Condensed consolidated financial statements of

QUEBECOR INC. AND ITS SUBSIDIARIES

Three-month and Six-month periods ended June 30, 2014 and 2013

QUEBECOR INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Three months ended June 30 2014	Three months ended June 30 2013 (restated, note 2)	Six months ended June 30 2014	Six months ended June 30 2013 (restated, note 2)
Revenues	3	**$ 1,069.2**	$ 1,063.2	**$ 2,107.3**	$ 2,089.9
Employee costs	4	**234.8**	252.0	**469.7**	507.9
Purchase of goods and services	4	**448.5**	438.9	**905.2**	884.7
Amortization		**170.2**	164.2	**339.8**	326.2
Financial expenses	5	**87.5**	101.8	**181.8**	202.3
(Gain) loss on valuation and translation of financial instruments	6	**(20.8)**	249.0	**(23.7)**	281.0
Restructuring of operations, impairment of assets and other special items	7	**9.4**	7.6	**10.9**	9.2
Impairment of goodwill	8	**190.0**	-	**190.0**	-
Loss on debt refinancing	11	**-**	18.9	**18.7**	18.9
(Loss) income before income taxes		**(50.4)**	(169.2)	**14.9**	(140.3)
Income taxes (recovery):					
Current		**26.8**	30.4	**33.2**	54.6
Deferred		**6.1**	(60.6)	**17.2**	(63.4)
		32.9	(30.2)	**50.4**	(8.8)
Loss from continuing operations		**(83.3)**	(139.0)	**(35.5)**	(131.5)
Income from discontinued operations	9	**8.5**	34.6	**7.8**	30.7
Net loss		**$ (74.8)**	$ (104.4)	**$ (27.7)**	$ (100.8)
Loss from continuing operations attributable to					
Shareholders		**$ (61.2)**	$ (119.7)	**$ (21.6)**	$ (123.2)
Non-controlling interests		**(22.1)**	(19.3)	**(13.9)**	(8.3)
Net loss attributable to					
Shareholders		**$ (54.8)**	$ (93.6)	**$ (15.7)**	$ (100.1)
Non-controlling interests		**(20.0)**	(10.8)	**(12.0)**	(0.7)
Earnings per share attributable to shareholders	12				
Basic:					
From continuing operations		**$ (0.50)**	$ (0.96)	**$ (0.18)**	$ (0.99)
From discontinued operations		**0.05**	0.21	**0.05**	0.19
Net loss		**(0.45)**	(0.75)	**(0.13)**	(0.80)
Diluted:					
From continuing operations		**(0.56)**	(0.96)	**(0.26)**	(0.99)
From discontinued operations		**0.05**	0.21	**0.04**	0.19
Net loss		**(0.51)**	(0.75)	**(0.22)**	(0.80)
Weighted average number of shares outstanding (in millions)		**123.0**	124.3	**123.0**	124.5
Weighted average number of diluted shares (in millions)		**143.8**	124.3	**143.8**	124.5

See accompanying notes to condensed consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)
(unaudited)

	Note	Three months ended June 30 2014	Three months ended June 30 2013 (restated, note 2)	Six months ended June 30 2014	Six months ended June 30 2013 (restated, note 2)
Net loss		**$ (74.8)**	$ (104.4)	**$ (27.7)**	$ (100.8)
Other comprehensive loss:					
Items that may be reclassified to income:					
(Loss) gain on translation of net investments in foreign operations		**(2.1)**	4.1	**(0.2)**	5.2
Cash flow hedges:					
Gain (loss) on valuation of derivative financial instruments		**3.3**	(2.6)	**(8.3)**	(28.5)
Deferred income taxes		**8.4**	(4.2)	**0.7**	(3.4)
Reclassification to income:	11				
Gain related to cash flow hedges		**-**	(6.5)	**(10.8)**	(6.5)
Deferred income taxes		**-**	0.2	**0.4**	0.2
		9.6	(9.0)	**(18.2)**	(33.0)
Comprehensive loss		**$ (65.2)**	$ (113.4)	**$ (45.9)**	$ (133.8)
Comprehensive loss attributable to					
Shareholders		**$ (47.6)**	$ (100.4)	**$ (29.5)**	$ (125.0)
Non-controlling interests		**(17.6)**	(13.0)	**(16.4)**	(8.8)

See accompanying notes to condensed consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES
SEGMENTED INFORMATION

(in millions of Canadian dollars)
(unaudited)

Three months ended June 30,2014

	Telecommu-nications	News Media	Broad-casting	Leisure and Enter-tainment	Interactive Techno-logies and Communi-cations	Head office and Inter-segments	Total
Revenues	**$ 695.2**	**$ 186.6**	**$ 113.8**	**$ 62.8**	**$ 37.3**	**$ (26.5)**	**$ 1,069.2**
Employee costs	**84.9**	**58.6**	**35.7**	**14.2**	**24.6**	**16.8**	**234.8**
Purchase of goods and services	**279.2**	**92.6**	**61.3**	**51.1**	**8.5**	**(44.2)**	**448.5**
Adjusted operating income[1]	**331.1**	**35.4**	**16.8**	**(2.5)**	**4.2**	**0.9**	**385.9**
Amortization							**170.2**
Financial expenses							**87.5**
Gain on valuation and translation of financial instruments							**(20.8)**
Restructuring of operations, impairment of assets and other special items							**9.4**
Impairment of goodwill							**190.0**
Loss before income taxes							**$ (50.4)**
Additions to property, plant and equipment	**$ 156.0**	**$ 0.7**	**$ 5.6**	**$ 1.5**	**$ 0.3**	**$ 0.2**	**$ 164.3**
Additions to intangible assets	**186.1**	**0.7**	**0.7**	**2.3**	**-**	**-**	**189.8**

Three months ended June 30, 2013
(restated, note 2)

	Telecommu-nications	News Media	Broad-casting	Leisure and Enter-tainment	Interactive Techno-logies and Communi-cations	Head office and Inter-segments	Total
Revenues	$ 674.5	$ 201.2	$ 115.2	$ 66.0	$ 35.8	$ (29.5)	$ 1,063.2
Employee costs	88.0	71.7	36.7	14.6	23.4	17.6	252.0
Purchase of goods and services	266.1	100.2	61.3	50.3	8.0	(47.0)	438.9
Adjusted operating income[1]	320.4	29.3	17.2	1.1	4.4	(0.1)	372.3
Amortization							164.2
Financial expenses							101.8
Loss on valuation and translation of financial instruments							249.0
Restructuring of operations, impairment of assets and other special items							7.6
Loss on debt refinancing							18.9
Loss before income taxes							$ (169.2)
Additions to property, plant and equipment	$ 126.8	$ 2.1	$ 4.4	$ 0.5	$ 0.4	$ 0.8	$ 135.0
Additions to intangible assets	10.6	2.8	0.4	2.2	-	(0.2)	15.8

See accompanying notes to condensed consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES
SEGMENTED INFORMATION (continued)

(in millions of Canadian dollars)
(unaudited)

Six months ended June 30,2014

	Telecommu-nications	**News Media**	**Broad-casting**	**Leisure and Enter-tainment**	**Interactive Techno-logies and Communi-cations**	**Head office and Inter-segments**	**Total**
Revenues	**$ 1,387.9**	**$ 355.8**	**$ 222.7**	**$ 124.4**	**$ 72.4**	**$ (55.9)**	**$ 2,107.3**
Employee costs	**172.1**	**120.5**	**71.5**	**28.8**	**49.0**	**27.8**	**469.7**
Purchase of goods and services	**550.1**	**184.5**	**145.2**	**100.1**	**16.6**	**(91.3)**	**905.2**
Adjusted operating income[1]	**665.7**	**50.8**	**6.0**	**(4.5)**	**6.8**	**7.6**	**732.4**
Amortization							**339.8**
Financial expenses							**181.8**
Gain on valuation and translation of financial instruments							**(23.7)**
Restructuring of operations, impairment of assets and other special items							**10.9**
Impairment of goodwill							**190.0**
Loss on debt refinancing							**18.7**
Income before income taxes							**$ 14.9**
Additions to property, plant and equipment	**$ 299.0**	**$ 2.5**	**$ 14.3**	**$ 3.8**	**$ 0.8**	**$ 0.2**	**$ 320.6**
Additions to intangible assets	**255.0**	**2.1**	**1.5**	**3.2**	**-**	**(0.2)**	**261.6**

Six months ended June 30, 2013
(restated, note 2)

	Telecommu-nications	News Media	Broad-casting	Leisure and Enter-tainment	Interactive Techno-logies and Communi-cations	Head office and Inter-segments	Total
Revenues	$ 1,335.4	$ 386.4	$ 228.9	$ 130.3	$ 71.0	$ (62.1)	$ 2,089.9
Employee costs	176.2	143.8	74.5	29.4	48.4	35.6	507.9
Purchase of goods and services	526.1	198.3	140.9	99.7	16.9	(97.2)	884.7
Adjusted operating income[1]	633.1	44.3	13.5	1.2	5.7	(0.5)	697.3
Amortization							326.2
Financial expenses							202.3
Loss on valuation and translation of financial instruments							281.0
Restructuring of operations, impairment of assets and other special items							9.2
Impairment of goodwill							-
Loss on debt refinancing							18.9
Loss before income taxes							$ (140.3)
Additions to property, plant and equipment	$ 272.4	$ 4.3	$ 9.8	$ 1.0	$ 1.2	$ 1.0	$ 289.7
Additions to intangible assets	23.6	3.8	1.0	2.9	-	(0.1)	31.2

[1] The Chief Executive Officer uses adjusted operating income as the measure of profit to assess the performance of each segment. Adjusted operating income is referred as a non-IFRS measure and is defined as net loss before amortization, financial expenses, gain (loss) on valuation and translation of financial instruments, restructuring of operations, impairment of assets and other special items, impairment of goodwill, loss on debt refinancing, income taxes and income from discontinued operations.

See accompanying notes to condensed consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

(in millions of Canadian dollars)
(unaudited)

	Equity attributable to shareholders					Equity attributable to non-controlling interests	Total equity
	Capital stock	Contributed surplus	Equity component of convertible debentures	Retained earnings	Accumulated other comprehensive income (loss)		
	(note 13)				(note 15)		
Balance as of December 31, 2012, as previously reported	$ 335.1	$ 2.3	$ 398.3	$ 624.6	$ (50.3)	$ 631.3	$ 1,941.3
Changes in accounting policies (note 2)	-	-	(398.3)	(2.0)	-	-	(400.3)
Balance as of December 31, 2012, as restated	335.1	2.3	-	622.6	(50.3)	631.3	1,541.0
Net loss	-	-	-	(100.1)	-	(0.7)	(100.8)
Other comprehensive loss	-	-	-	-	(24.9)	(8.1)	(33.0)
Repurchase of Class B Shares	(3.8)	-	-	(17.8)	-	-	(21.6)
Dividends	-	-	-	(6.2)	-	(12.5)	(18.7)
Business acquisition	-	-	-	-	-	0.3	0.3
Balance as of June 30, 2013	331.3	2.3	-	498.5	(75.2)	610.3	1,367.2
Net loss	-	-	-	(188.5)	-	(31.4)	(219.9)
Other comprehensive income	-	-	-	-	52.1	29.5	81.6
Repurchase of Class B Shares	(2.4)	-	-	(12.4)	-	-	(14.8)
Dividends	-	-	-	(6.2)	-	(12.5)	(18.7)
Balance as of December 31, 2013	328.9	2.3	-	291.4	(23.1)	595.9	1,195.4
Net loss	-	-	-	(15.7)	-	(12.0)	(27.7)
Other comprehensive loss	-	-	-	-	(13.8)	(4.4)	(18.2)
Repurchase of Class B Shares	(1.7)	-	-	(10.0)	-	-	(11.7)
Acquisition of non-controlling interests	-	-	-	(0.1)	-	0.1	-
Dividends	-	-	-	(6.2)	-	(12.5)	(18.7)
Balance as of June 30, 2014	**$ 327.2**	**$ 2.3**	**$ -**	**$ 259.4**	**$ (36.9)**	**$ 567.1**	**$ 1,119.1**

See accompanying notes to condensed consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)
(unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2014	2013 (restated, note 2)	**2014**	2013 (restated, note 2)
Cash flows related to operating activities					
Loss from continuing operations		**$ (83.3)**	$ (139.0)	**$ (35.5)**	$ (131.5)
Adjustments for:					
Amortization of property, plant and equipment		**136.6**	128.4	**272.2**	254.6
Amortization of intangible assets		**33.6**	35.8	**67.6**	71.6
(Gain) loss on valuation and translation of financial instruments	6	**(20.8)**	249.0	**(23.7)**	281.0
Impairment of assets	7	**-**	1.3	**-**	1.7
Impairment of goodwill	8	**190.0**	-	**190.0**	-
Loss on debt refinancing		**-**	18.9	**18.7**	18.9
Amortization of financing costs and long-term debt discount	5	**1.9**	3.2	**4.9**	6.3
Deferred income taxes		**6.1**	(60.6)	**17.2**	(63.4)
Other		**(1.2)**	(2.0)	**1.2**	(0.2)
		262.9	235.0	**512.6**	439.0
Net change in non-cash balances related to operating activities		**(48.9)**	(93.0)	**(121.4)**	(167.6)
Cash flows provided by continuing operating activities		**214.0**	142.0	**391.2**	271.4
Cash flows related to investing activities					
Business disposals	9	**73.7**	52.8	**73.7**	52.8
Additions to property, plant and equipment		**(164.3)**	(135.0)	**(320.6)**	(289.7)
Additions to intangible assets	10	**(189.8)**	(15.8)	**(261.6)**	(31.2)
Proceeds from disposals of assets		**1.9**	9.7	**2.7**	10.9
Net change in cash held in trust		**-**	(5.8)	**-**	(5.8)
Other		**0.2**	(2.0)	**(0.4)**	(1.6)
Cash flows used in continuing investing activities		**(278.3)**	(96.1)	**(506.2)**	(264.6)
Cash flows related to financing activities					
Net change in bank indebtedness		**(36.8)**	0.7	**(0.1)**	0.4
Net change under revolving facilities		**(78.9)**	15.7	**(1.0)**	10.0
Issuance of long-term debt, net of financing fees	11	**654.5**	394.8	**654.5**	394.8
Repayments of long-term debt	11	**(721.3)**	(5.6)	**(727.7)**	(11.1)
Settlement of hedging contracts		**51.4**	16.3	**(64.6)**	(8.5)
Repurchase of Class B Shares		**(4.5)**	(15.4)	**(11.7)**	(21.6)
Dividends		**(6.2)**	(6.2)	**(6.2)**	(6.2)
Dividends paid to non-controlling shareholders		**(6.2)**	(6.3)	**(12.5)**	(12.5)
Cash flows (used in) provided by continuing financing activities		**(148.0)**	394.0	**(169.3)**	345.3
Net change in cash and cash equivalents from continuing operations		**(212.3)**	439.9	**(284.3)**	352.1
Cash flows provided by (used in) discontinued operations	9	**1.0**	(2.1)	**0.6**	(8.2)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**(0.5)**	0.4	**0.8**	0.4
Cash and cash equivalents at beginning of period		**405.5**	134.8	**476.6**	228.7
Cash and cash equivalents at end of period		**$ 193.7**	$ 573.0	**$ 193.7**	$ 573.0
Cash and cash equivalents consist of					
Cash		**$ 106.4**	$ 70.7	**$ 106.4**	$ 70.7
Cash equivalents		**87.3**	502.3	**87.3**	502.3
		$ 193.7	$ 573.0	**$ 193.7**	$ 573.0
Interest and taxes reflected as operating activities					
Cash interest payments		**$ 144.1**	$ 161.0	**$ 173.7**	$ 185.6
Cash income tax payments (net of refunds)		**10.9**	9.0	**78.4**	45.3

See accompanying notes to condensed consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)
(unaudited)

	Note	June 30 2014	December 31 2013 (restated, note 2)	December 31 2012 (restated, note 2)
Assets				
Current assets				
Cash and cash equivalents		**$ 193.7**	$ 476.6	$ 228.7
Accounts receivable		**524.9**	566.3	578.7
Income taxes		**12.6**	18.0	10.6
Inventories		**221.2**	239.4	255.5
Prepaid expenses		**56.1**	48.2	38.0
Assets held for sale	9	**-**	76.9	-
		1,008.5	1,425.4	1,111.5
Non-current assets				
Property, plant and equipment		**3,431.2**	3,432.4	3,405.8
Intangible assets	10	**1,013.1**	824.8	956.7
Goodwill		**2,871.4**	3,061.5	3,371.6
Derivative financial instruments		**119.0**	142.1	35.7
Deferred income taxes		**18.1**	28.1	23.9
Other assets		**105.6**	102.1	102.6
		7,558.4	7,591.0	7,896.3
Total assets		**$ 8,566.9**	$ 9,016.4	$ 9,007.8
Liabilities and equity				
Current liabilities				
Bank indebtedness		**$ 0.4**	$ 0.5	$ 1.3
Accounts payable and accrued charges		**554.5**	706.1	793.8
Provisions		**26.9**	39.4	45.9
Deferred revenue		**300.3**	288.8	289.0
Income taxes		**36.1**	89.2	33.9
Derivative financial instruments		**-**	116.2	28.5
Current portion of long-term debt	11	**101.1**	101.2	22.2
Liabilities held for sale	9	**-**	9.0	-
		1,019.3	1,350.4	1,214.6
Non-current liabilities				
Long-term debt	11	**4,929.8**	4,975.3	4,507.8
Derivative financial instruments		**120.0**	77.3	270.1
Convertible debentures		**500.0**	500.0	500.0
Other liabilities		**275.5**	319.4	350.0
Deferred income taxes		**603.2**	598.6	624.3
		6,428.5	6,470.6	6,252.2
Equity				
Capital stock	13	**327.2**	328.9	335.1
Contributed surplus		**2.3**	2.3	2.3
Retained earnings		**259.4**	291.4	622.6
Accumulated other comprehensive loss	15	**(36.9)**	(23.1)	(50.3)
Equity attributable to shareholders		**552.0**	599.5	909.7
Non-controlling interests		**567.1**	595.9	631.3
		1,119.1	1,195.4	1,541.0
Total liabilities and equity		**$ 8,566.9**	$ 9,016.4	$ 9,007.8

See accompanying notes to condensed consolidated financial statements.

Quebecor Inc. (“Quebecor” or the “Corporation”) is incorporated under the laws of Québec. The Corporation’s head office and registered office is located at 612 rue Saint-Jacques, Montréal (Québec), Canada. Quebecor is a holding corporation with interests in Quebecor Media Inc. (“Quebecor Media”) and in subsidiaries controlled by Quebecor Media.

The Corporation is operating, through its subsidiaries, in the following industry segments: Telecommunications, News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications. The Telecommunications segment offers television distribution, Internet, business solutions, cable and mobile telephony services in Canada and operates in the rental of movies and televisual products through its video-on-demand service. The News Media segment produces proprietary news in Canada for all of Quebecor Media’s platforms. Its operations include the printing, publishing and distribution of daily newspapers, weekly newspapers and commercial inserts in Canada and the operation of Internet sites in Canada, including French- and English-language portals and specialized sites. The Broadcasting segment operates general-interest television networks, specialized television networks, magazine publishing, and movie distribution businesses in Canada and out-of-home advertising. The Leisure and Entertainment segment combines book publishing and distribution, retail sales of CDs, books, DVDs, Blu-ray discs, console game, musical instruments and magazines in Canada, movie and console games rentals in Canada, online sales of downloadable music and books, music streaming service, music production and distribution in Canada, video game development, operation of a Quebec Major Junior Hockey League team, and sporting and cultural events management. The Interactive Technologies and Communications segment offers e-commerce solutions through a combination of strategies, technology integration, IP solutions and creativity on the Internet and is active in Canada, the United States, Europe and Asia.

Some of the Corporation’s segments experience significant seasonality due, among other factors, to seasonal advertising patterns and influences on people’s viewing, reading and listening habits. Because the Corporation depends on the sale of advertising for a significant portion of its revenue, operating results are also sensitive to prevailing economic conditions, including changes in local, regional and national economic conditions, particularly as they may affect advertising expenditures. In addition, in some of the Corporation’s segments, a component of sales is based on one-time retail transactions rather than subscriptions or long-term agreements, and therefore is influenced by vulnerability to seasonal weather changes. Accordingly, the results of operations for interim periods should not necessarily be considered indicative of full-year results due to the seasonality of certain operations.

1. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), except that they do not include all disclosures required under IFRS for annual consolidated financial statements. In particular, these consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting*, and accordingly, they are condensed consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the Corporation’s 2013 annual consolidated financial statements, which contain a description of the accounting policies used in the preparation of these financial statements.

These condensed consolidated financial statements were approved for issue by the Board of Directors of Quebecor on July 30, 2014.

Comparative figures for previous periods have been restated to conform to the presentation adopted for the three-month and six-month periods ended June 30, 2014.

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

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2014, the Corporation adopted retrospectively IFRIC 21 – *Levies*, which clarifies the timing of accounting for a liability for outflow of resources that is imposed by governments in accordance with legislation, based on the activity that triggers the payment. The adoption of this interpretation did not have a material impact on the consolidated financial statements.

In May 2014, the IFRS Interpretations Committee published a summary of its meeting discussion on the accounting for a financial instrument that is convertible into a variable number of shares subject to a cap or a floor. The Committee noted that different accounting treatments had been used by issuers in the past for this type of instrument. Although interpretation analysis of alternative treatments were expressed and provided by some market participants to the Committee, the Committee decided not to add this issue to its agenda and noted that this instrument should be accounted for as a liability in its entirety. As such, the Corporation changed retrospectively its accounting policy for the accounting of its convertible debentures to be in line with the IFRS Interpretations Committee discussions. Accordingly, the Corporation's convertible debentures are now accounted for as a financial liability and the cap and floor conversion prices features are now accounted for separately as embedded derivatives at fair value, with changes in fair value being recorded in income. The following tables summarize the impact of this change of accounting policy on previously reported financial information.

<u>Consolidated statements of income and comprehensive income</u>

	Three months ended June 30	Six months ended June 30
	2013	2013
Financial expenses	$ 3.4	$ 6.7
Loss on valuation and translation of financial instruments	46.3	86.0
Deferred income taxes	(1.2)	(2.1)
Net loss and comprehensive loss attributable to shareholders	$ (48.5)	$ (90.6)
Earnings per share attributable to shareholders		
Basic	$ (0.39)	$ (0.72)

<u>Consolidated balance sheets</u>

Increase (decrease)	December 31, 2013	December 31, 2012
Accounts payable and accrued charges	$ (11.6)	$ (10.7)
Convertible debentures	500.0	500.0
Other liabilities[1]	40.7	(119.2)
Deferred income tax liability	25.9	30.2
Equity component of convertible debentures	(398.3)	(398.3)
Retained earnings	(156.7)	(2.0)

1 Embedded derivatives related to the convertible debentures are presented with other liabilities.

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

3. REVENUES

The breakdown of revenues between services rendered and product sales is as follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Services rendered	**$ 931.4**	$ 921.0	**$ 1,835.1**	$ 1,809.1
Product sales	**137.8**	142.2	**272.2**	280.8
	$ 1,069.2	$ 1,063.2	**$ 2,107.3**	$ 2,089.9

4. EMPLOYEE COSTS AND PURCHASE OF GOODS AND SERVICES

The main components of employee costs and purchase of goods and services are as follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Employee costs	**$ 276.8**	$ 288.9	**$ 548.9**	$ 580.1
Less employee costs capitalized to property, plant and equipment and intangible assets	**(42.0)**	(36.9)	**(79.2)**	(72.2)
	234.8	252.0	**469.7**	507.9
Purchase of goods and services:				
Royalties, rights and creation costs	**159.5**	153.4	**339.5**	328.1
Cost of retail products	**78.6**	81.5	**148.1**	144.0
Marketing, circulation and distribution expenses	**38.9**	39.6	**81.9**	85.0
Service and printing contracts	**44.3**	46.7	**88.3**	90.8
Paper, ink and printing supplies	**21.2**	24.8	**40.3**	48.3
Other	**106.0**	92.9	**207.1**	188.5
	448.5	438.9	**905.2**	884.7
	$ 683.3	$ 690.9	**$ 1,374.9**	$ 1,392.6

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

5. FINANCIAL EXPENSES

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
		(restated, note 2)		(restated, note 2)
Interest on long-term debt and convertible debentures	**$ 85.4**	$ 94.7	**$ 175.0**	$ 188.2
Amortization of financing costs and long-term debt discount	**1.9**	3.2	**4.9**	6.3
Interest on net defined benefit liability	**1.3**	3.2	**2.5**	6.6
(Gain) loss on foreign currency translation on short-term monetary items	**(0.1)**	0.8	**1.6**	1.4
Other	**(1.0)**	(0.1)	**(2.2)**	(0.2)
	$ 87.5	$ 101.8	**$ 181.8**	$ 202.3

6. (GAIN) LOSS ON VALUATION AND TRANSLATION OF FINANCIAL INSTRUMENTS

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
		(restated, note 2)		(restated, note 2)
Loss on embedded derivatives related to long term debt and derivative financial instruments for which hedge accounting is not used	**$ 3.1**	$ 139.8	**$ 2.7**	$ 132.6
(Gain) loss on embedded derivatives related to convertible debentures	**(22.4)**	44.3	**(23.8)**	83.7
Loss (gain) on reversal of embedded derivatives upon debt redemption	**–**	67.0	**(1.1)**	67.0
Loss (gain) on the ineffective portion of cash flow hedges	**0.2**	(2.1)	**0.2**	(2.3)
Gain on the ineffective portion of fair value hedges	**(1.7)**	–	**(1.7)**	–
	$ (20.8)	$ 249.0	**$ (23.7)**	$ 281.0

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

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Restructuring of operations	**$ 9.5**	$ 4.6	**$ 10.5**	$ 5.4
Impairment of assets	**–**	1.3	**–**	1.7
Gain on disposal of assets	**(0.5)**	–	**(0.3)**	–
Other	**0.4**	1.7	**0.7**	2.1
	$ 9.4	$ 7.6	**$ 10.9**	$ 9.2

<u>News Media</u>

In recent years, the News Media segment has implemented various restructuring initiatives to reduce operating costs. As a result of these initiatives, restructuring costs of $7.9 million, mainly for the reduction of positions, were recorded in the three-month period ended June 30, 2014 ($0.3 million in 2013). Restructuring costs were also $7.9 million for the six-month period ended June 30, 2014 ($0.3 million in 2013).

As part of these restructuring initiatives, an impairment of assets of $0.7 million was recorded in the three-month and six-month periods ended June 30, 2013.

<u>Other segments</u>

Other segments recorded a charge for restructuring costs, impairment of assets and other special items of $1.5 million and $3.0 million in the respective three-month and six-month periods ended June 30, 2014 ($6.6 million and $8.2 million in 2013, respectively).

8. IMPAIRMENT OF GOODWILL

During the second quarter of 2014, the Corporation performed its annual impairment tests on its cash generating units (“CGU”). The Corporation concluded that the recoverable amount based on a fair value less costs of disposal was less than the carrying amount of the News Media CGU, which revenues continue to be negatively affected by the digital transformation and weak market conditions in the newspaper industry. Accordingly, the News Media segment recorded a goodwill impairment charge of $190.0 million. The Corporation used pre-tax discount rate of 11.40% and perpetual growth rate of 0% to calculate the recoverable amount of the News Media CGU.

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

9. DISCONTINUED OPERATIONS

2014

- In January 2014, the Corporation ceased its door-to-door distribution of flyers and weekly newspapers in the province of Québec.
- On June 1, 2014, the Corporation sold its 74 Québec weeklies for a cash consideration of $75.0 million, of which $1.3 million is receivable as of June 30, 2014.

2013

- On June 1, 2013, the Corporation sold its specialized Web site *Jobboom* for a cash consideration of $52.1 million, net of cash disposed of $5.4 million.
- On November 29, 2013, the Corporation also sold its specialized Web site *Réseau Contact* for a cash consideration of $7.1 million, net of cash disposed of $0.4 million.

The results of operations and cash flows related to these businesses were reclassified as discontinued operations in the consolidated statements of income and cash flows as follows:

Consolidated statements of income

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Revenues	**$ 13.4**	$ 30.9	**$ 29.5**	$ 58.7
Employee costs	**5.5**	10.2	**12.9**	20.1
Purchase of goods and services	**6.6**	23.3	**15.6**	45.8
Amortization	**0.3**	0.8	**0.9**	1.5
Restructuring of operations	**0.5**	0.7	**0.5**	0.7
Income (loss) before income taxes	**0.5**	(4.1)	**(0.4)**	(9.4)
Income taxes	**(0.1)**	(1.3)	**(0.3)**	(2.7)
Gain on disposal of businesses	**7.9**	37.4	**7.9**	37.4
Income from discontinued operations	**$ 8.5**	$ 34.6	**$ 7.8**	$ 30.7

The cash flows attributable to discontinued operations mainly relates to operating activities.

10. INTANGIBLE ASSETS

As a result of the Industry Canada 700 MHz spectrum auction that ended in the first quarter of 2014, Videotron Ltd. ("Videotron") acquired seven operating licences, covering the entirety of the provinces of Québec, Ontario (except Northern Ontario), Alberta and British Columbia, for a total price of $233.3 million, for which Videotron made a cash deposit of $15.9 million in 2013, a $46.7 million payment in the first quarter of 2014 and a final payment of $170.7 million on April 2, 2014. These licences were issued to Videotron on April 3, 2014 by Industry Canada.

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

11. LONG-TERM DEBT

On March 26, 2014, Quebecor Media issued a notice for the redemption of all of its issued and outstanding 7.75% Senior Notes due March 15, 2016 in aggregate principal amount of US$380.0 million at a redemption price of 100.00% of their principal amount. As a result, a net gain of $2.7 million was recorded in the consolidated statement of income in the first quarter of 2014, including a gain of $12.5 million previously recorded in other comprehensive income. In April 2014, the Senior Notes were redeemed and the related hedging contracts were unwound, for a total cash consideration of $367.8 million.

On March 26, 2014, Videotron issued a notice for the redemption of US$260.0 million in aggregate principal amount of its issued and outstanding 9.125% Senior Notes due April 15, 2018 at a redemption price of 103.042% of their principal amount. As a result, a net loss of $21.4 million was recorded in the consolidated statement of income in the first quarter of 2014, including a loss of $1.7 million previously recorded in other comprehensive income. In April 2014, the Senior Notes were redeemed for a total cash consideration of $295.4 million.

On April 9, 2014, Videotron issued US$600.0 million aggregate principal amount of Senior Notes bearing interest at 5.375% and maturing on June 15, 2024, for net proceeds of $654.5 million, net of financing fees of $7.8 million. The Senior Notes are unsecured and contain certain restrictions, including limitations on Videotron's ability to incur additional indebtedness, pay dividends and make other distributions. The notes are guaranteed by specific subsidiaries of Videotron and are redeemable at the option of Videotron, in whole or in part, at any time before their maturity at a price based on a make-whole formula and at par beginning March 15, 2024. Videotron has fully hedged the foreign currency risk associated with the new Senior Notes by using cross-currency swaps, while converting the interest rate from a fixed rate to a floating rate on US$158.6 million principal amount of the Senior Notes.

Components of long-term debt are as follows:

	June 30, 2014	December 31, 2013
Long-term debt	**$ 5,093.1**	$ 5,140.7
Change in fair value related to hedged interest rate risk	**2.6**	–
Adjustment related to embedded derivatives	**(10.3)**	(8.9)
Financing fees, net of amortization	**(54.5)**	(55.3)
	5,030.9	5,076.5
Less current portion	**(101.1)**	(101.2)
	$ 4,929.8	$ 4,975.3

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share are calculated by dividing net loss attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by taking into account the potentially dilutive effect of stock options of the Corporation on the number of shares outstanding, the potentially dilutive effect of stock options of the Corporation's subsidiaries on net loss attributable to shareholders, and the potentially dilutive effect of conversion of convertible debentures issued by the Corporation on the number of shares outstanding and on net loss attributable to shareholders.

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
		(restated, note 2)		(restated, note 2)
Loss from continuing operations attributable to shareholders	**$ (61.2)**	$ (119.7)	**$ (21.6)**	$ (123.2)
Impact of assumed conversion of convertible debentures of the Corporation	**(18.7)**	–	**(16.3)**	–
Loss from continuing operations attributable to shareholders, adjusted for dilution effect	**$ (79.9)**	$ (119.7)	**$ (37.9)**	$ (123.2)
Net loss attributable to shareholders	**$ (54.8)**	$ (93.6)	**$ (15.7)**	$ (100.1)
Impact of assumed conversion of convertible debentures of the Corporation	**(18.7)**	–	**(16.3)**	–
Net loss attributable to shareholders, adjusted for dilution effect	**$ (73.5)**	$ (93.6)	**$ (32.0)**	$ (100.1)
Weighted average number of shares outstanding (in millions)	**123.0**	124.3	**123.0**	124.5
Potentially dilutive effect of convertible debentures of the Corporation (in millions)	**20.8**	–	**20.8**	–
Weighted average number of diluted shares outstanding (in millions)	**143.8**	124.3	**143.8**	124.5

For the three-month and six-month periods ended June 30, 2014 and June 30, 2013, the diluted earnings per share calculation does not take into consideration the potential dilutive effect of all stock options of the Corporation and its subsidiaries since their impact is anti-dilutive. For the three-month and six-month periods ended June 30, 2014, the convertible debentures have a dilutive impact on the diluted earnings per share calculation and have been taken into consideration, while their impact was anti-dilutive for the comparative periods in 2013.

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

13. CAPITAL STOCK

(a) Authorized capital stock

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

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

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

(b) Issued and outstanding capital stock

	Class A Shares		Class B Shares	
	Number	Amount	Number	Amount
Balance as of December 31, 2013	39,024,672	$ 8.7	84,306,792	$ 320.2
Shares converted	(23,700)	–	23,700	–
Shares purchased and cancelled	–	–	(455,000)	(1.7)
Balance as of June 30, 2014	**39,000,972**	**$ 8.7**	**83,875,492**	**$ 318.5**

On August 8, 2013, the Corporation filed a normal course issuer bid for a maximum of 1,956,068 Class A Shares representing approximately 5% of issued and outstanding Class A Shares, and for a maximum of 8,429,248 Class B Shares representing approximately 10% of the public float of the Class B Shares as of July 31, 2013. The purchases can be made from August 13, 2013 to August 12, 2014 at prevailing market prices on the open market through the facilities of the Toronto Stock Exchange. All shares purchased under the bid will be cancelled.

On July 30, 2014, the Board of Directors of Quebecor authorized the renewal of the normal course issuer bid for a maximum of 500,000 Class A Shares representing approximately 1.3% of issued and outstanding Class A Shares, and for a maximum of 2,000,000 Class B Shares representing approximately 2.4% of issued and outstanding Class B Shares as of July 29, 2014. The purchases can be made from August 13, 2014 to August 12, 2015 at prevailing market prices on the open market through the facilities of the Toronto Stock Exchange. All shares purchased under the bid will be cancelled.

During the six-month period ended June 30, 2014, the Corporation purchased and cancelled 455,000 Class B Shares for a total cash consideration of $11.7 million (991,200 Class B Shares for a total cash consideration of $21.6 million in 2013). The excess of $10.0 million of the purchase price over the carrying value of Class B Shares repurchased was recorded in reduction of retained earnings ($17.8 million in 2013).

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

14. STOCK-BASED COMPENSATION PLANS

Outstanding options

The following table provides details of changes to outstanding options in the principal stock-based compensation plans in which management of the Corporation and its subsidiaries participates, for the six-month period ended June 30, 2014:

	Outstanding options	
	Number	Weighted average exercise price
Quebecor		
As of December 31, 2013	2,369,182	$ 21.13
Granted	920,000	25.91
Exercised	(527,208)	18.83
Cancelled	(1,541,974)	21.71
As of June 30, 2014	**1,220,000**	**$ 25.00**
Vested options as of June 30, 2014	**–**	**$ –**
Quebecor Media		
As of December 31, 2013	1,647,309	$ 52.67
Granted	181,000	63.50
Exercised	(186,250)	46.08
Cancelled	(24,000)	53.71
As of June 30, 2014	**1,618,059**	**$ 54.63**
Vested options as of June 30, 2014	**248,723**	**$ 45.54**
TVA Group Inc.		
As of December 31, 2013 and June 30, 2014	**691,076**	**$ 16.54**
Vested options as of June 30, 2014	**691,076**	**$ 16.54**

During the three-month period ended June 30, 2014, 17,200 stock options of Quebecor Media were exercised for a cash consideration of $0.2 million (88,127 stock options for $0.9 million in 2013). During the six-month period ended June 30, 2014, 527,208 stock options of Quebecor were exercised for a cash consideration of $4.2 million (none in 2013) and 186,250 stock options of Quebecor Media were exercised for a cash consideration of $3.0 million (326,243 stock options for $3.8 million in 2013).

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

14. STOCK-BASED COMPENSATION PLANS (continued)

Outstanding options (continued)

Under the mid-term stock-based compensation plan, participants are entitled to receive a cash payment at the end of a three-year period based on the appreciation of the Quebecor Class B share price, and subject to the achievement of certain non-market performance criteria. The following table provides details of changes to outstanding units in the mid-term stock-based compensation plan, for the six-month period ended June 30, 2014:

	Outstanding units	
	Number	Weighted average exercise price
As of December 31, 2013	2,263,516	$ 19.92
Granted	1,388,447	26.47
Exercised	(480,148)	18.76
Cancelled	(2,368,298)	21.86
As of June 30, 2014	**803,517**	**$ 26.22**

During the first quarter of 2014, a cash consideration of $3.7 million was paid upon exercise of 480,148 units ($3.9 million upon expiration of 674,448 units in 2013).

For the three-month period ended June 30, 2014, a net reversal of the consolidated charge related to all stock-based compensation plans was recorded in the amount of $1.4 million (a charge of $4.5 million in 2013). For the six-month period ended June 30, 2014, a net reversal of the consolidated charge related to all stock-based compensation plans was recorded in the amount of $4.9 million (a charge of $7.5 million in 2013).

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Translation of net investments in foreign operations	**Cash flow hedges**	**Defined benefit plans**	**Total**
Balance as of December 31, 2012	$ (2.1)	$ 29.0	$ (77.2)	$ (50.3)
Other comprehensive income (loss)	3.9	(28.8)	–	(24.9)
Balance as of June 30, 2013	1.8	0.2	(77.2)	(75.2)
Other comprehensive (loss) income	(0.6)	(16.2)	68.9	52.1
Balance as of December 31, 2013	1.2	(16.0)	(8.3)	(23.1)
Other comprehensive loss	(0.2)	(13.6)	–	(13.8)
Balance as of June 30, 2014	**$ 1.0**	**$ (29.6)**	**$ (8.3)**	**$ (36.9)**

No significant amount is expected to be reclassified in income over the next 12 months in connection with derivatives designated as cash flow hedges. The balance is expected to reverse over a 10-year period.