

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2018**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report .....

**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

Commission file number 033-51000

**VIDEOTRON LTD. / VIDÉOTRON LTÉE**

(Exact name of Registrant as specified in its charter)

**Province of Québec, Canada**

(Jurisdiction of incorporation or organization)

**612 St. Jacques Street  
Montréal, Québec, Canada H3C 4M8**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
| None                | None                                      |

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**  
(Title of Class)

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**5% Senior Notes due July 15, 2022**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

10,544,961.822 "A" Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards\* provided pursuant to Section 13(a) of the Exchange Act.

\*The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## EXPLANATORY NOTES

All references in this annual report to “Videotron” or “our Corporation”, as well as the use of the terms “we”, “us”, “our” or similar terms, are references to Videotron Ltd. and, unless the context otherwise requires, its consolidated subsidiaries. All references in this annual report to “Quebecor Media” are to our parent corporation Quebecor Media Inc., all references to “TVA Group” are to TVA Group Inc., a public subsidiary of Quebecor Media, all references to “Quebecor” are to Quebecor Inc., the majority shareholder of Quebecor Media, and all references to “Fibrenoire” are references to Fibrenoire Inc.

In this annual report, all references to the “CRTC” are references to the Canadian Radio-television and Telecommunications Commission.

All references in this annual report to our “Senior Notes” are to, collectively, our issued and outstanding 5% Senior Notes due July 15, 2022, our 5<sup>3</sup>/<sub>8</sub>% Senior Notes due June 15, 2024, our 5<sup>5</sup>/<sub>8</sub>% Senior Notes due June 15, 2025, our 5<sup>3</sup>/<sub>4</sub>% Senior Notes due January 15, 2026 and our 5<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2027.

## INDUSTRY AND MARKET DATA

Industry statistics and market data used throughout this annual report were obtained from internal surveys, market research, publicly available information and industry publications, including the CRTC and Numeris. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of this information is not guaranteed. Industry and company data is approximate and may reflect rounding in certain cases.

Information contained in this annual report concerning the telecommunication industry, our general expectations concerning this industry and our market positions and market shares may also be based on estimates and assumptions made by us based on our knowledge of the industry and which we believe to be reliable. We believe, however, that this data is inherently imprecise, although generally indicative of relative market positions and market shares.

## PRESENTATION OF FINANCIAL INFORMATION

### *IFRS and Functional Currency*

Our audited consolidated financial statements for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board.

In this annual report, references to Canadian Dollars, CAN\$ or \$ are to the lawful currency of Canada, our functional currency, and references to US Dollars or US\$ are to the currency of the United States.

### *Non-IFRS Financial Measures and Key Performance Indicator*

In this annual report, we use certain non-IFRS financial measures, including adjusted earnings before interest, tax, depreciation and amortization (“**EBITDA**”), adjusted EBITDA margin and long-term debt, excluding QMI subordinated loans. These financial measures are not calculated in accordance with, or recognized by, IFRS. Our method of calculating these financial measures may differ from the methods used by other companies and, as a result, the non-IFRS financial measures presented in this annual report may not be comparable to other similarly titled measures disclosed by other companies.

We provide a definition of adjusted EBITDA, adjusted EBITDA margin and average billing per unit (“**ABPU**”) under “Item 5. Operating and Financial Review and Prospects — Non-IFRS Financial Measures” and “Item 5. Operating and Financial Review and Prospects — Key Performance Indicator”. We also provide a definition of adjusted EBITDA, a reconciliation of adjusted EBITDA and a reconciliation of long-term debt, excluding QMI subordinated loans to the most directly comparable financial measures under IFRS in footnotes 3 and 4 to the tables under “Item 3. Key Information — A. Selected Financial Data”. We also provide a definition of ABPU in footnote 11 to the tables under “Item 3. Key Information — A. Selected Financial Data”.

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Unless otherwise indicated, information provided in this annual report, including all operating data presented, is as of December 31, 2018.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements with respect to our financial condition, results of operations, business, and certain of our plans and objectives. These forward-looking statements are made pursuant to the “Safe Harbor” provisions of the *United States Private Securities Litigation Reform Act* of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industries in which we operate as well as beliefs and assumptions made by our management. Such statements include, in particular, statements about our plans, prospects, financial position and business strategies. Words such as “may,” “will,” “expect,” “continue,” “intend,” “estimate,” “anticipate,” “plan,” “foresee,” “believe,” or “seek,” or the negatives of those terms or variations of them or similar terminology, are intended to identify such forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements, by their nature, involve risks and uncertainties and are not guarantees of future performance. Such statements are also subject to assumptions concerning, among other things: our anticipated business strategies; anticipated trends in our business; anticipated reorganizations of any of our segments or businesses, and any related restructuring provisions or impairment charges; and our ability to continue to control costs. We can give no assurance that these estimates and expectations will prove to have been correct. Actual outcomes and results may, and often do, differ from what is expressed, implied or projected in such forward-looking statements, and such differences may be material. 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:

- our ability to successfully continue developing our network and facilities-based mobile services;
- general economic, financial or market conditions;
- the intensity of competitive activity in the industries in which we operate;
- new technologies that might change consumer behaviour towards our product suite;
- unanticipated higher capital spending required to deploy our network or to address the continued development of competitive alternative technologies, or the inability to obtain additional capital to continue the development of our business;
- our ability to implement successfully our business and operating strategies and manage our growth and expansion;
- disruptions to the network through which we provide our digital television, Internet access, telephony and Club illico services, and our ability to protect such services from piracy, unauthorized access or other security breaches;
- labour disputes or strikes;
- changes in our ability to obtain services and equipment critical to our operations;
- changes in laws and regulations, or in their interpretations, which could result, among other things, in the loss (or reduction in value) of our licences or markets or in an increase in competition, compliance costs or capital expenditures;
- our substantial indebtedness, the tightening of credit markets, and the restrictions on our business imposed by the terms of our debt; and
- interest rate fluctuations that affect a portion of our interest payment requirements on long-term debt.

We caution you that the above list of cautionary statements is not exhaustive. These and other factors are discussed in further detail elsewhere in this annual report, including under “Item 3. Key Information — Risk Factors” of this annual report. Each of these forward-looking statements speaks only as of the date of this annual report. We disclaim any obligation to update these statements unless applicable securities laws require us to do so. We advise you to consult any documents we may file with or furnish to the U.S. Securities and Exchange Commission (“SEC”), as described under “Item 10. Additional Information — Documents on Display” of this annual report.

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**ITEM 1 — IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2 — OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3 — KEY INFORMATION**

**A- Selected Financial Data**

The following tables present selected consolidated financial information for our business presented in accordance with IFRS for each of the years ended December 31, 2018, 2017, 2016, 2015 and 2014. We derived this selected consolidated financial information from our audited consolidated financial statements, which are comprised of consolidated balance sheets as at December 31, 2018, 2017, 2016, 2015 and 2014 and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the five-year period ended December 31, 2018. The selected consolidated financial information presented below should be read in conjunction with the information contained in “Item 5. Operating and Financial Review and Prospects” and our audited consolidated financial statements as at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 and notes thereto contained in “Item 18. Financial Statements” of this annual report (beginning on page F-1). Our audited consolidated financial statements as at December 31, 2016, 2015 and 2014 and for the years ended December 31, 2015 and 2014 are not included in this annual report. Our consolidated financial statements as at December 31, 2018, 2017, 2016, 2015 and 2014 and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, prepared in accordance with IFRS, have been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young LLP’s report on our consolidated financial statements as at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 is included in this annual report.

The information presented below the caption “Other Financial Data and Ratios” is unaudited except for cash flows, capital expenditures and additions to spectrum licenses, which have been derived from our consolidated financial statements. The information presented below the caption “Operating Data” is not derived from our consolidated financial statements and is unaudited.

Our historical results are not necessarily indicative of our future financial condition or results of operations.

**SELECTED FINANCIAL DATA**

|  | Year ended December 31, |                                |                                |                                |                                |
|--|-------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|  | 2018                    | 2017<br><small>(1) (2)</small> | 2016<br><small>(1) (2)</small> | 2015<br><small>(1) (2)</small> | 2014<br><small>(1) (2)</small> |
| <b>(dollars in thousands, except percentages, ratios and Operating Data)</b> |                         |                                |                                |                                |                                |
| <b>Consolidated Statement of Income Data:</b>                                |                         |                                |                                |                                |                                |
| Operating revenues:  |                         |                                |                                |                                |                                |
| Cable television   | \$ 996,736              | \$ 1,009,584                   | \$ 1,024,283                   | \$ 1,053,797                   | \$ 1,074,821                   |
| Internet   | 1,079,301               | 1,030,861                      | 978,723                        | 920,746                        | 856,051                        |
| Mobile telephony   | 534,377                 | 469,841                        | 409,621                        | 319,068                        | 214,265                        |
| Cable telephony  | 368,644                 | 397,787                        | 424,795                        | 458,028                        | 475,143                        |
| Over-the-top video   | 46,977                  | 39,720                         | 31,443                         | 23,596                         | 12,213                         |
| Business   | 108,242                 | 104,830                        | 99,155                         | 66,116                         | 65,632                         |
| Equipment sales  | 233,463                 | 218,960                        | 206,915                        | 156,327                        | 128,427                        |
| Other  | 8,743                   | 9,967                          | 9,918                          | 11,383                         | 9,613                          |
| Total operating revenues   | <u>3,376,483</u>        | <u>3,281,550</u>               | <u>3,184,853</u>               | <u>3,009,061</u>               | <u>2,836,165</u>               |
| Employee costs   | 385,223                 | 386,353                        | 376,757                        | 356,503                        | 342,399                        |
| Purchase of goods and services   | 1,315,476               | 1,338,804                      | 1,299,526                      | 1,238,912                      | 1,122,755                      |
| Depreciation and amortization  | 662,341                 | 650,163                        | 594,164                        | 624,427                        | 601,381                        |
| Financial expenses <sup>(3)</sup>  | 181,994                 | 147,681                        | 160,529                        | 167,478                        | 169,177                        |
| Loss on valuation and translation of financial instruments                   | 691                     | 3,098                          | 2,126                          | 518                            | 3,430                          |
| Restructuration of operations, litigation and other items                    | 17,163                  | 5,805                          | 15,879                         | (129,737)                      | 39,445                         |
| Gain on sale of spectrum licences  | —                       | (330,871)                      | —                              | —                              | —                              |
| Loss on debt refinancing   | —                       | 5,201                          | 7,346                          | 12,153                         | 21,403                         |
| Income taxes expense   | 165,525                 | 139,120                        | 133,953                        | 129,310                        | 99,383                         |
| Loss (income) from discontinued operations                                   | (3,850)                 | (3,685)                        | (977)                          | 394                            | —                              |
| Net income   | <u>\$ 651,920</u>       | <u>\$ 939,881</u>              | <u>\$ 595,550</u>              | <u>\$ 609,103</u>              | <u>\$ 436,792</u>              |
| <b>Consolidated Balance Sheet Data (at year end):</b>                        |                         |                                |                                |                                |                                |
| Cash and cash equivalents  | \$ 1,052                | \$ 815,848                     | \$ 961                         | \$ 1,774                       | \$ 342,802                     |
| Total assets   | 7,653,390               | 6,949,542                      | 6,053,932                      | 7,832,059                      | 6,399,396                      |
| Long-term debt, excluding QMI subordinated loans <sup>(4)(5)</sup>           | 4,219,598               | 3,270,330                      | 3,163,108                      | 3,266,642                      | 2,924,540                      |
| QMI subordinated loans <sup>(4)(5)</sup>                                     | 1,595,000               | —                              | —                              | 2,090,000                      | 1,080,000                      |
| Capital stock  | 1,320,471               | 132,401                        | 132,401                        | 132,401                        | 3,401                          |
| Equity attributable to shareholder   | (133,981)               | 1,935,456                      | 1,248,548                      | 942,092                        | 898,896                        |
| Cash dividends declared  | 113,000                 | 295,000                        | 282,000                        | 665,000                        | 410,000                        |
| <b>Other Financial Data and Ratios:</b>                                      |                         |                                |                                |                                |                                |
| Adjusted EBITDA <sup>(6)</sup>   | 1,675,784               | 1,556,393                      | \$ 1,508,570                   | \$ 1,413,646                   | \$ 1,371,011                   |
| Adjusted EBITDA margin <sup>(6)</sup>  | 49.6%                   | 47.4%                          | 47.4%                          | 47.0%                          | 48.3%                          |
| Cash flows provided by operating activities                                  | 1,496,536               | 1,262,225                      | 1,240,839                      | 1,207,564                      | 1,106,452                      |
| Cash flows (used in) provided by investing activities                        | (1,953,005)             | (430,761)                      | 1,235,366                      | (1,975,082)                    | 294,905                        |
| Cash flows (used in) provided by financing activities                        | (366,853)               | (22,549)                       | (2,427,156)                    | 426,090                        | (1,381,024)                    |
| Capital expenditures <sup>(7)</sup>  | 706,932                 | 703,071                        | 739,064                        | 692,668                        | 693,224                        |
| Additions to spectrum licenses <sup>(7)</sup>                                | —                       | —                              | —                              | 219,033                        | 217,364                        |
| Ratio of earnings to fixed charges <sup>(8)</sup>                            | 5.3x                    | 7.3x                           | 5.4x                           | 5.4x                           | 4.0x                           |
| <b>Operating Data (at year end, except ABPU):</b>                            |                         |                                |                                |                                |                                |
| Homes passed <sup>(9)</sup>  | 2,907,914               | 2,873,748                      | 2,839,293                      | 2,806,001                      | 2,777,264                      |
| Basic cable customers <sup>(10)</sup>  | 1,597,281               | 1,640,520                      | 1,690,846                      | 1,736,892                      | 1,782,242                      |
| Basic cable penetration <sup>(11)</sup>                                      | 54.9%                   | 57.1%                          | 59.6%                          | 61.9%                          | 64.2%                          |
| Digital customers  | 1,597,281               | 1,640,520                      | 1,587,039                      | 1,570,622                      | 1,553,593                      |
| Digital penetration <sup>(12)</sup>  | 100.0%                  | 100.0%                         | 93.9%                          | 90.4%                          | 87.2%                          |
| Cable Internet customers   | 1,704,475               | 1,666,491                      | 1,612,827                      | 1,568,165                      | 1,537,532                      |
| Cable Internet penetration <sup>(11)</sup>                                   | 58.6%                   | 58.0%                          | 56.8%                          | 55.9%                          | 55.4%                          |
| Cable telephony lines  | 1,113,915               | 1,188,475                      | 1,253,060                      | 1,316,293                      | 1,349,010                      |
| Cable telephony penetration <sup>(11)</sup>                                  | 38.3%                   | 41.4%                          | 44.1%                          | 46.9%                          | 48.6%                          |
| Mobile telephony lines   | 1,153,762               | 1,023,995                      | 893,932                        | 768,589                        | 632,766                        |
| Over-the-top video customers   | 420,850                 | 361,563                        | 314,706                        | 257,477                        | 177,667                        |
| ABPU <sup>(13)</sup>   | \$ 49.51                | \$ 48.23                       | \$ 46.75                       | \$ 44.02                       | \$ 42.67                       |

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- (1) Prior period figures have been restated to reflect the adoption of IFRS 15, Revenues from Contracts with Customers. Refer to note 1(b) of our consolidated financial statements for more details.
- (2) In 2019, we sold our data centers operations. The results of operations and cash flows related to this business were reclassified as discontinued operations. Refer to note 28 of our consolidated financial statements for more details.
- (3) We are party to a number of back-to-back transactions with Quebecor Media, 9101-0835 Québec inc. and 9346-9963 Québec inc., both subsidiaries of Quebecor Media. With respect to these back-to-back transactions, we recorded interest expense of \$185.0 million for the year ended December 31, 2018, \$193.7 million for the year ended December 31, 2017, \$202.6 million for the year ended December 31, 2016, \$213.2 million for the year ended December 31, 2015 and \$218.6 million for the year ended December 31, 2014, but we recorded \$186.9 million, \$195.5 million, \$204.5 million, \$216.3 million and \$224.2 million in dividends from Quebecor Media in 2018, 2017, 2016, 2015 and 2014 respectively. See “Item 5. Operating and Financial Review and Prospects — Uses of Liquidity and Capital Resources - Purchase of Shares of Quebecor Media and Servicing of Subsidiary Subordinated Loan.”
- (4) For the years ended December 31, 2018, 2017, 2016, 2015 and 2014, the term “QMI subordinated loans” refers to the \$1.0 billion subordinated loan due in 2022 we entered into in 2007 in favor of Quebecor Media (entirely redeemed for \$670.0 million and \$330.0 million in 2010 and 2014, respectively), the \$1.3 billion subordinated loan due in 2025 we entered into in 2010 in favor of Quebecor Media (entirely redeemed for \$870.0 million and \$430.0 million in 2014 and 2016, respectively), the \$3.25 billion subordinated loan due in 2043 we entered into in 2013 in favor of Quebecor Media (entirely redeemed for \$2.6 billion and \$650.0 million in 2013 and 2016, respectively), the \$1.01 billion subordinated loan due in 2045 we entered into in 2015 in favor of Quebecor Media (entirely redeemed in 2016), the \$625.0 million loan due in 2046 we entered into in 2016 in favor of Quebecor Media (entirely redeemed in 2016), and the \$3.6 billion subordinated loan due in 2047 we entered into in 2017 in favor of Quebecor Media (entirely redeemed in 2017), the \$2.39 billion subordinated loan due in 2048 we entered into in 2018 in favor of Quebecor Media (partially redeemed for \$795.0 million in 2018). See “Item 5. Operating and Financial Review and Prospects — Uses of Liquidity and Capital Resources - Purchase of Shares of Quebecor Media and Servicing of Subsidiary Subordinated Loan.”
- (5) We believe that long-term debt, excluding QMI subordinated loans, provides investors with a meaningful measure of our long-term debt because the QMI subordinated loans are subordinated in right of payment to the prior payment in full of our senior indebtedness, including our notes, and because the proceeds of our QMI subordinated loans due 2022, 2025, 2043, 2045, 2046, 2047 and 2048 were invested in retractable preferred shares of Quebecor Media or its subsidiaries as part of back-to-back transactions to reduce our income tax obligations. Consequently, we disclose long-term debt, excluding QMI subordinated loans, as a supplemental measure of our indebtedness in this annual report. Long-term debt, excluding QMI subordinated loans, is not intended to be, and should not be, regarded as an alternative to other financial reporting measures, and it should not be considered in isolation as a substitute for measures of liabilities prepared in accordance with IFRS. Long-term debt, excluding QMI subordinated loans, is calculated from and reconciled to long-term debt as follows:

|  | At December 31                                |                   |                   |                   |                   |
|--|---|-------------------|-------------------|-------------------|-------------------|
|  | 2018  | 2017              | 2016              | 2015              | 2014              |
|  | (Canadian dollars in millions)<br>(unaudited) |                   |                   |                   |                   |
| Long-term debt   | \$ 5,814.6                                    | \$ 3,270.3        | \$ 3,163.1        | \$ 5,356.6        | \$ 4,004.5        |
| QMI subordinated loans <sup>(4)</sup>                        | (1,595.0)                                     | —                 | —                 | (2,090.0)         | (1,080.0)         |
| Long-term debt, excluding QMI subordinated loans, as defined | <u>\$ 4,219.6</u>                             | <u>\$ 3,270.3</u> | <u>\$ 3,163.1</u> | <u>\$ 3,266.6</u> | <u>\$ 2,924.5</u> |

- (6) Adjusted EBITDA and ratios based on this measure are not calculated in accordance with, or recognized by, IFRS. We define adjusted EBITDA, as reconciled to net income under IFRS, as net income before depreciation and amortization, financial expenses, loss on valuation and translation of financial instruments, loss on debt refinancing, restructuring of operations, litigation and other items, gain on sale of spectrum licences, income taxes and income from discontinued operations. We define adjusted EBITDA margin as adjusted EBITDA expressed as a percentage of revenues under IFRS. Adjusted EBITDA, and ratios using this measure, are not intended to be regarded as alternatives to other financial operating performance measures or to the consolidated statement of cash flows as a measure of liquidity and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. We use adjusted EBITDA because we believe that it is a meaningful measure in evaluating our consolidated results. This measure eliminates the effect of significant levels of non-cash charges related to depreciation of tangible assets and amortization of certain intangible assets, and it is unaffected by the capital structure or our investment activities. A limitation of this measure, however, is that it does not reflect the periodic costs of tangible and intangible assets used in generating revenues. Our definition of adjusted EBITDA may not be the same as similarly titled measures reported by other companies, therefore limiting its usefulness as a comparative measure. See “Presentation of Financial Information — Non-IFRS Measures”. Our adjusted EBITDA is calculated from and reconciled to net income under IFRS for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 in the table below:

|  | Year ended December 31, |          |          |          |          |
|--|-------------------------|----------|----------|----------|----------|
|  | 2018                    | 2017     | 2016     | 2015     | 2014     |
|  | (in millions)           |          |          |          |          |
| Net income   | \$ 651.9                | \$ 939.9 | \$ 595.6 | \$ 609.1 | \$ 436.8 |
| Depreciation and amortization                              | 662.3                   | 650.2    | 594.2    | 624.4    | 601.4    |
| Financial expenses <sup>(1)</sup>                          | 182.0                   | 147.7    | 160.5    | 167.5    | 169.2    |
| Loss on valuation and translation of financial instruments | 0.7                     | 3.1      | 2.1      | 0.5      | 3.4      |
| Loss on debt refinancing                                   | —                       | 5.2      | 7.3      | 12.2     | 21.4     |
| Gain on spectrum licences                                  | —                       | (330.9)  | —        | —        | —        |
| Restructuring of operations, litigation and other items    | 17.2                    | 5.8      | 15.9     | (129.7)  | 39.4     |

|                                     |                   |                   |                   |                   |                   |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Income taxes expense                | 165.5             | 139.1             | 134.0             | 129.3             | 99.4              |
| Income from discontinued operations | <u>(3.9)</u>      | <u>(3.7)</u>      | <u>(1.0)</u>      | <u>0.4</u>        | <u>—</u>          |
| Adjusted EBITDA, as defined         | <u>\$ 1,675.8</u> | <u>\$ 1,556.4</u> | <u>\$ 1,508.6</u> | <u>\$ 1,413.6</u> | <u>\$ 1,371.0</u> |

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- (7) Capital expenditures are comprised of additions to fixed assets and intangible assets, excluding additions to spectrum licenses, which are presented separately in the table.
- (8) For the purpose of calculating the ratio of earnings to fixed charges, (i) earnings consist of net income plus income taxes, fixed charges, amortized capitalized interest, less interest capitalized, and (ii) fixed charges consist of interest expensed and capitalized, excluding interest on QMI subordinated loans, plus premiums and discounts amortization, financing fees amortization and an estimate of the interest within rental expense.
- (9) “Homes passed” means the number of residential premises, such as single dwelling units or multiple dwelling units, and commercial premises passed by the cable television distribution network in a given cable system service area in which the programming services are offered.
- (10) “Basic cable customers” are customers who receive basic cable television service in either analog or digital mode.
- (11) Represents customers as a percentage of total homes passed.
- (12) Represents customers for the digital service as a percentage of basic cable customers.
- (13) ABPU is not a measurement that is calculated in accordance with IFRS, and our definition and calculation of ABPU may not be the same as identically titled measurements reported by other companies. We calculate our ABPU by dividing our combined average subscription billing for cable television, Internet access, over-the-top video and cable and mobile telephony revenues by the total average number of basic cable customers during the applicable period, and then dividing the resulting amount by the number of months in the applicable period.

### **B- Capitalization and Indebtedness**

Not applicable.

### **C- Reasons for the Offer and Use of Proceeds**

Not applicable.

### **D- Risk Factors**

#### **Risk Factors**

*This section describes some of the risks that could materially affect our business, revenues, results of operations and financial condition, as well as the market value of our Senior Notes. The factors below should be considered in connection with any forward-looking statements in this document and with the cautionary statements contained in the section “Cautionary Statement Regarding Forward-Looking Statements” at the forepart of this annual report. The risks below are not the only ones that we face. Some risks may not yet be known to us and some that we do not currently believe to be material could later turn out to be material.*

#### **Risks Relating to Our Business**

***We operate in highly competitive industries that are experiencing rapid technological developments and fierce price competition, and our inability to compete successfully could have a material adverse effect on our business, prospects, revenues, financial condition and results of operations.***

In our cable business, we compete against incumbent local exchange carriers (“ILECs”), the primary one in our market holds a regional license to provide terrestrial broadcasting distribution in Montréal and several other communities in the Province of Québec. Such primary ILEC has rolled out its own Internet protocol television (“IPTV”) service throughout the country but more specifically in Montréal (including a portion of the greater Montréal area), in Québec City, and in other locations in the Province of Québec. It has also secured licenses to launch video distribution services using video digital subscriber line (“VDSL”) technology. We also compete against providers of direct broadcast satellite (“DBS”, which in Canada are also referred to as “DTH” for “direct-to-home” satellite providers), multichannel multipoint distribution systems, and satellite master antenna television systems. The direct access to some broadcasters’ websites that provide streaming in high-definition (“HD”) of video-on-demand (“VOD”) content is also available for some of the channels we offer in our television programming. In addition, some third-party Internet service providers (“ISPs”) have launched Internet Protocol video services (“IPVS”) in territories in which we provide services.

We also face competition from illegal providers of cable television services and illegal access to non-Canadian DBS (also called grey market piracy), as well as from signal theft of DBS that enables customers to access programming services from U.S. and Canadian DBS without paying any fees (also called black market piracy). Competitors in the video business also include emerging content delivery platforms. Furthermore, over-the-top (“OTT”) content providers, such as

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Netflix, Apple TV and Amazon Prime Video, as well as Canadian services such as Crave TV, compete for viewership and a share of the monthly entertainment spending currently allocated to traditional cable television and cable service VOD offerings.

Unlike us, OTT service providers are not subject to CRTC's regulations and do not have to contribute financially to the Canadian traditional television business model or Internet infrastructure. Furthermore, foreign providers with no Canadian place of business are not required to charge federal and provincial sales tax. Consequently, this could place us at a competitive disadvantage, lead to increased operational costs and have an adverse effect on our business, prospects, revenues, financial condition, and results of operations. On September 28, 2017, the Minister of Canadian Heritage and Netflix concluded an arrangement pursuant to which Netflix undertakes to invest a minimum of \$500 million in original productions in Canada over the next five years. As part of this arrangement, the Federal Government has decided not to impose the Goods and Services Tax (GST) on Netflix's services. Given that our clients must pay GST when they purchase our services, this decision could place us at a competitive disadvantage.

In our Internet access business, we compete against other ISPs offering residential and commercial Internet access services as well as WiMAX and open Wi-Fi networks in some cities. The main competitors are the ILECs that offer Internet access through digital subscriber line ("DSL"), fibre to the node and fibre to the home technologies, often offering download speeds comparable to ours. In addition, satellite operators such as Xplornet are increasing their existing high-speed Internet access capabilities with the launch of high-throughput satellites, targeting households in rural and remote locations and claiming future download speeds comparable to our low and medium download speeds. The CRTC also requires cable and ILEC network providers, including ourselves, to offer wholesale access to our high-speed Internet systems to third-party ISP competitors for them to provide retail Internet access services. These third-party ISP competitors may also provide telephony, television services, IPVS and networking applications. Their market share is significant and growing especially in Québec and Ontario, the two regions in Canada where these third-party ISP competitors have been particularly active and aggressively pricing their services. Certain municipalities also plan to build and operate their own broadband networks. They plan to do so through public/private partnership arrangements, competing directly with us in some of our local markets.

Our cable telephony business has numerous competitors, including ILECs, competitive local exchange carriers, mobile telephony service operators and other providers of telephony, television services, Voice over Internet Protocol ("VoIP") and Internet communications, including competitors that are not facility-based and therefore have much lower infrastructure costs. In addition, Internet protocol-based products and services are generally subject to downward pricing pressure, lower margins and technological evolution, all of which could have an adverse effect on our business, prospects, revenues, financial condition and results of operations.

In our mobile telephony business, we compete against a mix of market participants, some of them active in some or all of the products we offer, with others offering only mobile telephony services. In addition, users of mobile voice and data systems may find their communication needs satisfied by other current or developing adjunct technologies, such as Wi-Fi, "hotspots" or trunk radio systems, which have the technical capability to handle mobile data communication and mobile telephone calls. There can be no assurance that current or future competitors will not provide network capacity and/or services comparable or superior to those we provide or may in the future provide, or at lower prices, or adapt more quickly to evolving industry trends or changing market requirements, or introduce competing services. For instance, some providers of mobile telephony services (including incumbent carriers) have deployed and have been operating for many years lower-cost mobile telephony brands in order to acquire additional market share. In the near future, depending on new regulations, we could see the emergence of non facility-based operators in the wireless space. Also, we may not be able to compete successfully in the future against existing or potential competitors, and increased competition could have a material adverse effect on our business, prospects, revenues, financial condition and results of operations.

Due to ongoing technological developments, the distinction between traditional platforms (broadcasting, Internet and telephony) is fading rapidly. For instance, emerging Go Platforms such as HBO Go, allow customers to view their traditional television content directly on their mobile devices or computers via Internet connection (although authentication as a broadcasting distribution undertaking's subscriber ("**BDU's subscriber**") is still required in Canada). Also, the Internet, through wireline or cable and mobile devices, is an important broadcasting and distribution platform. In addition, mobile operators, with the development of their Long-Term Evolution (also known as "**LTE**") networks, offer wireless and fixed wireless Internet services. Finally, our VoIP telephony service also competes with Internet-based solutions.

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Moreover, a few of our competitors are offering special discounts to customers who subscribe to two or more of their services (cable television or IPTV, Internet, residential and mobile telephony services). Should we fail to keep our existing customers and lose them to such competitors, we may end up losing a subscriber for each of our services as a result of our bundling strategy. This could have an adverse effect on our business, prospects, revenues, financial condition and results of operations.

Fierce price competition in all our businesses and across the industries in which we operate may affect our ability to raise the price of our products and services in line with increases in our operating costs, as we have done in the past. This could have an adverse effect on our business, revenues, financial condition and results of operations.

***We compete, and will continue to compete, with alternative technologies and we may be required to invest a significant amount of capital to address continuing technological evolution and development needs.***

The media industry is experiencing rapid and significant technological changes, which have resulted in alternative means of program and content transmission. The continued growth of the Internet has presented alternative content distribution options that compete with traditional media. Furthermore, in our video distribution markets, industry regulators have authorized DTH, microwave services and VDSL services and may authorize other alternative methods of transmitting television and other content with improved speed and quality.

We may not be able to successfully compete with existing or newly developed alternative technologies, such as advanced LTE technologies leading to and complementing fifth-generation (5G) telecommunication technologies, 5G telecommunication technologies, Software-defined networking (SDN), Network function virtualization (NFV) and virtual reality technologies, or we may be required to acquire, develop or integrate new technologies. The cost of the acquisition, development or implementation of new technologies could be significant and our ability to fund such implementations may be limited, which could have a material adverse effect on our ability to successfully compete in the future. Any such difficulty or inability to compete could have a material adverse effect on our business, reputation, prospects, financial condition, and results of operations.

5G technology is evolving rapidly and the world's first standards-based commercial launches are expected in 2019, while smartphones are generally expected to support 5G technology in late 2019 or 2020. It is expected that early 5G ecosystems will operate on three distinct spectrum bands: 3.5 GHz, millimetre wave (mmWave) spectrum (28 GHz and 37—40 GHz) and 600 MHz. Globally, 3.5 GHz spectrum is becoming the primary band for 5G mobile coverage. In Canada, 3.5 GHz was auctioned for fixed wireless access (FWA) between 2004 and 2009; it is currently not licensed for mobile applications and is largely held by Inukshuk (a joint venture owned by Bell and Rogers) in most urban markets. Innovation, Science and Economic Development Canada (“ISED”) is expected to claw back a portion of Inukshuk's 3.5 GHz spectrum holdings and re-auction it for flexible use (permitting the deployment for mobile applications, such as 5G). Depending on the amount of 3.5 GHz spectrum clawed back and re-auctioned, there is a risk that we may end up with less 3.5 GHz spectrum than desired and would not be able to compete equally on network speeds and 5G capacity. Meanwhile, if ISED converts 3.5 GHz spectrum to mobile use before the 3.5 GHz auction concludes, current holders would have access to 5G spectrum before us and could gain a time to market advantage. Also, with regards to the 600 MHz spectrum auctioned in March 2019, there is a risk that we might not be able to purchase the spectrum required to compete equally on network speeds and 5G capacity. Any such difficulty or inability to compete could have a material adverse effect on our business, reputation, prospects, financial condition, and results of operations.

***We have entered into roaming agreements with other mobile operators in order to provide worldwide coverage to our mobile telephony customers. Our inability to extend our worldwide coverage or to renew, or substitute for, these roaming agreements at their respective terms, and on acceptable terms, may place us at a competitive disadvantage, which could adversely affect our ability to operate our mobile business successfully and profitably.***

We have entered into roaming agreements with multiple carriers around the world (including Canada, the United States and Europe), and have established worldwide coverage. Our inability to extend our worldwide coverage or to renew, or substitute for, these roaming agreements at their respective or better terms or on acceptable terms, may place us at a competitive disadvantage, which could adversely affect our ability to operate our mobile business successfully and profitably. In addition, if we are unable to renew, or substitute for, these roaming agreements on a timely basis and at an acceptable cost, our cost structure could materially increase, and, consequently, our business, prospects, revenues, financial condition and results of operations could be adversely affected.

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***Our reputation may be negatively impacted, which could have a material adverse effect on our business, financial condition and results of operations.***

We have generally enjoyed a good reputation among the public. Our ability to maintain our existing customer relationships and to attract new customers depends to a large extent on our reputation. While we have put in place certain mechanisms to mitigate the risk that our reputation may be tarnished, including good governance practices and a Code of Ethics, we cannot be assured that we will continue to enjoy a good reputation nor can we be assured that events that are beyond our control will not cause our reputation to be negatively impacted. The loss or tarnishing of our reputation could have a material adverse effect on our business, prospects, financial condition and results of operations.

***We could be adversely impacted by higher handset subsidies and increase in bring-your-own-device (“BYOD”) customers.***

Our mobile telephony business model is based substantially on subsidizing the cost of subscriber handsets, similar to other Canadian wireless carriers. This model attracts customers and in exchange they commit to a term contract with us. We also commit to a minimum subsidy per unit with the supplier of certain smartphone devices. If we are unable to recover the costs of the subsidies over the term of the customer contract, this could negatively impact our business, prospects, revenues, financial condition and results of operations.

Also, with the introduction of the CRTC’s Wireless Code in 2013 and its revision in 2017, limiting wireless term contracts to two years and eliminating device locking, the number of BYOD customers with no-term contracts has increased. Such customers are under no contractual obligation to remain with us, this could have a material adverse effect on our churn rate and, consequently, on our business, prospects, revenues, financial condition and results of operations.

***Our inventory may become obsolete.***

Our various products in inventory generally have a relatively short lifecycle due to frequent technological changes. If we cannot effectively manage inventory levels based on product demand, or minimum order quantities from our suppliers, this could increase the risk of inventory obsolescence and could have an adverse effect on our business, financial condition and results of operations.

***We are regularly required to make capital expenditures to remain technologically and economically competitive. We may not be able to obtain additional capital to implement our business strategies and make capital expenditures.***

Our strategy of maintaining a leadership position in the suite of products and services we offer and of launching new products and services requires capital investments in our network and infrastructure to support growth in our customer base and its demands for increased bandwidth capacity and other services. In the past, we have required substantial capital for the upgrade, expansion and maintenance of our network and the launch and deployment of new or additional services. We expect that additional capital expenditures will continue to be required in the short-term, mid-term and long-term in order to maintain, expand and enhance our networks, systems and services, including expenditures relating to advancements in Internet access, HD television, ultra-high-definition (“UHD”) television, Internet of Things, IPTV and television everywhere/every platform requiring Internet protocol delivery technology, as well as the introduction of virtual reality and home automation.

New technologies in our industry are evolving faster than the historical investment cycle in the industry. The introduction of new technologies and their pace of adoption could result in requirements for additional capital investments not currently planned, as well as shorter estimated useful lives for certain of our existing assets.

The demand for wireless data services has been growing at high rates and it is projected that this demand will further accelerate, driven by the following increases: levels of broadband penetration; need for personal connectivity and networking; affordability of smartphones and Internet-only devices (e.g., high-usage data devices such as mobile Internet keys, tablets and electronic book readers); multimedia-rich services and applications; and unlimited data plans. The anticipated levels of data traffic will represent a growing challenge to the current mobile network’s ability to serve this traffic. We may have to acquire additional spectrum, if available and if economically reasonable, in order to address this increased demand. The ability to acquire additional spectrum (if needed) is dependent on the timing and the rules established by ISED. If we are not successful in acquiring additional spectrum we may need on reasonable terms, or not at

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all, that could have a material adverse effect on our business, prospects and financial condition. See also “Item 4. Information on the Corporation — Regulation — Canadian Telecommunications Services — Regulatory Framework for Mobile Wireless Services.”

Developing, maintaining and enhancing our mobile network and any new market standards requires capital expenditures to remain competitive and to comply with our obligations under the agreement with our partner governing the joint operation of our LTE network. A geographical expansion, densification or further upgrade of our mobile network may require us to incur significant costs and to make significant capital expenditures. See also “Item 4. Information on the Corporation — Business Overview.”

There can be no assurance that we will be able to generate or otherwise obtain the funds to finance any portion of these capital improvement programs, new strategies and services or other capital expenditure requirements, whether through cash from operations, additional borrowings or other sources. If we are unable to generate sufficient funds or obtain additional financing on acceptable terms, or if, for any reason, the agreement with our partner governing the joint operation of our LTE network is terminated or not renewed and we are unable to enter into similar agreements with respect to further upgrades of our mobile network or generate sufficient funds or obtain additional financing to expand and enhance our mobile network, we may be unable to implement our business strategies or proceed with the capital expenditures and investments required to maintain our leadership position, and our business, financial condition, results of operations, reputation, and prospects could be materially adversely affected. Even if we are able to obtain adequate funding, the period of time required to upgrade our network could have a material adverse effect on our ability to successfully compete in the future. Moreover, additional investments in our business may not translate into incremental revenues, cash flows or profitability.

See also the risk factors “— We operate in highly competitive industries that are experiencing rapid technological developments and fierce price competition, and our inability to compete successfully could have a material adverse effect on our business, prospects, revenues, financial condition and results of operations”, “— We compete, and will continue to compete, with alternative technologies and we may be required to invest a significant amount of capital to address continuing technological evolution and development” and “— Risks Relating to our Senior Notes and our Capital Structure — We may be required from time to time to refinance certain of our indebtedness. Our inability to do so on favorable terms, or at all, could have a material adverse effect on us.”

***We may need to support increasing costs in securing access to support structures needed for our cable network.***

We require access to the support structures of hydroelectric and telephone utilities and need municipal rights of way to deploy our cable network. Where access to the structures of telephone utilities cannot be secured, we may apply to the CRTC to obtain a right of access under the *Telecommunications Act* (Canada) (the “**Telecommunications Act**”). We have entered into comprehensive support structure access agreements with all the major hydroelectric companies and all the major telecommunications companies in our service territory. In the event that we seek to renew or to renegotiate these agreements, we cannot guarantee that these agreements will continue to be available on their respective terms, on acceptable terms, or at all, which may place us at a competitive disadvantage and which may have a material adverse effect on our business and prospects.

***We may not successfully implement our business and operating strategies.***

Our strategies include strengthening our position as telecommunications leader, introducing new and enhanced products and services, maintaining our advanced broadband network, further integrating the operations of our subsidiaries, leveraging geographic clustering and maximizing customer satisfaction across our business. We may not be able to implement these strategies successfully or realize their anticipated results fully or at all, and their implementation may be more costly or challenging than initially planned. In addition, our ability to successfully implement these strategies could be adversely affected by a number of factors beyond our control, including operating difficulties, increased ongoing operating costs, regulatory developments, general or local economic conditions, increased competition, technological changes and other factors described in this “Risk Factors” section. While the centralization of certain business operations and processes has the advantage of standardizing our practices, thereby reducing costs and increasing effectiveness, it also represents a risk in itself should a business solution implemented by a centralized office throughout the organization fail to produce the intended results. We may also be required to make capital expenditures or other investments that may affect our ability to implement our business strategies if we are unable to secure additional financing on acceptable terms

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or to generate sufficient funds internally to cover those requirements. Any material failure to implement our strategies could have a material adverse effect on our reputation, business, financial condition, prospects and results of operations, as well as on our ability to meet our obligations, including our ability to service our indebtedness.

As part of our strategy, in recent years, we have entered into certain agreements with third-parties under which we are committed to making significant operating expenditures in the future in order to offer new products and services to our customers. We can provide no assurance that we will be successful in developing such new products and services in relation to these engagements, including the marketing of new revenue sources.

### ***We could be adversely impacted by consumers' trend to abandon cable telephony and television services.***

The recent trend towards mobile substitution or “cord-cutting” (when users cancel their landline telephony services and opt for mobile telephony services only) is largely the result of the increasing mobile penetration rate in Canada and the various unlimited offers launched by mobile operators. In addition, there is also a consumer trend to abandon and substitute wire and cable television for Internet access services in order to stream directly from broadcasters and OTT content providers. We may not be successful in converting our existing cable telephony subscriber base to our mobile telephony services or in attracting customers to our OTT entertainment platforms, which could have a material adverse effect on our business, prospects, revenues, results of operations and financial condition.

### ***We could be adversely affected by the rapid growth of traffic volumes on the Internet.***

Internet users are downloading an increasing amount of data each year and households are connected to the Internet through a combination of several computers, tablets and other mobile devices, leading to simultaneous flows per home. In addition, some content on the Internet, such as videos, is available at a higher bandwidth for which HD, as opposed to standard definition, has become the norm. OTT service providers have recently started streaming UHD content which uses even more bandwidth than HD content. There has therefore been an increase in data consumption and an intensification of Internet traffic during peak periods, which calls for increased bandwidth capacity to address the needs of our customers.

Equipment costs are under pressure in an effort to counterbalance customers' demand for bandwidth. While we can relay some of this pressure on costs to our manufacturers, adopt new technologies that reduce costs or implement other cost-reduction initiatives, our inability to fully meet our increasing need for bandwidth may result in loss of clients, price increases or reduced profitability.

### ***If we do not effectively manage our growth, our business, results of operations and financial condition could be adversely affected.***

We have experienced substantial growth in our business and have significantly expanded our operations over the years. We have sought in the past, and may, in the future, seek to further expand the types of businesses in which we participate, under appropriate conditions. We can provide no assurance that we will be successful in either developing or fulfilling the objectives of any such business expansion.

In addition, our expansion may require us to incur significant costs or divert significant resources, and may limit our ability to pursue other strategic and business initiatives, which could have an adverse effect on our business, prospects, results of operations and financial condition. Furthermore, if we are not successful in managing our growth, or if we are required to incur significant or unforeseen costs, our business, prospects, results of operations and financial condition could be adversely affected.

### ***The implementation of changes to the structure of our business may be more expensive than expected and we may not gain all the anticipated benefits.***

We have and will continue to implement changes to the structure of our business due to many factors such as the necessity of a corporate restructuring, a system replacement or upgrade, a process redesign, and the integration of business acquisitions or existing business units. These changes must be managed carefully to ensure that we capture the intended benefits. The implementation process may lead to greater-than-expected operational challenges and costs, expenses, customer loss, and business disruption for us, which could adversely affect our business and our ability to gain the anticipated benefits.

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***We depend on key personnel and our inability to retain skilled employees may have an adverse effect on our business, prospects, results of operations and financial condition.***

Our success depends to a large extent on the continued services of our senior management and our ability to retain skilled employees. There is intense competition for qualified management and skilled employees, and our failure to recruit, train and retain such employees could have a material adverse effect on our business, prospects, results of operations and financial condition. In addition, in order to implement and manage our businesses and operating strategies effectively, we must sustain a high level of efficiency and performance, maintain content quality, continually enhance our operational and management systems, and continue to effectively attract, train, motivate and manage our employees. If we are not successful in these efforts, it may have a material adverse effect on our business, prospects, results of operations and financial condition.

***Our financial performance could be materially adversely affected if we cannot continue to distribute a wide range of television programming on commercially reasonable terms.***

The financial performance of our cable and mobile services depends in large part on our ability to distribute, on our platforms, a wide range of appealing, conveniently-scheduled television programming at reasonable rates. We obtain television programming rights from suppliers pursuant to programming contracts. In recent years, these suppliers have become vertically integrated and are now more limited in number. The quality and amount of television programming we offer affect the attractiveness of our services to customers and, accordingly, the rates we can charge for these services. We may be unable to maintain key programming contracts at commercially reasonable rates for television programming. Loss of programming contracts, our inability to obtain programming at reasonable rates or our inability to pass rate increases through our customers could have a material adverse effect on our business, prospects, results of operations and financial condition.

In addition, our ability to attract and retain cable customers depends, to a certain extent, on our capacity to offer quality content, HD and UHD programming, an appealing variety of programming choices and packages, as well as multiplatform distribution and on-demand content, at competitive prices. If the number of specialty channels being offered does not increase at the level and pace comparable to our competitors, if the content offered on such channels does not receive audience acceptance, or if we are unable to offer multiplatform availability, HD and UHD programming and on-demand content for capacity reasons, among others, this may have a negative impact on revenues from our cable operations.

The multiplicity of foreign and deregulated content providers (often global players on the Internet) puts pressure on the viability of our current business model for television distribution. Substantial capital expenditures on our infrastructure and on our research and development may be required to remain competitive.

***We provide our cable television, Internet access, cable telephony and mobile telephony services through a single clustered network, which may be more vulnerable to widespread disruption.***

We provide our cable television, Internet access, cable telephony and mobile telephony services through a primary headend and through twelve additional regional headends in our single clustered network. Despite available emergency backup or replacement sites, a failure in our primary headend, including exogenous threats, such as cyber-attacks, natural disasters, sabotage or terrorism, or dependence on certain external infrastructure providers (such as electric utilities), could prevent us from delivering some of our products and services throughout our network until the failure has been resolved, which may result in significant customer dissatisfaction, loss of revenues and potential civil litigation, and could have a material adverse effect on our financial condition.

***Cybersecurity breaches and other similar disruptions could expose us to liability, which would have an adverse effect on our business and reputation.***

The ordinary course of our telecommunications and data-storage businesses involves the receipt, collection, storage and transmission of sensitive data, including our proprietary business information and that of our customers, and personally identifiable information of our customers and employees, whether in our systems, infrastructure, networks and processes, including those of our suppliers. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy.

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Although we have implemented and regularly review and update processes and procedures to protect against signal interruption, unauthorized access to or use of sensitive data, including data of our customers, and to prevent data loss or theft, and, although ever-evolving cyber-threats require us to continually evaluate and adapt our systems, infrastructure, networks and processes, we cannot assure that our systems, infrastructure, networks and processes, as well as those of our suppliers, will be adequate to safeguard against all information security access by third-parties or errors by employees or by third party suppliers. If we are subject to a significant cyber-attack or breach, unauthorized access, errors of third-party suppliers or other security breaches, we may incur significant costs, be subject to investigations, sanctions and litigation, including under laws that protect the privacy of personal information, and we may suffer damage to our business, competitive position and reputation, which could have a material adverse effect on our financial condition.

In addition, the preventive actions we take to reduce the risks associated with cyber-attacks, including protection of our information assets as well as efforts to improve the overall governance over information security and the controls within our IT systems, may be insufficient to repel or mitigate the effects of a major cyber-attack in the future.

The costs associated with a major cyber-attack could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cybersecurity measures and the use of alternate resources, lost revenues and customers from business interruption and litigation. As part of our risk mitigation, contractual risk transfer with our clients and suppliers is worded to limit our liability and we purchase cyber liability insurance to cover the residual liability as per standard business practices. However, our contractual risk transfers do not eliminate the risk completely and the potential costs associated with these attacks could exceed the insurance coverage we maintain.

***We store and process increasingly large amounts of personally identifiable data of our clients, employees or our business partners, and the improper use or disclosure of such data would have an adverse effect on our business and reputation.***

We store and process increasingly large amounts of personally identifiable information of our clients, employees or our business partners. We face risks inherent in protecting the security of such personal data. In particular, we face a number of challenges in protecting the data in and hosted on our systems, or those belonging to our suppliers, including from advertent or inadvertent actions or inactions by our employees, as well as in relation to compliance with applicable laws, rules and regulations relating to the collection, use, disclosure and security of personal information, including any requests from regulatory and government authorities relating to such data. Although we have developed systems, processes and security controls that are designed to protect personally identifiable information of our clients, employees or our business partners, we may be unable to prevent the improper disclosure, loss, misappropriation of, unauthorized access to, or other security breach relating to such data that we store or process or that our suppliers store or process. As a result, we may incur significant costs, be subject to investigations, sanctions and litigation, including under laws that protect the privacy of personal information, and we may suffer damage to our business, competitive position and reputation, which could have a material adverse effect on our financial condition.

***We are dependent upon our information technology systems and those of certain third-parties. The inability to maintain and enhance our systems could have an adverse impact on our financial results and operations.***

The day-to-day operation of our business is highly dependent on information technology systems, including those of certain third-party suppliers, some of which are based in territories providing geopolitical risk. An inability to maintain and enhance our existing information technology systems or obtain new systems to accommodate additional customer growth or to support new products and services could have an adverse impact on our ability to acquire new subscribers, retain existing customers, produce accurate and timely billing, generate revenue growth and manage operating expenses, all of which may have a material adverse effect on our business, prospects, results of operations and financial condition.

Products and services supplied to us by third-party suppliers may contain latent security issues, including but not limited to software security issues, that would not be apparent upon a diligent inspection. Failure to identify and remedy those issues could adversely impact our results of operations and financial condition.

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***Malicious and abusive Internet practices could impair our cable data and mobile data services as well as our fibre-optic connectivity business.***

Our cable data, mobile data and fibre-optic connectivity business customers utilize our network to access the Internet and, as a consequence, we or they may become a victim of common malicious and abusive Internet activities, such as unsolicited mass advertising (or spam) and dissemination of viruses, worms and other destructive or disruptive software. These activities could have adverse consequences on our network and our customers, including deterioration of service, excessive call volume to call centers, and damage to our customers' equipment and data or ours. Significant incidents could lead to customer dissatisfaction and, ultimately, to a loss of customers or revenues, in addition to increased costs to service our customers and protect our network. Any significant loss of cable data, mobile data or fibre-optic connectivity business customers, or a significant increase in the costs of serving those customers, could adversely affect our reputation, business, prospects, results of operations and financial condition.

***We may not be able to protect our services from piracy, which may have an adverse effect on our customer base and lead to a possible decline in revenues.***

In our cable television, Internet access, OTT and telephony business, we may not be able to protect our services and data from piracy. We may be unable to prevent electronic attacks to gain unauthorized access to our network, digital programming, and our Internet access services. We use encryption technology to protect our cable signals and OTT from unauthorized access and to control programming access based on subscription packages. We may not be able to develop or acquire adequate technology to prevent unauthorized access to our network, programming and data, which may have an adverse effect on our customer base and lead to a possible decline in our revenues, as well as to significant remediation costs and legal claims.

***We depend on third-party suppliers and providers for services, hardware, equipment, licensed technological platforms, information and other items critical to our operations.***

We depend on third-party suppliers and providers for certain services, hardware, licensed technological platforms and equipment that are, or may become, critical to our operations and network evolution. These materials and services include set-top boxes, mobile telephony handsets and network equipment, cable and telephony modems, servers and routers, fibre-optic cable, telephony switches, inter-city links, support structures, licensed technological platforms, software, the "backbone" telecommunications network for our Internet access and telephony services, and construction services for the expansion of and upgrades to our cable and mobile networks. These services and equipment are available from a single or limited number of suppliers and therefore we face the risks of supplier disruption, including due to geopolitical events, business difficulties, restructuring or supply-chain issues. If no supplier can provide us with the equipment and services that we require or that comply with evolving Internet and telecommunications standards or that are compatible with our other equipment and software, our business, financial condition and results of operations could be materially adversely affected. In addition, if we are unable to obtain critical equipment, software, services or other items on a timely basis and at an acceptable cost, our ability to offer our products and services and roll out our advanced services may be delayed, and our business, financial condition and results of operations could be materially adversely affected.

In addition, we obtain proprietary content critical to our operations through licensing arrangements with content providers. Some providers may seek to increase fees or impose technological requirements to protect their proprietary content. If we are unable to renegotiate commercially acceptable arrangements with these content providers, comply with their technological requirements or find alternative sources of equivalent content, our operations may be adversely affected.

***We may be adversely affected by litigation and other claims.***

In the normal course of business, we are involved in various legal proceedings and other claims relating to the conduct of our business, including class actions. Although, in the opinion of our management, the outcome of current pending claims and other litigation is not expected to have a material adverse effect on our reputation, results of operations, liquidity or financial condition, a negative outcome in respect of any such claim or litigation could have a said adverse effect. Moreover, the cost of defending against lawsuits and the diversion of management's attention could be significant. See also "Item 8. Financial Information — Legal Proceedings" in this annual report.

***Our businesses depend on not infringing the intellectual property rights of others and on using and protecting our intellectual property rights.***

We rely on our intellectual property, such as patents, copyrights, trademarks and trade secrets, as well as licenses and other agreements with our vendors and other third parties, to use various technologies, conduct our operations and sell our products and services. Legal challenges to our intellectual property rights, or the ones of third party suppliers, and claims of intellectual property infringement by third parties could require that we enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability, or be enjoined preliminarily or permanently from further use of the intellectual property in question or from the continuation of our businesses as currently conducted. We may need to change our business practices if any of these events occur, which may limit our ability to compete effectively and could have an adverse effect on our results of operations. In the event that we believe any such challenges or claims are without merit, they can nonetheless be time-consuming and costly to defend and divert management's attention and resources away from our businesses. Moreover, if we are unable to obtain or continue to obtain licenses from our vendors and other third parties on reasonable terms, our businesses could be adversely affected.

Piracy and other unauthorized uses of content are made easier, and the enforcement of our intellectual property rights more challenging, by technological advances. The steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary rights. We may not have the ability in certain jurisdictions to adequately protect intellectual property rights. Moreover, others may independently develop processes and technologies that are competitive to ours. Also, we may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Unauthorized use of our intellectual property rights may increase the cost of protecting these rights or reduce our revenues. We cannot be sure that any legal actions against such infringers will be successful, even when our rights have been infringed.

***We may be adversely affected by strikes and other labour protests.***

We are not currently subject to any labour dispute. Nevertheless, we can neither predict the outcome of current or future negotiations relating to labour disputes, union representation or renewal of collective bargaining agreements, nor guarantee that we will not experience future work stoppages, strikes or other forms of labour protests pending the outcome of any current or future negotiations. If our unionized workers engage in a strike or any other form of work stoppage, we could experience a significant disruption to our operations, damage to our property and/or interruption to our services, which could adversely affect our business, assets, financial condition, results of operations and reputation. Even if we do not experience strikes or other forms of labour protests, the outcome of labour negotiations could adversely affect our business and results of operations. Such could be the case if current or future labour negotiations or contracts were to further restrict our ability to maximize the efficiency of our operations. In addition, our ability to make short-term adjustments to control compensation and benefit costs is limited by the terms of our collective bargaining agreements.

***Our defined benefit pension plans are currently underfunded and our pension funding requirements could increase significantly due to a reduction in funded status as a result of a variety of factors.***

The economic cycles, employee demographics and changes in regulations could have a negative impact on the funding of our defined benefit pension plans and related expenditures. There is no guarantee that the expenditures and contributions required to fund these pension plans will not increase in the future and therefore negatively impact our operating results and financial condition. Risks related to the funding of defined benefit plans may materialize if total obligations with respect to a pension plan exceed the total value of its trust assets. Shortfalls may arise due to lower-than-expected returns on investments, changes in the assumptions used to assess the pension plan's obligations, and actuarial losses.

***We may be adversely affected by exchange rate fluctuations.***

Most of our revenues and expenses are denominated in Canadian dollars. However, certain expenditures, such as the purchase of set-top boxes and cable modems, certain mobile devices and certain capital expenditures, including certain costs related to the development and maintenance of our mobile network, are paid in U.S. dollars. Those costs are partially hedged hence a significant increase in the U.S. dollar could have an adverse effect on our results of operations and financial condition.

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Also, a substantial portion of our debt is denominated in U.S. dollars, and interest, principal and premium, if any, are payable in U.S. dollars. For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar during a given financial reporting period would result in a foreign exchange gain or loss on the translation of any unhedged U.S. dollar-denominated debt into Canadian dollars. Consequently, our reported earnings and debt could fluctuate materially as a result of foreign-exchange gains or losses. We have entered into transactions to hedge the exchange rate risk with respect to our U.S. dollar-denominated debt outstanding at December 31, 2018 and we intend in the future to enter into such transactions for new U.S. dollar-denominated debt. These hedging transactions could, in certain circumstances, prove economically ineffective and may not be successful in protecting us against exchange rate fluctuations, or we may in the future be required to provide cash and other collateral in order to secure our obligations with respect to such hedging transactions, or we may in the future be unable to enter into such transactions on favorable terms, or at all, or, pursuant to the terms of these hedging transactions, our counterparties thereto may owe us significant amounts of money and may be unable to honour such obligations, all of which could have an adverse effect on our results of operations and financial condition.

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

The fair value of the derivative financial instruments we are party to is estimated using period-end market rates and reflects the amount we would receive or pay if the instruments were terminated and settled at those dates, as adjusted for counterparties' non-performance risk. At December 31, 2018, the net aggregate fair value of our cross-currency interest rate swaps and foreign-exchange forward contracts was in a net asset position of \$465.0 million on a consolidated basis. See also "Item 11. Quantitative and Qualitative Disclosures About Market Risk" of this annual report.

Some of our suppliers source their products out of the U.S., therefore, although we pay those suppliers in Canadian dollars, the prices we pay for such products may be affected by fluctuations in the exchange rate. We may in the future enter into transactions to hedge our exposure to the exchange rate risk related to the prices of some of those products. However, fluctuations to the exchange rate for our purchases that are not hedged could affect the prices we pay for such purchases and could have an adverse effect on our results of operations and financial condition.

***The volatility and disruptions in the capital and credit markets could adversely affect our business, including the cost of new capital, our ability to refinance our scheduled debt maturities and meet our other obligations as they become due.***

The capital and credit markets have experienced significant volatility and disruption in the past, resulting in periods of upward pressure on the cost of new debt capital and severe restrictions in credit availability for many companies. In such periods, the disruptions and volatility in the capital and credit markets have also resulted in higher interest rates or greater credit spreads on the issuance of debt securities and increased costs under credit facilities. Disruptions and volatility in the capital and credit markets could increase our interest expense, thereby adversely affecting our results of operations and financial position.

Our access to funds under our existing credit facilities is dependent on the ability of the financial institutions that are parties to those facilities to meet their funding commitments. Those financial institutions may not be able to meet their funding commitments if they experience shortages of capital and liquidity, or if they experience excessive volumes of borrowing requests within a short period of time. Moreover, the obligations of the financial institutions under our credit facilities are several and not joint and, as a result, a funding default by one or more institutions does not need to be made up by the others.

Extended periods of volatility and disruptions in the capital and credit markets as a result of uncertainty, ongoing changes in or increased regulation of financial institutions, reduced financing alternatives or failures of significant financial institutions could adversely affect our access to the liquidity and affordability of funding needed for our businesses in the longer term. Such disruptions could require us to take measures to maintain a cash balance until markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Market disruptions and broader economic challenges may lead to lower demand for certain of our products and increased incidences of customer inability to pay or timely pay for the services or products that we provide. Events such as these could adversely impact our results of operations, cash flows, financial condition and prospects.

***A failure to adopt an ethical business conduct may adversely affect our reputation.***

Any failure or perceived failure to adhere to our policies, the law or ethical business practices could have a significant effect on our reputation and brands and could therefore negatively impact our financial performance. Our framework for managing ethical business conduct includes the adoption of a Code of Ethics which our directors and employees are required to acknowledge and agree to on a regular basis and, as part of an independent audit and security function, maintenance of a whistle-blowing hotline. There can be no assurance that these measures will be effective to prevent violations or perceived violations of law or ethical business practices.

***Subject to the realization of various conditions and factors, we may have to record, in the future, asset impairment charges, which could be material and could adversely affect our future reported results of operations and equity.***

We have recorded in the past asset impairment charges which, in some cases, have been material. Subject to the realization of various factors, including, but not limited to, weak economic or market conditions, we may be required to record in the future, in accordance with IFRS accounting valuation principles, additional non-cash impairment charges if the carrying value of an asset in our financial statements is in excess of its recoverable value. Any such asset impairment charge could be material and may adversely affect our future reported results of operations and equity, although such charges would not affect our cash flow.

***We undertake acquisitions, dispositions, business combinations, or joint ventures from time to time which may involve significant risks and uncertainties.***

From time to time, we engage in discussions and activities with respect to possible acquisitions, dispositions, business combinations, or joint ventures intended to complement or expand our business, some of which may be significant transactions for us and involve significant risks and uncertainties. We may not realize the anticipated benefit from any of the transactions we pursue, and may have difficulty incorporating or integrating any acquired business. Regardless of whether we consummate any such transaction, the negotiation of a potential transaction (including associated litigation), as well as the integration of any acquired business, could require us to incur significant costs and cause diversion of management's time and resources and disrupt our business operations. We could face several challenges in the consolidation and integration of information technology, accounting systems, personnel and operations.

If we determine to sell individual properties or other assets or businesses, we will benefit from the net proceeds realized from such sales. However, our revenues may suffer in the long term due to the disposition of a revenue generating asset, the timing of such dispositions may be poor, causing us to fail to realize the full value of the disposed asset or the terms of such dispositions may be overly restrictive to us or may result in unfavorable post-closing price adjustments if some conditions are not met, all of which may diminish our ability to repay our indebtedness at maturity.

Any of the foregoing could have a material adverse effect on our business, financial condition, operating results, liquidity, and prospects.

***The competition for retail locations and the consolidation of independent retailers may adversely affect the customer reach of our telecommunications business' sale network.***

The competition to offer products in the best available retail commercial spaces is fierce in the telecommunications business. Some of our telecommunications business' competitors have pursued a strategy of selling their products through independent retailers to extend their presence on the market and some of our competitors have also acquired certain independent retailers and created new distribution networks. This could result in limiting the customer reach of our retail network and may contribute to isolate us from our competitors, which could have an adverse effect on our business, prospects, results of operations and financial condition.

## Risks Relating to Regulation

*We are subject to extensive government regulation and policy-making. Changes in government regulation or policies could adversely affect our business, prospects, results of operations and financial condition.*

Our operations are subject to extensive government regulation and policy-making in Canada. Laws and regulations govern the issuance, amendment, renewal, transfer, suspension, revocation and ownership of broadcast programming and distribution licenses. With respect to distribution, regulations govern, among other things, the distribution of Canadian and non-Canadian programming services and the maximum fees to be charged to the public in certain circumstances. Although the federal government eliminated the foreign ownership restrictions on telecommunications companies with less than 10 percent of total Canadian telecommunications market revenues, there are significant restrictions on the ability of non-Canadian entities to own or control broadcasting licenses and telecommunications carriers in Canada. Our broadcasting distribution and telecommunications operations (including Internet access service) are regulated respectively by the *Broadcasting Act* (Canada) (the “**Broadcasting Act**”) and the *Telecommunications Act* and regulations thereunder. The CRTC, which administers the *Broadcasting Act* and the *Telecommunications Act*, has the power to grant, amend, suspend, revoke and renew broadcasting licenses, approve certain changes in corporate ownership and control, and make regulations and policies in accordance with the *Broadcasting Act* and the *Telecommunications Act*, subject to certain directions from the federal cabinet. For instance, the CRTC introduced some form of rate regulation following its commonly referred to as “Lets talk TV” public consultation on television broadcasting and distribution. Consequently, we must offer a reduced basic service at \$25 since March 1, 2016 and offer all specialty services “à la carte”, since December 1, 2016. Moreover, the CRTC adopted a Wireless Code and a Television Service Provider Code which regulate numerous aspects of the provision of retail wireless services and retail television services, and is now considering the adoption of an Internet Code to regulate numerous aspects of the provision of retail Internet services. Finally, the CRTC initiated a proceeding in February 2019 to review its regulatory framework related to the provision of wireless services. This review could result in the introduction of mandatory resale into the wireless marketplace, to the detriment of facilities-based wireless competitors. Our wireless and cable operations are also subject to technical requirements, license conditions and performance standards under the *Radiocommunication Act* (Canada) (the “**Radiocommunication Act**”), which is administered by ISED.

In addition, laws relating to communications, data protection, e-commerce, direct marketing and digital advertising and the use of public records have become more prevalent in recent years. Existing and proposed legislation and regulations, including changes in the manner in which such legislation and regulations are interpreted by courts in Canada, the United States and other jurisdictions may impose limits on our collection and use of certain kinds of information. Furthermore, the CRTC and ISED have the power to impose monetary sanctions for failure to comply with current regulations. For a more extensive description of the regulatory environment affecting our business, see “Item 4. Information on the Corporation — Regulation”.

Changes to the laws, regulations and policies governing our operations, the introduction of new laws, regulations, policies or terms of license, the issuance of new licenses, including additional spectrum licenses to our competitors or changes in the treatment of the tax deductibility of advertising expenditures could have an impact on our customer buying practices and/or a material adverse effect on our business (including how we provide products and services), prospects, results of operations and financial condition. In addition, we may incur increased costs in order to comply with existing and newly adopted laws and regulations or penalties for any failure to comply. Notably, in June 2018, the Government of Canada issued terms of reference for a comprehensive review of the *Broadcasting Act*, the *Telecommunications Act* and, as required, the *Radiocommunication Act*. The review is being conducted by a panel of external experts, which is expected to issue its final report and recommendations in January 2020. It is difficult to predict in what form laws and regulations will be adopted or how they will be construed by the relevant courts or the extent to which any changes might adversely affect us.

*ISED may not renew our mobile spectrum licenses on acceptable terms, or at all.*

Our AWS-1 licenses were issued in December 2008 for a 10-year term. These licences were renewed in December 2018 for a 20-year term. A public consultation process is expected to be initiated shortly regarding the licence fees to be paid during the renewal term.

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Our other spectrum licenses, including in the AWS-3, 700MHz and 2500MHz bands, are issued for 20-year terms from their respective dates of issuance. At the end of those respective terms, applications may be made for new licenses for a subsequent term through a renewal process, unless a breach of license condition by us has occurred, a fundamental reallocation of spectrum to a new service is required, or in the event that an overriding policy need arises. The process for issuing or renewing licenses, including the terms and conditions of the new licenses and whether license fees should apply for a subsequent license term, are expected to be determined by ISED following public consultations.

If, at the end of their respective term, our licenses are not renewed on acceptable terms, or at all, our ability to continue to offer our wireless services, or to offer new services, may be negatively impacted and, consequently, it could have a material adverse effect on our business, prospects, results of operations and financial condition.

### ***We are required to provide third-party ISPs with access to our cable systems, which may result in increased competition.***

The largest cable operators in Canada, including Videotron, have been required by the CRTC to provide third-party ISPs with access to their cable systems at mandated cost-based rates. Several third-party ISPs are interconnected to our cable network and are thereby providing retail Internet access services as well as, in some cases, retail VoIP and IP-based television distribution services.

In a series of decisions since 2015, the CRTC has reemphasized the importance it gives to mandated wholesale access arrangements as a driver of competition in the retail Internet access market. Most significantly, the CRTC has ordered all of the major telephone and cable companies, including Videotron, to provide new disaggregated wholesale access services, which are to replace existing aggregated wholesale access services after a transition period. These new disaggregated services will involve third-party ISPs provisioning their own regional transport services. They will also include, for the first time, mandated access to high-speed services provided over fibre-access facilities, including the fibre-access facilities of the large incumbent telephone companies. A tariff proceeding is under way to set the rates for these new disaggregated wholesale services. In parallel, on October 6, 2016, the CRTC ordered a significant interim reduction to the tariff rates for the existing aggregated wholesale services. A second tariff proceeding is under way to set revised final rates for these services while work moves forward on implementing the disaggregated services. Rulings in both tariff proceedings are expected in the first half of 2019. As a result of these rulings, we may experience increased competition for retail cable Internet and telephony customers. In addition, because our third-party Internet access rates are regulated by the CRTC, we could be limited in our ability to recover our costs associated with providing this access.

### ***We are subject to a variety of environmental laws and regulations and may be adversely impacted by climate change..***

We are subject to a variety of environmental laws and regulations. Some of our facilities are subject to federal, provincial, state and municipal laws and regulations concerning, for example, emissions to the air, water and sewer discharge, the handling and disposal of hazardous materials and waste, including electronic waste, recycling, soil remediation of contaminated sites, or otherwise relating to the protection of the environment. In addition, laws and regulations relating to workplace safety and worker health, which, among other things, regulate employee exposure to hazardous substances in the workplace, also govern our operations. Failure to comply with present or future laws or regulations could result in substantial liability for us.

Environmental laws and regulations and their interpretation have changed rapidly in recent years and may continue to do so in the future. For instance, most Canadian provinces have implemented Extended Producer Responsibility (EPR) regulations in order to encourage sustainability practices such as the “Ecological recovery and reclamation of electronic products”, which sets certain recovery targets and which may require us to monitor and adjust our practices in the future. Evolving public expectations with respect to the environment and increasingly stringent laws and regulations could result in increased costs of compliance, and failure to recognize and adequately respond to them could result in fines, regulatory scrutiny, or have a significant effect on our reputation and brands.

Our properties, as well as areas surrounding those properties, particularly those in areas of long-term industrial use, may have had historic uses, or may have current uses, in the case of surrounding properties, which may affect our properties and require further study or remedial measures. We cannot provide assurance that all environmental liabilities have been determined, that any prior owner of our properties did not create a material environmental condition not known

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to us, that a material environmental condition does not otherwise exist on any of our properties, or that expenditure will not be required to deal with known or unknown contamination.

Finally, climate change has the potential, through an increase in extreme weather events, to disrupt our operations by damaging infrastructure and increasing stress on our telecommunications network.

***Concerns about alleged health risks relating to radiofrequency emissions may adversely affect our business.***

All our cell sites comply with applicable laws and we rely on our suppliers to ensure that the network equipment and customer equipment supplied to us meets all applicable regulatory and safety requirements. Nevertheless, some studies have alleged links between radiofrequency emissions from certain wireless devices and cell sites and various health problems, or possible interference with electronic medical devices, including hearing aids and pacemakers. There is no definitive evidence of harmful effects from exposure to radiofrequency emissions when the limits imposed by applicable laws and regulations are complied with. Additional studies of radiofrequency emissions are ongoing and there is no certainty as to the results of any such future studies.

The current concerns over radiofrequency emissions or perceived health risks of exposure to radiofrequency emissions could lead to additional governmental regulation, diminished use of wireless services, including Videotron's, or product liability lawsuits that might arise or have arisen. Any of these could have a material adverse effect on our business, prospects, revenues, financial condition and results of operations.

**Risks Relating to our Senior Notes and our Capital Structure**

***Our indebtedness and significant interest payment requirements could adversely affect our financial condition and therefore make it more difficult for us to fulfill our obligations, including our obligations under our Senior Notes.***

We currently have a substantial amount of debt and significant interest payment requirements. As at December 31, 2018, we had \$4.2 billion of consolidated long-term debt (excluding QMI subordinated loans). Our indebtedness could have significant consequences, including the following:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to making interest and principal payments on our indebtedness, reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt or greater financial resources; and
- limit, along with the financial and other restrictive covenants in our indebtedness, our ability to, among other things, borrow additional funds on commercially reasonable terms, if at all.

Although we have significant indebtedness, as at December 31, 2018, we had approximately \$757.3 million available for additional borrowings under our existing credit facilities on a consolidated basis, and the indentures governing our outstanding Senior Notes would permit us to incur substantial additional indebtedness in the future. If we or our subsidiaries incur additional debt, the risks we now face as a result of our leverage could intensify. For more information regarding our long-term debt and its maturities, refer to Note 18 to our audited consolidated financial statements for the year ended December 31, 2018 included under "Item 18. Financial Statements" of this annual report. See also the risk factor "— Restrictive covenants in our outstanding debt instruments may reduce our operating and financial flexibility, which may prevent us from capitalizing on certain business opportunities."

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***Restrictive covenants in our outstanding debt instruments may reduce our operating and financial flexibility, which may prevent us from capitalizing on certain business opportunities.***

Our credit facilities and the respective indentures governing our Senior Notes contain a number of operating and financial covenants restricting our ability to, among other things:

- borrow money or sell preferred stock;
- create liens;
- pay dividends on or redeem or repurchase our stock;
- make certain types of investments;
- restrict dividends or other payments from certain of our subsidiaries;
- enter into transactions with affiliates;
- issue guarantees of debt; and
- sell assets or merge with other companies.

If we are unable to comply with these covenants and are unable to obtain waivers from our creditors, we would be unable to make additional borrowings under our credit facilities, our indebtedness under these agreements would be in default and that could, if not cured or waived, result in an acceleration of such indebtedness and cause cross-defaults under our other debt, including our Senior Notes. If our indebtedness is accelerated, we may not be able to repay our indebtedness or borrow sufficient funds to refinance it, and any such prepayment or refinancing could adversely affect our financial condition. In addition, if we incur additional debt in the future or refinance existing debt, we may be subject to additional covenants, which may be more restrictive than those to which we are currently subject. Even if we are able to comply with all applicable covenants, the restrictions on our ability to manage our business in our sole discretion could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that we believe would be beneficial to us.

***We may be required from time to time to refinance certain of our indebtedness. Our inability to do so on favorable terms, or at all, could have a material adverse effect on us.***

We may be required from time to time to refinance certain of our existing debt at or prior to maturity. Our ability to obtain additional financing to repay such existing debt at maturity will depend upon a number of factors, including prevailing market conditions, credit availability and our operating performance. There can be no assurance that any such financing will be available to us on favorable terms or at all. See also the risk factor “— The volatility and disruptions in the capital and credit markets could adversely affect our business, including the cost of new capital, our ability to refinance our scheduled debt maturities and meet our other obligations as they become due.”

***There is no public market for our Senior Notes.***

There is currently no established trading market for our issued and outstanding Senior Notes and we do not intend to apply for listing of any of our Senior Notes on any securities exchange or to arrange for any quotation on any automated dealer quotation systems. No assurance can be given as to the prices or liquidity of, or trading markets for, any series of our Senior Notes. The liquidity of any market for our Senior Notes will depend upon the number of holders of our Senior Notes, the interest of securities dealers in making a market in our Senior Notes, applicable regulations, prevailing interest rates, the market for similar securities and other factors, including general economic conditions, our financial condition and performance and our prospects. The absence of an active market for our Senior Notes could adversely affect their market price and liquidity.

In addition, the market for non-investment grade debt has historically been subject to disruptions that have caused volatility in prices of securities. It is possible that the market for our Senior Notes will be subject to such disruptions. Any

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such disruptions may have a negative effect on a holder's ability to sell our Senior Notes, regardless of our prospects and financial performance.

***We may not be able to finance an offer to purchase our Senior Notes in the event of a change of control as required by the respective indentures governing our Senior Notes because we may not have sufficient funds at the time of the change of control or our credit facilities may not allow the repurchases.***

If we experience a change of control, as that term is defined in the respective indentures governing our Senior Notes, we may be required to make an offer to repurchase all of our Senior Notes prior to maturity. We can provide no assurance that we will have sufficient funds or be able to arrange for additional financing to repurchase our Senior Notes following such change of control. There is no sinking fund with respect to our outstanding Senior Notes.

In addition, a change of control would be an event of default under our credit facilities. Any future credit agreement or other agreements relating to our indebtedness to which we become a party may contain similar provisions. Our failure to repurchase our Senior Notes if required upon a change of control would, pursuant to the terms of the respective indentures governing our outstanding Senior Notes, constitute an event of default under such indentures. Any such default could, in turn, constitute an event of default under future indebtedness, any of which may cause the related debt to be accelerated after the expiry of any applicable notice or grace periods. If debt were to be accelerated, we may not have sufficient funds to repurchase our Senior Notes and repay the debt.

***Canadian bankruptcy and insolvency laws may impair the trustees' ability to enforce remedies under the indentures governing our Senior Notes or the Senior Notes themselves.***

The rights of the trustees, who represent the holders of our Senior Notes, to enforce remedies could be delayed by the restructuring provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to us. For example, both the *Bankruptcy and Insolvency Act* (Canada) (the "BIA") and the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") contain provisions enabling an insolvent person to obtain a stay of proceedings against its creditors and to file a proposal to be voted on by the various classes of its affected creditors. A restructuring proposal, if accepted by the requisite majorities of each affected class of creditors, and if approved by the relevant Canadian court, would be binding on all creditors within each affected class, including those creditors that did not vote to accept the proposal. Moreover, this legislation, in certain instances, permits the insolvent debtor to retain possession and administration of its property, subject to court oversight, even though it may be in default under the applicable debt instrument, during the period that the stay against proceedings remains in place. In addition, it may be possible in certain circumstances to restructure certain debt obligations under the corporate governing statute applicable to the debtor.

The powers of the court under the BIA, and particularly under the CCAA, have been interpreted and exercised broadly so as to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, we cannot predict whether payments under our outstanding Senior Notes would be made during any proceedings in bankruptcy, insolvency or other restructuring, whether or when the trustees could exercise their respective rights under the respective indentures governing each series of our Senior Notes or whether and to what extent holders of our Senior Notes would be compensated for any delays in payment, if any, of principal, interest and costs, including the fees and disbursements of the respective trustees.

***Non-U.S. holders of our Senior Notes are subject to restrictions on the transfer or resale of our Senior Notes.***

Although we have registered certain series of our Senior Notes under the Securities Act, we did not, and we do not intend to, qualify our Senior Notes by prospectus in Canada, and, accordingly, the Senior Notes remain subject to restrictions on resale and transfer in Canada. In addition, non-U.S. holders remain subject to restrictions imposed by the jurisdiction in which the holder is resident.

***U.S. investors in our Senior Notes may have difficulties enforcing civil liabilities.***

We are incorporated under the laws of the Province of Québec. Substantially all of our directors, controlling persons and officers are residents of Canada or other jurisdictions outside the United States, and all or a substantial portion of their assets and substantially all of our assets are located outside the United States. We have agreed, in accordance with the terms of the respective indentures governing each series of our Senior Notes (other than our

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Canadian-dollar denominated Senior Notes), to accept service of process in any suit, action or proceeding with respect to the indentures or such Senior Notes brought in any federal or state court located in New York City by an agent designated for such purpose, and to submit to the jurisdiction of such courts in connection with such suits, actions or proceedings. However, it may be difficult for holders of our Senior Notes to effect service of process within the United States upon directors, controlling persons, officers and experts who are not residents of the United States or to enforce against us or them in the United States upon judgments of courts of the United States predicated upon civil liability under United States federal or state securities laws or other laws of the United States. In addition, there is doubt as to the enforceability in Canada of liabilities predicated solely upon United States federal or state securities laws against us or against our directors, controlling persons, officers and experts who are not residents of the United States, in original actions or in actions for enforcement of judgments of courts of the United States.

***Although our Senior Notes are referred to as “senior notes,” they are effectively subordinated to our secured indebtedness and structurally subordinated to the liabilities of our subsidiaries that do not guarantee the Senior Notes.***

Our Senior Notes are unsecured and, therefore, are effectively subordinated to any secured indebtedness that we may incur to the extent of the assets securing such indebtedness. In the event of a bankruptcy or similar proceeding involving us, the assets that serve as collateral for any secured indebtedness will be available to satisfy the obligations under the secured indebtedness before any payments are made on the Senior Notes. The Senior Notes are effectively subordinated to any borrowings under our secured credit facilities and structurally subordinated to the liabilities of our subsidiaries that do not guarantee the Senior Notes. In addition, our credit facilities and the respective indentures governing our Senior Notes permit us to incur additional secured indebtedness in the future, which could be significant.

***We are controlled by Quebecor Media and its interests may differ from those of holders of the Senior Notes.***

All of our issued and outstanding common shares are held by Quebecor Media. As a result, Quebecor Media controls our policies and operations. The interests of Quebecor Media, as our sole common shareholder, may conflict with the interests of the holders of our outstanding Senior Notes. In addition, actions taken by Quebecor Media, as well as its financial condition, matters over which we have no control, may affect us.

Also, Quebecor Media is a holding company with no significant assets other than its equity interests in its subsidiaries. Its principal source of cash needed to pay its own obligations is the cash that we and other subsidiaries generate from operations and borrowings. We have the ability to pay significant distributions under the terms of our indebtedness and applicable law and currently expect to make distributions to our shareholder in the future, subject to the terms of our indebtedness and applicable law. See “Item 8. Financial Information — Dividend Policy” elsewhere in this annual report.

## **ITEM 4 — INFORMATION ON THE CORPORATION**

### **A- History and Development of the Corporation**

Our legal and commercial name is Videotron Ltd. We were founded on September 1, 1989 and are governed by the *Business Corporations Act* (Québec). On October 23, 2000, we were acquired by Quebecor Media.

Our registered office is located at 612 St-Jacques Street, Montréal, Québec, Canada H3C 4M8, and our telephone number is (514) 281-1232. Our corporate website may be accessed through the URL <http://www.videotron.com>. The information found on our corporate website or on any other website to which we refer in this annual report does not, however, form part of this annual report and is not incorporated by reference herein. Our agent for service of process in the United States with respect to our Senior Notes (other than our Canadian-dollar denominated Senior Notes due 2025 and 2026) is CT Corporation System, 111 Eighth Avenue, New York, New York 10011.

Since December 31, 2015, we have undertaken and/or completed several business acquisitions, capital expenditures, business development projects and financing transactions, including, among others, the following:

- We have continued to actively develop our mobile network. As of December 31, 2018, Videotron’s mobile telephony services covered the Province of Québec (8.4 million people) and Eastern Ontario. During 2018, we activated 129,800 net new lines on our advanced mobile network at a pace of

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approximately 10,800 net new lines per month, bringing our total mobile customer base to 1,153,800 activated lines.

- On January 22, 2019, we sold the 4Degrees Colocation data centers operations for an amount of \$261.6 million which was fully paid in cash at the date of transaction. 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.
- On January 7, 2019, we announced certain senior management changes whereby Jean-François Pruneau, formerly Senior Vice President and Chief Financial Officer of Quebecor Media, was appointed President and Chief Executive officer of Videotron, in replacement of Manon Brouillette who stepped down for personal reasons.
- On November 26, 2018, we increased our secured revolving credit facility from \$965.0 million to \$1.5 billion and extended its maturity to July 2023. Some of the terms and conditions related to these credit facilities were also amended
- On September 13, 2018, we launched Fizz, a dynamic and competitive new mobile and Internet brand that delivers mobile telephony and Internet service featuring advantageous pricing, a fully digital experience and user autonomy.
- On August 29, 2017, we announced a multiyear strategic partnership with multinational telecommunications, media technology company Comcast Corporation (“**Comcast**”), aimed at developing and delivering our own IPTV service based on Comcast’s XFINITY X1 platform to enhance customer experience for our customers.
- On July 24, 2017, we sold seven 2500 MHz and 700 MHz wireless spectrum licences outside Québec to Shaw Communications Inc. (“**Shaw**”) for a cash consideration of \$430.0 million. The sale included three 700 MHz licences covering southern Ontario and the entirety of the provinces of Alberta and British Columbia, and four 2500 MHz licences covering the major urban centres in those provinces, namely Toronto, Edmonton, Calgary and Vancouver.
- On June 20, 2017, we sold our AWS-1 spectrum licence in the Metropolitan Toronto area to Rogers Communication Inc. (“**Rogers**”) for a cash consideration of \$184.2 million, pursuant to the transfer option held by us since 2013.
- On May 4, 2017, pursuant to our obligations under our credit agreement as a result of the redemption in full of our 6<sup>7</sup>/<sub>8</sub>% Senior Notes due July 15, 2021, we added the entire amount of our unsecured revolving credit facility to the amount of our secured revolving credit facility. As a result, we increased our secured facility from \$630.0 million to \$965.0 million and terminated our unsecured facility.
- On April 13, 2017, we issued US\$600.0 million aggregate principal amount of 5<sup>1</sup>/<sub>8</sub>% Senior Notes, maturing on April 15, 2027, for net proceeds of \$794.5 million (net of financing expenses). The proceeds of this offering were used to (i) redeem and retire the entire outstanding amount of our outstanding 6<sup>7</sup>/<sub>8</sub>% Senior Notes due July 15, 2021, (ii) partially repay the amounts outstanding under our senior credit facilities, and (iii) pay transaction fees and expenses.
- On March 31, 2017, we issued a notice for the redemption of all our outstanding 6<sup>7</sup>/<sub>8</sub>% Senior Notes issued on July 5, 2011 and due July 15, 2021, in an aggregate principal amount of \$125.0 million. On May 1, 2017, the Senior Notes were redeemed at a redemption price of 103.438% of their principal amount for a cash consideration of \$129.3 million.
- On December 2, 2016, we issued a notice for the redemption of an aggregate principal amount of \$175.0 million of our outstanding 6<sup>7</sup>/<sub>8</sub>% Senior Notes issued on July 5, 2011 and due July 15, 2021. On January 5, 2017, the Senior Notes were redeemed at a redemption price of 103.438% of their principal amount for a cash consideration of \$181.0 million.

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- On November 15, 2016, we announced that we had begun implementing Data over Cable Service Interface Specification (“**DOCSIS**”) 3.1 technology on our network. This new-generation technology developed by the CableLabs consortium, of which we are a member, may eventually deliver lightning speeds of up to 10 Gbps for downloads and up to 1 Gbps for uploads. We have now fully deployed DOCSIS 3.1 modems on our network and adapted our equipment and working protocols to this technology.
- On September 20, 2016, we, together with Ericsson Canada Inc. (“**Ericsson**”), École de technologie supérieure and Société du Quartier de l’innovation de Montréal announced a partnership to create Canada’s first open-air smart living laboratory in order to test all aspects of new fifth-generation (5G) telecommunication technologies.
- On July 13, 2016, we launched our new Hybrid Fibre Giga Internet service, which offers connection speeds of up to 940 Mbps.
- On January 7, 2016, we closed a transaction whereby we acquired Fibrenoire, a company that provides businesses with fibre-optic connectivity services, for a purchase price of \$125.0 million, subject to certain adjustments.

## **B- Business Overview**

### **Overview**

We are the largest cable operator in the Province of Québec and the third largest in Canada, in each case based on the number of cable customers, as well as an Internet service provider and a provider of cable and mobile telephony and OTT video services in the Province of Québec. Our cable network is the largest broadband network in the Province of Québec covering approximately 79% of an estimated 3.7 million premises. The deployment of our LTE wireless network and our enhanced offering of mobile communication services for residential and business customers allow us to consolidate our position as a provider of integrated telecommunication services, as well as an entertainment and content leader. Our products and services are supported by extensive coaxial, fibre-optic and LTE wireless networks. Since 2015, the coverage of our LTE network was expanded coast-to-coast through roaming agreements with other wireless service providers.

Videotron Business is a premier full-service telecommunications provider servicing small-, medium- and large-sized businesses, as well as telecommunications carriers. In recent years, we have significantly grown our customer base and have become a leader in the Province of Québec’s business telecommunication segment. Products and services include cable television, Internet access, telephony solutions, mobile services and business solutions products such as private network connectivity, Wi-Fi, audio and video transmission.

On January 7, 2016, we acquired Fibrenoire, a company that provides fibre-optic connectivity services. This acquisition enables Videotron Business and Fibrenoire to join forces to meet the growing demand from business customers for fibre-optic connectivity.

### **Competitive Strengths**

#### *Leading Market Positions*

We are the largest cable operator in the Province of Québec and the third largest in Canada, in each case based on the number of cable customers. We believe that our strong market position has enabled us to launch and deploy new products and services more effectively. For example, since the introduction of our cable Internet access service, we estimate that we have become the largest provider of such service in the geographic areas we serve. Our extensive proprietary and third-party retail distribution network of stores and points of sale, including our Videotron-branded stores and kiosks, as well as our Videotron authorized dealers, assists us in marketing and distributing our advanced telecommunications services, such as cable Internet access, digital television and cable and mobile telephony, on a large scale basis.

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### *Differentiated Bundled Services and New Products*

Through our technologically advanced wireline and wireless network, we offer a differentiated, bundled suite of entertainment, information and communication services, products and content, including digital television, cable Internet access, VOD, subscription-based OTT entertainment service (“**Club illico**”) and other interactive television services, as well as residential and commercial cable telephony services using VoIP technology, and mobile telephony services. In addition, we deliver high-quality services and products, including, for example, our standard cable Internet access service which is offered across our footprint and enables our customers to download data, in a portion of our territory, at a speed higher than currently offered by standard DSL technology. We also offer one of the widest range of French-language programming in Canada including content from our illico-on-Demand and Club illico services available on illico Digital TV, illico.tv or illico app (for Android and iOS). Customers can interrupt and resume programming at will on any of these three illico platforms.

During the fall of 2018, we announced the launch of two new products: Fizz and Helix. Fizz is a new mobile and Internet brand that delivers mobile and internet services featuring advantageous pricing, a fully digital experience and user autonomy. It has been developed to respond to the technological needs and behaviours of Generation Z and millennials and to expand our market share in this business segment. Fizz offers its customers an online community that provides a completely new, 100% digital experience focused on simplicity, autonomy and sharing, thus enhancing the traditional mobile carrier and Internet services. Helix is a new technology platform that is expected to be rolled out in 2019. Helix is destined to accompany our customers’ new connected lives through a new digital ecosystem based on the Comcast Xfinity X1 platform. Helix is built around the voice-controlled assistant technology that is transforming home connectivity. Helix will provide smarter and more powerful Wi-Fi, an enhanced TV experience through IP technology and seamless integration of Web content platforms, and home automation services, in order to provide for a streamlined, human-scale connected home. The various components of Helix are expected to be unveiled, in greater detail, in 2019.

### *Advanced Broadband Network*

We are able to leverage our advanced broadband network, substantially all of which is bi-directional, to offer a wide range of advanced services on the same media, such as digital television, VOD, cable Internet access and cable telephony services. We are committed to maintaining and upgrading our network capacity and, to that end, we currently anticipate that ongoing capital expenditures will continue to be required to accommodate the evolution of our products and services and to meet the demand for increased capacity.

### *Focused and Highly Reliable Network Cluster*

Our single hybrid fibre coaxial clustered network covers approximately 79% of the Province of Québec’s total addressable market and nine of the province’s top ten urban areas. We believe that our single cluster and network architecture provides many benefits, including a higher quality and more reliable network, the ability to launch and deploy new products and services such as Club illico and the illico 4K UHD set-top box, and a lower cost structure through reduced maintenance and technical support costs.

### *Strong, Market-Focused Management Team*

We have a strong, market-focused management team that has extensive experience and expertise in a range of areas, including marketing, finance, telecommunications and technology. Under the leadership of our senior management team, we have, among other things, improved penetration of our High Speed Internet Access offering, our VoIP telephony services, our cable products and our mobile telephony services, including through the successful build-out and launch of our mobile telephony network and upgrade to the LTE technology.

## **Products and Services**

We currently offer to our customers cable services, mobile telephony services, OTT video services and business telecommunications services.

## **Cable Services**

### *Advanced Cable-Based Products and Services*

Our cable network's large bandwidth is a key factor in the successful delivery of advanced products and services. Several emerging technologies and increasing Internet usage by our customers have presented us with significant opportunities to expand our sources of revenue. We currently offer a variety of advanced products and services, including cable Internet access, digital multiplatform television, residential telephony and selected interactive services. In 2015, we introduced the illico 4K set-top box on the market. This high-tech personal video recorder has a processor 12 times more powerful than the previous generation, thus allowing customers to program up to eight simultaneous recordings and store up to 115 hours of UHD recording. We intend to continue to develop and to deploy additional value-added services to further broaden our service offerings. In doing so, on August 29, 2017, we announced a multiyear agreement with multinational media and technology company, Comcast. This strategic partnership is aimed at developing and delivering an IPTV service based on Comcast's XFINITY X1 platform. This platform will be marketed under our Helix brand.

- *Cable Internet Access.* Leveraging our advanced cable infrastructure, we offer cable Internet access to our customers primarily via cable modems. We provide this service at download speeds of up to 400 Mbps to more than 99% of our homes passed. The launch of a new consumer Internet high speed service, with download speeds of up to 940 Mbps is also available to more than 45% of our homes passed. As of December 31, 2018, we had 1,704,500 cable Internet access customers, representing 58.6% of our total homes passed. Based on internal estimates, we are the largest provider of Internet access services in the areas we serve with an estimated market share of 52% as of December 31, 2018.
- *Digital Television.* We have installed headend equipment through an hybrid fibre-optic and coax network capable of delivering digitally encoded transmissions to a two-way digital set-top box in the customer's home and premises. This digital connection provides significant advantages. In particular, it increases channel capacity, which allows us to increase both programming and service offerings while providing increased flexibility in packaging our services and a HD quality. In accordance with CRTC regulations, we offer a basic package including 23 basic television channels, access to VOD and interactive programming guide. Furthermore, all of our custom packages include the basic package, 52 audio channels providing digital-quality music, 40 FM radio channels and an interactive programming guide. Our extended digital television offering allows customers to customize their choices with the ability to choose between custom or pre-assembled packages with a selection of 392 additional channels, including U.S. super-stations and other special entertainment programs. This also offers customers significant programming flexibility including the option of French-language only, English-language only or a combination of French- and English-language programming, as well as many foreign-language channels. As of December 31, 2018, we had 1,597,300 customers for our digital television service, representing 54.9% of our total homes passed.
- *Cable Telephony.* We offer cable telephony service using VoIP technology. We offer discounts to customers who subscribe to more than one of our services. As of December 31, 2018, we had 1,113,900 subscribers to our cable telephony service, representing a penetration rate of 38.3% of our homes passed.
- *Video-On-Demand.* VOD service enables digital cable customers to rent content from a library of movies, documentaries and other programming through their digital set-top box, computer, tablet or mobile phone respectively through illico Digital TV, illico.tv and our illico app. Our digital cable customers are able to rent their VOD selections for a period of up to 48 hours, which they are then able to watch at their convenience with full stop, rewind, fast forward, pause and replay functionality during their rental period. In addition, customers can resume viewing on-demand programming that was paused on either the television, illico.tv or the illico app offered on the iOS and Android platforms. These applications feature a customizable, intuitive interface that brings up selections of content based on the customer's individual settings and enhances the experience by suggesting personalized themed content. These applications smartly and swiftly highlight any content available from the illico catalog, including VOD titles, live television broadcasts or recorded shows, and allow the customer to transfer it directly and seamlessly from their mobile devices to their television.
- *Pay-Per-View and pay television channels.* Pay-Per-View is a group of channels that allows our digital customers to order live events and movies based on a pre-determined schedule. In addition, we offer pay

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television channels on a subscription basis that allows our customers to access and watch most of the movies available on the linear pay TV channels these customers subscribe to.

### ***Mobile Services***

On September 9, 2010, we launched our High Speed Packet Access (“HSPA”) mobile communication network (3G) which was upgraded to HSPA+ (4G), on June 30, 2011.

In 2013, we signed a 20-year agreement with Rogers for the cooperation and collaboration in the build-out and operation of a shared LTE wireless network in the Province of Québec and the Ottawa region (the “**Rogers LTE Agreement**”). In September 2014, we launched our shared LTE wireless network, with Rogers. This shared network delivers an optimal user experience for consumers and businesses. We maintain our business independence throughout this agreement, including our product and service portfolios, billing systems and customer data.

In April 2014, we added Apple’s mobile devices, including the iPhone, to our extensive line-up of mobile handsets, thus enabling us to reach a significantly untapped segment of our addressable market, in particular the young mobile users. Subsequently, we launched new illico applications for iPhone and iPad.

In August 2015, we launched the Unlimited Music service, which allowed some mobile customers to stream music through the most popular online platforms without using data from their mobile plan. On April 20, 2017, the Canadian Radio-television and Telecommunications Commission (CRTC) made a decision ordering Videotron to stop offering its customers and consumers its unlimited music service by July 19, 2017. This deadline was later extended to August 4, 2017.

In the 700 MHz auction held in 2014, we acquired a package of seven spectrum licenses consisting of a single paired 5+5 MHz spectrum block in the upper 700 MHz band over a geographic territory which encompasses the provinces of Québec, Ontario (excluding the region of Northern Ontario), Alberta and British Columbia (the spectrum licences outside Quebec were subsequently sold to Shaw in 2017). The 700 MHz band presents certain superior propagation characteristics and benefits from well-developed LTE equipment and device ecosystems in North America. The 700 MHz band enhances our ability to maintain a leading edge and a high performance wireless network in the Province of Québec.

In the ISED auction for AWS-3 commercial mobile spectrum held on March 3, 2015, we acquired four 30 MHz licenses for Eastern Québec, Southern Québec, Northern Québec and Eastern Ontario / Outaouais, covering 100% of the population of the Province of Québec and the Ottawa region. This spectrum, which supports LTE technology, further enhances our ability to maintain a leading-edge, high performance wireless network in the Province of Québec and in the Ottawa region.

On May 12, 2015, after the closing of ISED’s auction for 2500 MHz commercial mobile spectrum, we were declared the successful bidder for eighteen licenses covering all of the Province of Québec as well as the major urban centres in the rest of Canada, including Toronto, Ottawa, Calgary, Edmonton and Vancouver (the 2500 MHz spectrum licences outside Quebec were subsequently sold to Shaw in 2017).

Since May 13, 2015, the coverage of our LTE network was expanded coast-to-coast through roaming agreements with other wireless service providers.

On June 20, 2017, pursuant to the Rogers LTE Agreement, we exercised our option to sell our AWS-1 spectrum license in the Greater Toronto Area to Rogers for \$184.2 million.

On July 24, 2017, we sold seven 2500 MHz and 700 MHz wireless spectrum licences outside Québec to Shaw for a cash consideration of \$430.0 million, which licenses had been awarded to us in the 2014 and 2015 ISED auction for the 700 MHz and the 2500 MHz wireless spectrum licences, respectively.

We have kept our wireless spectrum licences (Band 4 — AWS1, Band 66 — AWS3, Band 7 — 2500MHz and Band 13 — 700MHz) for the Province of Quebec and Eastern Ontario.

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As of December 31, 2018, most households and businesses on our cable footprint had access to our advanced mobile services. As of December 31, 2018, there were 1,153,800 lines activated on our wireless network, representing a year-over-year increase of 129,800 lines (12.7%).

**Club illico**

Our clients can also benefit from Club illico, our subscription based OTT entertainment service, offering a rich and varied selection of unlimited, on-demand French language content (movies, television shows, children’s shows, documentaries, comedy performances and concerts). In late 2013, Club illico started funding the production of television series and offering them in their first broadcast window, prior to their linear broadcast. On November 15, 2017, Videotron launched the Club illico mobile application. As of December 31, 2018, 127,100 customers had downloaded this application.

On December 31, 2018, the Club illico service had 420,800 subscribers.

**Business Telecommunications Services**

Videotron Business is a premier telecommunications service provider, offering reliable and state-of-the-art mobile telephony, Internet access, telephony solutions, data and cable television solutions to all business segments: small and medium-sized companies, large corporations and other telecommunications carriers.

In 2016, with the acquisition of Fibrenoire, we increased our presence in the growing market of fibre-optic connectivity.

We serve customers through a dedicated sales force and customer service teams with solid expertise in business market. Videotron Business relies on its extensive coaxial, fibre-optic and LTE wireless networks to provide the best possible customized solutions to all of its customers.

**Customer Statistics Summary**

The following table summarizes our customer statistics for our suite of advanced products and services:

|  | As of December 31,          |                |                |                |                |
|--|-----------------------------|----------------|----------------|----------------|----------------|
|  | 2018                        | 2017           | 2016           | 2015           | 2014           |
|  | (in thousands of customers) |                |                |                |                |
| <b>Revenue-generating units (RGUs)</b> | <b>5,990.3</b>              | <b>5,881.1</b> | <b>5,765.4</b> | <b>5,647.5</b> | <b>5,479.3</b> |
| <b>Mobile Telephony</b>                |                             |                |                |                |                |
| Mobile telephony lines                 | 1,153.8                     | 1,024.0        | 893.9          | 768.6          | 632.8          |
| <b>Cable Internet</b>                  |                             |                |                |                |                |
| Cable Internet customers               | 1,704.5                     | 1,666.5        | 1,612.8        | 1,568.2        | 1,537.5        |
| Penetration <sup>(1)</sup>             | 58.6%                       | 58.0%          | 56.8%          | 55.9%          | 55.4%          |
| <b>Cable Television</b>                |                             |                |                |                |                |
| Basic customers <sup>(2)</sup>         | 1,597.3                     | 1,640.5        | 1,690.9        | 1,736.9        | 1,782.3        |
| Penetration <sup>(1)</sup>             | 54.9%                       | 57.1%          | 59.6%          | 61.9%          | 64.2%          |
| Digital customers <sup>(3)</sup>       | 1,597.3                     | 1,640.5        | 1,587.1        | 1,570.6        | 1,553.6        |
| Penetration <sup>(4)</sup>             | 100%                        | 100.0%         | 93.9%          | 90.4%          | 87.2%          |
| <b>Cable Telephony</b>                 |                             |                |                |                |                |
| Cable telephony lines                  | 1,113.9                     | 1,188.5        | 1,253.1        | 1,316.3        | 1,349.0        |
| Penetration <sup>(1)</sup>             | 38.3%                       | 41.4%          | 44.1%          | 46.9%          | 48.6%          |
| <b>Club illico</b>                     |                             |                |                |                |                |
| Over-the-top video customers           | 420.8                       | 361.6          | 314.7          | 257.5          | 177.7          |
| <b>Homes passed<sup>(5)</sup></b>      | <b>2,907.9</b>              | <b>2,873.7</b> | <b>2,839.3</b> | <b>2,806.0</b> | <b>2,777.3</b> |

(1) Represents customers (or telephony lines) as a percentage of total homes passed.

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- (2) Basic customers are customers who receive basic cable service in either the analog or digital mode.
- (3) At the end of 2018, substantially all subscribers to the analog cable television service had migrated to digital service.
- (4) Represents customers for the digital service as a percentage of basic customers.
- (5) Homes passed means the number of residential premises, such as single dwelling units or multiple dwelling units, and commercial premises passed by our cable television distribution network in a given cable system service area in which the programming services are offered.

### ***Pricing of our Products and Services***

Our revenues are derived from the monthly fees our customers pay for cable television, Internet access and mobile and cable telephony services, as well as Club illico. The rates we charge vary based on the market served and the level of service selected. Rates are usually adjusted annually. We also offer discounts to our customers who subscribe to more than one of our services, when compared to the sum of the prices of the individual services provided to these customers. As of December 31, 2018, the average monthly invoice on recurring subscription fees per residential customer was \$120.53 (representing a 1.7% year-over-year increase) and approximately 77% of our customers were bundling two services or more. A one-time installation fee, which may be waived in part during certain promotional periods, is charged to new customers. Monthly fees for rented equipment, such as set-top boxes or Wi-Fi routers, can be charged depending on the promotional offer.

### **Our Network Technology**

#### *Cable*

As of December 31, 2018, our cable network consisted of fibre-optic cable and of coaxial cable, covering approximately 2.9 million homes and serving approximately 2.3 million customers in the Province of Québec. Our network is the largest broadband network in the Province of Québec covering approximately 79% of premises. Our extensive network supports direct connectivity with networks in Ontario, the Maritimes and the United States.

Our cable television network is comprised of four distinct parts including signal acquisition networks, main headends, distribution networks and subscriber drops. The signal acquisition network picks up a wide variety of television, radio and multimedia signals. These signals and services originate from either a local source or content provider or are picked up from distant sites chosen for satellite or over-the-air reception quality and transmitted to the main headends by way of fibre-optic relay systems. Each main headend processes, modulates, scrambles and combines the signals in order to distribute them throughout the network. Each main headend is connected to the primary headend in order to receive the digital MPEG2/MPEG4 signals and the IP backbone for the Internet services. The first stage of this distribution consists of a fibre-optic link which distributes the signals to distribution or secondary headends. After that, the signal uses the hybrid fibre coaxial cable network made of wide-band optical nodes, amplifiers and coaxial cables capable of serving up to 30 km in radius from the distribution or secondary headends to the subscriber drops. The subscriber drop brings the signal into the customer's television set directly or, depending on the area or the services selected, through various types of customer equipment including set-top boxes and cable and telephony modems.

We have adopted the hybrid fibre coaxial (“HFC”) network architecture as the standard for our ongoing system upgrades. HFC network architecture combines the use of both fibre-optic and coaxial cables. Fibre-optic cable has good broadband frequency characteristics, noise immunity and physical durability and can carry hundreds of video and data channels over extended distances. Coaxial cable is less expensive and requires greater signal amplification in order to obtain the desired transmission levels for delivering channels. In most systems, we deliver our signals via fibre-optic cable from the headend to a group of optical nodes and then via coax to the homes passed served by the nodes. We currently build our network by implementing cells of 125 homes (which can evolve to 64 homes). As a result of the modernization of our network, our network design now provides for average cells of 163 homes throughout our footprint. To allow for this configuration, secondary headends were put into operation in the Greater Montréal Area, in the Greater Québec City Area and in the Greater Gatineau City Area. Remote secondary headends must also be connected with fibre-optic links. From the secondary headends to the homes, the customer services are provided through the transmission of a radiofrequency (“RF”) signal which contains both downstream and upstream information (two-way). The loop structure of the two-way HFC networks brings reliability through redundancy, the cell size improves flexibility and capacity, while the reduced number of amplifiers separating the home from the headend improves signal quality and reliability. The HFC network design provided us with significant flexibility to offer customized programming to individual cells, which is critical to our advanced services, such as VOD, Switched Digital Video Broadcast and the continued expansion of our interactive services.

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Starting in 2008, we began an extensive network modernization effort in the Greater Montréal Area, in the Greater Québec City Area and in the Greater Gatineau City Area in order to meet the ever expanding service needs of the customer in terms of video, telephony and Internet access services. This ongoing modernization implies an extension of the upper limit of the RF spectrum available for service offerings and a deep fibre deployment, which significantly extends the fibre portion in the HFC network (thereby reducing the coax portion). Additional optical nodes were systematically deployed to increase the segmentation of customer cells, both for upstream and downstream traffic. This modernization initiative results in (i) a network architecture where the segmentation for the upstream traffic is for 125 homes while that for the downstream traffic is set to 250 (which can evolve to 125 homes), and (ii) the availability of a 1 GHz spectrum for service offerings. The robustness of the network is greatly enhanced (much less active equipment in the network such as RF amplifiers for the coax portion), the service offering potential and customization to the customer base is significantly improved (through the extension of the spectrum to 1 GHz and the increased segmentation) and allows much greater speeds of transmission for Internet services which are presently unrivalled. The overall architecture employs Division Wavelength Multiplexing, which allows us to limit the amount of fibre required, while providing an effective customization potential. As such, in addition to the broadcast information, up to 12 wavelengths can be combined on a transport fibre from the secondary headend to a 3,000 homes aggregation point. Each of these wavelengths is dedicated to the specific requirements of 250 homes. The RF spectrum is set with digital information using quadrature amplitude modulation. MPEG video compression techniques and the DOCSIS protocol allow us to provide a great service offering of standard definition, HD and now UHD video, as well as complete voice and Internet services. This modernization project gives us flexibility to meet customer needs and future network evolution requirements. The modernization of the Greater Montréal Area network is scheduled to be completed by 2022.

DOCSIS 3.1 is currently deployed to provide data service at speeds of up to 940 Mbps. DOCSIS 3.1 is a new-generation technology developed by the CableLabs consortium, of which we are a member, which may eventually deliver lightning speeds of up to 10 Gbps for downloads and up to 1 Gbps for uploads. We use the latest cablelabs DOCSIS 3.1 standard on the network, which will allow multigigabit downstream speeds. DOCSIS 3.1 uses Orthogonal Frequency-Division Multiplexing (OFDM) modulation and Low-Density Parity Check (LDPC) correction algorithm that provide better resiliency to RF interference and increase throughput for the same spectrum, i.e. increase Mbps/MHz. The maximum theoretical gain is 50% in the downstream direction (from the network to the user) and 100% in the upstream direction (from the user to the network), and upcoming live deployments will indicate which proportion of these theoretical limits can be achieved.

Our strategy of maintaining a leadership position in respect of the suite of products and services that we offer and launching new products and services requires investments in our network to support growth in our customer base and increases in bandwidth requirements. 86% of our network in the Province of Québec has been upgraded to a bandwidth of 1002 MHz, the remaining of our network being at 750 MHz. Also, in light of the greater availability of HD and UHD television programming and the ever increasing speed of Internet access, further investments in our network will be required.

### *Mobile Telephony*

As of December 31, 2018, our shared LTE network reached 94% of the population of the Province of Québec and the Greater Ottawa Area, allowing the vast majority of our potential clients to have access to the latest mobile services. Almost all of our towers and transmission equipment are linked through our fibre-optic network using a multiple label switching — or MPLS — protocol. We plan to continue developing and enhancing our mobile technological offering by densifying network coverage, increasing download speeds and reducing latency. Our network is designed to support important customer growth in coming years as well as rapidly evolving mobile technologies. On October 20, 2017, we introduced the Voice over LTE (VoLTE) feature, a new generation of mobile voice services providing eligible users with improved indoor coverage and faster call routing and, on calls between our customers, enabling users to experience HD sound quality on the LTE network.

Our strategy in the coming years is to build on our position as a telecommunication leader with our LTE mobile services and to keep the technology at the cutting edge as it continues to evolve rapidly and new market standards such as LTE-Advanced and heterogeneous networks are being deployed. We are exploring 4.5G and 5G technologies. In doing so, we have created a partnership with Ericsson, L'École de technologie supérieure and Société du Quartier de l'innovation de Montréal. Together with our partners, we have established the first open-air smart living laboratory in Canada. This laboratory will test the many facets of innovations associated with the emerging industry revolving around

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fifth-generation (5G) telecommunications. Also, the Rogers LTE Agreement provides and allows Rogers and us to continue the evolution of the shared LTE network. Our and Rogers' spectrum contribution will allow us to continue to exploit LTE evolutive technologies and to provide our subscribers with high throughput data connections.

During 2018, we maintained our HSPA+ network throughout the Province of Québec and over the Greater Ottawa Area.

### **Marketing and Customer Care**

Our long term marketing objective is to increase our cash flow through deeper market penetration of our services, development of new services and revenue and operating margin growth per customer. We believe that customers will come to view our cable connection as the best distribution channel to their home for a multitude of services. To achieve this objective, we are pursuing the following strategies:

- develop attractive bundle offers to encourage our customers to subscribe to two or more products, which increases average billing per unit — or ABPU — customer retention and operating margins;
- continue to rapidly deploy advanced products on all our services — cable, Internet access, telephony, Club illico and mobile — to maintain and increase our leadership and consequently, to gain additional market share;
- design product offers that provide greater opportunities for customer entertainment and information;
- deploy strong retention strategies aiming to maintain our existing customer base and to increase our ABPU;
- develop targeted marketing programs to attract former customers and households that have never subscribed to certain of our services and customers of alternative or competitive services as well as target specific market segments;
- enhance the relationship between customer service representatives and our customers by training and motivating customer service representatives to promote advanced products and services;
- leverage the retail presence of our Videotron-branded stores and kiosks, third-party commercial retailers, and authorized distributors;
- maintain and promote our leadership in content and entertainment by leveraging the wide variety of services offered within the Quebecor Media group to our existing and future customers;
- introduce new value added packages of products and services, which we believe will increase ABPU and improve customer retention;
- leverage our business market, using our network and expertise with our commercial customer base, to offer additional bundled services to our customers; and
- develop new products and services to respond to the technological needs and customer behaviours.

We continue to invest time, effort and financial resources in marketing new and existing services. To increase both customer penetration and the number of services used by our customers, we use integrated marketing techniques, including door-to-door solicitation, telemarketing, drive-to-store, media advertising, e-marketing, Short Message Service (SMS) and direct mail solicitation. Those initiatives are also strongly supported by business intelligence tools such as predictive churn models.

Maximizing customer satisfaction is a key element of our business strategy. In support of our commitment to customer satisfaction, we offer the service of dedicated, knowledgeable and well-trained technical experts which we call our “PROS”, the primary mission of which is to support our customers by helping them get the most out of what we have to offer. Through personalized demonstration sessions, the PROS provide customers with continued customer service after subscription has been made. We continue to provide a 24-hour customer service hotline seven days a week across

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most of our systems, in addition to our web-based customer service capabilities. All of our customer service representatives and technical support staff are trained to assist customers with all of our products and services, which in turn allows our customers to be served more efficiently and seamlessly. Our customer care representatives continue to receive extensive training to perfect their product knowledge and skills, which contributes to retention of customers and higher levels of customer service. We utilize surveys, focus groups and other research tools to assist us in our marketing efforts and anticipate customer needs. To increase customer loyalty, we are also starting to leverage strategic partnerships to offer exclusive promotions, privileges and contests which contribute in expanding our value proposition to our customers.

### **Programming**

We believe that offering a wide variety of conveniently scheduled programming is an important factor in influencing a customer's decision to subscribe to and retain our cable services. We devote resources to obtaining access to a wide range of programming that we believe will appeal to both existing and potential customers. We rely on extensive market research, customer demographics and local programming preferences to determine our channel and package offerings. The CRTC currently regulates the distribution of foreign content in Canada and, as a result, we are limited in our ability to provide such programming to our customers. We obtain basic and premium programming from a number of suppliers, including all major Canadian media groups.

Our programming contracts generally provide for a fixed term of up to five years, and are subject to negotiated renewal. Programming tends to be made available to us for a flat fee per customer. Our overall programming costs have increased in recent years and may continue to increase due to factors including, but not limited to, additional programming being provided to customers as a result of system rebuilds that increase channel capacity, increased costs to produce or purchase specialty programming, inflationary or negotiated annual increases, the concentration of broadcasters following acquisitions in the market, the increased competition from OTT service providers for content and the significant increased costs of sports content rights.

### **Competition**

We operate in a competitive business environment in the areas of price, product and service offerings and service reliability. We compete with other providers of television signals and other sources of home entertainment. Due to ongoing technological developments, the distinctions among traditional platforms (broadcasting, Internet, and telecommunications) are fading rapidly. The Internet as well as mobile devices are becoming important broadcasting and distribution platforms. In addition, mobile operators, with the development of their respective mobile networks, are now offering wireless and fixed wireless Internet services and our VoIP telephony service is also competing with Internet-based solutions.

- *Providers of Other Entertainment.* Cable systems face competition from alternative methods of distributing and receiving television signals and from other sources of entertainment such as live sporting events, movie theatres and home video products, including digital recorders, OTT content providers, such as Netflix, Amazon Prime Video and Apple TV, Blu-ray players and video games. The extent to which a cable television service is competitive depends in significant part upon the cable system's ability to provide a greater variety of programming, superior technical performance and superior customer service that are available through competitive alternative delivery sources. The introduction of Club illico, our subscription based OTT platform offering a rich and varied selection of unlimited on-demand content, aims to reduce the effect of competition from alternative delivery sources.
- *DSL.* The deployment of DSL technology provides customers with Internet access at data transmission speeds greater than that available over conventional telephone lines. DSL service provides access speeds that are comparable to low-to-medium speeds of cable-modem Internet access but that decreases with the distance between the DSL modem and the line card.
- *FTTN and FTTH.* Fibre to the neighborhood ("FTTN") technology addresses the distance limitation by bringing the fibre closer to the end user. The last mile is provided by the DSL technology. Fibre to the home ("FTTH") brings the fibre up to the end user location. The speed is then limited by the end equipment rather than the medium (fibre) itself. It provides speeds comparable to high speeds of cable-modem Internet access.

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Because of the cost involved with FTTH and FTTN, deployment of these technologies is progressive. The main competition for cable-modem Internet access comes from a provider of DSL and Fibre to the x (FTTx) services.

- *Internet Video Streaming.* The continuous technology improvement of the Internet, combined with higher download speeds and its affordability, favors the development and deployment of alternative technologies such as digital content offered by OTT service providers through various Internet streaming platforms. While having a positive impact on the demand for our Internet access services, this model could adversely impact the demand for our cable television services.
- *VDSL.* VDSL technology increases the available capacity of DSL lines, thereby allowing the distribution of digital video. Multi-system operators are now facing competition from ILECs, which have been granted licenses to launch video distribution services using this technology, which operates over copper phone lines. The transmission capabilities of VDSL will be significantly boosted with the deployment of technologies such as vectoring (the reduction or elimination of the effects of far-end crosstalk) and twisted pair bonding (use of additional twisted pairs to increase data carriage capacity). Certain ILECs have already started replacing many of their main feeds with fibre-optic cable and positioning VDSL transceivers, a VDSL gateway, in larger multiple-dwelling units, in order to overcome the initial distance limitations of VDSL. With this added capacity, along with the evolution of compression technology, VDSL-2 will offer significant opportunities for services and increase its competitive threat against other multi-system operators.
- *Direct Broadcast Satellite.* DBS is also a competitor to cable systems. DBS delivers programming via signals sent directly to receiving dishes from medium and high-powered satellites, as opposed to cable delivery transmissions. This form of distribution generally provides more channels than some of our television systems and is fully digital. DBS service can be received virtually anywhere in Canada through the installation of a small rooftop or side-mounted antenna. Like digital cable distribution, DBS systems use video compression technology to increase channel capacity and digital technology to improve the quality of the signals transmitted to their customers.
- *Mobile Telephony Services.* With our mobile network, we compete against a mix of participants, some of them being active in some or all the products we offer, while others only offer mobile telephony services in our market. The Canadian incumbents have deployed their LTE networks and this technology has become an industry standard.
- *Private Cable.* Additional competition is posed by satellite master antenna television systems known as “SMATV systems” serving multi dwelling units, such as condominiums, apartment complexes, and private residential communities.
- *Wireless Distribution.* Cable television systems also compete with wireless program distribution services such as MMDS. This technology uses microwave links to transmit signals from multiple transmission sites to line-of-sight antennas located within the customer’s premises.
- *Grey and Black Market Providers.* Cable and other distributors of television signals continue to face competition from the use of access codes and equipment that enable the unauthorized decoding of encrypted satellite signals, from unauthorized access to our analog and digital cable signals (black market) and from the reception of foreign signals through subscriptions to foreign satellite television providers that are not lawful distributors in Canada (grey market).
- *Telephony Service.* Our cable telephony service competes against ILECs and other telephony service providers, VoIP telephony service providers and mobile telephony service providers.
- *Other Internet Service Providers.* In the Internet access business, cable operators compete against other Internet service providers offering residential and commercial Internet access services. The CRTC requires the large Canadian incumbent cable operators to offer access to their high-speed Internet network to competitive Internet service providers at mandated rates.

## C- Regulation

### Ownership and Control of Canadian Broadcast Undertakings

The Canadian Government has directed the CRTC not to issue, amend or renew a broadcasting license to an applicant that is a non-Canadian. Canadian, a defined term in the Direction to the CRTC (Ineligibility of Non-Canadians) (the “**Direction to CRTC**”), means, among other things, a citizen or a permanent resident of Canada or a qualified corporation. A qualified corporation is one incorporated or continued in Canada, of which the chief executive officer and not less than 80% of the directors are Canadian, and not less than 80% of the issued and outstanding voting shares and not less than 80% of the votes are beneficially owned and controlled, directly or indirectly, by Canadians. In addition to the above requirements, Canadians must beneficially own and control, directly or indirectly, not less than 66.6% of the issued and outstanding voting shares and not less than 66.6% of the votes of the parent corporation that controls the subsidiary, and neither the parent corporation nor its directors may exercise control or influence over any programming decisions of the subsidiary if Canadians beneficially own and control less than 80% of the issued and outstanding shares and votes of the parent corporation, if the chief executive officer of the parent corporation is a non-Canadian or if less than 80% of the parent corporation’s directors are Canadian. There are no specific restrictions on the number of non-voting shares which may be owned by non-Canadians. Finally, an applicant seeking to acquire, amend or renew a broadcasting license must not otherwise be controlled in fact by non-Canadians, a question of fact which may be determined by the CRTC in its discretion. Control is defined broadly to mean control in any manner that results in control in fact, whether directly through the ownership of securities or indirectly through a trust, agreement or arrangement, the ownership of a corporation or otherwise. We are a qualified Canadian corporation.

Regulations made under the Broadcasting Act require the prior approval of the CRTC for any transaction that directly or indirectly results in a change in effective control of the licensee of a broadcasting distribution undertaking (“**BDUs**”) or a television programming undertaking (such as a conventional television station, network or pay or specialty undertaking service), or the acquisition of a voting interest above certain specified thresholds.

### *Diversity of Voices*

The CRTC’s Broadcasting Public Notice CRTC 2008-4, entitled “Diversity of Voices,” sets forth the CRTC’s policies with respect to cross-media ownership; the common ownership of television services, including pay and specialty services; the common ownership of BDUs; and the common ownership of over-the-air television and radio undertakings. Pursuant to these policies, the CRTC will generally permit ownership by one person of no more than one conventional television station in one language in a given market. The CRTC, as a general rule, will not approve applications for a change in the effective control of broadcasting undertakings that would result in the ownership or control, by one person, of a local radio station, a local television station and a local newspaper serving the same market. The CRTC, as a general rule, will not approve applications for a change in effective control that would result in the control, by one person, of a dominant position in the delivery of television services to Canadians that would impact on the diversity of programming available to television audiences. In terms of BDUs, the CRTC, as a general rule, will not approve applications for a change in the effective control of BDUs in a market that would result in one person being in a position to effectively control the delivery of programming services in that market. The CRTC is not prepared to allow one person to control all BDUs in any given market.

### Jurisdiction Over Canadian Broadcast Undertakings

Our cable distribution undertakings are subject to the Broadcasting Act and regulations made under the Broadcasting Act that empower the CRTC, subject to directions from the Governor in Council, to regulate and supervise all aspects of the Canadian broadcasting system in order to implement the policy set out in the Broadcasting Act. Certain of our undertakings are also subject to the Radiocommunication Act, which empowers ISED to establish and administer the technical standards that networks and transmitters must comply with, namely, maintaining the technical quality of signals.

The CRTC has, among other things, the power under the Broadcasting Act and regulations promulgated thereunder to issue, subject to appropriate conditions, amend, renew, suspend and revoke broadcasting licenses, approve certain changes in corporate ownership and control, and establish and oversee compliance with regulations and policies

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concerning broadcasting, including various programming and distribution requirements, subject to certain directions from the Federal Cabinet.

**Broadcasting License Fees**

Programming and BDU licensees are subject to annual license fees payable to the CRTC. The license fees consist of two separate fees. One fee allocates the CRTC's regulatory costs for the year to licensees based on a licensee's proportion of the gross revenue derived during the year from the licensed activities of all licensees whose gross revenues exceed specific exemption levels (Part I fee). The other fee, also called the Part II license fee, is to be paid on a pro rata basis by all broadcasting undertakings with licensed activity that exceeds \$1,500,000. The total annual amount to be assessed by the CRTC is the lower of: (i) \$100,000,000, and (ii) 1.365% multiplied by the aggregate fee revenues for the return year terminating during the previous calendar year of all licensees whose fee revenues exceed the applicable exemption levels, less the aggregate exemption level for all those licensees for that return year.

**Canadian Broadcasting Distribution (Cable Television)**

***Licensing of Canadian Broadcasting Distribution Undertakings***

A cable distribution undertaking, such as ours, distributes broadcasting services to customers predominantly over closed transmission paths. A license to operate a cable distribution undertaking gives the cable television operator the right to distribute television programming services in its licensed service area. Broadcasting licenses may be issued for periods not exceeding seven years and are usually renewed, except in particular circumstances or in cases of a serious breach of the conditions attached to the license or the regulations of the CRTC. The CRTC is required to hold a public hearing in connection with the issuance, suspension or revocation of a license.

We operate 53 cable systems pursuant either to the issuance of a license or of an order that exempts certain network operations from the obligation to hold a license. Cable systems with 20,000 customers or fewer and operating their own local headend are exempted from the obligation to hold a license pursuant to exemption orders issued by the CRTC on February 15, 2010 (Broadcasting Order CRTC 2009-544). These cable systems are required to comply with a number of programming carriage requirements set out in the exemption order and comply with the Canadian ownership and control requirements in the Direction to the CRTC. We remain with only 8 cable distribution licenses.

In order to conduct our business, we must maintain our broadcasting distribution undertaking licenses in good standing. Failure to meet the terms of our licenses may result in their short-term renewal, suspension, revocation or non-renewal. We have never failed to obtain a license renewal for any cable system.

***Distribution of Canadian Content***

The *Broadcasting Distribution Regulations* issued by the CRTC pursuant to the Broadcasting Act mandate the types of Canadian and non-Canadian programming services that may be distributed by BDUs, including cable television systems. For example, local television stations are subject to "must carry" rules which require terrestrial distributors, such as cable operators, to carry these signals and, in some instances, those of regional television stations as part of their basic service. The guaranteed carriage enjoyed by local television broadcasters under the "must carry" rules is designed to ensure that the signals of local broadcasters reach cable households. Furthermore, cable operators and DTH operators must offer their customers more Canadian programming than non-Canadian programming services. In summary, each cable television system is required to distribute all of the Canadian programming services that the CRTC has determined are appropriate for the market it serves, which includes local Canadian stations, services designated by the CRTC under section 9(1)(h) of the Broadcasting Act for mandatory distribution on the basic service, educational services and, if offered, the community channel, and the provincial legislature.

***Broadcasting Distribution Regulations***

The Broadcasting Distribution Regulations promote competition among BDUs and the development of new technologies for the distribution of such services while ensuring that quality Canadian programs are broadcast. The Broadcasting Distribution Regulations introduced important new rules, including the following:

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- *Competition and Carriage Rules.* The Broadcasting Distribution Regulations provide equitable opportunities for all distributors of broadcasting services and prohibit a distributor from giving an undue preference to any person, including itself, or subjecting any person to an undue disadvantage. This gives the CRTC the ability to address complaints of anti-competitive behaviour on the part of certain distributors. Signal carriage and substitution requirements are imposed on all cable television systems.
- *Contribution to local expression, Canadian programming and community television.* All distributors, except systems with fewer than 2,000 customers, are required to contribute at least 5% of their gross annual broadcast revenues to the creation and presentation of Canadian programming including community programming.
- *Inside Wiring Rules.* The CRTC determined that the inside wiring portion of cable networks creates a bottleneck facility that could affect competition if open access is not provided to other distributors. Incumbent cable companies may retain the ownership of the inside wiring but must allow usage by competitive undertakings to which the cable company may charge a just and reasonable fee for the use of the inside wire. Moreover, the CRTC found that it was appropriate to amend the Broadcasting Distribution Regulations to permit access by subscribers and competing BDUs to inside wire in commercial and institutional properties. Therefore, the CRTC directed all licensees to negotiate appropriate terms and conditions, including a just and reasonable rate, for the use by competitors of the inside wire such licensees own in commercial and institutional properties.

### **Rates**

Our revenue related to cable television is derived mainly from (a) monthly subscription fees for basic cable service; (b) fees for premium services such as specialty services, pay-television, pay-per-view television and VOD; and (c) installation and additional outlets charges.

Pursuant to Broadcasting Regulatory Policy CRTC 2015-96, as of March 1, 2016, the CRTC regulates the fees charged by cable or non-cable BDUs for the basic service. The price of the entry-level basic service offering will be limited to \$25 or less per month.

### **Vertical Integration**

In September 2011, the CRTC released Broadcasting Regulatory Policy CRTC 2011-601 (the “**Policy**”) setting out its decisions on the regulatory framework for vertical integration. Vertical integration refers to the ownership or control by one entity of both programming services, such as conventional television stations or pay and specialty services, as well as distribution services, such as cable systems or DTH satellite services. The Policy: (i) prohibits companies from offering television programs on an exclusive basis to their mobile or Internet subscribers in a manner that they are dependent on the subscription to a specific mobile or retail Internet access service. Any program broadcast on television, including hockey games and other live events, must be made available to competitors under fair and reasonable terms; (ii) allows companies to offer exclusive programming to their Internet or mobile customers provided that it is produced specifically for an Internet portal or a mobile device; and (iii) adopts a code of conduct to prevent anti-competitive behaviour and ensure all distributors, broadcasters and online programming services negotiate in good faith. In Broadcasting Regulatory Policy CRTC 2015-438, the code of conduct was replaced by the Wholesale Code.

### **Hybrid VOD License**

In Broadcasting Regulatory Policy CRTC 2015-86 issued on March 12, 2015, the CRTC considered appropriate to authorize a third category of VOD services based on a hybrid regulatory approach. In Broadcasting Order CRTC 2015-356, the CRTC has authorized these hybrid services to operate with the same flexibility as those services operating under the Digital Media Exemption Order (DMEO), provided that the service is delivered and accessed over the Internet without authentication to a BDU or mobile subscription. Club illico qualifies as a hybrid VOD service.

The hybrid VOD services benefit from the following incentives:

- the ability to offer exclusive programming in the same manner as services operating under the DMEO; and

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- the ability to offer their service on a closed BDU network in the same manner as traditional VOD services without the regulatory requirements relating to financial contributions to and shelf space for Canadian programming that would normally be imposed on those traditional VOD services.

### ***New Media Broadcasting Undertakings***

Since 2009, the description of a “new media broadcasting undertaking” encompasses all Internet-based and mobile point-to-point broadcasting services, (Broadcasting Order CRTC 2009-660). In 2012, the Supreme Court of Canada upheld the Federal Court of Appeal’s decision to the effect that Internet access providers play a “content-neutral role” in the transmission of data and do not carry on broadcasting activities.

On July 26, 2012, the CRTC amended the Exemption Order for digital media broadcasting undertakings, Broadcasting Order CRTC 2012-409. These amendments implement determinations made by the CRTC in regulatory framework relating to vertical integration (Broadcasting Regulatory Policy CRTC 2011-601). As such, the CRTC implemented the following:

- A “no head start” rule, where the CRTC expects that digital media broadcasting undertakings that intend to provide exclusive access to television programming in a manner that restricts access based on a consumer’s specific mobile or retail Internet access service will provide other digital media broadcasting undertakings with appropriate notice in order to allow these undertakings to exercise their options;
- A provision to preclude undertakings operating under that exemption order from providing exclusive access to programming designed primarily for conventional television, specialty, pay or VOD services in situations where such access to the programming was restricted on the basis of a consumer’s specific mobile or retail Internet access service;
- A standstill rule whereby an undertaking that was in a dispute with another undertaking concerning the terms of carriage of programming or any right or obligation under the Broadcasting Act would be required to continue providing or distributing the service that was subject to the dispute on the same terms and conditions that prevailed before the dispute; and
- A dispute resolution mechanism.

### **Copyrights Royalties Payment Obligations**

We have the obligation to pay copyright royalties set by Tariffs of the Copyright Board of Canada (the “**Copyright Board**”). The Copyright Board establishes the royalties to be paid for the use of certain copyright tariff royalties that Canadian broadcasting undertakings, including cable, television and specialty services, pay to copyright societies (being the organization that administers the rights of several copyright owner). Tariffs certified by the Copyright Board are generally applicable until a public process is held and a decision of the Copyright Board is rendered for a renewed tariff. Renewed tariffs are often applicable retroactively.

The *Copyright Act* (Canada) (the “**Copyright Act**”) provides for the payment of various royalties, including in respect of the communication to the public of musical works (either through traditional cable services or over the Internet), the retransmission of distant television and radio signals. Distant signal is defined for that purpose in regulations adopted under the authority of the Copyright Act.

The Government of Canada may from time to time make amendments to the Copyright Act to implement Canada’s international treaty obligations and for other purposes. Any such amendments could result in our broadcasting undertakings being required to pay additional tariff royalties.

### **ISP Liability**

In 1996, SOCAN proposed a tariff to be applied against ISPs, in respect of composers’/publishers’ rights in musical works communicated over the Internet to ISPs’ customers. SOCAN’s proposed tariff was challenged by a number of industry groups and companies. In 1999, the Copyright Board decided that ISPs should not be liable for the communication of musical works by their customers, although they might be liable if they themselves operated a musical

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website. In June 2004, the Supreme Court of Canada upheld this portion of the decision of the Copyright Board and determined that ISPs do not incur liability for copyright content when they engage in normal intermediary activities, including web hosting for third parties and caching. As a consequence, ISPs may, however, be found liable if their conduct leads to the inference that they have authorized a copyright violation. At the end of 2012, amendments to the Copyright Act received royal assent. These amendments clarify ISPs' liability with respect to acts other than communication to the public by telecommunication, such as reproductions, implements "safe harbours" for the benefit of ISPs, and further put in place a "notice and notice" process to be followed by ISPs, meaning that copyright infringement notices must now be sent to the Internet end-users by ISPs.

## **Canadian Telecommunications Services**

### ***Jurisdiction***

The provision of telecommunications services in Canada is regulated by the CRTC pursuant to the *Telecommunications Act*. The Telecommunications Act provides for the regulation of facilities-based telecommunications common carriers under federal jurisdiction. With certain exceptions, companies that own or operate transmission facilities in Canada that are used to offer telecommunications services to the public for compensation are deemed "telecommunications common carriers" under the Telecommunications Act administered by the CRTC and are subject to regulation. Cable operators offering telecommunications services are deemed "Broadcast Carriers."

In the Canadian telecommunications market, we operate as a CLEC and a Broadcast Carrier. We also operate our own 4G mobile wireless network and offer services over this network as a Wireless Service Provider ("WSP").

The issuance of licenses for the use of radiofrequency spectrum in Canada is administered by ISED under the Radiocommunication Act. Use of spectrum is governed by conditions of license which address such matters as license term, transferability and divisibility, technical compliance, lawful interception, research and development requirements, and requirements related to antenna site sharing and mandatory roaming.

Our AWS-1 licenses were issued on December 23, 2008, for a term of 10 years. On February 15, 2018, ISED issued its decision related to the terms of renewal of AWS-1 licences. Pursuant to this decision, all our licences were renewed on December 23, 2018 for a new 20-year term. The terms of renewal include, among other things, enhanced geographic coverage requirements. A separate public consultation process is expected to be initiated shortly regarding the licence fees to be paid during the renewal term.

Our 700 MHz licenses were issued on April 3, 2014, for a term of 20 years. At the end of this term, we will have a high expectation that new licenses will be issued for a subsequent term through a renewal process unless a breach of license condition has occurred, a fundamental reallocation of spectrum to a new service is required, or an overriding policy need arises. The process for issuing licenses after this term and any issues relating to renewal, including the terms and conditions of the new licenses, will be determined by ISED following a public consultation.

Our AWS-3 licenses were issued on April 21, 2015, for a term of 20 years. License renewal at the end of this term will be governed by conditions identical to those just described for our 700 MHz licenses.

Our 2500 MHz licences were issued on June 24, 2015, for a term of 20 years. License renewal at the end of this term will be governed by conditions identical to those just described for our 700 MHz and AWS-3 licenses.

On March 28, 2018, ISED issued its technical, policy and licensing framework for spectrum in the 600 MHz band. Among other things, ISED decided to set aside 30 MHz of the total 70 MHz available in each service area of Canada for bidders registered with the CRTC as facilities-based providers, that are not national incumbent service providers, and that are actively providing commercial telecommunications services to the general public in the relevant service area of interest. Videotron is a qualified applicant to participate in the auction. The auction began on March 12, 2019

### ***Application of Canadian Telecommunications Regulation***

In a series of decisions, the CRTC has determined that the carriage of "non-programming" services by a cable company results in that company being regulated as a carrier under the Telecommunications Act. This applies to a

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company serving its own customers, or allowing a third party to use its distribution network to provide non-programming services to customers, such as providing access to cable Internet services.

In addition, the CRTC regulates the provision of telephony services in Canada.

Elements of the CRTC's local telecommunications regulatory framework to which we are subject include: interconnection standards and inter-carrier compensation arrangements; the mandatory provision of equal access (*i.e.* customer choice of long distance provider); standards for the provision of 911 service, message relay service and certain privacy features; the obligation not to prevent other local exchange carriers from accessing end-users on a timely basis under reasonable terms and conditions in multi dwelling units where we provide service; and the payment of contribution on VoIP revenues for the purposes of the revenue-based contribution regime established by the CRTC to subsidize residential telephone services in rural and remote parts of Canada.

As a CLEC, we are not subject to retail price regulation. ILECs remain subject to retail price regulation in those geographic areas where facilities-based competition is insufficient to protect the interests of consumers. Our ILEC competitors have requested and been granted forbearance from regulation of local exchange services in the vast majority of residential markets in which we compete, as well as in a large number of business markets, including all of the largest metropolitan markets in the Province of Québec.

In a decision issued on December 21, 2016, the CRTC established a new universal service objective under which all Canadians, in urban areas as well as rural and remote areas, are to have access to voice services and broadband Internet access services, on both fixed and mobile wireless networks. To help achieve this universal service objective, the CRTC has begun to shift the focus of its regulatory frameworks from wireline voice services to broadband Internet access services. Most notably, in a decision issued on June 26, 2018, the CRTC confirmed that it will phase out over a period of three years ending December 31, 2021 the existing revenue-based contribution regime that subsidizes local telephone service and replace it with a new regime that will subsidize broadband Internet access services in underserved areas. The new regime will ultimately distribute funds of approximately \$200 million per year, compared to approximately \$100 million per year under the existing regime. The contribution base for the new regime will also be broader than that of the existing regime, and will include retail Internet revenues for the first time. As a result of these changes, Videotron will incur increased revenue-based contribution payments in future years. Videotron will also be eligible to apply for subsidies to help finance broadband Internet expansion projects in underserved areas.

### ***Right to Access to Telecommunications and Support Structures***

The CRTC has concluded that some provisions of the *Telecommunications Act* may be characterized as encouraging joint use of existing support structures of telephone utilities to facilitate efficient deployment of cable distribution undertakings by Canadian carriers. We access these support structures in exchange for a tariff that is regulated by the CRTC. If it were not possible to agree on the use or conditions of access with a support structure owner, we could apply to the CRTC for a right of access to a supporting structure of a telephone utility. The Supreme Court of Canada, however, held on May 16, 2003, that the CRTC does not have jurisdiction under the *Telecommunications Act* to establish the terms and conditions of access to the support structures of hydro-electricity utilities. Terms of access to the support structures of hydro-electricity utilities must therefore be negotiated with those utilities.

We have entered into comprehensive support structure access agreements with all of the major hydro-electric companies and all of the major telecommunications companies in its service territory.

### ***Right to Access to Municipal Rights-of-Way***

Pursuant to sections 42, 43 and 44 of the *Telecommunications Act*, the CRTC possesses certain construction and expropriation powers related to the installation, operation and maintenance of telecommunication facilities. In the past, most notably in Telecom Decision CRTC 2001-23, the CRTC has used these powers to grant Canadian carriers access to municipal rights-of-way under terms and conditions set out in a municipal access agreement.

We have outstanding disputes with several Québec municipalities related to the use of municipal rights-of-way. Two of these disputes have been referred to the CRTC for resolution and the records of these proceedings are now closed. The outcome of these proceedings could have a material impact on our costs for municipal access for its wireline facilities.

### *Regulatory Framework for Internet Services*

In Canada, access to the Internet is a telecommunications service and is regulated under the Telecommunications Act. On July 9, 1998, the CRTC released a decision forbearing from the exercise of most of its powers under the Telecommunications Act as they relate to retail level Internet services. However, the CRTC did maintain its ability to require conditions governing customer confidential information and to place other general conditions on the provision of Internet service. In addition, the Commission undertook to approve the rates and terms on which incumbent cable and telephone companies provide access to their telecommunications facilities with respect to competitive providers of retail level Internet services.

Internet access services are not regulated on a retail (price and terms of service) basis. However, since 1998, the CRTC has exercised its power to place general conditions on the provision of Internet services, for example, to establish a framework governing the traffic management practices that may be employed by an Internet service provider.

On November 9, 2018, the CRTC initiated a public proceeding with a view to establishing a mandatory Internet Code to address consumer contracts and related issues — including contract clarity, bill shock and barriers to switching service providers — for retail fixed Internet access services provided to individuals and small businesses by large facilities-based Internet service providers. Interventions in this proceeding were filed on December 19, 2018 and the close of the record is scheduled for April 8, 2019. A CRTC decision approving the Internet Code will then follow in due course. Any new requirements or restrictions contained in the Internet Code will impact our flexibility in the design and marketing of its Internet services.

The largest cable operators in Canada, including us, have been required by the CRTC to provide third-party ISPs with access to their cable systems at mandated cost-based rates. At the same time we offer any new retail Internet service speed, we are required to file proposed revisions to our third party Internet access (or “TPIA”) tariff to include this new speed offering. TPIA tariff items have been filed and approved for all our Internet service speeds. Several third party ISPs are interconnected to our cable network and are thereby providing retail Internet access services.

The CRTC also requires the large cable carriers, such as us, to allow third party ISPs to provide telephony and networking (LAS/VPN) applications services in addition to retail Internet access services.

In a series of decisions since 2015, the CRTC has reemphasized the importance it accords to mandated wholesale access arrangements as a driver of competition in the retail Internet access market. Most significantly, the CRTC has ordered all of the major telephone and cable companies, including us, to provide new disaggregated wholesale access services, which are to replace existing aggregated wholesale access services after a transition period. These disaggregated services involve third-party ISPs provisioning their own regional transport services. They also include mandated access to high-speed services provided over fibre-access facilities, including the fibre-access facilities of the large incumbent telephone companies. A tariff proceeding is under way to set the rates for these new disaggregated wholesale services.

In parallel, on October 6, 2016, the CRTC ordered a significant interim reduction to the aggregated wholesale high-speed access service tariffs of the large cable carriers and telephone companies, pending approval of revised final rates. The interim rate reduction took effect immediately. A tariff proceeding is ongoing to determine the revised final aggregated service rates. As part of this proceeding, the CRTC will assess the extent to which, if at all, retroactivity will apply to these revised final rates.

Rulings in the two abovementioned tariff proceedings are expected in the first half of 2019. As a result of these rulings, we may experience increased competition for retail cable Internet and telephony customers. In addition, because our third-party Internet access rates are regulated by the CRTC, we could be limited in our ability to recover our costs associated with providing wholesale access.

On May 10, 2018, the federal Competition Bureau launched a market study to examine the broadband competitive landscape and consumer habits in purchasing Internet services. The purpose of the study is to better understand current market outcomes and the competitive dynamics of Canadian broadband markets more generally. Among other things, the Bureau is examining whether resellers are fulfilling their role in placing increased competitive discipline on traditional telephone and cable companies. Written interventions to the Bureau were filed on August 31, 2018 and an update to the study was published on October 16, 2018. The Bureau is soliciting further inputs from intervenors, after which it intends

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to publish a draft report, hold further public consultations, then publish a final report in Spring 2019. The results of the study are expected to inform future interventions by the Bureau in CRTC proceedings dealing with the retail and wholesale Internet service markets.

### ***Regulatory Framework for Mobile Wireless Services***

The CRTC also regulates mobile wireless services under the Telecommunications Act. On August 12, 1994, the CRTC released a decision forbearing from the exercise of most of its powers under the Telecommunications Act as they relate to mobile wireless service. However, the CRTC did maintain its ability to require conditions governing customer confidential information and to place other general conditions on the provision of mobile wireless service. Since 1994, the CRTC has exercised this power, for example, to mandate wireless number portability, and to require all WSPs to upgrade their networks to more precisely determine the location of a person using a mobile phone to call 911.

The Wireless Code was published on June 3, 2013 and came into force on December 2, 2013. It includes, among other things, a limit on early cancellation fees to ensure customers can take advantage of competitive offers at least every two years, as well as measures requiring service providers to unlock wireless devices, to offer a trial period for wireless contracts, and to set default caps on data overage charges and data roaming charges. On June 15, 2017, the CRTC published a series of revisions to the Wireless Code. These revisions include, among other things, new rules ensuring customers will be provided with unlocked devices, giving families more control over data overages, setting minimum usage limits for the trial period and clarifying that data is a key contract term that cannot be changed during the commitment period without the customer's consent. We have complied with these revisions as required by the December 1, 2017 deadline.

On July 31, 2014, after an investigation that confirmed instances of unjust discrimination and undue preference by one incumbent wireless carrier, the CRTC took action to prohibit exclusivity provisions in wholesale mobile wireless roaming agreements between Canadian carriers for service in Canada. Subsequently, on May 5, 2015, after a broader follow-up proceeding, the CRTC issued a comprehensive policy framework for the provision of wholesale wireless services, including roaming, tower sharing and mobile virtual network operator (MVNO) access services. Most notably, the CRTC decided that each of the three national wireless incumbent carriers would be obliged to provide wholesale roaming services to regional and new entrant carriers at cost-based rates. On March 22, 2018, the CRTC ruled on the final cost-based rates, declaring them retroactive to May 5, 2015. These final rates are substantially below the interim rates that had been in effect since May 5, 2015.

On December 17, 2014, the Government of Canada's second omnibus budget implementation bill for 2014 (C-43) received Royal Assent. This bill amends both the Telecommunications Act and the Radiocommunication Act to give the CRTC and ISED the option to impose monetary penalties on companies that violate established rules such as the Wireless Code and those related to the deployment of spectrum, services to rural areas and tower sharing.

In its May 5, 2015 policy framework for the provision of wholesale wireless services, the CRTC elected not to order cost-based rates for either tower sharing or MVNO access services. In addition, the CRTC elected to exclude non-carrier WiFi networks from the definition of "home network" for the purpose of determining who may access the wholesale roaming service tariffs of the national wireless incumbent carriers. This latter measure had the effect of denying access to these tariffs by Wi-Fi first service providers. Since then, on July 20, 2017, in response to a directive received from the Governor in Council, the CRTC initiated a proceeding to review potential terms of access by Wi-Fi first service providers (and possibly other types of service providers) to the incumbents' wholesale roaming service tariffs. On March 22, 2018, the CRTC ruled that no changes would be made to the terms of access by Wi-Fi first service providers, yet initiated a new proceeding to address an identified gap in the market for lower-cost data-only plans for consumers. In the course of this proceeding, the three national incumbent wireless carriers each filed specific proposals for lower-cost data-only plans they intended to implement. In a decision issued on December 17, 2018, the CRTC stated its expectation that the national incumbent wireless carriers implement these plans within 90 days and that these plans remain available until a decision is issued with respect to an upcoming review of mobile wireless services. This review, which is expected to include an examination of the wholesale wireless policy framework, including the MVNO access framework, is scheduled to commence sometime before April 2019. The result of this review could have an impact on the competitive environment within which we operate.

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On April 20, 2017, the CRTC published a new policy framework for assessing the differential pricing practices of Internet service providers. With very narrow exceptions, this framework prohibits the offering of zero-rated services by Internet service providers in Canada, including mobile wireless data service providers. Simultaneously with the publication of this new framework, and as a first application thereof, the CRTC ordered us to cease providing our Unlimited Music mobile wireless offering. We have complied with this order. Going forward, the new framework will impact our flexibility in the design and marketing of its wireless and wireline data services.

### ***Municipal Siting Processes for Wireless Antenna Systems***

On February 28, 2013, the Canadian Wireless Telecommunications Association, of which we are a member, and the Federation of Canadian Municipalities signed a joint protocol on the siting process for wireless antenna systems. The protocol establishes a more comprehensive notification and consultation process than current regulations, and emphasizes the need for meaningful pre-consultation to ensure local land use priorities and sensitivities are fully reflected in the location and design of new antenna systems. Telecommunications carriers have agreed for the first time to notify municipalities of all antennas being installed before their construction, regardless of height, and to undertake full public consultation for towers under 15 meters - whenever deemed necessary by the municipality.

On June 26, 2014, the predecessor to ISED announced changes to the policy guiding the installation of new antenna towers, most notably to require companies to consult communities on all commercial tower installations regardless of height and to ensure residents are well informed of upcoming consultations. These changes are largely consistent with the joint protocol cited above.

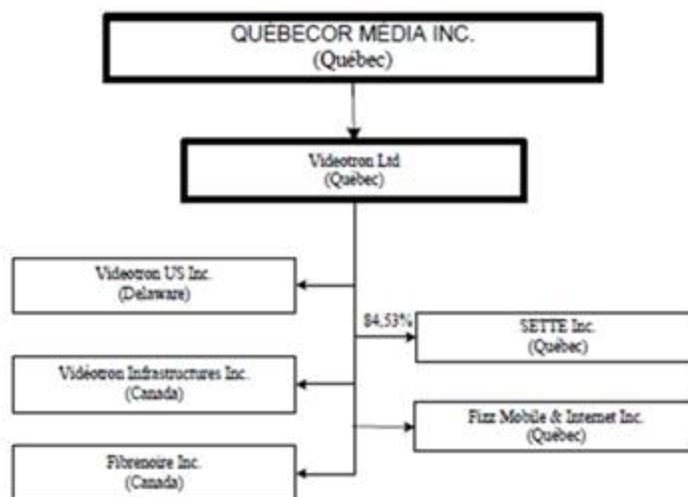
### ***Sales Practices***

On June 6, 2018, the Governor in Council issued Order in Council P.C. 2018-0685 requiring the CRTC to make a report regarding the retail sales practices of Canada's large telecommunications carriers. The CRTC initiated a proceeding to examine the matters identified in the Order in Council. The CRTC sought comments from Canadians on their personal experiences with any misleading or aggressive retail sales practices of large telecommunications carriers and third parties who offer the telecommunications services of those carriers for sale, including comments from consumers who are vulnerable due to their age, a disability, or a language barrier, as well as from current and former employees of the service providers. The CRTC also sought comments from large telecommunications carriers, the Commission for Complaints for Telecom-television Services, public interest organizations, research groups, and any other interested persons. The CRTC held a public hearing on October 22 2018, to explore these issues with Canadians and stakeholders. The Commission also used various additional means, including a public opinion survey, online consultations, and focus groups, to better understand the views of Canadians. The information obtained via these means will be included on the record of this proceeding.

On February 20, 2019, the CRTC published its Report on Misleading or Aggressive Communications Retail Sales Practices. The CRTC found evidence of misleading or aggressive sales practices by certain telecommunications services providers and concluded that more needs to be done to protect consumers. The report also noted that, even with the existing measures put in place, misleading or aggressive sales practices occur to an unacceptable degree. The CRTC is taking action to introduce new measures to ensure Canadians' interactions with their service providers are carried out in a fair and respectful way, such as creating a new, mandatory Internet Code of Conduct and a secret shopper program to monitor sales practices. The CRTC is also considering putting into place additional measures to address the situation (e.g. requiring service providers to provide pre-sales quotes, to offer trial periods, to ensure their offers and promotions match the customer's needs and means). In addition, a set of best practices for service providers was proposed.

### **D- Organizational Structure**

We are a wholly-owned subsidiary of Quebecor Media. Quebecor Media is a wholly-owned subsidiary of Quebecor. The following chart illustrates our corporate structure as of March 21, 2019, including our significant subsidiaries, together with the jurisdiction of incorporation or organization of each entity. In each case, unless otherwise indicated, we own a 100% equity and voting interest in our subsidiaries.



**E- Property, Plants and Equipment**

Our corporate offices are located in leased space at 612 St-Jacques Street, Montréal, Québec, Canada H3C 4M8 (187,592 square feet) in the same building as Quebecor Media’s head office.

We also own or lease several buildings in Montréal and in Québec City, as indicated in the following table which presents, for each building, the address, the leased or owned status of the property, the primary use of the main facilities and the approximate square footage. In addition to the buildings indicated in the following table, we own or lease a significant number of smaller locations for signal reception sites, customer service and business offices.

| Address  | Owned/Leased Property | Use of Property  | Floor Space Occupied (approximate sq. ft.) |
|--|-----------------------|--|--|
| Montréal, Québec<br>2155 Pie IX Street           | Owned property        | Office and Technical spaces, Headend                         | 128,000                                    |
| Montréal, Québec<br>150 Beaubien Street          | Owned property        | Office and Technical spaces, Headend                         | 72,000                                     |
| Montréal, Québec<br>4545 Frontenac Street        | Leased property       | Office space, Warehouse, Headend                             | 100,700                                    |
| Montréal, Québec<br>800 de la Gauchetière Street | Leased property       | Office space   | 52,000                                     |
| Montréal, Québec<br>888 De Maisonneuve Street    | Leased property       | Office space   | 49,000                                     |
| Québec City, Québec<br>2200 Jean-Perrin Street   | Owned property        | Regional Headend for the Québec City region and Office space | 40,000                                     |

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**Liens and Charges**

Our senior secured credit facilities are secured by charges over all of our assets and those of most of our subsidiaries.

**Intellectual Property**

We use a number of trademarks for our products and services. Many of these trademarks are registered by us in the appropriate jurisdictions. In addition, we have legal rights in the unregistered marks arising from their use. We have taken affirmative legal steps to protect our trademarks and we believe our trademarks are adequately protected.

**Environment**

Our operations are subject to Canadian, provincial and municipal laws and regulations concerning, among other things, emissions to the air, water and sewer discharge, handling and disposal of hazardous materials, the recycling of waste, the soil remediation of contaminated sites, or otherwise relating to the protection of the environment. Laws and regulations relating to workplace safety and worker health, which among other things, regulate employee exposure to hazardous substances in the workplace, also govern our operations.

Compliance with these laws has not had, and management does not expect it to have, a material effect upon our capital expenditures, net income or competitive position. Environmental laws and regulations and the interpretation of such laws and regulations, however, have changed rapidly in recent years and may continue to do so in the future. We have monitored the changes closely and have modified our practices where necessary or appropriate.

Our past and current properties, as well as areas surrounding those properties, particularly those in areas of long-term industrial use, may have had historic uses, or may have current uses, in the case of surrounding properties, which may affect our properties and require further study or remedial measures.

We are not currently conducting or planning any material study or remedial measure. Furthermore, we cannot provide assurance that all environmental liabilities have been determined, that any prior owner of our properties did not create a material environmental condition not known to us, that a material environmental condition does not otherwise exist as to any such property, or that expenditure will not be required to deal with known or unknown contamination.

We are currently working on preventive measures regarding the potential effects of climate change which, through an increase in extreme weather events, may have an effect on our operations, notably by damaging our infrastructure and increasing the stress on our telecommunications network. In doing so, we are aiming at increasing the resiliency of our network, notably with network redundancies and by collaborating with ISED, which has identified telecommunications as an essential infrastructure.

**ITEM 4A — UNRESOLVED STAFF COMMENTS**

None.

## ITEM 5 - OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following Management Discussion and Analysis (“MD&A”) provides information concerning the operating results and financial condition of Videotron Ltd (“Videotron”, the “Corporation”, “we” or “our”). This discussion should be read in conjunction with our consolidated financial statements and accompanying notes. The Corporation’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

All amounts are in Canadian dollars (CAN dollars’), unless otherwise indicated. This discussion contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed under “Cautionary Statement Regarding Forward-Looking Statements” and in “Item 3. Key Information — Risk Factors”.

Due to rounding, minor differences may exist between amounts shown in this MD&A and the consolidated financial statements.

On January 1, 2018, the Corporation adopted on a fully retroactive basis the new rules under IFRS 15, Revenue from Contracts with Customers, which specify how and when an entity should recognize revenue. The adoption of IFRS 15 had significant impacts on the consolidated financial statements regarding the timing of the recognition of its revenues, the classification of its revenues, as well as the capitalization of costs. Among other impacts, the adoption of IFRS 15 resulted in an increase in the revenue from the device sale and in a decrease in the mobile service revenue recognized over the contract term. As well, costs to obtain a contract and connection costs are now fully amortized as operating expenses over the contract term or over the period of time the customer is expected to maintain its service. A description of the new rules, and details of the retroactive adjustments to comparative data, are provided under “Changes in Accounting Policies” below. As well, to clarify the impact of IFRS 15 on non-IFRS measures, columns presenting the non-IFRS measures without application of IFRS 15 have been added to the tables showing the calculation and reconciliation of non-IFRS measures, as presented under “Non-IFRS Financial Measures.”

Following adoption of IFRS 15, and to reflect changes in its activities and services, including the growth of its mobile telephony business, the Corporation reviewed the nature and definition of its key performance indicators. Accordingly, average monthly revenue per user (“ARPU”) has been abandoned and replaced by a new metric, average billing per unit (“ABPU”). ABPU will be used henceforth to measure the performance of mobile activities and the performance of all activities combined. The definition of the new ABPU metric is provided under “Key Performance Indicators” below. The definition of a revenue-generating unit (“RGU”) has also been added in the same section; the nature and calculation of the metric are unchanged.

### DISCONTINUED OPERATIONS

On January 22, 2019, the Corporation sold to Quebecor Media Inc. (“Quebecor Media”), its 4 Degrees Colocation Inc. data centers operations, which were ultimately sold to a third party on January 24, 2019 for an amount of \$261.6 million fully paid in cash at the date of transaction. 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, an estimated gain on disposal of \$118.0 million will be accounted for in the first quarter of 2019, while an amount of \$53.0 million from the proceeds received at the date of transaction will be 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. The amount deferred will be revaluated on a quarterly basis and any change will also be recorded in income from discontinued operations. These discontinued operations were transferred to Quebecor Media in exchange of promissory note receivable of an amount of \$261.6 million, from which \$100.0 million was reimbursed subsequently in January.

In this MD&A, only continuing operating activities of The Corporation are included in the analysis of the Corporation’s activities and in the analysis of its segment operating results.

## OVERVIEW

The Corporation is a wholly owned subsidiary of Quebecor Media incorporated under the Business Corporations Act (Québec). We are the largest cable operator in the Province of Québec and the third-largest in Canada, in each case based on the number of cable customers, as well as being the largest cable Internet service provider and a major provider of cable and mobile telephony and OTT video in the province of Québec. Our cable network covers approximately 79% of the Province of Québec's approximately 3.7 million residential and commercial premises. The deployment of our LTE network and our enhanced offering of mobile communication services for residential and business customers allow us to consolidate our position as a provider of integrated telecommunication services.

Videotron Business is a premier full-service telecommunications provider servicing small, medium-sized and large-sized businesses, as well as telecommunications carriers. Products and services are supported by extensive coaxial, fibre-optic and LTE wireless networks.

Videotron's primary sources of revenue include: subscriptions to Internet access, cable television, cable and mobile telephony services, over-the-top video services ("Club illico") and business services.

The following MD&A covers the Corporation's main activities in the third quarter of 2018 and the major changes from the previous financial year.

## TREND INFORMATION

Competition continues to be intense in the mobile and cable telephony, Internet access, cable television and over-the-top video markets. The significant subscriber growth recorded in past years is not necessarily indicative of future growth due to penetration rates currently reached.

The Corporation requires substantial capital for the upgrade, expansion and maintenance of its mobile and cable networks, the launch and expansion of new and additional services to support growth in its customer base and demand for increased bandwidth capacity and other services. The Corporation expects that additional capital expenditures will be required in the short and medium term in order to expand and maintain systems and services, including expenditures relating to the cost of its mobile services' infrastructure, maintenance and enhancement, as well as costs relating to advancements in Internet access and TV everywhere, including higher capacity, lower latency and higher speeds, requiring IP technology, and the introduction of new technologies such as virtual reality, Internet of Things ("IoT").

In addition, the demand for wireless data services has grown constantly and it is projected to grow in the future. The anticipated levels of data traffic will represent a growing challenge to the current mobile network's ability to support this traffic. The Corporation may have to acquire additional spectrum licences in the future, if available.

## HIGHLIGHTS SINCE DECEMBER 31, 2017

- In 2018, revenues grew 2.9% (or 3.0% without the impact of IFRS 15 adoption), adjusted EBITDA grew by 7.7% (or 8.7% without the impact of IFRS 15 adoption) and ABPU grew by 2.7%, year over year.
- Net growth of 109,200 RGUs in 2018 (representing the total of our cable television, cable Internet and Club illico subscribers as well as cable and mobile telephony lines), compared with 115,700 net RGUs added in 2017. Total RGUs were 5,990,300 as of December 31, 2018.
- We activated 129,800 net new lines on our mobile telephony network, bringing our total mobile customer base to 1,153,800 lines.
- Videotron received many honourable distinctions in 2018:
  - Videotron has ranked as one of Canada's top 100 employers (2019) and Montréal's top employers (2019) in a prestigious competition that recognizes employers that lead their industries in offering exceptional workplaces for their employees.
  - Videotron was ranked the most respected telecommunications company in the Province of Québec for the 13th consecutive year in the 2018 Léger-NATIONAL reputation survey.
  - Videotron was ranked the most respected telecommunications company in the Province of Québec for the 13th consecutive year in the 2018 Léger-NATIONAL reputation survey. Videotron was also ranked among the top 5 most influential Quebec brands.
- On January 7, 2019, Mr. Jean-François Pruneau previously Senior Vice President and Chief Financial Officer of Quebecor Inc since November 2010, was appointed President and CEO of the Corporation succeeding to Ms. Manon Brouillette who resigned as of December 31, 2018.
- On September 13, 2018, we announced the launch of Fizz, a dynamic and competitive new brand that delivers mobile service featuring an empowering, fully digital experience and advantageous pricing. Our flagship brand, Videotron, will continue focusing on premium wireless plans and on the business segment, while Fizz will aim to increase market penetration among both digital natives and new mobile users.
- On April 18, 2018, Quebecor Content and Club illico announced their intention to finance film production in the Province of Quebec. Since the beginning of 2018, they lead the development of at least three feature films. The goal is to quickly make new content offer available to customers, on all platforms of the group while premiering on Club illico.

## NON-IFRS FINANCIAL MEASURES

The non-IFRS financial measures that are used by the Corporation to assess its financial performance, such as adjusted EBITDA, 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.

On a transitional basis, and to clarify the impact of the retroactive adoption of IFRS 15, as described under "Changes in accounting policies", columns have been added to the calculation and reconciliation tables for non-IFRS financial measures, where applicable. Accordingly, those tables also show the calculation and reconciliation of non-IFRS measures in 2018 and 2017, based on the former accounting policies with respect to revenue recognition, i.e. without the adjustments required by adoption of IFRS 15.

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**Adjusted EBITDA** (formerly “Adjusted operating income”)

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, litigation and other items, gain on sale of spectrum licences, loss on debt refinancing, 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 and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Corporation’s management and Board of Directors use this measure in evaluating its consolidated results as well as the results of its 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. 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. The Corporation’s definition of adjusted EBITDA may not be the same as similarly titled measures reported by other companies.

Table 1 below presents a reconciliation of adjusted EBITDA to net income as disclosed in our consolidated financial statements. The consolidated income statement data for the three-month periods ended December 31, 2018 and 2017 is derived from the unaudited consolidated financial statements and are not included in this annual report.

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

|   | Three months ended December 31 |          |                                |          | Year ended December 31    |            |            |                                |            |            |
|---|--------------------------------|----------|--------------------------------|----------|---------------------------|------------|------------|--------------------------------|------------|------------|
|   | With IFRS 15 <sup>1</sup>      |          | Excluding IFRS 15 <sup>2</sup> |          | With IFRS 15 <sup>1</sup> |            |            | Excluding IFRS 15 <sup>2</sup> |            |            |
|   | 2018                           | 2017     | 2018                           | 2017     | 2018                      | 2017       | 2016       | 2018                           | 2017       | 2016       |
| Adjusted EBITDA   | \$ 425.5                       | \$ 394.6 | \$ 409.1                       | \$ 386.3 | \$ 1,675.8                | \$ 1,556.4 | \$ 1,508.6 | \$ 1,653.3                     | \$ 1,521.6 | \$ 1,442.8 |
| Depreciation and amortization                                     | (166.6)                        | (179.0)  | (166.6)                        | (179.0)  | (662.3)                   | (650.2)    | (594.2)    | (662.3)                        | (650.2)    | (594.2)    |
| Financial expenses  | (51.3)                         | (37.5)   | (51.3)                         | (37.5)   | (182.0)                   | (147.7)    | (160.5)    | (182.0)                        | (147.7)    | (160.5)    |
| Gain (loss) on valuation and translation of financial instruments | 0.7                            | (0.5)    | 0.7                            | (0.5)    | (0.7)                     | (3.1)      | (2.1)      | (0.7)                          | (3.1)      | (2.1)      |
| Restructuring of operations, litigation and other items           | (0.1)                          | (6.6)    | (0.1)                          | (6.6)    | (17.2)                    | (5.8)      | (15.9)     | (17.2)                         | (5.8)      | (15.9)     |
| Gain on sale of spectrum licences                                 | —                              | —        | —                              | —        | —                         | 330.9      | —          | —                              | 330.9      | —          |
| Loss on debt refinancing  | —                              | —        | —                              | —        | —                         | (5.2)      | (7.3)      | —                              | (5.2)      | (7.3)      |
| Income taxes  | (40.2)                         | (36.4)   | (40.2)                         | (36.3)   | (165.5)                   | (139.1)    | (134.0)    | (165.5)                        | (139.1)    | (133.9)    |
| Discontinued operations   | 1.2                            | 0.5      | 1.2                            | 0.5      | 3.8                       | 3.7        | 1.0        | 3.8                            | 3.7        | 1.0        |
| Impact of IFRS 15   | —                              | —        | 16.4                           | 8.2      | —                         | —          | —          | 22.5                           | 34.8       | 65.7       |
| Net income  | \$ 169.2                       | \$ 135.1 | \$ 169.2                       | \$ 135.1 | \$ 651.9                  | \$ 939.9   | \$ 595.6   | \$ 651.9                       | \$ 939.9   | \$ 595.6   |

<sup>1</sup> Non-IFRS measures presented in these columns are calculated based on IFRS 15 new rules, adopted by the Corporation on a retroactive basis and described under “Changes in Accounting Policies”.

<sup>2</sup> Non-IFRS measures presented in these columns are calculated based on the Corporation’s former accounting policies with respect to revenue recognition, i.e. without the impact of IFRS 15 adoption.

## KEY PERFORMANCE INDICATORS

### Revenue-generating unit

The Corporation uses 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 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 VIDEOTRON

2018/2017 YEAR COMPARISON

Customer Statistics

**Revenue-generating units** — As of December 31, 2018, the total number of revenue-generating units stood at 5,990,300, an increase of 109,200 (1.9%) in 2018, compared with an increase of 115,700 (2.0%) in 2017.

**Mobile telephony** — As of December 31, 2018, 1,153,800 lines were activated on our wireless telephony network, an increase of 129,800 (12.7%) in 2018, compared with an increase of 130,100 (14.6%) in 2017.

**Cable Internet access** — The number of subscribers to cable Internet access services stood at 1,704,500 as at the end of 2018, an increase of 38,000 (2.3%) in 2018, compared with an increase of 53,700 (3.3%) in 2017. Our cable Internet access services household penetration rate (number of subscribers as a proportion of the 2,907,900 total homes passed) was 58.6% as of December 31, 2018, compared with 58.0% as of December 31, 2017.

**Cable television** — As of December 31, 2018, our combined customer base for cable television services stood at 1,597,300, a decrease of 43,200 (2.6%) in 2018, compared with a decrease of 50,400 (3.0%) in 2017. As of December 31, 2018, our cable network household penetration rate was 54.9%, compared with 57.1% a year earlier.

**Cable telephony** — The number of cable telephony lines stood at 1,113,900 as at the end of 2018, a decrease of 74,600 (6.3%) in 2018, compared with a decrease of 64,600 (5.2%) in 2017. Our cable telephony services household penetration rate was 38.3% as of December 31, 2018, compared with 41.4% as of December 31, 2017.

**Club illico** — The number of subscribers to Club illico stood at 420,800 as at the end of 2018, an increase of 59,200 (16.4%) in 2018, compared with an increase of 46,900 (14.9%) in 2017.

**Table 2**  
**End-of-year RGUs**  
(in thousands of units)

|  | 2018           | 2017           | 2016           | 2015           | 2014           |
|--|----------------|----------------|----------------|----------------|----------------|
| Mobile telephony                       | 1,153.8        | 1,024.0        | 893.9          | 768.6          | 632.8          |
| Cable Internet                         | 1,704.5        | 1,666.5        | 1,612.8        | 1,568.2        | 1,537.5        |
| Cable television:                      |                |                |                |                |                |
| Analog                                 | —              | —              | 103.8          | 166.3          | 228.7          |
| Digital                                | 1,597.3        | 1,640.5        | 1,587.1        | 1,570.6        | 1,553.6        |
|  | 1,597.3        | 1,640.5        | 1,690.9        | 1,736.9        | 1,782.3        |
| Cable telephony                        | 1,113.9        | 1,188.5        | 1,253.1        | 1,316.3        | 1,349.0        |
| Club illico                            | 420.8          | 361.6          | 314.7          | 257.5          | 177.7          |
| <b>Revenue-generating units (RGUs)</b> | <b>5,990.3</b> | <b>5,881.1</b> | <b>5,765.4</b> | <b>5,647.5</b> | <b>5,479.3</b> |

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**2018/2017 Analysis of Results**

**Revenues:** \$3,376.5 million, an increase of \$94.9 million (2.9%) compared with 2017.

- Revenues from mobile telephony services increased by \$64.6 million (13.8%) to \$534.4 million, essentially due to an increase in the number of subscriber connections.
- Revenues from Internet access services increased by \$48.4 million (4.7%) to \$1,079.3 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, as well as customer growth, partially offset by a decrease in overage charges.
- Combined revenues from all cable television services decreased by \$12.9 million (1.3%) to \$996.7 million, due primarily to the impact of a net decrease in the customer base, the unfavourable product mix and a decrease in video-on-demand and pay-per-view orders, partially offset by higher per-customer revenues due in part to increases in some rates, and by increased revenues from the leasing of digital set-top boxes.
- Revenues from cable telephony services decreased by \$29.2 million (7.3%) to \$368.6 million, mainly because of the impact of the net decrease in subscriber connections and lower long-distance revenues, partially offset by higher per-connection revenues.
- Revenues from Club illico increased by \$7.3 million (18.4%) to \$47.0 million, essentially due to subscriber growth.
- Revenues from our business segment increased by \$3.4 million (3.2%) to \$108.2 million, due primarily to the impact of higher revenues at Fibrenoire Inc. (“Fibrenoire”).
- Revenues from customer equipment sales increased by \$14.5 million (6.6%) to \$233.5 million, mainly because of higher mobile device revenues.
- Other revenues decreased by \$1.3 million (13.0%) in 2018 to \$8.7 million.

**Monthly combined Total ABPU:** \$49.51 in 2018, compared with \$48.23 in 2017, an increase of \$1.28 (2.7%). This growth is mainly explained by an increase in revenues from mobile telephony and Internet access services, as detailed above.

**Mobile ABPU:** \$53.62 in 2018, compared with \$53.23 in 2017, an increase of \$0.39 (0.7%).

**Adjusted EBITDA:** \$1,675.8 million in 2018, an increase of \$119.4 million (7.7%).

- This increase was primarily due to:
  - net revenue growth, as detailed above;
  - decrease of roaming charges following a CRTC decision rendered in the first quarter of 2018; and
  - decrease in operating expenses mainly related to engineering, administrative and IT costs.

**Purchase of goods and services, expressed as a percentage of revenues:** 39.0% in 2018, compared with 40.8% in 2017.

- Purchase of goods and services expenses as a proportion of revenues decreased, primarily due to fixed-cost base, which does not fluctuate in sync with revenue growth.

**Employee costs, expressed as a percentage of revenues:** 11.4% in 2018, compared with 11.8% in 2017.

**Depreciation and amortization charge:** \$662.3 million in 2018, an increase of \$12.1 million (1.9%) over 2017. The increase was due to an increase in assets related to our wireless and wireline networks and IT systems.

**Financial expenses** (primarily comprised of interest on long-term debt): \$182.0 million in 2018, an increase of \$34.3 million (23.2%) over 2017.

The increase was mainly due to:

- \$19.0 million increase in interest on long term debt, mainly due to higher average indebtedness;
- \$13.1 million decrease in interest revenue from our subordinated loan to our parent corporation; and
- \$4.3 million unfavourable variance in gains and losses on foreign currency translation of short-term monetary items.

Partially offset by:

- \$2.6 million favourable variance in other interest, mainly due to interest revenues on cash-on-hand.

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**Loss on valuation and translation of financial instruments:** Loss of \$0.7 million in 2018, compared with a loss of \$3.1 million in 2017, a favourable variance of \$2.4 million mainly due to a favourable fluctuation in the fair value of financial instruments under fair value hedging relationships.

**Restructuring of operations, litigation and other items:** Charge of \$17.2 million recorded in 2018, compared with a charge of \$5.8 million in 2017, an unfavourable variance of \$11.4 million.

- In 2018, a \$12.9 million impairment charge was recognized in connection with IT projects;
- In 2018, a \$4.3 million charge was recognized in connection with charges related to the decommissioning of our analog network and labour-cost reduction initiatives;
- In 2017, a \$5.8 million charge was recognized in connection with developments in legal disputes, labour-cost reduction initiatives, and charges related to the decommissioning of our analog network.

**Gain on sale of spectrum licences:** Nil in 2018, compared with a gain of \$330.9 million in 2017.

- On July 24, 2017, the Corporation sold its seven 2500 MHz and 700 MHz wireless spectrum licences outside Québec to Shaw Communications Inc. (“Shaw”) for a cash consideration of \$430.0 million, resulting in a gain on disposal of \$243.1 million, including \$121.6 million without any tax consequences.
- On June 20, 2017, the Corporation sold its AWS-1 spectrum licence in the Toronto region to Rogers Communications Inc. (“Rogers”) for a cash consideration of \$184.2 million, pursuant to the transfer option held since 2013, resulting in a gain on disposal of \$87.8 million, including \$43.9 million without any tax consequences.
- These transactions resulted in the recognition of \$44.4 million in tax benefits as they were carried out through tax consolidation arrangements with Quebecor Media, thereby reducing the Corporation’s income tax payments.

**Loss on debt refinancing:** Nil in 2018, compared with a loss of \$5.2 million in 2017.

- In accordance with a notice issued on March 31, 2017, the Corporation redeemed, on May 1, 2017, all of its outstanding 6.875% Senior Notes issued on July 5, 2011 and maturing on July 15, 2021, in an aggregate principal amount of \$125.0 million, at a redemption price of 103.438% of their principal amount. A \$5.2 million loss was recorded in the consolidated statement of income of 2017 in connection with this redemption.

**Income tax expense:** \$165.5 million (effective tax rate of 20.3%) in 2018, compared with \$139.1 million (effective tax rate of 12.9%) in 2017.

- The increase of \$26.4 million was mainly due to:
  - \$47.5 million increase due to non-taxable items and non-deductible charges;
  - \$46.8 million increase due to changes in tax consolidation arrangements with our parent corporation; and
  - \$2.7 million unfavourable variance related to change in benefit arising from the recognition of current and prior year tax losses.

Partially offset by:

- \$70.8 million related to a decrease in taxable income.

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**Net income attributable to shareholder:** \$651.9 million, a decrease of \$288.0 million (30.6%).

- The decrease was mainly due to:
  - \$330.9 million gain on sale of spectrum licences in 2017, including \$165.5 million without any tax consequences;
  - \$34.3 million increase in financial expenses;
  - \$26.4 million increase in income taxes;
  - \$12.1 million increase in depreciation and amortization charge; and
  - \$11.4 million unfavourable variance in restructuring of operations, litigation and other items.

Partially offset by:

- \$119.4 million increase in adjusted EBITDA;
- \$5.2 million loss on debt refinancing in 2017; and
- \$2.4 million favourable variance in loss on valuation and translation of financial instruments.

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### 2018/2017 Fourth Quarter Comparison

#### Customer statistics

**Revenue-generating units** — 34,400 (0.6%) unit increase in the fourth quarter of 2018, compared with an increase of 34,900 (0.6%) in the same period of 2017.

**Mobile telephony services** — As of December 31, 2018, 1,153,800 lines were activated on our mobile telephony services, an increase of 33,100 (3.0%) in the quarter, compared with an increase of 33,700 (3.4%) in the same period of 2017.

**Cable Internet access services** — The number of subscribers to cable Internet access services stood at 1,704,500 as at the end of the fourth quarter of 2018, an increase of 7,000 (0.4%) in the quarter, compared with an increase of 12,400 (0.7%) in the same period of 2017.

**Cable television services** — The combined customer base for cable television services decreased by 6,400 (0.4%) in the fourth quarter of 2018, compared with a decrease of 8,500 (0.5%) in the same period of 2017.

**Cable telephony services** — The number of cable telephony lines stood at 1,113,900 as at the end of the fourth quarter of 2018, a decrease of 17,200 (1.5%) in the quarter, compared with a decrease of 16,900 (1.4%) in the same period of 2017.

**Club illico** — The number of subscribers to Club illico stood at 420,800 as at the end of the fourth quarter of 2018, an increase of 17,900 (4.4%) in the quarter, compared with an increase of 14,200 (4.1%) during the same period of 2017.

#### 2018/2017 Fourth Quarter Analysis of Results

**Revenues:** \$864.7 million, an increase of \$24.5 million (2.9%) compared with the fourth quarter of 2017.

- Revenues from mobile telephony services increased by \$16.0 million (13.0%) to \$139.5 million, essentially due to subscriber growth.
- Revenues from Internet access services increased by \$11.0 million (4.2%) to \$274.1 million. The favourable variance was mainly due to subscriber plans mix, subscriber growth and rate increases.
- Revenues from cable television services decreased by \$4.4 million (1.7%) to \$249.0 million. This decrease was primarily due to the net erosion of our customer base and subscriber plans mix, however partially offset by higher revenues from the leasing of digital set-top boxes and rate increases.
- Revenues from cable telephony service decreased by \$7.0 million (7.2%) to \$89.8 million, mainly due to the net erosion of our customer base and lower long-distance revenues.
- Revenues from Club illico increased by \$1.5 million (13.9%) to \$12.3 million, essentially due to customer growth.
- Revenues from our business segment increased by \$0.6 million (2.3%) to \$26.9 million, mainly due to revenue growth from Fibrenoire.
- Revenues from equipment sales increased by \$7.2 million (11.3%) to \$70.9 million, mainly due to higher revenue per mobile device and higher sales of mobile devices.
- Other revenues decreased by \$0.5 million (19.2%) in the fourth quarter to \$2.1 million.

**Monthly combined Total ABPU :** \$49.84 in the fourth quarter of 2018, compared with \$48.90 in the same period of 2017, an increase of \$0.94 (1.9%). This growth is mainly explained by an increase in revenues from mobile telephony and Internet access services, as detailed above.

**Mobile ABPU:** \$53.25 in the fourth quarter of 2018, compared with \$53.56 in the same period of 2017, a decrease of \$0.31 (0.6%), mainly attributed to a larger proportion of BYOD customers, multi-line packages and the launch of Fizz.

**Adjusted EBITDA:** \$425.6 million in the fourth quarter of 2018, an increase of \$31 million (7.9%) compared to the same quarter of 2017.

- This increase was primarily due to:
  - net revenue growth, as detailed above; and
  - decrease in operating expenses mainly related to favourable retroactive adjustments to certain regulatory charges and lower engineering and IT costs.

**Purchase of goods and services, expressed as a percentage of revenues:** 39.8% in 2018, compared with 41.5% in 2017.

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**Employee costs, expressed as a percentage of revenues:** 11.0% in 2018, compared with 11.5% in 2017.

**Depreciation and amortization charge:** \$166.6 million, a decrease of \$12.4 million (6.9%), compared with the quarter of 2017. The decrease was due to the impact of changes to the depreciation period for some network components recorded in the fourth quarter of 2017.

**Financial expenses** (primarily comprised of interest on long-term debt): \$51.3 million in 2018, an increase of \$13.8 million (37.1%) compared with the same quarter of 2017.

The increase was mainly due to:

- \$5.6 million increase in interest on long term debt, mainly due to higher average indebtedness;
- \$4.6 million decrease in interest revenue from our subordinated loan to our parent corporation;
- \$1.6 million unfavourable variance in other interest, mainly due to interest revenues on cash-on-hand; and
- \$1.4 million unfavourable variance in gains and losses on foreign currency translation of short-term monetary items.

**Gain or loss on valuation and translation of financial instruments:** \$0.7 million gain in the fourth quarter of 2018, compared with a \$0.5 million loss in the same quarter of 2017, a favourable variance of \$1.2 million mainly due to a favourable fluctuation in the fair value of financial instruments under fair value hedging relationships.

**Restructuring of operations, litigation and other items:** \$0.1 million charge recorded in the fourth quarter of 2018, compared with a \$6.6 million charge in the same quarter of 2017, a favourable variance of \$6.5 million mainly due to an decrease in charges related to the decommissioning of our analog network.

**Income tax expense:** \$40.2 million (effective tax rate of 19.7%) in the fourth quarter of 2018, compared with \$36.4 million (effective tax rate of 21.9%) in the same quarter of 2017.

- The increase of \$3.8 million was mainly due to:
  - \$9.7 million related to an increase in taxable income;
  - \$1.3 million unfavourable variance related to change in benefit arising from the recognition of current and prior year tax losses; and
  - \$0.5 million unfavourable variance related to other items.

Partially offset by:

- \$4.1 million decrease due to non-taxable items and non-deductible charges; and
- \$3.6 million decrease due to changes in tax consolidation arrangements with our parent corporation.

**Net income attributable to shareholder:** \$169.2 million, an increase of \$34.1 million (25.2%).

The increase was mainly due to:

- \$31.0 million increase in adjusted EBITDA;
- \$12.4 million decrease in depreciation and amortization charge;
- \$6.5 million favourable variance in restructuring of operations, litigation and other items;
- \$1.2 million favourable variance in gain or loss on valuation and translation of financial instruments; and
- \$0.7 million increase in net after tax income from discontinued activities.

Partially offset by:

- \$13.9 million increase in financial expenses; and
- \$3.8 million increase in income taxes expense.

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**2017/2016 Year Comparison**

**Customer Statistics**

**Revenue-generating units** — As of December 31, 2017, the total number of revenue-generating units stood at 5,881,100, an increase of 115,700 (2.0%) in 2017, compared with an increase of 117,900 (2.1%) in 2016.

**Mobile telephony services** — As of December 31, 2017, 1,024,000 lines were activated on our wireless telephony network, an increase of 130,100 (14.6%) in 2017, compared with an increase of 125,300 (16.3%) in 2016.

**Cable Internet access services** — The number of subscribers to cable Internet access services stood at 1,666,500 as at the end of 2017, an increase of 53,700 (3.3%) in 2017, compared with an increase of 44,600 (2.8%) in 2016. Our cable Internet access services household penetration rate (number of subscribers as a proportion of the 2,873,700 total homes passed) was 58.0% as of December 31, 2017, compared with 56.8% as of December 31, 2016.

**Cable television services** — Our combined customer base for cable television services decreased by 50,400 (3.0%) in 2017, compared with a decrease of 46,000 (2.6%) in 2016. As of December 31, 2017, our cable network household penetration rate was 57.1%, compared with 59.6% a year earlier.

**Cable telephony services** — The number of cable telephony lines stood at 1,188,500 as at the end of 2017, a decrease of 64,600 (5.2%) in 2017, compared with a decrease of 63,200 (4.8%) in 2016. Our cable telephony services household penetration rate was 41.4% as of December 31, 2017, compared with 44.1% as of December 31, 2016.

**Club illico** — The number of subscribers to Club illico stood at 361,600 as at the end of 2017, an increase of 46,900 (14.9%) in 2017, compared with an increase of 57,200 (22.2%) in 2016.

**2017/2016 Analysis of Results**

**Revenues:** \$3,281.6 million, an increase of \$96.8 million (3.0%) compared with 2016.

- Revenues from mobile telephony services increased by \$60.2 million (14.7%) to \$469.8 million, essentially due to customer growth and higher revenues per line.
- Revenues from Internet access services increased by \$52.2 million (5.3%) to \$1,030.9 million. The favourable variance was mainly due to subscriber plans mix, subscriber growth and rate increases on some packages, partially offset by higher discounts and lower revenues from excess usage.
- Revenues from cable television services decreased by \$14.7 million (1.4%) to \$1,009.6 million. This decrease was primarily due to the net erosion of our customer base, subscriber plans mix and higher discounts, however partially offset by higher revenues from the leasing of digital set-top boxes and rate increases.
- Revenues from cable telephony services decreased by \$27.0 million (6.4%) to \$397.8 million, mainly due to the net erosion of our customer base and lower long-distance revenues.
- Revenues from Club illico increased by \$8.3 million (26.4%) to \$39.7 million, essentially due to customer growth.
- Revenues from our business segment increased by \$5.6 million (5.6%) to \$104.8 million, mainly due to revenue growth from Fibrenoire.
- Revenues from equipment sales increased by \$12.1 million (5.8%) to \$219.0 million, mainly due to higher sales of mobile devices.
- Other revenues increased by \$0.1 million (1.0%) in 2017 to \$10.0 million.

**Monthly combined Total ABPU:** \$48.23 in 2017, compared with \$46.75 in 2016, an increase of \$1.48 (3.2%). This growth is mainly explained by an increase in revenues from mobile telephony and Internet access services, as detailed above.

**Mobile ABPU:** \$53.23 in 2017, compared with \$51.23 in 2016, an increase of \$2.00 (3.9%).

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**Adjusted EBITDA:** \$1,556.4 million in 2017, an increase of \$47.8 million (3.2%).

- This increase was primarily due to:
  - revenue increase, as detailed above;

Partially offset by:

- increase in operating expenses mainly related to engineering and IT costs.

**Purchase of goods and services, expressed as a percentage of revenues:** 40.8% in 2017, stable compared to 2016.

**Employee costs, expressed as a percentage of revenues:** 11.8% in 2017, stable compared to 2016.

**Depreciation and amortization charge:** \$650.2 million in 2017, an increase of \$56.0 million (9.4%) over 2016. The increase was due to an increase in assets related to our wireless and wireline networks and IT systems, as well as a change in estimate of useful life on some network components.

**Financial expenses** (primarily comprised of interest on long-term debt): \$147.7 million in 2017, a decrease of \$12.8 million (8.0%) over 2016.

- The decrease was mainly due to:
  - \$13.9 million in interest revenue from our subordinated loan to our parent corporation;
  - \$2.8 million favourable variance in other interest, mainly due to interest revenues on cash-on-hand; and
  - \$2.0 million favourable variance in gains and losses on foreign currency translation of short-term monetary items.

Partially offset by:

- \$5.3 million increase in interest on long-term debt, mainly due to higher average indebtedness.

**Gain or loss on valuation and translation of financial instruments:** Loss of \$3.1 million in 2017, compared with a loss of \$2.1 million in 2016, an unfavourable variance of \$1.0 million mainly due to an unfavourable fluctuation in the fair value of financial instruments under fair value hedging relationships.

**Restructuring of operations, litigation and other items:** Charge of \$5.8 million recorded in 2017, compared with a charge of \$15.9 million in 2016, a favourable variance of \$10.1 million.

- In 2017, a \$5.8 million charge was recognized in connection with developments in legal disputes, labour cost reduction initiatives, and the decommissioning of our analog network.
- In 2016, a \$15.9 million charge was recognized in connection with labour cost reduction initiatives, and the gradual decommissioning of our analog network.

**Gain on sale of spectrum licences:** \$330.9 million in 2017.

- On July 24, 2017, the Corporation sold its seven 2500 MHz and 700 MHz wireless spectrum licences outside Québec to Shaw for a cash consideration of \$430.0 million, resulting in a gain on disposal of \$243.1 million, including \$121.6 million without any tax consequences.
- On June 20, 2017, the Corporation sold its AWS-1 spectrum licence in the Toronto region to Rogers Communications Inc. for a cash consideration of \$184.2 million, pursuant to the transfer option held since 2013, resulting in a gain on disposal of \$87.8 million, including \$43.9 million without any tax consequences.
- These transactions resulted in the recognition of \$44.4 million in tax benefits as they were carried out through tax consolidation arrangements with Quebecor Media, thereby reducing the Corporation's income tax payments.

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**Loss on debt refinancing:** \$5.2 million in 2017, compared with \$7.3 million in 2016.

- The Corporation redeemed, on May 1, 2017, all of its outstanding 6.875% Senior Notes issued on July 5, 2011 and maturing on July 15, 2021, in an aggregate principal amount of \$125.0 million, at a redemption price of 103.438% of their principal amount. A \$5.2 million loss was recorded in the consolidated statement of income of 2017 in connection with this redemption.
- In accordance with a notice issued on December 2, 2016, the Corporation redeemed, on January 5, 2017, \$175.0 million aggregate principal amount of its outstanding 6.875% Senior Notes issued on July 5, 2011 and maturing on July 15, 2021, at a redemption price of 103.438% of their principal amount. A \$7.3 million loss was recorded in the consolidated statement of income of 2016 in connection with this redemption.

**Income tax expense:** \$139.1 million (effective tax rate of 12.9%) in 2017, compared with \$134.0 million (effective tax rate of 18.4%) in 2016.

- The increase of \$5.1 million was mainly due to:
  - \$92.4 million related to an increase in taxable income; and
  - \$6.4 million related to a one-time reduction in deferred tax balances recorded in 2016 due to a change in substantively enacted tax rates.

Partially offset by:

- \$50.3 million decrease due to non-taxable gains and non-deductible charges;
- \$41.7 million decrease due to changes in tax consolidation arrangements with our parent corporation; and
- \$2.2 million decrease due to change in benefit arising from the recognition of current and prior tax losses.

**Net income attributable to shareholder:** \$939.9 million, an increase of \$344.3 million (57.8%).

- The increase was mainly due to:
  - \$330.9 million gain on sale of spectrum licences;
  - \$47.8 million increase in adjusted EBITDA;
  - \$12.8 million decrease in financial expenses;
  - \$10.1 million favourable variance in restructuring of operations, litigation and other items;
  - \$2.7 million increase in net income (after tax) from discontinued activities; and
  - \$2.1 million favourable variance in loss on debt refinancing.

Partially offset by:

- \$56.0 million increase in depreciation and amortization charges;
- \$5.1 million increase in income taxes; and
- \$1.0 million unfavourable variance in gain or loss on valuation and translation of financial instruments.

## CASH FLOW 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. This section should be read in conjunction with the discussions on trends under “Trend Information” above, on the Corporation’s risk factors under “Item 3. Key Information — B. Risk Factors” below and on the Corporation’s financial risks under “Financial Instruments and Financial Risk Management” below.

### Operating activities

#### *2018 Financial Year*

**Cash flows provided by operating activities:** \$1,496.5 million in 2018, compared with \$1,262.2 million in 2017, an increase of \$234.3 million (18.6%).

- The increase was mainly due to:
  - \$301.0 million favourable variance in non-cash balances related to operations, mainly due to a favourable net variation in accounts payable and accrued charges, in income taxes payable, in contract assets, in prepaid expenses, in inventories and other;
  - \$119.4 million increase in adjusted EBITDA.

Partially offset by:

- \$148.7 million increase in current income tax expenses; and
- \$34.4 million increase in the cash portion of financial expenses.

**Working capital:** Negative \$316.0 million as of December 31, 2018, compared with \$630.0 million as of December 31, 2017. The difference is mainly explained by a reduction of paid-up capital of the Corporation paid in part with cash on hand.

#### *2017 Financial Year*

**Cash flows provided by operating activities:** \$1,262.2 million in 2017, compared with \$1,240.8 million in 2016, an increase of \$21.4 million (1.7%).

- The increase was mainly due to:
  - \$157.2 million decrease in current income tax expenses;
  - \$47.8 million increase in adjusted EBITDA;
  - \$13.3 million decrease in the cash portion of financial expenses; and
  - \$10.1 million decrease in restructuring of operations, litigation and other items.

Partially offset by:

- \$207.8 million unfavourable variance in non-cash balances related to operations, mainly due to an unfavourable net variation in income taxes payable, in accounts payable and accrued charges, in inventories and in accounts payable and receivables with corporations under common control.

**Working capital:** \$630.0 million as of December 31, 2017, compared with negative \$334.6 million as of December 31, 2016. The difference is mainly explained by the cash proceeds from the sale of spectrum licences to Rogers and Shaw, the disbursement of income tax instalments related to the 2016 fiscal year and cash generated through the Corporation’s operating activities.

**Investing Activities**

*2018 Financial Year*

**Additions to fixed assets:** \$516.7 million in 2018, compared with \$570.8 million in 2017. The decrease is mainly explained by lower investments in our wireline and wireless networks.

**Additions to intangible assets:** \$190.2 million in 2018, compared with \$132.3 million in 2017. The increase is mainly explained by significant investments made on the IPTV project and IT systems.

**Proceeds from the disposal of assets:** \$5.6 million in 2018, compared with \$619.9 million in 2017.

- On June 20, 2017, the Corporation sold its AWS-1 spectrum licence in the Toronto region to Rogers for a cash consideration of \$184.2 million, pursuant to the transfer option held since 2013. The sale resulted in a gain on disposal of \$87.8 million.
- On July 24, 2017, the Corporation sold its seven 2500 MHz and 700 MHz wireless spectrum licences outside Québec to Shaw for a cash consideration of \$430.0 million. The sale resulted in a gain on disposal of \$243.1 million.

**Business acquisition:** \$1.3 million inflows in 2018, compared with \$5.6 million outflows in 2017. These amounts are related to closing adjustments and payment of purchase price balance pursuant to our 2016 purchase of Fibrenoire.

*2017 Financial Year*

**Additions to fixed assets:** \$570.8 million in 2017, compared with \$613.6 million in 2016. The decrease is mainly explained by lower investments in our LTE wireless network.

**Additions to intangible assets:** \$132.3 million in 2017, compared with \$125.5 million in 2016. The increase is mainly explained by acquisitions of software, licences and investments made on our various IT systems and platforms.

**Proceeds from the disposal of assets:** \$619.9 million in 2017, compared with \$3.4 million in 2016.

- On June 20, 2017, the Corporation sold its AWS-1 spectrum licence in the Toronto region to Rogers for a cash consideration of \$184.2 million, pursuant to the transfer option held since 2013. The sale resulted in a gain on disposal of \$87.8 million.
- On July 24, 2017, the Corporation sold its seven 2500 MHz and 700 MHz wireless spectrum licences outside Québec to Shaw for a cash consideration of \$430.0 million. The sale resulted in a gain on disposal of \$243.1 million.

**Business acquisition:** \$5.6 million in 2017, compared with \$118.9 million in the same period of 2016. In January 2016, the Corporation acquired Fibrenoire, a company that provides businesses with fibre-optic connectivity services, for a purchase price of \$125.0 million. At closing, the Corporation paid an amount of \$119.1 million, net of cash acquired of \$1.8 million. A post-closing adjustment of \$0.2 million was received in the second quarter of 2016. The purchase price balance was paid in February 2017 for an amount of \$5.6 million.

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**Financing Activities**

*2018 Financial Year*

**Consolidated debt** (long-term debt plus bank indebtedness): \$957.6 million increase in 2018.

- Summary of debt increases in 2018:
  - \$738.5 million increase in drawings under our revolving credit facilities;
  - \$216.7 million unfavourable impact of exchange rate fluctuations. This increase in long-term debt is offset by an increase in the asset (or a decrease in the liability) related to cross-currency interest rate swaps, recorded under “Derivative financial instruments”; and
  - \$8.3 million net change in bank indebtedness.
- Summary of debt decreases during the same period:
  - repayment of \$5.4 million of borrowings under our export financing facility; and
  - \$3.4 million change in the fair value related to hedged interest rate risk.
- On November 26, 2018, the Corporation amended its secured revolving credit facility by increasing it from \$965.0 million to \$1.50 billion, extending the maturity date to July 2023 and changing certain conditions and terms of the facility.

**Assets and liabilities related to derivative financial instruments:** Net asset of \$465.0 million as of December 31, 2018, compared with a net asset of \$259.0 million as of December 31, 2017, a \$206.0 million favourable variance. The variance was mainly due to the favourable net impact of exchange rate.

**Dividends:** Net decrease of \$182.0 million in common dividends to our parent corporation in 2018 compared with 2017.

- On November 26, 2018, the Corporation amended its secured revolving credit facility, increasing it from \$965.0 million to \$1.50 billion and extending its term to July 2023. Certain conditions related to the credit facility were also amended.

*2017 Financial Year*

**Consolidated debt** (long-term debt plus bank indebtedness): \$97.1 million increase in 2017.

- Summary of debt increase in 2017:
  - issuance, on April 13, 2017, of US\$600.0 million aggregate principal amount of Senior Notes for net proceeds of \$794.5 million, net of financing fees of \$9.9 million. The Notes bear interest at 5.125% per annum and mature on April 15, 2027.
- Summary of debt decreases during the same period:
  - redemption and retirement, on May 1, 2017 and January 5, 2017, of \$300.0 million aggregate principal amount of our 6.875% Senior Notes due in July 2021;
  - \$209.3 million decrease in drawings under our revolving credit facility;
  - \$170.1 million favourable impact of exchange rate fluctuations. This decrease in long-term debt is offset by a decrease in the asset (or an increase in the liability) related to cross-currency interest rate swaps, recorded under “Derivative financial instruments”;
  - \$10.1 million favourable net change in bank indebtedness; and
  - repayment of \$10.7 million of borrowings under our export financing facility.
- In May 2017, the Corporation transferred all then existing commitments under its unsecured revolving credit facility to its secured revolving credit facility, hence increasing its secured facility from \$630.0 million to \$965.0 million and terminating its unsecured facility.

**Assets and liabilities related to derivative financial instruments:** Net asset of \$259.0 million as of December 31, 2017, compared with a net asset of \$417.8 million as of December 31, 2016, a \$158.8 million unfavourable variance. The variance was mainly due to the unfavourable impact of exchange rate and interest rate fluctuations on the value of derivative financial instruments.

**Dividends:** Net decrease of \$13.0 million in cash distributions to our parent corporation in 2017 compared with 2016.

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**Financial Position as of December 31, 2018**

**Net available liquid assets:** \$749.0 million for the Corporation and its wholly owned subsidiaries, consisting of \$757.3 million in unused availabilities under credit facilities, less bank indebtedness of \$8.3 million.

**Uses of Liquidity and Capital Resources**

Our principal liquidity and capital resource requirements consist of:

- capital expenditures to maintain and upgrade our network in order to support the growth in our customer base and the launch and expansion of new or additional services, including the expansion and upgrade of our wireless and wireless networks;
- servicing and repayment of debt;
- tax consolidation arrangements; and
- distributions to our shareholder.

**Capital expenditures:** \$706.9 million in 2018, an increase of \$3.8million (0.5%) compared with 2017.

- The decrease was mainly due to:
  - lower investments in our LTE wireless network.

**Table 3**  
**Additions to fixed and intangible assets**  
(in millions of dollars)

|   | 2018            | 2017            | 2016            |
|---|-----------------|-----------------|-----------------|
| Customer premises equipment                           | \$ 214.0        | \$ 228.8        | \$ 231.7        |
| Scalable infrastructure                               | 203.3           | 205.0           | 238.5           |
| Line extensions                                       | 86.1            | 50.1            | 62.3            |
| Upgrade/rebuild                                       | 51.6            | 58.8            | 67.4            |
| Support capital and other                             | 151.9           | 160.4           | 139.2           |
| <b>Total additions to fixed and intangible assets</b> | <b>\$ 706.9</b> | <b>\$ 703.1</b> | <b>\$ 739.1</b> |

**Consolidated long-term debt** (long-term debt plus bank indebtedness): \$4,227.9 million as of December 31, 2018, an increase of \$957.6 million; \$206.0 million favourable net variance in assets and liabilities related to derivative financial instruments (see “Financing Activities” above).

As of December 31, 2018, mandatory debt repayments on the Corporation’s long-term debt in the coming years are as follows:

**Table 4**  
**Minimum principal payments on Videotron’s long-term debt**  
**12 months ending December 31**  
(in millions of dollars)

|                     |                   |
|---------------------|-------------------|
| 2019                | \$ —              |
| 2020                | —                 |
| 2021                | —                 |
| 2022                | 1,091.0           |
| 2023                | 742.0             |
| 2024 and thereafter | 2,411.4           |
| <b>Total</b>        | <b>\$ 4,244.4</b> |

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The weighted average term of Videotron's consolidated debt was approximately 5.8 years as of December 31, 2018, compared to 7.0 years as of December 31, 2017. As of December 31, 2018, after taking into account the hedging instruments, the debt consisted of approximately 75.8% fixed-rate debt, compared to 94.1% as of December 31, 2017, and 24.2% floating-rate debt, compared to 5.9% as of December 31, 2017.

Videotron's management believes that cash flows from continuing operations and available sources of financing should be sufficient to cover committed cash requirements for capital investments, including investments required for our wireline and wireless networks, working capital, interest payments, income tax payments, debt repayments, pension plan contributions, and dividends or distributions to shareholders in the future. Videotron has access to cash flows generated by its subsidiaries through dividends or distributions and cash advances paid by its wholly owned subsidiaries. The Corporation believes it will be able to meet future debt maturities, which are staggered over the coming years.

We may (but are under no obligation to) from time to time seek to retire or purchase our outstanding senior notes in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on our liquidity position and requirements, prevailing market conditions, contractual restrictions and other factors. The amounts involved may be material.

Pursuant to its financing agreements, the Corporation is required to maintain certain financial ratios. The key indicators listed in these financing agreements include debt service coverage ratio and debt ratio (long-term debt over adjusted EBITDA). As of December 31, 2018, the Corporation was in compliance with all required financial ratios.

**Servicing and Repayment of Debt:** Cash interest payments of \$181.3 million in 2018, an increase of \$28.4 million compared with 2017.

**Purchase of Shares of Quebecor Media and Servicing of Subsidiary Subordinated Loan:** Unlike corporations in the United States, corporations in Canada are not permitted to file consolidated tax returns. As a result, we have entered into certain transactions described below that have the effect of using tax losses within the Quebecor Media group.

**Tax Consolidation Arrangements with the Parent Corporation:** On February 12, 2016, 9101-0835 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 430,000 preferred shares, Series B, for a total cash consideration of \$430.0 million, and settled cumulative unpaid dividends of \$6.9 million. On the same day, the Corporation used the total proceeds of \$430.0 million to repay part of its subordinated loan contracted from Quebecor Media Inc.

On March 1, 2016, the Corporation contracted a subordinated loan of \$625.0 million from Quebecor Media Inc., bearing interest at a rate of 11.5%, payable every six months on June 20 and December 20, and maturing on March 1st, 2046. On the same day, the Corporation invested the total proceeds of \$625.0 million into 625,000 preferred shares, Series D, of 9101-0835 Québec Inc., a subsidiary of Quebecor Media Inc. These shares carry the right to receive an annual dividend of 11.6%, payable semi-annually.

On November 1, 2016, 9101-0835 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 1,660,000 preferred shares, Series B and 625,000 preferred shares, Series D for a total cash consideration of \$2.29 billion, and settled cumulative unpaid dividends of \$92.7 million. On the same day, the Corporation used the total proceeds of \$2.29 billion to repay its subordinated loans contracted from Quebecor Media Inc.

On May 3, 2017, the Corporation contracted a subordinated loan of \$3.6 billion from Quebecor Media Inc., bearing interest at a rate of 10.5%, payable every six months on June 20 and December 20 and maturing on May 3, 2047. On the same day, the Corporation invested the total proceeds of \$3.6 billion into 3,600,000 preferred shares, Series C, of 9346-9963 Québec Inc., a subsidiary of Quebecor Media Inc. These shares carry the right to receive an annual dividend of 10.6%, payable semi-annually.

On November 6, 2017, 9346-9963 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 3,600,000 preferred shares, Series C for a total cash consideration of \$3.6 billion, and settled cumulative unpaid dividends of \$145.3 million. On the same day, the Corporation used the total proceeds of \$3.6 billion to repay its subordinated loans contracted from Quebecor Media Inc.

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On February 27, 2018, the Corporation contracted a subordinated loan of \$2.39 billion from Quebecor Media Inc., bearing interest at a rate of 9.5%, payable every six months on June 20 and December 20, and maturing on February 27, 2048. On the same day, the Corporation invested the total proceeds of \$2.39 billion into 2,390,000 preferred shares, Series C, of 9346-9963 Québec Inc. These shares carry the right to receive an annual dividend of 9.6%, payable semi-annually.

On November 30, 2018, 9346-9963 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 795,000 preferred shares, Series C for a total cash consideration of \$795.0 million, and settled cumulative unpaid dividends of \$34.1 million. On the same day, the Corporation used the total proceeds of \$795.0 million to repay its subordinated loans contracted from Quebecor Media Inc.

On January 25, 2019, the Corporation issued 162,640 common shares to Quebecor Media for a cash consideration of \$150.0 million

The above transactions were carried out for tax consolidation purposes of Quebecor Media Inc. and its subsidiaries, on terms equivalent to those that prevail on an arm's length basis and accounted for at the consideration agreed between parties.

**Distributions to our shareholder:** We paid \$50.0 million in common dividends to our shareholder, Quebecor Media, in the fourth quarter of 2018 (\$85.0 million in the fourth quarter of 2017). For the year ended December 31, 2018, we paid \$113.0 million in common dividends to our shareholder, compared with \$295.0 million in 2017. We expect to make cash distributions to our shareholder in the future, as determined by our Board of Directors, and within the limits set by the terms of our indebtedness and applicable laws.

### **Corporate reorganization**

On January 3, 2018, Quebecor Media Inc. transferred all of its 172,516,829 shares in the Corporation in the amount of \$132.4 million to a newly fully owned subsidiary, 9370-5762 Québec Inc. in exchange for i) a convertible promissory note for a value of \$3,908.6 million that is convertible into 3,908,569.822 common shares of 9370-5762 Québec Inc. and ii) 6,636,391 common shares of 9370-5762 Québec Inc. The following day the Corporation was merged with 9370-5762 Québec Inc. The new merged Corporation continues to operate under the name of Videotron Ltd. Since this transaction resulted in no substantive changes in the parent corporation reporting group, the transaction was accounted for using the continuity of interest method. Under this method, all figures of the Corporation reflect the carrying values of the two merged entities.

On January 8, 2018, the convertible promissory note was converted into 3,908,569.822 common shares of the Corporation.

This corporate reorganization resulted in an increase of \$3,776.2 million of capital stock and a decrease of retained earnings by the same amount.

### **Reduction of paid-up capital**

During the respective three-month and twelve-month periods ended December 31, 2018, the Corporation made reductions of its paid up capital for total cash considerations of \$157.0 million and \$2,588.1 million.

Subsequent event on January 17, 2019, the Corporation reduced its paid-up capital for a cash consideration of \$45.0 million.

### **Participation in 600 MHz spectrum auction**

In December 2018, Videotron qualified as a bidder in the auction for spectrum licences in the 600 MHz band announced by ISED. The auction is scheduled to commence on March 12, 2019.

In December 2018, Videotron contracted new unsecured on-demand credit facilities under which letters of credit were issued and submitted to ISED as a pre-auction deposit, with the application to bid. The submission of these letters of credit did not have the effect of reducing the Corporation's net available liquidity. In accordance with the rules of confidentially established by ISED respecting restrictions on communications during the auction process, it is strictly forbidden for the Corporation to disclose the amount of these letters of credit. Videotron may withdraw the letters of credit at any time prior to the opening of the auction.

The full licensing framework for spectrum in the 600 MHz band published by ISED, including the method used to determine the amount of the pre-auction deposit, is available on the ISED website at [http://www.ic.gc.ca/eic/site/smt-gst.nsf/eng/h\\_sf11331.html](http://www.ic.gc.ca/eic/site/smt-gst.nsf/eng/h_sf11331.html)

**Analysis of Consolidated Balance Sheets as of December 31, 2018**

**Table 5**  
**Consolidated Balance Sheets of Videotron**  
**Analysis of significant variances between December 31, 2018 and December 31, 2017**  
(in millions of dollars)

|  | December 31, 2018 | December 31, 2017 | Variance | Variance detail  |
|--|-------------------|-------------------|----------|--|
| <b>Assets</b>  |                   |                   |          |  |
| Cash and cash equivalents  | \$ 1.1            | \$ 815.8          | 814.7    | Reduction of paid-up capital of the Corporation paid in part with cash on hand             |
| Assets held for sale <sup>2</sup>                                  | 95.0              | —                 | 95.0     | Net assets related to the sale of 4Degrees   |
| Investments  | 1,595.0           | —                 | 1,595.0  | Investment in preferred shares of an affiliated corporation for tax consolidation purposes |
| Fixed assets   | 3,120.9           | 3,257.4           | (136.5)  | Amortization expense less capital expenditure  |
| Intangible assets  | 1,059.6           | 908.0             | 151.6    | Investments made on our IPTV project   |
| Goodwill   | 515.0             | 535.9             | (20.9)   | Reclassification to assets held for sale, and adjustment of business acquisition cost      |
| Derivative financial instruments <sup>1</sup>                      | 465.0             | 259.0             | 206.0    | See “Financing Activities” above   |
| Subordinated loan to parent corporation                            | —                 | 342.0             | (342.0)  | Loan reimbursed on January 16, 2018  |
| <b>Liabilities</b>   |                   |                   |          |  |
| Accounts payable and accrued charges                               | 593.0             | 491.9             | 101.1    | Impact of current variances in activity  |
| Income taxes payable (receivable)                                  | 120.2             | (27.2)            | 147.4    | Recognition of tax benefits in 2018  |
| Long-term debt, including short-term portion and bank indebtedness | 4,227.9           | 3,270.3           | 957.6    | See “Financing Activities” above   |
| Subordinated loan from parent corporation                          | 1,595.0           | —                 | 1,595.0  | Loan issued by parent-corporation.   |
| Deferred income taxes  | 740.2             | 719.3             | 20.9     | Net deferred income tax charges recorded in net income or other comprehensive income.      |

<sup>1</sup> Long-term assets less long-term liabilities

<sup>2</sup> Net of liabilities

**ADDITIONAL INFORMATION**

**Contractual Obligations and Other Commercial Commitments**

As of December 31, 2018, material contractual obligations included: capital repayment and interest payments on long-term debt, obligations related to derivative financial instruments, less estimated future receipts on derivative financial instruments, operating lease arrangements and capital asset purchases and other commitments. Table 6 below shows a summary of our contractual obligations.

**Table 6**  
**Contractual obligations of the Corporation as of December 31, 2018**  
(in millions of dollars)

|   | <u>Total</u>      | <u>Less than<br/>1 year</u> | <u>1-3 years</u> | <u>3-5 years</u>  | <u>5 years<br/>or more</u> |
|---|-------------------|-----------------------------|------------------|-------------------|----------------------------|
| <b>Contractual obligations<sup>1</sup></b>                        |                   |                             |                  |                   |                            |
| Accounts payable and accrued charges                              | \$ 593.0          | \$ 593.0                    | \$ —             | \$ —              | \$ —                       |
| Amounts payable to affiliated corporations                        | 41.5              | 41.5                        | —                | —                 | —                          |
| Bank credit facility  | 742.0             | —                           | —                | 742.0             | —                          |
| 5% Senior Notes due July 15, 2022                                 | 1,091.0           | —                           | —                | 1,091.0           | —                          |
| 5 <sup>3</sup> / <sub>8</sub> % Senior Notes due June 15, 2024    | 818.2             | —                           | —                | —                 | 818.2                      |
| 5 <sup>5</sup> / <sub>8</sub> % Senior Notes due June 15, 2025    | 400.0             | —                           | —                | —                 | 400.0                      |
| 5 <sup>3</sup> / <sub>4</sub> % Senior Notes due January 15, 2026 | 375.0             | —                           | —                | —                 | 375.0                      |
| 5 <sup>1</sup> / <sub>8</sub> % Senior Notes due April 15, 2027   | 818.2             | —                           | —                | —                 | 818.2                      |
| Interest payments <sup>2</sup>                                    | 1,105.0           | 148.2                       | 384.6            | 330.6             | 241.6                      |
| Derivative financial instruments <sup>3</sup>                     | (461.2)           | —                           | —                | (291.5)           | (169.7)                    |
| Operating lease commitments                                       | 144.0             | 40.7                        | 45.0             | 25.6              | 32.7                       |
| Services and capital equipment commitments                        | 622.9             | 118.3                       | 171.8            | 113.7             | 219.1                      |
| <b>Total contractual cash obligations</b>                         | <b>\$ 6,289.6</b> | <b>\$ 941.7</b>             | <b>\$ 601.4</b>  | <b>\$ 2,011.4</b> | <b>\$ 2,735.1</b>          |

<sup>1</sup> Excludes obligations under subordinated loans due to Quebecor Media, our parent corporation; the proceeds of which are used to invest in preferred shares of an affiliated corporation for tax consolidation purposes for the Quebecor Media group.

<sup>2</sup> Estimated interest payable on long-term debt, based on interest rates, hedging of interest rates and hedging of foreign exchange rates as of December 31, 2018.

<sup>3</sup> Estimated future receipts, net of disbursements, related to foreign exchange hedging using derivative financial instruments.

**Significant commitments included in Table 6**

The Corporation leases sites for its wireless network under operating lease contracts, and it has signed a set of service sharing and exchange agreements with Rogers, including a 20-year agreement to build out and operate a shared LTE wireless network in the Province of Québec and in the Ottawa Region. Also, the Corporation has signed an agreement with Comcast Corporation to deploy an innovative IP television service. As of December 31, 2018, a total commitment of \$608.9 million was outstanding under those agreements.

**Pension plan contributions**

The expected employer contributions to the Corporation's defined benefit pension plans and postretirement benefits plans will be \$24.6 million in 2019 based on the most recent financial actuarial reports filed (contributions of \$25.0 million were paid in 2018).

## Related Party Transactions

In addition to the related party transactions disclosed elsewhere in this annual report, the Corporation entered into the following transactions with affiliated corporations and the parent corporation. These transactions were accounted for at the consideration agreed between parties:

**Table 7**  
**Related party transactions**  
(in millions of dollars)

|  | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|-------------|
| Ultimate parent and parent corporation : |             |             |             |
| Revenues                                 | \$ 0.6      | \$ 0.5      | \$ 0.5      |
| Purchase of goods and services           | 9.3         | 8.7         | 8.0         |
| Operating expenses recovered             | (0.4)       | (0.3)       | (0.8)       |
| Corporations under common control :      |             |             |             |
| Revenues                                 | 5.0         | 5.5         | 5.9         |
| Purchase of goods and services           | 105.5       | 103.5       | 104.2       |
| Operating expenses recovered             | (1.2)       | (2.3)       | (1.3)       |

## Off-Balance Sheet Arrangements

### *Guarantees*

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

### *Operating leases*

The Corporation has guaranteed a portion of the residual value of certain assets under operating leases for the benefit of the lessor. Should the Corporation terminate these leases prior to term (or at the end of the lease terms) and should the fair value of the assets be less than the guaranteed residual value, then the Corporation must, under certain conditions, compensate the lessor for a portion of the shortfall. As of December 31, 2018, the maximum exposure with respect to the guarantees was \$14.5 million and no liability has been recorded in the consolidated balance sheet.

### *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 Corporation may agree to indemnify against claims related to the 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 Corporation from estimating the maximum potential liability it could be required to pay to guaranteed parties. The Corporation has not accrued any amount in respect of these items in the consolidated balance sheet.

### *Outsourcing companies and suppliers*

In the normal course of its operations, the Corporation enters into contractual agreements with outsourcing companies and suppliers. In some cases, the Corporation agrees to provide indemnifications in the event of legal procedures initiated against them. In other cases, the Corporation provides indemnification to counterparties for damages resulting from the outsourcing companies and suppliers. The nature of the indemnification agreements prevents the Corporation 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.

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*Guarantees related to our bank credit facilities*

The bank credit facility provides for a \$1,500.0 million secured revolving credit facility that matures in July 2023. The revolving credit facility bears interest at Bankers' acceptance rate, U.S. London Interbank Offered Rate ("LIBOR"), Canadian prime rate or U.S. prime rate, plus a margin, depending on the Corporation's leverage ratio. The bank credit facility is secured by a first ranking hypothec on the universality of all tangible and intangible assets, current and future, of the Corporation and most of its wholly owned subsidiaries. As of December 31, 2018, the bank credit facility was secured by assets with a carrying value of \$7,639.2 million (\$6,665.7 million in 2017). The bank credit facility contains covenants such as maintaining certain financial ratios, limitations on the Corporation's ability to incur additional indebtedness, pay dividends, or make other distributions. As of December 31, 2018, an amount of \$742.0 million had been drawn on the secured revolving credit facility (no amount in 2017 while \$5.4 million was outstanding in 2017 on an export financing facility that matured in June 2018).

**Financial instruments and financial risk management**

The Corporation's financial risk management policies have been established in order to identify and analyze the risks faced by the Corporation, 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 Corporation's activities.

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 charges, long-term debt, and derivative financial instruments. As a result of its use of financial instruments, the Corporation is exposed to credit risk, liquidity risk and market risks relating to foreign exchange fluctuations and interest rate fluctuations.

In order to manage its foreign exchange and interest rate risks, the Corporation uses derivative financial instruments (i) to set in Canadian 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.

**Description of Derivative Financial Instruments**

**Table 8**  
**Foreign exchange forward contracts as of December 31, 2018**  
(in millions of dollars)

| <u>Maturity</u>  | <u>Canadian dollar average<br/>exchange rate<br/>per one U.S. dollar</u> | <u>Notional<br/>amount sold</u> | <u>Notional<br/>amount bought</u> |
|------------------|--|---------------------------------|-----------------------------------|
| Less than 1 year | 1.3056   | \$ 165.6                        | US \$ 126.8                       |

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**Table 9**  
**Cross-currency interest rate swaps as of December 31, 2018**  
(in millions of dollars)

| Hedged item                       | Period covered | Hedging instrument |   |  |  |
|-----------------------------------|----------------|--------------------|---|--|--|
|                                   |                | Notional amount    | Annual interest rate on notional amount in Canadian dollars | Canadian dollar exchange rate on interest and capital payments per one U.S. dollar |  |
| 5.000% Senior Notes due 2022      | 2014 to 2022   | US\$ 543.1         | 6.01%   | 0.9983   |  |
| 5.000% Senior Notes due 2022      | 2012 to 2022   | US\$ 256.9         | 5.81%   | 1.0016   |  |
|                                   |                |                    | Bankers' acceptances 3 months                               |  |  |
| 5.375% Senior Notes due 2024      | 2014 to 2024   | US\$ 158.6         | + 2.67%   | 1.1034   |  |
| 5.375% Senior Notes due 2024      | 2017 to 2024   | US\$ 441.4         | 5.62%   | 1.1039   |  |
| 5.125% Senior Notes due 2027      | 2017 to 2027   | US\$ 600.0         | 4.82%   | 1.3407   |  |
|                                   |                |                    | Bankers' acceptances 1 month                                |  |  |
| US\$ drawing on revolver facility | 2018 to 2019   | US\$ 160.0         | +0.42%  | 1.3417   |  |

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 losses on valuation and translation of financial instruments for the years ended December 31, 2018, 2017 and 2016 are summarized in the following table.

**Table 10**  
**Loss on valuation and translation of financial instruments**  
(in millions of dollars)

|   | 2018          | 2017          | 2016          |
|---|---------------|---------------|---------------|
| Loss on the ineffective portion of fair value hedges          | \$ 0.7        | \$ 2.9        | \$ 2.0        |
| Loss on embedded derivatives related to long-term debt        | —             | 0.2           | (0.1)         |
| Loss on reversal of embedded derivatives upon debt redemption | —             | —             | 0.2           |
|   | <u>\$ 0.7</u> | <u>\$ 3.1</u> | <u>\$ 2.1</u> |

A loss of \$6.7 million was recorded under "Other comprehensive income" in 2018 in relation to cash flow hedging relationships (gain of \$35.2 million in 2017 and loss of \$18.3 million in 2016).

Fair value of financial instruments

The fair value of long-term debt in Table 11 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 on the consolidated balance sheet 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 markets 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.

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The carrying value and fair value of long-term debt and derivative financial instruments as of December 31, 2018 and 2017 are as follows:

**Table 11**  
**Fair value of long-term debt and derivative financial instruments**  
(in millions of dollars)

| Asset (liability)                                   | 2018           |              | 2017           |              |
|---|----------------|--------------|----------------|--------------|
|   | Carrying value | Fair value   | Carrying value | Fair value   |
| <b>Long-term debt<sup>1</sup></b>                   | \$ (4,244.4)   | \$ (4,210.8) | \$ (3,294.6)   | \$ (3,492.1) |
| <b>Derivative financial instruments<sup>2</sup></b> |                |              |                |              |
| Foreign exchange forward contracts                  | 6.8            | 6.8          | (4.5)          | (4.5)        |
| Cross-currency interest rate swaps                  | 458.2          | 458.2        | 263.5          | 263.5        |

<sup>1</sup> 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.

<sup>2</sup> The fair value of the derivative financial instruments designated as cash flow hedges is a net asset position of \$418.6 million as of December 31, 2018. (\$227.0 million as of December 31, 2017) and the fair value of derivative financial instruments designated as fair value hedges is an asset position of \$46.4 million (\$32.0 million in 2017).

The fair value of investments in preferred shares of the parent corporation and loans from the parent corporation is equivalent to their initial issuance values since these financial instruments have only been issued as part of transactions carried out for tax consolidation purposes of Quebecor Media and its subsidiaries.

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 on the immediate settlement of the instrument.

Credit risk management

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial asset fails to meet its contractual obligations and arises principally from amounts receivable from customers, including contract assets.

The carrying amounts of financial assets represent the maximum credit exposure.

In the normal course of business, the Corporation continuously monitors the financial condition of its customers and reviews the credit history of each new customer. As of December 31, 2018, no customer balance represented a significant portion of the Corporation's consolidated trade receivables. The Corporation is using the expected credit losses method to estimate its provision for credit losses, which considers the specific credit risk of its customers, the expected lifetime of its financial assets, historical trends and economic conditions. As of December 31, 2018, the provision for expected credit losses represented 3.0% of the gross amount of accounts receivable and contract assets (3.0% as of December 31, 2017), while 4.8% of trade receivable were 90 days past their billing date (4.9% as of December 31, 2017).

The following table shows changes to the provision for expected credit losses for the years ended December 31, 2018 and 2017:

**Table 12**  
**Changes in Provision for Expected Credit losses**  
(in millions of dollars)

|   | 2018           | 2017           |
|---|----------------|----------------|
| Balance as of beginning of year                     | \$ 14.0        | \$ 19.4        |
| Changes in expected credit losses charged to income | 17.5           | 20.0           |
| Asset write-off                                     | (17.5)         | (25.4)         |
| <b>Balance as of end of year</b>                    | <b>\$ 14.0</b> | <b>\$ 14.0</b> |

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The Corporation 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 Corporation does not believe that it is exposed to an unusual level of customer credit risk.

As a result of its use of derivative financial instruments, the Corporation is exposed to the risk of non-performance by a third party. When the Corporation enters into derivative contracts, the counterparties (either foreign or Canadian) must have credit ratings at least in accordance with the Corporation's risk management policy and are subject to concentration limits. These credit ratings and concentration limits are monitored on an ongoing basis but at least quarterly.

### Liquidity risk management

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due or the risk that those financial obligations will have to be met at excessive cost. The Corporation manages this exposure through staggered debt maturities. The weighted average term of the Corporation's consolidated debt was approximately 5.8 years as of December 31, 2018, compared to 7.0 years as of December 31, 2017. (see also "Contractual obligations" above).

### Market risk

Market risk is the risk that changes in market prices due to foreign exchange rates and/or interest rates will affect the value of the Corporation'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 Corporation's consolidated revenues and expenses, other than interest expense on U.S.-dollar-denominated debt, purchases of set-top boxes, handsets and cable modems and certain capital expenditures, are received or denominated in Canadian dollars. A significant portion of the interest, principal and premium, if any, payable on its debt is payable in U.S. dollars. The Corporation has entered into transactions to hedge the foreign currency risk exposure on its U.S.-dollar-denominated debt obligations outstanding as of December 31, 2018, to hedge its exposure on certain purchases of set-top boxes, handsets, cable modems and capital expenditures. Accordingly, the Corporation's sensitivity to variations in foreign exchange rates is economically limited.

The following table summarizes the estimated sensitivity on income and other comprehensive income, before income tax, of a variance of \$0.10 in the year-end exchange rate of a Canadian dollar per one U.S. dollar used to calculate the fair value of financial instruments as of December 31, 2018 is as follows:

**Table 13**  
**Estimated Sensitivity of Variances in Year-end Exchange Rate**  
(in millions of dollars)

| <u>Increase (decrease)</u>  | <u>Income</u> | <u>Other comprehensive income</u> |
|---|---------------|-----------------------------------|
| <b>Increase of \$0.10</b>   |               |                                   |
| Gain on valuation and translation of financial instruments and derivative financial instruments | \$ 1.3        | \$ 26.7                           |
| <b>Decrease of \$0.10</b>   |               |                                   |
| Loss on valuation and translation of financial instruments and derivative financial instruments | (1.3)         | (26.7)                            |

A variance of \$0.10 in the 2018 average exchange rate of CAN dollar per one U.S. dollar would have resulted in a variance of \$2.4 million on the value of unhedged purchase of goods and services and \$4.4 million on the value of unhedged acquisitions of tangible and intangible assets in 2018.

[Table of Contents](#)*Interest Rate Risk*

The Corporation's bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers' acceptance rate, (ii) LIBOR, (iii) Canadian prime rate and (iv) U.S. prime rate. The Senior Notes issued by the Corporation bear interest at fixed rates. The Corporation has entered into cross-currency interest rate swap agreements in order to manage cash flow risk exposure. As of December 31, 2018, after taking into account the hedging instruments, long-term debt was comprised of 75.8 % fixed rate debt (94.1% in 2017) and 24.2 % floating rate debt (5.9% in 2017).

The estimated sensitivity on interest payments of a 100 basis-point variance in the year-end Canadian Bankers' acceptance rate as of December 31, 2018 was \$9.2 million.

The estimated sensitivity on income and on Other comprehensive income, before income taxes, of a 100 basis point variance in the discount rate used to calculate the fair value of financial instruments, as of December 31, 2018, as per the Corporation's valuation model, is as follows:

**Table 14**  
**Estimated Sensitivity of Variances in the Discount Rate**  
(in millions of dollars)

| Increase (decrease)          | Income   | Other comprehensive income |
|------------------------------|----------|----------------------------|
| Increase of 100 basis points | \$ (2.1) | \$ (14.9)                  |
| Decrease of 100 basis points | 2.1      | 14.9                       |

Capital Management

The Corporation'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 Corporation 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 and the repayment of debt, the use of cash flows generated by operations, and the level of distributions to the parent corporation. The Corporation has not significantly changed its strategy regarding the management of its capital structure since the last financial year.

The Corporation's capital structure is composed of equity, bank indebtedness, long-term debt, derivative financial instruments, and cash and cash equivalents. The capital structure as of December 31, 2018 and 2017 is as follows:

**Table 15**  
**Capital Structure of the Corporation**  
(in millions of dollars)

|                                  | December 31, 2018 | December 31, 2017 |
|----------------------------------|-------------------|-------------------|
| Bank indebtedness                | \$ 8.3            | \$ —              |
| Long-term debt                   | 4,219.6           | 3,270.3           |
| Derivative financial instruments | (465.0)           | (259.0)           |
| Cash and cash equivalents        | (1.1)             | (815.8)           |
| Net liabilities                  | 3,761.9           | 2,195.5           |
| Equity                           | \$ (113.5)        | \$ 1,936.0        |

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

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**Contingencies and legal disputes**

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

**Critical Accounting Policies and Estimates**

*Revenue recognition*

The Corporation accounts for a contract with a customer only when all of the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- The entity can identify each party's rights regarding the goods or services to be transferred;
- The entity can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- It is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services to be transferred to the customer.

The portion of revenues that is invoiced and unearned is presented as "Deferred revenues" in the consolidated balance sheets. Deferred revenues are usually recognized as revenues in the subsequent year.

The Corporation provides services under multiple deliverable arrangements, mainly for mobile contracts in which the sale of mobile devices is bundled with telecommunication services over the contract term. The total consideration from a contract with multiple deliverables is allocated to all performance obligations in the contract based on the stand-alone selling price of each obligation. The total consideration is generally comprised of an upfront fee for the equipment sale and a monthly fee for the telecommunication service. Each performance obligation of multiple deliverable arrangements is then separately accounted for based on its allocated consideration amount.

The Corporation does not adjust the amount of consideration allocated to the equipment sale for the effects of a financing component since this component is not significant

The Corporation recognizes each of its main activities revenues as follows:

- Operating revenues from subscriber services, such as cable television, Internet access, cable and mobile telephony, and over-the-top video services are recognized when services are provided;
- Revenues from equipment sales to subscribers are recognized when the equipment is delivered;
- Operating revenues related to service contracts are recognized in income on a straight-line basis over the period in which the services are provided; and
- Cable connection and mobile activation revenues are deferred and recognized as revenues over the period of time the customer is expected to remain a customer of the Corporation or over the contract term.

When a mobile device and a service are bundled under a single mobile contract, the term of the contract is generally 24 months.

The portion of mobile revenues that is earned without having been invoiced is presented as contract assets in the consolidated balance sheets. Contract assets are realized over the term of the contract.

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### *Impairment of assets*

For the purposes of assessing impairment, assets are grouped in cash-generating units (“CGUs”), which represent the lowest levels for which there are separately identifiable cash inflows generated by those assets. The Corporation reviews at each balance sheet date whether events or circumstances have occurred to indicate that the carrying amounts of its long-lived assets with finite useful lives may be less than their recoverable amounts. Goodwill, other intangible assets having an indefinite useful life, and intangible assets not yet available for use are tested for impairment each financial year, as well as whenever there is an indication that the carrying amount of the asset, or the CGU to which an asset has been allocated, exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or the CGU. Fair value less costs to sell represents the amount an entity could obtain at the valuation date from the asset’s disposal in an arm’s length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use represents the present value of the future cash flows expected to be derived from the asset or the CGU.

The Corporation uses the discounted cash flow method to estimate the recoverable amount, consisting of future cash flows derived mainly from the most recent budget and three-year strategic plan approved by the Corporation’s management and presented to the Board of Directors. These forecasts consider each CGU’s past operating performance and market share as well as economic trends, along with specific and market industry trends and corporate strategies. A perpetual growth rate is used for cash flows beyond this three-year period. The discount rate used by the Corporation is a pre-tax rate derived from the weighted average cost of capital pertaining to each CGU, which reflects the current market assessment of (i) the time value of money; and (ii) the risk specific to the assets for which the future cash flow estimates have not been risk-adjusted. The perpetual growth rate has been determined with regard to the specific markets in which the CGUs participate.

An impairment loss is recognized in the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. When the recoverable amount of a CGU to which goodwill has been allocated is lower than the CGU’s carrying amount, the related goodwill is first impaired. Any excess amount of impairment is recognized and attributed to assets in the CGU, prorated to the carrying amount of each asset in the CGU.

An impairment loss recognized in prior periods for long-lived assets with finite useful lives and intangible assets having an indefinite useful life, other than goodwill, can be reversed through the consolidated statement of income to the extent that the resulting carrying value does not exceed the carrying value that would have been the result if no impairment losses had been previously recognized.

When determining the recoverable amount of an asset or CGU, assessment of the information available at the valuation date is based on management’s judgment and may involve estimates and assumptions. Furthermore, the discounted cash flow method used in determining the recoverable amount of an asset or CGU relies on the use of estimates such as the amount and timing of cash flows, expected variations in the amount or timing of those cash flows, the time value of money as represented by the risk-free rate, and the risk premium associated with the asset or CGU. Therefore, the Judgment used in determining the recoverable amount of an asset or CGU may affect the amount of the impairment loss to be recorded to an asset or CGU, as well as the potential reversal of the impairment charge in the future.

Based on the data and assumptions used in its last impairment test, the Corporation believes that at this time there are no significant amounts of long-lived assets with finite useful lives, or goodwill and intangible assets with indefinite useful lives on its books that present a significant risk of impairment in the near future.

The net book value of goodwill as of December 31, 2018 was \$515.0 million, and the net book value of intangible assets with indefinite useful lives as at December 31, 2018 was \$475.9 million.

### *Useful life of spectrum licences*

Management has concluded that spectrum licences have an indefinite useful life. This conclusion was based on the analysis of factors such as the Corporation’s financial ability to renew the spectrum licences, the competitive, legal and regulatory landscape, and the future expectations regarding the use of the spectrum licences. The determination that spectrum licences have an indefinite useful life therefore involves judgment, which could have an impact on the amortization charge recorded in the consolidated statements of income if management were to change its conclusion in the future.

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### *Derivative financial instruments and hedge accounting*

The Corporation uses various derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. The Corporation does not hold or use any derivative financial instruments for speculative purposes. Under hedge accounting, the Corporation documents all hedging relationships between hedging instruments 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 when they qualify for hedge accounting. The Corporation assesses the effectiveness of its hedging relationships at initiation and on an ongoing basis.

The Corporation generally enters into the following types of derivative financial instruments:

- The Corporation uses foreign exchange forward contracts to hedge foreign currency rate exposure on anticipated equipment or inventory purchases in a foreign currency. The Corporation also uses offsetting foreign exchange forward contracts in combination with cross-currency interest rate swaps to hedge foreign currency rate exposure on interest and principal payments on foreign currency denominated debt. These foreign exchange forward contracts are designated as cash flow hedges.
- The Corporation uses cross-currency interest rate swaps to hedge (i) foreign currency rate exposure on interest and principal payments on foreign currency denominated debt and/or (ii) 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.-dollar-denominated debt in fixed CAN dollars, in addition to converting an interest rate from a floating rate to a floating rate or from a fixed rate to a fixed rate, are designated as cash flow hedges. The cross-currency interest rate swaps are designated as fair value hedges when they set all future interest and principal payments on U.S.-dollar-denominated debt in fixed CAN dollars, in addition to converting the interest rate from a fixed rate to a floating rate.
- The Corporation uses interest rate swaps to manage fair value exposure on certain debts 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.
- The Corporation has established a hedge ratio of one for one for all its hedging relationships as underlying risks of its hedging derivatives are identical to the hedged item risks.

The Corporation measures and records the effectiveness of its hedging relationships as follows:

- For cash flow hedges, the hedge effectiveness is tested and measured by comparing changes in the fair value of the hedging derivative with the changes in the fair value of an hypothetical derivative that simulates the hedged items cash flows.
- For fair value hedges, the hedge effectiveness is tested and measured by comparing changes in the fair value of the hedging derivative with the changes in fair value of the hedged item attributable to the hedged risk.
- Most of the Corporation's hedging relationships are not generating material ineffectiveness. The ineffectiveness, if any, is recorded in the consolidated statements of income as a gain or loss on valuation and translation of financial instruments.

Under hedge accounting, the Corporation 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 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 do not qualify for hedge accounting, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, such as early settlement options on long-term debt, are

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reported on a fair value 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 a gain or loss on valuation and translation of financial instruments.

### *Pension and postretirement benefits*

The Corporation offers defined benefit pension plans and defined contribution pension plans to some of its employees.

The Corporation's defined benefit obligations with respect to defined benefit pension plan and postretirement benefits plan are measured at present value and assessed on the basis of a number of economic and demographic assumptions, which are established with the assistance of Videotron's actuaries. Key assumptions relate to the discount rate, the rate of increase in compensation, retirement age of employees, healthcare costs, and other actuarial factors. Defined benefit pension plan assets are measured at fair value and consist of equities and corporate and government fixed-income securities.

Re-measurements of the net defined benefit liability or asset are recognized immediately in other comprehensive income.

Recognition of a net benefit asset is limited under certain circumstances to the amount recoverable, which is primarily based on the present value of future contributions to the plan to the extent to which the Corporation can unilaterally reduce those future contributions. In addition, an adjustment to the net benefit asset or the net benefit liability can be recorded to reflect a minimum funding liability in a certain number of the Corporation's pension plans. The assessment of the amount recoverable in the future and the minimum funding ability, is based on a number of assumptions, including future service costs and reductions in future plan contributions.

The Corporation considers all the assumptions used to be reasonable in view of the information available at this time. However, variances from certain of these assumptions may have a significant impact on the costs and obligations of pension plans and postretirement benefits in future periods.

### *Stock-based compensation*

Stock-based awards to employees that call for settlement in cash, as deferred share units or performance share units, or that call for settlement in cash at the option of the employee, as stock options awards, are accounted for at fair value and classified as a liability. The compensation cost is recognized in expenses over the vesting period. Changes in the fair value of stock-based awards between the grant date and the measurement date result in a change in the liability and compensation cost.

The fair value of deferred share units and performance share units is based on the underlying share price at the date of valuation. The fair value of stock option awards is determined by applying an option-pricing model, taking into account the terms and conditions of the grant and assumptions such as the risk-free interest rate, the distribution yield, the expected volatility and the expected remaining life of the option.

### *Provisions*

Provisions are recognized when (i) the Corporation has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation; and when (ii) the amount of the obligation can be reliably estimated. Restructuring costs, comprised primarily of termination benefits, are recognized when a detailed plan for the restructuring exists and a valid expectation has been raised in those affected, that the plan will be carried out.

Provisions are reviewed at each balance sheet date and changes in estimates are reflected in the consolidated statements of income in the reporting period in which the changes occur.

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The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the balance sheet date or to transfer it to a third party at that time, and is adjusted for the effect of time value when material. The amount recognized for onerous contracts is the lower of the cost necessary to fulfill the obligations, net of expected economic benefits deriving from the contracts, and any indemnity or penalty arising from failure to fulfill those obligations.

No amounts are recognized for obligations that are possible but not probable or for those for which an amount cannot be reasonably estimated.

### *Contract costs*

Incremental costs and direct costs, such as contract, acquisition costs consisting primarily in sales commissions and the cost of connecting subscribers to the Corporation's telecommunications network are included in contract costs and amortized over the expected duration of the customer's service or the term of the contract. Amortized contract costs are included in purchases of goods and services in the consolidated statements of income.

### *Provision for expected credit losses*

The Corporation maintains a provision to cover anticipated credit losses from customers who are unable to pay their debts. The provision is reviewed periodically and it considers the specific credit risk of its customers, the expected lifetime of its financial assets historical trends and economic conditions.

### *Business acquisition*

A business acquisition is accounted for by the acquisition method. The cost of an acquisition is measured at the fair value of the consideration given in exchange for control of the business acquired at the acquisition date. This consideration can be comprised of cash, assets transferred, financial instruments issued, or future contingent payments. The identifiable assets and liabilities of the business acquired are recognized at their fair value at the acquisition date. Results of operations of a business acquired are included in the Corporation's consolidated financial statements from the date of the business acquisition. Business acquisition and integration costs are expensed as incurred and included as other items in the consolidated statements of income.

Determining the fair value of certain acquired assets, assumed liabilities and future contingent considerations requires judgment and involves complete and absolute reliance on estimates and assumptions. The Corporation primarily uses the discounted future cash flows approach to estimate the value of acquired intangible assets.

The estimates and assumptions used in the allocation of the purchase price at the date of acquisition may also have an impact on the amount of an impairment charge to be recognized, if any, after the date of acquisition, as discussed above under "Impairment of assets".

### *Contingent considerations*

Contingent considerations arising from a business acquisition or disposal are measured for at their fair value. The fair value is estimated based on a present value model requiring management to assess the probabilities that the conditions on which are based the contingent consideration will be met in the future. The assessment of these contingent potential outcomes requires judgment from management and could have an impact on the initial amount of contingent considerations recognized and any subsequent changes in fair value recorded in the consolidated statements of income.

### *Income taxes*

Deferred income taxes are accounted for using the liability method. Under this method, deferred 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 consolidated financial statements and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or 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 deferred income tax assets and liabilities is recognized in income in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be reduced subsequently, if necessary, to an amount that is more likely than not to be realized.

The assessment of deferred income taxes is judgmental in nature and is dependent on assumptions and estimates as to the availability and character of future taxable income. The ultimate amount of deferred income tax assets realized could be slightly different from that recorded, since it is influenced by the Corporation's future operating results.

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The Corporation is at all times under audit by various tax authorities in each of the jurisdictions in which it operates. A number of years may elapse before a particular matter for which management has established a reserve is audited and resolved. The number of years between each tax audit varies depending on the tax jurisdiction. Management believes that its estimates are reasonable and reflect the probable outcome of known tax contingencies, although the final outcome is difficult to predict.

## CHANGES IN ACCOUNTING POLICIES

### (i) IFRS 9 — *Financial Instruments*

On January 1, 2018, the Corporation adopted the new rules under IFRS 9, *Financial Instruments*, which simplify the measurement and classification of financial assets by reducing the number of measurement categories in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk-management activities undertaken by entities.

Under the new rules, most of financial assets and liabilities of the Corporation are now classified as subsequently measured at amortized cost, except for derivative financial instruments, which are measured at fair value. The Corporation is also using the IFRS 9 expected credit losses method to estimate the provision for expected credit losses on its financial assets.

The adoption of IFRS 9 had no impact on the consolidated financial statements.

### (ii) IFRS 15 — *Revenue from Contracts with Customers*

On January 1, 2018, the Corporation adopted, on a fully retrospective basis, the new rules under IFRS 15, *Revenue from Contracts with Customers*, which specify how and when an entity should recognize revenue, and which also require the entity to provide users of financial statements with more informative disclosures. The standard provides a single, principles-based, five-step model to apply to each contract with a customer.

The adoption of IFRS 15 had significant impacts on the consolidated financial statements, mainly in the Telecommunications segment, with regard to the timing of the recognition of its revenues, the classification of its revenues, as well as the capitalization of costs, such as the costs to obtain a contract and connection costs.

Under IFRS 15, the total consideration from a contract with multiple deliverables is now allocated to all performance obligations in the contract, based on the stand-alone selling price of each obligation, without being limited to a non-contingent amount. The Telecommunications segment provides mobile devices and services under contracts with multiple deliverables and for a fixed period of time. Under IFRS 15, promotional offers related to the sale of mobile devices, previously accounted for as a reduction in related equipment sales on activation, are now considered in the total consideration to be allocated to all performance obligations. Among other impacts, the adoption of IFRS 15 results in an increase in the revenue from the device sale and in a decrease in the mobile service revenue recognized over the contract term. The timing of the recognition of these revenues therefore changes under IFRS 15. However, the total revenue recognized over a contract term relating to all performance obligations within the contract remains the same as under the previous rules. The portion of revenues that is earned without having been invoiced is now presented as contract assets in the consolidated balance sheets, which asset is realized during the term of the contract. The long-term portion of contract assets is included in “Other assets” in the consolidated balance sheets. All other types of revenue have not been impacted by the adoption of IFRS 15.

In addition, under IFRS 15, certain costs to obtain a contract, mainly sales commissions, are capitalized and amortized as operating expenses over the period of time the customer is expected to maintain its service or over the contract term. Previously, such costs were expensed as incurred. Also, the capitalization of connection costs is no longer limited to the related connection revenues as under the previous rules. These capitalized costs are included in “Other assets” as contract costs in the consolidated balance sheets.

The adoption of IFRS 15 had no impact on cash flows from operating, investing and financing activities.

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The retroactive adoption of IFRS 15 had the following impacts on the comparative consolidated financial figures:

### **Consolidated statements of income and comprehensive income**

(in millions of dollars)

| <b>Increase (decrease)</b>                                      | <b>2017</b>    | <b>2016</b>    |
|---|----------------|----------------|
| Revenues  | \$ 22.5        | \$ 52.5        |
| Purchase of goods and services                                  | (12.4)         | (13.2)         |
| Deferred income tax expense                                     | 9.2            | 17.4           |
| Net income and comprehensive income attributable to shareholder | <u>\$ 25.7</u> | <u>\$ 48.3</u> |

### **Consolidated balance sheets**

(in millions of dollars)

| <b>Increase (decrease)</b>    | <b>December 31,<br/>2017</b> | <b>December 31,<br/>2016</b> |
|-------------------------------|------------------------------|------------------------------|
| Other assets:                 |                              |                              |
| Contract assets <sup>1</sup>  | \$ 183.6                     | \$ 155.8                     |
| Contract costs <sup>2</sup>   | 92.5                         | 85.5                         |
| Deferred income tax liability | 73.2                         | 63.9                         |
| Retained earnings             | 203.0                        | 177.3                        |

<sup>1</sup> The current portion of contract assets is \$132.8 million as of December 31, 2017 and \$106.6 million as of December 31, 2016.

<sup>2</sup> The current portion of contract costs is \$55.9 million as of December 31, 2017 and \$49.4 million as of December 31, 2016, and is presented under “Other current assets”.

### **Recent accounting pronouncements**

- (i) IFRS 16 — Leases is required to be applied retrospectively for annual periods beginning on or after January 1, 2019.

On January 1, 2019, the Corporation adopted 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 will be 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 will be initially measured on a present value basis.

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

Under IFRS 16, most lease charges will be expensed as a depreciation of the right-of-use asset, along with an interest on the related lease liability. Since operating lease charges are currently recognized as operating expenses as they are incurred, the adoption of IFRS 16 will change the timing of the recognition of these lease charges over the term of each lease. It will also affect the classification of expenses in the consolidated statements of income.

Under IFRS 16, principal payments of the lease liability will be presented as financing activities in the consolidated statements of cash flows, whereas under the current standard these payments are presented as operating activities.

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The retroactive adoption of IFRS 16 will have the following impacts on the 2018 and 2017 consolidated financial figures:

**Consolidated statements of income and comprehensive income**

(in million of dollars)

| <b>Increase (decrease)</b>                                       | <b>2018</b>   | <b>2017</b>   |
|--|---------------|---------------|
| Purchase of goods and services                                   | \$ (42.1)     | \$ (38.6)     |
| Depreciation and amortization                                    | 32.4          | 30.3          |
| Financial expenses   | 7.2           | 8.4           |
| Deferred income tax expense                                      | 0.7           | (0.0)         |
| Net income and comprehensive income attributable to shareholders | <u>\$ 1.8</u> | <u>\$ 0.1</u> |

**Consolidated balance sheets**

(in million of dollars)

| <b>Increase (decrease)</b>     | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--------------------------------|------------------------------|------------------------------|
| Right-of-use assets            | \$ 101.7                     | \$ 120.1                     |
| Lease liabilities <sup>1</sup> | 122.6                        | 143.4                        |
| Deferred income tax liability  | (5.5)                        | (6.1)                        |
| Retained earnings (deficit)    | (15.4)                       | (17.2)                       |

<sup>1</sup> The current portion of lease liabilities is \$33.5 million as of December 31, 2018 and \$34.9 million as of December 31, 2017.

- (ii) IFRIC 23 - *Uncertainty Over Income Tax Treatments* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019

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 will not have a material impact on the consolidated financial statements.

**ITEM 6 — DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A- Directors and Senior Management**

The following table sets forth certain information concerning our directors and executive officers at March 21, 2019:

| <b>Name and Municipality of Residence</b>   | <b>Age</b> | <b>Position</b>                                     |
|---|------------|---|
| THE RIGHT HONOURABLE<br>BRIAN<br>MULRONEY, P.C., C.C.,<br>LL.D.<br>Montréal, Québec | 80         | Director and Chair of the Board                     |
| CHANTAL BÉLANGER,<br>FCPA-FCGA <sup>(1)</sup><br>Blainville, Québec                 | 67         | Director  |
| ANDRÉ P. BROUSSEAU <sup>(1)</sup><br>Montréal, Québec                               | 57         | Director  |
| SYLVIE LALANDE<br>Lachute, Québec   | 68         | Director  |
| NORMAND PROVOST <sup>(1)</sup><br>Brossard, Québec                                  | 64         | Director and Chair of the Audit Committee           |
| JEAN-FRANÇOIS<br>PRUNEAU<br>Montréal, Québec  | 48         | President and Chief Executive Officer               |
| JEAN NOVAK<br>Knowlton, Québec  | 55         | President, Videotron Business Solution              |
| PHILIPPE CLOUTIER<br>Candiac, Québec  | 44         | Senior Vice President and Chief Financial Officer   |
| PIERRE BONIN<br>Montreal West, Québec   | 56         | Chief Information Officer                           |
| SYLVAIN BROUSSEAU<br>Varenes, Québec  | 55         | Senior Vice President, Operations, Customer Service |
| MOHAMED DRIF<br>Montréal, Québec  | 52         | Senior Vice President and Chief Network Officer     |
| BERTRAND HÉBERT<br>Boucherville, Québec   | 52         | Senior Vice President and Chief Marketing Officer   |
| ANTOINETTE NOVIELLO<br>Laval, Québec  | 49         | Vice President, Corporate Controller                |
| CAROLINE PAQUET<br>Montréal, Québec   | 47         | Vice President, Marketing and Content               |
| JEAN-FRANÇOIS PARENT<br>Nuns' Island, Québec  | 39         | Vice President and Treasurer                        |
| MARIE-HÉLÈNE<br>PELLETIER<br>Montréal, Québec                                       | 49         | Vice President, Procurement                         |

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| Name and Municipality of Residence    | Age | Position            |
|---------------------------------------|-----|---------------------|
| MARC M. TREMBLAY<br>Westmount, Québec | 58  | Corporate Secretary |

(1) Member of the Audit Committee

**The Right Honourable Brian Mulroney, P.C., C.C., LL.D, Director and Chairman of the Board.** Mr. Mulroney was appointed as Director and Chairman of the Board of Videotron on June 19, 2014. He has been a Director of Quebecor Media since January 31, 2001 and director of Quebecor since 1999. He was appointed Chairman of the Board of Quebecor on June 19, 2014 and of Quebecor Media on May 8, 2018. He also acted as Chairman of the Board of Quebecor Media from June 19, 2014 until February 15, 2017. Since 1993, Mr. Mulroney has been a Senior Partner with the law firm Norton Rose Fulbright Canada LLP (formerly Ogilvy Renault LLP) in Montréal, Québec. Prior to that, Mr. Mulroney was the Prime Minister of Canada from 1984 until 1993. Mr. Mulroney practiced law in Montréal and served as President of The Iron Ore Company of Canada before entering politics in 1983. Mr. Mulroney serves as a Director of a number of public corporations, including Acreage Holdings, Inc., Wyndham Worldwide Corporation (New Jersey) and The Blackstone Group LP (New York). He is also Chairman of the International Advisory Board of Barrick Gold Corporation. He is Companion of the Order of Canada as well as *Grand Officier de l'Ordre national du Québec*.

**Chantal Bélanger, Director and member of the Audit Committee.** Ms. Bélanger is a Director and member of the Audit Committee of Videotron, Quebecor and Quebecor Media since May 8, 2018. At the Laurentian Bank, where she held various positions from 1986 to 2006, she was Senior Vice President of Personal Banking Services for Quebec, where she previously held the positions of Ombudsman and Director of Internal Audits and Information Systems. She has been a director at Capital régional et coopératif Desjardins since 2012, and at the Société de services financiers Fonds FMOQ Inc. since 2014. She is the Vice President of the Board, Chair of the Internal Audit Committee and the Portfolio Valuation Committee and serves on the Governance and Human Resources Committee at Capital régional et coopératif Desjardins. She chairs the Société de services financiers Fonds FMOQ Audit Committee. She was a director and member of various board committees at Ovivo Inc. from 2011 to 2016, the year it was privatized. She was a director and Chair of the Audit Committee at the Régie des Rentes du Québec from 2009 to 2015 and a director at the Institut des administrateurs de sociétés from 2009 to 2013. She was a director, Chair of the Audit Committee and a member of several committees for the Société des Alcools du Québec from 2002 to 2010. Ms. Bélanger is a fellow of the Quebec CPA Order and holds a certificate in Corporate Governance from the Collège des administrateurs de sociétés at Université Laval. Ms. Bélanger has been the Chair of the Board of the CAS since 2017 and has served on its board since 2016. Ms. Bélanger currently serves as a director, Chair of the Audit Committee and member of the Human Resources and Compensation Committee and of the Corporate Governance Committee of Lassonde Industries Inc.

**André P. Brosseau, Director and member of the Audit Committee.** Mr. Brosseau is a Director and member of the Audit Committee of Videotron, Quebecor and Quebecor Media since May 12, 2016. He is also a member of the Human Resources and Corporate Governance Committee of Quebecor and Quebecor Media since May 2017 and is Chairman of the Executive Committee of Quebecor Media since May 2018. Mr. Brosseau is Chairman of the Board and Chief Executive Officer of Du Musée Investments Inc. (formerly Avenue Capital Markets BNB Inc.), a Family Office with private investments in Canada, the United States and Brazil that he founded in 2010. He currently serves as a director, Chairman of the Audit Committee and member of the Compensation Committee of DMD Digital Health Connections Group Inc. Mr. Brosseau also serves as a Director of BlueRush Media Group Corp. He is also a member of the Advisory Committee for the OSMO Foundation and The Notman House. Mr. Brosseau was President for Blackmont Capital Markets in Toronto until June 2009 and then served as Chairman of Quebec Capital Markets until May 2010. From 1994 to 2007, he held various executive positions with CIBC.

**Sylvie Lalonde, Director.** Ms. Lalonde is a Director of Videotron since July 2014 and of Quebecor Media since May 2013. She has served as a Director of Quebecor since May 2011. She was appointed as Lead Director of Quebecor and Quebecor Media on November 8, 2017, as Vice Chair on May 8, 2018 and as Chair of the Human Resources and Corporate Governance Committee on May 12, 2016. She is a Director of TVA Group since December 2001, and was appointed as Chair of the Board on March 10, 2014. She has also served as Chair of the Human Resources and Corporate Governance Committee of TVA Group since May 2013. Ms. Lalonde held several senior positions in the media,

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marketing, communication marketing and company communications sectors. Until October 2001, she was Chief Communications Officer of Bell Canada. From 1994 to 1997, she was President and Chief Executive Officer of UBI Consortium, a consortium formed to develop and manage interactive and transactional communication services. From 1987 to 1994, she occupied several senior positions within TVA Group and Le Groupe Vidéotron ltée. Ms. Lalande began her career in the radio industry, after which she founded her own consultation firm. In 2006, Ms. Lalande earned a degree in corporate governance from the Collège des administrateurs de sociétés. Ms. Lalande was, until September 2016, a Director and Chair of the Corporate Governance and Human Resources Committee and Lead Director of Ovivo Inc. From November 2013 to September 2017, Ms. Lalande was Chair of the Board of the Collège des administrateurs de sociétés (CAS) of *Université Laval*. She was appointed Chair of the Board of Capital régional et coopératif Desjardins in April 2017.

**Normand Provost, Director and Chair of the Audit Committee.** Mr. Provost is a Director of Videotron since June 2014. He has served as a Director of Quebecor Media since July 2004 and a Director of Quebecor since May 2013. He has also served as a member of the Audit Committee of Videotron, Quebecor and Quebecor Media since June 2014 and as Chair since May 2018. From May 2014 to December 2015, Mr. Provost was Assistant to the President of *Caisse de dépôt et placement du Québec* (CDPQ), one of the largest institutional fund managers in Canada and North America. Mr. Provost joined CDPQ in 1980 and has held various management positions during his time there. He served as President of CDP Capital Americas from 1995 to 2003. He also served as Executive Vice President, Private Equity, of CDPQ from October 2003 until May 2014. In addition to his responsibilities in the investment sector, Mr. Provost served as Chief Operations Officer of CDPQ from April 2009 to March 2012. Mr. Provost is a Director of the *Fondation de l'Entrepreneurship*. Since January 2018, he also serves as director of Investissement Québec and is the Chairman of its Risk Management Committee. In addition, he sits on the Supervisory Board and on the Compensation and Human Resources Committee of Groupe Kéolis S.A.S. Since March 2015, Mr. Provost also sits on the Board of Directors and is Chairman of the Investment Committee of Desjardins Financial Security. Since January 2019, Mr. Provost also serves as Chairman of the Board of Groupe Germain.

**Jean-François Pruneau, President and Chief Executive Officer.** In January 2019, Mr. Pruneau was appointed President and Chief Executive Officer of Videotron. From 2010 to 2018, he was Senior Vice President and Chief Financial Officer of Quebecor and Quebecor Media. He joined Quebecor Media in May 2001 and served, in turn, as Director of Corporate Financing, Assistant Treasurer, Treasurer, and Vice President, Finance of Quebecor, Quebecor Media, Videotron and Sun Media Corporation. He was Associate Director of BCE Media Inc. from 1999 to 2001 and served as Corporate Finance Officer at Canadian National Railway from 1997 to 1999. Mr. Pruneau holds an M.Sc. in Finance from HEC Montréal and has been a member of the Montréal chapter of the CFA Institute since 2000.

**Jean Novak, President, Videotron Business Solution.** Mr. Novak was appointed to his current position in September 2018. From August 2014 to September 2018, he was President, Videotron Business, President Le SuperClub Vidéotron ltée, and Senior Vice President, Sales Network and Retail Sector. From May 2013 to August 2014, he was President, Videotron Business and Senior Vice-President, Sales Channel. He has served as President, Videotron Business Solutions since January 2005. Mr. Novak joined Videotron in May 2004 as Vice President, Sales. Between 1988 and May 2004, Mr. Novak held various management positions in sales and distribution for Molson Breweries, Canada's largest brewing company, including General Manager for all on premise accounts and the Montréal sales region as well as Manager, Customer Service and Telesales in Québec. Mr. Novak holds a Bachelor's degree in marketing from the HEC Montréal.

**Philippe Cloutier, Senior Vice President and Chief Financial Officer.** Mr. Cloutier was appointed to his current position in June 2017. Prior to joining Videotron, he co-founded Mission Capital, a merchant bank offering advisory services and acting as a private investor. Mr. Cloutier also spent fifteen years in the printing and media industry where he held several executive positions including overall leadership of the Canadian subsidiaries of Quad/Graphics (formerly known as Quebecor World) and Reader's Digest. Mr. Cloutier holds an MBA from McGill University, a bachelor's degree in Business from HEC Montreal and has also completed successfully all three levels of the CFA charterholder.

**Pierre Bonin, Chief Information Officer.** Mr. Bonin was promoted Chief Information Officer in January 2016 from his previous position as Vice President, Information Technology, a position he held since March 2014. Prior to joining the Corporation, Mr. Bonin was President and Chief Executive Officer of StrongKase Enterprise Inc., a private equity firm where, from 2005 to 2014, he has been actively involved in the data center industry through various investments and ventures. Prior to 2005, Mr. Bonin held various executive positions in the telecommunications industry as

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Executive Vice President and Chief Information Technology Officer at Microcell Telecommunications Inc. (FIDO), Vice President Information Technology as well as Vice President Finance and Administration at Bell Canada. Mr. Bonin graduated in Mathematics and Computer Science from *Université de Sherbrooke* and received an MBA from HEC Montreal. He holds the designation of Chartered Director from the *Collège des administrateurs de sociétés (CAS)* of *l'Université Laval* and from the Directors College of McMaster University.

**Sylvain Brosseau**, *Senior Vice President, Operations, Customer Service*. Mr. Brosseau was appointed to his current position in May 2013. He has served as Vice President, Customer Service, Consumer division since July 2003. Mr. Brosseau has held various management positions within Videotron since joining the Corporation in 1996.

**Mohamed Drif**, *Senior Vice President and Chief Network Officer*. Mr. Drif was appointed to his current position in November 2018. Prior to that, he was Vice President and Chief Network Officer. From October 2016 to January 2018, he was Vice President, Engineering, Networks. Prior to that, he was Vice President, Engineering, Wireline Network and Project Management Office. He also served as General Manager; Network planning, Head Ends and Optics from 2008 to 2011. Mr. Drif joined Videotron in March 1999 as Supervisor Fibre Optic Management. He was appointed Director Fibre Network in June 2000, Director Network planning, Head Ends and Geomatic in January 2002 and Senior Director Network Planning, Head Ends and Optics in February 2003. Mr. Drif previously worked at Cable Axion as Director of Engineering and has also worked in the field of software development in France. Mr. Drif holds a State Engineer degree in Computer Science from *Université d'Oran* in Algeria. He is member of the *Ordre des ingénieurs du Québec*.

**Bertrand Hébert**, *Senior Vice President and Chief Marketing Officer*. Mr. Hébert was appointed to his current position in September 2018. In addition to his marketing duties, Mr. Hébert is also responsible for the Sales Network and the Retail Sector. From September 2014 to September 2018, he was Vice President, Marketing. Prior to that, he was General Manager, Marketing for the mobile sector. From March 2009 to March 2012, he was General Manager, Marketing & Product Development for residential telephony services. Mr. Hébert joined Videotron in April 2007 as Senior Manager, Marketing & Product Development. He was one of the architects of the roll-out of Videotron's residential telephony service. He also contributed to the roll-out of Ultimate Speed Internet. Prior to joining the Corporation, Mr. Hébert held different positions in product management in the telecommunications and financial sector. Mr. Hébert graduated from *Université de Sherbrooke* with a degree in Electrical Engineering.

**Antoinette Noviello**, *Vice President, Corporate Controller*. Ms. Noviello was appointed to her current position in June 2017. From 2015 to June 2017, she was General Director and Corporate Controller. Prior to joining Videotron in 2015, Ms. Noviello held key financial functions in other subsidiaries within the Quebecor group, including Sun Media Corporation. From 2000-2011 she held Vice-President Finance positions in a printing and manufacturing entity operating in Québec and Ontario, as well as in a productivity management consulting firm operating in North America. Ms. Noviello recently completed her MBA at *HEC Montréal-McGill*. She holds a Bachelors' degree in Accounting and MIS, a Graduate Diploma in Public Accountancy, as well as a Graduate Certificate in Treasury-Finance from *McGill University*. She is a Chartered Professional Accountant (CPA) and a member of the *Ordre des comptables professionnels agréés du Québec* as well as an executive member of FEI Canada, Québec chapter.

**Caroline Paquet**, *Vice President, Marketing and Content*. Ms. Paquet was appointed to her current position in December 2017. She joined Videotron in November 2010 and served, in turn, as Multiplatform Director, Director illico.tv, and Director of Digital, Web, Mobile and Tablet Platforms. In 2013, she was appointed Senior Director, Multiplatform Content and was given the responsibility to launch Club illico. In 2017, customer retention and loyalty (for Videotron's TV, mobility, Internet and wireline telephony services) was added to her responsibilities. Prior to joining Videotron, Ms. Paquet worked at TVA Publications, a subsidiary within the Quebecor group, from 2005 to 2010. Caroline holds a Bachelor's degree in Marketing from *Université de Sherbrooke*.

**Jean-François Parent**, *Vice President and Treasurer*. Mr. Parent was appointed Vice President and Treasurer in December 2018. He also serves as Vice President and Treasurer of Quebecor and Quebecor Media since December 2018. Prior to that date, he was Senior Director Financing and M&A of Quebecor Media. Mr. Parent joined Quebecor Media in 2006 and has assumed various responsibilities in treasury, corporate finance and mergers and acquisitions since then. Mr. Parent holds a M.Sc. in Finance from *Université de Sherbrooke* and is a member of the Montréal chapter of the CFA Institute and a member of the *Ordre des comptables professionnels agréés du Québec*.

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**Marie-Hélène Pelletier, Vice President, Procurement.** Mrs. Pelletier joined Videotron as Vice President, Procurement in September 2015. Prior to joining Videotron, she was Vice President, Supply Chain Business Aircraft at Bombardier Aerospace, where she occupied several leadership positions within supply chain in terms of operations, new aircraft management and strategy. Mrs. Pelletier has extensive experience in supply chain and organizational transformation within the aerospace and telecommunication industries. As member of the Québec Bar, Mrs. Pelletier holds a Law degree from Ottawa University, as well as an MBA from HEC Montréal University.

**Marc M. Tremblay, Corporate Secretary.** Mr. Tremblay was appointed Corporate Secretary in September 2014. He also serves as Chief Operating Officer, Chief Legal Officer and Corporate Secretary of Quebecor and Quebecor Media since January 2019. Prior to that date, he was Senior Vice President, Chief Legal Officer and Public Affairs and Corporate Secretary since September 2014. Prior to that date, he was Senior Vice President and Chief Legal Officer and Public Affairs of Quebecor Media, a position he held from October 2013. Mr. Tremblay was also Senior Vice President, Legal Affairs, a position he held from March 2012 to October 2013. He was also Vice President, Legal Affairs of Quebecor Media, a position he held from March 2007 to March 2012. Previously, Mr. Tremblay practiced law at Ogilvy Renault LLP (now Norton Rose Fulbright Canada LLP) for 22 years. He has been a member of the *Barreau du Québec* since 1983.

**B- Compensation**

Our Directors do not receive any remuneration for acting in their capacity as directors of Videotron. Since July 1, 2013, the Chairman of our Audit Committee receives an annual fee of \$25,000 while the other two members receive an annual fee of \$10,000. Our Directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with meetings of our Board of Directors and our Audit Committee. During the financial year ended December 31, 2018, the amount of compensation (including benefits in kind) paid to three of our directors for services in all capacities to Videotron and its subsidiaries was \$45,027. None of our directors have contracts with us or any of our subsidiaries that provide for benefits upon termination of employment.

The aggregate amount of compensation we paid for the year ended December 31, 2018 to our executive officers as a group, excluding those who are also executive officers of, and compensated by, Quebecor Media, was approximately \$7.8 million, including salaries, bonuses and benefits in kind.

***Quebecor Media's Stock Option Plan***

Under a stock option plan established by Quebecor Media, 6,180,140 common shares of Quebecor Media (representing 7.8% of all of the outstanding common shares of Quebecor Media) have been set aside for directors, officers, senior employees, and other key employees of Quebecor Media and its subsidiaries, including Videotron. Each option may be exercised within a maximum period of ten 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 at the date of grant, as determined by its Board of Directors (if the common shares of Quebecor Media are not listed on a stock exchange at the time of the grant) or the 5-day weighted average closing price ending on the day preceding the date of grant of the common shares of Quebecor Media on the stock exchange(s) where such shares are listed at the time of grant, as applicable. For so long as the shares of Quebecor Media are not listed on a recognized stock exchange, optionees may exercise their vested options during one of the following annual 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 the fair market value of the common shares, as determined by Quebecor Media's Board of Directors, and the exercise price of their vested options or, subject to certain stated conditions, purchase common shares of Quebecor Media at the exercise price. Except under specific circumstances, and unless Quebecor Media's Human Resources and Corporate Governance Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules as determined by Quebecor Media's Human Resources and Corporate Governance 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 $\frac{1}{3}$ % vesting on the third anniversary of the date of grant. Pursuant to the terms of this plan, no optionee may hold options representing more than 5% of the outstanding common shares of Quebecor Media.

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During the year ended December 31, 2018, no options were granted under this plan to executive officers of Videotron (excluding directors, officers and employees who, at the date of grant, were directors, officers or employees at multiple Quebecor Media group of companies). During the year ended December 31, 2018, a total of 80,927 options were exercised by officers and employees of Videotron, for aggregate gross value realized of \$2.8 million. The value realized on option exercises represents the difference between the option exercise price and the fair market value of Quebecor Media common shares (as determined as set forth above) at the date of exercise. As of December 31, 2018, an aggregate total of 75,400 options granted to directors, officers and employees of Videotron (excluding directors, officers and employees who, at the date of grant, were directors, officers or employees at multiple Quebecor Media group companies) remain outstanding, with a weighted average exercise price of \$67.42 per share. For more information on this stock option plan, refer to Note 23 to our audited consolidated financial statements included under “Item 18. Financial Statements” of this annual report.

No further grant of options is contemplated for the near future.

### ***Quebecor’s Stock Option Plan***

Under a stock option plan established by Quebecor, 26,000,000 Quebecor Class B Shares have been set aside for directors, officers, senior employees and other key employees of Quebecor and its subsidiaries, including Videotron. The exercise price of each option is equal to the weighted average trading price of Quebecor Class B Shares on the Toronto Stock Exchange over the last five trading days immediately preceding the grant of the option. Each option may be exercised during a period not exceeding ten years from the date granted. Options usually vest as follows:  $\frac{1}{3}$  after one year,  $\frac{2}{3}$  after two years, and 100% three years after the original grant. The Board of Directors of Quebecor may, at its discretion, affix different vesting periods at the time of each grant. Holders of options under the Quebecor stock option plan have the choice, when they want to exercise their options, to acquire Quebecor Class B Shares at the corresponding option exercise price or to receive a cash payment from Quebecor equivalent to the difference between the market value of the underlying shares and the exercise price of the option.

During the year ended December 31, 2018, 428,900 options to purchase Quebecor Class B Shares were granted to executive officers of Videotron. As of December 31, 2018, a total of 428,900 options to purchase Quebecor Class B Shares, with a weighted average exercise price of \$26.5246 per share, were held by executive officers of Videotron for acting in such capacity. The closing sale price of the Quebecor Class B Shares on the TSX on December 31, 2018, was \$28.74.

### ***Quebecor’s DSU and PSU plans***

On July 13, 2016, Quebecor established a DSU plan and a PSU plan for its employees and those of its subsidiaries. Both plans are based on Quebecor Class B shares. The DSUs vest over six years and will be redeemed for cash only upon the participant’s retirement or termination of employment, as the case may be. The PSUs vest over three years and will be redeemed for cash at the end of this period subject to the achievement of financial targets. DSUs and PSUs entitle the holders to receive additional units when dividends are paid on Quebecor Class B shares. As of December 31, 2018, an aggregate total of 38,426 DSUs and of 75,093 PSUs granted to officers of Videotron remain outstanding.

### ***Pension Benefits***

Both Quebecor Media and Videotron maintain pension plans for our non-unionized employees and certain officers.

Videotron’s pension plan provides pension benefits to our executive officers equal to 2.0% of salary (excluding bonuses) for each year of membership in the plan. The pension benefits so calculated are payable at the normal retirement age of 65 years, or sooner at the election of the executive officer, subject to an early retirement reduction. In addition, the pension benefits may be deferred, but not beyond the age limit under the relevant provisions of the *Income Tax Act* (Canada) (the “**Tax Act**”), in which case the pension benefits are adjusted to take into account the delay in their payment in relation to the normal retirement age. The maximum pension benefits payable under our pension plan are as prescribed under the Tax Act. An executive officer contributes to this plan an amount equals to 5.0% of his or her salary up to a maximum of \$7,564 in respect of 2019. Videotron changed this pension plan to a defined contribution plan for new employees hired on and after May 1, 2012. Videotron reserves the right, in exceptional circumstances, to override the

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above conditions in order to allow an executive officer to join the pension plan as of the date of hire or any subsequent date.

Quebecor Media’s pension plan provides greater pension benefits to eligible executive officers than it does to other employees. The higher pension benefits under this plan equal 2.0% of the average salary over the best five consecutive years of salary (including bonuses), multiplied by the number of years of membership in the plan as an executive officer. The pension benefits so calculated are payable at the normal retirement age of 65 years, or sooner at the election of the executive officer, and, from age 61, without early retirement reduction. In addition, the pension benefits may be deferred, but not beyond the age limit under the relevant provisions of the Tax Act, in which case the pension benefits are adjusted to take into account the delay in their payment in relation to the normal retirement age. The maximum pension benefits payable under Quebecor Media’s pension plan are as prescribed by the Tax Act and is based on a maximum salary of \$151,278. An executive officer contributes to this plan an amount equals to 5.0% of his or her salary up to a maximum of \$7,564 in respect of 2019. Videotron has no liability regarding Quebecor Media’s pension plan. Quebecor Media closed this pension plan to all new employees hired on and after December 27, 2008. However, Quebecor Media reserves the right, in exceptional circumstances, to override the above conditions in order to allow an executive officer to join the pension plan as of the date of hire or any subsequent date. New employees are eligible to enroll in a retirement savings plan.

The total amount we contributed for the year ended December 31, 2018 to provide the pension benefits to our senior executives, as a group, was \$407,000. For a description of the amount set aside or accrued for pension plans and post-retirement benefits by us to all participants, refer to Note 27 to our audited consolidated financial statements for the year ended December 31, 2018 included under “Item 18. Financial Statements” of this annual report.

The table below indicates the annual pension benefits that would be payable at the normal retirement age of 65 years under both Quebecor Media’s and our pension plans:

| Compensation | Years of Participation |           |           |           |           |
|--------------|------------------------|-----------|-----------|-----------|-----------|
|              | 10                     | 15        | 20        | 25        | 30        |
| \$ 151,278   | \$ 30,256              | \$ 45,383 | \$ 60,511 | \$ 75,639 | \$ 90,767 |

**Liability Insurance**

Quebecor Media carries liability insurance for the benefit of its directors and officers, as well as for the directors and officers of its subsidiaries, including Videotron and our subsidiaries, against certain liabilities incurred by them in such capacity. These policies are subject to customary deductibles and exceptions. The premiums in respect of this insurance are entirely paid by Quebecor Media, which is then reimbursed by its subsidiaries, including Videotron, for their rateable portion thereof.

**C- Board Practices**

Reference is made to “A. Directors and Senior Management” above for the current term of office, if applicable, and the period during which our directors and senior management have served in that office.

There are no directors’ service contracts with us or any of our subsidiaries providing for benefits upon termination of employment.

Our Board of Directors is comprised of five directors. Each director is nominated and elected by Quebecor Media, our parent corporation, to serve until a successor director is elected or appointed. Our Board of Directors has an Audit Committee, but we do not have a compensation committee. The Human Resources and Corporate Governance Committee of Quebecor Media decides certain matters relating to the compensation of officers and employees of Videotron.

**Audit Committee**

Our Audit Committee is currently composed of three Directors, namely Ms. Chantal Bélanger and Messrs. André P. Brosseau and Normand Provost. Mr. Provost is the Chair of our Audit Committee. Our Board of Directors has determined that more than one of the members of the Audit Committee is an “audit committee financial expert” as defined under SEC rules. See “Item 16A — Audit Committee Financial Expert”. See “Item 16A. Audit Committee Financial

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Expert”. Our Board of Directors has adopted the mandate of our Audit Committee in light of the Sarbanes-Oxley Act of 2002 and related SEC rulemaking. Our Audit Committee assists our Board of Directors in overseeing our financial controls and reporting. Our Audit Committee also oversees our compliance with financial covenants and legal and regulatory requirements governing financial disclosure matters and financial risk management.

The current mandate of our Audit Committee provides, among other things, that our Audit Committee reviews our annual and quarterly financial statements before they are submitted to our Board of Directors, as well as the financial information contained in our annual reports on Form 20-F, our management’s discussion and analysis of financial condition and results of operations, our quarterly reports furnished to the SEC under cover of Form 6-K and other documents containing similar information before their public disclosure or filing with regulatory authorities; reviews our accounting policies and practices; and discusses with our independent auditors the scope of their audit, as well as our auditors’ recommendations and observations with respect to the audit, our accounting policies and financial reporting, and the responses of our management with respect thereto. Our Audit Committee is also responsible for ensuring that we have in place adequate and effective internal control and management information systems to monitor our financial information and to ensure that our transactions with related parties are made on terms that are fair for us. Our Audit Committee pre-approves all audit services and permitted non-audit services and pre-approves all the fees pertaining to those services that are payable to our independent auditor, and submits the appropriate recommendations to our Board of Directors in connection with these services and fees. At least every five years, our Audit Committee carries out an assessment of the external auditor. It also reviews and approves our Code of Ethics applicable to our President and Chief Executive Officer and principal financial officers. Lastly, it also reviews and oversees risk management, particularly including risk related to information technology and cybersecurity.

**D- Employees**

At December 31, 2018, we had 6,637 employees. At December 31, 2017 and 2017, we had 6,658 and 6,588 employees, respectively. Substantially all of our employees are based and work in the Province of Quebec. We had 3,818 unionized employees, and the terms of their employment are governed by one of our five regional collective bargaining agreements. The collective bargaining agreement covering 2,914 unionized employees in the Montréal region has expired on December 2018. The negotiation phase will begin soon with the unit. We also have three collective bargaining agreements covering our unionized employees in the Saguenay, Gatineau and Québec regions, with terms running through December 31, 2019, August 31, 2020 and December 31, 2018 respectively.

One other collective bargaining agreement covering 48 unionized employees of our subsidiary, SETTE inc., has expired on December 31, 2018. The negotiation phase will begin soon.

**E- Share Ownership**

No Videotron equity securities are held by any of our Directors or senior executive officers.

**ITEM 7 — MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A- Major Shareholders**

We are a wholly-owned subsidiary of Quebecor Media, a leading Canadian-based media and telecommunications company with interests in newspaper publishing operations, television broadcasting, telecommunications, book and magazine publishing and new media services. Through these interests, Quebecor Media holds leading positions in the creation, promotion and distribution of news, entertainment and Internet related services that are designed to appeal to audiences in every demographic category.

On May 8, 2018, Quebecor entered into an agreement with Quebecor Media and CDPQ to repurchase all of Quebecor Media shares held by CDPQ. Quebecor now holds, directly and indirectly, 79,377,062.24 common shares of Quebecor Media, representing a 100% voting and equity interest in Quebecor Media. The primary asset of Quebecor, a communications holding company, is its interest in Quebecor Media.

**B- Related Party Transactions**

The Corporation enters into related party transactions from time to time. These related party transactions are further described under “Item 5. Operating and Financial Review and Prospects — Cash Flow and Financial Position — Financial Position as of December 31, 2018” and in Note 10, in Note 11 and in Note 26 to our audited consolidated financial statements included under “Item 18. Financial Statements” in this annual report. These related party transactions have been accounted for at the consideration agreed between parties:

|   | As of December 31, |         |         |
|---|--------------------|---------|---------|
|   | 2018               | 2017    | 2016    |
| (in thousands of dollars)                             |                    |         |         |
| <b><i>Ultimate Parent and Parent Corporation:</i></b> |                    |         |         |
| Revenues  | \$ 577             | \$ 525  | \$ 455  |
| Purchase of goods and services                        | 9,353              | 8,698   | 8,037   |
| Operating expenses recovered                          | (355)              | (344)   | (752)   |
| <b><i>Corporations Under Common Control:</i></b>      |                    |         |         |
| Revenues  | 4,985              | 5,481   | 5,906   |
| Purchase of goods and services                        | 105,493            | 103,519 | 104,244 |
| Operating expenses recovered                          | (1,160)            | (2,308) | (1,275) |

***Management fee***

The Corporation pays annual management fees to the parent corporation for services rendered to the Corporation, including internal audit, legal and corporate, financial planning and treasury, tax, real estate, human resources, risk management, public relations and other services. Management fees amounted to \$53.0 million in 2018, in 2017 and in 2016. In addition, the parent corporation is entitled to the reimbursement of out-of-pocket expenses incurred in connection with the services provided under the agreement.

***Income tax transactions***

On November 30, 2018, 9346-9963 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 795,000 preferred shares, Series C for a total cash consideration of \$795.0 million, and settled cumulative unpaid dividends of \$34.1 million. On the same day, the Corporation used the total proceeds of \$795.0 million to repay its subordinated loans contracted from Quebecor Media Inc.

On February 27, 2018, the Corporation contracted a subordinated loan of \$2.39 billion from Quebecor Media Inc., bearing interest at a rate of 9.5%, payable every six months on June 20 and December 20, and maturing on February 27, 2048. On the same day, the Corporation invested the total proceeds of \$2.39 billion into 2,390,000 preferred shares, Series C, of 9346-9963 Québec Inc. These shares carry the right to receive an annual dividend of 9.6%, payable semi-annually.

On November 6, 2017, 9346-9963 Québec Inc., a subsidiary of Quebecor Media, redeemed 3,600,000 preferred shares, Series C for a total cash consideration of \$3.6 billion, and settled cumulative unpaid dividends of \$145.3 million. On the same day, the Corporation used the total proceeds of \$3.6 billion to repay its subordinated loans contracted from Quebecor Media.

On May 3, 2017, the Corporation contracted a subordinated loan of \$3.6 billion from Quebecor Media, bearing interest at a rate of 10.5%, payable every six months on June 20 and December 20 and maturing on May 3, 2047. On the same day, the Corporation invested the total proceeds of \$3.6 billion into 3,600,000 preferred shares, Series C, of 9346-9963 Québec Inc., a subsidiary of Quebecor Media. These shares carry the right to receive an annual dividend of 10.6%, payable semi-annually.

The above transactions were carried out for tax consolidation purposes of Quebecor Media and its subsidiaries, on terms equivalent to those that prevail on an arm’s length basis and accounted for at the consideration agreed between parties.

*Purchase of shares of Quebecor Media and subsidiary subordinated loans*

Unlike corporations in the United States, corporations in Canada are not permitted to file consolidated tax returns. As a result, we enter into certain transactions from time to time that have the effect of using tax losses within the Quebecor Media Group. These transactions are described further under “Item 5. Operating and Financial Review and Prospects — Cash Flow and Financial Position — Financial Position as of December 31, 2018” and in Note 12 and in Note 28 to our audited consolidated financial statements which are included under “Item 18. Financial Statements” in this annual report.

**C- Interests of Experts and Counsel**

Not applicable.

**ITEM 8 — FINANCIAL INFORMATION**

**A- Consolidated Statements and Other Financial Information**

Our consolidated balance sheets as at December 31, 2018 and 2017, and our consolidated statements of income, comprehensive income, equity and cash flows for the years ended December 31, 2018, 2017 and 2016, including the notes thereto and together with the report of Independent Registered Public Accounting Firm, are included beginning on page F-1 of this annual report.

**Legal Proceedings**

We and our subsidiaries are involved in a number of other legal proceedings against us which are pending. In the opinion of our management, the outcome of these proceedings is not expected to have a material adverse effect on our results or financial position.

**Dividend Policy**

During the years ended December 31, 2018, December 31, 2017 and December 31, 2016 we paid aggregate cash dividends on our common shares of \$113,000,000, \$295,000,000 and \$282,000,000, respectively. We currently expect to pay dividends and other distributions on our common shares in the future. The declaration and payment of dividends and other distributions is in the sole discretion of our Board of Directors, and any decision regarding the declaration of dividends and other distributions will be made by our Board of Directors depending on, among other things, our financial resources, the cash flows generated by our business, our capital needs, and other factors considered relevant by our Board of Directors, including the terms of our indebtedness and applicable law. In 2018, the Board of Directors of Videotron Ltd. declared and made distributions in the form of reductions of paid-up capital of our common shares for a combined amount of \$2,588,100,000.

**B- Significant Changes**

Except as otherwise disclosed in this annual report, there has been no other material adverse change in our financial position since December 31, 2018.

**ITEM 9 — THE OFFER AND LISTING**

**A- Offer and Listing Details**

Not applicable.

**B- Plan of Distribution**

Not applicable.

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**C- Markets**

***Outstanding Notes***

On April 13, 2017, we issued and sold US\$600.0 million aggregate principal amount of our 5<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2027, in private placements exempt from the registration requirement of the Securities Act and the prospectus requirements of applicable Canadian securities laws.

On September 15, 2015, we issued and sold \$375.0 million aggregate principal amount of our 5<sup>3</sup>/<sub>4</sub>% Senior Notes due January 15, 2026, in private placements exempt from the registration requirement of the Securities Act and the prospectus requirements of applicable Canadian securities laws.

On April 9, 2014, we issued and sold US\$600.0 million aggregate principal amount of our 5<sup>3</sup>/<sub>8</sub>% Senior Notes due June 15, 2024, in private placements exempt from the registration requirement of the Securities Act and the prospectus requirements of applicable Canadian securities laws.

On June 17, 2013, we issued and sold \$400.0 million aggregate principal amount of our 5<sup>5</sup>/<sub>8</sub>% Senior Notes due June 15, 2025 in private placements exempt from the registration requirement of the Securities Act and the prospectus requirements of applicable Canadian securities laws.

On March 14, 2012, we issue and sold US\$800.0 million aggregate principal amount of our 5% Senior Notes due July 15, 2022 in private placements exempt from the registration requirements of the Securities Act. In connection with the issuance of these unregistered notes, we filed a registration statement on Form F-4 with the SEC on May 17, 2012 and completed the registered exchange offer in July 2012. As a result, our 5% Senior Notes due July 15, 2022 have been registered under the Securities Act.

There is currently no established trading market for our Senior Notes. There can be no assurance as to the liquidity of any market that may develop for our outstanding Senior Notes, the ability of the holders of any such Senior Notes to sell them or the prices at which any such sales may be made. We have not and do not presently intend to apply for a listing of our outstanding Senior Notes on any exchange or automated dealer quotation system.

The record holder of our 5% Senior Notes due 2022, our 5<sup>3</sup>/<sub>8</sub>% Senior Notes due 2024 and our 5<sup>1</sup>/<sub>8</sub> Senior Notes due 2027 is Cede & Co., a nominee of The Depository Trust Company, and the record holder of our 5<sup>5</sup>/<sub>8</sub>% Senior Notes due 2025 and our 5<sup>3</sup>/<sub>4</sub>% Senior Notes due 2026 is CDS Clearing and Depository Services Inc.

**D- Selling Shareholders**

Not applicable.

**E- Dilution**

Not applicable.

**F- Expenses of the Issue**

Not applicable.

**ITEM 10 — Additional Information**

**A- Share Capital**

Not applicable.

**B- Memorandum and Articles of Association**

The Articles of Amalgamation of Videotron, dated as of January 4, 2018 are referred to as our “Articles”. Our Articles are included as exhibits to this annual report. The following is a summary of certain provisions of our Articles and by-laws:

Since its coming into force on February 14, 2011, Videotron is governed by the *Business Corporations Act* (Québec). On January 4, 2018, Vidéotron ltée and 9370-5762 Québec inc. amalgamated, under the *Business Corporations Act* (Québec), into a single corporation using the name “Videotron Ltd.” (or “Vidéotron ltée” in French) with the Designating Number 1173288326. Previously, on July 1, 2006, Vidéotron ltée and 9101—0827 Québec inc. amalgamated, under Part IA of the *Companies Act* (Québec), into a single corporation using the name “Videotron Ltd.” (or “Vidéotron ltée” in French) with the Designating Number 1163819882. The Articles provide no restrictions on the purposes or activities that may be undertaken by Videotron.

1. (a) Our by-laws provide that a director must disclose the nature and value of any interest he has in a contract or transaction to which our Corporation is a party. A director must also disclose a contract or transaction to which the Corporation and any of the following are a party:
  - (i) an associate of the director;
  - (ii) a group of which the director is a director or an officer;
  - (iii) a group in which the director or an associate of the director has an interest.

No director may vote on a resolution to approve, amend or terminate the contract or transaction, or be present during deliberations concerning the approval, amendment or termination of such a contract or transaction unless the contract or transaction:

- (i) relates primarily to the remuneration of the director or an associate of the director as a director of the Corporation or an affiliate of the Corporation;
  - (ii) relates primarily to the remuneration of the director or an associate of the director as an officer, employee or mandatary of the Corporation or an affiliate of the Corporation, if the Corporation is not a reporting issuer;
  - (iii) is for the indemnification of the directors in certain circumstances or liability insurance taken out by the Corporation;
  - (iv) is with an affiliate of the Corporation, and the sole interest of the director is as a director or officer of the affiliate.
- (b) Neither the Articles nor our by-laws contain provisions with respect to directors’ power, in the absence of an independent quorum, to determine their remuneration.
  - (c) Subject to any restriction which may from time to time be included in the Articles or our by-laws, or the terms, rights or restrictions of any of our shares or securities outstanding, our directors may authorize us, by ordinary resolution, to borrow money and obtain advances upon the credit of our corporation when they consider it appropriate. Our directors also may, by ordinary resolution, when they consider it appropriate, (i) issue bonds or other securities of our corporation and give them in guarantee or sell them for prices and amounts deemed appropriate; (ii) mortgage, pledge or give as surety our present or future movable and immovable property to ensure the payment of these bonds or other securities or give a part only of these guarantees for the same purposes; and (iii) mortgage or pledge our real estate or give as security or otherwise encumber with any charge our movables or give these various kinds of securities to assure the payment of loans made other than by the issuance of bonds as well as the payment or the execution of other debts, contracts and commitments of our corporation.

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Neither the Articles nor our by-laws contain any provision with respect to (i) the retirement or non-retirement of our directors under an age limit requirement or (ii) the number of shares, if any, required for the qualification of our directors.

2. The rights, preferences and restrictions attaching to our common shares and our preferred shares (consisting of our Class “A” Common Shares and our authorized classes of preferred shares, comprised of our Class “B” Preferred Shares, Class “C” Preferred Shares, Class “D” Preferred Shares, Class “E” Preferred Shares, Class “F” Preferred Shares, Class “G” Preferred Shares and Class “H” Preferred Shares) are set forth below:

### **Common Shares**

#### ***Class “A” Common Shares***

- (a) *Dividend rights:* Subject to the rights of the holders of our preferred shares (including their redemption rights) and subject to applicable law, each Class “A” Common Share is entitled to receive such dividends as our Board of Directors shall determine.
- (b) *Voting rights:* The holders of Class “A” Common Shares are entitled to vote at each shareholders’ meeting with the exception of meetings at which only the holders of another class of shares are entitled to vote. Each Class “A” Common Share entitles the holder to one vote. The holders of the Class “A” Common Shares shall elect the directors of Videotron at an annual or special meeting of shareholders called for that purpose, except that any vacancy occurring in the Board of Directors may be filled, for the remainder of the term, by our Directors. At any meeting of shareholders called for such purpose, directors are elected by a majority of the votes cast in respect of such election.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “A” Common Shares are entitled to receive dividends as determined by our Board of Directors subject to certain restrictions) and paragraph (d) below (whereby the holders of our Class “A” Common Shares are entitled to participation in the remaining property and assets of our company available for distribution in the event of liquidation or dissolution), None.
- (d) *Rights upon liquidation:* In the event of our liquidation or dissolution or any other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of our Class “A” Common Shares shall be entitled, subject to the rights of the holders of our preferred shares, to participate equally, share for share, in our residual property and assets available for distribution to our shareholders, without preference or distinction.
- (e) *Redemption provisions:* None.
- (f) *Sinking fund provisions:* None.
- (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
- (h) *Provisions discriminating against existing or prospective holders of common shares as a result of such holders owning a substantial number of common shares:* None.

### **Preferred Shares**

#### ***Class “B” Preferred Shares***

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “B” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares, Class “C” Preferred Shares, Class “D” Preferred Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “G” Preferred Shares, a preferential and non-cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the

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applicable redemption value of our Class “B” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.

- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “B” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “B” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “B” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “B” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “B” Preferred Shares shall be entitled to repayment of the amount paid for the Class “B” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “B” Preferred Shares.

In addition, in the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the rights of holders of Class “B” Preferred Shares as regards to payment of dividends and the right to participate in the distribution of residual assets, shall rank in priority to the rights of the holders of our Class “A” Common Shares, Class “C” Preferred Shares, Class “D” Preferred Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the rights of holders of our Class “G” Preferred Shares.

- (e) *Redemption provisions:* Subject to the provisions of the *Business Corporations Act* (Québec), the holders of our Class “B” Preferred Shares have, at any time, the right to require Videotron to redeem (referred to as a “retraction right”) any or all of their Class “B” Preferred Shares at a redemption price equal to the amount paid for such shares in the subdivision of the issued and paid-up share capital account relating to such shares, plus a specified premium, if applicable, plus the amount of any declared and unpaid dividends.

In addition, Videotron may, at its option, redeem any or all of the Class “B” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “B” Preferred Shares. Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “B” Preferred Shares outstanding at a purchase price for any such Class “B” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.

- (f) *Sinking fund provisions:* None.
- (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
- (h) *Provisions discriminating against existing or prospective holders of our Class “B” Preferred Shares as a result of such holder owning a substantial number of our Class “B” Preferred Shares:* None.

### **Class “C” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “C” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares, Class “D” Preferred Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “B” Preferred Shares and Class “G” Preferred Shares, a preferential and non-cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the

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applicable redemption value of our Class “C” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.

- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “C” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “C” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “C” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “C” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “C” Preferred Shares shall be entitled to repayment of the amount paid for the Class “C” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “C” Preferred Shares.

In addition, in the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the rights of holders of Class “C” Preferred Shares as regards to payment of dividends and the right to participate in the distribution of residual assets, shall rank in priority to the rights of the holders of our Class “A” Common Shares, Class “D” Preferred Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the rights of holders of our Class “B” Preferred Shares and Class “G” Preferred Shares.

- (e) *Redemption provisions:* Subject to the provisions of the *Business Corporations Act* (Québec), the holders of our Class “C” Preferred Shares have, at any time, the right to require Videotron to redeem (referred to as a “retraction right”) any or all of their Class “C” Preferred Shares at a redemption price equal to the amount paid for such shares in the subdivision of the issued and paid-up share capital account relating to such shares, plus a specified premium, if applicable, plus the amount of any declared and unpaid dividends.
- In addition, Videotron may, at its option, redeem any or all of the Class “C” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “C” Preferred Shares. Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “C” Preferred Shares outstanding at a purchase price for any such Class “C” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.
- (f) *Sinking fund provisions:* None.
  - (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
  - (h) *Provisions discriminating against existing or prospective holders of our Class “C” Preferred Shares as a result of such holder owning a substantial number of our Class “C” Preferred Shares:* None.

### **Class “D” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “D” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “B” Preferred Shares, Class “C” Preferred Shares and Class “G” Preferred Shares, a preferential and non-cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the

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applicable redemption value of our Class “D” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.

- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “D” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “D” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “D” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “D” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “D” Preferred Shares shall be entitled to repayment of the amount paid for the Class “D” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “D” Preferred Shares.

In addition, in the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the rights of holders of Class “D” Preferred Shares as regards to payment of dividends and the right to participate in the distribution of residual assets, shall rank in priority to the rights of the holders of our Class “A” Common Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the rights of holders of our Class “B” Preferred Shares, Class “C” Preferred Shares and Class “G” Preferred Shares.

- (e) *Redemption provisions:* Subject to the provisions of the *Business Corporations Act* (Québec), the holders of our Class “D” Preferred Shares have, at any time, the right to require Videotron to redeem (referred to as a “retraction right”) any or all of their Class “D” Preferred Shares at a redemption price equal to the amount paid for such shares in the subdivision of the issued and paid-up share capital account relating to such shares, plus a specified premium, if applicable, plus the amount of any declared and unpaid dividends.
- In addition, Videotron may, at its option, redeem any or all of the Class “D” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “D” Preferred Shares. Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “D” Preferred Shares outstanding at a purchase price for any such Class “D” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.
- (f) *Sinking fund provisions:* None.
  - (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
  - (h) *Provisions discriminating against existing or prospective holders of our Class “D” Preferred Shares as a result of such holder owning a substantial number of our Class “D” Preferred Shares:* None.

### **Class “E” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “E” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “B” Preferred Shares, Class “C” Preferred Share, Class “D” Preferred Share and Class “G” Preferred Shares, a preferential and non-cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the

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applicable redemption value of our Class “E” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.

- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “E” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “E” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “E” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “E” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “E” Preferred Shares shall be entitled to repayment of the amount paid for the Class “E” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “E” Preferred Shares.

In addition, in the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the rights of holders of Class “E” Preferred Shares as regards to payment of dividends and the right to participate in the distribution of residual assets, shall rank in priority to the rights of the holders of our Class “A” Common Share, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the rights of holders of our Class “B” Preferred Shares, Class “C” Preferred Shares, Class “D” Preferred Shares and Class “G” Preferred Shares.

- (e) *Redemption provisions:* Subject to the provisions of the *Business Corporations Act* (Québec), the holders of our Class “E” Preferred Shares have, at any time, the right to require Videotron to redeem (referred to as a “retraction right”) any or all of their Class “E” Preferred Shares at a redemption price equal to the amount paid for such shares in the subdivision of the issued and paid-up share capital account relating to such shares, plus a specified premium, if applicable, plus the amount of any declared and unpaid dividends.

In addition, Videotron may, at its option, redeem any or all of the Class “E” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “E” Preferred Shares. Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “E” Preferred Shares outstanding at a purchase price for any such Class “E” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.

- (f) *Sinking fund provisions:* None.
- (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
- (h) *Provisions discriminating against existing or prospective holders of our Class “E” Preferred Shares as a result of such holder owning a substantial number of our Class “E” Preferred Shares:* None.

### **Class “F” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “F” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “B” Preferred Shares, Class “C” Preferred Shares, Class “D” Preferred Shares, Class “E” Preferred Shares and Class “G” Preferred Shares, a preferential and non-cumulative dividend at the fixed rate of 1% per month, calculated on the basis of

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the applicable redemption value of our Class “F” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.

- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “F” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “F” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “F” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “F” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “F” Preferred Shares shall be entitled to repayment of the amount paid for the Class “F” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “F” Preferred Shares.

In addition, in the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the rights of holders of Class “F” Preferred Shares as regards to payment of dividends and the right to participate in the distribution of residual assets, shall rank in priority to the rights of the holders of our Class “A” Common Shares and Class “H” Preferred Shares, but subordinated to the rights of holders of our Class “B” Preferred Shares, Class “C” Preferred Shares, Class “D” Preferred Shares, Class “E” Preferred Shares and Class “G” Preferred Shares.

- (e) *Redemption provisions:* Subject to the provisions of the *Business Corporations Act* (Québec), the holders of our Class “F” Preferred Shares have, at any time, the right to require Videotron to redeem (referred to as a “retraction right”) any or all of their Class “F” Preferred Shares at a redemption price equal to the amount paid for such shares in the subdivision of the issued and paid-up share capital account relating to such shares, plus a specified premium, if applicable, plus the amount of any declared and unpaid dividends.

In addition, Videotron may, at its option, redeem any or all of the Class “F” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “F” Preferred Shares. Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “F” Preferred Shares outstanding at a purchase price for any such Class “F” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.

- (f) *Sinking fund provisions:* None.
- (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
- (h) *Provisions discriminating against existing or prospective holders of our Class “F” Preferred Shares as a result of such holder owning a substantial number of our Class “F” Preferred Shares:* None.

**Class “G” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “G” Preferred Shares have the right to receive, in priority over the holders of our common shares and preferred shares of other series, a preferential and cumulative dividend, payable semi-annually, at the fixed rate of 11.25% per year, calculated daily on the basis of the applicable redemption value of our Class “G” Preferred Shares. No dividends may be paid on any common shares or preferred shares of other series unless all

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dividends which shall have become payable on the Class “G” Preferred Shares have been paid or set aside for payment.

- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “G” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.

However, in the event that we shall have failed to pay eight (8) half-yearly dividends, whether or not consecutive, on the Class “G” Preferred Shares, and only for so long as the dividend remains in arrears, the holders of Class “G” Preferred Shares shall have the right to receive notice of meetings of shareholders and to attend and vote at any such meetings, except meetings at which only holders of another specified series or class of shares are entitled to vote. At each such meeting, each Class “G” Preferred Share shall entitle the holder thereof to one vote.

- (c) *Rights to share in our profits:* Except as described in paragraph (a) above (whereby the holders of our Class “G” Preferred Shares are entitled to receive a 11.25% cumulative preferred dividend in preference to the holders of our common shares and other series of our preferred shares), paragraph (d) below (whereby the holders of our Class “G” Preferred Shares are entitled to receive, in preference to the holders of our common shares and other series of our preferred shares, an amount equal to \$1,000 per Class “G” Preferred Share and any accumulated and unpaid dividends with respect thereto in the event of our liquidation, winding-up or reorganization) and paragraph (e) below (whereby the holders of our Class “G” Preferred Shares may require us to redeem the Class “G” Preferred Shares at a redemption price of \$1,000 per share plus any accrued and unpaid dividends with respect thereto): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or reorganization or any other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of our Class “G” Preferred Shares shall be entitled to receive in preference to the holders of our common shares and our preferred shares of other series an amount equal to \$1,000 per Class “G” Preferred Share and any accrued and unpaid dividends with respect thereto.

Our Class “G” Preferred Shares have priority over our common shares and our preferred shares of other series as to the order of priority of the distribution of assets in case of the liquidation or dissolution of our corporation, voluntary or involuntary, or of any other distribution of our assets to our shareholders for the purpose of winding up our affairs.

- (e) *Redemption provisions:* Subject to the provisions of the *Business Corporations Act* (Québec), the holders of our Class “G” Preferred Shares have, at any time, the right to require Videotron to redeem any and all of their shares at a redemption price equal to \$1,000 per share plus any accrued and unpaid dividends with respect thereto. In addition, we may, at our option, redeem any and all Class “G” Preferred Shares at any time at a redemption price equal to \$1,000 per share plus any accrued and unpaid dividends with respect thereto.
- (f) *Sinking fund provisions:* None.
- (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
- (h) *Provisions discriminating against existing or prospective holders of our Class “G” Preferred Shares as a result of such holder owning a substantial number of our Class “G” Preferred Shares:* None.

**Class “H” Preferred Shares**

- (a) *Dividend rights:* The holders of Class “H” Preferred Shares shall be entitled to receive, every year, in such manner and at such time as our Board of Directors may declare, a non-cumulative dividend at the fixed rate of 1% per month, calculated on the redemption price of the Class “H” Preferred Shares, payable in cash, property or through the issuance of fully paid shares of any class of the Corporation.

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- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “H” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
  - (c) *Rights to share in our profits:* Except as described in paragraph (a) above (whereby the holders of our Class “H” Preferred Shares are entitled to receive, every year, in such manner and at such time as our Board of Directors may declare, a non-cumulative dividend at the fixed rate of 1% per month), paragraph (d) below (whereby the holders of our Class “H” Preferred Shares are entitled to repayment of the amount paid for the Class “H” Preferred Shares in the event of our liquidation, winding-up or reorganization) and paragraph (e) below (whereby the holders of our Class “H” Preferred Shares may require us to redeem the Class “H” Preferred Shares at a specified redemption price): None.
  - (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or reorganization or any other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of our Class “H” Preferred Shares shall be entitled to repayment of the amount paid for the Class “H” Preferred Shares into the subdivision of the issued and paid-up share capital account relating to the Class “H” Preferred Shares.
  - (e) *Redemption provisions:* Subject to the provisions of the *Business Corporations Act* (Québec), we may elect to redeem the Class “H” Preferred Shares at any time at a price equal to the specified redemption price plus an amount equal to any dividends declared thereon but unpaid up to the date of redemption. The specified redemption price is, subject to certain conditions, equal to the aggregate consideration received for such share.
  - (f) *Sinking fund provisions:* None.
  - (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
  - (h) *Provisions discriminating against existing or prospective holders of our Class “H” Preferred Shares as a result of such holder owning a substantial number of our Class “H” Preferred Shares:* None.
3. **Actions necessary to change the rights of shareholders.** Under the *Business Corporations Act* (Québec), (i) the Articles may only be amended by the affirmative vote of the holders of two-thirds ( $\frac{2}{3}$ ) of the votes cast by the shareholders at a special meeting called for that purpose and (ii) our by-laws may be amended by our Board of Directors and ratified by a majority of the votes cast by the shareholders at the next shareholders meeting. Unless they are rejected by the shareholders at the close of the meeting or not submitted to the shareholders, the amended by-laws are effective as of the date of the resolution of the Board of Directors approving them. However, by-law amendments relating to procedural matters with respect to shareholders meetings take effect only once they have received shareholders’ approval. In addition, pursuant to the *Business Corporations Act* (Québec), we may not make any amendments to the Articles that affect the rights, conditions, privileges or restrictions attaching to issued shares of any series outstanding, other than an increase in the share capital or the number of our authorized shares, without obtaining the consent of all the shareholders concerned by the amendment, whether or not they are eligible to vote. In order to change the rights of our shareholders, we would need to amend our Articles to effect the change. Such an amendment would require the approval of holders of two-thirds ( $\frac{2}{3}$ ) of the shares at a duly called special meeting. For amendments affecting the rights of a particular class or series of shares, the holders of such class or series of shares are entitled to a separate vote, whether or not shares of this class or series otherwise carry the right to vote. Such a proposed amendment will be effected only if it receives the approval of two-thirds ( $\frac{2}{3}$ ) of holders of each such affected class or series of shares. In respect of certain amendments, a shareholder is entitled to dissent and, if the resolution is adopted and we implement the changes, demand that we repurchase all of its shares of such class or series for which a separate vote was carried out at their fair value.
4. **Shareholder Meetings.** Our by-laws and the *Business Corporations Act* (Québec) provide that the annual meeting of our shareholders shall be held within fifteen (15) months after the last preceding annual meeting. All shareholders meetings shall be held within the province of Québec at the place and time determined by our Board of Directors and may be called by order of our Board of Directors.

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Our by-laws provide that notice specifying the place, date, time and purpose of any meeting of our shareholders shall be sent to all the shareholders entitled to vote and to each director at least 21 days but not more than 60 days before the meeting by any means providing proof of the date of sending at the addresses indicated in Videotron's records.

Our chairman of the board or, in his absence, our vice-chair of the board, if any, or in his absence, our president and chief executive officer or any other person that may be named by the board shall preside at all meetings of our shareholders. If the person who is to chair the meeting is not present at the meeting within 15 minutes after the time appointed for the meeting, the shareholders present choose one of their own to chair the meeting.

Our by-laws provide that a quorum of shareholders is present at a shareholders meeting if, at the opening of the meeting, one or several holders of 50% or more of the shares that carry the right to vote at the meeting are present in person or represented by proxy.

5. **Limitations on right to own securities.** There is no limitation imposed by Canadian law or by the Articles or our other constituent documents on the right of non-residents or foreign owners to hold or vote shares, other than as provided in the *Investment Canada Act* (Canada) and the Radiocommunication Act. The *Investment Canada Act* (Canada) requires "non-Canadian" (as defined in the *Investment Canada Act* (Canada)) individuals, governments, corporations and other entities who wish to acquire control of a "Canadian business" (as defined in the *Investment Canada Act* (Canada)) to file either an application for review (when certain asset value thresholds are met) or a post-closing notification with the Director of Investments appointed under the *Investment Canada Act* (Canada), unless a specific exemption applies. The *Investment Canada Act* (Canada) requires that, when an acquisition of control of a Canadian business by a "non-Canadian" is subject to review, it must be approved by the Minister responsible for the *Investment Canada Act* (Canada) on the basis that the Minister is satisfied that the acquisition is "likely to be of net benefit to Canada", having regard to criteria set forth in the *Investment Canada Act* (Canada). Radio licenses may be issued under the Radiocommunication Act to radiocommunication service providers ("**Service Providers**") that meet the eligibility criteria of Canadian ownership and control set forth in the *Canadian Telecommunications Common Carrier Ownership and Control Regulations* (the "**CTCCOCR**"). Under the CTCCOCR, the Service Provider may refuse to accept any subscription for or register the transfer of any of its voting shares unless it receives a declaration that such subscription or transfer would not result in the percentage of the total voting shares of the Service Provider that are beneficially owned and controlled by non-Canadians exceeding 33 $\frac{1}{3}$ %.
6. **Provisions that could have the effect of delaying, deferring or preventing a change of control.** The Articles provide that our directors shall refuse to issue (including on the occasion or because of a conversion of shares or in shares), and to allow a transfer of, any share of our capital stock if this issuance or transfer would, in the opinion of our directors, affect our eligibility or of any other corporation or partnership in which we have or may have an interest, to obtain, preserve or renew a license or authorization required for the operation or continuation of its broadcasting company (as defined in the Broadcasting Act, as amended) (or any part thereof) or of any other activity necessary for the continuation of our corporation. See "Item 4. Information on the Corporation — Regulation — Ownership and Control of Canadian Broadcast Undertakings".
7. Not applicable.
8. Not applicable.
9. Not applicable.

### **C- Material Contracts**

The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which we or any of our subsidiaries is a party, for the two years preceding publication of this annual report.

- (a) **Indenture relating to US\$800,000,000 of our 5% Senior Notes due July 15, 2022, dated as of March 14, 2012, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.**

On March 14, 2012, we issued US\$800,000,000 aggregate principal amount of our 5% Senior Notes due July 15, 2022, pursuant to an Indenture, dated as of March 14, 2012, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee. These senior notes are unsecured and mature on July 15, 2022. Interest on these senior notes is payable in cash semi-annually in arrears on January 15 and July 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the make-whole redemption price set forth in the indenture. This indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately.

- (b) **Indenture relating to \$400,000,000 of our 5<sup>5</sup>/<sub>8</sub>% Senior Notes due June 15, 2025, dated as of June 17, 2013, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee.**

On June 17, 2013, we issued \$400,000,000 aggregate principal amount of our 5<sup>5</sup>/<sub>8</sub>% Senior Notes due June 15, 2025, pursuant to an Indenture, dated as of June 17, 2013, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee. These senior notes are unsecured and mature on June 15, 2025. Interest on these senior notes is payable in cash semi-annually in arrears on April 15 and October 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the make-whole redemption price set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture have not been and will not be registered under the Securities Act or under the laws of any other jurisdiction.

- (c) **Indenture relating to US\$600,000,000 of our 5<sup>3</sup>/<sub>8</sub>% Senior Notes due June 15, 2024, dated as of April 9, 2014, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.**

On April 9, 2014, we issued US\$600,000,000 aggregate principal amount of our 5<sup>3</sup>/<sub>8</sub>% Senior Notes due June 15, 2024, pursuant to an Indenture, dated as of April 9, 2014, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee. These senior notes are unsecured and mature on June 15, 2024. Interest on these senior notes is payable in cash semi-annually in arrears on June 15 and December 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the make-whole redemption price set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture have not been and will not be registered under the Securities Act or under the laws of any other jurisdiction.

- (d) **Indenture relating to \$375,000,000 of our 5<sup>3</sup>/<sub>4</sub>% Senior Notes due January 15, 2026, dated as of September 15, 2015, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee.**

On September 15, 2015, we issued \$375,000,000 aggregate principal amount of our 5<sup>3</sup>/<sub>4</sub>% Senior Notes due January 15, 2026, pursuant to an Indenture, dated as of September 15, 2015, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee. These senior notes are unsecured and mature on January 15, 2026. Interest on these senior notes is payable in

cash semi-annually in arrears on March 15 and September 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the redemption prices set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture have not been and will not be registered under the Securities Act or under the laws of any other jurisdiction.

- (e) **Indenture relating to US\$600,000,000 of our 5<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2027, dated as of April 13, 2017, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.**

On April 13, 2017, we issued US\$600,000,000 aggregate principal amount of our 5<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2027, pursuant to an Indenture, dated as of April 13, 2017, by and among us, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee. These senior notes are unsecured and mature on April 15, 2027. Interest on these senior notes is payable in cash semi-annually in arrears on April 15 and October 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the make-whole redemption price set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture have not been and will not be registered under the Securities Act or under the laws of any other jurisdiction.

- (f) **Credit Agreement originally dated as of November 28, 2000, by and among Videotron, as borrower, the guarantors party thereto, the financial institutions party thereto from time to time, as lenders, and Royal Bank of Canada, as administrative agent, as amended.**

Our senior credit facility, as amended and restated as of June 16, 2015 (and as amended thereafter), currently provide for a \$1,500,000,000 secured revolving credit facility that matures on July 20, 2023. The proceeds of the revolving credit facility can be used for general corporate purposes including, without limitation, to issue letters of credit and to pay dividends to Quebecor Media subject to certain conditions.

Advances under our secured revolving credit facility bear interest at the Canadian prime rate, the U.S. prime rate, the U.S. London Interbank Offered Rate (“LIBOR”) or the bankers’ acceptance rate plus, in each instance, an applicable margin determined by the Leverage Ratio (as defined in our credit agreement) of the Relevant Group (as defined in our credit agreement). The applicable margin for Canadian prime rate advances and U.S. prime rate advances ranges from 0.20% when this ratio is less than or equal to 2.25x, to 1.50% when this ratio is greater than 4.5x. The applicable margin for LIBOR advances, bankers’ acceptance advances or letters of credit fees ranges from 1.20% when this ratio is less than or equal to 2.25x, to 2.50% when this ratio is greater than 4.5x.

We have also agreed to pay specified standby fees in respect of our revolving credit facility.

Borrowings under our senior credit facility and under eligible derivative instruments are secured by a first-ranking hypothec or security interest (subject to certain permitted encumbrances) on all current and future assets of Videotron and of the guarantors under the senior credit facility (which include most, but not all of Videotron’s subsidiaries), guarantees by such guarantors, pledges of shares by us and such guarantors and other security.

Our senior credit facility contains customary covenants that restrict and limit our ability and the members of the VL Group (as defined in the credit agreement to mean us and all of our wholly-owned subsidiaries)

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to, among other things, enter into merger or amalgamation transactions or liquidate or dissolve, grant encumbrances, sell assets, pay dividends or make other distributions, issue shares of capital stock, incur indebtedness and enter into related party transactions. In addition, our senior credit facility contains customary financial covenants and customary events of default including the non-payment of principal or interest, the breach of any financial covenant, the failure to perform or observe any other covenant, certain bankruptcy events relating to us or any member of the VL Group (other than an Immaterial Subsidiary, as defined in the credit agreement), and the occurrence of a change of control.

### **D- Exchange Controls**

There are currently no laws, decrees, regulations or other legislation in Canada that restrict the export or import of capital, or affect the remittance of dividends, interest or other payments to non-resident holders of the Corporation's securities, other than withholding tax requirements. Canada has no system of exchange controls. See “— Taxation — Canadian Material Federal Income Tax Considerations for Residents of the United States” below.

There is no limitation imposed by Canadian law or by the Articles of Incorporation or other charter documents of the Corporation on the right of a non-resident to hold voting shares of the Corporation, other than as provided by the *Investment Canada Act* (Canada), as amended, as amended by the *North American Free Trade Agreement Implementation Act* (Canada), and the *World Trade Organization (WTO) Agreement Implementation Act*. The *Investment Canada Act* (Canada) requires notification and, in certain cases, advance review and approval by the Government of Canada of the acquisition by a “non-Canadian” of “control of a Canadian business”, all as defined in the *Investment Canada Act* (Canada). Generally, the threshold for review will be higher in monetary terms for a member of the WTO or NAFTA.

In addition, there are regulations related to the ownership and control of Canadian broadcast undertakings. See “Item 4 — Information on the Corporation — Regulation”.

### **E- Taxation**

#### **Certain U.S. Federal Income Tax Considerations**

The following discussion is a summary of certain U.S. federal income tax consequences applicable to the purchase, ownership and disposition of (i) our 5% Senior Notes due 2022 (our “**5% Senior Notes**”), (ii) our 5<sup>3</sup>/<sub>8</sub>% Senior Notes due 2024 (our “**5<sup>3</sup>/<sub>8</sub>% Senior Notes**”), (iii) our 5<sup>5</sup>/<sub>8</sub>% Senior Notes due 2025 (our “**5<sup>5</sup>/<sub>8</sub>% Senior Notes**”), (iv) our 5<sup>3</sup>/<sub>4</sub>% Senior Notes due 2026 (our “**5<sup>3</sup>/<sub>4</sub>% Senior Notes**”), and (v) our 5<sup>1</sup>/<sub>8</sub>% Senior Notes due 2027 (our “**5<sup>1</sup>/<sub>8</sub>% Senior Notes**”) (collectively, the “**notes**”) by a U.S. Holder (as defined below), but does not purport to be a complete analysis of all potential U.S. federal income tax effects. Our 5<sup>5</sup>/<sub>8</sub>% Senior Notes and our 5<sup>3</sup>/<sub>4</sub>% Senior Notes are denominated in Canadian dollars (the “**Canadian dollar Notes**”). This summary is based on the Internal Revenue Code of 1986, as amended (the “**Code**”), U.S. Treasury Regulations promulgated thereunder, Internal Revenue Service (“**IRS**”) rulings and judicial decisions now in effect. All of these are subject to change, possibly with retroactive effect, or different interpretations.

This summary does not address all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders in light of their specific circumstances (for example, U.S. Holders subject to the alternative minimum tax provisions of the Code or U.S. Holders subject to the 3.8% Medicare tax on net investment income) or to U.S. Holders that may be subject to special rules under U.S. federal income tax law, including:

- dealers in stocks, securities or currencies;
- persons using a mark-to-market accounting method;
- banks and financial institutions;
- insurance companies;
- regulated investment companies;

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- real estate investment trusts;
- tax-exempt organizations;
- persons holding notes as part of a hedging or conversion transaction or a straddle;
- persons deemed to sell notes under the constructive sale provisions of the Code;
- persons who or that are, or may become, subject to the expatriation provisions of the Code;
- persons whose functional currency is not the U.S. dollar;
- persons required to accelerate the recognition of any item of gross income with respect to any of the notes as a result of such income being recognized on an applicable financial statement;
- entities taxes as a partnership or the partners therein; and
- direct, indirect or constructive owners of 10% or more, of the voting power or value, of our outstanding shares.

The summary also does not discuss any aspect of state, local or non-U.S., or U.S. federal estate and gift tax law as applicable to U.S. Holders. Moreover, this discussion is limited to U.S. Holders who acquire and hold the notes as “capital assets” within the meaning of Section 1221 of the Code (generally, property held for investment). In addition, this summary assumes that the notes are properly characterized as debt that is not contingent debt for U.S. federal income tax purposes.

For purposes of this summary, “U.S. Holder” means the beneficial holder of a note who or that for U.S. federal income tax purposes is:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity treated as a corporation, formed or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, (i) if a court within the United States is able to exercise primary supervision over the administration of such trust and one or more “U.S. persons” (within the meaning of the Code) have the authority to control all substantial decisions of the trust, or (ii) if a valid election is in effect to treat the trust as a U.S. person.

We have not sought and will not seek any opinion of U.S. legal counsel or rulings from the IRS with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the notes or that any such position will not be sustained.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the notes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. Such partner should consult its own tax advisor as to the tax consequences of the partnership purchasing, owning and disposing of the notes.

**U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH REGARD TO THE APPLICATION OF THE TAX CONSEQUENCES DESCRIBED BELOW TO THEIR PARTICULAR SITUATIONS AS WELL AS THE APPLICATION OF ANY STATE, LOCAL, NON-U.S. OR OTHER TAX LAWS, INCLUDING GIFT AND ESTATE TAX LAWS.**

*Interest on the Notes*

Payments of stated interest on the notes generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes. Interest on the notes will constitute income from sources outside the United States and will be "passive category income" which is treated separately from other income for purposes of computing the foreign tax credit allowable to a U.S. Holder under the U.S. federal income tax laws. Due to the complexity of the foreign tax credit rules, U.S. Holders should consult their own tax advisors with respect to the amount of foreign taxes that may be claimed as a credit.

In certain circumstances we may be obligated to pay amounts in excess of stated interest or principal on the notes or may make payments or redeem the notes in advance of their expected maturity. According to U.S. Treasury regulations, the possibility that any such payments or redemptions will be made will not affect the amount of interest income a U.S. Holder recognizes if there is only a remote chance as of the date the notes were issued that such payments will be made, or if such payments are incidental. We believe the likelihood that we will make any such payments is remote and/or that such payment will be incidental. Therefore, we do not intend to treat the potential payments or redemptions pursuant to the provisions related to changes in Canadian laws or regulations applicable to tax-related withholdings or deductions, any registration rights provisions, or the other redemption and repurchase provisions as part of the yield to maturity of the notes or as affecting the tax treatment of the notes. Our determination that these contingencies are remote and/or incidental is binding on a U.S. Holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury regulations. Our determination is not, however, binding on the IRS, and if the IRS were to challenge this determination, a U.S. Holder may be required to accrue income on its notes in excess of stated interest and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of a note before the resolution of the contingencies. In the event a contingency occurs, it would affect the amount and timing of the income recognized by a U.S. Holder. If we pay additional amounts on the notes, U.S. Holders will be required to recognize such amounts as income.

Interest on the Canadian dollar Notes will be included in a U.S. Holder's gross income in an amount equal to the U.S. dollar value of the Canadian dollar amount, regardless of whether the Canadian dollars are converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. A cash method U.S. Holder generally will not realize foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the Canadian dollars received.

Generally, a U.S. Holder of Canadian dollar Notes that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the U.S. Holder's taxable year). Alternatively, an accrual basis U.S. Holder may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year in the case of a partial accrual period) or the spot rate on the date of receipt, if that date is within five business days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate applicable to an accrual of that interest. The amount of foreign currency gain or loss to be recognized by such U.S. Holder will be an amount equal to the difference between the U.S. dollar value of the Canadian dollar interest payment (determined on the basis of the spot rate on the date the interest income is received) in respect of the accrual period and the U.S. dollar value of the interest income that has accrued during the accrual period (as determined above). This foreign currency gain or loss will be ordinary income or loss and generally will not be treated as an adjustment to interest income or expense.

Foreign currency gain or loss generally will be U.S. source provided that the residence of a taxpayer is considered to be the United States for purposes of the rules regarding foreign currency gain or loss.

## **Market Discount and Bond Premium**

### *Market Discount*

If a U.S. Holder purchases notes for an amount less than the sum of all amounts (other than qualified stated interest) payable with respect to the notes after the date of acquisition, the difference is treated as market discount. Subject to a *de minimis* exception, gain realized on the maturity, sale, exchange or retirement of a market discount note will be treated as ordinary income to the extent of any accrued market discount not previously recognized (including in the case of a note exchanged for a registered note pursuant to a registration offer, any market discount accrued on the related outstanding note). A U.S. Holder may elect to include market discount in income currently as it accrues, on either a ratable or constant yield method. In that case, a U.S. Holder's tax basis in its notes will increase by such income inclusions. An election to include market discount in income currently, once made, will apply to all market discount obligations acquired by the U.S. Holder during the taxable year of the election and thereafter, and may not be revoked without the consent of the IRS. If a U.S. Holder does not make such an election, in general, all or a portion of such holder's interest expense on any indebtedness incurred or continued in order to purchase or carry notes may be deferred until the maturity of the notes, or certain earlier dispositions. Unless a U.S. Holder elects to accrue market discount under a constant yield method, any market discount will accrue ratably during the period from the date of acquisition of the related outstanding note to its maturity date.

In the case of Canadian dollar Notes, market discount is accrued in Canadian dollars, and the amount includible in income by a U.S. Holder upon a sale of such note in respect of accrued market discount will be the U.S. dollar value of the amount accrued. Such U.S. dollar value is generally calculated at the spot rate of exchange on the date such note is sold. Any market discount on a Canadian dollar Note that is currently includible in income under the election noted above will be translated into U.S. dollars at the average exchange rate for the accrual period or portion of such accrual period within the U.S. Holder's taxable year. In such case, a U.S. Holder generally will recognize foreign currency gain or loss with respect to accrued market discount under the rules similar to those that apply to accrued interest on a note received by an accrual basis U.S. Holder, as described above.

### *Bond Premium*

If a U.S. Holder purchases notes for an amount greater than the sum of all amounts (other than qualified stated interest) payable with respect to the notes after the date of acquisition, such holder will have purchased such notes with amortizable bond premium. A U.S. Holder generally may elect to amortize that premium from the purchase date to the maturity date of the notes under a constant yield method. Amortizable premium generally may be deducted against interest income on such notes and generally may not be deducted against other income. A U.S. Holder's basis in a note will be reduced by any premium amortization deductions. An election to amortize premium on a constant yield method, once made, generally applies to all debt obligations held or subsequently acquired by a U.S. Holder during the taxable year of the election and thereafter, and may not be revoked without IRS consent. For a U.S. Holder that did not elect to amortize bond premium, the amount of such premium will be included in such U.S. Holder's tax basis upon the sale of a note. In the case of Canadian dollar Notes, premium is computed in Canadian dollars. At the time amortized bond premium offsets interest income, foreign currency gain or loss (taxable as ordinary income or loss) will be realized on such amortized bond premium based on the difference between the spot rate of exchange on the date or dates such premium is recovered through interest payments on the Canadian dollar Note and the spot rate of exchange on the date on which the U.S. Holder acquired the note.

The market discount and bond premium rules are complicated, and U.S. Holders are urged to consult their own tax advisors regarding the tax consequences of owning and disposing of notes with market discount or bond premium, including the availability of certain elections.

### ***Sale, Exchange or Retirement of a Note***

A U.S. Holder generally will recognize gain or loss upon the sale, exchange (other than in a tax-free transaction), redemption, retirement or other taxable disposition of a note, equal to the difference, if any, between:

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- the amount realized (or the U.S. dollar value thereof if received in a foreign currency) less any portion allocable to the payment of accrued interest not previously included in income, which amount will be taxable as ordinary interest income; and
- the U.S. Holder's adjusted tax basis in the note.

Except with respect to gains or losses attributable to changes in exchange rates, as described below, gain or loss so recognized generally will be capital gain or loss (except as described under “— Market Discount and Bond Premium” above) and generally will be long-term capital gain or loss if the note has been held or deemed held for more than one year at the time of the disposition. Long-term capital gains of noncorporate U.S. Holders, including individuals, may be taxed at lower rates than items of ordinary income. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized by a U.S. Holder on the sale or other disposition of a note generally will be treated as income from sources within the United States or loss allocable to income from sources within the United States. U.S. Holders should consult their own tax advisors regarding the source of gain attributable to market discount.

A U.S. Holder's adjusted tax basis in a note will generally equal the U.S. Holder's U.S. dollar cost therefor, increased by the amount of market discount, if any, previously included in income in respect of the note and decreased (but not below zero) by the amount of principal payments received by such U.S. Holder in respect of the note, any amounts treated as a return of pre-issuance accrued interest and the amount of amortized bond premium, if any, previously taken into account with respect to the note. If a U.S. Holder purchases a Canadian dollar Note with Canadian dollars, the U.S. dollar cost of the Canadian dollar Note will generally be the U.S. dollar value of the purchase price on the date of purchase calculated at the spot rate of exchange on that date. The amount realized upon the disposition of a Canadian dollar Note will generally be the U.S. dollar value of the amount received on the date of the disposition calculated at the spot rate of exchange on that date. However, if the Canadian dollar Note is traded on an established securities market, a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the cost of or amount received on the Canadian dollar Note, as applicable, by translating the amount paid or received at the spot rate of exchange on the settlement date of the purchase or disposition. The election available to accrual basis U.S. Holders in respect of the purchase and disposition of Canadian dollar Notes traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Gain or loss recognized by a U.S. Holder on the sale, exchange or retirement of a Canadian dollar Note that is attributable to changes in the rate of exchange between the U.S. dollar and foreign currency generally will be treated as U.S. source ordinary income or loss. Such foreign currency gain or loss will equal the difference between (i) the U.S. dollar value of the U.S. Holder's Canadian dollar purchase price for the Canadian dollar Note calculated at the spot rate of exchange on the date of the sale, exchange, retirement or other disposition and (ii) the U.S. dollar value of the U.S. Holder's Canadian dollar purchase price for the Canadian dollar Note calculated at the spot rate of exchange on the date of purchase of the Canadian dollar Note. If the Canadian dollar Note is traded on an established securities market, with respect to a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder), such foreign currency gain or loss will equal the difference between (x) the U.S. dollar value of the U.S. Holder's Canadian dollar purchase price for the Canadian dollar Note calculated at the spot rate of exchange on the settlement date of the disposition and (y) the U.S. dollar value of the U.S. Holder's Canadian dollar purchase price for the Canadian dollar Note calculated at the spot rate of exchange on the settlement date of the purchase of the Canadian dollar Note. Such foreign currency gain or loss is recognized on the sale or retirement of such Note only to the extent of total gain or loss recognized on the sale or retirement of such Note. Prospective investors should consult their own tax advisors regarding certain foreign currency translation elections that may be available with respect to a sale, exchange, or redemption of the Canadian dollar Notes.

### ***Transactions in Foreign Currency***

Foreign currency received as a payment of interest on, or on the sale or retirement of, a Canadian dollar Note will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time the note is disposed of or payment is received in consideration of such sale or retirement (as applicable and as discussed in detail above). The amount of gain or loss recognized on a subsequent sale or other disposition of such foreign currency will be equal to the difference between (i) the amount of U.S. dollars, or the fair market value in U.S. dollars of the other currency or property received in such sale or other disposition, and (ii) the tax basis of the recipient in such foreign currency. A U.S. Holder who acquires such Note with previously owned foreign currency will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market

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value of the note on the date of acquisition. Such gain or loss generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes.

### **Reportable Transaction Reporting**

Under certain U.S. Treasury Regulations, U.S. Holders that participate in “reportable transactions” (as defined in the U.S. Treasury Regulations) must attach to their U.S. federal income tax returns a disclosure statement on IRS Form 8886. Under the relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Canadian dollar Note as a reportable transaction if this loss exceeds the relevant threshold in the U.S. Treasury Regulations. For individuals and trusts, this loss threshold is US\$50,000 in any single year. U.S. Holders should consult their own tax advisors as to the possible obligation to file IRS Form 8886 with respect to the ownership or disposition of the Canadian dollar Notes, or any related transaction, including without limitation, the disposition of any non-U.S. currency received as interest or as proceeds from the sale, exchange, retirement or other disposition of the Canadian dollar Notes.

### **Information Reporting and Backup Withholding**

In general, information reporting requirements may apply to payments of principal and interest on a note and to the proceeds of the sale or other disposition of a note made to U.S. Holders other than certain exempt recipients (such as corporations). A U.S. Holder of the notes may be subject to “backup withholding” with respect to certain “reportable payments”, including interest payments and, under certain circumstances, principal payments on the notes or upon the receipt of proceeds upon the sale or other disposition of such notes. These backup withholding rules apply if the U.S. Holder, among other things:

- fails to furnish a social security number or other taxpayer identification number (“TIN”) certified under penalty of perjury within a reasonable time after the request for the TIN;
- furnishes an incorrect TIN;
- is notified by the IRS that it has failed to report properly interest or dividends; or
- under certain circumstances, fails to provide a certified statement, signed under penalties of perjury, that the TIN furnished is the correct number and that such holder is not subject to backup withholding.

A U.S. Holder can generally avoid the application of the backup withholding rules by properly completing and submitting the IRS Form W-9 included with the Letter of Transmittal. A U.S. Holder that does not provide us with its correct TIN also may be subject to penalties imposed by the IRS. Backup withholding is not an additional tax. Any amount withheld from a payment to a U.S. Holder under the backup withholding rules is creditable against the U.S. Holder’s U.S. federal income tax liability, and may entitle the U.S. Holder to a refund, *provided* that the required information is properly and timely furnished to the IRS. Backup withholding will not apply, however, with respect to payments made to certain exempt U.S. Holders, including corporations and tax-exempt organizations, *provided* their exemptions from backup withholding are properly established.

In addition, certain U.S. Holders that hold specified foreign financial assets (including stock and securities of a foreign issuer) with an aggregate value in excess of US\$50,000 on the last day of the taxable year or US\$75,000 at any time during the taxable year are required to report their holdings, along with other information, on their U.S. federal income tax returns, with certain exceptions. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. If you fail to report the required information, you could be subject to substantial penalties. U.S. Holders should consult their own tax advisors to determine the scope of these disclosure responsibilities.

### **Certain Canadian Material Federal Income Tax Considerations for Residents of the United States**

The following is, at the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires, as beneficial owner, the Senior Notes, including entitlement to all payments thereunder, pursuant to this offering and who, at all relevant times and for the purposes of the Tax Act and the regulations thereunder, (i) is not, and is not deemed to be, resident in Canada (including as a consequence of the Canada-United States

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Income Tax Convention (1980), as amended), (ii) deals at arm's length with Videotron and with any transferee resident or deemed resident in Canada to whom the holder disposes of Senior Notes, (iii) does not use or hold and is not deemed to use or hold the Senior Notes in or in the course of carrying on business in Canada, (iv) does not receive any payment of interest (including any amounts deemed to be interest) on the Senior Notes in respect of a debt or other obligation to pay an amount to a person with whom Videotron does not deal at arm's length, (v) is not an "authorized foreign bank", as defined in the Tax Act, (vi) is not a "registered non-resident insurer", as defined in the Tax Act, (vii) is not an insurer carrying on an insurance business in Canada and elsewhere, and (viii) is not a, and deals at arm's length with any, "specified shareholder" of Videotron for purposes of the thin capitalization rules in the Tax Act (a "**Non-Resident Holder**"). A "specified shareholder" for these purposes generally includes a person who (either alone or together with persons with whom that person is not dealing at arm's length for the purposes of the Tax Act) owns or has the right to acquire or control or is otherwise deemed to own 25% or more of Videotron's shares determined on a votes or fair market value basis.

This summary is based on the current provisions of the Tax Act and the regulations thereunder and the current administrative and assessing practices and policies of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder announced by or on behalf of the Minister of Finance of Canada prior to the date hereof (the "**Proposed Amendments**") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that the Proposed Amendments will be enacted as proposed or at all. This summary does not otherwise take into account or anticipate any changes in law or any administrative or assessing practice, whether by judicial, governmental, regulatory or legislative decision or action, nor does it take into account provincial, territorial or foreign income tax considerations which may differ from the Canadian federal income tax considerations described herein.

THIS SUMMARY IS OF A GENERAL NATURE ONLY AND IS NOT EXHAUSTIVE OF ALL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS THAT MAY BE RELEVANT TO A PARTICULAR HOLDER. THIS SUMMARY IS NOT INTENDED TO BE, AND SHOULD NOT BE INTERPRETED AS, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER, AND NO REPRESENTATION WITH RESPECT TO THE INCOME TAX CONSEQUENCES TO ANY PARTICULAR HOLDER IS MADE. ACCORDINGLY, YOU SHOULD CONSULT YOUR OWN TAX ADVISORS WITH RESPECT TO YOUR PARTICULAR CIRCUMSTANCES.

No Canadian withholding tax will apply to interest (including any amounts deemed to be interest), principal or premium paid or credited by Videotron on the Senior Notes to a Non-Resident Holder, or to the proceeds received by a Non-Resident Holder on a disposition of a Senior Note, including a redemption, payment on maturity, repurchase or purchase for cancellation.

No other taxes on income or gains will be payable under the Tax Act by a Non-Resident Holder on interest (including any amounts deemed to be interest), principal or premium or on the proceeds received by such Non-Resident Holder on the disposition of a Senior Note, including a redemption, payment on maturity, repurchase or purchase for cancellation.

**F- Dividends and Paying Agents**

Not applicable.

**G- Statement By Experts**

Not applicable.

**H- Documents on Display**

You may read and copy documents referred to in this annual report that have been filed with the SEC at the Public Reference Room at the SEC's Headquarters, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, or obtain copies of this information by mail from the Public Reference Room at prescribed rates. You may call the SEC at 1-800-SEC-0330 for further information on the SEC's Public Reference Room. The SEC also maintains an Internet website that contains reports and other information that we have furnished electronically with the SEC. The URL of that website is

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http://www.sec.gov. Any documents referred to in this annual report may also be inspected without charge at our offices at 612 St. Jacques Street, Montréal, Québec, Canada, H3C 4M8.

**I- Subsidiary Information**

Not applicable.

**ITEM 11 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We use certain financial instruments, such as cross-currency interest rate swaps and foreign exchange forward contracts, to manage interest rate and foreign exchange risk exposures. These instruments are used solely to manage the financial risks associated with our obligations and are not used for trading or speculation purposes. For more information regarding our financial instruments and financial risk management, refer to Note 27 to our audited consolidated financial statements for the year ended December 31, 2018 included under “Item 18. Financial Statements” of this annual report.

**Foreign Currency Risk**

Most of our consolidated revenues and expenses, other than interest expense on U.S.-dollar-denominated debt, purchases of set-top boxes, handsets 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 our debt is payable in U.S. dollars. We have entered into transactions to hedge the foreign currency risk exposure on our U.S.-dollar-denominated debt obligations outstanding as of December 31, 2018 and to hedge our exposure on certain purchases of set-top boxes, handsets, cable modems and capital expenditures. Accordingly, the Corporation’s sensitivity to variations in foreign exchange rates is economically limited.

**Interest Rate Risk**

Videotron’s bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers’ acceptance rate, (ii) LIBOR, (iii) Canadian prime rate and (iv) U.S. prime rate. The Senior Notes issued by Videotron bear interest at fixed rates. Videotron has entered into cross-currency interest rate swap agreements in order to manage cash flow risk exposure. As of December 31, 2018, after taking into account the hedging instruments, long-term debt was comprised of 75.8% fixed rate debt (94.1% in 2017) and 24.2% floating rate debt (5.9% in 2017).

The estimated sensitivity on interest payments of a 100 basis-point variance in the year-end Canadian Bankers’ acceptance rate as of December 31, 2018 was \$9.2 million.

**Credit Risk**

Credit risk is the risk of financial loss to Videotron if a customer or counterparty to a financial asset fails to meet its contractual obligations and arises principally from amounts receivable from customers, including contract assets.

The carrying amounts of financial assets represent the maximum credit exposure.

In the normal course of business, Videotron continuously monitors the financial condition of its customers and reviews the credit history of each new customer. As of December 31, 2018, no customer balance represented a significant portion of Videotron’s consolidated trade receivables. Videotron is using the expected credit losses method to estimate its provision for credit losses, which considers the specific credit risk of its customers, the expected lifetime of its financial assets, historical trends and economic conditions. As of December 31, 2018, the provision for expected credit losses represented 3.0% of the gross amount of accounts receivable and contract assets (3.0% as of December 31, 2017), while 4.8% of trade receivable were 90 days past their billing date (4.9% as of December 31, 2017).

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Videotron 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. Videotron does not believe that it is exposed to an unusual level of customer credit risk.

As a result of its use of derivative financial instruments, Videotron is exposed to the risk of non-performance by a third party. When Videotron enters into derivative contracts, the counterparties (either foreign or Canadian) must have credit ratings at least in accordance with Videotron's risk management policy and are subject to concentration limits. These credit ratings and concentration limits are monitored on an ongoing basis but at least quarterly.

**Fair Value of Financial Instruments**

See "Item 5 — Operating and Financial Review and Prospects — Additional Information — Financial Instruments and Financial Risk Management — Fair Value of Financial Instruments" in this annual report.

**Material Limitations**

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Principal Repayments**

As at December 31, 2018, the aggregate amount of minimum principal payments on long-term debt required in each of the next five years and thereafter based on borrowing levels as at that date, are as follows:

| <b>Year ending December 31,</b> | <b>(in thousands of dollars)</b> |
|---------------------------------|----------------------------------|
| 2019                            | —                                |
| 2020                            | —                                |
| 2021                            | —                                |
| 2022                            | 1,090,960                        |
| 2023                            | 741,996                          |
| 2024 and thereafter             | 2,411,440                        |
| <b>Total</b>                    | <b>\$ 4,244,396</b>              |

**ITEM 12 — DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

**ITEM 13 — DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14 — MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**Material Modifications to the Rights of Security Holders**

There have been no material modifications to the rights of security holders.

**Use of Proceeds**

Not applicable.

## ITEM 15 — CONTROLS AND PROCEDURES

As at the end of the period covered by this report, Videotron’s President and Chief Executive Officer and Videotron’s Senior Vice President and Chief Financial Officer, together with members of Videotron’s senior management, have carried out an evaluation of the effectiveness of Videotron’s disclosure controls and procedures. These are defined (in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”)) as controls and procedures designed to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within specified time periods. As of the date of the evaluation, Videotron’s President and Chief Executive Officer and Videotron’s Senior Vice President and Chief Financial Officer, concluded that Videotron’s disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that Videotron files or submits under the Exchange Act is accumulated and communicated to management, including the Corporation’s principal executive and principal financial officer, to allow timely decisions regarding disclosure.

Videotron’s management is responsible for establishing and maintaining adequate internal control over financial reporting of the Corporation (as defined by Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Videotron’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Videotron’s assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS, and that receipts and expenditures of Videotron are being made only in accordance with authorizations of Videotron’s management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Videotron’s assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Videotron’s management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“**COSO**”). Based on this evaluation, management concluded that Videotron’s internal control over financial reporting was effective as of December 31, 2018.

Pursuant to the *Dodd—Frank Wall Street Reform and Consumer Protection Act of 2010* and related SEC rules, Videotron is not required to include in its annual report an attestation report of Videotron’s independent registered public accounting firm regarding Videotron’s internal control over financial reporting. Our management’s report regarding the effectiveness of our internal control over financial reporting was therefore not subject to attestation procedures by Videotron’s independent registered public accounting firm.

There have been no changes in Videotron’s internal control over financial reporting (as defined in Rule 13a-15 or 15d-15 under the Exchange Act) that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, Videotron’s internal control over financial reporting.

## ITEM 16 — [RESERVED]

### ITEM 16A — AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee has been structured to comply with the requirements of Canadian National Instrument 52-110 - Audit Committee (“**NI 52-110**”). Our Board of Directors has determined that more than one “audit committee financial expert” (as defined in Item 16A of Form 20-F) are serving on our Audit Committee and that all members of the Audit Committee are “independent” directors, as defined under SEC rules.

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**ITEM 16B — CODE OF ETHICS**

We have a Code of Ethics that applies to all directors, officers and employees of Videotron, including our Chief Executive Officer, Chief Financial Officer, principal accounting officer, controller and persons performing similar functions. Our Code of Ethics is included as an exhibit to this annual report on Form 20-F.

**ITEM 16C — PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Ernst & Young LLP has served as our independent registered public accounting firm for the fiscal years ended December 31, 2018, 2017 and 2016. The audited consolidated financial statements for each of the fiscal years in the three-year period ended December 31, 2018 are included in this annual report on Form 20-F.

The Audit Committee establishes the independent auditors' compensation. The Audit Committee adopted a policy relating to the pre-approval of services to be rendered by its independent auditors. The Audit Committee pre-approves all audit services, determines which non-audit services the independent auditors are prohibited from providing, and authorizes permitted non-audit services to be performed by the independent auditors to the extent those services are permitted by the Sarbanes-Oxley Act and Canadian law. For each of the years ended December 31, 2018, 2017 and 2016, none of the non-audit services described below were approved by the Audit Committee of our Board of Directors pursuant to the "de minimis exception" to the pre-approval requirement for non-audit services. The following table presents the aggregate fees billed for professional services and other services rendered by our independent auditors, Ernst & Young LLP, for the fiscal years ended December 31, 2018, 2017 and 2016.

|   | 2018              | 2017                | 2016              |
|---|-------------------|---------------------|-------------------|
| Audit Fees <sup>(1)</sup>                   | \$ 800,250        | \$ 778,552          | \$ 845,532        |
| Audit related Fees - filings <sup>(2)</sup> | —                 | 205,000             | —                 |
| Audit related Fees - others <sup>(3)</sup>  | 48,635            | 58,575              | 130,125           |
| Tax Fees <sup>(4)</sup>                     | 31,670            | 16,989              | 14,500            |
| All Other Fees <sup>(5)</sup>               | —                 | —                   | —                 |
| <b>Total</b>                                | <b>\$ 880,555</b> | <b>\$ 1,059,116</b> | <b>\$ 990,157</b> |

- (1) Audit Fees consist of fees approved for the annual audit of the Company's consolidated financial statements and quarterly reviews of interim financial statements of the Company, including required assistance or services that only the external auditor reasonably can provide, accounting consultations on specific issues and translation.
- (2) Audit-related Fees - filings consist of fees billed for Comfort letters and consents, prospectus and registration statements, other filings and other offerings, including annual reports and forms and statutory audits.
- (3) Audit-related Fees - others consist of fees billed for assurance and related services that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards on proposed transactions, due diligence or accounting work related to acquisitions; employee benefit plan audits.
- (4) Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refunds, tax consultations, such as assistance and representation in connection with tax audits and appeals, tax advice related to mergers, acquisitions and divestitures, transfer pricing, and requests for advance tax rulings or technical interpretations.
- (5) All Other Fees include fees billed for forensic accounting and occasional training services, assistance with respect to internal controls over financial reporting and disclosure controls and procedures.

**ITEM 16D — EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E — PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 16F — CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G — CORPORATE GOVERNANCE**

Not applicable.

**ITEM 17 — FINANCIAL STATEMENTS**

Not applicable.

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**ITEM 18 — FINANCIAL STATEMENTS**

Our consolidated balance sheets as at December 31, 2018 and 2017 and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2018, including the notes thereto and together with the report of the Independent Registered Public Accounting Firm, are included beginning on page F-1 of this annual report.

**ITEM 19 — EXHIBITS**

The following documents are filed as exhibits to this Form 20-F:

- 1.1 [Certificate and Articles of Amalgamation of Videotron as of January 4, 2018. \(incorporated by reference to Exhibit 1.1 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on March 27, 2018\).](#)
- 1.2 [By-laws of Videotron Ltd. \(translation\) \(incorporated by reference to Exhibit 1.4 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012\).](#)
- 1.3 [Certificate and Articles of Amalgamation of Le SuperClub Vidéotron Ltée \(translation\) \(incorporated by reference to Exhibit 1.5 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009\).](#)
- 1.4 [By-laws of Le SuperClub Vidéotron Ltée \(translation\) \(incorporated by reference to Exhibit 1.6 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012\).](#)
- 1.5 [Certificate of Amendment for Le SuperClub Vidéotron Ltée \(translation\) \(incorporated by reference to Exhibit 1.7 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000\).](#)
- 1.6 [Articles of Incorporation of Vidéotron Infrastructures Inc., as amended as of February 17, 2011 \(incorporated by reference to Exhibit 1.7 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed on March 21, 2011\).](#)
- 1.7 [By-laws of Vidéotron Infrastructures Inc. \(translation\) \(incorporated by reference to Exhibit 1.8 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012\).](#)
- 1.8 [Certificate of Incorporation of Videotron US Inc. as of September 20, 2007 \(incorporated by reference to Exhibit 1.9 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009\).](#)
- 1.9 [Amended and Restated Certificate of Incorporation of Videotron US Inc. as of October 1, 2008 \(incorporated by reference to Exhibit 1.10 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009\).](#)
- 1.10 [By-laws of Videotron US Inc. \(incorporated by reference to Exhibit 1.11 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009\).](#)
- 1.11 [Declaration of registration of Videotron G.P. \(incorporated by reference to Exhibit 1.12 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed on March 21, 2011\).](#)
- 1.12 [Declaration of registration of Videotron L.P. \(incorporated by reference to Exhibit 1.13 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed on March 21, 2011\).](#)
- 1.13 [Certificate and Articles of Constitution of 9230-7677 Québec inc. \(translation\) \(incorporated by reference to Exhibit 1.14 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed on March 21, 2011\).](#)

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- 1.14 [By-laws of 9230-7677 Québec inc. \(translation\) \(incorporated by reference to Exhibit 1.15 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012\).](#)
- 1.15 [Certificate and Articles of Constitution of 9227-2590 Québec inc. \(translation\) \(incorporated by reference to Exhibit 1.18 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000\).](#)
- 1.16 [By-laws of 9227-2590 Québec inc. \(translation\) \(incorporated by reference to Exhibit 1.19 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000\).](#)
- 1.17 [Certificate and Articles of Incorporation as of 9529454 Canada Inc. as of November 30, 2011 \(translation\). \(incorporated by reference to Exhibit 1.26 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 1.18 [By-laws of 9529454 Canada Inc. \(translation\) \(incorporated by reference to Exhibit 1.27 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 1.19 [Certificate and Articles of Amalgamation of 8480869 Canada Inc. as of January 7, 2016 \(incorporated by reference to Exhibit 1.28 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 1.20 [By-laws of 8480869 Canada Inc. \(translation\) \(incorporated by reference to Exhibit 1.29 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 1.21 [Certificate and Articles of Amalgamation of Fibre Noire Internet Inc. as of April 19, 2013, as amended on June 27, 2014, and January 6, 2016 \(incorporated by reference to Exhibit 1.30 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 1.22 [By-laws of Fibrenoire Inc. \(translation\) \(incorporated by reference to Exhibit 1.31 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 1.23 [Certificate and Articles of Incorporation of Canadian P2P Fibre Systems Ltd. as of June 15, 2007 \(incorporated by reference to Exhibit 1.32 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 1.24 [By-laws of Canadian P2P Fibre Systems Ltd \(translation\) \(incorporated by reference to Exhibit 1.33 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 1.25 [Certificate and Articles of Constitution of 9176-6857 Québec Inc. as of December 5, 2006 \(translation\) \(incorporated by reference to Exhibit 1.29 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on March 21, 2017, Commission file No. 033-51000\).](#)
- 1.26 [Certificate and Articles of Amendment of 9176-6857 Québec Inc. as of June 13, 2014 \(translation\) \(incorporated by reference to Exhibit 1.30 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on March 21, 2017, Commission file No. 033-51000\).](#)
- 1.27 [By-laws of 9176-6857 Québec Inc. \(translation\) \(incorporated by reference to Exhibit 1.31 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on March 21, 2017, Commission file No. 033-51000\).](#)

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- 2.1 [Form of 5% Senior Notes due July 15, 2022 of Videotron Ltd. \(incorporated by reference to Exhibit A to Exhibit 2.47 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000\).](#)
- 2.2 [Form of Notation of Guarantee by the subsidiary guarantors of the 5% Senior Notes due July 15, 2022 of Videotron Ltd. \(incorporated by reference to Exhibit E to Exhibit 2.47 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000\).](#)
- 2.3 [Indenture, dated as of March 14, 2012, by and among Videotron Ltd., the subsidiary guarantors signatory thereto and Wells Fargo Bank, National Association, as trustee \(incorporated by reference to Exhibit 2.47 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000\).](#)
- 2.4 [Supplemental Indenture, dated as of March 12, 2015, by and among Videotron Ltd., 4Degrees Colocation Inc., as guarantor, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of March 14, 2012 \(incorporated by reference to Exhibit 2.9 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 2.5 [Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of March 14, 2012 \(incorporated by reference to Exhibit 2.10 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 2.6 [Supplemental Indenture, dated as of June 20, 2016, by and among Videotron, 9176-6857 Québec Inc., as guarantor, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of March 14, 2012 \(incorporated by reference to Exhibit 2.12 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on March 21, 2017, Commission file No. 033-51000\).](#)
- 2.7 [Form of 5<sup>5</sup>/<sub>8</sub>% Senior Notes due June 15, 2025 of Videotron Ltd. \(incorporated by reference to Exhibit A to Exhibit 2.40 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000\).](#)
- 2.8 [Form of Notation of Guarantee of the subsidiary guarantors of the 5<sup>5</sup>/<sub>8</sub>% Senior Notes due June 15, 2025 of Videotron Ltd. \(incorporated by reference to Exhibit E to Exhibit 2.40 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000\).](#)
- 2.9 [Indenture, dated as of June 17, 2013, by and among Videotron Ltd., the subsidiary guarantors party thereto, and Computershare Trust Company of Canada, as trustee \(incorporated by reference to Exhibit 2.40 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000\).](#)
- 2.10 [Supplemental Indenture, dated as of March 12, 2015, by and among Videotron Ltd., 4Degrees Colocation Inc., as guarantor, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of June 17, 2013 \(incorporated by reference to Exhibit 2.14 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 2.11 [Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of June 17, 2013 \(incorporated by reference to Exhibit 2.5 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)

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- 2.12 [Supplemental Indenture, dated as of June 20, 2016, by and among Videotron, 9176-6857 Québec Inc., as guarantor, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of June 17, 2013 \(incorporated by reference to Exhibit 2.6 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on March 21, 2017, Commission file No. 033-51000\)](#)
- 2.13 [Form of 5<sup>3</sup>/<sub>8</sub>% Senior Notes due June 15, 2024 of Videotron Ltd. \(incorporated by reference to Exhibit A to Exhibit 2.32 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 23, 2015, Commission file No. 033-51000\).](#)
- 2.14 [Form of Notation of Guarantee of the subsidiary guarantors of the 5<sup>3</sup>/<sub>8</sub>% Senior Notes due June 15, 2024 of Videotron Ltd. \(incorporated by reference to Exhibit E to Exhibit 2.32 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 23, 2015, Commission file No. 033-51000\).](#)
- 2.15 [Indenture, dated as of April 9, 2014, by and among Videotron Ltd., the subsidiary guarantors party thereto, and Wells Fargo Bank, National Association, as trustee \(incorporated by reference to Exhibit 2.32 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 23, 2015, Commission file No. 033-51000\).](#)
- 2.16 [Supplemental Indenture, dated as of March 12, 2015, by and among Videotron Ltd., 4Degrees Colocation Inc., as guarantor, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of April 9, 2014 \(incorporated by reference to Exhibit 2.19 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 2.17 [Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of April 9, 2014 \(incorporated by reference to Exhibit 2.20 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 2.18 [Supplemental Indenture, dated as of June 20, 2016, by and among Videotron, 9176-6857 Québec Inc., as guarantor, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of April 9, 2014. \(incorporated by reference to Exhibit 2.24 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on March 21, 2017, Commission file No. 033-51000\).](#)
- 2.19 [Form of 5<sup>3</sup>/<sub>4</sub>% Senior Notes due January 15, 2026 of Videotron Ltd. \(incorporated by reference to Exhibit A to Exhibit 2.23 to Videotron's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 2.20 [Form of Notation of Guarantee by the subsidiary guarantors of the 5<sup>3</sup>/<sub>4</sub>% Senior Notes due January 15, 2026 of Videotron Ltd. \(incorporated by reference to Exhibit E to Exhibit 2.23 to Videotron's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 2.21 [Indenture, dated as of September 15, 2015, by and among Videotron Ltd., the subsidiary guarantors signatory thereto and Computershare Trust Company of Canada, as trustee \(incorporated by reference to Exhibit 2.23 to Videotron's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 2.22 [Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of September 15, 2015 \(incorporated by reference to Exhibit 2.11 above\).](#)
- 2.23 [Supplemental Indenture, dated as of June 20, 2016, by and among Videotron, 9176-6857 Québec Inc., as guarantor, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of September 15, 2015 \(incorporated by reference to Exhibit 2.12 above\).](#)

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- 2.24 [Form of 5<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2027 of Videotron Ltd. \(incorporated by reference to Exhibit A to Exhibit 2.26 below\).](#)
- 2.25 [Form of Notation of Guarantee by the subsidiary guarantors of the 5<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2027 of Videotron Ltd. \(incorporated by reference to Exhibit E to Exhibit 2.26 below\).](#)
- 2.26 [Indenture, dated as of April 13, 2017, by and among Videotron Ltd., the subsidiary guarantors signatory thereto and Wells Fargo Bank, National Association, as trustee \(incorporated by reference to Exhibit 2.26 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on March 27, 2018\).](#)
- 4.1 [Amended and Restated Credit Agreement, dated as of July 20, 2011, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by Le SuperClub Videotron, Videotron Infrastructures Inc., Jobboom Inc., Videotron US Inc., 9227-2590 Québec Inc., 9230-7677 Québec Inc., Videotron G.P., and Videotron L.P., as guarantors \(incorporated by reference to Exhibit 4.1 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000\).](#)
- 4.2 [First Amending Agreement, dated as of June 14, 2013, amending the Amended and Restated Credit Agreement, dated as of July 20, 2011, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by Le SuperClub Videotron, Videotron Infrastructures Inc., Videotron US Inc., 9227-2590 Québec inc., 9230-7677 Québec inc., Videotron G.P., Videotron L.P. and 8487782 Canada Inc. as guarantors \(incorporated by reference to Exhibit 4.2 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file, No. 033-51000\).](#)
- 4.3 [Second Amending Agreement, dated as of January 28, 2015, amending the Amended and Restated Credit Agreement, dated as of July 20, 2011, as amended, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by 9293-6707 Québec Inc., 9227-2590 Québec Inc., 9230-7677 Québec Inc., 8487782 Canada Inc., Videotron G.P., Videotron L.P. and Videotron Infrastructures Inc., as guarantors \(incorporated by reference to Exhibit 4.3 to Videotron's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 4.4 [Third Amending Agreement, dated as of June 16, 2015, amending the Amended and Restated Credit Agreement, dated as of July 20, 2011, as amended, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by 9293-6707 Québec Inc., 9227-2590 Québec Inc., 9230-7677 Québec Inc., 8487782 Canada Inc., Videotron G.P., Videotron L.P., Videotron Infrastructures Inc. and 4Degrees Colocation Inc., as guarantors \(incorporated by reference to Exhibit 4.4 to Videotron's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed on March 18, 2016, Commission file No. 033-51000\).](#)
- 4.5 [First Amending Agreement to the Amended and Restated Credit Agreement \(made pursuant to the Third Amendment Agreement dated June 16, 2015 filed as Exhibit 4.4\), dated as of June 24, 2016, amending the Amended and Restated Credit Agreement, dated as of June 16, 2015, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by 9293-6707 Québec Inc., 9227-2590 Québec Inc., 9230-7677 Québec Inc., 9176-6857 Québec Inc., Videotron G.P., Videotron L.P., Videotron Infrastructures Inc., 4Degrees Colocation Inc., 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors \(incorporated by reference to Exhibit 4.5 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2016, filed on March 21, 2017, Commission file No. 033-51000\).](#)

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- 4.6 [Second Amending Agreement to the Amended and Restated Credit Agreement \(made pursuant to the Third Amendment Agreement dated June 16, 2015 filed as Exhibit 4.4\), dated as of January 3, 2018, amending the Amended and Restated Credit Agreement, dated as of June 16, 2015, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by 9293-6707 Québec Inc., 9176-6857 Québec Inc., Videotron Infrastructures Inc., 4Degrees Colocation Inc., 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors \(incorporated by reference to Exhibit 4.6 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2017, filed on March 27, 2018\).](#)
- 4.7 [Third Amending Agreement to the Amended and Restated Credit Agreement \(made pursuant to the Third Amendment Agreement dated June 16, 2015 filed as Exhibit 4.4\), dated as of November 26, 2018, amending the Amended and Restated Credit Agreement, dated as of June 16, 2015, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by 9293-6707 Québec Inc., 9227-2590 Québec Inc., 9230-7677 Québec Inc., 9176-6857 Québec Inc., Videotron G.P., Videotron L.P., Videotron Infrastructures Inc., 4Degrees Colocation Inc., 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors.](#)
- 4.8 [Form of Guarantee of the Guarantors of the Credit Agreement \(incorporated by reference to Schedule D of Exhibit 4.1 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000\).](#)
- 4.9 [Form of Share Pledge of the shares of Videotron Ltd. and the Guarantors of the Credit Agreement \(incorporated by reference to Schedule E of Exhibit 4.1 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000\).](#)
- 4.10 [Management Services Agreement, effective as of January 1, 2002, between Quebecor Media and Videotron Ltd. \(incorporated by reference to Exhibit 10.5 to Videotron Ltd.'s Registration Statement on Form F-4 dated November 24, 2003, Registration Statement No. 333-110697\).](#)
- 7.1 [Statement regarding calculation of ratio of earnings to fixed charges.](#)
- 8.1 [Subsidiaries of Videotron Ltd.](#)
- 11.1 [Code of Ethics.](#)
- 12.1 [Certification of Jean-François Pruneau, President and Chief Executive Officer of Videotron Ltd., pursuant to 15 U.S.C. Section 78\(m\)\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 12.2 [Certification of Philippe Cloutier, Senior Vice President and Chief Financial Officer of Videotron Ltd., pursuant to 15 U.S.C. Section 78\(m\)\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 13.1 [Certification of Jean-François Pruneau, President and Chief Executive Officer of Videotron Ltd., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.](#)
- 13.2 [Certification of Philippe Cloutier, Senior Vice President and Chief Financial Officer of Videotron Ltd. pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.](#)

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**VIDEOTRON LTD.**

By: /s/ Philippe Cloutier

Name: Philippe Cloutier  
Title: Senior Vice President and  
Chief Financial Officer

Dated: March 26, 2019

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Consolidated financial statements of

**VIDEOTRON LTD.**

Years ended December 31, 2018, 2017 and 2016

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**Videotron Ltd.**

*Annual Consolidated Financial Information as at December 31, 2016 and 2015 and for the Years Ended December 31, 2018, 2017 and 2016*

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**Report of Independent Registered Public Accounting Firm**

**To the Shareholders and the Board of Directors of Videotron Ltd.**

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated statements of financial position of Videotron Ltd. (the “Corporation”) as of December 31, 2018, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity and cash flows, for each of the three years in the period ended December 31, 2018, and related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

**Adoption of IFRS 15**

As discussed in Note 1 to the consolidated financial statements, on January 1, 2018, the Corporation adopted, on a fully retrospective basis, IFRS 15, *Revenue from Contracts with Customers*. The adoption had significant impacts the consolidated financial statements with regards to the timing of the recognition of revenues, the classification of revenues, as well as the capitalization of costs, such as the costs to obtain a contract and connection costs. The impacts of the retroactive adoption on the comparative consolidated financial figures are disclosed in the Note 1.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on the Corporation’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP <sup>1</sup>

We have served as the Company’s auditor since 2008.

Montreal, Canada  
March 12, 2019

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<sup>1</sup> CPA auditor, CA, public accountancy permit no. A120803

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**VIDEOTRON LTD.  
CONSOLIDATED STATEMENTS OF INCOME**

Years ended December 31, 2018, 2017 and 2016  
(in thousands of Canadian dollars)

|  | Note | 2018              | 2017<br>(restated,<br>notes 1(b),28) | 2016<br>(restated,<br>notes 1(b),28) |
|--|------|-------------------|--------------------------------------|--------------------------------------|
| <b>Revenues</b>  |      |                   |                                      |                                      |
| Cable television   |      | \$ 996,736        | \$ 1,009,584                         | \$ 1,024,283                         |
| Internet   |      | 1,079,301         | 1,030,861                            | 978,723                              |
| Mobile telephony   |      | 534,377           | 469,841                              | 409,621                              |
| Cable telephony  |      | 368,644           | 397,787                              | 424,795                              |
| Over-the-top video   |      | 46,977            | 39,720                               | 31,443                               |
| Business   |      | 108,242           | 104,830                              | 99,155                               |
| Equipment sales  |      | 233,463           | 218,960                              | 206,915                              |
| Other  |      | 8,743             | 9,967                                | 9,918                                |
|  |      | <u>3,376,483</u>  | <u>3,281,550</u>                     | <u>3,184,853</u>                     |
| Employee costs   | 2    | 385,223           | 386,353                              | 376,757                              |
| Purchase of goods and services                               | 2    | 1,315,476         | 1,338,804                            | 1,299,526                            |
| Amortization   |      | 662,341           | 650,163                              | 594,164                              |
| Financial expenses   | 3    | 181,994           | 147,681                              | 160,529                              |
| Loss on valuation and translation of financial instruments   |      | 691               | 3,098                                | 2,126                                |
| Restructuring of operations, litigation and other items      | 4    | 17,163            | 5,805                                | 15,879                               |
| Gain on sale of spectrum licences                            | 5    | —                 | (330,871)                            | —                                    |
| Loss on debt refinancing                                     | 6    | —                 | 5,201                                | 7,346                                |
| <b>Income before income taxes</b>                            |      | <u>813,595</u>    | <u>1,075,316</u>                     | <u>728,526</u>                       |
| Income taxes (recovery):                                     |      |                   |                                      |                                      |
| Current  | 7    | 145,425           | (3,248)                              | 153,976                              |
| Deferred   | 7    | 20,100            | 142,368                              | (20,023)                             |
|  |      | <u>165,525</u>    | <u>139,120</u>                       | <u>133,953</u>                       |
| <b>Income from continuing operations</b>                     |      | <u>648,070</u>    | <u>936,196</u>                       | <u>594,573</u>                       |
| Income from discontinued operations                          | 28   | 3,850             | 3,685                                | 977                                  |
| <b>Net income</b>  |      | <u>\$ 651,920</u> | <u>\$ 939,881</u>                    | <u>\$ 595,550</u>                    |
| <b>Net income from continuing operations attributable to</b> |      |                   |                                      |                                      |
| Shareholders   |      | \$ 648,041        | \$ 936,144                           | \$ 594,540                           |
| Non-controlling interests                                    |      | 29                | 52                                   | 33                                   |
| <b>Net income attributable to</b>                            |      |                   |                                      |                                      |
| Shareholders   |      | \$ 651,891        | \$ 939,829                           | \$ 595,517                           |
| Non-controlling interests                                    |      | 29                | 52                                   | 33                                   |

See accompanying notes to consolidated financial statements.

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**VIDEOTRON LTD.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years ended December 31, 2018, 2017 and 2016  
(in thousands of Canadian dollars)

|  | <u>Note</u> | <u>2018</u>       | <u>2017</u><br>(restated,<br>notes 1(b)) | <u>2016</u><br>(restated,<br>notes 1(b)) |
|--|-------------|-------------------|--|--|
| <b>Net income</b>  |             | <b>\$ 651,920</b> | <b>\$ 939,881</b>                        | <b>\$ 595,550</b>                        |
| Other comprehensive (loss) income:                           |             |                   |  |  |
| Items that may be reclassified to income:                    |             |                   |  |  |
| Cash flows hedges:   |             |                   |  |  |
| (Loss) gain on valuation of derivative financial instruments |             | (6,695)           | 35,235                                   | (18,301)                                 |
| Deferred income taxes  |             | (4,243)           | 11,977                                   | 7,545                                    |
| Items that will not be reclassified to income:               |             |                   |  |  |
| Defined benefit plans:                                       |             |                   |  |  |
| Re-measurement (loss) gain                                   | 27          | (12,746)          | (7,012)                                  | 5,025                                    |
| Deferred income taxes  |             | 3,456             | 1,879                                    | (1,332)                                  |
|  |             | <u>(20,228)</u>   | <u>42,079</u>                            | <u>(7,063)</u>                           |
| <b>Comprehensive income</b>                                  |             | <b>\$ 631,692</b> | <b>\$ 981,960</b>                        | <b>\$ 588,487</b>                        |
| <b>Comprehensive income attributable to</b>                  |             |                   |  |  |
| Shareholders   |             | \$ 631,663        | \$ 981,908                               | \$ 588,454                               |
| Non-controlling interests                                    |             | 29                | 52                                       | 33                                       |

See accompanying notes to consolidated financial statements.

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**VIDEOTRON LTD.  
CONSOLIDATED STATEMENTS OF EQUITY**

Years ended December 31, 2018, 2017 and 2016  
(in thousands of Canadian dollars)

|   | Equity attributable to shareholders |                             |  | Equity attributable to non-controlling interests | Total equity        |
|---|-------------------------------------|-----------------------------|--|--|---------------------|
|   | Capital stock (note 20)             | Retained earnings (deficit) | Accumulated other comprehensive loss (note 22) |  |                     |
| Balance as of December 31, 2016, as previously reported | \$ 132,401                          | \$ 1,022,737                | \$ (83,907)                                    | \$ 509   | \$ 1,071,740        |
| Changes in accounting policies (note 1(b))              | —                                   | 177,317                     | —  | —  | 177,317             |
| Balance as of December 31, 2016, as restated            | 132,401                             | 1,200,054                   | (83,907)                                       | 509  | 1,249,057           |
| Net income  | —                                   | 939,829                     | —  | 52   | 939,881             |
| Other comprehensive income                              | —                                   | —                           | 42,079   | —  | 42,079              |
| Dividends   | —                                   | (295,000)                   | —  | —  | (295,000)           |
| Balance as of December 31, 2017, as restated            | 132,401                             | 1,844,883                   | (41,828)                                       | 561  | 1,936,017           |
| Net income  | —                                   | 651,891                     | —  | 29   | 651,920             |
| Other comprehensive loss                                | —                                   | —                           | (20,228)                                       | —  | (20,228)            |
| Corporate reorganization (note 20)                      | 3,776,170                           | (3,776,170)                 | —  | —  | —                   |
| Reduction of paid-up capital (note 20)                  | (2,588,100)                         | —                           | —  | —  | (2,588,100)         |
| Dividends   | —                                   | (113,000)                   | —  | (155)  | (113,155)           |
| <b>Balance as of December 31, 2018</b>                  | <b>\$ 1,320,471</b>                 | <b>\$ (1,392,396)</b>       | <b>\$ (62,056)</b>                             | <b>\$ 435</b>                                    | <b>\$ (133,546)</b> |

See accompanying notes to consolidated financial statements.

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**VIDEOTRON LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2018, 2017 and 2016  
(in thousands of Canadian dollars)

|   | Note | 2018               | 2017<br>(restated,<br>notes 1(b),28) | 2016<br>(restated,<br>notes 1(b),28) |
|---|------|--------------------|--------------------------------------|--------------------------------------|
| <b>Cash flows related to operating activities</b>                           |      |                    |                                      |                                      |
| Net income from continuing operations                                       |      | \$ 648,070         | \$ 936,196                           | \$ 594,573                           |
| Adjustments for:  |      |                    |                                      |                                      |
| Amortization of fixed assets  | 12   | 573,595            | 565,701                              | 515,772                              |
| Amortization of intangible assets   | 13   | 88,746             | 84,462                               | 78,392                               |
| Loss on valuation and translation of financial instruments                  |      | 691                | 3,098                                | 2,126                                |
| Gain on sales of spectrum licences  | 5    | —                  | (330,871)                            | —                                    |
| Amortization of financing costs and long-term debt premium or discount      | 3    | 4,285              | 4,333                                | 3,904                                |
| Deferred income taxes   | 7    | 20,100             | 142,368                              | (20,023)                             |
| Impairment of assets  | 4    | 12,893             | —                                    | —                                    |
| Loss on debt refinancing  | 6    | —                  | 5,201                                | 7,346                                |
| Other   |      | 3,055              | 7,669                                | 6,892                                |
|   |      | <u>1,351,435</u>   | <u>1,418,157</u>                     | <u>1,188,982</u>                     |
| Net change in non-cash balances related to operating activities             |      | 145,101            | (155,932)                            | 51,857                               |
| Cash flows provided by continuing operating activities                      |      | <u>1,496,536</u>   | <u>1,262,225</u>                     | <u>1,240,839</u>                     |
| <b>Cash flows related to investing activities</b>                           |      |                    |                                      |                                      |
| Additions to fixed assets   | 12   | (516,716)          | (570,817)                            | (613,582)                            |
| Additions to intangible assets  | 13   | (190,216)          | (132,254)                            | (125,482)                            |
| Business acquisition  | 8    | 1,304              | (5,553)                              | (118,946)                            |
| Redemption (issuance) of loan to the parent corporation                     | 10   | 342,000            | (342,000)                            | —                                    |
| (Redemption) acquisition of preferred shares from an affiliated corporation | 11   | (1,595,000)        | —                                    | 2,090,000                            |
| Proceeds from disposal of assets  | 5    | 5,623              | 619,863                              | 3,376                                |
| Cash flows (used in) provided by continuing investing activities            |      | <u>(1,953,005)</u> | <u>(430,761)</u>                     | <u>1,235,366</u>                     |
| <b>Cash flows related to financing activities</b>                           |      |                    |                                      |                                      |
| Net change in bank indebtedness   |      | 8,301              | (10,118)                             | (1,580)                              |
| Net changes under bank revolving facility                                   |      | 736,457            | (209,323)                            | (37,984)                             |
| Issuance of long-term debt, net of financing fees                           | 18   | —                  | 794,580                              | —                                    |
| Repayment of long-term debt   | 18   | (5,357)            | (321,027)                            | (10,714)                             |
| Settlement of hedging contracts   | 6    | —                  | 18,346                               | (4,646)                              |
| Dividends   |      | (113,000)          | (295,000)                            | (282,000)                            |
| Reduction in paid-up capital  | 20   | (2,588,100)        | —                                    | —                                    |
| Issuance (repayment) of a loan from the parent corporation                  | 11   | 1,595,000          | —                                    | (2,090,000)                          |
| Other   |      | (154)              | (7)                                  | (232)                                |
| Cash flows used in continuing financing activities                          |      | <u>(366,853)</u>   | <u>(22,549)</u>                      | <u>(2,427,156)</u>                   |
| Net change in cash and cash equivalents from continuing operations          |      | <u>(823,322)</u>   | 808,915                              | 49,049                               |
| Cash flows provided by (used in) discontinued operations                    | 28   | 8,526              | 5,972                                | (49,862)                             |
| Cash and cash equivalents at beginning of year                              |      | <u>815,848</u>     | 961                                  | 1,774                                |
| <b>Cash and cash equivalents at end of year</b>                             |      | <u>\$ 1,052</u>    | <u>\$ 815,848</u>                    | <u>\$ 961</u>                        |

See accompanying notes to consolidated financial statements.

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**VIDEOTRON LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(in thousands of Canadian dollars)

|  | <u>2018</u>       | <u>2017</u><br>(restated,<br>notes 1(b),28) | <u>2016</u><br>(restated,<br>Notes 1(b),28) |
|--|-------------------|---|---|
| <b>Additional information on the consolidated statements of cash flows</b>                   |                   |   |   |
| <b>Cash and cash equivalents consist of</b>  |                   |   |   |
| Cash   | \$ 228            | \$ 814,150                                  | \$ 161                                      |
| Cash equivalents   | 824               | 1,698                                       | 800   |
|  | <u>\$ 1,052</u>   | <u>\$ 815,848</u>                           | <u>\$ 961</u>                               |
| <b>Changes in non-cash balances related to operating activities</b>                          |                   |   |   |
| Accounts receivable  | \$ (6,049)        | \$ (8,730)                                  | \$ (52,968)                                 |
| Contract assets  | (21,243)          | (27,821)                                    | (54,063)                                    |
| Amounts receivable from and payable to affiliated corporations                               | (20,127)          | (16,224)                                    | 13,296                                      |
| Inventories  | 2,597             | (3,526)                                     | 28,933                                      |
| Prepaid expenses   | (1,857)           | (8,227)                                     | (6,927)                                     |
| Accounts payable, accrued charges and provisions   | 41,557            | (25,650)                                    | 31,549                                      |
| Income taxes   | 151,115           | (58,862)                                    | 54,942                                      |
| Stock-based compensation   | (968)             | 1,698                                       | 1,465                                       |
| Deferred revenues  | (1,317)           | (2,861)                                     | 38,390                                      |
| Defined benefit plans  | 752               | (2,588)                                     | 3,653                                       |
| Other  | 641               | (3,141)                                     | (6,413)                                     |
|  | <u>\$ 145,101</u> | <u>\$ (155,932)</u>                         | <u>\$ 51,857</u>                            |
| <b>Non-cash investing activities</b>   |                   |   |   |
| Net change in additions to fixed assets and intangible assets financed with accounts payable | \$ 67,722         | \$ 22,729                                   | \$ (1,828)                                  |
| <b>Interest and taxes reflected as operating activities</b>                                  |                   |   |   |
| Cash interest payments   | \$ 181,251        | \$ 152,885                                  | \$ 154,540                                  |
| Cash income tax payments (net of refunds)  | 1,567             | 56,624                                      | 99,544                                      |

See accompanying notes to consolidated financial statements.

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**VIDEOTRON LTD.  
CONSOLIDATED BALANCE SHEETS**

December 31, 2018, 2017 and 2016  
(in thousands of Canadian dollars)

|   | <u>Note</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u><br>(restated, note<br>1(b)) | <u>December 31, 2016</u><br>(restated, note<br>1(b)) |
|---|-------------|--------------------------|--|--|
| <b>Assets</b>                                   |             |                          |  |  |
| <b>Current assets</b>                           |             |                          |  |  |
| Cash and cash equivalents                       |             | \$ 1,052                 | \$ 815,848   | \$ 961   |
| Accounts receivable                             |             | 342,932                  | 337,768  | 329,037  |
| Contract assets                                 | 15          | 144,360                  | 132,795  | 106,403  |
| Amounts receivable from affiliated corporations | 26          | 9,704                    | 7,021  | 2,657  |
| Income taxes                                    |             | —                        | 27,158   | —  |
| Inventories                                     | 9           | 86,568                   | 89,590   | 86,064   |
| Prepaid expenses                                |             | 52,075                   | 46,163   | 38,242   |
| Other current assets                            | 15          | 53,409                   | 55,894   | 49,387   |
| Assets held for sale                            | 28          | 95,027                   | —  | —  |
| <b>Total current assets</b>                     |             | <b>785,127</b>           | <b>1,512,237</b>                                     | <b>612,751</b>                                       |
| <b>Non-current assets</b>                       |             |                          |  |  |
| Investments                                     | 11          | 1,595,000                | —  | —  |
| Fixed assets                                    | 12          | 3,120,914                | 3,257,388  | 3,261,883  |
| Intangible assets                               | 13          | 1,059,599                | 907,972  | 1,123,257  |
| Goodwill  | 14          | 515,016                  | 535,932  | 535,932  |
| Derivative financial instruments                | 25          | 464,990                  | 293,157  | 417,788  |
| Subordinated loan to parent corporation         | 10          | —                        | 342,000  | —  |
| Other assets                                    | 15          | 112,744                  | 100,856  | 102,321  |
| <b>Total non-current assets</b>                 |             | <b>6,868,263</b>         | <b>5,437,305</b>                                     | <b>5,441,181</b>                                     |
| <b>Total assets</b>                             |             | <b>\$ 7,653,390</b>      | <b>\$ 6,949,542</b>                                  | <b>\$ 6,053,932</b>                                  |

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**VIDEOTRON LTD.  
CONSOLIDATED BALANCE SHEETS (continued)**

December 31, 2018, 2017 and 2016  
(in thousands of Canadian dollars)

|  | Note  | December 31, 2018   | December 31, 2017<br>(restated, note<br>1(b)) | December 31, 2016<br>(restated, note<br>1(b)) |
|--|-------|---------------------|---|---|
| <b>Liabilities and Equity</b>                    |       |                     |   |   |
| <b>Current liabilities</b>                       |       |                     |   |   |
| Bank indebtedness                                |       | \$ 8,301            | \$ —  | \$ 10,118                                     |
| Accounts payable and accrued charges             | 16    | 592,970             | 491,910                                       | 456,437                                       |
| Amounts payable to affiliated corporations       | 26    | 41,506              | 54,675  | 66,534  |
| Provisions                                       | 17    | 19,447              | 17,508  | 60,321  |
| Deferred revenues                                |       | 312,019             | 312,772                                       | 309,910                                       |
| Income taxes                                     |       | 120,195             | —   | 33,370  |
| Current portion of long-term debt                | 18    | —                   | 5,357   | 10,714  |
| Liabilities held for sale                        | 28    | 6,629               | —   | —   |
| <b>Total current liabilities</b>                 |       | <b>1,101,067</b>    | <b>882,222</b>                                | <b>947,404</b>                                |
| <b>Non-current liabilities</b>                   |       |                     |   |   |
| Long-term debt                                   | 18    | 4,219,598           | 3,264,973                                     | 3,152,394                                     |
| Subordinated loan from parent corporation        | 11    | 1,595,000           | —   | —   |
| Derivative financial instruments                 |       | —                   | 34,129  | —   |
| Deferred income taxes                            | 7     | 740,198             | 719,334                                       | 589,465                                       |
| Other liabilities                                | 19    | 131,073             | 112,867                                       | 115,612                                       |
| <b>Total non-current liabilities</b>             |       | <b>6,685,869</b>    | <b>4,131,303</b>                              | <b>3,857,471</b>                              |
| <b>Total liabilities</b>                         |       | <b>7,786,936</b>    | <b>5,013,525</b>                              | <b>4,804,875</b>                              |
| <b>Equity</b>                                    |       |                     |   |   |
| Capital stock                                    | 20    | 1,320,471           | 132,401                                       | 132,401                                       |
| (Deficit) retained earnings                      |       | (1,392,396)         | 1,844,883                                     | 1,200,054                                     |
| Accumulated other comprehensive loss             | 22    | (62,056)            | (41,828)                                      | (83,907)                                      |
| <b>Equity attributable to shareholders</b>       |       | <b>(133,981)</b>    | <b>1,935,456</b>                              | <b>1,248,548</b>                              |
| Equity attributable to non-controlling interests |       | 435                 | 561   | 509   |
| <b>Total equity</b>                              |       | <b>(133,546)</b>    | <b>1,936,017</b>                              | <b>1,249,057</b>                              |
| Subsequent events                                | 29    |                     |   |   |
| Commitments and contingencies                    | 17,23 |                     |   |   |
| Guarantees                                       | 24    |                     |   |   |
| <b>Total liabilities and equity</b>              |       | <b>\$ 7,653,390</b> | <b>\$ 6,949,542</b>                           | <b>\$ 6,053,932</b>                           |

See accompanying notes to consolidated financial statements.

On March 12, 2019, the Board of Directors approved the consolidated financial statements for the years ended December 31, 2018, 2017 and 2016. On behalf of the Board of Directors,

/s/ Brian Mulrone

/s/ Normand Provost

**The Right Honourable Brian Mulrone, P.C., C.C., LL.D.,**  
Chairman of the Board

**Normand Provost,**  
Director

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**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

Videotron Ltd. (the “Corporation”) is incorporated under the laws of Québec and is a wholly owned subsidiary of Quebecor Media Inc. (the parent corporation) and is a subsidiary of Quebecor Inc. (the ultimate parent corporation). The Corporation’s head office and registered office is located at 612, rue Saint-Jacques, Montréal (Québec), Canada. The percentages of voting rights and equity in its major subsidiaries are as follows:

|                                | <u>% equity and voting</u> |
|--------------------------------|----------------------------|
| Videotron Infrastructures Inc. | 100.0%                     |
| Videotron US Inc.              | 100.0%                     |
| Fibretoire Inc.                | 100.0%                     |
| SETTE Inc.                     | 84.53%                     |

The Corporation offers television distribution, Internet access, business solutions, cable and mobile telephony and over-the-top video services in Canada and is engaged in the rental of movies and televisual products through its video-on-demand services

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of presentation**

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments (note 1(j)), the liability related to stock-based compensation (note 1(t)) and the net defined benefit liability (note 1(u)), and they are presented in Canadian dollars (“CAN dollars”), which is the currency of the primary economic environment in which the Corporation operates (“functional currency”).

Comparative figures for the years ended December 31, 2017 and 2016 have been restated to conform to the presentation adopted for the year ended December 31, 2018.

**(b) Changes in accounting policies**

(i) IFRS 9 — *Financial Instruments*

On January 1, 2018, the Corporation adopted the new rules under IFRS 9, *Financial Instruments*, which simplify the measurement and classification of financial assets by reducing the number of measurement categories in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk-management activities undertaken by entities.

Under the new rules, most of financial assets and liabilities of the Corporation are now classified as subsequently measured at amortized cost, except for derivative financial instruments, which are measured at fair value. The Corporation is also using the IFRS 9 expected credit losses method to estimate the provision for expected credit losses on its financial assets.

The adoption of IFRS 9 had no impact on the consolidated financial statements.

(ii) IFRS 15 — *Revenue from Contracts with Customers*

On January 1, 2018, the Corporation adopted, on a fully retrospective basis, the new rules under IFRS 15, *Revenue from Contracts with Customers*, which specify how and when an entity should recognize revenue, and which also require the entity to provide users of financial statements with more informative disclosures. The standard provides a single, principles-based, five-step model to apply to each contract with a customer (note 1(f)).

The adoption of IFRS 15 had significant impacts on the consolidated financial statements with regards to the timing of the recognition of its revenues, the classification of its revenues, as well as the capitalization of costs, such as the costs to obtain a contract and connection costs.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Changes in accounting policies (continued)**

(ii) IFRS 15 — *Revenue from Contracts with Customers* (continued)

Under IFRS 15, the total consideration from a contract with multiple deliverables is now allocated to all performance obligations in the contract, based on the stand-alone selling price of each obligation, without being limited to a non-contingent amount. The Corporation provides mobile devices and services under contracts with multiple deliverables and for a fixed period of time. Under IFRS 15, promotional offers related to the sale of mobile devices, previously accounted for as a reduction in related equipment sales on activation, are now considered in the total consideration to be allocated to all performance obligations. Among other impacts, the adoption of IFRS 15 results in an increase in the revenue from the device sale and in a decrease in the mobile service revenue recognized over the contract term. The timing of the recognition of these revenues therefore changes under IFRS 15. However, the total revenue recognized over a contract term relating to all performance obligations within the contract remains the same as under the previous rules. The portion of revenues that is earned without having been invoiced is now presented as contract assets in the consolidated balance sheets, which asset is realized during the term of the contract. The long-term portion of contract assets is included in “Other assets” in the consolidated balance sheets. All other types of revenue have not been impacted by the adoption of IFRS 15.

In addition, under IFRS 15, certain costs to obtain a contract, mainly sales commissions, are capitalized and amortized as operating expenses over the period of time the customer is expected to maintain its service or over the contract term. Previously, such costs were expensed as incurred. Also, the capitalization of connection costs is no longer limited to the related connection revenues as under the previous rules. These capitalized costs are included in “Other assets” as contract costs in the consolidated balance sheets.

The adoption of IFRS 15 had no impact on cash flows from operating, investing and financing activities.

The retroactive adoption of IFRS 15 had the following impacts on the comparative consolidated financial figures:

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Changes in accounting policies (continued)**

**Consolidated statements of income and comprehensive income**

| Increase (decrease)  | 2017      | 2016      |
|--|-----------|-----------|
| Revenues   | \$ 22,487 | \$ 52,540 |
| Purchase of goods and services                                   | (12,405)  | (13,193)  |
| Deferred income tax expense                                      | 9,246     | 17,419    |
| Net income and comprehensive income attributable to shareholders | \$ 25,646 | \$ 48,314 |

**Consolidated balance sheets**

| Increase (decrease)           | December 31,<br>2017 | December 31,<br>2016 |
|-------------------------------|----------------------|----------------------|
| Other assets                  |                      |                      |
| Contract assets <sup>1</sup>  | \$ 183,611           | \$ 155,790           |
| Contract costs <sup>2</sup>   | 92,528               | 85,457               |
| Deferred income tax liability | 73,176               | 63,930               |
| Retained earnings             | 202,963              | 177,317              |

<sup>1</sup> The current portion of contract assets is \$132.8 million as of December 31, 2017 and \$106.6 million as of December 31, 2016.

<sup>2</sup> The current portion of contract costs is \$55.9 million as of December 31, 2017 and \$49.4 million as of December 31, 2016, and is presented under “Other current assets”.

**(c) Consolidation**

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

A subsidiary is an entity controlled by the Corporation. Control is achieved when the Corporation is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Non-controlling interests in the net assets and results of consolidated subsidiaries are identified separately from the parent corporation’s ownership interest. Non-controlling interests in the equity of a subsidiary consist of the amount of non-controlling interests calculated at the date of the original business combination and their share of changes in equity since that date. Changes in non-controlling interests in a subsidiary that do not result in a loss of control by the Corporation are accounted for as equity transactions.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Business acquisition**

A business acquisition is accounted for by the acquisition method. The cost of an acquisition is measured at the fair value of the consideration given in exchange for control of the business acquired at the acquisition date. This consideration can be comprised of cash, assets transferred, financial instruments issued, or future contingent payments. The identifiable assets and liabilities of the business acquired are recognized at their fair value at the acquisition date. Results of operations of a business acquired are included in the Corporation's consolidated financial statements from the date of the business acquisition. Business acquisition and integration costs are expensed as incurred and included as other items in the consolidated statements of income.

Non-controlling interests in an entity acquired are presented in the consolidated balance sheets within equity, separately from the equity attributable to the shareholders.

**(e) Foreign currency translation**

Foreign currency transactions are translated to the functional currency by applying the exchange rate prevailing at the date of the transaction. Translation gains and losses on monetary assets and liabilities denominated in a foreign currency are included in financial expenses, or in gain or loss on valuation and translation of financial instruments.

**(f) Revenue recognition**

The Corporation accounts for a contract with a customer only when all of the following criteria are met:

- The parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- The entity can identify each party's rights regarding the goods or services to be transferred;
- The entity can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- It is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services to be transferred to the customer.

The portion of revenues that is invoiced and unearned is presented as "Deferred revenues" in the consolidated balance sheets. Deferred revenues are usually recognized as revenues in the subsequent year.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Revenue recognition (continued)**

The Corporation provides services under multiple deliverables arrangements, mainly for mobile contracts in which the sale of mobile devices is bundled with telecommunication services over the contract term. The total consideration from a contract with multiple deliverables is allocated to all performance obligations in the contract based on the stand-alone selling price of each obligation. The total consideration is generally comprised of an upfront fee for the equipment sale and a monthly fee for the telecommunication service. Each performance obligation of multiple deliverable arrangements is then separately accounted for based on its allocated consideration amount.

The Corporation does not adjust the amount of consideration allocated to the equipment sale for the effects of a financing component since this component is not significant

The Corporation recognizes each of its main activities revenues as follows:

- Operating revenues from subscriber services, such as cable television, Internet access, cable and mobile telephony, and over-the-top video services are recognized when services are provided;
- Revenues from equipment sales to subscribers are recognized when the equipment is delivered;
- Operating revenues related to service contracts are recognized in income on a straight-line basis over the period in which the services are provided; and
- Cable connection and mobile activation revenues are deferred and recognized as revenues over the period of time the customer is expected to remain a customer of the Corporation or over the contract term.

When a mobile device and a service are bundled under a single mobile contract, the term of the contract is generally 24 months.

The portion of mobile revenues earned without having been invoiced is presented as contract assets in the consolidated balance sheets. Contract assets are realized over the term of the contract.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Impairment of assets**

For the purposes of assessing impairment, assets are grouped in cash-generating units (“CGUs”), which represent the lowest levels for which there are separately identifiable cash inflows generated by those assets. The Corporation reviews, at each balance sheet date, whether events or circumstances have occurred to indicate that the carrying amounts of its long-lived assets with finite useful lives may be less than their recoverable amounts. Goodwill, intangible assets having an indefinite useful life, and intangible assets not yet available for use are tested for impairment each financial year, as well as whenever there is an indication that the carrying amount of the asset, or the CGU to which an asset has been allocated, exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use of the asset or the CGU. Fair value less costs of disposal represents the amount an entity could obtain at the valuation date from the asset’s disposal in an arm’s length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use represents the present value of the future cash flows expected to be derived from the asset or the CGU.

An impairment loss is recognized in the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. When the recoverable amount of a CGU to which goodwill has been allocated is lower than the CGU’s carrying amount, the related goodwill is first impaired. Any excess amount of impairment is recognized and attributed to assets in the CGU, prorated to the carrying amount of each asset in the CGU.

An impairment loss recognized in prior periods for long-lived assets with finite useful lives and intangible assets having an indefinite useful life, other than goodwill, can be reversed through the consolidated statement of income to the extent that the resulting carrying value does not exceed the carrying value that would have been the result if no impairment loss had previously been recognized.

**(h) Income taxes**

Current income taxes are recognized with respect to amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income taxes are accounted for using the liability method. Under this method, deferred 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 consolidated financial statements and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or 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 deferred income tax assets and liabilities is recognized in income in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be reduced subsequently, if necessary, to an amount that is more likely than not to be realized. A deferred tax expense or benefit is recognized either in other comprehensive income or directly in equity to the extent that it relates to items that are recognized in other comprehensive income or directly in equity in the same or a different period.

In the course of the Corporation’s operations, there are a number of uncertain tax positions due to the complexity of certain transactions and to the fact that related tax interpretations and legislation are continually changing. When a tax position is uncertain, the Corporation 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.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) Leases**

Assets under leasing agreements are classified at the inception of the lease as (i) finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership of the asset to the lessee, or as (ii) operating leases for all other leases.

Operating lease rentals are recognized in the consolidated statements of income on a straight-line basis over the period of the lease. Any lessee incentives are deferred and recognized evenly over the lease term.

**(j) Financial instruments**

Classification, recognition and measurement

Most of financial assets and liabilities are classified as subsequently measured at amortized cost, except for derivative financial instruments, investments in preferred shares of the parent corporation and loans from/to the parent corporation, which are measured at fair value through other comprehensive income or through profit or loss. Contingent consideration arising from a business acquisition or disposal are measured at fair value at the transaction date with subsequent changes in fair value are recorded in the consolidated statements of income.

Derivative financial instruments and hedge accounting

The Corporation uses various derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. The Corporation does not hold or use any derivative financial instruments for speculative purposes. Under hedge accounting, the Corporation documents all hedging relationships between hedging instruments 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 when they qualify for hedge accounting. The Corporation assesses the effectiveness of its hedging relationships at initiation and on an ongoing basis.

The Corporation generally enters into the following types of derivative financial instruments:

- The Corporation uses foreign exchange forward contracts to hedge foreign currency rate exposure on anticipated equipment or inventory purchases in a foreign currency. The Corporation also uses offsetting foreign exchange forward contracts in combination with cross-currency interest rate swaps to hedge foreign currency rate exposure on principal payments on foreign currency denominated debt. These foreign exchange forward contracts are designated as cash flow hedges.
- The Corporation uses cross-currency interest rate swaps to hedge (i) foreign currency rate exposure on interest and principal payments on foreign currency denominated debt and/or (ii) 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.-dollar-denominated debt in fixed CAN dollars, in addition to converting an interest rate from a floating rate to a floating rate or from a fixed rate to a fixed rate, are designated as cash flow hedges. The cross-currency interest rate swaps are designated as fair value hedges when they set all future interest and principal payments on U.S.-dollar-denominated debt in fixed CAN dollars, in addition to converting the interest rate from a fixed rate to a floating rate.
- The Corporation uses interest rate swaps to manage fair value exposure on certain debts 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.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Financial instruments (continued)**

Derivative financial instruments and hedge accounting (continued)

- The Corporation has established a hedge ratio of one for one for all its hedging relationships as underlying risks of its hedging derivatives are identical to the hedged item risks.

The Corporation measures and records the effectiveness of its hedging relationships as follows:

- For cash flow hedges, the hedge effectiveness is tested and measured by comparing changes in the fair value of the hedging derivative with the changes in the fair value of an hypothetical derivative that simulates the hedged items cash flows.
- For fair value hedges, the hedge effectiveness is tested and measured by comparing changes in the fair value of the hedging derivative with the changes in fair value of the hedged item attributable to the hedged risk.
- Most of the Corporation hedges relationships are not generating material ineffectiveness. The ineffectiveness, if any, is recorded in the consolidated statements of income as a gain or loss on valuation and translation of financial instruments.

Under hedge accounting, the Corporation 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 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 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 do not qualify for hedge accounting, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, are reported on a fair value 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 a gain or loss on valuation and translation of financial instruments.

**(k) Financing fees**

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

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Tax credits and government assistance**

The Corporation receives tax credits mainly related to its research and development activities. Government financial assistance is accounted for as revenue or as a reduction in related costs, whether capitalized and amortized or expensed, in the year the costs are incurred and when management has reasonable assurance that the conditions of the government programs are being met.

**(m) 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. These highly liquid investments consisted mainly of Bankers' acceptances and term deposits.

**(n) Accounts receivable and contract assets**

Accounts receivable and contract assets are presented net of a provision for expected credit losses. The Corporation is using the IFRS 9 expected credit losses method to estimate that provision, which considers the specific credit risk of its customers, the expected lifetime of its financial assets, historical trends and economic conditions. Amounts receivable are written off when deemed uncollectible.

**(o) 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. When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed.

**(p) Fixed assets**

Fixed assets are recorded at cost. Cost represents the acquisition costs, net of government grants and investment tax credits, or construction costs, including preparation, installation and testing costs. In the case of projects to construct cable and mobile networks, the cost includes equipment, direct labour and related overhead costs. Projects under development may also be comprised of advance payments made to suppliers for equipment under construction.

Borrowing costs are also included in the cost fixed assets during the development phase. Expenditures, such as maintenance and repairs, are expensed as incurred.

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

| <u>Assets</u>  | <u>Estimated useful lives</u> |
|--|-------------------------------|
| Buildings and their components                         | 12 to 40 years                |
| Furniture and equipment                                | 3 to 7 years                  |
| Receiving, distribution and telecommunication networks | 3 to 20 years                 |
| Customer equipment                                     | 3 to 5 years                  |

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(p) Fixed assets (continued)**

Depreciation methods, residual values, and the useful lives of significant fixed assets are reviewed at least once a year. Any change is accounted for prospectively as a change in accounting estimate.

Leasehold improvements are depreciated over the shorter of the term of the lease and their estimated useful life.

The Corporation does not record any decommissioning obligations in connection with its cable distribution networks. The Corporation expects to renew all of its agreements with utility companies to access their support structures in the future, making the retirement date so far into the future that the present value of the restoration costs is insignificant for those assets. A decommissioning obligation is however recorded for the rental of sites related to the mobile network.

The Corporation is engaged in an agreement to operate a shared LTE network in the Province of Québec and in the Ottawa region.

**(q) Goodwill and intangible assets**

Goodwill

Goodwill initially arising from a business acquisition is measured and recognized as the excess of the fair value of the consideration paid over the fair value of the recognized identifiable assets acquired and liabilities assumed.

Goodwill is allocated as at the date of a business acquisition to a CGU for purposes of impairment testing (note 1(g)). The allocation is made to the CGU or group of CGUs expected to benefit from the synergies of the business acquisition.

Intangible assets

Spectrum licences are recorded at cost. Spectrum licences have an indefinite useful life and are not amortized based on the following facts: (i) the Corporation intends to renew the spectrum licences and believes that they are likely to be renewed by Innovation, Science and Economic Development Canada (“ISED Canada”), (ii) the Corporation has the financial and operational ability to renew these spectrum licences, (iii) currently, the competitive, legal and regulatory landscape does not limit the useful lives of the spectrum licences, and (iv) the Corporation foresees no limit to the period during which these licences can be expected to generate cash flows in the future.

Software is recorded at cost. In particular, internally generated intangible assets such as software and Web site development are mainly comprised of internal costs in connection with the development of those assets to be used internally or to provide services to customers. These costs are capitalized when the development stage of the software application begins and costs incurred prior to that stage are recognized as expenses.

Customer relationships and trademarks acquired through a business acquisition are recorded at fair value at the date of acquisition. Trademarks have an indefinite useful life and are not amortized.

Borrowing costs directly attributable to the acquisition, development or production of an intangible asset are also included as part of the cost of that asset during the development phase.

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(q) Goodwill and intangible assets (continued)**

Intangible assets with finite useful lives are amortized over their useful lives using the straight-line method over the following periods:

| Assets   | Estimated useful lives |
|--|------------------------|
| Software, licences and other intangible assets | 3 to 7 years           |
| Customer relationships and other               | 5 to 8 years           |

Amortization methods, residual values, and the useful lives of significant intangible assets are reviewed at least once a year. Any change is accounted for prospectively as a change in accounting estimate.

**(r) Contract costs**

Incremental and direct costs, such as costs to obtain a contract, mainly sales commissions, or the cost of connecting a subscriber to the Corporation telecommunication network are included in contract costs and amortized over the period of time the customer is expected to maintain its service or over the contract term. The amortization of contract costs is included in purchase of goods and services in the consolidated statements of income.

**(s) Provisions**

Provisions are recognized when (i) the Corporation has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and when (ii) the amount of the obligation can be reliably estimated. Restructuring costs, comprised primarily of termination benefits, are recognized when a detailed plan for the restructuring exists and a valid expectation has been raised in those affected, that the plan will be carried out.

Provisions are reviewed at each balance sheet date and changes in estimates are reflected in the consolidated statements of income in the reporting period in which the changes occur.

**(t) Stock-based compensation**

Stock-based awards to employees that call for settlement in cash, as deferred share units (“DSUs”) or performance share units (“PSUs”), or that call for settlement in cash at the option of the employee, as stock options awards, are accounted for at fair value and classified as a liability. The compensation cost is recognized in expenses over the vesting period. Changes in the fair value of stock-based awards between the grant date and the measurement date result in a change in the liability and compensation cost.

The fair value of DSUs and PSUs is based on the underlying share price at the date of valuation. The fair value of stock option awards is determined by applying an option pricing model, taking into account the terms and conditions of the grant. Key assumptions are described in note 21.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(u) Pension plans and postretirement benefits**

The Corporation offers defined contribution pension plans and defined benefit pension plans to some of its employees.

(i) Defined contribution pension plans

Under its defined contribution pension plans, the Corporation pays fixed contributions to participating employees' pension plans and has no legal or constructive obligation to pay any further amounts. Obligations for contributions to defined contribution pension plans are recognized as employee benefits in the consolidated statements of income when the contributions become due.

(ii) Defined benefit pension plans and postretirement plans

Defined benefit pension plan costs are determined using actuarial methods and are accounted for using the projected unit credit method, which incorporates management's best estimates of future salary levels, other cost escalations, retirement ages of employees, and other actuarial factors. Defined benefit pension costs recognized in the consolidated statements of income as employee costs, mainly include the following:

- service costs provided in exchange for employee services rendered during the period;
- prior service costs recognized at the earlier of (a) when the employee benefit plan is amended or (b) when restructuring costs are recognized;
- curtailment or settlement gain or loss.

Interest on net defined benefit liability or asset recognized in the consolidated statements of income, as financial expenses, is determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation.

Re-measurements of the net defined benefit liability or asset are recognized immediately in other comprehensive loss and in accumulated other comprehensive loss. Re-measurements are comprised of the following:

- actuarial gains and losses arising from changes in financial and demographic actuarial assumptions used to determine the defined benefit obligation or from experience adjustments on liabilities;
- the difference between actual return on plan assets and interest income on plan assets anticipated as part of the interest on net defined benefit liability or asset calculation;
- changes in the net benefit asset limit or in the minimum funding liability.

Recognition of a net benefit asset is limited under certain circumstances to the amount recoverable, which is primarily based on the present value of future contributions to the plan, to the extent that the Corporation can unilaterally reduce those future contributions. In addition, an adjustment to the net benefit asset or the net benefit liability can be recorded to reflect a minimum funding liability in a certain number of the Corporation's pension plans.

The Corporation also offers discounts on telecommunication services and health and life insurance plans to some of its retired employees. The cost of postretirement benefits is determined using an accounting methodology similar to that for defined benefit pension plans. The benefits related to these plans are funded by the Corporation as they become due.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(v) Use of estimates and judgments**

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates are based on management's best judgment and information available at the time of the assessment date, actual results could differ from those estimates.

The following significant areas represent management's most difficult, subjective or complex estimates:

**(i) Recoverable amount of an asset or a CGU**

When an impairment test is performed on an asset or a CGU, management estimates the recoverable amount of the asset or CGU based on its fair value less costs of disposal or its value in use. These estimates are based on valuation models requiring the use of a number of assumptions such as forecasts of future cash flows, pre-tax discount rate (WACC) and perpetual growth rate. These assumptions have a significant impact on the results of impairment tests and on the impairment charge, as the case may be, recorded in the consolidated statements of income. A description of key assumptions used in the goodwill impairment tests and a sensitivity analysis of recoverable amounts are presented in note 14.

**(ii) Costs and obligations related to pension and postretirement benefit plans**

Estimates of costs and obligations related to pension and postretirement benefit obligations are based on a number of assumptions, such as the discount rate, the rate of increase in compensation, the retirement age of employees, health care costs, and other actuarial factors. Certain of these assumptions may have a significant impact on employee costs and financial expenses recorded in the consolidated statements of income, the re-measurement gain or loss on defined benefit plans recorded in the consolidated statements of comprehensive income, and on the carrying value of other assets or other liabilities in the consolidated balance sheets. Key assumptions and a sensitivity analysis on the discount rate are presented in note 27.

**(iii) Provisions**

The recognition of provisions requires management to estimate expenditures required to settle a present obligation or to transfer it to a third party at the date of assessment. More specifically, an assessment of the probable outcomes of legal proceedings or other contingencies is also required. A description of the main provisions, including management expectations on the potential effect of the possible outcomes of legal disputes on the consolidated financial statements, is presented in note 17.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(v) Use of estimates and judgments (continued)**

The following areas represent management's most significant judgments, apart from those involving estimates:

(i) Useful life periods for the depreciation and amortization of assets with finite useful lives

For each class of assets with finite useful lives, management has to determine over which period the Corporation will consume the assets' future economic benefits. The determination of a useful life period involves judgment and has an impact on the depreciation and amortization charge recorded in the consolidated statements of income.

(ii) Indefinite useful life of spectrum licences

Management has concluded that spectrum licences have an indefinite useful life. This conclusion was based on an analysis of factors, such as the Corporation's financial ability to renew the spectrum licences, the competitive, legal and regulatory landscape, and the future expectation regarding the use of the spectrum licences. The determination that spectrum licences have an indefinite useful life therefore involves judgment, which could have an impact on the amortization charge recorded in the consolidated statements of income if management changed its conclusion in the future.

(iii) Interpretation of laws and regulations

Interpretation of laws and regulation, including tax regulations, requires judgment from management that could have an impact on the recognition of provisions for legal litigation and income taxes in the consolidated financial statements.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(w) Recent accounting pronouncements**

- (i) IFRS 16 — *Leases* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019.

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 will be 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 will be initially measured on a present value basis.

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

Under IFRS 16, most lease charges will be expensed as a depreciation of the right-of-use asset, along with an interest on the related lease liability. Since operating lease charges are currently recognized as operating expenses as they are incurred, the adoption of IFRS 16 will change the timing of the recognition of these lease charges over the term of each lease. It will also affect the classification of expenses in the consolidated statements of income.

Under IFRS 16, principal payments of the lease liability will be presented as financing activities in the consolidated statements of cash flows, whereas with the current standard these payments are presented as operating activities.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(w) Recent accounting pronouncements (continued)**

- (ii) IFRS 16 — *Leases* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019 (continued).

The retroactive adoption of IFRS 16 has the following impacts on the 2018 and 2017 consolidated financial figures:

**Consolidated statements of income and comprehensive income**

| <u>Increase (decrease)</u>                                       | <u>2018</u>     | <u>2017</u>    |
|--|-----------------|----------------|
| Purchase of goods and services                                   | \$ (42,071)     | \$ (38,573)    |
| Depreciation and amortization                                    | 32,389          | 30,292         |
| Financial expenses   | 7,206           | 8,359          |
| Deferred income tax expense                                      | 656             | (21)           |
| Net income and comprehensive income attributable to shareholders | <u>\$ 1,820</u> | <u>\$ (57)</u> |

**Consolidated balance sheets**

| <u>Increase (decrease)</u>     | <u>December 31,<br/>2018</u> | <u>December 31,<br/>2017</u> |
|--------------------------------|------------------------------|------------------------------|
| Right-of-use assets            | \$ 101,660                   | \$ 120,072                   |
| Lease liabilities <sup>1</sup> | 122,557                      | 143,444                      |
| Other liabilities              | 3                            | 4                            |
| Deferred income tax liability  | (5,497)                      | (6,153)                      |
| Retained earnings (deficit)    | <u>(15,403)</u>              | <u>(17,223)</u>              |

<sup>1</sup> The current portion of lease liabilities is \$33.5 million as of December 31, 2018 and \$34.9 million as of December 31, 2017.

- (iii) IFRIC 23 - *Uncertainty Over Income Tax Treatments* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019

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 will not have a material impact on the consolidated financial statements.

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**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**2. EMPLOYEE COSTS AND PURCHASE OF GOODS AND SERVICES**

|  | <u>2018</u>         | <u>2017</u><br>(restated, note<br>1(b),28) | <u>2016</u><br>(restated note<br>1(b),28) |
|--|---------------------|--|---|
| Employee costs   | \$ 582,206          | \$ 572,178                                 | \$ 557,468                                |
| Less employee costs capitalized to fixed assets and to intangible assets | <u>(196,983)</u>    | <u>(185,825)</u>                           | <u>(180,711)</u>                          |
|  | <b>385,223</b>      | <b>386,353</b>                             | <b>376,757</b>                            |
| <b>Purchase of goods and services</b>                                    |                     |  |   |
| Royalties and rights   | 427,233             | 421,685                                    | 427,951                                   |
| Cost of retail products  | 335,684             | 317,810                                    | 289,078                                   |
| Subcontracting costs   | 99,346              | 117,999                                    | 111,174                                   |
| Marketing and distribution expenses                                      | 62,627              | 62,187                                     | 64,731                                    |
| Other  | 390,586             | 419,123                                    | 406,592                                   |
|  | <u>1,315,476</u>    | <u>1,338,804</u>                           | <u>1,299,526</u>                          |
|  | <u>\$ 1,700,699</u> | <u>\$ 1,725,157</u>                        | <u>\$ 1,676,283</u>                       |

**3. FINANCIAL EXPENSES**

|  | <u>2018</u>       | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|-------------------|
| <b>Third parties:</b>  |                   |                   |                   |
| Interest on long-term debt   | \$ 179,095        | \$ 160,128        | \$ 154,781        |
| Amortization of financing costs and long-term debt discount              | 4,285             | 4,333             | 3,904             |
| Interest on net defined benefit liability                                | 4,099             | 3,444             | 3,413             |
| Loss (gain) on foreign currency translation on short-term monetary items | 2,594             | (1,692)           | 345               |
| Other  | <u>(5,359)</u>    | <u>(2,746)</u>    | <u>66</u>         |
|  | <b>184,714</b>    | <b>163,467</b>    | <b>162,509</b>    |
| <b>Affiliated corporations:</b>  |                   |                   |                   |
| Interest expense   | 184,972           | 193,660           | 202,556           |
| Dividend income  | (186,919)         | (195,505)         | (204,536)         |
| Interest income  | <u>(773)</u>      | <u>(13,941)</u>   | <u>—</u>          |
|  | <u>\$ 181,994</u> | <u>\$ 147,681</u> | <u>\$ 160,529</u> |

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**4. RESTRUCTURING OF OPERATIONS, LITIGATION AND OTHER ITEMS**

In 2018, a net charge of \$17.2 million was recorded. This includes a portion of \$12.9 million in regards of an impairment of assets resulting from restructuring initiatives and \$4.3 million relating to various cost reduction initiatives across the organization, (net charges of \$5.8 million and \$15.9 million for the years ended respectively on December 31, 2017 and 2016 which were related to developments in certain litigations and the migration of subscribers from analog to digital services).

**5. GAIN ON SALE OF SPECTRUM LICENCES**

On June 20, 2017, The Corporation sold its Advanced Wireless Service (“AWS”) spectrum licence in the greater Toronto region to Rogers Communications Canada Inc. for a cash consideration of \$184.2 million, pursuant to the transfer option held by Videotron since 2013. The sale resulted in a gain on disposal of \$87.8 million.

On July 24, 2017, The Corporation sold its seven 2500 MHz and 700 MHz wireless spectrum licences outside Québec to Shaw Communications Inc. for a cash consideration of \$430.0 million. The sale resulted in a gain on disposal of \$243.1 million.

**6. LOSS ON DEBT REFINANCING**

2017

On May 1, 2017, the Corporation redeemed all its issued and outstanding 6.875% Senior Notes due July 15, 2021 in aggregate principal amount of \$125.0 million for a cash consideration of \$129.3 million. This transaction resulted in a loss of \$5.2 million in 2017.

2016

On December 2, 2016, the Corporation issued a notice for the redemption of an aggregate principal amount of \$175.0 million of its issued and outstanding 6.875% Senior Notes due July 15, 2021. On January 5, 2017, the Senior Notes were redeemed for a cash consideration of \$181.0 million. This transaction resulted in a loss of \$7.3 million in 2016.

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**7. INCOME TAXES**

The following table reconciles income taxes at the Corporation's domestic statutory tax rate of 26.7% in 2018 (26.8% in 2017 and 26.9% 2016), and income taxes in the consolidated statements of income:

|  | <u>2018</u>       | <u>2017</u><br>(restated note<br>1(b)) | <u>2016</u><br>(restated note,<br>1(b)) |
|--|-------------------|--|---|
| Income taxes at domestic statutory tax rate  | \$ 217,230        | \$ 288,074                             | \$ 195,698                              |
| (Reduction) increase resulting from:   |                   |  |   |
| Effect of non-deductible charges and non-taxable income  | (2,801)           | (50,269)                               | (19)                                    |
| Change in benefit arising from the recognition of current and prior year tax losses              | —                 | (2,671)                                | (491)                                   |
| Change in deferred tax balances due to a change in substantively enacted tax rates               | —                 | —                                      | (6,376)                                 |
| Effect of tax consolidation transactions with the parent corporation and affiliated corporations | (49,908)          | (96,732)                               | (55,020)                                |
| Other  | 1,004             | 718                                    | 161                                     |
| <b>Income taxes</b>  | <b>\$ 165,525</b> | <b>\$ 139,120</b>                      | <b>\$ 133,953</b>                       |

The significant items comprising the Corporation's net deferred income tax liability and their impact on the deferred income tax expense are as follows:

|   | <u>Consolidated<br/>balance sheets</u> |  | <u>Consolidated<br/>income statements</u> |  |  |
|---|--|--|---|--|--|
|   | <u>2018</u>                            | <u>2017</u><br>(restated note<br>1(b)) | <u>2018</u>                               | <u>2017</u><br>(restated note<br>1(b)) | <u>2016</u><br>(restated note<br>1(b)) |
| Accounts payable, accrued charges and provisions    | \$ 11,284                              | \$ 10,470                              | \$ (814)                                  | \$ 1,185                               | \$ (1,365)                             |
| Defined benefit plans                               | 24,042                                 | 19,497                                 | (1,089)                                   | (220)                                  | (1,548)                                |
| Contract assets                                     | (54,286)                               | (48,658)                               | 5,628                                     | 7,372                                  | 14,300                                 |
| Fixed assets  | (466,165)                              | (483,882)                              | (17,717)                                  | 84,860                                 | 10,049                                 |
| Goodwill, intangible assets and other assets        | (238,232)                              | (204,394)                              | 33,838                                    | 54,850                                 | 26,559                                 |
| Long-term debt and derivative financial instruments | (15,675)                               | (8,772)                                | 2,660                                     | (4,740)                                | 424                                    |
| Benefits from a general partnership                 | —                                      | —                                      | —   | (574)                                  | (67,044)                               |
| Other   | (1,166)                                | (3,595)                                | (2,406)                                   | (365)                                  | (1,398)                                |
|   | <b>\$ (740,198)</b>                    | <b>\$ (719,334)</b>                    | <b>\$ 20,100</b>                          | <b>\$ 142,368</b>                      | <b>\$ (20,023)</b>                     |

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**7. INCOME TAXES (continued)**

Changes in the net deferred income tax liability are as follows:

|  | <u>2018</u>         | <u>2017</u><br>(restated note<br>1(b)) |
|--|---------------------|--|
| Balance at beginning of year             | \$ (719,334)        | \$ (589,465)                           |
| Recognized in income                     | (18,701)            | (141,283)                              |
| Recognized in discontinued operations    | (1,399)             | (1,085)                                |
| Recognized in other comprehensive income | (787)               | 13,856                                 |
| Other                                    | 23                  | (1,357)                                |
| <b>Balance at end of year</b>            | <b>\$ (740,198)</b> | <b>\$ (719,334)</b>                    |

There are no income tax consequences attached to the payment of dividends or distributions in 2018, 2017 or 2016 by the Corporation to its shareholders.

**8. BUSINESS ACQUISITION**

On January 7, 2016, the Corporation acquired Fibrenoire Inc., a company that provides businesses with fibre-optic connectivity services, for a purchase price of \$125.0 million. At closing, the Corporation paid an amount of \$119.1 million, net of cash acquired of \$1.8 million. A post-closing adjustment of \$0.2 million was received in the second quarter of 2016. The purchase price balance was paid in February 2017 for an amount of \$5.6 million plus interests of \$0.3 million followed in May 2018, by a price purchase adjustment of \$1.3 million.

**9. INVENTORIES**

|                    | <u>2018</u>      | <u>2017</u>      |
|--------------------|------------------|------------------|
| Customer equipment | \$ 72,865        | \$ 73,124        |
| Network materials  | 13,703           | 16,466           |
|                    | <b>\$ 86,568</b> | <b>\$ 89,590</b> |

Cost of inventories included in purchase of goods and services amounted to \$283.7 million in 2018 (\$278.0 million in 2017 and \$258.7 million in 2016). Write-downs of inventories totalling \$2.1 million were recognized in purchase of goods and services in 2018 (\$4.8 million in 2017 and \$3.0 million in 2016).

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**10. SUBORDINATED LOAN TO PARENT CORPORATION**

On April 12, 2017, the Corporation made to Quebecor Media Inc. a \$342.0 million subordinated loan, bearing interest at 5.5%, payable every six months on April 12 and October 12, and maturing on April 12, 2019.

On January 16, 2018, Quebecor Media Inc. reimbursed its subordinated loan of \$342.0 million to the Corporation.

**11. INVESTMENTS AND SUBORDINATED LOAN FROM PARENT CORPORATION**

On February 12, 2016, 9101-0835 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 430,000 preferred shares, Series B, for a total cash consideration of \$430.0 million, and settled cumulative unpaid dividends of \$6.9 million. On the same day, the Corporation used the total proceeds of \$430.0 million to repay part of its subordinated loan contracted from Quebecor Media Inc.

On March 1, 2016, the Corporation contracted a subordinated loan of \$625.0 million from Quebecor Media Inc., bearing interest at a rate of 11.5%, payable every six months on June 20 and December 20, and maturing on March 1<sup>st</sup>, 2046. On the same day, the Corporation invested the total proceeds of \$625.0 million into 625,000 preferred shares, Series D, of 9101-0835 Québec Inc., a subsidiary of Quebecor Media Inc. These shares carry the right to receive an annual dividend of 11.6%, payable semi-annually.

On November 1, 2016, 9101-0835 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 1,660,000 preferred shares, Series B and 625,000 preferred shares, Series D for a total cash consideration of \$2.29 billion, and settled cumulative unpaid dividends of \$92.7 million. On the same day, the Corporation used the total proceeds of \$2.29 billion to repay its subordinated loans contracted from Quebecor Media Inc.

On May 3, 2017, the Corporation contracted a subordinated loan of \$3.6 billion from Quebecor Media Inc., bearing interest at a rate of 10.5%, payable every six months on June 20 and December 20 and maturing on May 3, 2047. On the same day, the Corporation invested the total proceeds of \$3.6 billion into 3,600,000 preferred shares, Series C, of 9346-9963 Québec Inc., a subsidiary of Quebecor Media Inc. These shares carry the right to receive an annual dividend of 10.6%, payable semi-annually.

On November 6, 2017, 9346-9963 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 3,600,000 preferred shares, Series C for a total cash consideration of \$3.6 billion, and settled cumulative unpaid dividends of \$145.3 million. On the same day, the Corporation used the total proceeds of \$3.6 billion to repay its subordinated loans contracted from Quebecor Media Inc.

On February 27, 2018, the Corporation contracted a subordinated loan of \$2.39 billion from Quebecor Media Inc., bearing interest at a rate of 9.5%, payable every six months on June 20 and December 20, and maturing on February 27, 2048. On the same day, the Corporation invested the total proceeds of \$2.39 billion into 2,390,000 preferred shares, Series C, of 9346-9963 Québec Inc. These shares carry the right to receive an annual dividend of 9.6%, payable semi-annually.

On November 30, 2018, 9346-9963 Québec Inc., a subsidiary of Quebecor Media Inc., redeemed 795,000 preferred shares, Series C for a total cash consideration of \$795.0 million, and settled cumulative unpaid dividends of \$34.1 million. On the same day, the Corporation used the total proceeds of \$795.0 million to repay its subordinated loans contracted from Quebecor Media Inc.

These transactions were carried out for tax consolidation purposes of Quebecor Media Inc. and its subsidiaries.

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**12. FIXED ASSETS**

For the years ended December 31, 2018 and 2017, changes in the net carrying amount of fixed assets are as follows:

|  | <u>Land and<br/>buildings</u> | <u>Furniture<br/>and<br/>equipment</u> | <u>Receiving and<br/>distribution<br/>networks</u> | <u>Customer<br/>equipment</u> | <u>Projects<br/>under<br/>development</u> | <u>Total</u>     |
|--|-------------------------------|--|--|-------------------------------|---|------------------|
| <b>Cost:</b>   |                               |  |  |                               |   |                  |
| Balance as of December 31,<br>2016                           | \$ 267,906                    | \$ 609,452                             | \$ 5,611,274                                       | \$ 775,686                    | \$ 80,249                                 | \$ 7,344,567     |
| Additions  | 14,363                        | 33,597                                 | 365,544  | 96,394                        | 60,919                                    | 570,817          |
| Net change in additions<br>financed with accounts<br>payable | —                             | 73                                     | (3,544)  | (1,092)                       | 914                                       | (3,649)          |
| Reclassification   | —                             | 15,848                                 | 88,660   | —                             | (104,508)                                 | —                |
| Retirement, disposals and<br>other <sup>1</sup>              | 3,522                         | (27,255)                               | (97,900)   | (42,674)                      | —   | (164,307)        |
| Balance as of December 31,<br>2017                           | 285,791                       | 631,715                                | 5,964,034  | 828,314                       | 37,574                                    | 7,747,428        |
| Additions  | 11,435                        | 36,078                                 | 297,302  | 94,090                        | 77,811                                    | 516,716          |
| Net change in additions<br>financed with accounts<br>payable | —                             | (89)                                   | (11,811)   | 3,084                         | 12,951                                    | 4,135            |
| Reclassification   | —                             | 1,249                                  | 41,469   | —                             | (46,741)                                  | (4,023)          |
| Reclassification assets held<br>for sale                     | (83,971)                      | —                                      | —  | —                             | —   | (83,971)         |
| Retirement, disposals and<br>other <sup>1</sup>              | 1,649                         | (9,026)                                | (231,519)  | (28,407)                      | —   | (267,303)        |
| <b>Balance as of December 31,<br/>2018</b>                   | <b>\$ 214,904</b>             | <b>659,927</b>                         | <b>6,059,475</b>                                   | <b>897,081</b>                | <b>81,595</b>                             | <b>7,912,982</b> |

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**12. FIXED ASSETS (continued)**

|  | <u>Land and<br/>buildings</u> | <u>Furniture and<br/>equipment</u> | <u>Receiving and<br/>distribution<br/>networks<sup>1</sup></u> | <u>Customer<br/>equipment</u> | <u>Projects<br/>under<br/>development</u> | <u>Total</u>        |
|--|-------------------------------|------------------------------------|--|-------------------------------|---|---------------------|
| <b>Accumulated depreciation:</b>         |                               |                                    |  |                               |   |                     |
| Balance as of                            |                               |                                    |  |                               |   |                     |
| December 31, 2016                        | \$ (66,780)                   | \$ (393,827)                       | \$ (3,090,245)   | \$ (531,832)                  | \$ —                                      | \$ (4,082,684)      |
| Depreciation                             | (7,256)                       | (63,429)                           | (384,000)  | (111,016)                     | —   | (565,701)           |
| Retirement and disposals <sup>1</sup>    | (3,451)                       | 25,586                             | 97,627   | 38,583                        | —   | 158,345             |
| Balance as of                            |                               |                                    |  |                               |   |                     |
| December 31, 2017                        | (77,487)                      | (431,670)                          | (3,376,618)  | (604,265)                     | —   | (4,490,040)         |
| Depreciation                             | (6,585)                       | (53,971)                           | (401,805)  | (111,234)                     | —   | (573,595)           |
| Reclassification to assets held for sale | 11,501                        | —                                  | —  | —                             | —   | 11,501              |
| Retirement and disposals <sup>1</sup>    | (3,992)                       | 6,941                              | 231,222  | 25,895                        | —   | 260,066             |
| <b>Balance as of</b>                     |                               |                                    |  |                               |   |                     |
| <b>December 31, 2018</b>                 | <b>\$ (76,563)</b>            | <b>(478,700)</b>                   | <b>(3,547,201)</b>   | <b>(689,604)</b>              | <b>—</b>                                  | <b>(4,792,068)</b>  |
| <b>Net carrying amount:</b>              |                               |                                    |  |                               |   |                     |
| As of December 31, 2017                  | 208,304                       | 200,045                            | 2,587,416  | 224,049                       | 37,574                                    | 3,257,388           |
| <b>As of December 31, 2018</b>           | <b>\$ 138,341</b>             | <b>\$ 181,227</b>                  | <b>\$ 2,512,274</b>  | <b>\$ 207,477</b>             | <b>\$ 81,595</b>                          | <b>\$ 3,120,914</b> |

<sup>1</sup> Includes also the net change in assets related to discontinued operations.

In 2017, the calculation of the depreciation of a component of the Corporation was changed in order to depreciate it over its useful life of 5 years, compared with 15 years previously. As a result, depreciation was increased by \$21.0 million in 2017.

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**13. INTANGIBLE ASSETS**

For the years ended December 31, 2018 and 2017, changes in the net carrying amount of intangible assets are as follows:

|  | <u>Spectrum<br/>licences</u> | <u>Software,<br/>licences and<br/>other<br/>intangible<br/>assets</u> | <u>Projects under<br/>development</u> | <u>Total</u>               |
|--|------------------------------|---|---------------------------------------|----------------------------|
| <b>Cost:</b>   |                              |   |                                       |                            |
| Balance as of December 31, 2016                        | \$ 1,006,910                 | \$ 764,620  | \$ 17,975                             | \$ 1,789,505               |
| Additions  | —                            | 72,509  | 59,745                                | 132,254                    |
| Net change in additions financed with accounts payable | —                            | 14,064  | 12,314                                | 26,378                     |
| Reclassification                                       | —                            | 30,775  | (30,775)                              | —                          |
| Retirements and other                                  | (283,374)                    | (7,526)   | —                                     | (290,900)                  |
| Balance as of December 31, 2017                        | 723,536                      | 874,442   | 59,259                                | 1,657,237                  |
| Additions  | —                            | 97,725  | 92,491                                | 190,216                    |
| Net change in additions financed with accounts payable | —                            | (3,777)   | 67,364                                | 63,587                     |
| Reclass held for sale                                  | —                            | (5,074)   | —                                     | (5,074)                    |
| Reclassification                                       | —                            | 53,420  | (49,397)                              | 4,023                      |
| Retirements and disposal                               | —                            | (12,725)  | (9,001)                               | (21,726)                   |
| <b>Balance as of December 31, 2018</b>                 | <b><u>\$ 723,536</u></b>     | <b><u>\$ 1,004,011</u></b>  | <b><u>\$ 160,716</u></b>              | <b><u>\$ 1,888,263</u></b> |

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**13. INTANGIBLE ASSETS (continued)**

|  | <u>Spectrum<br/>licences</u> | <u>Software,<br/>licences and<br/>other intangible<br/>assets</u> | <u>Projects<br/>under<br/>development</u> | <u>Total</u>        |
|--|------------------------------|---|---|---------------------|
| <b>Accumulated amortization:</b>       |                              |   |   |                     |
| Balance as of December 31, 2016        | \$ (247,664)                 | \$ (418,584)  | \$ —                                      | \$ (666,248)        |
| Amortization                           | —                            | (84,462)  | —   | (84,462)            |
| Retirement, disposals and other        | —                            | 1,445   | —   | 1,445               |
| Balance as of December 31, 2017        | (247,664)                    | (501,601)   | —   | (749,265)           |
| Amortization                           | —                            | (88,746)  | —   | (88,746)            |
| Reclassification to held for sale      | —                            | 3,516   | —   | 3,516               |
| Retirement, disposals and other        | —                            | 5,831   | —   | 5,831               |
| <b>Balance as of December 31, 2018</b> | <b>\$ (247,664)</b>          | <b>\$ (581,000)</b>   | <b>\$ —</b>                               | <b>\$ (828,664)</b> |
| <b>Net carrying amount:</b>            |                              |   |   |                     |
| As of December 31, 2017                | 475,872                      | 372,841   | 59,259                                    | 907,972             |
| <b>As of December 31, 2018</b>         | <b>\$ 475,872</b>            | <b>\$ 423,011</b>   | <b>\$ 160,716</b>                         | <b>\$ 1,059,599</b> |

The cost of internally generated intangible assets, mainly composed of software, was \$535.2 million as of December 31, 2018 (\$514.7 million as of December 31, 2017). For the year ended December 31, 2018, the Corporation recorded additions of internally generated intangible assets of \$33.9 million (\$64.1 million in 2017 and \$57.2 million in 2016).

The accumulated amortization of internally generated intangible assets, mainly composed of software, was \$319.3 million as of December 31, 2018 (\$284.1 million as of December 31, 2017). For the year ended December 31, 2018, the Corporation recorded \$35.3 million of amortization (\$36.5 million in 2017 and \$35.4 million in 2016) for its internally generated intangible assets.

The net carrying value of internally generated intangible assets was \$216.0 million as of December 31, 2018 (\$230.6 million as of December 31, 2017).

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**14. GOODWILL**

For the years ended December 31, 2018 and 2017, changes in the net carrying amount of goodwill are as follows:

|  |                           |
|--|---------------------------|
| <b><u>Cost:</u></b>                                |                           |
| Balance as of December 31, 2017                    | \$ 569,243                |
| Business acquisition (note 8)                      | (1,304)                   |
| Reclassification to assets held for sale (note 28) | (19,612)                  |
| <b>Balance as of December 31, 2018</b>             | <b><u>548,327</u></b>     |
| <b><u>Accumulated amortization:</u></b>            |                           |
| <b>Balance as of December 31, 2018 and 2017</b>    | <b><u>\$ (33,311)</u></b> |
| <b><u>Net carrying amount:</u></b>                 |                           |
| As of December 31, 2017                            | 535,932                   |
| <b>As of December 31, 2018</b>                     | <b><u>\$ 515,016</u></b>  |

The net carrying amount of goodwill as of December 31, 2018 and 2017 is allocated to the Telecommunications CGU.

**Recoverable amount**

The recoverable amount of the Telecommunications CGU was determined based on the higher of value in use or fair value less costs of disposal with respect to the impairment tests performed. The Corporation uses the discounted cash flow method to estimate the recoverable amount, consisting of future cash flows derived primarily from the most recent budget and three-year strategic plan approved by the Corporation's management and presented to the Board of Directors. These forecasts considered the CGU's past operating performance and market share as well as economic trends, along with specific and market industry trends and corporate strategies. In particular, specific assumptions are used for each type of revenue generated by the CGU or for each nature of expenses as well as for future capital expenditures. Such assumptions will consider, among many other factors, subscribers, competitive landscape, evolution of products and services offerings, wireless penetration growth, technology evolution, bargaining agreements, Canadian GDP rates and operating cost structures.

A perpetual growth rate is used for cash flows beyond the three-year strategic plan period. The discount rate used by the Corporation is a pre-tax rate derived from the weighted average cost of capital pertaining to the CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risk specific to the assets for which the future cash flow estimates have not been risk-adjusted. The perpetual growth rate was determined with regard to the specific markets in which the CGU participates.

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**14. GOODWILL (continued)**

The following key assumptions were used to determine recoverable amounts in the most recent impairment tests performed:

| CGU groups         | 2018                         |                       | 2017                         |                       |
|--------------------|------------------------------|-----------------------|------------------------------|-----------------------|
|                    | Pre-tax discount rate (WACC) | Perpetual growth rate | Pre-tax discount rate (WACC) | Perpetual growth rate |
| Telecommunications | <u>9.0%</u>                  | <u>2.5%</u>           | <u>8.5%</u>                  | <u>2.5%</u>           |

**15. OTHER ASSETS**

|   | 2018              | 2017<br>(restated,<br>note 1(b)) |
|---|-------------------|----------------------------------|
| Contract assets <sup>1</sup>  | \$ 204,853        | \$ 183,611                       |
| Contract costs <sup>2</sup>   | 103,026           | 102,965                          |
| Other   | 2,634             | 2,969                            |
|   | <u>310,513</u>    | <u>289,545</u>                   |
| Less current portion of contract assets                                     | (144,360)         | (132,795)                        |
| Less current portion of contract costs (included in "Other current assets") | (53,409)          | (55,894)                         |
|   | <u>\$ 112,744</u> | <u>\$ 100,856</u>                |

<sup>1</sup> Impairment loss on contract assets resulting from mobile contracts being cancelled prior their initial term amounted to \$25.8 million in 2018 (\$16.1 million in 2017 and \$12.0 million in 2016), net of the early termination penalty charged to the customer. In current and comparative periods, there were no significant cumulative catch-up adjustments to revenue that affected the corresponding contract asset, including adjustments arising from a change in an estimate of the transaction price or a contract modification. There were also no significant changes in the time frame for a performance obligation to be satisfied.

<sup>2</sup> Amortization amounted to \$63.2 million in 2018 (\$59.4 million in 2017 and \$51.0 million in 2016).

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**16. ACCOUNTS PAYABLE AND ACCRUED CHARGES**

|                                | <u>2018</u>       | <u>2017</u>       |
|--------------------------------|-------------------|-------------------|
| Trade and accruals             | \$ 457,789        | \$ 356,825        |
| Salaries and employee benefits | 90,290            | 87,122            |
| Interest payable               | 44,112            | 43,901            |
| Stock-based compensation       | 779               | 4,062             |
|                                | <u>\$ 592,970</u> | <u>\$ 491,910</u> |

**17. PROVISIONS AND CONTINGENCIES**

|  | <u>Legal disputes<br/>and other</u> |
|--|-------------------------------------|
| Balance as of December 31, 2017        | \$ 34,561                           |
| Recognized in income                   | (2,344)                             |
| Payments                               | (939)                               |
| Other                                  | 5,707                               |
| <b>Balance as of December 31, 2018</b> | <b><u>\$ 36,985</u></b>             |
| <b>Current portion</b>                 | <b><u>\$ 19,447</u></b>             |
| <b>Non-current portion<sup>1</sup></b> | <b><u>17,538</u></b>                |

<sup>1</sup> The non-current portion of provisions and contingencies is included in other liabilities (note 19)

The recognition of provisions, in terms of both timing and amounts, requires the exercise of judgment based on relevant circumstances and events that can be subject to change over time. Provisions are primarily comprised of the following:

Contingencies and legal disputes

There are a number of legal proceedings against the Corporation and its subsidiaries that are pending. In the opinion of the management of the Corporation and its subsidiaries, the outcome of those proceedings is not expected to have a material adverse effect on the Corporation's results or on its financial position. Management of the Corporation, after taking legal advice, has established provisions for specific claims or actions considering the facts of each case. The Corporation cannot determine when and if any payment will be made related to those provisions.

Other

Other provisions are principally related to decommissioning obligations.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**18. LONG-TERM DEBT**

|  | <u>Effective interest rate as of December 31, 2018</u> | <u>December 31, 2018</u> | <u>December 31, 2017</u> |
|--|--|--------------------------|--------------------------|
| Bank credit facilities(i)                                    | 3.24%  | \$ 741,996               | \$ 5,357                 |
| Senior Notes (ii)  |  | <u>3,502,400</u>         | <u>3,289,200</u>         |
| Total long-term debt   |  | <u>4,244,396</u>         | <u>3,294,557</u>         |
| Change in fair value related to<br>hedged interest rate risk |  | 2,417                    | 5,789                    |
| Financing cost, net of amortization                          |  | <u>(27,215)</u>          | <u>(30,016)</u>          |
|  |  | <u>(24,798)</u>          | <u>(24,227)</u>          |
|  |  | 4,219,598                | 3,270,330                |
| Less current portion   |  | —                        | (5,357)                  |
|  |  | <u>\$ 4,219,598</u>      | <u>\$ 3,264,973</u>      |

- (i) The bank credit facility provides for a \$1,500 million (\$965.0 million) secured revolving credit facility that matures in July 2023. The revolving credit facility bears interest at Bankers' acceptance rate, U.S. London Interbank Offered Rate ("LIBOR"), Canadian prime rate or U.S. prime rate, plus a margin, depending on the Corporation's leverage ratio. The bank credit facility is secured by a first ranking hypothec on the universality of all tangible and intangible assets, current and future, of the Corporation and most of its wholly owned subsidiaries. As of December 31, 2018, the bank credit facility was secured by assets with a carrying value of \$7,645.9 million (\$6,665.7 million in 2017). The bank credit facility contains covenants such as maintaining certain financial ratios, limitations on the Corporation's ability to incur additional indebtedness, pay dividends, or make other distributions. As of December 31, 2018, an amount of \$742.0 million had been drawn on the secured revolving credit facility (no amount was drawn in 2017, while \$5.4 million was outstanding in 2017 on an export financing facility that matured in June 2018).

In December 2018, the Corporation entered into new unsecured on demand credit facilities, under which letters of credit were issued and filed with ISED Canada as pre-auction financial deposits in respect to its application to participate in the 600 MHz spectrum auction. Under ISED Canada published rules respecting restrictions on communications during the auction process, it is strictly forbidden for the Corporation to disclose the amount of the letters of credit, which can be withdrawn by the Corporation at anytime prior to the auction commencement.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**18. LONG-TERM DEBT (continued)**

- (ii) The Senior Notes are unsecured and contain certain restrictions on the Corporation, including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions. Some Notes are redeemable at the option of the issuer, in whole or in part, at a price based on a make-whole formula during the first five years of the term of the Notes and at a decreasing premium thereafter, while the remaining Notes are redeemable at a price based on a make-whole formula at any time prior to their maturity. The Notes are guaranteed by specific subsidiaries of the Corporation. The following table summarizes terms of the outstanding Senior Notes as of December 31, 2018:

|      | <u>Principal amount</u> | <u>Annual nominal interest rate</u> | <u>Effective interest rate (after discount at issuance)</u> | <u>Maturity date</u> | <u>Interest payable every 6 months on</u> |
|------|-------------------------|-------------------------------------|---|----------------------|---|
| US\$ | 800,000                 | 5.000%                              | 5.000%  | July 15, 2022        | January and July 15                       |
| US\$ | 600,000                 | 5.375%                              | 5.375%  | June 15, 2024        | June and December 15                      |
| \$   | 400,000                 | 5.625%                              | 5.625%  | June 15, 2025        | April and October 15                      |
| \$   | 375,000                 | 5.750%                              | 5.750%  | January 15, 2026     | March and September 15                    |
| US\$ | 600,000 <sup>1</sup>    | 5.125%                              | 5.125%  | April 15, 2027       | April and October 15                      |

<sup>1</sup> The Notes were issued in April 2017 for net proceeds of \$794.5 million, net of financing fees of \$9.9 million.

On December 31, 2018, the Corporation and its subsidiaries were in compliance with all debt covenants.

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

|                     |           |
|---------------------|-----------|
| 2019                | \$ —      |
| 2020                | —         |
| 2021                | —         |
| 2022                | 1,090,960 |
| 2023                | 741,996   |
| 2024 and thereafter | 2,411,440 |

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**19. OTHER LIABILITIES**

|                                       | <u>Note</u> | <u>2018</u>       | <u>2017</u>       |
|---------------------------------------|-------------|-------------------|-------------------|
| Defined benefit plans                 | 27          | \$ 96,488         | \$ 78,891         |
| Asset retirement obligation           | 17          | 17,538            | 17,053            |
| Deferred revenues                     |             | 12,182            | 14,236            |
| Stock-based compensation <sup>1</sup> | 23          | 3,392             | 1,151             |
| Other                                 |             | 1,473             | 1,536             |
|                                       |             | <u>\$ 131,073</u> | <u>\$ 112,867</u> |

<sup>1</sup> The current \$0.8 million portion of stock-based compensation is included in accounts payable and accrued charges (\$4.1 million in 2017) (note 16).

**20. CAPITAL STOCK**

**(a) Authorized capital stock**

An unlimited number of common shares, without par value, voting and participating.

An unlimited number of preferred shares, Series B, Series C, Series D, Series E, Series F, and Series H, without par value, ranking prior to the common shares with regards to payment of dividends and repayment of capital, non-voting, non-participating, a fixed monthly non-cumulative dividend of 1%, retractable and redeemable.

An unlimited number of preferred shares, Series G, ranking prior to all other shares with regards to payment of dividends and repayment of capital, non-voting, non-participating carrying the rights and restrictions attached to the class as well as a fixed annual cumulative preferred dividend of 11.25%, retractable and redeemable.

**(b) Issued and outstanding capital stock**

|  | <u>Common Shares</u>     |                            |
|--|--------------------------|----------------------------|
|  | <u>Number</u>            | <u>Amount</u>              |
| Balance as of December 31, 2017        | 172,516,829              | \$ 132,401                 |
| Corporate reorganization               |                          |                            |
| Cancellation of shares due to merger   | (172,516,829)            | (132,401)                  |
| Issuance of shares                     | 10,544,962               | 3,908,571                  |
| Reduction in paid-up capital           | —                        | (2,588,100)                |
| <b>Balance as of December 31, 2018</b> | <u><b>10,544,962</b></u> | <u><b>\$ 1,320,471</b></u> |

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**20. CAPITAL STOCK (continued)**

Corporate reorganization

On January 3, 2018, Quebecor Media Inc. transferred all of its 172,516,829 shares in the Corporation in the amount of \$132.4 million to a newly fully owned subsidiary, 9370-5762 Québec Inc. in exchange for i) a convertible promissory note for a value of \$3,908.6 million that is convertible into 3,908,570 common shares of 9370-5762 Québec Inc. and ii) 6,636,391 common shares of 9370-5762 Québec Inc. The following day the Corporation was merged with 9370-5762 Québec Inc. The new merged Corporation continues to operate under the name of Videotron Ltd. Since this transaction resulted in no substantive changes in the parent corporation reporting group, the transaction was accounted for using the continuity of interest method. Under this method, all figures of the Corporation reflect the carrying values of the two merged entities.

On January 8, 2018, the convertible promissory note was converted into 3,908,570 common shares of the Corporation.

This corporate reorganization resulted in an increase of \$3,776.2 million of capital stock and a decrease of retained earnings by the same amount.

Reduction of paid-up capital

During the year ended December 31, 2018, the Corporation made reductions of its paid-up capital for total cash considerations of \$2,588.1 million.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**21. STOCK-BASED COMPENSATION PLANS**

**(a) Ultimate parent corporation stock option plan**

Under a stock option plan established by the ultimate parent corporation, 26,000,000 Class B Shares of the ultimate parent corporation have been set aside for directors, officers, senior employees, and other key employees of the ultimate parent corporation and its subsidiaries. The exercise price of each option is equal to the weighted average trading price of the ultimate parent corporation'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. As per the provisions of the plan, 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 equivalent to the difference between the market value of the underlying shares and the exercise price of the option. Holders of options have committed to obtain the consent of the parent corporation before exercising their right to subscribe the shares for which they exercise their options.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**21. STOCK-BASED COMPENSATION PLANS (continued)**

The following table gives details on changes to outstanding options for the years ended December 31, 2018 and 2017:

|                                      | 2018      |                                 | 2017           |                                 |
|--------------------------------------|-----------|---------------------------------|----------------|---------------------------------|
|                                      | Options   | Weighted average exercise price | Options        | Weighted average exercise price |
| Balance at beginning and end of year | 100,000   | \$ 12.75                        | 100,000        | \$ 12.75                        |
| Exercised                            | (100,000) | 12.75                           | —              | —                               |
| <b>Balance at end of year</b>        | <b>—</b>  | <b>—</b>                        | <b>100,000</b> | <b>\$ 12.75</b>                 |

During the year ended December 31, 2018, 100,000 stock options of Quebecor were exercised for a cash consideration of \$1.3 million (no stock options were exercised in 2017).

**(b) Parent corporation stock option plan**

Under a stock option plan established by the parent corporation, 6,180,140 options have been set aside for officers, senior employees, directors and other key employees of the Corporation. 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 the parent corporation at the date of grant, as determined by its Board of Directors (if the Common Shares of the parent corporation 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 the parent corporation on the stock exchange(s) where such shares are listed at the time of grant. As long as the Common Shares of the parent corporation 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 of receiving 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 the parent corporation on the stock exchange(s) where such shares are listed at the time of exercise or the fair market value of the Common Shares, as determined by the parent corporation'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 the parent corporation at the exercise price. Except under specific circumstances, and unless the Human Resources and Corporate Governance Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules as determined by the Human Resources and Corporate Governance 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.

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**21. STOCK-BASED COMPENSATION PLANS (continued)**

The following table gives details on changes to outstanding options granted as of December 31, 2018 and 2017:

|                                      | 2018          |                                 | 2017           |                                 |
|--------------------------------------|---------------|---------------------------------|----------------|---------------------------------|
|                                      | Options       | Weighted average exercise price | Options        | Weighted average exercise price |
| Balance at beginning of year         | 158,227       | \$ 65.08                        | 286,105        | \$ 63.98                        |
| Transferred                          | 9,300         | 64.31                           | —              | —                               |
| Exercised                            | (80,927)      | 62.06                           | (80,378)       | 60.89                           |
| Cancelled                            | (11,200)      | 70.56                           | (47,500)       | 65.54                           |
| <b>Balance at end of year</b>        | <b>75,400</b> | <b>\$ 67.42</b>                 | <b>158,227</b> | <b>\$ 65.08</b>                 |
| <b>Vested options at end of year</b> | <b>32,300</b> | <b>\$ 63.76</b>                 | <b>39,900</b>  | <b>\$ 63.06</b>                 |

During the year ended December 31, 2018, 80,927 of the Corporation's stock options were exercised for a cash consideration of \$2.7 million (80,378 stock options for \$2.0 million in 2017).

As of December 31, 2018, exercise prices of all outstanding options are from \$57.35 to \$70.56 and the number of years to maturity of all outstanding options is 5.82 years.

**(c) Deferred share unit ("DSU") and performance share unit ("PSU") plans**

On July 13, 2016, the ultimate parent corporation established a DSU plan and a PSU plan for its employees and those of its subsidiaries. Both plans are based on Quebecor Class B Subordinate Shares ("Quebecor Class B Shares"). The DSUs vest over six years and will be redeemed for cash only upon the participant's retirement or termination of employment, as the case may be. The PSUs vest over three years and will be redeemed for cash at the end of this period subject to the achievement of financial targets. DSUs and PSUs entitle the holders to receive additional units when dividends are paid on Quebecor Class B Shares. No treasury shares will be issued for the purposes of these plans. As of December 31, 2018, 38,426 DSUs and 75,093 PSUs were outstanding under these plans.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**21. STOCK-BASED COMPENSATION PLANS (continued)****(d) Assumptions in estimating the fair value of stock-based awards**

The fair value of stock-based awards under the stock option plans of the ultimate parent corporation and parent corporation was estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used to estimate the fair value of all outstanding stock options under the stock option plans as of December 31, 2018 and 2017:

| <u>December 31, 2018</u> | <u>Ultimate parent corporation</u> | <u>Parent corporation</u> |
|--------------------------|------------------------------------|---------------------------|
| Risk-free interest rate  | 2.07%                              | 1.98%                     |
| Distribution yield       | 0.77%                              | 1.13%                     |
| Expected volatility      | 18.30%                             | 15.85%                    |
| Expected remaining life  | 5.27years                          | 2.0years                  |
| <u>December 31, 2017</u> | <u>Ultimate parent corporation</u> | <u>Parent corporation</u> |
| Risk-free interest rate  | 1.89%                              | 1.83%                     |
| Distribution yield       | 0.46%                              | 1.12%                     |
| Expected volatility      | 18.76%                             | 16.94%                    |
| Expected remaining life  | 2.7years                           | 2.4years                  |

Except for the parent corporation, the expected volatility is based on the historical volatility of the underlying share price for a period equivalent to the expected remaining life of the options. Since the Common Shares of the parent corporation are not publicly traded on a stock exchange, expected volatility is derived from the implied volatility of the ultimate parent corporation's stock. The expected remaining life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate over the expected remaining life of the option is based on the Government of Canada yield curve in effect at the time of the valuation. Distribution yield is based on the current average yield.

**(e) Liability of vested options**

As of December 31, 2018, the liability for all vested options was \$1.6 million as calculated using the intrinsic value (\$1.9 million as of December 31, 2017).

**(f) Consolidated compensation charge**

For the year ended December 31, 2018, a consolidated charge related to all stock-based compensation plans was recorded in the amount of \$3.0 million (charge of \$3.7 million in 2017 and \$3.0 million 2016).

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**22. ACCUMULATED OTHER COMPREHENSIVE LOSS**

|  | <u>Cash flow hedges</u> | <u>Defined benefit plans</u> | <u>Total</u>       |
|--|-------------------------|------------------------------|--------------------|
| Balance as of December 31, 2015        | \$ (40,436)             | \$ (36,408)                  | \$ (76,844)        |
| Other comprehensive (loss) income      | (10,756)                | 3,693                        | (7,063)            |
| Balance as of December 31, 2016        | (51,192)                | (32,715)                     | (83,907)           |
| Other comprehensive income (loss)      | 47,212                  | (5,133)                      | 42,079             |
| Balance as of December 31, 2017        | (3,980)                 | (37,848)                     | (41,828)           |
| Other comprehensive loss               | (10,938)                | (9,290)                      | (20,228)           |
| <b>Balance as of December 31, 2018</b> | <b>\$ (14,918)</b>      | <b>\$ (47,138)</b>           | <b>\$ (62,056)</b> |

No significant amount is expected to be reclassified in income over the next 12 months in connection with derivative financial instruments designated as cash flow hedges. The balance is expected to reverse over an 8 ¼ year period.

**23. COMMITMENTS**

The Corporation rents premises and equipment under operating leases and has entered into long-term commitments to purchase services and capital equipment that call for total future payments of \$766.9 million, including an amount of \$37.9 million for future rent payments to the ultimate parent corporation. The operating leases have various terms, escalation clauses, purchase options and renewal rights. The minimum payments for the coming years are as follows:

|                     | <u>Leases</u> | <u>Other commitments</u> |
|---------------------|---------------|--------------------------|
| 2019                | \$ 40,703     | \$ 118,295               |
| 2020 to 2023        | 70,610        | 285,520                  |
| 2024 and thereafter | 32,661        | 219,100                  |

The Corporation and its subsidiaries' operating lease expenses amounted to \$56.7 million in 2018 (\$54.9 million in 2017 and \$54.2 million in 2016).

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**24. GUARANTEES**

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

*Operating leases*

The Corporation has guaranteed a portion of the residual value of certain assets under operating leases for the benefit of the lessor. Should the Corporation terminate these leases prior to term (or at the end of the lease terms) and should the fair value of the assets be less than the guaranteed residual value, then the Corporation must, under certain conditions, compensate the lessor for a portion of the shortfall. As of December 31, 2018, the maximum exposure with respect to the guarantees was \$14.5 million and no liability has been recorded in the consolidated balance sheet.

*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 Corporation may agree to indemnify against claims related to the 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 Corporation from estimating the maximum potential liability it could be required to pay to guaranteed parties. The Corporation has not accrued any amount in respect of these items in the consolidated balance sheet.

*Outsourcing companies and suppliers*

In the normal course of its operations, the Corporation enters into contractual agreements with outsourcing companies and suppliers. In some cases, the Corporation agrees to provide indemnifications in the event of legal procedures initiated against them. In other cases, the Corporation provides indemnification to counterparties for damages resulting from the outsourcing companies and suppliers. The nature of the indemnification agreements prevents the Corporation from estimating the maximum potential liability it could be required to pay. No amount has been accrued in the consolidated balance sheets with respect to these indemnifications.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

The Corporation's financial risk management policies have been established in order to identify and analyze the risks faced by the Corporation, 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 Corporation's activities.

The Corporation uses a number of financial instruments, mainly cash and cash equivalents, accounts receivable, contract assets, bank indebtedness, accounts payable and accrued charges, long-term debt, and derivative financial instruments. As a result of its use of financial instruments, the Corporation is exposed to credit risk, liquidity risk and market risks relating to foreign exchange fluctuations and interest rate fluctuations.

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.

**VIDEOTRON LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

**(a) Description of derivative financial instruments**

(i) Foreign exchange forward contracts

| <u>Maturity</u>  | <u>CAN dollar average exchange rate per one U.S. dollar</u> | <u>Notional amount sold</u> | <u>Notional amount bought</u> |
|------------------|---|-----------------------------|-------------------------------|
| Less than 1 year | 1.3056  | \$ 165.6                    | US\$ 126.8                    |

(ii) Cross-currency interest rate swaps

| <u>Hedged item</u>                | <u>Period covered</u> | <u>Hedging instrument</u> |   |  |
|-----------------------------------|-----------------------|---------------------------|---|--|
|                                   |                       | <u>Notional amount</u>    | <u>Annual interest rate on notional amount in CAN dollars</u> | <u>CAN dollar exchange rate on interest and capital payments per one U.S. dollar</u> |
| 5.000% Senior Notes due 2022      | 2014 to 2022          | US\$ 543,125              | 6.01%   | 0.9983   |
| 5.000% Senior Notes due 2022      | 2012 to 2022          | US\$ 256,875              | 5.81%   | 1.0016   |
|                                   |                       |                           | Bankers' acceptance 3 months                                  |  |
| 5.375% Senior Notes due 2024      | 2014 to 2024          | US\$ 158,605              | + 2.67%   | 1.1034   |
| 5.375% Senior Notes due 2024      | 2017 to 2024          | US\$ 441,395              | 5.62%   | 1.1039   |
| 5.125% Senior Notes due 2027      | 2017 to 2027          | US\$ 600,000              | 4.82%   | 1.3407   |
|                                   |                       |                           | Bankers' acceptance 1 month                                   |  |
| US\$ drawing on revolver facility | 2018 to 2019          | US\$ 160.0                | + 0.42%   | 1.3417   |

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.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

**(b) Fair value of financial instruments**

In accordance with IFRS 13, *Fair Value Measurement*, the Corporation considers the following fair value hierarchy which reflects the significance of the inputs used in measuring its financial instruments:

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

The fair value of long-term debt is estimated based on quoted market prices when available or on valuation models using Level 1 and Level 2 inputs. 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 (Level 2 inputs). 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 (Level 3 inputs) to the net exposure of the counterparty or the Corporation. Derivative financial instruments are classified as Level 2.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

**(b) Fair value of financial instruments (continued)**

The carrying value and fair value of long-term debt and derivative financial instruments as of December 31, 2018 and 2017 are as follows:

| Asset (liability)                                   | 2018           |                | 2017           |                |
|---|----------------|----------------|----------------|----------------|
|   | Carrying value | Fair value     | Carrying value | Fair value     |
| <b>Long-term debt<sup>1</sup></b>                   | \$ (4,244,396) | \$ (4,210,800) | \$ (3,294,557) | \$ (3,492,100) |
| <b>Derivative financial instruments<sup>2</sup></b> |                |                |                |                |
| Foreign exchange forward contracts <sup>3</sup>     | 6,749          | 6,749          | (4,502)        | (4,502)        |
| Cross-currency interest rate swaps <sup>3</sup>     | 458,241        | 458,241        | 263,530        | 263,530        |

<sup>1</sup> 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.

<sup>2</sup> The fair value of derivative financial instruments designated as cash flow hedges is a net asset position of \$418.6 million as of December 31, 2018 (\$227.0 million as of December 31, 2017) and the fair value of derivative financial instruments designated as fair value hedges is an asset position of \$46.4 million (\$32.0 million in 2017).

<sup>3</sup> The value of foreign exchange forward contracts entered into to lock-in the value of existing hedging positions is netted from the value of the offset financial instruments.

The fair value of investments in preferred shares of the parent corporation and loans from the parent corporation is equivalent to their initial issuance values (notes 10 and 11) since these financial instruments have only been issued as part of transactions carried out for tax consolidation purposes of Quebecor Media and its subsidiaries.

**(c) Credit risk management**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial asset fails to meet its contractual obligations and arises principally from amounts receivable from customers, including contract assets.

The carrying amounts of financial assets represent the maximum credit exposure.

In the normal course of business, the Corporation continuously monitors the financial condition of its customers and reviews the credit history of each new customer. As of December 31, 2018, no customer balance represented a significant portion of the Corporation's consolidated trade receivables. The Corporation is using the expected credit losses method to estimate its provision for credit losses, which considers the specific credit risk of its customers, the expected lifetime of its financial assets, historical trends and economic conditions. As of December 31, 2018, the provision for expected credit losses represented 3.0% of the gross amount of accounts receivable and contract assets (3.0% as of December 31, 2017), while 4.8% of trade receivable were 90 days past their billing date (4.9% as of December 31, 2017).

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)****(c) Credit risk management (continued)**

The following table shows changes to the provision for expected credit losses for the years ended December 31, 2018 and 2017:

|   | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|
| Balance at beginning of the year                    | \$ 13,954        | \$ 19,351        |
| Changes in expected credit losses charged to income | 17,595           | 19,977           |
| Write-off   | (17,504)         | (25,374)         |
| <b>Balance at the end of the year</b>               | <b>\$ 14,045</b> | <b>\$ 13,954</b> |

The Corporation 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 Corporation does not believe that it is exposed to an unusual level of customer credit risk.

As a result of its use of derivative financial instruments, the Corporation is exposed to the risk of non-performance by a third party. When the Corporation enters into derivative contracts, the counterparties (either foreign or Canadian) must have credit ratings at least in accordance with the Corporation's risk-management policy and are subject to concentration limits. These credit ratings and concentration limits are monitored on an ongoing basis but at least quarterly.

**(d) Liquidity risk management**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due or the risk that those financial obligations will have to be met at excessive cost. The Corporation manages this exposure through staggered debt maturities. The weighted average term of the Corporation's consolidated debt was approximately 5.8 years as of December 31, 2018 (7.0 years as of December 31, 2017).

The Corporation's management 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, and dividends (or distributions) in the future. The Corporation has access to cash flows generated by its subsidiaries through dividends and cash advances paid by its wholly owned subsidiaries.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)****(d) Liquidity risk management (continued)**

As of December 31, 2018, 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:

|   | <u>Total</u>        | <u>Less than<br/>1 year</u> | <u>1-3 years</u>  | <u>3-5 years</u>    | <u>5 years<br/>or more</u> |
|---|---------------------|-----------------------------|-------------------|---------------------|----------------------------|
| Bank indebtedness                             | \$ 8,301            | \$ 8,301                    | \$ —              | \$ —                | \$ —                       |
| Accounts payable and accrued charges          | 592,970             | 592,970                     | —                 | —                   | —                          |
| Amounts payable to affiliated corporations    | 41,506              | 41,506                      | —                 | —                   | —                          |
| Long-term debt <sup>1</sup>                   | 4,244,396           | —                           | —                 | 1,832,956           | 2,411,440                  |
| Interest payments <sup>2</sup>                | 1,104,999           | 148,177                     | 384,578           | 330,568             | 241,676                    |
| Derivative financial instruments <sup>3</sup> | (461,215)           | —                           | —                 | (291,459)           | (169,756)                  |
| <b>Total</b>                                  | <b>\$ 5,530,957</b> | <b>\$ 790,954</b>           | <b>\$ 384,578</b> | <b>\$ 1,872,065</b> | <b>\$ 2,483,360</b>        |

<sup>1</sup> 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.

<sup>2</sup> Estimate of interest payable on long-term debt, based on interest rates, hedging of interest rates and hedging of foreign exchange rates as of December 31, 2018.

<sup>3</sup> Estimated future receipts, net of future disbursements, on derivative financial instruments related to foreign exchange hedging.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

**(e) Market risk**

Market risk is the risk that changes in market prices due to foreign exchange rates and/or interest rates will affect the value of the Corporation'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 Corporation's consolidated revenues and expenses, other than interest expense on U.S.-dollar-denominated debt, purchases of set-top boxes, handsets and cable modems and certain capital expenditures, are received or denominated in CAN dollars. A large portion of the interest, principal and premium, if any, payable on its debt is payable in U.S. dollars. The Corporation has entered into transactions to hedge the foreign currency risk exposure on its U.S.-dollar-denominated debt obligations outstanding as of December 31, 2018 and to hedge its exposure on certain purchases of set-top boxes, handsets, cable modems and capital. Accordingly, the Corporation's sensitivity to variations in foreign exchange rates is economically limited.

The estimated sensitivity on income and on other comprehensive income, before income taxes, of a variance of \$0.10 in the year-end exchange rate of a CAN dollar per one U.S. dollar used to calculate the fair value of financial instruments as of December 31, 2018 is as follows:

| Increase (decrease)       | Income          | Other<br>comprehensive<br>income |
|---------------------------|-----------------|----------------------------------|
| <b>Increase of \$0.10</b> | <b>\$ 1,307</b> | <b>\$ 26,706</b>                 |
| <b>Decrease of \$0.10</b> | <b>(1,307)</b>  | <b>(26,706)</b>                  |

A variance of \$0.10 in the 2018 average exchange rate of CAN dollar per one U.S. dollar would have resulted in a variance of \$2.4 million on the value of unhedged purchase of goods and services and \$4.4 million on the value of unhedged acquisitions of tangible and intangible assets in 2018.

*Interest rate risk*

The Corporation's bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers' acceptance rate, (ii) LIBOR, (iii) Canadian prime rate and (iv) U.S. prime rate. The Senior Notes issued by the Corporation bear interest at fixed rates. The Corporation has entered into cross-currency interest rate swap agreements in order to manage cash flow risk exposure. As of December 31, 2018, after taking into account the hedging instruments, long-term debt was comprised of 75.8 % fixed rate debt (94.1% in 2017) and 24.2 % floating rate debt (5.9% in 2017).

The estimated sensitivity on interest payments of a 100 basis-point variance in the year-end Canadian Bankers' acceptance rate as of December 31, 2018 was \$9.2 million.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

**(e) Market risk (continued)**

*Interest rate risk (continued)*

The estimated sensitivity on income and on other comprehensive income, before income taxes, of a 100 basis-point variance in the discount rate used to calculate the fair value of financial instruments as of December 31, 2018, as per the Corporation's valuation models, is as follows:

| Increase (decrease)          | Income     | Other comprehensive income |
|------------------------------|------------|----------------------------|
| Increase of 100 basis points | \$ (2,051) | \$ (14,851)                |
| Decrease of 100 basis points | 2,051      | 14,851                     |

**(f) Capital management**

The Corporation'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 Corporation takes into account the asset characteristics of its subsidiaries and planned requirements for funds. Management of the capital structure involves the issuance and repayment of debt, the use of cash flows generated by operations, and the level of distributions to the parent corporation. The Corporation has not significantly changed its strategy regarding the management of its capital structure since the last financial year.

The Corporation's capital structure is composed of equity, bank indebtedness, long-term debt and derivative financial instruments and cash and cash equivalents. The capital structure as of December 31, 2018 and 2017 is as follows:

|                                  | 2018         | 2017<br>(restated, note 1(b)) |
|----------------------------------|--------------|-------------------------------|
| Bank indebtedness                | \$ 8,301     | \$ —                          |
| Long-term debt                   | 4,219,598    | 3,270,330                     |
| Derivative financial instruments | (464,990)    | (259,028)                     |
| Cash and cash equivalents        | (1,052)      | (815,848)                     |
| Net liabilities                  | 3,761,857    | 2,195,454                     |
| Equity                           | \$ (133,546) | \$ 1,936,017                  |

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

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**26. RELATED PARTY TRANSACTIONS**

Compensation of key management personnel

Key management personnel comprise members of the Board of Directors and key senior managers of the Corporation and its main subsidiaries. Their compensation is as follows:

|                                  | <u>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|----------------------------------|-----------------|-----------------|-----------------|
| Salaries and short-term benefits | \$ 5,598        | \$ 4,445        | \$ 4,410        |
| Share-based compensation         | 2,296           | 3,091           | 2,024           |
| Other long-term benefits         | 1,847           | 1,373           | 1,742           |
|                                  | <u>\$ 9,741</u> | <u>\$ 8,909</u> | <u>\$ 8,176</u> |

Operating transactions

During the years ended December 31, 2018, 2017 and 2016, the Corporation and its subsidiaries made purchases and incurred rent charges with the parent corporation and affiliated corporations, which are included in purchase of goods and services. The Corporation and its subsidiaries also made sales to the parent corporation and affiliated corporations. These transactions were accounted for at the consideration agreed between parties:

|   | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|
| <b>Ultimate parent and parent corporation :</b> |             |             |             |
| Revenues  | \$ 577      | \$ 525      | \$ 455      |
| Purchase of goods and services                  | 9,353       | 8,698       | 8,037       |
| Operating expenses recovered                    | (355)       | (344)       | (752)       |
| <b>Corporations under common control :</b>      |             |             |             |
| Revenues  | 4,985       | 5,481       | 5,906       |
| Purchase of goods and services                  | 105,493     | 103,519     | 104,244     |
| Operating expenses recovered                    | (1,160)     | (2,308)     | (1,275)     |

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**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**26. RELATED PARTY TRANSACTIONS (continued)**

Accounts receivable from affiliated corporations:

|  | <u>2018</u>     | <u>2017</u>     |
|--|-----------------|-----------------|
| Ultimate parent and parent corporation : |                 |                 |
| Accounts receivable                      | \$ 2,185        | \$ 533          |
| Dividends receivable                     | 5,034           | —               |
| Interest receivable                      | —               | 4,174           |
| Corporations under common control:       |                 |                 |
| Accounts receivable                      | 2,485           | 2,314           |
|  | <u>\$ 9,704</u> | <u>\$ 7,021</u> |

Accounts payable to affiliated corporations:

|  | <u>2018</u>      | <u>2017</u>      |
|--|------------------|------------------|
| Ultimate parent and parent corporation : |                  |                  |
| Accounts payable                         | \$ 11,147        | \$ 36,028        |
| Interest payable                         | 4,982            | —                |
| Corporations under common control:       |                  |                  |
| Accounts payable                         | 25,377           | 18,647           |
|  | <u>\$ 41,506</u> | <u>\$ 54,675</u> |

Management arrangements

The Corporation pays annual management fees to the parent corporation for services rendered to the Corporation, including internal audit, legal and corporate, financial planning and treasury, tax, real estate, human resources, risk management, public relations and other services. Management fees amounted to \$53.0 million in 2018 (\$53.0 million in 2017 and in 2016). In addition, the parent corporation is entitled to the reimbursement of out-of-pocket expenses incurred in connection with the services provided under the agreement.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**27. PENSION PLANS AND POSTRETIREMENT BENEFITS**

The Corporation maintains various defined benefit and defined contribution plans. The Corporation also provides postretirement benefits to eligible retired employees. The Corporation's pension plans are registered with a provincial or federal regulatory authority.

The Corporation's funding policy for its funded pension plans is to maintain its contribution at a level sufficient to cover benefits and to meet requirements of the applicable regulations and plan provisions that govern the funding of the plans. These provisions establish, among others, the future amortization payments when the funding ratio of the pension plans is insufficient as defined by the relevant provincial and federal laws. Payments are determined by an actuarial report performed by an independent company at least every three years or annually, according to the applicable laws and in accordance with plan provisions.

By their design, the defined benefit plans expose the Corporation to the typical risks faced by defined benefit plans, such as investment performance, changes to the discount rates used to value the obligation, longevity of plan participants, and future inflation. The administration of the plans is assured by pension committees composed of members of the plans, independent members of the Corporation's management and independent members or by the Corporation in accordance with the provisions of each plan. Under the Corporation's rules of governance, the approval and oversight of the defined benefit plan policies are performed at different levels through the pension committees, the Corporation's management, or the Audit Committee. The risk management of pension plans is also performed under the leadership of these committees at various levels. The custody of securities and management of security transactions are assigned to trustees within a mandate given by the pension committee or the Corporation, as the case may be. Policies include those on investment objectives, risk mitigation strategies and the mandate to hire investment fund managers and monitor their work and performance. The defined benefit pension plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and the Corporation's funding requirement.

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, 2018 and 2017:

|   | <u>Pension benefits</u> |                   | <u>Postretirement benefits</u> |                  |
|---|-------------------------|-------------------|--------------------------------|------------------|
|   | <u>2018</u>             | <u>2017</u>       | <u>2018</u>                    | <u>2017</u>      |
| <b>Change in benefit obligations</b>              |                         |                   |                                |                  |
| Benefit obligations at the beginning of the year  | \$ 456,879              | \$ 394,246        | \$ 30,117                      | \$ 38,010        |
| Service costs                                     | 24,054                  | 22,594            | 1,875                          | 1,579            |
| Interest costs                                    | 16,075                  | 15,455            | 1,711                          | 1,535            |
| Plan participants' contributions                  | 6,411                   | 6,728             | —                              | —                |
| Actuarial (gain) loss arising from:               |                         |                   |                                |                  |
| Demographic assumptions                           | —                       | (8,502)           | (12,059)                       | —                |
| Financial assumptions                             | (31,867)                | 37,943            | 29,119                         | 2,903            |
| Participant experience                            | (994)                   | 4,875             | —                              | (13,443)         |
| Benefits and settlements paid                     | (11,216)                | (16,695)          | (521)                          | (467)            |
| Other   | 3,120                   | 235               | —                              | —                |
| <b>Benefit obligations at the end of the year</b> | <u>\$ 462,462</u>       | <u>\$ 456,879</u> | <u>\$ 50,242</u>               | <u>\$ 30,117</u> |

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**27. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**

|   | Pension benefits  |                   | Postretirement benefits |             |
|---|-------------------|-------------------|-------------------------|-------------|
|   | 2018              | 2017              | 2018                    | 2017        |
| <b>Change in plan assets</b>                            |                   |                   |                         |             |
| Fair value of plan assets at the beginning of the year  | \$ 408,105        | \$ 361,232        | \$ —                    | \$ —        |
| Actual return on plan assets                            | (15,256)          | 29,789            | —                       | —           |
| Employer contributions                                  | 25,053            | 26,817            | 521                     | 467         |
| Plan participants' contributions                        | 6,411             | 6,728             | —                       | —           |
| Benefits and settlements paid                           | (11,216)          | (16,695)          | (521)                   | (467)       |
| Other   | 3,119             | 234               | —                       | —           |
| <b>Fair value of plan assets at the end of the year</b> | <b>\$ 416,216</b> | <b>\$ 408,105</b> | <b>\$ —</b>             | <b>\$ —</b> |

As of December 31, 2018, the weighted average duration of defined benefit obligations was 17.7 years (22.9 years in 2017). The Corporation expects future benefit payments of \$14.9 million in 2019.

The investment strategy for plan assets takes into account a number of factors, including the time horizon of the pension plans' obligations and the investment risk. For each of the plans, an allocation range by asset class is developed whereby a mix of equities and fixed-income investments is used to optimize the risk-return profile of plan assets and to mitigate asset-liability mismatch.

Plan assets are comprised of:

|                           | 2018          | 2017          |
|---------------------------|---------------|---------------|
| <b>Equity securities:</b> |               |               |
| Canadian                  | 23.6%         | 26.5%         |
| Foreign                   | 36.0          | 36.9          |
| Debt securities           | 40.2          | 36.5          |
| Other                     | 0.2           | 0.1           |
|                           | <b>100.0%</b> | <b>100.0%</b> |

The fair value of equity and debt securities is based on quoted prices in an active market, while the fair value of other investments is not based on quoted prices in an active market.

Where funded plans have a net defined benefit asset, the Corporation determines if potential reductions in future contributions are permitted by applicable regulations. When a defined benefit asset is created, it cannot exceed the future economic benefit that the Corporation can expect to obtain from the asset. The future economic benefit represents the value of reductions in future contributions and expenses payable to the pension fund. It does not reflect gains that could be generated in the future that would allow reductions in contributions by the Corporation. When there is a minimum funding requirement, this could also limit the amount recognized in the balance sheet. A minimum funding requirement represents the present value of amortization payments based on the most recent actuarial financing reports filed.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**27. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**

The reconciliation of funded status to the net amount recognized in the consolidated balance sheets is as follows:

|   | Pension benefits   |                    | Postretirement benefits |                    |
|---|--------------------|--------------------|-------------------------|--------------------|
|   | 2018               | 2017               | 2018                    | 2017               |
| Benefit obligations                                       | \$ (462,462)       | \$ (456,879)       | \$ (50,242)             | \$ (30,117)        |
| Fair value of plan assets                                 | 416,216            | 408,105            | —                       | —                  |
| <b>Plan deficit and net amount recognized<sup>1</sup></b> | <b>\$ (46,246)</b> | <b>\$ (48,774)</b> | <b>\$ (50,242)</b>      | <b>\$ (30,117)</b> |

<sup>1</sup> The net amount recognized for 2018 and 2017 is included in Other liabilities (note 19).

Components of re-measurements are as follows:

|   | Pension benefits |                    |                 | Postretirement benefits |                  |                 |
|---|------------------|--------------------|-----------------|-------------------------|------------------|-----------------|
|   | 2018             | 2017               | 2016            | 2018                    | 2017             | 2016            |
| Actuarial (loss) gain on benefit obligations  | \$ 32,861        | \$ (34,316)        | \$ (10,214)     | \$ (17,060)             | 10,540           | \$ (859)        |
| Actual return on plan assets, less interest income anticipated in the interest on the net defined benefit liability calculation | (28,547)         | 16,764             | 16,098          | —                       | —                | —               |
| <b>Re-measurements (loss) gain recorded in other comprehensive income</b>   | <b>\$ 4,314</b>  | <b>\$ (17,552)</b> | <b>\$ 5,884</b> | <b>\$ (17,060)</b>      | <b>\$ 10,540</b> | <b>\$ (859)</b> |

Components of the net benefit costs are as follows:

|   | Pension benefits |                  |                  | Postretirement benefits |                 |                 |
|---|------------------|------------------|------------------|-------------------------|-----------------|-----------------|
|   | 2018             | 2017             | 2016             | 2018                    | 2017            | 2016            |
| Employee costs:                           |                  |                  |                  |                         |                 |                 |
| Service costs                             | \$ 24,054        | \$ 22,594        | \$ 22,902        | \$ 1,874                | \$ 1,579        | \$ 1,474        |
| Administrative fees and other             | 562              | 521              | 409              | —                       | —               | —               |
| Interest on net defined benefit liability | 2,388            | 1,909            | 1,975            | 1,711                   | 1,535           | 1,438           |
| <b>Net benefit costs</b>                  | <b>\$ 27,004</b> | <b>\$ 25,024</b> | <b>\$ 25,286</b> | <b>\$ 3,585</b>         | <b>\$ 3,114</b> | <b>\$ 2,912</b> |

The expense related to defined contribution pension plans amounted to \$14.8 million in 2018 (\$13.9 million in 2017 and \$13.2 million in 2016).

The expected employer contributions to the Corporation's defined benefit pension plans and post-retirement benefit plans will be \$25.1 million in 2019 based on the most recent financial actuarial reports filed (contributions of \$25.5 million were paid in 2018).

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
(tabular amounts in thousands of Canadian dollars, except for option data)

**27. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**

Assumptions

The Corporation determines its assumption for the discount rate to be used for purposes of computing annual service and interest costs based on an index of high-quality corporate bond-yield and matched-funding yield curve analysis as of the measurement date.

The actuarial assumptions used in measuring the Corporation's benefit obligations as of December 31, 2018, 2017 and 2016 and current periodic benefit costs are as follows:

|                                 | <u>Pension and postretirement benefits</u> |             |             |
|---------------------------------|--|-------------|-------------|
|                                 | <u>2018</u>                                | <u>2017</u> | <u>2016</u> |
| <b>Benefit obligations</b>      |  |             |             |
| Rates as of year-end:           |  |             |             |
| Discount rate                   | <b>3.90%</b>                               | 3.50%       | 3.90%       |
| Rate of compensation increase   | <b>3.00</b>                                | 3.00        | 3.00        |
| <b>Current periodic costs</b>   |  |             |             |
| Rates as of preceding year-end: |  |             |             |
| Discount rate                   | <b>3.50%</b>                               | 3.90%       | 4.00%       |
| Rate of compensation increase   | <b>3.00</b>                                | 3.00        | 3.00        |

The assumed average retirement age of participants used was of 62 years in 2018, 2017 and 2016.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 8.5% at the end of 2018. These costs, as per the estimate, are expected to decrease gradually over the next 10 years to 5.5% and to remain at that level thereafter.

Sensitivity analysis

An increase of 10 basis points in the discount rate would have decreased the pension benefits obligation by \$7.3 million and the postretirement benefits obligation by \$1.2 million as of December 31, 2018. There are limitations to this sensitivity analysis since it only considers the impacts of an increase of 10 basis points in the discount rate assumption without changing any other assumptions. No sensitivity analysis was performed on other assumptions as a similar change to those assumptions would not have a significant impact on the consolidated financial statements.

**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**28. DISCONTINUED OPERATIONS**

On January 22, 2019, the Corporation sold to Quebecor Media its 4 Degrees Colocation Inc. data centers operations, which were ultimately sold to a third party on January 24, 2019 for an amount of \$261.6 million fully paid in cash at the date of transaction. 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, an estimated gain on disposal of \$118.0 million will be accounted for in the first quarter of 2019, while an amount of \$53.0 million from the proceeds received at the date of transaction will be deferred in connection with the estimated present value of the future conditional adjustments. The amount deferred will be revaluated on a quarterly basis and any change will be recorded in income from discontinued operations.

These discontinued operations were transferred to Quebecor Media in exchange of promissory note receivable of an amount of \$261.6 million, from which \$100.0 million was reimbursed subsequently in January.

The results of operations and cash flows of this business were reclassified as discontinued operations in the consolidated statement of income and cash flows as follows:

|   | <u>2018</u>     | <u>2017</u>     | <u>2016</u>        |
|---|-----------------|-----------------|--------------------|
| Revenues  | \$ 19,828       | \$ 19,778       | \$ 12,026          |
| Expenses  | (14,579)        | (14,735)        | (10,673)           |
| Income taxes  | (1,399)         | (1,358)         | (376)              |
| <b>Income from discontinued operations</b>                      | <u>\$ 3,850</u> | <u>\$ 3,685</u> | <u>\$ 977</u>      |
|   | <u>2018</u>     | <u>2017</u>     | <u>2016</u>        |
| Cash flows related to operating activities                      | \$ 10,473       | \$ 9,493        | \$ 3,254           |
| Cash flows related to investing activities                      | (1,947)         | (3,521)         | (53,116)           |
| <b>Cash flows provided by (used in) discontinued operations</b> | <u>\$ 8,526</u> | <u>\$ 5,972</u> | <u>\$ (49,862)</u> |

Components of assets and liabilities classified as held for sale in the consolidated balance sheet are as follows:

|                                   | <u>2018</u>      |
|-----------------------------------|------------------|
| Current assets                    | \$ 1,385         |
| Fixed assets                      | 72,471           |
| Goodwill and intangible assets    | 21,171           |
| Assets held for sale              | 95,027           |
| Current liabilities held for sale | (6,629)          |
| <b>Net assets held for sale</b>   | <u>\$ 88,398</u> |

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**VIDEOTRON LTD.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2018, 2017 and 2016  
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**29. SUBSEQUENT EVENTS**

On January 17, 2019, the Corporation reduced its paid-up capital for a cash consideration of \$45.0 million.

On January 25, 2019, the Corporation issued 162,640 common shares to Quebecor Media for a cash consideration of \$150.0 million.

**VIDÉOTRON LTÉE**, as Borrower

-and-

**RBC DOMINION SECURITIES INC.**, as Co-Lead Arranger and Joint Bookrunner  
**NATIONAL BANK OF CANADA**, as Co-Lead Arranger and Joint Bookrunner  
**TD SECURITIES**, as Co-Lead Arranger and Joint Bookrunner

-and-

**BANK OF AMERICA, N.A., CANADA BRANCH**  
**BMO CAPITAL MARKETS**  
**CIBC WORLD MARKETS**  
**FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC**  
**THE BANK OF NOVA SCOTIA**  
as Co-Arrangers

-and-

**NATIONAL BANK OF CANADA**  
**THE TORONTO-DOMINION BANK**  
as Syndication Agents

-and-

**THE BANK OF NOVA SCOTIA**  
as Documentation Agent

-and-

**THE FINANCIAL INSTITUTIONS NAMED**  
**ON THE SIGNATURE PAGES HERETO**  
as Lenders

-and-

**ROYAL BANK OF CANADA**  
as Administrative Agent

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**THIRD AMENDING AGREEMENT to the Amended and Restated Credit Agreement dated as of June 16, 2015, as amended  
by a First Amending Agreement dated as of June 24, 2016 and a Second Amending Agreement dated as of January 3, 2018**

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**BORDEN LADNER GERVAIS LLP**

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**THIRD AMENDING AGREEMENT** to the Amended and Restated Credit Agreement dated as of June 16, 2015, as amended by a First Amending Agreement dated as of June 24, 2016 and a Second Amending Agreement dated as of January 3, 2018, entered into in the City of Montreal, Province of Quebec, as of November 26, 2018,

**AMONG:** **VIDÉOTRON LTÉE**, a company constituted in accordance with the laws of Quebec, having its registered office at 612 St. Jacques Street, 18<sup>th</sup> floor, in the City of Montreal, Province of Quebec (hereinafter called the “**Borrower**”)

**AND:** **THE LENDERS, AS DEFINED IN THE CREDIT AGREEMENT** (the “**Lenders**”)

**AND:** **ROYAL BANK OF CANADA, AS ADMINISTRATIVE AGENT FOR THE LENDERS**, a Canadian bank, having a place of business at 200 Bay Street, 12<sup>th</sup> floor, South Tower, Royal Bank Plaza, in the City of Toronto, Province of Ontario (hereinafter called the “**Agent**”)

**WHEREAS** the parties hereto are parties to a credit agreement originally dated as of November 28, 2000, as amended and restated as of July 20, 2011, as amended by a First Amending Agreement dated as of June 14, 2013, a Second Amending Agreement dated as of January 28, 2015, a Third Amending Agreement creating an Amended and Restated Credit Agreement dated as of June 16, 2015, a First Amending Agreement dated as of June 24, 2016 and a Second Amending Agreement dated as of January 3, 2018 (the “**Original Credit Agreement**”, and as amended pursuant to this Agreement, the “**Credit Agreement**”);

**WHEREAS** on May 4, 2017 the full amount of the Credit available under the Unsecured Facility has been reduced to zero, the Commitment of each Unsecured Facility Lender has been converted into an additional Commitment of the same Lender under the Revolving Facility and the Unsecured Facility has been terminated;

**WHEREAS** on October 22, 2018 the Finnvera Term Facility has been terminated;

**WHEREAS** the Borrower has requested certain amendments to the Original Credit Agreement; and

**WHEREAS** the Lenders have unanimously agreed with the Borrower to the amendment contemplated hereby, and as such, the Lenders have complied with the provisions of Section 18.14 and 18.15 of the Original Credit Agreement, as evidenced by the signature of each party hereto on this Agreement;

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**NOW THEREFORE, THE PARTIES HERETO AGREE AS FOLLOWS:**

**I. INTERPRETATION**

All of the words and expressions which are capitalized herein, including in the preamble hereto, shall have the meanings ascribed to them in the Original Credit Agreement unless otherwise indicated herein.

**II. AMENDMENTS**

1. Subsection 1.1.60 of the Original Credit Agreement is hereby deleted and replaced by the following (new text double-underlined and old text stricken off):

“1.1.60 “**EBITDA**” means, with respect to any Person or the Relevant Group during a financial period, earnings before non-controlling interests, earnings from equity-accounted investments, extraordinary items, non-recurring gains or losses on debt extinguishment and asset sales and restructuring, Interest Expense, Taxes (to the extent taken into account for the purposes of determining net income), depreciation and amortization, foreign exchange translation gains or losses not involving the payment of cash, other non-cash financial charges, reconnection costs, subscribers’ subsidies revenues net of related costs, deferred installation revenues net of related costs without taking into account any goodwill adjustments, **and amortization of contract assets and contract acquisition costs**, calculated in accordance with GAAP; for greater certainty, there shall be excluded from the calculation of EBITDA, to the extent included in such calculation, (a) the amount of any income or expense relating to Back-to-Back Securities, and (b) the EBITDA from any Subsidiary that is not a member of the Relevant Group except to the extent of the cash dividends or other distributions received from such Subsidiary that is not a member of the Relevant Group, net of any reinvestments by the Relevant Group in such Subsidiary.”

2. The pricing table under Revolving Facility in Subsection 1.1.101 of the Original Credit Agreement is hereby deleted and replaced by the following:

**Revolving Facility**

**[Redacted.]**

3. Subsection 1.1.108 of the Original Credit Agreement is hereby deleted and replaced by the following (new text double-underlined and old text stricken off):

“1.1.108 **“New Facility”** means one or more credit facilities created from time to time as permitted under Section 2.4 and benefitting from the Security.”

4. Subsections 1.1.114.6 and 1.1.114.8 of the Original Credit Agreement are hereby deleted and replaced by the following (new text double-underlined and old text stricken off):

“1.1.114.6 Charges (i) under any Capital Lease or Synthetic Lease, and (ii) to secure the payment of the purchase price incurred in connection with the acquisition of assets, in each case to be used in carrying on the Core Business, including Charges existing on such assets at the time of the acquisition thereof or at the time of the acquisition by a member of the VL Group of any business entity then owning such assets, whether or not such existing Charges were given to secure the payment of the purchase price of the assets to which they attach, provided that such Charges are limited to the assets purchased and that the amount guaranteed by such Charges does not exceed 100% of the acquisition price of the assets so acquired, and, in the aggregate for (i) and (ii) above, shall not exceed, at the time of incurrence, the greater of (a) **7.5%** of Shareholders Equity and (b) **\$75,000,000**, outstanding at any time;

1.1.114.8 other Charges, not ranking in priority to the Security, incurred in the ordinary course of the Core Business, in an aggregate amount not at any time exceeding, the greater of (a) 7.5% of Shareholders Equity and (b) \$75,000,000.”

5. Subsection 1.1.145 of the Original Credit Agreement is hereby deleted and replaced by the following:

“1.1.145 **“Swing Line Commitment”** means \$55,000,000.”

6. Subsection 1.1.152 of the Original Credit Agreement is hereby amended by deleting the words “means, with respect to the Revolving Facility, the period commencing on the Closing Date and terminating on July 20, 2021” appearing at the beginning of such Subsection and replacing same with “means, with respect to the Revolving Facility, the period commencing on the Closing Date and terminating on July 20, 2023”.

7. A new Section 1.6 is added to the Original Credit Agreement to deal with the replacement of LIBOR. The new Section 1.6 provides as follows:

“1.6 **Termination of LIBOR**

In the event that the LIBOR ceases to be made available or the supervisor for the administrator of the LIBOR or a Governmental Authority having jurisdiction over the Agent has made a public statement identifying a specific date after which the LIBOR shall no longer be used for determining interest rates for loans, then the Borrower and the Agent shall enter into discussions with a view to determining a comparable successor or alternative interbank rate for deposits in US Dollars that is, at such time, broadly accepted

as the prevailing market practice for syndicated leveraged loans of this type; provided that, if such alternative rate of interest shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement. Upon the Borrower and the Agent agreeing on such a rate, the Borrower and the Lenders party hereto shall enter into documentation to amend the provisions of this Agreement to refer to such rate and make all other adjustments incidental thereto, provided that no fee shall then be payable by the Borrower to the Agent and the Lenders in connection with such amendment. The parties hereto agree that such amendment shall require the consent of the Majority Lenders, notwithstanding anything contrary set forth in Sections 18.14 and 18.15.

Until an alternative rate of interest shall be determined in accordance with this Section 1.6, any Notice of Borrowing or notice of conversion requesting to convert or continue any Advance as a Libor Advance shall be ineffective and the Borrower shall be deemed to have chosen to have the interest on the amount of such Advance calculated on the US Base Rate Basis.”

8. Subsection 2.1.1 of the Original Credit Agreement is hereby deleted and replaced by the following (new text double-underlined and old text stricken off):

“2.1.1 the Revolving Facility, in a maximum amount equal to **\$1,500,000,000** (subject to increases in accordance with Sections 2.3 and 2.4), including the Swing Line Commitment which forms part of the Revolving Facility;”

9. Subsection 2.4.1 of the Original Credit Agreement is hereby deleted and replaced by the following (new text double-underlined and old text stricken off):

“2.4.1 The aggregate amount of any such New Commitments and available commitments under any New Facility shall not exceed an amount equal to **\$500,000,000** minus the amount of any previous New Commitments and New Facility (in each case, drawn and undrawn) that remain in effect. The notice shall specify the date (the “**Increased Amount Date**”) on which the Borrower proposes that the New Commitments or New Facility shall be effective, which shall be a date not less than 15 Business Days after the date on which such notice is delivered to the Agent. The notice in respect of New Commitments shall provide that the Borrower is first offering the opportunity to provide each New Commitment to the then-existing Revolving Facility Lenders, who may accept same on a pro rata basis or as they may otherwise agree. Any Revolving Facility Lender approached to provide all or a portion of the New Commitments may elect or decline, in its sole discretion, to provide a New Commitment.”

10. Section 13.7 of the Original Credit Agreement is hereby deleted and replaced by the following (new text double-underlined and old text stricken off):

“13.7 Debt and Guarantees

Incur or assume Debt, provide Guarantees or render itself liable in any manner whatsoever, directly or indirectly, for any Indebtedness or obligation whatsoever of another Person, except (a) hereunder for the purposes set forth in Section 3.1; (b) that a member of the VL Group may provide financial assistance to another member of the VL Group to the extent that the Borrower complies with the provisions of Section 12.12; (c) unsecured Debt not exceeding \$75,000,000 under the Tranche B Finnvera credit agreement entered into among the Borrower, HSBC Bank plc, The Toronto-Dominion Bank and Sumitomo Banking Corporation of Canada dated as of November 13, 2009; (d) in connection with Debt incurred or assumed that is secured by Permitted Charges, and within the limits applicable thereto; (e) in connection with Back-to-Back Transactions and Tax Benefit Transactions including by way of unsecured daylight loans; (f) that the Borrower may incur or assume unsecured Debt by way of Additional Offerings, and that a member of the VL Group may provide unsecured Guarantees in respect of obligations of the Borrower under any such Debt outstanding at any time, to the extent that the Borrower complies with the applicable Leverage Ratio calculated on a pro forma basis and, subject to the provisions of Section 9.3, such member has provided a Guarantee under subsection 9.1.1 or provides such a Guarantee contemporaneously with its Guarantee in relation to the Additional Offering; (g) unsecured Debt by way of Additional Offerings incurred by the Borrower before the Closing Date and listed in Schedule “H” and including, subject to Section 9.3, unsecured Guarantees by members of the VL Group in respect of obligations of the Borrower under such Debt outstanding at any time; (h) the Borrower may borrow Subordinated Debt from Quebecor Media Inc. in a principal amount outstanding from time to time of up to \$500,000,000, with interest at a rate not exceeding the greater of (y) the three month bankers’ acceptance rate quoted on Reuter’s Services, page CDOR, as at approximately 10:00 a.m. on such day plus 3.0% per annum, or (z) 7% per annum (together with interest accrued thereon or paid in kind, the “**QMI Subordinated Debt**”); (i) additional unsecured Debt of up to \$250,000,000; (j) in connection with other Subordinated Debt; (k) unsecured daylight loans incurred in connection with Tax Consolidation Transactions, provided that prior to incurring the daylight loan made at the initiation of any Tax Consolidation Transaction in a minimum amount of \$75,000,000, the Agent shall have been informed by the Borrower of the incurrence of such daylight loan; (l) unsecured Debt in respect of daylight loans in the ordinary course of business for cash management purposes, and (m) unsecured Debt facilities, each with a maximum maturity of 2 years, in connection with and to support the issuance of letters of credit required under any Spectrum Auction and Purchase process; provided that, with respect to any of the matters described in paragraphs (c) to (i) inclusive and (m) above, (A) no Default or Event of Default exists at the time, (B) incurring or assuming such Debt (including by way of providing such Guarantee) will not cause a Default or Event of Default, and (C) on a pro forma basis, the incurrence or assumption of such Debt would not reasonably be expected to cause the Borrower to breach any of its covenants under Section 12.11 hereof.”

11. Section 18.15 of the Original Credit Agreement is amended by adding the following at the end of Section 18.15:

“If any Lender is a Non-Consenting Lender, then the Borrower may, at its sole cost and expense, upon 10 days’ notice to such Non-Consenting Lender and the Agent, on the condition that at such time, no Default exists and is continuing, require such Non-Consenting Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Article 16), all of its interests, rights and obligations under this Agreement and the other Loan Documents to an Eligible Assignee that shall assume such obligations (which Eligible Assignee may be another Lender, if a Lender accepts such Assignment), provided that:

- (i) the Borrower pays the Agent the assignment fee specified in Section 16.2.2(f); and
- (ii) the assigning Non-Consenting Lender receives payment of an amount equal to the outstanding principal of its outstanding Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder (including any breakage costs and amounts required to be paid under this Agreement as a result of prepayment of a Lender) from the Assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts).

A Non-Consenting Lender shall not be required to make any such assignment or delegation if, prior thereto, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

“**Non-Consenting Lender**” means any Lender that does not approve any consent, waiver or amendment that (a) requires the approval of all Lenders or all Affected Lenders in accordance with the terms of Section 18.15 and (b) that has been approved by the Majority Lenders.”

12. Schedule “A” to the Original Credit Agreement is amended to increase the aggregate Commitment of all Revolving Facility Lenders under the Revolving Facility from \$965,000,000 to \$1,500,000,000. The new Schedule “A” is annexed to this Agreement.

### III. REPRESENTATIONS AND WARRANTIES

1. The Borrower and Guarantors hereby represent and warrant to the Lenders and the Agent as follows:

- 1.1 the execution, delivery and performance by the Borrower and the Guarantors of this Agreement have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, or notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable;
- 1.2 this Agreement constitutes a legal, valid and binding obligation of the Borrower and each Guarantor, enforceable against each such Person in accordance with its

terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity;

- 1.3 the representations and warranties of the Borrower and each Guarantor set forth in the Credit Agreement shall be true and correct in all respects on and as of the Effective Date (except that where such representations and warranties are qualified by reference to a date, they shall be true and correct as at such date); and
- 1.4 at the time of and immediately after giving effect to this Agreement, no Default or Event of Default shall have occurred or be continuing.

#### **IV. CONDITIONS PRECEDENT**

1. This Agreement shall be effective as of November 26, 2018 (the "**Effective Date**"), subject to the fulfillment of each of the conditions set out in this Article IV to the entire satisfaction of the Agent and the Lenders:

- 1.1 certified copies of all of the constating documents, borrowing by-laws and resolutions of the Borrower and of each Guarantor shall have been provided to the Agent;
- 1.2 this Agreement shall have been executed and delivered;
- 1.3 the Borrower and each Guarantor which currently has in place a hypothec on all its movable and immovable property (including hypothecs with delivery on securities) pursuant to the Security Documents shall have executed new hypothecs for a principal amount of \$2,500,000,000 (plus an additional amount equal to 20% thereof) and such new hypothecs shall have been published wherever required;
- 1.4 the Borrower shall have delivered to the Agent the favourable legal opinion(s) of the counsel to the Borrower and each Guarantor, addressed to the Lenders, the Agent and its counsel, in form and substance acceptable to the Agent and its counsel, acting reasonably, including with regard to the continuing validity of all relevant Guarantees and Security;
- 1.5 the Borrower shall have paid to each of the Revolving Facility Lenders an upfront fee in the amount and payable as set forth in the letter sent to the Agent by the Borrower dated November 9, 2018;
- 1.6 the Borrower shall pay all fees and costs, including all legal fees associated with this Agreement incurred by the Agent as contemplated and restricted by the provisions of Section 12.14 of the Credit Agreement;
- 1.7 the representations and warranties in Article III of this Agreement shall be true and correct in all material respects as of the date hereof.

**V. MISCELLANEOUS**

1. On the Effective Date, the Original Credit Agreement shall be modified by the foregoing amendment. The parties hereto agree that the changes to the Original Credit Agreement set out herein and the execution hereof shall not constitute novation and all the Security shall continue to apply to the Original Credit Agreement, as amended hereby, and all other obligations secured thereby. Without limiting the generality of the foregoing and to the extent necessary, (i) the Lenders and the Agent reserve all of their rights under each of the Security Documents, and (ii) each of the Borrower and the Guarantors obligates itself again in respect of all present and future obligations under, *inter alia*, the Credit Agreement.
2. The Borrower shall cause its counsel to provide to the Agent, no later than January 26, 2019, Quebec land registry sub-search reports covering the immovable hypothecs referred to in Section IV.1.3 above in form and substance agreed with Agent's counsel.
3. All of the provisions of the Original Credit Agreement that are not amended hereby shall remain in full force and effect.
4. This Agreement may be signed in any number of counterparts, each of which shall be deemed to constitute an original, but all of the separate counterparts shall constitute one single document.
5. This Agreement shall be governed by and construed in accordance with the Laws of the Province of Quebec.
6. The parties acknowledge that they have required that the present agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto be drawn up in English. *Les parties reconnaissent avoir exigé la rédaction en anglais de la présente convention ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement ou à la suite de la présente convention.*

**[Signature pages follow]**

IN WITNESS WHEREOF THE PARTIES HERETO HAVE SIGNED THIS AGREEMENT ON THE DATE AND AT THE PLACE FIRST HEREINABOVE MENTIONED.

**VIDÉOTRON LTÉE**

Per: /s/ Chloé Poirier  
\_\_\_\_\_  
Chloé Poirier  
Vice President and Treasurer

Signature Page – Vidéotron Ltée  
Third Amending Agreement

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**ROYAL BANK OF CANADA, as Agent**

Per: /s/ Rodica Dutka  
Rodica Dutka  
Manager, Agency

**THE REVOLVING FACILITY LENDERS:**

**ROYAL BANK OF CANADA**

Per: /s/ Pierre Bouffard  
Pierre Bouffard  
Authorized Signatory

**NATIONAL BANK OF CANADA**

Per: /s/ Luc Bernier  
Luc Bernier  
Managing Director

Per: /s/ Jonathan Campbell  
Jonathan Campbell  
Director

**BANK OF AMERICA, N.A., Canada Branch**

Per: /s/ Adrian Plummer  
Adrian Plummer  
Associate

**THE BANK OF NOVA SCOTIA**

Per: /s/ François De Broux  
François De Broux  
Managing Director

Per: /s/ Denis Lapalme  
Denis Lapalme  
Director

**THE TORONTO-DOMINION BANK**

Per: /s/ Serge Cloutier  
Serge Cloutier  
Premier directeur / Director

**BANK OF MONTREAL**

Per: /s/ Deep Gill  
Deep Gill  
Vice President

Per: /s/ Mel Saklatvala  
Mel Saklatvala  
Premier directeur / Director

**FÉDÉRATION DES CAISSES DESJARDINS DU  
QUÉBEC**

Per: /s/ Catherine McCarthy  
Catherine McCarthy  
Directeur, Financement corporatif  
Director, Corporate Banking

Per: /s/ André Roy  
André Roy  
Directeur, Financement corporatif  
Director, Corporate Banking

**HSBC BANK CANADA**

Per: /s/ (signature)

Per: /s/ (signature)

**MUFG Bank, LTD., CANADA BRANCH**

Per: /s/ (signature)

**LAURENTIAN BANK OF CANADA**

Per: /s/ Sylvain Couture  
Sylvain Couture  
Director

Per: /s/ Michelle Colivas  
Michelle Colivas  
Senior Portfolio Manager

**CANADIAN IMPERIAL BANK OF COMMERCE**

Per: /s/ Philippe Boivin  
Philippe Boivin  
Executive Director

Per: /s/ Anissa Rabia-Zeribi  
Anissa Rabia-Zeribi  
Executive Director

**JPMORGAN CHASE BANK, N.A.**

Per: /s/ Jeffrey Coleman  
Jeffrey Coleman  
Executive Director

**CITIBANK, N.A., Canadian Branch**

Per: /s/ (signature)

The undersigned acknowledge having taken cognizance of the provisions of the foregoing Third Amending Agreement and consent thereto, and agree that the Guarantees and Security executed by them (A) remain enforceable against them in accordance with their terms, and (B) continue to guarantee or secure, as applicable, all of the obligations of the Persons specified in such Guarantees and Security Documents in connection with the Credit Agreement as defined above, and as amended hereby:

**9293-6707 QUÉBEC INC.**

Per: /s/ Chloé Poirier  
Chloé Poirier  
Vice President and Treasurer

**VIDÉOTRON INFRASTRUCTURES INC.**

Per: /s/ Chloé Poirier  
Chloé Poirier  
Vice President and Treasurer

**9529454 CANADA INC.**

Per: /s/ Chloé Poirier  
Chloé Poirier  
Vice President and Treasurer

**FIBRENOIRE INC.**

Per: /s/ Chloé Poirier  
Chloé Poirier  
Vice President and Treasurer

**9176-6857 QUÉBEC INC.**

Per: /s/ Chloé Poirier  
Chloé Poirier  
Vice President and Treasurer

**4DEGRÉS COLOCATION INC. / 4DEGREES COLOCATION INC.**

Per: /s/ Chloé Poirier  
Chloé Poirier  
Vice President and Treasurer

**8480869 CANADA INC.**

Per: /s/ Chloé Poirier  
Chloé Poirier  
Vice President and Treasurer

**SYSTEMES DE FIBRES P2P DU CANADA LTÉE/  
CANADIAN P2P FIBRE SYSTEMS LTD.**

Per: /s/ Chloé Poirier  
Chloé Poirier  
Vice President and Treasurer

**SCHEDULE "A" - LIST OF LENDERS AND COMMITMENTS**

[Redacted.]

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Videotron Ltd.

**Statement Regarding Calculation of Ratio of Earnings to Fixed Charges as Disclosed in  
Videotron Ltd.'s Annual Report on Form 20-F for the Year Ended December 31, 2018**

For the purpose of calculating the ratio of earnings to fixed charges disclosed in Videotron Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2018, (i) earnings consist of net income plus income taxes, fixed charges, amortized capitalized interest, less interest capitalized, and (ii) fixed charges consist of interest expensed and capitalized, excluding interest on QMI subordinated loans, plus premiums and discounts amortization, financing fees amortization and an estimate of the interest within rental expense.

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## List of Subsidiaries of Videotron Ltd.

| <u>Name of Subsidiary</u>      | <u>Jurisdiction of Incorporation or Organization</u> | <u>Equity Interest/Voting Interest</u> |
|--------------------------------|--|--|
| Videotron Infrastructures Inc. | Canada   | 100% / 100%                            |
| Videotron US Inc.              | Delaware   | 100% / 100%                            |
| SETTE inc.                     | Québec   | 84.53% / 84.53%                        |
| Fibretoire Inc.                | Canada   | 100% / 100%                            |



Code of ethics

**CODE OF ETHICS**

(Revised November 2018)

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## **I. SCOPE**

This Code of Ethics (the “**Code**”) applies to all directors, members of the management committee and employees of Videotron Ltd. (“**Videotron**” or the “**Corporation**”), as well as to those of its subsidiaries, its divisions and business units.

To facilitate the reading of this Code, the use of the singular shall include the plural and the use of the masculine shall include the feminine, and vice versa.

## **II. PURPOSE**

The Corporation’s reputation and the trust and confidence of those with whom it deals, are an integral part of its success. The Corporation is committed to managing its business in accordance with a set of values that adhere to the highest standards of integrity and excellence.

Now, more than ever, corporations must adopt certain guidelines to ensure that all employees behave in accordance with these values.

## **III. RESPONSIBILITY**

Every employee is responsible for becoming generally familiar with and for following this Code, other Corporation policies, guidelines and practices (the “**Policies**”) as well as all laws, rules and regulations that apply to their position with the Corporation and their level of responsibility.

This Code does not describe all of the Corporation Policies. Needless to say, each employee must also comply without restriction with all other existing Corporation Policies.

The Board of Directors of Videotron, through its Audit Committee (the “**Committee**”), is responsible for ensuring that a procedure is in place to denounce any violation to this Code.

The Human Resources manager of Videotron, along with the Vice President, Internal Audit of Videotron and the Senior Vice President, Chief Legal Officer and Public Affairs and Corporate Secretary of Quebecor Inc. (“**QI**”) revise the Code when deemed appropriate and recommend any amendment to the Committee. Following the approval by the said Committee, the revised Code is distributed to all employees.

## **IV. WORK ENVIRONMENT**

All employees must follow the Corporation’s management principles and adopt behaviours that allow for the application of Policies in relation to, among other things, diversity and inclusion, discrimination, health, safety and well-being at work, drug and/or alcohol use and harassment, as summarized below.

### **Diversity and inclusion**

The Corporation recognizes and respects diversity in the work environment. The Corporation is committed to maintaining an inclusive, respectful, equitable work environment that is accessible to all (employees,

clients, suppliers, visitors, volunteers). The Corporation is committed to promoting access to employment equality and to taking reasonable measures in order to represent the society in which it is evolving.

Hiring processes at the Corporation are carried out in a manner that is respectful of differences. Decisions made in relation to recruiting, assignments and promotions are based solely on skills, qualifications, abilities and individual performance.

### **Discrimination**

The Corporation is committed to equal employment opportunity without regard to race, colour, religion, gender, pregnancy, civil status, ethnic or national origin, age (except as provided by law), political convictions, language, social condition, a handicap or the use of any means to palliate a handicap, sexual orientation and gender diversity, provided that the person is able to perform the functions that are incumbent to his position.

The Corporation considers that all human beings are equal and, as such, they must be treated and treat each other with mutual respect. The Corporation is committed to fight against prejudice and discrimination in all forms within its organization. Consequently, discriminating against any employee, applicant or person with whom the Corporation does business on the basis of personal characteristics is prohibited.

### **Health, safety and well-being at work**

The Corporation is committed to making health, safety and well-being at work a common objective. It recognizes its employees' value and the important part they play in reaching its business goals. The Corporation confirms its commitment to promoting their health, safety and well-being.

The Corporation commits to taking the necessary measures to protect the health and safety of its employees, and, when applicable, its clients, suppliers, visitors and volunteers. Each employee is responsible for actively participating in identifying workplace risks and must take all necessary precautions to prevent workplace accidents and work-related injuries.

### **Use of drugs and/or alcohol**

The Corporation wishes to offer all its employees a safe, healthy and productive work environment. The workplace must be maintained as an alcohol- and drug-free environment to protect the health and safety of all its employees. The possession, consumption, distribution, sharing, purchase or sale of legal and illegal drugs and alcohol when an employee is fulfilling his work duties, when he is on the Corporation premises or when he is called upon to return to the Corporation premises is prohibited unless otherwise provided for in the *Policy on the use of drugs and alcohol* to which employees can refer for further details.

Each employee bears sole responsibility not only for being capable and able to do his work, but also for doing his work in a manner that is safe for himself and his colleagues and the general public. No employee who has consumed a substance that alters his physical and/or psychological ability to work safely and professionally will be tolerated at the workplace.

Any exceptions in regard to the consumption of alcohol must be approved in advance by the Vice President of the department in question.

### **Harassment**

Workplace harassment is any vexatious behaviour that takes the form of repeated and hostile or unwanted conduct, verbal comments or gestures, that affect an employee's dignity or psychological or physical integrity and that results in a harmful work environment. Psychological harassment takes the form of speech, acts or gestures of a sexual nature. A single serious incidence of such behaviour that has a lasting harmful effect on an employee may also constitute harassment.

Harassment may be considered to have occurred when a person: makes inappropriate comments about race, religion, gender, age, a disability or any other subject that is a motive for discrimination; threatens or intimidates another person; makes unnecessary physical contact, for example by touching, patting, pinching or punching another person, which can also be considered as a form of aggression.

The Corporation does not tolerate any form of harassment or violence in its workplace.

### **V. RELATIONS WITH CUSTOMERS AND SUPPLIERS**

Videotron is a customer-driven company committed to optimizing the contribution of its employees, technology and other resources in order to meet or exceed customer expectations.

Employees should always act in a professional and courteous manner in their dealings with customers and suppliers. They must maintain an honest and loyal relationship with them, in full compliance with the Corporation's contractual obligations and the applicable laws and regulations.

No employee must ever make false representations, and any misunderstanding should be clarified as soon as possible.

Each employee has a duty to keep confidential any personal or business information about customers and suppliers to which the employee gains or has access to in the course of his work or otherwise in the Corporation, whether be it verbal, written or electronic information. Examples are customer documentation, specifications, the content of their publications or information on the customer's company obtained in the course of doing business. In all cases, this information is strictly confidential and is of a proprietary nature belonging to the customer and can only be used to provide the services requested by the customer.

### **VI. CONFLICT OF INTEREST**

The Corporation expects and requires its employees to always act in its best interest. It also expects and requires its employees to be and to remain, at all times, free of any conflicting interests or relationships and to refrain from acting or being in a situation of conflict of interests, or in situations that have the appearance of a conflict of interest.

## **Directors**

Directors are required to notify the Chair of the Committee or the Corporate Secretary of any interest they have in a contract or operation that the Corporation is involved in during their mandate.

A director who finds himself in a conflict of interest during any Board or Committee meeting of the Corporation must immediately disclose the nature and value of his interest and, within the limits of the applicable laws, refrain from participating in any discussion about the conflicting issue or from voting thereon

## **Members of the management committee and other employees**

A conflict of interest arises whenever the private interest of an employee interferes (or seems to interfere) or conflicts (or seems to conflict) with that of the Corporation. In any decision taken in the course of his job, the employee must always act in an objective manner, in the best interest of the Corporation and unaffected by any consideration of personal gain for the employee or any legal or physical person associated with him, including friends or relatives. An employee must always refrain from helping any other business or person in securing any contract with the Corporation from which he can derive a personal benefit.

It is impossible to provide an exhaustive list of all situations that could give rise to real or potential conflicts of interest. For instance, a conflict of interest would exist when an employee:

1. either for his benefit or that of any person, association or company, conducts activities during working hours that are neither directly related to, nor required, for his functions (except with the management's specific request or permission) and which deprive the Corporation from the employee's services or prevent that employee from devoting all efforts and attention to the Corporation's affairs;
2. as a result of an outside third-party relationship, is in a position that could:
  - a) make personal gain for the benefit of that employee or any relative or friend;
  - b) render the employee partial towards the third party contrary to the best interest of the Corporation;
  - c) place the employee in an equivocal, embarrassing or ethically questionable position towards that third party; or
  - d) reflect unfavourably on the integrity and honesty of the employee;
3. takes on for himself or takes advantage of business opportunities that belong to the Corporation or are discovered through the use of the Corporation's resources, property, information or the employee's position with the Corporation;

4. uses the Corporation's property or information, or his position held within the Corporation, for personal gain, including to further his interest or that of relatives or friends;
5. accepts gifts (other than of a nominal, symbolic or promotional nature) from a supplier, client or any other person which has, or may have dealings with the Corporation;
6. directly or indirectly competes with the Corporation or has a relationship that is harmful or detrimental to the Corporation's best interest;
7. engages in business or gainful activities that might be detrimental to the best interest of the Corporation. The term "business or gainful activities" includes any professional activity, supervision or training of other persons, or consultation or advice, for any form of remuneration.

Every employee who may find himself in or be brought into a situation of conflict of interest or the appearance thereof, should make a full written disclosure of the circumstances to his immediate supervisor to the Human Resources manager, and, when this situation arises with a member of the management committee, to the Corporate Secretary.

## **VII. CORPORATION PROPERTY**

The employees have a responsibility to protect the Corporation's property and to ensure their use in accordance with their intended use.

Such property includes, and is not limited to, offices and office equipment, supplies, computers, art works, telephone and video equipment, vehicles, tools, equipment, buildings, real property, information, databases, files, funds, communication networks, information and intellectual property.

Intellectual property such as patents, authors' rights, trademarks, domain names, industrial designs and business secrets are the property of the Corporation.

The Corporation is committed to maintaining information security (whatever form information takes and whatever media it is kept on). The physical location of information assets such as documents produced or received in a work context, computer equipment, software applications and manuals, software programs and packages, electronic data processing and computer-processed data must also be kept secure. Employees take part in maintaining this security by apprising themselves of and following Policies that are implemented by the Corporation that affect any aspect of information security. Any disrespect of these regulations could expose the Corporation to significant financial and legal consequences.

All possible safeguards must be taken to prevent theft, misuse or illegitimate use, unauthorized disclosure, damage, loss, sabotage, carelessness and waste of the Corporation's property.

Corporation property is to be used by employees for work and legitimate business purposes only and not for personal use.

### **Computer, telephone and internet networks**

The Corporation may monitor the use of its property at all times including the computer and telecommunication networks and the data and communication transiting through them. Although a minimal occasional personal use of the telephone and the Internet is allowed (including social media), as long as it does not hinder work performance, no confidentiality exists for the employees. Messages, communications and the use of the Internet may be monitored by the Corporation.

Internet use for illegal purposes is strictly forbidden. For this reason, unless an employee's work requires it, no employee may access content involving games, pornography, content related to terrorism, racism and/or offensive content, or social encounters or any other form of access that provides content of that nature.

### **Electronic mail**

The use of electronic mail requires the same level of attention and reserve than any other written communication. Language must be appropriate and the addressees must be only those to whom the message is relevant. Confidential information must not circulate electronically without appropriate measures being taken to protect them and prevent them from losing the protection that they would otherwise have. Electronic mail favours direct communication without nuance and reserve; consequently, it must not be used to discuss matters that could lead to contentious issues or to exchange comments related to such matters. It is obviously possible to communicate electronically with the Legal Affairs Department of Quebecor Media Inc. ("**QMI**") as long as the communications addressed to this department bear the mention "Confidential and privileged, covered by professional confidentiality" when the purpose of this communication is to obtain a legal opinion or is being sent in the context of current or future litigation.

### **VIII. CORPORATION FUNDS**

When an employee's position involves the use of Corporation funds, it is the responsibility of the employee to exercise his good judgment, on the Corporation's behalf, to ensure that the Corporation gets the best commercial value for every dollar spent.

Employees who incur expenses while on company business can only seek reimbursement for expenses that were actually paid for goods and services and that are reasonable and pre-authorized. They are required to provide all supporting documentation and appropriate receipts with their reimbursement request.

Employees who have access to Corporation funds in any form are expected to be familiar with the Corporation's prescribed practices and procedures pertaining thereto. Corporation funds are any monies or documents that have or represent financial value. Corporation funds include, but are not limited to, currency, cheques, vouchers, credit, receivables, payables, money orders, expenses, reimbursements and pay cheques.

It is clearly understood that Corporation funds are not for personal use or for business use without pre-approval.

No expenditure of Corporation funds will be approved unless the manager responsible for approving the expenditure is satisfied with the justification for and the amount of such expenditure. Whenever this is the case, such approval shall be granted in accordance with the Corporation's *Policy on Limits of Authority*.

#### **IX. CONFIDENTIAL INFORMATION**

In the course of their employment, employees may have access to confidential information about the Corporation, as well as its customers and suppliers, and about other employees of the Corporation. "**Confidential information**" is any information, either verbal or written, regardless of which medium it is communicated through, that is not generally known by the public. This includes, but is not limited to, information on technology, business data such as order backlog, customer specific billing rates and financial data.

Measures must be taken to limit access to such Confidential information to only those persons who "need to know" it in the performance of their duties and those privies thereto must be advised that they have the obligation to keep it confidential.

Outside parties privy to Confidential information concerning the Corporation must be advised that they cannot divulge such information to anyone without the Corporation's consent. The Corporation may request such outside parties to sign a confidentiality and non-disclosure agreement. Outside parties must also be advised not to trade the Corporation's securities as long as the Confidential information has not been made public.

It is the responsibility of each employee to act in good faith and to treat any Confidential information with the utmost care. If necessary, the employees are to refer to the *Disclosure Policy* of Videotron.

In order to prevent the misuse or inadvertent disclosure of Confidential information, the procedures set forth below should be observed at all times:

- documents and files containing Confidential information must be kept in a safe place to which access is restricted to only those employees who "need to know" such information in the performance of their duties;
- confidential matters should not be discussed in public places (elevators, hallways, restaurants, airplanes, taxis, or elsewhere);
- confidential documents should not be read or remain visible in public places and should not be discarded where third parties can retrieve them;
- employees must ensure that they maintain the confidentiality of information in their possession inside or outside the workplace;
- transmission of documents containing Confidential information by electronic means or by fax should be made and received under secure conditions; and

- unnecessary copying of confidential documents should be avoided and documents containing Confidential information should be promptly removed from conference rooms and work areas after the meetings; extra copies should be shredded or otherwise destroyed in a safe manner.

The rules set out above apply not only to the Corporation's and the Quebecor Group's information, but also to information that belongs to a third party, such as a supplier, customer or competitor.

Moreover, a new employee may not disclose any Confidential information about his previous employer. Likewise, an employee leaving the Corporation remains bound by the obligation to safeguard its Confidential information, even after he has left.

## **X. INSIDER TRADING**

The Stock Exchange and Securities laws and regulations contain provisions governing the use and disclosure of non-public information that may have a significant effect on the market price of a public corporation's shares. Any person that contravenes those provisions may be subject to heavy fines and damages.

Since the Corporation is part of the Quebecor Group and QI and TVA Group Inc. ("TVA") are corporations with shares listed on the Toronto Stock Exchange, it is illegal for anyone to trade in shares of QI and of TVA, if that person is aware of important information about any of Quebecor Group's corporations or TVA that has not been publicly disclosed. It is also illegal for anyone to inform any person about important non-public information, other than in the normal course of business.

Therefore, the Corporation's directors, officers and employees who are aware of Confidential information that could have an effect on the market price of the securities of one of Quebecor Group's public corporations, TVA or those of other related parties with whom there are ongoing important negotiations, are prohibited from trading in shares of these public corporations or those other related parties, until the information has been fully publicly disclosed for a period of 24 hours and they are aware of any other Confidential information. Advising anyone to buy, sell, or in any other way trade in securities of these corporations or those of other related parties is also forbidden.

In addition, directors and officers of the Corporation, as well as all the insiders of Quebecor Group's public corporations and of TVA are prohibited from trading in the securities of these corporations during certain trading blackout periods stipulated under their respective *Policy relating to the use of privileged information and insider trading transactions*.

When an employee is uncertain whether he may trade the securities of Quebecor Group's public corporations or of TVA, he must refer to Videotron's *Disclosure Policy* and the *Policy relating to the use of privileged information and insider trading transactions* currently in effect and contact the Senior Vice President, Chief Legal Officer and Public Affairs and Corporate Secretary of QI.

## **XI. BUSINESS RECORDS**

The Corporation follows extremely high standards with regards to the accuracy and integrity in which its business records are maintained. These serve as a base for the management of its business, the assessment and carrying out of its obligations towards its shareholders, employees, clients and suppliers, as well as for assuring compliance with legal, fiscal and financial requirements. Consequently, employees must record information with precision and integrity, so that all business records of the Corporation are reliable and accurate.

Employees must maintain the Corporation's business records, including its books, accounts, financial statements, transaction files and litigation files with integrity and precision, in a manner that accurately reflects its commercial activities and in compliance with the legal and regulatory requirements and with other Policies of the Corporation.

All the financial activities must be properly recorded in the accounting records and the accounting procedures must be supported by the appropriate internal controls.

Work orders, supporting documents, invoices, time sheets, pay slips, contracts and other similar data must be factually accurate, true, complete and maintained according to the Corporation's current practices. Employees must not remove or destroy any file or record without the authorization of their immediate supervisor. Such authorization will only be granted in accordance with the applicable laws and relevant Corporation Policies.

Deliberate recording of wrong data on any report, record or memorandum constitutes a dishonest act that may have a serious impact on the Corporation's operations and is therefore unacceptable.

## **XII. INTERACTIONS WITH THE PUBLIC**

The Corporation wishes to maintain open and honest communication with the public, the investment community, the media and the securities regulatory authorities. To ensure that the Corporation complies with the law while protecting its interest and confidential issues, only the Corporation's designated spokespersons are authorized to represent and deal on its behalf with the public, the investment community, the securities regulatory authorities and the media, the whole in conformity with Videotron's *Disclosure Policy* in force.

Thus, employees who are not designated spokespersons must not respond, under any circumstances, to inquiries from the public, the investment community, the media, the securities regulatory authorities or others, unless specifically asked to do so by a designated spokesperson. If an employee receives such a request, whether verbal or written, the employee must forthwith direct it to one of the Corporation's designated spokespersons.

An employee may not represent the Corporation in public, in any manner whatsoever, unless specifically requested to do so by the management, the Board of Directors, or a designated spokesperson. When an employee expresses a personal view in a public forum, he may not use the Corporation's letterhead or its e-mail or any reference to his business address or title.

When an employee is asked to make a public presentation about his job within the Corporation, that employee must obtain his immediate supervisor's approval. In case of doubt, the immediate supervisor must seek advice from the Communication Department.

### **XIII. POLITICAL ACTIVITIES**

Employees are authorized to carry out political activities, when these activities take place outside working hours, do not conflict with their work and when none of the Corporation's assets are involved in these activities. An employee may stand as a candidate during elections or for any political position. However, as soon as possible before confirming his commitment, he must inform in writing his immediate supervisor, the Human Resources manager, the Vice President, Internal Audit and the Corporate Secretary to discuss how this commitment might affect his responsibilities at the Corporation and the measures that can be taken to manage any potential conflicts of interest.

Once officially elected, an employee must inform the Corporate Secretary and avoid any conflict of interest that comes up in relation to his elected position and his job.

Subject to applicable laws, time off will not be offered to an employee who intends to use this time to i) campaign for another individual, run as a candidate, act as an official agent for a candidate or ii) work for a political organization.

Finally, employees may freely express their points of view on social issues or matters of public interest, but they must at all times be clear that the opinions they express are theirs and not the Corporation's.

The Corporation and its employees follow all applicable laws regulating contributions to parties wherever the Corporation operates.

### **XIV. SOCIAL MEDIA**

As a communications company, the Corporation recognizes the importance of social media (Facebook, YouTube, Twitter, Instagram, LinkedIn, apps, blogs, etc.) as tools which facilitate communication, exchanges and transmission of information in a fast and efficient manner. However, the use of social media, even for personal use, comprises certain risks that could tarnish the Corporation's reputation. The speed of social media communications, the level of interactivity of its users, as well as the limitless access they provide, justify the need for higher vigilance.

As the use of social media is making it increasingly difficult to make a distinction between personal and professional life, when an employee uses social media for personal purposes or collaborates on an external website, he must use his personal email address, communicate under his own name and never identify himself as an authorized spokesperson of the Corporation. The employee may however note in his profile that he works for the Corporation, but he must not make any declaration that might harm the image of the Corporation. Obligations of confidentiality and loyalty to the Corporation apply at all times and in all environments. Employees are expected to be vigilant in their communications and act respectfully towards the Corporation, its products and services, its competitors and their colleagues, past and present.

## **XV. RESPECT FOR THE ENVIRONMENT**

The Corporation is concerned about the health and well-being of its employees and of the communities surrounding its installations. Therefore, it is committed to respect the laws and regulations in force in matters of environment and will favour any procedure or initiative from its employees aiming at reducing any negative impact on the quality of air, ground or water that could result from its activities.

## **XVI. COMPETITION BEHAVIOUR**

The Corporation seeks to outperform its competitors fairly and honestly and to achieve competitive advantages through superior performance. Employees should always strive to deal honestly with the Corporation's customers, suppliers, competitors and other employees. No one should benefit from an undue commercial advantage of anyone through manipulation, concealment, abuse of privileged information, false representation, or any other unfair dealing practice.

The employees must also respect all laws pertaining to competition. In addition, no employee may participate in discussions, agreements, projects, arrangements, whether formal or informal, with competitors or potential competitors, on issues dealing with prices, pricing rates, territories or customers to be served.

Penalties imposed for non-compliance with the laws pertaining to competition are severe. They entail heavy fines, prison sentences and damages. The penalties are equally applicable to the employees and the employer. Also, an investigation resulting from an alleged violation of the competition laws could seriously prejudice the Corporation.

Due to the complexity of the laws pertaining to competition, the Corporation recommends that its employees consult, as needed, QMI's Legal Affairs Department on such matters.

## **XVII. LEGAL COMPLIANCE**

As a general rule of conduct, all employees of the Corporation must, at all times, comply with all laws and regulations applicable to the Corporation and to the citizens in general.

In order to become familiar with and comply with the laws and regulations that affect or govern their area of responsibility, employees can consult with and be guided by their immediate supervisor or QMI's Legal Affairs Department. Decisions regarding the application of such laws and regulations should not be made without the advice of QMI's Legal Affairs Department. Similarly, an employee should avoid proceeding in a manner which, in the opinion of such Department, would be in violation of the law.

## **XVIII. QUESTIONS AND REPORTING VIOLATIONS**

If, at any time, an employee is unsure about whether an act may contravene this Code or if he has any question in connection therewith, he should seek advice from the Human Resources manager of the Corporation. Equally, any question regarding ways to address ethical matters should be brought to the

attention of his immediate supervisor or the Human Resources manager or the Vice President, Internal Audit of the Corporation.

Employees who become aware of any behaviour in violation of this Code, other Corporation Policies or any law, rule or regulation applicable to the Corporation, must promptly report such violation to their immediate supervisor. If this procedure is not appropriate under the circumstances or if no satisfactory answer is obtained, employees should contact their manager, the Legal affairs manager or the Internal Audit manager.

No employee should accept any instruction from their immediate supervisor that contravenes this Code, other Corporation Policies or any applicable law, rule or regulation of which they are aware and employees should immediately report any instruction that contravenes this Code to one of the managers identified in the preceding paragraph.

All reporting of a violation will be dealt with confidentially, within the limits imposed by law and the Corporation will not tolerate any kind of reprisal against any person who, in good faith, reports to the Corporation real or potential issues relating to violations of this Code, other Corporation Policies or any applicable law, rule or regulation.

The Corporation recognizes that employees may be reluctant to report certain types of violations or infractions. It is for that reason that the Corporation offers a confidential toll-free telephone line and Web site operated by an independent third party. This will allow employees to anonymously report any questionable actions that contravene the Code. In such cases, the Corporation hopes that its employees will report any type of violations or infractions. For more information concerning this toll-free confidential and anonymous telephone line and Web site, the employees are invited to refer to Appendix 1 of this Code, which is entitled "Ethics whistle-blowing line - Questions and Answers".

## **XIX. VIOLATION**

Any violation of this Code or other Corporation Policies or applicable rules or regulations, may result in disciplinary measures, ranging from a simple warning or reprimand, to termination of employment and/or administrative measures.

Disciplinary measures may be taken against any employee, for directly violating or enticing others to violate this Code, other Corporation Policies or applicable laws or regulations. An employee can also be subject to disciplinary action if he fails to cooperate with an investigation relating to any such violation of the Code, knowingly falsely accuses another employee of a violation or retaliates against a person who reports a violation or suspects a violation.

Disciplinary measures will also be taken against any manager who is aware that one of his staff members is about to engage in a prohibited conduct and who fails to take preventive action. Managers may also be subject to disciplinary action if they fail to effectively supervise their staff.

Furthermore, non-compliance to laws and regulations could entail civil or criminal lawsuits resulting in potential fines and prison sentences.

**XX. COMMUNICATION OF THE CODE**

The Human Resources manager is responsible for ensuring that the Code is available to each employee and that each new employee confirms, by his signature, that he has taken note of it.

The Human Resources manager of Videotron, in conjunction with the Vice President, Internal Audit are responsible for sending the Code to all employees of the Corporation every year and for obtaining their confirmation that they have taken note of it. Every two years, the Corporation completely revises the Code to ensure that it reflects the evolution of the Corporation's industry. A new edition of the Code will be made available to employees whenever any changes have been made to it.

## **APPENDIX 1**

### **ETHICS WHISTLE-BLOWING LINE - QUESTIONS AND ANSWERS**

#### **Who provides the service?**

The ethics whistle-blowing line is a telephone service and a website operated by ClearView Strategic Partners Inc. (“ClearView”), an independent third party. Employees may access their website at [www.clearviewconnects.com](http://www.clearviewconnects.com) or dial 1-877-821-5801.

#### **Why use this service?**

The Corporation attaches a great deal of importance to the values of honesty and integrity. All employees are encouraged to report all complaints or all forms of suspicious acts that might contravene the Code. If an employee is uncomfortable reporting this type of information through the normal chain of command, then he is able to report it anonymously, without fear of reprisal through the toll-free confidential telephone line or secure website.

#### **Who can use this service?**

All employees without distinction and any third parties.

#### **When to use this service?**

You should use the ClearView telephone service or website as soon as you notice a suspicious behaviour.

For example:

- Accounting irregularities;
- Falsification of the Corporation’s records;
- Fraud;
- Misuse of confidential information (Insider Trading);
- Irregularity in the handling or reporting of financial transactions;
- Significant breach of internal controls;
- Theft;
- Harassment;
- Discrimination;
- Conflict of interest.

You must keep in mind that if you wait too long before reporting the incident, it becomes more difficult to investigate the matter.

#### **How is anonymity preserved?**

You will never be asked to provide your name when you call ClearView. If you identify yourself, there can be no retaliation or reprisal. The service is offered to resolve situations of wrongdoing and not for the purpose of identifying the employee who reported it.

When you use the ClearView website, your e-mail address is automatically encrypted to preserve your identity. ClearView has formally undertaken not to divulge any confidential information received from an employee (including his name) without that employee's specific consent. Also, the Corporation has unconditionally undertaken to preserve the anonymity and confidentiality.

**What happens when you use the toll-free telephone line?**

When you call, a ClearView Agent with the necessary skills is automatically assigned to take the call in your language. You will have to provide forthwith the following information: the circumstances of the incident, the persons involved, and any other information (i.e. dates, time, names, places, and credible witnesses, if possible).

The ClearView Agent will ask you to identify the name of the Corporation, subsidiary or division where the incident you wish to report took place. In some cases, he may have to ask you to disclose the exact address. After gathering all the information pertaining to the incident, he will ask you to categorize the incident according to a pre-established list and will ask you specific questions relating to that particular category. The ClearView Agent will then provide you with a user code and login, which will be valid for as long as the complaint is under investigation. You will have to write down that information, since ClearView will not keep any trace of it, so as to preserve your identity. If you lose that information, you will not be able to consult your incident report. The user code and login will enable you to call back ClearView and to verify the status of your report. If you call back, it is possible that the ClearView Agent will ask you to answer additional questions received from the Corporation's representatives who are responsible for reviewing and analyzing the incident reports.

**What happens when you use the ClearView website?**

The procedure used to report an incident on the website is similar to the telephone reporting procedure.

When you access the ClearView website, please follow the instructions.

To begin, you will have to first enter the name of the Corporation, subsidiary or division where the incident you wish to report took place. You may then access the Web page dedicated to the Corporation. You will be able to read the Corporation's welcome message and you will be invited to consult its Code of Ethics, which is posted on that Web page. You will have to describe the incident and provide the following information: the circumstances of the incident, the persons involved, and any other information (i.e. dates, time, names, places, and credible witnesses, if possible). You will then have to categorize the incident according to a pre-established list by checking the appropriate box and answer specific questions relating to that particular category. Once you have replied to all the questions, you will be assigned a user code and a login, which will be valid for as long as the complaint is under investigation. You will have to write down that information, since ClearView will not keep any trace of it, so as to preserve your identity. If you lose that information, you will not be able to consult your incident report. You will be able to verify the status of your incident report on the ClearView website by using your user code and login. After a preliminary review of the

incident report, the Corporation's representatives (who are responsible for reviewing and analyzing the incident report) will be able to add additional questions in the report, if deemed necessary.

**Who may investigate ?**

A representative of QMI's Internal Audit, or a representative of the Corporation's Human Resources or a representative of the Corporation's Corporate Secretary are the only ones who are authorized to make investigations.

**When is the service available?**

It is available 24 hours a day, 7 days a week.

**Will the employees filing a complaint be informed of the results of any investigation?**

No, they will not be informed of the results of the investigation.

**EMPLOYEE DECLARATION**

I, the undersigned, hereby acknowledge that I have received a copy of the Code of Ethics of Videotron Ltd and that I agree to comply with its provisions.

\_\_\_\_\_  
**NAME (IN CAPITAL LETTERS)**

\_\_\_\_\_  
**DEPARTMENT / LOCATION**

\_\_\_\_\_  
**SIGNATURE**

\_\_\_\_\_  
**DATE**

The sections related to the reporting of violations apply only to those areas where it is permitted by laws and regulations.

**Certification of the Principal Executive Officer of  
Videotron Ltd.  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jean-François Pruneau, President and Chief Executive Officer of Videotron Ltd. (the "Company"), certify that:

1. I have reviewed this annual report on Form 20-F of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 26, 2019

/s/ Jean-François Pruneau

Name: Jean-François Pruneau

Title: President and Chief Executive Officer

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**Certification of the Principal Financial Officer of  
Videotron Ltd.  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Philippe Cloutier, Senior Vice President and Chief Financial Officer of Videotron Ltd. (the "Company"), certify that:

1. I have reviewed this annual report on Form 20-F of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 26, 2019

/s/ Philippe Cloutier

Name: Philippe Cloutier

Title: Senior Vice President and Chief Financial Officer

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**Certification of the Principal Executive Officer of  
Videotron Ltd.  
pursuant to 18 U.S.C. Section 1350,  
as adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Videotron Ltd. (the "Company") on Form 20-F for the year ending December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jean-François Pruneau, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2019

/s/ Jean-François Pruneau

Name: Jean-François Pruneau  
Title: President and Chief Executive Officer

*The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.*

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**Certification of the Principal Financial Officer of  
Videotron Ltd.  
pursuant to 18 U.S.C. Section 1350,  
as adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Videotron Ltd. (the "Company") on Form 20-F for the year ending December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Philippe Cloutier, Senior Vice President and Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 26, 2019

/s/ Philippe Cloutier

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Name: Philippe Cloutier  
Title: Senior Vice President and Chief Financial Officer

*The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.*

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