adoption of IFRS 16, adjusted EBITDA increased $56.7 million (6.9%).

- Adjusted EBITDA increased in the Telecommunications segment by $26.0 million (3.1%) despite a $10.9 million favourable retroactive adjustment related to roaming fees following a Canadian Radio-television and Telecommunications Commission ("CRTC") decision, recognized in the first half of 2018 in the Telecommunications segment (creating an unfavourable variance in the first half of 2019 compared with the same period of 2018). Without restatement of comparative figures following adoption of IFRS 16, the segment's adjusted EBITDA increased by $45.4 million (5.5%).
- Adjusted EBITDA increased in Media ($6.3 million).
- Negative adjusted EBITDA increased in Sports and Entertainment ($0.9 million).
- There was a favourable variance at Head Office ($2.5 million) due to a decrease in the stock-based compensation charge.
- The change in the fair value of Quebecor Media stock options resulted in a $5.4 million favourable variance in the stock-based compensation charge in the first half of 2019 compared with the same period of 2018. The change in the fair value of Quebecor stock options and in the value of Quebecor stock-price-based share units resulted in a $1.0 million unfavourable variance in the Corporation's stock-based compensation charge in the first half of 2019.

Net income attributable to shareholders: $329.2 million ($1.29 per basic share) in the first half of 2019 compared with $99.1 million ($0.42 per basic share) in the same period of 2018, an increase of $230.1 million ($0.87 per basic share).

- The main favourable variances were:
  - $107.3 million favourable variance in the gain on valuation and translation of financial instruments, consisting of a favourable variance, without any tax consequences, in gains and losses on embedded derivatives related to convertible debentures;
  - $95.7 million favourable variance in income from discontinued operations;
  - $34.6 million favourable variance in non-controlling interest;
  - $33.9 million increase in adjusted EBITDA.
- The main unfavourable variances were:
  - $17.3 million unfavourable variance in the charge for restructuring of operations and other items;
  - $14.8 million increase in the income tax expense;
  - $6.1 million increase in financial expenses;
  - $3.2 million increase in the depreciation and amortization charge.

Net income attributable to shareholders without restatement of comparative figures following adoption of IFRS 16 was $329.2 million in the first half of 2019, compared with $98.0 million in the same period of 2018, a $231.2 million increase.

Adjusted income from continuing operating activities: $247.6 million ($0.97 per basic share) in the first half of 2019, compared with $195.4 million ($0.83 per basic share) in the same period of 2018, an increase of $52.2 million ($0.14 per basic share) or 26.7%.

Depreciation and amortization charge: $377.1 million in the first half of 2019, a $3.2 million increase.

Financial expenses: $164.9 million, a $6.1 million increase due essentially to the same factors as those noted above under "2019/2018 second quarter comparison."

Gain on valuation and translation of financial instruments: $2.1 million in the first half of 2019 compared with a $105.2 million loss in the same period of 2018. The $107.3 million favourable variance was due to a favourable variance, without any tax consequences, in gains and losses on embedded derivatives related to convertible debentures.

Charge for restructuring of operations and other items: $25.8 million in the first half of 2019, compared with $8.5 million in the same period of 2018, a $17.3 million unfavourable variance.

- A $7.0 million net restructuring charge was recognized in the first half of 2019 in connection with cost-reduction initiatives in the Corporation's various segments ($8.5 million in the first half of 2018). An $18.8 million charge for impairment of assets was also recognized in the first half of 2019 in connection with restructuring initiatives.

Income tax expense: $82.2 million (effective tax rate of 26.8%) in the first half of 2019, compared with $67.4 million (effective tax rate of 22.5%) in the same period of 2018, a $14.8 million unfavourable variance. The increase in the effective tax rate was due to recognition of tax benefits in the second quarter of 2018. The increase in the income tax expense was due to the increase in the effective tax rate and the impact of the increase in taxable income for tax purposes. The effective tax rate is calculated considering only taxable and deductible items.

SEGMENTED ANALYSIS

Telecommunications

Second quarter 2019 operating results

Revenues: $854.4 million in the second quarter of 2019, a $12.0 million (1.4%) increase.

- Revenues from the mobile telephony service increased $15.6 million (11.9%) to $146.4 million, essentially due to an increase in the number of subscriber connections.
- Revenues from Internet access services increased $7.1 million (2.6%) to $278.7 million, mainly as a result of higher per-subscriber revenues, reflecting, among other things, the favourable impact of the product mix and increases in some rates, partially offset by a decrease in overage charges.
- Combined revenues from all cable television services decreased $3.9 million (-1.6%) to $247.5 million, due primarily to the impact of the net decrease in the customer base, partially offset by higher per-customer revenues resulting from, among other things, the impact of increases in some rates.
- Revenues from the cable telephony service decreased $6.9 million (-7.5%) to $85.7 million, mainly because of the impact of the net decrease in subscriber connections and lower long-distance revenues.
- Revenues from customer equipment sales decreased $2.6 million (-4.8%) to $51.4 million, mainly because of fewer device sales, partially offset by higher revenues per mobile device.
- Other revenues increased $2.7 million (6.4%) to $44.7 million, mainly reflecting a revenue increase at Videotron Business combined with an increase in the revenues of Club illico.

Total ABPU: Videotron's total ABPU was $50.20 in the second quarter of 2019, compared with $49.68 in the same period of 2018, a $0.52 (1.0%) increase. Mobile ABPU was $52.56 in the second quarter of 2019 compared with $53.70 in the same period of 2018, a $1.14 (-2.1%) decrease due in part to the popularity of BYOD plans.

Customer statistics

RGUs – The total number of RGUs was 6,001,100 at June 30, 2019, a decrease of 12,500 (-0.2%) in the second quarter of 2019 (compared with a decrease of 1,000 in the same period of 2018), and a 12-month increase of 101,700 (1.7%) (Table 4).

Mobile telephony service – The number of subscriber connections to the mobile telephony service stood at 1,231,900 at June 30, 2019, an increase of 38,300 (3.2%) in the second quarter of 2019 (compared with an increase of 31,900 in the same period of 2018), and a 12-month increase of 152,700 (14.1%) (Table 4).

Cable Internet access – The number of subscribers to cable Internet access services stood at 1,706,900 at June 30, 2019, a decrease of 3,900 (-0.2%) in the second quarter of 2019 (compared with a decrease of 500 in the same period of 2018) and a 12-month increase of 32,800 (2.0%) (Table 4). As of June 30, 2019, Videotron's cable Internet access services had a household and business penetration rate (number of subscribers as a proportion of the total 2,931,200 homes and businesses passed by Videotron's network as of June 30, 2019, up from 2,891,700 one year earlier) of 58.2% compared with 57.9% a year earlier.

Cable television – The number of subscribers to cable television services stood at 1,558,400 at June 30, 2019, a decrease of 24,200 (-1.5%) in the second quarter of 2019 (compared with a decrease of 19,500 in the same period of 2018), and a 12-month decrease of 47,600 (-3.0%) (Table 4). At June 30, 2019, the cable television service had a household and business penetration rate of 53.2% versus 55.5% a year earlier.

Cable telephony service – The number of subscriber connections to the cable telephony service stood at 1,072,900 at June 30, 2019, a decrease of 22,000 (-2.0%) in the second quarter of 2019 (compared with a decrease of 21,400 in the same period of 2018), and a 12-month decrease of 75,300 (-6.6%) (Table 4). At June 30, 2019, the cable telephony service had a household and business penetration rate of 36.6% versus 39.7% a year earlier.

Club illico – The number of subscribers to Club illico stood at 431,000 at June 30, 2019, a decrease of 700 (-0.2%) in the second quarter of 2019 (compared with an increase of 8,500 in the same period of 2018), and a 12-month increase of 39,100 (10.0%) (Table 4).

Table 4
Telecommunications segment quarter-end RGUs for the last eight quarters
(in thousands of units)

	June 2019	March 2019	Dec. 2018	Sept. 2018	June 2018	March 2018	Dec. 2017	Sept. 2017
Mobile telephony	**1,231.9**	1,193.6	1,153.8	1,120.7	1,079.2	1,047.3	1,024.0	990.3
Cable Internet	**1,706.9**	1,710.8	1,704.5	1,697.5	1,674.1	1,674.6	1,666.5	1,654.1
Cable television	**1,558.4**	1,582.6	1,597.3	1,603.7	1,606.0	1,625.5	1,640.5	1,649.0
Cable telephony	**1,072.9**	1,094.9	1,113.9	1,131.1	1,148.2	1,169.6	1,188.5	1,205.4
Club illico	**431.0**	431.7	420.8	402.9	391.9	383.4	361.6	347.4
Total	**6,001.1**	6,013.6	5,990.3	5,955.9	5,899.4	5,900.4	5,881.1	5,846.2

Adjusted EBITDA: $450.0 million, a $20.2 million (4.7%) increase due primarily to:

- impact of the net revenue increase;
- decreases in some operating expenses, including engineering, advertising and customer service expenses, partially offset by the unfavourable impact of start-up expenses for Fizz.

Adjusted EBITDA without restatement of comparative figures following adoption of IFRS 16 increased by $30.3 million (7.2%).

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 47.3% in the second quarter of 2019, compared with 49.0% in the same period of 2018, mainly because of the fixed component of costs, which does not fluctuate in proportion to revenue growth, and the decrease in operating expenses.

Year-to-date operating results

Revenues: $1.70 billion, a $34.0 million (2.0%) increase, essentially due to the same factors as those noted above in the discussion of second quarter 2019 results.

- Revenues from mobile telephony service increased $31.2 million (12.2%) to $287.8 million.
- Revenues from Internet access services increased $19.1 million (3.6%) to $552.3 million.
- Combined revenues from all cable television services decreased $7.4 million (-1.5%) to $492.7 million.
- Revenues from cable telephony service decreased $14.8 million (-7.9%) to $173.0 million.
- Revenues from customer equipment sales increased $1.1 million (1.1%) to $100.6 million.
- Other revenues increased $4.8 million (5.7%) to $88.7 million.

Total ABPU: Videotron’s total ABPU was $49.83 in the first half of 2019, compared with $49.25 in the same period of 2018, a $0.58 (1.2%) increase. Mobile ABPU was $52.53 in the first half of 2019 compared with $53.48 in the same period of 2018, a $0.95 (-1.8%) decrease due essentially to the same factors as those noted above in the discussion of second quarter 2019 operating results.

Customer statistics

RGUs – 10,800 (0.2%) unit increase in the first half of 2019 compared with an increase of 18,300 in the same period of 2018.

Mobile telephony – 78,100 (6.8%) subscriber-connection increase in the first half of 2019 compared with an increase of 55,200 in the same period of 2018.

Cable Internet access – 2,400 (0.1%) customer increase in the first half of 2019 compared with an increase of 7,600 in the same period of 2018.

Cable television – 38,900 (-2.4%) decrease in the combined customer base for all of Videotron's cable television services in the first half of 2019 compared with a decrease of 34,500 in the same period of 2018.

Cable telephony – 41,000 (-3.7%) subscriber-connection decrease in the first half of 2019 compared with a decrease of 40,300 in the same period of 2018.

Club illico – 10,200 (2.4%) subscriber increase in the first half of 2019 compared with an increase of 30,300 in the same period of 2018.

Adjusted EBITDA: $873.0 million, a $26.0 million (3.1%) increase due primarily to:

- impact of the net revenue increase;
- decreases in some operating expenses, including engineering, advertising, administration and customer service expenses, partially offset by the unfavourable impact of start-up expenses for Fizz.

Partially offset by:

- higher costs per mobile device sold;
- $10.9 million retroactive favourable adjustment recorded in the first half of 2018 related to roaming fees following CRTC decision (creating an unfavourable variance in the first half of 2019 when compared with the same period of 2018).

Adjusted EBITDA without restatement of comparative figures following adoption of IFRS 16 increased by $45.4 million (5.5%).

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 48.5% in the first half of 2019 compared with 49.0% in the same period of 2018.

Cash flows from operations

Quarterly cash flows from segment operations: $298.2 million compared with $272.8 million in the second quarter of 2018 (Table 5). The $25.4 million increase was due primarily to the $20.2 million increase in adjusted EBITDA and a $10.5 million decrease in additions to property, plant and equipment, mainly reflecting lower spending related to the leasing of digital set-top boxes.

Year-to-date cash flows from segment operations: $542.6 million compared with $496.5 million in the first half of 2018 (Table 5). The $46.1 million increase was due primarily to the $26.0 million increase in adjusted EBITDA and a $16.8 million decrease in additions to property, plant and equipment, mainly attributable to lower spending related to the leasing of digital set-top boxes.

Table 5: Telecommunications
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Adjusted EBITDA	**$ 450.0**	$ 429.8	**$ 873.0**	$ 847.0
Additions to property, plant and equipment	**(111.2)**	(121.7)	**(243.8)**	(260.6)
Additions to intangible assets (excluding acquisition of spectrum licences)	**(40.7)**	(36.6)	**(89.3)**	(91.6)
Proceeds from disposal of assets	**0.1**	1.3	**2.7**	1.7
Cash flows from segment operations	**$ 298.2**	$ 272.8	**$ 542.6**	$ 496.5

Media

Second quarter 2019 operating results

Revenues: $190.1 million in the second quarter of 2019, a $3.6 million (1.9%) increase.

- Advertising revenues decreased by $2.7 million (-2.8%), mainly because of lower advertising revenues at the newspapers and magazines, partially offset by higher advertising revenues at the specialty channels, including the impact of the acquisition of the Évasion and Zeste specialty channels on February 13, 2019.
- Subscription revenues increased by $2.6 million (5.2%), mainly because of higher subscription revenues at the specialty channels, including Évasion and Zeste, partially offset by lower subscription revenues at the magazines.
- Other revenues increased by $3.7 million (9.1%), mainly because of an increase in revenues from the production and distribution of audiovisual content following the acquisition of the companies in the Incendo Media group on April 1, 2019.

Adjusted EBITDA: $5.7 million in the second quarter of 2019, a $5.2 million favourable variance due primarily to:

- impact of the revenue increase;
- decreases in some operating expenses, including labour and marketing expenses in the newspaper publishing business, subscription expenses at the magazines and content costs in the broadcasting business.

Partially offset by:

- increased digital investments.

Cost/revenue ratio: Employee costs and purchases of goods and services for the Media segment's operations, expressed as a percentage of revenues, were 97.0% in the second quarter of 2019 compared with 99.7% in the same period of 2018. The reduction was mainly due to the contribution of business acquisitions and the decrease in operating expenses.

Year-to-date operating results

Revenues: $362.8 million in the first half of 2019, a $3.1 million (0.9%) increase, including the impact of the business acquisitions noted in the discussion of second quarter 2019 results.

- Advertising revenues decreased by $5.2 million (-2.9%), mainly because of lower advertising revenues at the newspapers, TVA Network and the magazines, partially offset by higher advertising revenues at the specialty channels and Quebecor Out of Home.
- Subscription revenues increased by $3.3 million (3.3%), mainly because of higher subscription revenues at the specialty channels, partially offset by lower subscription revenues at the magazines.
- Other revenues increased by $5.0 million (6.5%), mainly because of higher revenues from the production and distribution of audiovisual content.

Adjusted EBITDA: $6.9 million in the first half of 2019, a $6.3 million favourable variance due to the same factors as those noted above in the discussion of second quarter 2019 results.

Cost/revenue ratio: Employee costs and purchases of goods and services for the Media segment's operations, expressed as a percentage of revenues, were 98.1% in the first half of 2019 compared with 99.8% in the same period of 2018, due to the same factors as those noted above in the discussion of second quarter 2019 results.

Cash flows from operations

Quarterly cash flows from segment operations: Negative $5.3 million compared with negative $6.0 million in the second quarter of 2018 (Table 6). The $0.7 million favourable variance was due to the $5.2 million increase in adjusted EBITDA, partially offset by a $4.5 million increase in additions to property, plant and equipment and to intangible assets.

Year-to-date cash flows from segment operations: Negative $12.4 million, stable compared with the first half of 2018 (Table 6). The $6.3 million increase in adjusted EBITDA was offset by an equal increase in additions to property, plant and equipment and to intangible assets.

Table 6: Media
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Adjusted EBITDA	**$ 5.7**	$ 0.5	**$ 6.9**	$ 0.6
Additions to property, plant and equipment	**(9.9)**	(5.5)	**(16.6)**	(10.5)
Additions to intangible assets	**(1.1)**	(1.0)	**(2.7)**	(2.5)
Cash flows from segment operations	**$ (5.3)**	$ (6.0)	**$ (12.4)**	$ (12.4)

Sports and Entertainment

Second quarter 2019 operating results

Revenues: $41.3 million in the second quarter of 2019, a $4.4 million (11.9%) increase due mainly to higher revenues from book distribution.

Adjusted EBITDA: Negative $1.5 million in the second quarter of 2019, a $0.9 million unfavourable variance due mainly to decreased revenues from educational publishing and to increased operating expenses for the Music business.

Year-to-date operating results

Revenues: $81.7 million in the first half of 2019, a $7.6 million (10.3%) increase due to the same factors as those noted above in the discussion of second quarter 2019 results.

Adjusted EBITDA: Negative $2.2 million in the first half of 2019, a $0.9 million decrease due to the same factors as those noted above in the discussion of second quarter 2019 results.

Cash flows from operations

Quarterly cash flows from segment operations: Negative $3.1 million compared with negative $1.6 million in the second quarter of 2018 (Table 7). The $1.5 million unfavourable variance was due to the $0.9 million unfavourable variance in negative adjusted EBITDA, combined with a $0.6 million increase in additions to property, plant and equipment and to intangible assets.

Year-to-date cash flows from segment operations: Negative $5.3 million compared with negative $3.5 million in the first half of 2018 (Table 7). The $1.8 million unfavourable variance was due to the $0.9 million unfavourable variance in negative adjusted EBITDA, combined with a $0.9 million increase in additions to property, plant and equipment and to intangible assets.

Table 7: Sports and Entertainment
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Adjusted EBITDA	**$ (1.5)**	$ (0.6)	**$ (2.2)**	$ (1.3)
Additions to property, plant and equipment	**(0.5)**	(0.2)	**(1.0)**	(0.4)
Additions to intangible assets	**(1.1)**	(0.8)	**(2.1)**	(1.8)
Cash flows from segment operations	**$ (3.1)**	$ (1.6)	**$ (5.3)**	$ (3.5)

CASH FLOWS AND FINANCIAL POSITION

This section provides an analysis of sources and uses of cash flows, as well as a financial position analysis as of the balance sheet date.

Operating activities

Second quarter 2019

Cash flows provided by continuing operating activities: $289.2 million in the second quarter of 2019 compared with$334.4 million in the same period of 2018.

The $45.2 million decrease was mainly due to:

- $75.8 million unfavourable change in non-cash operating assets and liabilities, due primarily to the unfavourable variance in income tax payable and increases in prepaid expenses and in inventory in the Telecommunications segment.

Partially offset by:

- $20.2 million and $5.2 million increases in adjusted EBITDA in the Telecommunications and Media segments respectively;
- $3.1 million decrease in current income taxes.

Year to date

Cash flows provided by continuing operating activities: $469.7 million in the first half of 2019 compared with $635.3 million in the same period of 2018.

The $165.6 million decrease was mainly due to:

- $212.7 million unfavourable change in non-cash operating assets and liabilities, due primarily to the unfavourable variance in income tax payable and an increase in inventory in the Telecommunications segment;
- $5.6 million increase in the cash interest expense.

Partially offset by:

- $26.0 million and $6.3 million increases in adjusted EBITDA in the Telecommunications and Media segments respectively;
- $17.3 million decrease in current income taxes.

The unfavourable variance in income tax payable, the increase in inventory in the Telecommunications segment and the increase in the cash interest expense had an unfavourable impact on cash flows provided by continuing operating activities in the first half of 2019 compared with the same period of 2018, while increased profitability in the Telecommunications and Media segments had a favourable impact.

Working capital: Negative $220.0 million at June 30, 2019 compared with negative $325.1 million at December 31, 2018. The $105.1 million favourable variance was due primarily to the decrease in accounts payable and accrued charges and in net income tax payable, partially offset by the realization of net assets held for sale.

Investing activities

Second quarter 2019

Additions to property, plant and equipment: $122.8 million in the second quarter of 2019 compared with $132.5 million in the same period of 2018. The $9.7 million decrease was due primarily to decreased spending related to the leasing of digital set-top boxes in the Telecommunications segment.

Additions to intangible assets: $299.0 million in the second quarter of 2019, compared with $38.6 million in the same period of 2018, a $260.4 million increase due primarily to the purchase by Videotron of 10 blocks of low-frequency spectrum in the 600 MHz band for $255.8 million in the latest spectrum auction.

Proceeds from disposal of assets: $0.1 million in the second quarter of 2019 compared with $1.3 million in the same period of 2018.

Business acquisitions: $11.1 million in the second quarter of 2019 compared with receipt of $1.3 million in the same period of 2018.

- In the second quarter of 2019, business acquisitions consisted of the acquisition of the companies in the Incendo Media group for a cash consideration of $11.1 million in the Media segment.

Business disposals: $0.9 million disbursement in the second quarter of 2019 related to adjustments to previous transactions.

Year to date

Additions to property, plant and equipment: $262.6 million in the first half of 2019 compared with $277.0 million in the same period of 2018. The $14.4 million decrease was due to the same factors as those noted above in the discussion of second quarter 2019 acquisitions.

Additions to intangible assets: $350.2 million in the first half of 2019 compared with $95.5 million in the same period of 2018. The $254.7 million increase was due to the same factors as those noted above in the discussion of second quarter 2019 acquisitions.

Proceeds from disposal of assets: $2.7 million in the first half of 2019 compared with $1.7 million in the same period of 2018.

Business acquisitions: $34.6 million in the first half of 2019 compared with $1.4 million in the same period of 2018.

- In the first half of 2019, business acquisitions consisted of the acquisition of the companies in the Serdy Média inc. ("Serdy Média") group, the companies in the Serdy Video Inc. ("Serdy Video") group, and the companies in the Incendo Media group in the Media segment.

Business disposals: $260.7 million in the first half of 2019, consisting of the sale of the operations of the 4Degrees Colocation data centres.

Free cash flows from continuing operating activities of the Quebecor Media subsidiary

Second quarter 2019

Free cash flows from continuing operating activities of Quebecor Media: $126.9 million in the second quarter of 2019 compared with $179.7 million in the same period of 2018 (Table 8). The $52.8 million decrease was due primarily to the $56.7 million decrease in cash flows provided by continuing operating activities.

Year to date

Free cash flows from continuing operating activities of Quebecor Media: $141.8 million in the first half of 2019 compared with $283.4 million in the same period of 2018 (Table 8). The $141.6 million decrease was due primarily to the $157.8 million decrease in cash flows provided by continuing operating activities.

Table 8

Cash flows from segment operations and free cash flows from continuing operating activities of Quebecor Media

(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Cash flows from segment operations (negative cash flows from segment operations)				
Telecommunications	**$ 298.2**	$ 272.8	**$ 542.6**	$ 496.5
Media	**(5.3)**	(6.0)	**(12.4)**	(12.4)
Sports and Entertainment	**(3.1)**	(1.6)	**(5.3)**	(3.5)
Quebecor Media Head Office	**(0.6)**	(7.3)	**(1.4)**	(6.2)
	289.2	257.9	**523.5**	474.4
Cash interest expense	**(70.4)**	(69.8)	**(140.0)**	(139.3)
Cash portion related to restructuring of operations and other items	**(2.0)**	(2.0)	**(7.0)**	(8.5)
Current income taxes	**(39.8)**	(42.9)	**(85.4)**	(102.7)
Other	**(0.7)**	(1.0)	**(2.3)**	(2.1)
Net change in operating assets and liabilities	**(49.4)**	37.5	**(147.0)**	61.6
Free cash flows from continuing operating activities of Quebecor Media	**$ 126.9**	$ 179.7	**$ 141.8**	$ 283.4

Table 9

Free cash flows from continuing operating activities of Quebecor Media and cash flows provided by continuing operating activities of Quebecor

(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Free cash flows from continuing operating activities of Quebecor Media presented in Table 8	**$ 126.9**	$ 179.7	**$ 141.8**	$ 283.4
Quebecor Head Office cash flow items:				
Cash flows from segment operations	**(0.1)**	(1.8)	**(2.1)**	(3.4)
Cash interest expense	**(10.4)**	(8.8)	**(20.9)**	(16.0)
Other	**0.3**	–	**0.2**	–
Net change in operating assets and liabilities	**6.6**	(4.5)	**(3.6)**	0.5
	(3.6)	(15.1)	**(26.4)**	(18.9)
Plus additions to property, plant and equipment	**122.8**	132.5	**262.6**	277.0
Plus additions to intangible assets (excluding spectrum licences)	**43.2**	38.6	**94.4**	95.5
Minus proceeds from disposal of assets	**(0.1)**	(1.3)	**(2.7)**	(1.7)
Cash flows provided by continuing operating activities of Quebecor	**$ 289.2**	$ 334.4	**$ 469.7**	$ 635.3

Financing activities

Consolidated debt (long-term debt plus bank indebtedness)**:** $149.2 million reduction in the second quarter of 2019; $141.9 million net unfavourable variance in assets and liabilities related to derivative financial instruments.

- Debt reductions in the first half of 2019 essentially consisted of:
  - $179.3 million favourable impact of exchange rate fluctuations. The consolidated debt reduction attributable to this item was offset by the decrease in the asset (or increase in the liability) related to cross-currency swap agreements entered under "Derivative financial instruments";
  - $8.3 million decrease in the bank indebtedness of Quebecor Media and Videotron;
  - $8.2 million decrease in Videotron's drawings on its revolving bank credit facility.
- Additions to debt in the first half of 2019 mainly consisted of:
  - $24.4 million increase in TVA Group's total drawings on its revolving bank credit facility and other facilities;
  - $19.1 million increase in Quebecor's debt.
- Assets and liabilities related to derivative financial instruments totalled a net asset of $745.1 million at June 30, 2019 compared with $887.0 million at December 31, 2018. The $141.9 million net unfavourable variance was mainly due to:
  - unfavourable impact of exchange rate fluctuations on the value of derivative financial instruments.

  Partially offset by:
  - favourable impact of interest rate trends in Canada, compared with the United States, on the fair value of derivative financial instruments.
- On July 15, 2019, Quebecor Media prepaid its term loan "B" and settled the related hedging contracts for a total cash consideration of $340.9 million.
- On February 15, 2019, Quebecor Media amended its $300.0 million secured revolving credit facility, to extend the maturity date to July 2022 and to change certain conditions and terms of the facility.
- On February 13, 2019, TVA Group amended its $150.0 million secured revolving credit facility to extend the maturity date to February 2020 and to change certain conditions and terms of the facility.

Financial position

Net available liquidity: $725.9 million at June 30, 2019 for Quebecor Media and its wholly owned subsidiaries, pro forma the increase in drawings on Videotron's secured credit facility, following repayment of Quebecor Media's term loan "B" on July 15, 2019, consisting of $730.9 million in available unused revolving credit facilities, less $5.0 million in bank indebtedness.

Net available liquidity: $25.2 million as at June 30, 2019 for Quebecor at the corporate level, consisting of $0.8 million in bank indebtedness and $26.0 million in available unused revolving credit facilities.

Consolidated debt (long-term debt plus bank indebtedness)**:** $6.30 billion at June 30, 2019, a $149.2 million decrease compared with December 31, 2018; $141.9 million net unfavourable variance in assets and liabilities related to derivative financial instruments (see "Financing activities" above).

- Consolidated debt essentially consisted of Videotron's $4.11 billion debt ($4.23 billion at December 31, 2018); TVA Group's $71.7 million debt ($52.8 million at December 31, 2018); Quebecor Media's $2.05 billion debt ($2.12 billion at December 31, 2018); and Quebecor's $72.3 million debt ($53.2 million at December 31, 2018).

As of June 30, 2019, minimum principal payments on long-term debt in the coming years were as follows:

Table 10
Minimum principal payments on Quebecor's long-term debt
12-month periods ended June 30
(in millions of Canadian dollars)

2020	$	72.0
2021		453.2
2022		1.4
2023		2,704.5
2024		1,513.1
2025 and thereafter		1,560.7
Total	**$**	**6,304.9**

From time to time, Quebecor may (but is under no obligation to) seek to retire or purchase its outstanding securities, including debentures, in open market purchases, privately negotiated transactions, or otherwise. Such repurchases, if any, will depend on its liquidity position and requirements, prevailing market conditions, contractual restrictions and other factors. The amounts involved may be material.

Pro forma repayment of the term loan "B" on July 15, 2019, the weighted average term of Quebecor's consolidated debt was approximately 4.7 years as of June 30, 2019 (5.1 years as of December 31, 2018). After taking into account hedging instruments, the debt consisted of approximately 76.1% fixed-rate debt at June 30, 2019 (76.3% at December 31, 2018) and 23.9% floating-rate debt (23.7% at December 31, 2018).

Management of the Corporation believes that cash flows and available sources of financing should be sufficient to cover committed cash requirements for capital investments, working capital, interest payments, income tax payments, debt repayments, pension plan contributions, share repurchases, dividend payments to shareholders, and dividend payments (or distributions) to non-controlling interest. The Corporation believes it will be able to meet future debt maturities, which are staggered over the coming years.

Pursuant to its financing agreements, the Corporation is required to maintain certain financial ratios and comply with certain financial covenants. The key indicators listed in those financing agreements include debt service coverage ratio and debt ratio (long-term debt over adjusted EBITDA). At June 30, 2019, the Corporation was in compliance with all required financial ratios and restrictive covenants in its financing agreements.

Dividends declared

On August 7, 2019, the Board of Directors of Quebecor declared a quarterly dividend of $0.1125 per share on its Class A Multiple Voting Shares ("Class A Shares") and Class B Shares, payable on September 17, 2019 to shareholders of record at the close of business on August 23, 2019.

600 MHz spectrum auction

On April 10, 2019, Videotron purchased 10 blocks of low-frequency spectrum in the 600 MHz band in ISED Canada's latest commercial mobile spectrum auction. The licences, covering Eastern, Southern and Northern Québec, as well as Outaouais and Eastern Ontario regions, were acquired for $255.8 million.

Board of Directors

On May 9, 2019, Manon Brouillette was elected to the Board of Directors of Quebecor and Quebecor Media.

On June 16, 2019, Lise Croteau was named to the Board of Directors of Quebecor and Quebecor Media, and a member of the Human Resources and Corporate Governance Committee of the two corporations. Ms. Croteau succeeds Andrea C. Martin, who left the positions she had occupied since October 2017.

Analysis of consolidated balance sheet as at June 30, 2019

Table 11
Consolidated balance sheet of Quebecor
Analysis of main differences between June 30, 2019 and December 31, 2018
(in millions of Canadian dollars)

	June 30, 2019	Dec. 31, 2018	Difference	Main reasons for difference
Assets				
Net assets held for resale[1]	**$ –**	$ 88.4	$ (88.4)	Sale of 4Degrees Colocation
Property, plant and equipment	**3,391.4**	3,467.3	(75.9)	Depreciation for the period less additions to property, plant and equipment on an accrual basis
Intangible assets	**1,423.6**	1,135.3	288.3	Acquisitions, including spectrum licences by Videotron, less amortization for the period
Goodwill	**2,696.6**	2,678.3	18.3	Acquisition of the companies in the Incendo Media group, the Serdy Média group and the Serdy Video group
Derivative financial instruments[2]	**745.1**	887.0	(141.9)	See "Financing activities"
Liabilities				
Accounts payable and accrued charges	**742.6**	832.0	(89.4)	Impact of current variances in activity
Income taxes[3]	**20.4**	114.4	(94.0)	Current disbursements less current income taxes for the period
Long-term debt, including short-term portion and bank indebtedness	**6,303.3**	6,452.5	(149.2)	See "Financing activities"
Other long-term liabilities	**301.8**	235.7	66.1	Contingent consideration related to the sale of 4Degrees Colocation

1 Current assets less current liabilities
2 Long-term assets less long-term liabilities
3 Current liabilities less current assets

ADDITIONAL INFORMATION

Contractual Obligations

At June 30, 2019, material contractual obligations of operating activities included: capital repayment and interest on long-term debt; convertible debentures and lease liabilities; capital asset purchases and other commitments; and obligations related to derivative financial instruments, less estimated future receipts on derivative financial instruments. Table 12 below shows a summary of these contractual obligations.

Table 12
Contractual obligations of Quebecor as of June 30, 2019
(in millions of Canadian dollars)

	Total	Under 1 year	1-3 years	3-5 years	5 years or more
Long-term debt[1]	**$ 6,304.9**	$ 72.0	$ 454.6	$ 4,217.6	$ 1,560.7
Convertible debentures[2]	**150.0**	–	–	150.0	–
Interest payments on long-term debt and on convertible debentures[3]	**1,387.1**	259.5	585.1	358.6	183.9
Lease liabilities	**144.0**	34.4	43.1	23.2	43.3
Interest payments on lease liabilities	**46.2**	6.8	9.5	6.3	23.6
Additions to property, plant and equipment and other commitments	**1,690.3**	406.7	605.5	276.2	401.9
Derivative financial instruments[4]	**(720.3)**	0.4	(86.7)	(652.7)	18.7
Total contractual obligations	**$ 9,002.2**	**$ 779.8**	**$ 1,611.1**	**$ 4,379.2**	**$ 2,232.1**

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 and financing fees.

2 Based on the market value at June 30, 2019 of a number of shares obtained by dividing the outstanding principal amount by the market price of a Quebecor Class B share at that date, subject to a floor price of $26.85 per share and a ceiling price of $33.5625. The Corporation may also redeem convertible debentures by issuing the corresponding number of its Class B Shares.

3 Estimated interest payable on long-term debt and convertible debentures, based on interest rates, hedging of interest rates and hedging of foreign exchange rates as of June 30, 2019.

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

Related party transactions

In the second quarter of 2019, the Corporation made sales to related parties in the amount of $0.8 million ($0.7 million in the same period of 2018) and purchases of $0.2 million from related parties.

In the first half of 2019, the Corporation made sales to related parties in the amount of $1.7 million ($1.3 million in the same period of 2018) and purchases of $0.2 million from related parties.

Capital stock

In accordance with Canadian financial reporting standards, Table 13 below presents information on the Corporation's capital stock as at July 25, 2019. In addition, 3,136,142 share options were outstanding as of July 25, 2019.

Table 13
Capital stock
(in shares and millions of Canadian dollars)

	July 25, 2019	
	Issued and outstanding	**Book value**
Class A Shares	**77,246,744**	**$ 8.6**
Class B Shares	**178,670,253**	**$ 1,052.2**

On August 8, 2018, the Board of Directors of Quebecor authorized the renewal of its normal course issuer bid for a maximum of 1,000,000 Class A Shares, representing approximately 1.3% of issued and outstanding Class A Shares, and for a maximum of 7,800,000 Class B Shares, representing approximately 5.0% of issued and outstanding Class B Shares as of August 1, 2018. The purchases could be made from August 15, 2018 to August 14, 2019 at prevailing market prices on the open market through the facilities of the Toronto Stock Exchange ("TSX") or other alternative trading systems. All repurchased shares were cancelled.

On August 7, 2019, the Board of Directors of Quebecor authorized the renewal of its normal course issuer bid for a maximum of 1,000,000 Class A Shares, representing approximately 1.3% of issued and outstanding Class A Shares, and for a maximum of 4,000,000 Class B Shares, representing approximately 2.2% of issued and outstanding Class B Shares as of August 1, 2019. The purchases can be made from August 15, 2019 to August 14, 2020 at prevailing market prices on the open market through the facilities of the TSX or other alternative trading systems. All repurchased shares will be cancelled.

In the first half of 2019, the Corporation purchased and cancelled 1,319,600 Class B Shares for a total cash consideration of $39.5 million (4,909,900 Class B Shares for a total cash consideration of $118.0 million in the first half of 2018). The $31.7 million excess of the purchase price over the carrying value of the repurchased Class B Shares was recorded as an increase in the deficit ($108.6 million reduction of retained earnings in the first half of 2018). On February 1, 2019, the maximum number of Class B Shares that could be repurchased under the normal course issuer bid authorized on August 8, 2018 had been reached.

In the first half of 2019, 180,000 Class B Shares of Quebecor were issued upon exercise of stock options for a cash consideration of $2.7 million (100,000 Class B Shares for a cash consideration of $1.3 million in the first half of 2018). Following this transaction, the contributed surplus was increased by $3.0 million ($1.2 million in the first half of 2018) and the stock option plan liability was reduced by the same amount.

Financial instruments

The Corporation uses a number of financial instruments, mainly cash and cash equivalents, accounts receivable, contract assets, long-term investments, bank indebtedness, trade payables, accrued liabilities, long-term debt, convertible debentures, and derivative financial instruments.

In order to manage its foreign exchange and interest rate risks, the Corporation uses derivative financial instruments: (i) to set in CAN dollars 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, (ii) to achieve a targeted balance of fixed- and floating-rate debts, and (iii) to lock in the value of certain derivative financial instruments through offsetting transactions. The Corporation does not intend to settle its derivative financial instruments prior to their maturity as none of these instruments is held or issued for speculative purposes.

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

The carrying value and fair value of long-term debt, convertible debentures and derivative financial instruments as of June 30, 2019 and December 31, 2018 were as follows:

Table 14
Fair value of long-term debt, convertible debentures and derivative financial instruments
(in millions of Canadian dollars)

	June 30, 2019		December 31, 2018	
Asset (liability)	**Carrying value**	**Fair value**	Carrying value	Fair value
Long-term debt[1]	**$ (6,304.9)**	**$ (6,614.7)**	$ (6,461.7)	$ (6,444.9)
Convertible debentures[2]	**(153.3)**	**(153.3)**	(150.6)	(150.6)
Derivative financial instruments				
Foreign exchange forward contracts	**(2.1)**	**(2.1)**	6.7	6.7
Cross-currency interest rate swaps	**747.2**	**747.2**	880.3	880.3

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 rate risk and financing fees.

2 The carrying value and fair value of convertible debentures consist of the initial capital investment and the value of the cap and floor conversion price features, recognized as embedded derivatives.

The fair value of long-term debt and convertible debentures is estimated based on quoted market prices when available or on valuation models. When the Corporation uses valuation models, the fair value is estimated using discounted cash flows using year-end market yields or the market value of similar instruments with the same maturity.

The fair value of derivative financial instruments recognized in the consolidated balance sheets is estimated as per the Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative financial instrument and factors observable in external market data, 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 financial instruments by applying a credit default premium, estimated using a combination of observable and unobservable inputs in the market, to the net exposure of the counterparty or the Corporation.

The fair value of embedded derivatives related to convertible debentures is determined by option pricing models using market inputs, including volatility, discount factors and the underlying instrument's adjusted implicit interest rate and credit premium.

Gains and losses on valuation and translation of financial instruments in the second quarters and first halves of 2019 and 2018 are summarized in Table 15.

Table 15
(Gain) loss on valuation and translation of financial instruments
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
(Gain) loss on embedded derivatives related to convertible debentures	**$ (16.4)**	$ 76.3	**$ (2.8)**	$ 104.5
Other	**–**	(0.7)	**0.7**	0.7
	$ (16.4)	$ 75.6	**$ (2.1)**	$ 105.2

Gains on cash flow hedges in the amounts of $49.5 million and $30.2 million were recorded under "Other comprehensive income" in the second quarter and first half of 2019 respectively (losses of $1.3 million and $44.4 million in the second quarter and first half of 2018 respectively).

Contingencies and legal disputes

Lawsuits were brought by and against the Corporation in connection with business disputes between the Corporation and a competitor. At this stage in the proceedings, management of the Corporation does not expect their outcome to have a material effect on Corporation's results or financial position.

Changes in Accounting Policies

(i) IFRS 16 – *Leases*

On January 1, 2019, the Corporation adopted on a fully retrospective basis the new rules under IFRS 16 which set out new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides lessees with a single accounting model for all leases, with certain exemptions. In particular, lessees are required to report most leases on their balance sheets by recognizing right-of-use assets and related financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis.

The adoption of IFRS 16 had significant impacts on the consolidated financial statements since all of the Corporation segments are engaged in various long-term leases relating to premises and equipment.

Under IFRS 16, most lease charges are now expensed as a depreciation of the right-of-use asset, along with interest on the related lease liability. Since operating lease charges were recognized as operating expenses as they were incurred under the previous standard, the adoption of IFRS 16 has changed the timing of the recognition of these lease charges over the term of each lease. It has also affected the classification of expenses in the consolidated statement of income.

Principal payments on the lease liability are now presented as financing activities in the consolidated statements of cash flows, whereas under the previous standard these payments were presented as operating activities.

The retrospective adoption of IFRS 16 had the following impacts on the comparative consolidated financial figures:

Consolidated statements of income and comprehensive income

Increase (decrease)	Three months ended June 30, 2018	Six months ended June 30, 2018
Purchase of goods and services	$ (11.7)	$ (22.8)
Depreciation and amortization	8.3	16.4
Financial expenses	2.2	4.5
Deferred income tax expense	0.3	0.5
Net income and comprehensive income	$ 0.9	$ 1.4
Net income and comprehensive income attributable to:		
Shareholders	$ 0.7	$ 1.1
Non-controlling interests	0.2	0.3
Earnings per share attributable to shareholders	$ –	$ –

Consolidated balance sheets

Increase (decrease)	December 31, 2018	December 31, 2017
Other current assets	$ (2.2)	$ (2.2)
Property, plant and equipment	15.5	15.5
Right-of-use assets	112.6	133.5
Provisions	(1.5)	(1.4)
Lease liabilities[1]	144.4	167.9
Other liabilities	(4.3)	(3.4)
Deferred income tax liability	(3.3)	(4.3)
Deficit	9.2	7.2
Non-controlling interests	(0.2)	(4.8)

[1] The current portion of lease liabilities was $36.0 million as of December 31, 2018 and $39.8 million as of December 31, 2017.

(ii) IFRIC 23 - *Uncertainty over Income Tax Treatments*

IFRIC 23 provides guidance on how to value uncertain income tax positions based on the probability of whether or not the relevant tax authorities will accept the Corporation's tax treatments. The adoption of IFRIC 23 had no impact on the consolidated financial statements.

Controls and procedures

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Corporation's financial reporting and the preparation of its consolidated financial statements in accordance with IFRS.

There have not been any changes in internal controls over financial reporting during the three months ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Additional information

The Corporation is a reporting issuer subject to the securities laws of all Canadian provinces and is therefore required to file financial statements, a proxy circular and an annual information form with the various securities commissions. Copies of those documents are available free of charge from the Corporation on request, and on the Web at <www.sedar.com>.

Cautionary statement regarding forward-looking statements

The statements in this report that are not historical facts are forward-looking statements and are subject to significant known and unknown risks, uncertainties and assumptions that could cause the Corporation's actual results for future periods to differ materially from those set forth in forward-looking statements. Forward-looking statements may be identified by the use of the conditional or by forward-looking terminology such as the terms "plans," "expects," "may," "anticipates," "intends," "estimates," "projects," "seeks," "believes," or similar terms, variations of such terms or the negative of such terms. Some important factors that could cause actual results to differ materially from those expressed in these forward-looking statements include, but are not limited to:

- Quebecor Media's ability to continue successfully developing its network and the facilities that support its mobile services;
- General economic, financial or market conditions and variations in the businesses of local, regional and national advertisers in Quebecor Media's newspapers, television outlets and other media properties;
- The intensity of competitive activity in the industries in which Quebecor operates;
- Fragmentation of the media landscape;
- New technologies that might change consumer behaviour with respect to Quebecor Media's product suites;
- Unanticipated higher capital spending required for developing Quebecor Media's network or to address the continued development of competitive alternative technologies, or the inability to obtain additional capital to continue the development of Quebecor's business;

- Quebecor's ability to implement its business and operating strategies successfully and to manage its growth and expansion;
- Disruptions to the network through which Quebecor Media provides its digital cable television, Internet access, mobile and cable telephony, and Club illico services, and its ability to protect such services against piracy, unauthorized access and other security breaches;
- Labour disputes or strikes;
- Changes in Quebecor Media's ability to obtain services and equipment critical to its operations;
- Changes in laws and regulations, or in their interpretations, which could result, among other things, in the loss (or reduction in value) of Quebecor Media's licences or markets, or in an increase in competition, compliance costs or capital expenditures;
- Quebecor Media's ability to successfully develop its Sports and Entertainment segment and other expanding lines of business in its other segments;
- Quebecor's substantial indebtedness, the tightening of credit markets, and the restrictions on its business imposed by the terms of its debt; and
- Interest rate fluctuations that could affect Quebecor's interest payment requirements on long-term debt.

The forward-looking statements in this document are made to provide investors and the public with a better understanding of the Corporation's circumstances and are based on assumptions it believes to be reasonable as of the day on which they are made. Investors and others are cautioned that the foregoing list of factors that may affect future results is not exhaustive and that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that could cause the Corporation's actual results to differ from current expectations, please refer to the Corporation's public filings, available at <www.sedar.com> and <www.quebecor.com>, including, in particular, the "Risks and Uncertainties" section of the Corporation's Management Discussion and Analysis for the year ended December 31, 2018.

The forward-looking statements in this Management Discussion and Analysis reflect the Corporation's expectations as of August 7, 2019 and are subject to change after that date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

Montréal, Québec

August 7, 2019

QUEBECOR INC.

SELECTED QUARTERLY FINANCIAL DATA

(in millions of Canadian dollars, except per share data)

	2019		2018				2017	
	June 30	**March 31**	Dec. 31[1]	Sept. 30[1]	June 30[1]	March 31[1]	Dec. 31[1]	Sept. 30[1]
Revenues	**$ 1,056.9**	**$ 1,027.3**	$ 1,087.1	$ 1,053.2	$ 1,038.7	$ 1,002.0	$ 1,059.5	$ 1,036.1
Adjusted EBITDA	**455.0**	**420.7**	460.5	474.0	425.9	415.9	428.7	440.1
Contribution to net income attributable to shareholders:								
Continuing operating activities	**136.2**	**111.4**	133.3	141.6	105.9	89.5	83.9	103.3
Gain (loss) on valuation and translation of financial instruments	**16.3**	**(14.4)**	(11.5)	54.9	(75.7)	(29.1)	(7.8)	(79.1)
Unusual items	**(12.3)**	**(5.5)**	(5.5)	(10.2)	10.8	(3.8)	(5.6)	149.0
Discontinued operations	**-**	**97.5**	1.1	0.9	1.0	0.5	0.5	5.4
Net income attributable to shareholders	**140.2**	**189.0**	117.4	187.2	42.0	57.1	71.0	178.6
Basic data per share								
Contribution to net income attributable to shareholders:								
Continuing operating activities	**$ 0.53**	**$ 0.44**	$ 0.52	$ 0.62	$ 0.45	$ 0.38	$ 0.35	$ 0.43
Gain (loss) on valuation and translation of financial instruments	**0.07**	**(0.06)**	(0.05)	0.24	(0.33)	(0.12)	(0.03)	(0.33)
Unusual items	**(0.05)**	**(0.02)**	(0.02)	(0.05)	0.05	(0.02)	(0.03)	0.62
Discontinued operations	**-**	**0.38**	0.01	-	0.01	-	-	0.02
Net income attributable to shareholders	**0.55**	**0.74**	0.46	0.81	0.18	0.24	0.29	0.74
Weighted average number of shares outstanding (in millions)	**255.9**	**256.0**	255.1	232.8	233.5	235.9	239.7	241.4
Diluted data per share								
Contribution to net income attributable to shareholders:								
Continuing operating activities	**$ 0.52**	**$ 0.43**	$ 0.51	$ 0.55	$ 0.40	$ 0.34	$ 0.32	$ 0.39
Dilution impact	**-**	**0.01**	0.01	-	0.05	0.04	0.03	0.04
Gain (loss) on valuation and translation of financial instruments	**-**	**(0.06)**	(0.05)	-	(0.33)	(0.12)	(0.03)	(0.33)
Unusual items	**(0.05)**	**(0.02)**	(0.02)	(0.04)	0.05	(0.02)	(0.03)	0.62
Discontinued operations	**-**	**0.38**	0.01	-	0.01	-	-	0.02
Net income attributable to shareholders	**0.47**	**0.74**	0.46	0.51	0.18	0.24	0.29	0.74
Weighted average number of diluted shares outstanding (in millions)	**262.1**	**256.5**	255.5	268.8	239.4	236.3	240.0	241.8

[1] Comparative numbers have been restated to reflect the adoption of IFRS 16, *Leases*.