MANAGEMENT DISCUSSION AND ANALYSIS

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CORPORATE PROFILE

This Management Discussion and Analysis covers the main activities of Quebecor Inc. ("Quebecor" or the "Corporation") in the second quarter of 2014 and the major changes from the previous financial year.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the information in the consolidated financial statements and Management Discussion and Analysis for the financial year ended December 31, 2013.

Quebecor is a holding company with a 75.4% interest in Quebecor Media Inc. ("Quebecor Media"), one of Canada's largest media groups. Quebecor Media's subsidiaries operate in the following business segments: Telecommunications, News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications. Quebecor Media is pursuing a convergence strategy to capture synergies among all its media properties.

Since the third quarter of 2013, financial data for the Le SuperClub Vidéotron ltée subsidiary ("Le SuperClub Vidéotron") has been presented in the Leisure and Entertainment segment instead of the Telecommunications segment. Since the fourth quarter of 2013, financial data for the Quebecor Media Out of Home division has been presented in the Broadcasting segment instead of the News Media segment. Accordingly, the Corporation's segmented financial data for prior periods have been restated to reflect those changes.

As explained under "Changes in Accounting Policies" below, the Corporation has adopted retrospectively a new accounting policy for the accounting of its convertible debentures. Comparative figures for prior years have been restated.

DISCONTINUED OPERATIONS

Quebecor Media announced that it was abandoning door-to-door distribution of community newspapers and flyers in Québec and discontinuing distribution of the Le Sac Plus doorknob bag as of January 2014. The operating results and cash flows related to those businesses have been reclassified as discontinued operations in the consolidated statements of income and cash flows.

On June 1, 2014, Quebecor Media finalized the sale of 74 Québec weeklies to Transcontinental Interactive Inc., ("Transcontinental Interactive"), a subsidiary of Transcontinental Inc. ("Transcontinental"), for a cash consideration of $75.0 million. The transaction received approval from regulatory authorities, specifically the Competition Bureau. The results of operations and cash flows related to those businesses, as well as the $7.9 million gain on the sale, were reclassified as discontinued operations in the consolidated statements of income and cash flows.

On June 1, 2013, Quebecor Media sold its specialized website Jobboom for a cash consideration of $52.1 million, net of disposed-of cash in the amount of $5.4 million, and on November 29, 2013, Quebecor Media sold its specialized website Réseau Contact for a cash consideration of $7.1 million, net of disposed-of cash in the amount of $0.4 million. The operating results and cash flows related to those businesses, as well as the $37.6 million gain on the sale of the two websites, were reclassified as discontinued operations in the consolidated statements of income and cash flows.

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

HIGHLIGHTS SINCE END OF FIRST QUARTER 2014

- Quebecor's sales increased by $6.0 million (0.6%) to $1.07 billion in the second quarter of 2014, mainly because of the 3.1% revenue growth in the Telecommunications segment.
- Since the end of the first quarter of 2014, Quebecor has announced major management changes at the Corporation and its subsidiaries.
  - On April 28, 2014, Pierre Dion was appointed President and CEO of Quebecor and Quebecor Media, replacing Robert Dépatie, who resigned for health reasons. Manon Brouillette was named President and CEO of Videotron Ltd ("Videotron") on May 7, 2014.
  - On June 19, 2014, at Quebecor's Annual Meeting of Shareholders, the Right Honourable Brian Mulroney was named Chairman of the Board of Quebecor, replacing Françoise Bertrand, who decided not to seek a new term.
  - On July 31, 2014, Quebecor announced the creation of Media Group, a new segment dedicated to entertainment and news media. Media Group includes the operations of TVA Group Inc. ("TVA Group"), Sun Media Corporation, QMI Agency, QMI Out of Home, Quebecor Media Sales, Messageries Dynamiques, and Quebecor Media Printing. Julie

Tremblay was appointed President and CEO of the new segment. She will also serve as President and CEO of TVA Group.

- In the second quarter of 2014, the Corporation performed impairment tests on the News Media cash generating unit ("CGU"), which continues to be negatively impacted by the shift toward digital and challenging market conditions. Accordingly, the Corporation recognized a $190.0 million total non-cash goodwill impairment charge.

Telecommunications

- The Telecommunications segment's revenues were up $20.7 million (3.1%) and its adjusted operating income was up $10.7 million (3.3%) in the second quarter of 2014.
- In the second quarter of 2014, strong revenue increases were recorded at two of Videotron's services: mobile telephony ($13.7 million or 25.8%) and Internet access ($10.5 million or 5.1%).
- Videotron registered a net increase of 5,300 revenue-generating units[1] in the second quarter of 2014, compared with 13,000 in the same period of 2013. In the 12-month period ended June 30, 2014, the total number of revenue generating units increased by 83,300 (1.7%).
- On June 5, 2014, Videotron unveiled its new illico app for the iPad. It features a customizable, intuitive interface and organizes content by type, enabling customers to quickly and easily find their favourite content in the illico catalogue.
- On April 3, 2014, after the final instalment was paid, Industry Canada issued seven 700 MHz licences to Videotron in accordance with the results of the spectrum auction completed on February 19, 2014. The operating licences, acquired for $233.3 million, cover the entirety of the provinces of Québec, Ontario (except Northern Ontario), Alberta and British Columbia. They make it possible to reach approximately 80% of Canada's population, more than 28 million people.

News Media

- In the second quarter of 2014, the News Media segment's revenues decreased $14.6 million (-7.3%) and its adjusted operating income increased $6.1 million (20.8%), reflecting the favourable impact of the cost-control and repositioning initiatives taken over the past several years.

Broadcasting

- On July 1, 2014, TVA Sports became the official French-language broadcaster of the National Hockey League ("NHL") for the next 12 years. During the 2014-2015 season, TVA Sports will broadcast more than 275 NHL games, comprising more than 200 regular season games, including all Montréal Canadiens Saturday evening games, all playoff games (including Canadiens games and the Stanley Cup final), the Winter Classic, the All-Star Game, the draft, and many other programs devoted to hockey.
- In the second quarter of 2014, TVA Group announced agreements with Cogeco Cable Canada and TELUS whereby their Québec customers will obtain access to TVA content on demand. Cogeco Cable Canada and TELUS also renewed their agreement with TVA Group for carriage of the TVA Sports and TVA Sports 2 channels.
- On April 13, 2014, TVA Group announced that the television program *La Voix* will be back for a third season in winter 2015. The second season of *La Voix* achieved exceptional ratings throughout its run from January 19 to April 13, 2014. The weekly gala attracted an average audience of more than 2.6 million and an average market share of 56.9%. The creation of value-added multiplatform content around this high-quality television program illustrates Quebecor's successful convergence strategy, which benefits all its media properties.

Other segments

- On June 11, 2014, Aldo Giampaolo, President and CEO of QMI Sports and Entertainment, announced that he was resigning his duties with Quebecor to become CEO of Feeling Productions, which manages the career of singer Céline Dion, among others.

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[1] The sum of cable television, cable and mobile Internet access, and cable telephony service subscriptions and subscriber connections to the mobile telephony service.

Financing

The following financial transactions have been concluded since the end of the first quarter of 2014:

- On April 9, 2014, Videotron issued US$600.0 million aggregate principal amount of 5.375% Senior Notes maturing on June 15, 2024, for net proceeds of $654.5 million, net of financing fees of $7.8 million. Videotron fully hedged the exchange risk on the new Senior Notes by means of cross-currency interest rate swaps. It also converted the fixed interest rate on a US$158.6 million tranche of the Senior Notes to a floating rate.
- Videotron used the proceeds from the April 9, 2014 issuance of Senior Notes to prepay and withdraw on April 24, 2014 US$260 million principal amount of its outstanding 9.125% Senior Notes, issued on March 5, 2009 and maturing on April 15, 2018, to repay drawings under its revolving credit facility, to pay transaction fees and expenses, and for general corporate purposes. Strong demand enabled Videotron to upsize the offering with favorable pricing, which clearly demonstrates the strength of the subsidiary's business and credit profile.
- On April 25, 2014, Quebecor Media completed the redemption and early repayment of all of its outstanding 7.75% Senior Notes in the aggregate principal amount of US$380.0 million, issued on October 5, 2007 and maturing on March 15, 2016, and unwound the hedges in an asset position.

NON-IFRS FINANCIAL MEASURES

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

Adjusted operating income

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

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

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

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Adjusted operating income (loss):				
Telecommunications	**$ 331.1**	$ 320.4	**$ 665.7**	$ 633.1
News Media	**35.4**	29.3	**50.8**	44.3
Broadcasting	**16.8**	17.2	**6.0**	13.5
Leisure and Entertainment	**(2.5)**	1.1	**(4.5)**	1.2
Interactive Technologies and Communications	**4.2**	4.4	**6.8**	5.7
Head Office	**0.9**	(0.1)	**7.6**	(0.5)
	385.9	372.3	**732.4**	697.3
Amortization	**(170.2)**	(164.2)	**(339.8)**	(326.2)
Financial expenses	**(87.5)**	(101.8)	**(181.8)**	(202.3)
Gain (loss) on valuation and translation of financial instruments	**20.8**	(249.0)	**23.7**	(281.0)
Restructuring of operations, impairment of assets and other special items	**(9.4)**	(7.6)	**(10.9)**	(9.2)
Impairment of goodwill	**(190.0)**	–	**(190.0)**	–
Loss on debt refinancing	**–**	(18.9)	**(18.7)**	(18.9)
Income tax (expense) recovery	**(32.9)**	30.2	**(50.4)**	8.8
Income from discontinued operations	**8.5**	34.6	**7.8**	30.7
Net loss	**$ (74.8)**	$ (104.4)	**$ (27.7)**	$ (100.8)

Adjusted income from continuing operations

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

Table 2 provides a reconciliation of adjusted income from continuing operations to net loss attributable to shareholders used in Quebecor's condensed consolidated financial statements.

Table 2
Reconciliation of the adjusted income from continuing operations measure used in this report to the net loss attributable to shareholders measure used in the condensed consolidated financial statements
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Adjusted income from continuing operations	**$ 66.0**	$ 53.0	**$ 112.7**	$ 86.7
Gain (loss) on valuation and translation of financial instruments	**20.8**	(249.0)	**23.7**	(281.0)
Restructuring of operations, impairment of assets and other special items	**(9.4)**	(7.6)	**(10.9)**	(9.2)
Impairment of goodwill	**(190.0)**	–	**(190.0)**	–
Loss on debt refinancing	**–**	(18.9)	**(18.7)**	(18.9)
Income taxes related to adjustments[1]	**2.5**	60.2	**9.9**	56.9
Net loss attributable to non-controlling interest related to adjustments	**48.9**	42.6	**51.7**	42.3
Discontinued operations	**6.4**	26.1	**5.9**	23.1
Net loss attributable to shareholders	**$ (54.8)**	$ (93.6)	**$ (15.7)**	$ (100.1)

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

Cash flows from segment operations

Cash flows from segment operations represents adjusted operating income, less additions to property, plant and equipment and intangible assets (excluding disbursements for licence acquisitions and renewals), plus proceeds from disposal of assets. The Corporation uses cash flows from segment operations as a measure of the liquidity generated by its segments. Cash flows from segment operations represents funds available for interest and income tax payments, expenditures related to restructuring programs, business acquisitions, licence acquisitions and renewals, the payment of dividends, and the repayment of long-term debt. Cash flows from segment operations is not a measure of liquidity that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. Cash flows from segment operations is used by the Corporation's management and Board of Directors to evaluate cash flows generated by its segments' operations. Tables 9 and 10 provide a reconciliation of cash flows from segment operations to cash flows provided by continuing operating activities reported in Quebecor's condensed consolidated financial statements.

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

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

Table 10 provides a reconciliation of free cash flows from continuing operating activities of Quebecor Media to cash flows provided by continuing operating activities reported in Quebecor's condensed consolidated financial statements.

Average monthly revenue per user

ARPU is an industry metric that the Corporation uses to measure its monthly cable television, Internet access, cable and mobile telephony revenues per average basic cable customer. ARPU is not a measurement that is consistent with IFRS and the Corporation's definition and calculation of ARPU may not be the same as identically titled measurements reported by other companies. The Corporation calculates ARPU by dividing its combined cable television, Internet access, and cable and mobile telephony revenues by the average number of basic customers during the applicable period, and then dividing the resulting amount by the number of months in the applicable period.

ANALYSIS OF CONSOLIDATED RESULTS OF QUEBECOR

2014/2013 second quarter comparison

Revenues: $1.07 billion, a $6.0 million (0.6%) increase.

- Revenues increased in Telecommunications ($20.7 million or 3.1% of segment revenues) and Interactive Technologies and Communications ($1.5 million or 4.2%).
- Revenues decreased in News Media ($14.6 million or -7.3%), Leisure and Entertainment ($3.2 million or -4.8%) and Broadcasting ($1.4 million or -1.2%).

Adjusted operating income: $385.9 million, a $13.6 million (3.7%) increase.

- Adjusted operating income increased in Telecommunications ($10.7 million or 3.3% of segment adjusted operating income) and News Media ($6.1 million or 20.8%).
- Adjusted operating income decreased in Leisure and Entertainment ($3.6 million), Broadcasting ($0.4 million or -2.3%) and Interactive Technologies and Communications ($0.2 million or -4.5%).
- The change in the fair value of Quebecor Media stock options resulted in a $0.9 million unfavourable variance in the stock-based compensation charge in the second quarter of 2014 compared with the same period of 2013. The change in the fair value of Quebecor stock options and the impact of various transactions on the options issued under this program resulted in a $6.8 million favourable variance in the Corporation's stock-based compensation charge in the second quarter of 2014.

Net loss attributable to shareholders: $54.8 million ($0.45 per basic share) in the second quarter of 2014, compared with $93.6 million ($0.75 per basic share) in the same period of 2013, a favourable variance of $38.8 million ($0.30 per basic share).

- The favourable variance was due primarily to:
  - $269.8 million favourable variance in gains and losses on valuation and translation of financial instruments;
  - $18.9 million loss on debt refinancing recorded in the second quarter of 2013;
  - $14.3 million decrease in financial expenses;
  - $13.6 million increase in adjusted operating income.

  Partially offset by:
  - recognition of a $190.0 million non-cash charge for impairment of goodwill and intangible assets, without any tax consequences, in the second quarter of 2014;
  - $26.1 million unfavourable variance in the gain on discontinued operations;
  - $6.0 million increase in the amortization charge.

Adjusted income from continuing operations: $66.0 million ($0.54 per basic share) in the second quarter of 2014, compared with $53.0 million ($0.43 per basic share) in the same period of 2013, an increase of $13.0 million ($0.11 per basic share).

Amortization charge: $170.2 million in the second quarter of 2014, a $6.0 million increase essentially due to the impact of capital expenditures made since 2012 in the Telecommunications segment, including amortization of capital expenditures related to the impact of the promotional strategy focused on equipment leasing, as well as modernization and expansion of the wired and wireless networks.

Financial expenses: $87.5 million, a $14.3 million decrease caused mainly by the impact of lower interest rates on long-term debt due to debt refinancing at lower rates.

Gain on valuation and translation of financial instruments: $20.8 million in the second quarter of 2014 compared with a $249.0 million loss in the second quarter of 2013. The $269.8 million favourable variance was mainly due to the variance in the fair value of early settlement options caused by fluctuations in valuation assumptions, including interest rates, and credit premiums implicit in the adjusted prices of the underlying instruments, and to the loss on reversal of embedded derivatives recognized in the second quarter of 2013 in connection with debt redemption, and fluctuations in the fair value of embedded derivatives related to convertible debentures, without any tax consequences.

Charge for restructuring of operations, impairment of assets and other special items: $9.4 million in the second quarter of 2014 compared with $7.6 million in the same period of 2013.

- In the second quarter of 2014, a $7.9 million net charge for restructuring of operations was recorded in the News Media segment in connection with staff-reduction programs ($0.3 million in the second quarter of 2013). In connection with those restructuring initiatives, a $0.7 million charge for impairment of certain assets was also recorded in the second quarter of 2013.
- The other segments recorded a net charge for restructuring of operations, impairment of assets and other special items of $1.5 million in the second quarter of 2014 ($6.6 million in the second quarter of 2013).

Charge for impairment of goodwill: $190.0 million in the second quarter of 2014.

- In the second quarter of 2014, Quebecor Media performed impairment tests on the News Media CGU, which continues to be affected by the shift toward digital and to challenging market conditions. Quebecor Media concluded that the recoverable amount based on value in use or on fair value less disposal costs was less than the carrying amount of this CGU. The News Media segment therefore recorded a $190.0 million non-cash goodwill impairment charge, without any tax consequences.

Loss on debt refinancing: $18.9 million in the second quarter of 2013.

- On June 3, 2013, Videotron issued a notice for the redemption on July 2, 2013 of US$380.0 million in aggregate principal amount of its issued and outstanding 9.125% Senior Notes due in April 2018 at a redemption price of 104.563% of their principal amount. As a result, a total $18.9 million loss was recorded in the consolidated statement of income in the second quarter of 2013, including a $6.5 million gain previously recorded in "Other comprehensive income."

Income tax expense: $32.9 million in the second quarter of 2014 (effective tax rate of 28.0%) compared with income tax recovery of $30.2 million in the same period of 2013 (effective tax rate of 24.2%), a $63.1 million unfavourable variance. The effective tax rate is calculated considering only taxable and deductible items.

- The unfavourable variance in income tax expense was mainly due to the impact of the increase in taxable income.
- The variance in the effective tax rate was due to the impact of the tax rate mix on the various components of the gain or loss on valuation and translation of financial instruments and the loss on debt refinancing.

2014/2013 year-to-date comparison

Revenues: $2.11 billion, a $17.4 million (0.8%) increase.

- Revenues increased in Telecommunications ($52.5 million or 3.9% of segment revenues) and in Interactive Technologies and Communications ($1.4 million or 2.0%).
- Revenues decreased in News Media ($30.6 million or -7.9%), Broadcasting ($6.2 million or -2.7%), and Leisure and Entertainment ($5.9 million or -4.5%).

Adjusted operating income: $732.4 million, a $35.1 million (5.0%) increase.

- Adjusted operating income increased in Telecommunications ($32.6 million or 5.1% of segment adjusted operating income), News Media ($6.5 million or 14.7%), Interactive Technologies and Communications ($1.1 million or 19.3%) and Head Office ($8.1 million). The increase at Head Office was caused mainly by the favourable variance in the fair value of stock options.
- Adjusted operating income decreased in Broadcasting ($7.5 million or -55.6%) and Leisure and Entertainment ($5.7 million).
- The change in the fair value of Quebecor Media stock options resulted in a $2.8 million unfavourable variance in the stock-based compensation charge in the first half of 2014 compared with the same period of 2013. The change in the fair value of Quebecor stock options resulted in a $15.2 million favourable variance in the Corporation's consolidated stock-based compensation charge in the first half of 2014.

Net loss attributable to shareholders: $15.7 million ($0.13 per basic share) in the first half of 2014, compared with $100.1 million ($0.80 per basic share) in the same period of 2013, a favourable variance of $84.4 million ($0.67 per basic share).

- The favourable variance was due primarily to:
  - $304.7 million favourable variance in gains and losses on valuation and translation of financial instruments;
  - $35.1 million increase in adjusted operating income;
  - $20.5 million decrease in financial expenses.

  Partially offset by:
  - recognition of a $190.0 million non-cash charge for impairment of goodwill and intangible assets, without any tax consequences, in the first half of 2014;
  - $22.9 million unfavourable variance in gain on discontinued operations;
  - $13.6 million increase in the amortization charge.

Adjusted income from continuing operations: $112.7 million in the first half of 2014 ($0.92 per basic share), compared with $86.7 million ($0.70 per basic share) in the same period of 2013, an increase of $26.0 million ($0.22 per basic share).

Amortization charge: $339.8 million, a $13.6 million increase essentially due to the same factors as those noted in the 2014/2013 second quarter comparison above.

Financial expenses: $181.8 million, a $20.5 million decrease due primarily to the same factors as those noted in the 2014/2013 second quarter comparison above.

Gain on valuation and translation of financial instruments: $23.7 million in the first half of 2014, compared with a $281.0 million loss in the same period of 2013, a $304.7 million favourable variance caused essentially by the same factors as those noted above in the 2014/2013 second quarter comparison.

Charge for restructuring of operations, impairment of assets and other special items: $10.9 million in the first half of 2014, compared with $9.2 million in the first half of 2013, a $1.7 million unfavourable variance.

- In the first half of 2014, a $7.9 million net charge for restructuring of operations was recorded in the News Media segment in connection with staff-reduction programs ($0.3 million in the first half of 2013). In connection with those restructuring initiatives, a $0.7 million charge for impairment of certain assets was also recorded in the first half of 2013.
- The other segments recorded a $3.0 million net charge for restructuring of operations, impairment of assets and other special items in the first half of 2014 ($8.2 million in the first half of 2013).

Charge for impairment of goodwill: $190.0 million in the first half of 2014, due to the factors noted above in the 2014/2013 second quarter comparison.

Loss on debt refinancing: $18.7 million in the first half of 2014 compared with $18.9 million in the same period of 2013.

- In accordance with a notice issued on March 26, 2014, Videotron redeemed on April 24, 2014 US$260.0 million aggregate principal amount of its outstanding 9.125% Senior Notes issued on March 5, 2009 and maturing on April 15, 2018 at a redemption price of 103.042% of their principal amount. A $21.4 million net loss was recorded in the consolidated statement of income in the first quarter of 2014 in connection with this redemption, including a $1.7 million loss previously recorded in "Other comprehensive income."
- In accordance with a notice issued on March 26, 2014, Quebecor Media redeemed on April 25, 2014 the entirety of its outstanding 7.75% Senior Notes issued on October 5, 2007 and maturing on March 15, 2016, in the aggregate principal amount of US$380.0 million, at a redemption price of 100.00% of their principal amount. A $2.7 million net gain was recorded in the consolidated statement of income in the first quarter of 2014 in connection with this redemption, including a $12.5 million gain previously recorded in "Other comprehensive income."
- On June 3, 2013, Videotron issued a notice for the redemption on July 2, 2013 of US$380.0 million in aggregate principal amount of its issued and outstanding 9.125% Senior Notes due in April 2018 at a redemption price of 104.563% of their principal amount. As a result, a total $18.9 million loss was recorded in the consolidated statement of income in the second quarter of 2013, including a $6.5 million gain previously recorded in "Other comprehensive income."

Income tax expense: $50.4 million in the first half of 2014 (effective tax rate of 27.8%), compared with income tax recovery of $8.8 million in the same period of 2013 (effective tax rate of 15.5%), a $59.2 million unfavourable variance. The effective tax rate is calculated considering only taxable and deductible items.

- The increase in the income tax expense was mainly due to the impact of the increase in taxable income.
- The increase in the effective tax rate was due to the impact of the tax rate mix on the various components of the gain or loss on valuation and translation of financial instruments and the losses on debt refinancing.

SEGMENTED ANALYSIS

Telecommunications

Second quarter 2014 operating results

Revenues: $695.2 million, a $20.7 million (3.1%) increase.

- Combined revenues from all cable television services decreased $2.4 million (-0.9%) to $269.0 million, due primarily to the impact of the net decrease in the customer base and the decrease in video-on-demand and pay-per-view orders, partially offset by higher net revenues per customer and higher revenues from the leasing of digital set-top boxes.
- Revenues from Internet access services increased $10.5 million (5.1%) to $214.5 million. The favourable variance was mainly due to increased usage, higher revenues from Internet access resellers, customer base growth, and higher revenues from illico Club Unlimited and illico TV.
- Revenues from the cable telephony service decreased $1.4 million (-1.2%) to $118.1 million, primarily as a result of lower long-distance revenues, partially offset by increases in the number of business lines.
- Revenues from the mobile telephony service increased $13.7 million (25.8%) to $66.8 million, essentially due to customer growth.
- Revenues of Videotron Business Solutions were flat at $16.0 million.
- Revenues from customer equipment sales increased $0.7 million (8.4%) to $9.0 million, mainly because of increased sales of more powerful equipment and the growth in the number of subscriber connections to the mobile service.
- Other revenues decreased $0.4 million (-18.2%) to $1.8 million.

ARPU: $123.61 in the second quarter of 2014 compared with $117.24 in the same period of 2013, a $6.37 (5.4%) increase.

Customer statistics

Revenue-generating units – As of June 30, 2014, the total number of revenue-generating units stood at 5,044,700, a 5,300-unit increase since the end of the first quarter of 2014 (compared with a 13,000-unit increase in the second quarter of 2013) and an 83,300-unit increase in the 12-month period ended June 30, 2014 (Table 3). Revenue-generating units are the sum of cable television, cable and mobile Internet access, and cable telephony service subscriptions and subscriber connections to the mobile telephony service.

Cable television – The combined customer base for all of Videotron's cable television services decreased by 17,100 (-0.9%) in the second quarter of 2014 (compared with a decrease of 16,800 in the second quarter of 2013) and by 38,400 (-2.1%) in the 12-month period ended June 30, 2014 (Table 3). At the end of the second quarter of 2014, Videotron had 1,794,000 subscribers to its cable television services. The household and business penetration rate (number of subscribers as a proportion of the total 2,759,600 homes and businesses passed by Videotron's network as of the end of June 2014, up from 2,723,800 one year earlier) was 65.0% versus 67.3% a year earlier.

- As of June 30, 2014, the number of subscribers to the illico Digital TV service stood at 1,529,700, a decrease of 3,000 (-0.2%) in the second quarter of 2014 (compared with an increase of 1,700 in the second quarter of 2013) and a 12-month increase of 27,700 (1.8%). As of June 30, 2014, illico Digital TV had a household and business penetration rate of 55.4% versus 55.1% a year earlier.
- The customer base for analog cable television services decreased by 14,100 (-5.1%) in the second quarter of 2014 (compared with a decrease of 18,500 in the second quarter of 2013) and by 66,100 (-20.0%) over a 12-month period.

Cable Internet access – The number of subscribers to cable Internet access services stood at 1,415,600 at June 30, 2014, a decrease of 3,600 (-0.3%) in the second quarter of 2014 (compared with a decrease of 1,900 in the same period of 2013) and an increase of 20,200 (1.4%) in the 12-month period ended June 30, 2014 (Table 3). At June 30, 2014, Videotron's cable Internet access services had a household and business penetration rate of 51.3% compared with 51.2% a year earlier.

Cable telephony service – The number of subscribers to the cable telephony service stood at 1,276,200 at June 30, 2014, a decrease of 4,200 (-0.3%) in the second quarter of 2014 (compared with an increase of 700 in the second quarter of 2013) and a 12-month increase of 1,500 (0.1%) (Table 3). At June 30, 2014, the cable telephony service had a household and business penetration rate of 46.2% versus 46.8% a year earlier.

Mobile telephony service – As of June 30, 2014, the number of subscriber connections to the mobile telephony service stood at 551,300, an increase of 29,700 (5.7%) in the second quarter of 2014 (compared with an increase of 30,200 in the second quarter of 2013) and an increase of 100,200 (22.2%) in the 12-month period ended June 30, 2014 (Table 3).

Table 3
Telecommunications segment quarter-end customer numbers for the last eight quarters
(in thousands of customers)

	June 2014	Mar. 2014	Dec. 2013	Sept. 2013	June 2013	Mar. 2013	Dec. 2012	Sept. 2012
Cable television:								
Analog	**264.3**	278.4	293.7	312.8	330.4	348.9	370.4	395.1
Digital	**1,529.7**	1,532.7	1,531.4	1,517.6	1,502.0	1,500.3	1,484.6	1,457.8
	1,794.0	1,811.1	1,825.1	1,830.4	1,832.4	1,849.2	1,855.0	1,852.9
Cable Internet	**1,415.6**	1,419.2	1,418.3	1,408.2	1,395.4	1,397.3	1,387.7	1,369.6
Cable telephony	**1,276.2**	1,280.4	1,286.1	1,281.2	1,274.7	1,274.0	1,264.9	1,249.7
Mobile telephony[1]	**551.3**	521.6	503.3	478.0	451.1	420.9	402.6	378.3
Internet over wireless	**7.6**	7.1	7.2	7.1	7.8	7.0	7.1	7.4
Total (revenue-generating units)	**5,044.7**	5,039.4	5,040.0	5,004.9	4,961.4	4,948.4	4,917.3	4,857.9

[1] Thousands of connections

Adjusted operating income: $331.1 million, a $10.7 million (3.3%) increase caused primarily by the increase in revenues, partially offset by the favourable impact on the second-quarter 2013 results of one-time adjustments, including a provision for Canadian Radio-television and Telecommunications Commission ("CRTC") licence fees in order to align with the CRTC's billing period.

Cost/revenue ratio: Employee costs and purchases of goods and services for the Telecommunications segment's operations, expressed as a percentage of revenues, were 52.4% in the second quarter of 2014 compared with 52.5% in the same period of 2013. The impact of revenue growth (as the fixed component of operating costs does not fluctuate in proportion to revenues) was partially offset by the impact of the favourable one-time adjustments in the second quarter of 2013.

Year-to-date operating results

Revenues: $1.39 billion, a $52.5 million (3.9%) increase essentially due to the same factors as those noted above in the discussion of second quarter 2014 results.

- Combined revenues from all cable television services decreased $1.5 million (-0.3%) to $541.9 million.
- Revenues from Internet access services increased $24.1 million (6.0%) to $426.5 million.
- Revenues from cable telephony service increased $0.9 million (0.4%) to $236.1 million, mainly because of increases in the number of business lines in the first six months of 2014.
- Revenues from mobile telephony service increased $25.3 million (24.5%) to $128.4 million.
- Revenues from Videotron Business Solutions increased $0.9 million (2.8%) to $32.7 million.
- Revenues from customer equipment sales increased $2.5 million (16.3%) to $17.8 million.
- Other revenues increased $0.3 million (7.0%) to $4.6 million.

ARPU: $122.66 in the first half of 2014, compared with $115.86 in the same period of 2013, a $6.80 (5.9%) increase.

Customer statistics

Revenue-generating units – 4,800-unit increase (0.1%) in the first half of 2014 compared with a 44,100-unit increase in the same period of 2013.

Cable television – 31,100 (-1.7%) decrease in the combined customer base for all of Videotron's cable television services in the first half of 2014, compared with a 22,600-customer decrease in the same period of 2013.

- Subscriptions to illico Digital TV service decreased by 1,700 (-0.1%) in the first half of 2014 compared with an increase of 17,400 in the same period of 2013.
- Subscriptions to analog cable television services decreased by 29,400 (-10.0%) compared with a decrease of 40,000 in the first six months of 2013.

Cable Internet access – 2,700-customer decrease (-0.2%) in the first half of 2014 compared with an increase of 7,700 in the same period of 2013.

Cable telephony service – 9,900-customer decrease (-0.8%) in the first half of 2014 compared with an increase of 9,800 in the same period of 2013.

Mobile telephony service – 48,000 (9.5%) increase in subscriber connections in the first half of 2014 compared with an increase of 48,500 in the same period of 2013**.**

Adjusted operating income: $665.7 million, a $32.6 million (5.1%) increase due primarily to the increase in revenues, partially offset by the favourable impact on first-half 2013 results of one-time adjustments, including a provision for CRTC licence fees.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 52.0% in the first half of 2014 compared with 52.6% in the same period of 2013. The decrease was mainly due to the impact of revenue growth (as the fixed component of operating costs does not fluctuate in proportion to revenues), partially offset by the impact of the favourable one-time adjustments in the first half of 2013.

Cash flows from operations

Quarterly cash flows from segment operations: $160.9 million in the second quarter of 2014 compared with $192.7 million in the same period of 2013 (Table 4).

- The $31.8 million decrease reflects a $34.0 million increase in additions to property, plant and equipment and to intangible assets, due mainly to increased capital expenditures on the LTE mobile network ("LTE network") and an $8.5 million decrease in proceeds from disposal of assets, partially offset by the $10.7 million increase in adjusted operating income.

Year-to-date cash flows from segment operations: $331.0 million in the first half of 2014 compared with $347.7 million in the same period of 2013 (Table 4).

- The $16.7 million decrease reflects a $40.6 million increase in additions to property, plant and equipment and to intangible assets, due mainly to increased capital expenditures on the LTE network and an $8.7 million decrease in proceeds from disposal of assets, partially offset by the $32.6 million increase in adjusted operating income.

Table 4: Telecommunications
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Adjusted operating income	**$ 331.1**	$ 320.4	**$ 665.7**	$ 633.1
Additions to property, plant and equipment	**(156.0)**	(126.8)	**(299.0)**	(272.4)
Additions to intangible assets (excluding spectrum licence acquisitions)	**(15.4)**	(10.6)	**(37.6)**	(23.6)
Proceeds from disposal of assets	**1.2**	9.7	**1.9**	10.6
Cash flows from segment operations	**$ 160.9**	$ 192.7	**$ 331.0**	$ 347.7

News Media

Second quarter 2014 operating results

Revenues: $186.6 million in the second quarter of 2014, a $14.6 million (-7.3%) decrease.

- Revenues decreased by $3.1 million because of the closure of newspapers and specialty publications since the end of 2012 under restructuring initiatives.
- On a same-store basis, advertising revenues decreased 8.0%; circulation revenues decreased 5.9%; digital revenues increased 7.5%; combined revenues from commercial printing and other sources increased 0.4%.
- On a same-store basis, revenues decreased 7.0% at the urban dailies and 6.8% at the community weeklies; portal revenues decreased 11.0%, mainly because of the decrease in advertising revenues.

Adjusted operating income: $35.4 million in the second quarter of 2014, a $6.1 million (20.8%) increase.

- The increase was mainly due to:
  - $12.5 million favourable impact of restructuring initiatives and other reductions in operating expenses;
  - $2.9 million favourable variance in multimedia employment tax credits.

  Partially offset by:
  - impact of decrease in revenues on a same-store basis.

Cost/revenue ratio: Employee costs and purchases of goods and services for the News Media segment's operations, expressed as a percentage of revenues, were 81.0% in the second quarter of 2014 compared with 85.4% in the same period of 2013. The decrease was due to the favourable impact of operating-cost-reduction initiatives on the second quarter 2014 results and the favourable variance in multimedia employment tax credits, partially offset by the impact of the fixed component of operating costs, which does not fluctuate in proportion to revenue decreases.

Year-to-date operating results

Revenues: $355.8 million, a $30.6 million (-7.9%) decrease.

- Revenues decreased by $5.4 million because of the closure of newspapers and specialty publications since the end of 2012 under restructuring initiatives.
- On a same-store basis, advertising revenues decreased 9.8%; circulation revenues decreased 4.9%; digital revenues increased 11.7%; combined revenues from commercial printing and other sources increased 0.2%.
- On a same-store basis, revenues decreased 7.8% at the urban dailies and the community weeklies; portal revenues decreased 0.8%.

Adjusted operating income: $50.8 million in the first half of 2014, a $6.5 million (14.7%) increase.

- The increase was mainly due to:
  - $24.4 million favourable impact of restructuring initiatives and other reductions in operating expenses;
  - $2.9 million favourable variance in multimedia employment tax credits.

  Partially offset by:
  - impact of decrease in revenues on a same-store basis.

Cost/revenue ratio: Operating costs for all News Media segment operations, expressed as a percentage of revenues, were 85.7% in the first half of 2014 compared with 88.5% in the same period of 2013. The decrease was due primarily to the same factors as those noted above in the discussion of second quarter 2014 operating results.

Cash flows from operations

Quarterly cash flows from segment operations: $34.7 million in the second quarter of 2014 compared with $24.4 million in the same quarter of 2013 (Table 5).

- The $10.3 million increase was mainly due to the $6.1 million increase in adjusted operating income and the $3.5 million decrease in additions to property, plant and equipment and to intangible assets.

Year-to-date cash flows from segment operations: $47.0 million in the first half of 2014, compared with $36.5 million in the same period of 2013 (Table 5).

- The $10.5 million increase was mainly due to the $6.5 million increase in adjusted operating income and the $3.5 million decrease in additions to property, plant and equipment and to intangible assets.

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Adjusted operating income	**$ 35.4**	$ 29.3	**$ 50.8**	$ 44.3
Additions to property, plant and equipment	**(0.7)**	(2.1)	**(2.5)**	(4.3)
Additions to intangible assets	**(0.7)**	(2.8)	**(2.1)**	(3.8)
Proceeds from disposal of assets	**0.7**	—	**0.8**	0.3
Cash flows from segment operations	**$ 34.7**	$ 24.4	**$ 47.0**	$ 36.5

Broadcasting

Second quarter 2014 operating results

Revenues: $113.8 million in the second quarter of 2014, a $1.4 million (-1.2%) decrease.

- Revenues from television operations decreased $3.9 million, mainly because of:
  - discontinuation of operations of TVA Boutiques in the third quarter of 2013;
  - lower advertising revenues at TVA Network and other units.

  Partially offset by:
  - increased subscription revenues at the specialty channels, attributable largely to the TVA Sports, LCN, addik^{TV}, CASA, and MOI&cie channels.

- Total revenues from publishing operations increased by $1.6 million, mainly because of the favourable impact on revenues of the acquisition of Les Publications Charron & Cie inc. ("Les Publications Charron & Cie") in July 2013, partially offset by the decrease in advertising revenues.
- Revenues of Quebecor Media Out of Home increased by $0.5 million in the second quarter of 2014 compared with the same period of 2013, primarily because of higher advertising revenues.

Adjusted operating income: $16.8 million in the second quarter of 2014, a $0.4 million (-2.3%) decrease.

- Adjusted operating income from television operations decreased by $1.9 million, mainly as a result of:
  - impact of decrease in TVA Network's revenues;
  - favourable impact on second quarter 2013 results of an adjustment to the provision for CRTC licence fees to align with the CRTC's billing period.

  Partially offset by:
  - impact of increased subscription revenues at the specialty channels.
- Adjusted operating income from publishing operations increased by $1.1 million, mainly as a result of:
  - impact of acquisition of Les Publications Charron & Cie;
  - reductions in some operating costs, including printing and production costs.

  Partially offset by:
  - impact of decrease in advertising revenues.
- The adjusted operating loss of Quebecor Media Out of Home decreased by $0.4 million, mainly as a result of increased revenues.

Cost/revenue ratio: Employee costs and purchases of goods and services for the Broadcasting segment's operations, expressed as a percentage of revenues, were 85.2% in the second quarter of 2014 compared with 85.1% in the same period of 2013.

Year-to-date operating results

Revenues: $222.7 million, a $6.2 million (-2.7%) decrease.

- Revenues from television operations decreased $11.1 million, mainly due to:
  - lower advertising revenues at TVA Network;
  - discontinuation of operations of TVA Boutiques in the third quarter of 2013.

  Partially offset by:
  - increase in subscription revenues at the specialty services reported in the discussion of second-quarter 2014 results.
- Total publishing revenues increased by $2.8 million due to the same factors as those noted above in the discussion of second quarter 2014 operating results.
- Revenues of Quebecor Media Out of Home increased by $1.6 million in the first half of 2014, primarily because of higher advertising revenues.

Adjusted operating income: $6.0 million, a $7.5 million (-55.6%) decrease.

- Adjusted operating income from television operations decreased by $11.4 million, mainly as a result of:
  - impact of decrease in TVA Network's revenues;
  - higher content costs, including adjustments to the cost of certain prior-year broadcasting rights related to indemnification clauses;
  - favourable impact on first-half 2013 results of an adjustment to the provision for CRTC licence fees to align with the CRTC's billing period.

  Partially offset by:

- impact of increased subscription revenues at the specialty channels.

- Adjusted operating income from publishing operations increased by $3.2 million, mainly as a result of the factors noted above in the discussion of second quarter 2014 operating results.

- The adjusted operating loss of Quebecor Media Out of Home decreased by $0.8 million, mainly as a result of increased revenues.

Cost/revenue ratio: Operating costs for all Broadcasting segment operations, expressed as a percentage of revenues, were 97.3% in the first half of 2014 compared with 94.1% in the same period of 2013. The increase was mainly due to the impact of the revenue decrease (as the fixed component of operating costs does not fluctuate in proportion to the decrease in revenues), higher content costs, and the favourable impact on first-half 2013 results of an adjustment to the provision for CRTC licence fees.

Cash flows from operations

Quarterly cash flows from segment operations: $10.5 million in the second quarter of 2014 compared with $12.4 million in the same period of 2013 (Table 6).

- The $1.9 million decrease was due to the $1.5 million increase in additions to property, plant and equipment and intangible assets, combined with a $0.4 million decrease in adjusted operating income.

Cash flows from segment operations: Negative $9.8 million in the first half of 2014 compared with positive $2.7 million in the same period of 2013 (Table 6).

- The $12.5 million unfavourable variance was due to the $7.5 million decrease in adjusted operating income and a $5.0 million increase in additions to property, plant and equipment and to intangible assets.

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Adjusted operating income	**$ 16.8**	$ 17.2	**$ 6.0**	$ 13.5
Additions to property, plant and equipment	**(5.6)**	(4.4)	**(14.3)**	(9.8)
Additions to intangible assets	**(0.7)**	(0.4)	**(1.5)**	(1.0)
Cash flows from segment operations	**$ 10.5**	$ 12.4	**$ (9.8)**	$ 2.7

Leisure and Entertainment

Second quarter 2014 operating results

Revenues: $62.8 million, a $3.2 million (-4.8%) decrease compared with the second quarter of 2013.

- The Sports and Entertainment division's revenues decreased by 13.9% because of:
  - 73.0% decrease in music production revenues due to impact of cancellation of 2014 edition of *Le retour de nos idoles* show;
  - 17.6% decrease in music distribution revenues due to lower CD and video sales.

  Partially offset by:
  - favourable impact of revenues from acquisition of Event Management Gestev Inc. ("Gestev") on May 24, 2013.

- The Retail and Books division's revenues decreased by 2.6% because of:
  - 6.7% decrease in retail sales revenues recorded primarily by Archambault and Le SuperClub Vidéotron stores, including lower fees from Le SuperClub Vidéotron franchises;

- o 8.7% decrease in book publishing revenues due to reduced volume in textbook publishing.

  Partially offset by:

  - o 13.3% increase in book distribution revenues.

Adjusted operating loss: $2.5 million in the second quarter of 2014 compared with adjusted operating income of $1.1 million in the same period of 2013. The $3.6 million unfavourable variance was mainly due to the impact of the decrease in revenues and recognition of an allowance for bad debts.

Year-to-date operating results

Revenues: $124.4 million, a $5.9 million (-4.5%) decrease compared with the first half of 2013.

- The Sports and Entertainment division's revenues decreased by 4.6%, mainly because of:
  - o 21.3% decrease in music distribution revenues, primarily as a result of lower video and CD sales.

  Partially offset by:

  - o Favourable impact of revenues from the acquisition of Gestev.

- The Retail and Books division's revenues decreased by 6.3% because of:
  - o 8.8% decrease in retail sales revenues recorded primarily by Archambault and Le SuperClub Vidéotron stores, including lower fees from Le SuperClub Vidéotron franchises;
  - o 2.8% decrease in book publishing revenues due to reduced volume in textbook and general publishing.

Adjusted operating loss: $4.5 million in the first half of 2014 compared with adjusted operating income of $1.2 million in the same period of 2013. The $5.7 million unfavourable variance was mainly due to the impact of the decrease in revenues and the increase in the Sports and Entertainment segment's operating expenses, reflecting in part the impact of new performance hall management operations, and recognition of an allowance for bad debts.

Cash flows from operations

Quarterly cash flows from segment operations: Negative $6.3 million in the second quarter of 2014 compared with negative $1.6 million in the same period of 2013 (Table 7).

- The $4.7 million unfavourable variance was due to the $3.6 million unfavourable variance in the adjusted operating loss and a $1.1 million increase in additions to property, plant and equipment and to intangible assets.

Year-to-date cash flows from segment operations: Negative $11.5 million in the first six months of 2014 compared with negative $2.7 million in the same period of 2013 (Table 7).

- The $8.8 million unfavourable variance was due to the $5.7 million unfavourable variance in the adjusted operating loss and a $3.1 million increase in additions to property, plant and equipment and to intangible assets.

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Adjusted operating (loss) income	**$ (2.5)**	$ 1.1	**$ (4.5)**	$ 1.2
Additions to property, plant and equipment	**(1.5)**	(0.5)	**(3.8)**	(1.0)
Additions to intangible assets	**(2.3)**	(2.2)	**(3.2)**	(2.9)
Cash flows from segment operations	**$ (6.3)**	$ (1.6)	**$ (11.5)**	$ (2.7)

Interactive Technologies and Communications

First quarter 2014 operating results

Revenues: $37.3 million, a $1.5 million (4.2%) increase due to:

- favourable impact of the exchange rates in Europe and the United States;
- higher revenues in the United States, particularly at the San Francisco office.

Partially offset by:

- lower volume from Canadian customers, due in part to a decrease in intersegment revenues from other segments of Quebecor Media;
- decrease in volume from government customers.

Adjusted operating income: $4.2 million in the second quarter of 2014, a $0.2 million (-4.5%) decrease due primarily to higher labour costs, reflecting in part the impact of decreased tax credits in Canada.

Year-to-date operating results

Revenues: $72.4 million, a $1.4 million (2.0%) increase, essentially due to the same factors as those noted above in the discussion of second quarter 2014 results.

Adjusted operating income: $6.8 million in the first half of 2014, a $1.1 million (19.3%) increase caused mainly by:

- impact of increased revenues in the United States;
- decreases in some operating expenses, including labour costs.

Partially offset by:

- decreased tax credits in Canada.

Cash flows from operations

Quarterly cash flows from segment operations: $3.9 million in the second quarter of 2014, compared with $4.0 million in the same period of 2013 (Table 8), a $0.1 million unfavourable variance.

Year-to-date cash flows from segment operations: $6.0 million in the first half of 2014 compared with $4.5 million in the same period of 2013 (Table 8).

- The $1.5 million favourable variance was due to the $1.1 million increase in adjusted operating income, combined with a $0.4 million decrease in additions to property, plant and equipment.

Table 8: Interactive Technologies and Communications
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Adjusted operating income	**$ 4.2**	$ 4.4	**$ 6.8**	$ 5.7
Additions to property, plant and equipment	**(0.3)**	(0.4)	**(0.8)**	(1.2)
Cash flows from segment operations	**$ 3.9**	$ 4.0	**$ 6.0**	$ 4.5

CASH FLOWS AND FINANCIAL POSITION

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

Operating activities

Second quarter 2014

Cash flows provided by operating activities: $214.0 million in the second quarter of 2014 compared with $142.0 million in the same period of 2013.

- The $72.0 million favourable variance was mainly due to:
  - $44.1 million favourable net change in non-cash balances related to operations, mainly because of an increase in accounts payable and accrued liabilities, and a decrease in inventories in the Telecommunications segment;
  - $10.7 million increase in adjusted operating income in Telecommunications and $6.1 million increase in News Media;
  - $13.0 million decrease in the cash portion of financial expenses.

Year to date

Cash flows provided by operating activities: $391.2 million in the first half of 2014 compared with $271.4 million in the same period of 2013.

- The $119.8 million favourable variance was mainly due to:
  - $46.2 million favourable net change in non-cash balances related to operations, mainly because of an increase in accounts payable and accrued liabilities and a decrease in inventories, partially offset by the payment of current income taxes in the Telecommunications segment;
  - $32.6 million increase in adjusted operating income in the Telecommunications segment;
  - $21.4 million favourable variance in current income taxes;
  - $19.1 million decrease in the cash portion of financial expenses.

In the first half of 2014, the favourable impact of the timing of transactions on non-cash items related to operating activities, increased profitability in the Telecommunications segment, lower current income taxes (due primarily to the tax loss generated by settlement of Videotron's hedges in January 2014), and the refinancing of some debt at lower interest rates had a favourable impact on cash flows.

Working capital: Negative $10.8 million at June 30, 2014 compared with positive $75.0 million at December 31, 2013. The $85.8 million unfavourable variance was mainly due to the reduction in cash and cash equivalents because of, among other things, payment for the 700 MHz spectrum licences acquired for $233.3 million, and to a reduction in assets held for sale (following the sale of Québec community weeklies in the News Media segment), partially offset by the impact of the settlement of hedges, presented under current assets.

Investing activities

Second quarter 2014

Additions to property, plant and equipment: $164.3 million in the second quarter of 2014 compared with $135.0 million in the same period of 2013. Spending on the LTE network in the Telecommunications segment essentially accounted for the $29.3 million increase.

Additions to intangible assets: $189.8 million in the second quarter of 2014 compared with $15.8 million in the same period of 2013. The Telecommunications segment accounted for the largest part of the $174.0 million increase, reflecting a $170.7 million final payment to Industry Canada for the seven 700 MHz spectrum licences in Canada's four most populous provinces acquired by Videotron in February 2014.

Proceeds from disposal of assets: $1.9 million in the second quarter of 2014 compared with $9.7 million in the same period of 2013, a $7.8 million decrease.

- The $9.7 million figure for the second quarter of 2013 was recorded in the Telecommunications segment.

Disposal of businesses: $73.7 million in the second quarter of 2014 compared with $52.8 million in the same period of 2013.

- Business disposals totalled $73.7 million in the second quarter of 2014, reflecting the sale of 74 Québec weeklies to Transcontinental Interactive, a subsidiary of Transcontinental.
- Business disposals totalled $52.8 million in the second quarter of 2013, reflecting the sale of *Jobboom* and *Réseau Contact* to Mediagrif Interactive Technologies Inc.

Year to date

Additions to property, plant and equipment: $320.6 million in the first half of 2014 compared with $289.7 million in the same period of 2013. The $30.9 million increase was due to the same factors as those noted above in the discussion of second quarter 2014 results.

Additions to intangible assets: $261.6 million in the first half of 2014 compared with $31.2 million in the same period of 2013. The Telecommunications segment accounted for the largest part of the $230.4 million increase, reflecting payments totalling $217.4 million for the seven 700 MHz spectrum licences acquired by Videotron in February 2014.

Proceeds from disposal of assets: $2.7 million in the first half of 2014 compared with $10.9 million in the same period of 2013. The $8.2 million decrease was due to the same factors as those noted above in the discussion of second quarter 2014 results.

Disposal of businesses: $73.7 million in the first half of 2014 compared with $52.8 million in the same period of 2013, explained by the same factors as those noted above in the discussion of second quarter 2014 results.

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

Second quarter 2014

Free cash flows from continuing operating activities of Quebecor Media: $50.3 million in the second quarter of 2014 compared with $15.4 million in the same period of 2013 (Table 9).

- The $34.9 million favourable variance was mainly due to:
  - $75.2 million favourable variance in cash flows provided by continuing operating activities.

  Partially offset by:

  - $29.2 million increase in additions to property, plant and equipment;
  - $7.8 million decrease in proceeds from disposal of assets.

Year to date

Free cash flows from continuing operating activities of Quebecor Media: $47.3 million in the first half of 2014 compared with negative $17.9 million in the same period of 2013 (Table 9).

- The $65.2 million favourable variance was due to:
  - $117.2 million favourable variance in cash flows provided by operating activities.

  Partially offset by:

  - $30.8 million increase in additions to property, plant and equipment;
  - $13.0 million increase in additions to intangible assets, excluding acquisition of spectrum licences;
  - $8.2 million decrease in proceeds from disposal of assets.

Table 9

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

(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Cash flows from segment operations				
Telecommunications	**$ 160.9**	$ 192.7	**$ 331.0**	$ 347.7
News Media	**34.7**	24.4	**47.0**	36.5
Broadcasting	**10.5**	12.4	**(9.8)**	2.7
Leisure and Entertainment	**(6.3)**	(1.6)	**(11.5)**	(2.7)
Interactive Technologies and Communications	**3.9**	4.0	**6.0**	4.5
Quebecor Media Head Office	**(1.5)**	0.7	**2.1**	1.4
	202.2	232.6	**364.8**	390.1
Cash portion of financial expenses	**(79.0)**	(91.9)	**(163.8)**	(182.5)
Cash portion of charge for restructuring of operations, impairment of assets and other special items	**(9.9)**	(6.3)	**(11.2)**	(7.5)
Current income taxes	**(26.8)**	(30.3)	**(33.2)**	(54.6)
Other	**(0.5)**	(2.0)	**1.6**	(0.4)
Net change in non-cash balances related to operations	**(35.7)**	(86.7)	**(110.9)**	(163.0)
Free cash flows from continuing operating activities of Quebecor Media	**50.3**	15.4	**47.3**	(17.9)

Table 10

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

(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Free cash flows from continuing operating activities of Quebecor Media presented in Table 9	**$ 50.3**	$ 15.4	**$ 47.3**	$ (17.9)
Quebecor Head Office cash flow items:				
Cash flows from segment operations	**2.2**	(1.4)	**5.5**	(2.8)
Cash interest expense	**(6.6)**	(6.7)	**(13.1)**	(13.5)
Other	**(0.2)**	(0.1)	**(0.1)**	0.2
Net change in non-cash balances related to operations	**(13.2)**	(6.3)	**(10.5)**	(4.6)
	(17.8)	(14.5)	**(18.2)**	(20.7)
Plus additions to property, plant and equipment	**164.3**	135.0	**320.6**	289.7
Plus additions to intangible assets (excluding expenditures for licence acquisitions)	**19.1**	15.8	**44.2**	31.2
Minus proceeds from disposal of assets	**(1.9)**	(9.7)	**(2.7)**	(10.9)
Cash flows provided by continuing operating activities of Quebecor	**$ 214.0**	$ 142.0	**$ 391.2**	$ 271.4

Financing activities

Consolidated debt (long-term debt plus bank borrowings): $45.7 million reduction in the first half of 2014; $50.4 million favourable net variance in assets and liabilities related to derivative financial instruments.

- Summary of year-to-date debt increases:
  - issuance by Videotron on April 9, 2014 of US$600.0 million aggregate principal amount of Senior Notes for net proceeds of $654.5 million, net of financing fees of $7.8 million. The Notes bear 5.375% interest and mature on June 15, 2024.
- Summary of year-to-date debt reductions:
  - early redemption and withdrawal by Videotron on April 24, 2014 of US$260.0 million aggregate principal amount of 9.125% Senior Notes issued on March 5, 2009 and maturing on April 15, 2018;
  - redemption and early repayment by Quebecor Media on April 25, 2014 of its outstanding 7.75% Senior Notes issued on October 5, 2007 and maturing on March 15, 2016, in the aggregate principal amount of US$380.0 million;
  - current payments totalling $12.5 million on Quebecor Media's and Videotron's credit facilities.
- Assets and liabilities related to derivative financial instruments totalled a net liability of $1.0 million at June 30, 2014 compared with a net liability of $51.4 million at December 31, 2013. The $50.4 million net favourable variance was due to:
  - settlement at maturity on January 15, 2014 of liabilities related to Videotron's hedges, which had been repurposed to cover a portion of the term of 5.0% Senior Notes in the notional amount of US$543.1 million issued on March 14, 2012 and maturing in 2022.

  Partially offset by:
  - unwinding of Quebecor Media's hedging contracts in an asset position in connection with the redemption and early withdrawal on April 25, 2014 of US$380.0 million aggregate principal amount of 7.75% Senior Notes;
  - unfavourable impact of interest rate trends in Canada, compared with the United States, on the fair value of derivative financial instruments.

Financial Position

Net available liquidity: $1.05 billion at June 30, 2014 for Quebecor Media and its wholly owned subsidiaries, consisting of $177.7 million in cash and $874.7 million in available unused lines of credit.

Net available liquidity: $83.6 million for Quebecor at the corporate level, consisting of a $0.4 million bank overdraft and $84.0 million in available unused lines of credit.

Consolidated debt: Total $5.03 billion at June 30, 2014, a $45.7 million reduction from December 31, 2013; $50.4 million favourable net variance in assets and liabilities related to derivative financial instruments (see "Financing activities" above).

- Consolidated debt essentially consisted of Videotron's $2.76 billion debt ($2.40 billion at December 31, 2013); TVA Group's $74.7 million debt ($74.6 million at December 31, 2013); Quebecor Media's $2.09 billion debt ($2.50 billion at December 31, 2013); and Quebecor's $99.3 million debt ($101.0 million at December 31, 2013).

As at June 30, 2014, minimum principal payments on long-term debt in the coming years were as follows:

Table 11
Minimum principal payments on Quebecor long-term debt
12 months ending June 30
(in millions of Canadian dollars)

2015	$ 101.1
2016	207.4
2017	81.3
2018	124.6
2019	3.7
2020 and thereafter	4,575.0
Total	**$ 5,093.1**

The weighted average term of Quebecor's consolidated debt was approximately 7.6 years as of June 30, 2014 (6.9 years at December 31, 2013). The debt consisted of approximately 85.3% fixed-rate debt (81.6% at December 31, 2013) and 14.7% floating-rate debt (18.4% at December 31, 2013).

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

Pursuant to their financing agreements, the Corporation and its subsidiaries are required to maintain certain financial ratios and financial covenants. The key indicators listed in these financing agreements include debt service coverage ratio and debt ratio (long-term debt over adjusted operating income). At June 30, 2014, the Corporation and its subsidiaries were in compliance with all required financial ratios and restrictive covenants in their financing agreements.

Dividends Declared

- On July 30, 2014, the Board of Directors of Quebecor declared a quarterly dividend of $0.025 per share on its Class A Multiple Voting Shares ("Class A Shares") and Class B Subordinate Voting Shares ("Class B Shares"), payable on September 9, 2014 to shareholders of record at the close of business on August 5, 2014.

Analysis of consolidated balance sheet as at June 30, 2014

Table 12
Consolidated balance sheet of Quebecor
Analysis of main differences between June 30, 2014 and December 31, 2013
(in millions of Canadian dollars)

	June 30, 2014	Dec. 31, 2013	Difference	Main reason for difference
Assets				
Cash and cash equivalents	**$ 193.7**	$ 476.6	$ (282.9)	Payment for seven 700 MHz spectrum licences acquired by Videotron
Accounts receivable	**524.9**	566.3	(41.4)	Impact of current variances in activity
Assets held for sale	**–**	76.9	(76.9)	Sale of 74 Québec community weeklies in the News Media segment
Intangible assets	**1,013.1**	824.8	188.3	Purchase of 700 MHz spectrum licences by Videotron
Goodwill	**2,871.4**	3,061.5	(190.1)	Impairment of goodwill in the News Media segment
Liabilities				
Accounts payable and accrued liabilities	**554.5**	706.1	(151.6)	Impact of current variances in activity
Income taxes[1]	**23.5**	71.2	(47.7)	Payment in 2014 of outstanding balance of 2013 income tax
Long-term debt, including short-term portion and bank indebtedness	**5,031.3**	5,077.0	(45.7)	See “Financing activities”
Derivative financial instruments[2]	**1.0**	51.4	(50.4)	See “Financing activities”

1 Current liabilities less current assets.
2 Current and long-term liabilities less long-term assets.

ADDITIONAL INFORMATION

Contractual Obligations

At June 30, 2014, material contractual obligations of operating activities included: capital repayment and interest on long-term debt; principal repayment of convertible debentures; operating lease arrangements; capital asset purchases and other commitments; and obligations related to derivative financial instruments, less estimated future receipts on derivative financial instruments. Table 13 below shows a summary of these contractual obligations.

Table 13
Contractual obligations of Quebecor as of June 30, 2014
(in millions of Canadian dollars)

	Total	Under 1 year	1-3 years	3-5 years	5 years or more
Long-term debt[1]	**$ 5,093.1**	$ 101.1	$ 288.7	$ 128.3	$ 4,575.0
Convertible debentures[2]	**536.5**	–	–	536.5	–
Interest payments[3]	**2,428.4**	287.3	628.8	593.5	918.8
Operating leases	**286.4**	54.3	79.6	51.6	100.9
Additions to property, plant and equipment and other commitments	**1,366.5**	154.9	303.4	213.4	694.8
Derivative financial instruments[4]	**(40.3)**	1.6	22.6	47.6	(112.1)
Total contractual obligations	**$ 9,670.6**	**$ 599.2**	**$ 1,323.1**	**$ 1,570.9**	**$ 6,177.4**

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

2 Based on the market value at June 30, 2014 of a number of shares obtained by dividing the outstanding principal amount by the market price of a Quebecor Class B share at that date, subject to a floor price of $19.25 per share and a ceiling price of $24.0625. The Corporation may also redeem convertible debentures by issuing the corresponding number of Class B shares.

3 Estimated interest payable on long-term debt and convertible debentures, based on interest rates, hedging of interest rates and hedging of foreign exchange rates as of June 30, 2014.

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

Related Party Transactions

During the second quarter of 2014, the Corporation and its subsidiaries made purchases and incurred rent charges with affiliated corporations in the amount of $0.6 million ($1.1 million in the same period of 2013), which is included in purchase of goods and services. The Corporation and its subsidiaries made sales to affiliated corporations in the amount of $0.8 million ($0.8 million in 2013). These transactions were accounted for at the consideration agreed between the parties.

During the first half of 2014, the Corporation and its subsidiaries made purchases and incurred rent charges with affiliated corporations in the amount of $0.7 million ($1.0 million in the same period of 2013), which is included in purchase of goods and services. The Corporation and its subsidiaries made sales to affiliated corporations in the amount of $1.6 million ($1.4 million in 2013). These transactions were accounted for at the consideration agreed between the parties.

Capital Stock

In accordance with Canadian financial reporting standards, Table 14 below presents information on the Corporation's capital stock as at July 15, 2014. In addition, 1,220,000 stock options were outstanding as of July 15, 2014.

Table 14
Capital stock
(in shares and millions of Canadian dollars)

	July 15, 2014	
	Issued and outstanding	Book value
Class A Shares	39,000,672	$ 8.7
Class B Shares	83,875,792	$ 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 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 renewal of its 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 June 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.

In the first half of 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 the first half of 2013). The excess of $10.0 million of the purchase price over the carrying value of the repurchased Class B Shares was recorded in reduction of retained earnings in the first half of 2014 ($17.8 million in the first half of 2013).

Financial instruments

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

In order to manage its foreign exchange and interest rate risks, the Corporation and its subsidiaries use 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 and its subsidiaries do not intend to settle their derivative financial instruments prior to their maturity as none of these instruments is held or issued for speculative purposes.

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

The carrying value and fair value of long-term debt, convertible debentures and derivative financial instruments as of June 30, 2014 and December 31, 2013 are as follows:

Table 15
Fair value of long-term debt, convertible debentures and derivative financial instruments
(in millions of Canadian dollars)

	June 30, 2014		December 31, 2013	
Asset (liability)	**Carrying value**	**Fair value**	Carrying value	Fair value
Long-term debt[1,2]	**$ (5,093.1)**	**$ (5,283.4)**	$ (5,140.7)	(5,200.0)
Convertible debentures[3]	**(593.8)**	**(593.8)**	(615.1)	(615.1)
Derivative financial instruments				
Early settlement options	**13.7**	**13.7**	14.5	14.5
Foreign exchange forward contracts[4]	**(0.5)**	**(0.5)**	1.8	1.8
Cross-currency interest rate swaps[4]	**(0.5)**	**(0.5)**	(53.2)	(53.2)

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

2 The fair value of long-term debt excludes the fair value of early settlement options, which is presented separately in the table.

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

4 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.

(Gains) losses on valuation and translation of financial instruments for the second quarters and first halves of 2014 and 2013 are summarized in Table 16.

Table 16
(Gain) loss on valuation and translation of financial instruments
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Loss on embedded derivatives related to long-term debt and loss on 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

A $3.3 million gain and $8.3 million loss on cash flow hedges were recorded under “Other comprehensive income” in the second quarter and first half of 2014 respectively ($2.6 million and $28.5 million losses in the second quarter and first half of 2013 respectively).

The fair value of long-term debt 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 period-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 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 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 instruments by applying a credit default premium estimated using a combination of observable and unobservable inputs in the market to the net exposure of the counterparty or the Corporation.

The fair value of early settlement options and of cap and floor conversion price features, recognized as embedded derivatives, is determined by option pricing models using market inputs, including volatility, discount factors, interest rates and, as the case may be, credit premiums implicit in the adjusted prices of the underlying instruments.

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 an updated 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.

Consolidated statements of income and comprehensive income

	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 tax	(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)

Consolidated balance sheets

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.

Controls and Procedures

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

No changes to internal controls over financial reporting have come to the attention of the Corporation's management during the three months ended June 30, 2014 that have materially adversely affected, or are reasonably likely to materially adversely affect, the Corporation's internal controls over financial reporting.

Additional Information

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

Cautionary Statement Regarding Forward-Looking Statements

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

- Quebecor Media's ability to continue developing its network and related mobile services;
- general economic, financial or market conditions and variations in the businesses of Quebecor Media's local, regional or national newspapers and broadcasting advertisers;
- the intensity of competitive activity in the industries in which Quebecor operates;
- fragmentation of the media landscape;
- new technologies that might change consumer behaviour with respect to Quebecor Media's product suites;
- unanticipated higher capital spending required for developing its network or to address the continued development of competitive alternative technologies, or the inability to obtain additional capital to continue the development of Quebecor's business;
- Quebecor's ability to implement its business and operating strategies successfully and to manage its growth and expansion;
- Quebecor Media's ability to successfully restructure its newspaper operations to optimize their efficiency in the context of the changing newspaper industry;
- disruptions to the network through which Quebecor Media provides its digital cable television, Internet access and telephony services, and its ability to protect such services from piracy;
- labour disputes or strikes;
- changes in Quebecor Media's ability to obtain services and equipment critical to its operations;
- changes in laws and regulations, or in their interpretations, which could result, among other things, in the loss (or reduction in value) of Quebecor Media's licences or markets or in an increase in competition, compliance costs or capital expenditures;
- Quebecor's substantial indebtedness, the tightening of credit markets, and the restrictions on its business imposed by the terms of its debt; and
- interest rate fluctuations that could affect Quebecor's interest payment requirements on long-term debt.

The forward-looking statements in this document are made to provide investors and the public with a better understanding of the Corporation's circumstances and are based on assumptions it believes to be reasonable as of the day on which they are made. Investors and others are cautioned that the foregoing list of factors that may affect future results is not exhaustive and that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that could cause the Corporation's actual results to differ from current expectations, please refer to the Corporation's public filings, available at <www.sedar.com> and <www.quebecor.com>, including, in particular, the “Risks and Uncertainties” section of the Corporation’s Management Discussion and Analysis for the year ended December 31, 2013.

The forward-looking statements in this Management Discussion and Analysis reflect the Corporation’s expectations as of July 31, 2014, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

Montréal, Québec

July 31, 2014

QUEBECOR INC. AND ITS SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL DATA

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

		2014				2013		2012
	June 30	**March 31**	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30
		(1)	(1)	(1)	(1)	(1)	(1)	
Operations								
Revenues	**$ 1,069.2**	**$ 1,038.1**	$ 1,119.2	$ 1,053.6	$ 1,063.2	$ 1,026.7	$ 1,114.0	$ 1,032.5
Adjusted operating income	**385.9**	**346.5**	397.9	385.3	372.3	325.0	373.6	355.8
Contribution to net (loss) income attributable to shareholders:								
Continuing operations	**66.0**	**46.7**	68.8	64.5	53.0	33.7	54.4	52.3
Gain (loss) on valuation and translation of financial instruments	**21.2**	**2.9**	(58.0)	(24.8)	(159.9)	(36.6)	(42.9)	47.5
Unusual items	**(148.4)**	**(10.0)**	(3.4)	(205.8)	(12.8)	(0.6)	(3.8)	(72.1)
Discontinued operations	**6.4**	**(0.5)**	(7.1)	(22.7)	26.1	(3.0)	(2.6)	(10.6)
Net (loss) income attributable to shareholders	**(54.8)**	**39.1**	0.3	(188.8)	(93.6)	(6.5)	5.1	17.1
Basic data per share								
Contribution to net (loss) income attributable to shareholders:								
Continuing operations	**$ 0.54**	**$ 0.38**	$ 0.56	$ 0.52	$ 0.43	$ 0.27	$ 0.43	$ 0.41
Gain (loss) on valuation and translation of financial instruments	**0.17**	**0.02**	(0.47)	(0.20)	(1.29)	(0.30)	(0.34)	0.38
Unusual items	**(1.21)**	**(0.08)**	(0.03)	(1.67)	(0.10)	-	(0.03)	(0.57)
Discontinued operations	**0.05**	-	(0.06)	(0.18)	0.21	(0.02)	(0.02)	(0.08)
Net (loss) income attributable to shareholders	**(0.45)**	**0.32**	-	(1.53)	(0.75)	(0.05)	0.04	0.14
Weighted average number of shares outstanding (in millions)	**123.0**	**123.1**	123.5	123.7	124.3	124.7	125.4	126.3
Diluted data per share								
Contribution to net (loss) income attributable to shareholders:								
Continuing operations	**$ 0.49**	**$ 0.35**	$ 0.49	$ 0.47	$ 0.39	$ 0.24	$ 0.38	$ 0.41
Dilution impact	-	-	0.07	0.05	0.04	0.03	-	-
Gain (loss) on valuation and translation of financial instruments	**(0.01)**	**0.02**	(0.47)	(0.20)	(1.29)	(0.30)	(0.29)	0.38
Unusual items	**(1.04)**	**(0.08)**	(0.03)	(1.67)	(0.10)	-	(0.03)	(0.57)
Discontinued operations	**0.05**	-	(0.06)	(0.18)	0.21	(0.02)	(0.02)	(0.08)
Net (loss) income attributable to shareholders	**(0.51)**	**0.29**	0.00	(1.53)	(0.75)	(0.05)	0.04	0.14
Weighted average number of diluted shares outstanding (in millions)	**143.8**	**144.2**	123.5	123.7	124.3	124.7	148.6	126.5

(1) Comparative figures have been restated to reflect the change in the accounting policy for the convertible debentures. Refer to note 2 to the condensed consolidated financial statements for the second quarter of 2014.