MANAGEMENT DISCUSSION AND ANALYSIS

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CORPORATE PROFILE

Quebecor Inc. ("Quebecor" or the "Corporation") is a holding corporation 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.

The Corporation's interest in Quebecor Media increased from 54.7% to 75.4% on October 11, 2012 as a result of the repurchase by Quebecor and Quebecor Media of part of the 45.3% interest in Quebecor Media held by CDP Capital d'Amérique Investissement inc. ("CDP Capital"), a subsidiary of Caisse de dépôt et placement du Québec.

Through its Quebecor Media subsidiary, Quebecor is a leading Canadian media corporation engaged in cable and mobile telecommunications; newspaper publishing; production and distribution of print media products; broadcasting; retailing, publishing and distribution of books, magazines, DVDs, Blu-ray discs and video games; music recording, production, distribution and streaming; new media services; video game development, out-of-home advertising, and the Quebec Major Junior Hockey League ("QMJHL"). Quebecor Media is a leader in developing, promoting and distributing news, entertainment and Internet services targeted at all demographics. Quebecor Media is pursuing a convergence strategy to capture synergies among all its media properties.

All amounts are stated in Canadian dollars ("CAN dollars") unless otherwise indicated.

On January 1, 2011, the Corporation has adopted the International Financial Reporting Standards ("IFRS") for the presentation of its consolidated financial statements. Comparative figures for 2010 have also been restated.

HIGHLIGHTS SINCE END OF 2011

Quebecor's sales increased by $145.2 million (3.5%) to $4.35 billion in 2012, mainly because of the 8.4% revenue growth in the Telecommunications segment.

Telecommunications

- Videotron Ltd. ("Videotron") reported revenue growth for all of its major services in 2012: Internet access (up $74.3 million or 10.6%), cable television ($66.7 million or 6.6%), mobile telephony ($58.9 million or 52.3%), and cable telephony ($18.2 million or 4.2%).
- The net increase in revenue generating units[1] was 221,800 in 2012, compared with 379,100 in 2011. The 2011 figure constituted the largest one-year increase in revenue generating units since 2008, resulting mainly from the end of over-the-air analog television broadcasting in Canada.
- The Telecommunications segment's operating income increased by $126.2 million (11.5%) in 2012.
- At the end of February 2013, Videotron launched illico Club Unlimited, a new subscription video on demand service that carries the largest unlimited on-demand selection of French-language titles in Canada.
- Videotron rolled out illico TV new generation across its service area in the first half of 2012. illico TV new generation offers subscribers to Videotron's digital service an entirely new interface for accessing video on demand, managing recordings, customizing the program guide, and using online services. It features innovative functions that deliver a smoother and more intuitive navigation experience.
- On May 17, 2012, Videotron launched Ultimate Speed Internet 200, an Internet access service that sets a new standard for speed.

News Media

- On February 15, 2013, Quebecor Media and Le Sac Plus announced a multiyear agreement to print and distribute JYSK Canada store flyers in Québec and English Canada. A Québec-wide media campaign developed by Quebecor Media will be carried by all of its media properties. The agreement provides for printing more than 4 million flyers per week and the distribution of nearly 23 million flyers per year in the Le Sac Plus door-knob bag in Québec. The agreement also involves Sun Media Corporation newspapers, another example of the News Media segment's complementary multiproduct offerings.

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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.

- On November 13, 2012, Sun Media Corporation also announced new restructuring initiatives designed to streamline its organizational structure to support better execution of business processes, while improving cost effectiveness. These initiatives are expected to yield total annual savings exceeding $45.0 million.
- On September 27, 2012, Sun Media Corporation announced the reorganization of its news operations. At the same time, it announced the reorganization of its editorial, advertising and industrial operations across Canada, outside Québec, to focus on customers and on business opportunities at the local and national levels.
- On June 21, 2012, following an invitation to tender, Quebecor Media was selected to install, maintain and advertise on Société de transport de Montréal ("STM") bus shelters for the next 20 years. It was Quebecor Media's first move into a line of business that is experiencing significant technological change.
- Sun Media Corporation announced the acquisition of *Pub Extra* magazine, which is distributed monthly to nearly 190,000 households in the Montréal North Shore area. It also closed the acquisition of the community weekly *L'Impact de Drummondville*, with a circulation of nearly 50,000, and launched a new weekly in the Bois-Francs area, *L'Écho de Victoriaville*, with a circulation of more than 40,000. Quebecor Media's Québec community newspapers network now has a combined weekly circulation of over 2.5 million copies.
- On April 19, 2012, Quebecor Media Network Inc. ("Quebecor Media Network") announced an exclusive agreement to distribute the Sears Canada Inc. ("Sears Canada") national flyer in the Le Sac Plus door-knob bag. Under the agreement, Quebecor Media Network will distribute more than 100 million pieces of promotional literature per year for Sears Canada.

Broadcasting

- The 2012 edition of *Star Académie* was a resounding television and commercial success that had positive ripple effects across Quebecor Media's properties and provided new opportunities for sharing value-added content. The weekly gala and the daily show broadcast on TVA Network were seen by an average of 2.2 million and 1.4 million viewers respectively. The *Star Académie 2012* CD, released on March 6, 2012, sold more than 125,000 copies and was number one on the Canadian French-language charts and Québec charts (source: Nielsen SoundScan).
- On May 31, 2012, TVA Group Inc. ("TVA Group") closed the sale of its interest in the specialty channels mysteryTV and The Cave.

Other highlights

- In October 2012, the Corporation completed its annual review of its three-year strategic plan. In view of continuous weak economic and market conditions in the newspaper and music industries, the Corporation recorded a total non-cash charge of $187.0 million for impairment of goodwill, mastheads and customer relationships.
- On March 25, 2012, Quebecor Media and Québec City announced finalization of the functional and technical program for the multipurpose arena to be built in Québec City.
- On April 4, 2012, Archambault Group Inc. ("Archambault Group") launched ZIK, a music streaming service that offers unlimited interactive access to millions of tracks, including the largest catalogue of French-language music.

Financing

A number of financial transactions were carried out during 2012.

- On December 17, 2012, Quebecor Media prepaid the outstanding balance of its term loan "B" for a cash consideration of $153.9 million.
- On October 11, 2012, the Corporation increased its interest in Quebecor Media, further to the closing of the following transactions:
    - Quebecor Media repurchased 20,351,307 of its common shares held by CDP Capital for an aggregate purchase price of $1.0 billion, paid in cash. All the repurchased shares were cancelled;
    - Quebecor purchased 10,175,653 common shares of Quebecor Media held by CDP Capital. To evidence the obligation of the Corporation to pay the purchase price of such shares, the Corporation issued to CDP Capital $500.0 million aggregate principal amount of subordinated debentures, bearing interest at 4.125% and maturing in 2018, which are convertible into Class B Subordinate Voting Shares ("Class B Shares") of Quebecor.

  Further to the completion of these transactions, Quebecor's interest in Quebecor Media increased from 54.7% to 75.4% and CDP Capital's interest decreased from 45.3% to 24.6%.

- To carry out the repurchase of 20,351,307 of its common shares for an aggregate purchase price of $1.0 billion, Quebecor Media was able to take advantage of favourable conditions on the debt markets. The following financial operations were carried out by Quebecor Media as part of this major transaction:
    - Issuance, on October 11, 2012, of US$850.0 million aggregate principal amount of Senior Notes bearing interest at 5.75% and maturing in 2023, and $500.0 million aggregate principal amount of Senior Notes bearing interest at 6.625% and maturing in 2023, the latter being one of the largest single-tranche high-yield offerings ever completed in Canada;
    - Quebecor Media increased the size of the offering as a result of oversubscription and favourable financing terms, which provided an opportunity to extend the maturities of its credit instruments by redeeming, in November 2012, US$320.0 million in aggregate principal amount of its 7.75% Senior Notes issued in 2007 and maturing in 2016.
- In March 2012, Videotron issued US$800.0 million aggregate principal amount of 5.0% Senior Notes maturing in 2022.
- In March 2012, Videotron redeemed all of its 6.875% Senior Notes maturing in January 2014 in the aggregate principal amount of US$395.0 million.
- In March and April 2012, Quebecor Media redeemed US$260.0 million principal amount of its 7.75% Senior Notes maturing in March 2016 and settled the related hedging contracts.
- Quebecor Media and TVA Group amended their bank credit facilities to extend the maturity dates to 2016 and 2017 respectively and to increase Quebecor Media's revolving credit facility maturing in 2016 by $200.0 million.
- Quebecor amended its $150.0 million revolving credit facility to extend the maturity from November 2014 to November 2015 and modify certain terms and conditions of the facility.
- Finally, Sun Media Corporation repaid the $37.6 million balance on its term loan credit facility and cancelled all its credit facilities.

NON-IFRS FINANCIAL MEASURES

The financial measures not standardized under IFRS that are used by the Corporation to assess its financial performance, such as 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.

Operating Income

In its analysis of operating results, the Corporation defines operating income, as reconciled to net income under IFRS, as net income 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 and of intangible assets, loss on debt refinancing, and income tax. 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 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.

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. In addition, measures like operating income are commonly used by the investment community to analyze and compare the performance of companies in the industries in which the Corporation is engaged. The Corporation's definition of operating income may not be the same as similarly titled measures reported by other companies.

Table 1 below provides a reconciliation of operating income with net income as disclosed in Quebecor's consolidated financial statements. The consolidated financial information for the three-month periods ended December 31, 2012 and 2011 presented in Table 1 below is drawn from the unaudited consolidated statements of income.

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

		Year ended December 31		Three months ended December 31	
	2012	2011	2010	**2012**	2011
Operating (loss) income:					
Telecommunications	**$ 1,225.0**	$ 1,098.8	$ 1,047.3	**$ 310.4**	$ 294.7
News Media	**115.1**	150.1	191.4	**38.6**	47.0
Broadcasting	**38.1**	50.5	74.9	**17.2**	20.6
Leisure and Entertainment	**13.1**	26.6	27.6	**5.0**	7.6
Interactive Technologies and Communications	**9.8**	7.9	6.0	**3.4**	2.5
Head Office	**2.5**	7.8	(13.8)	**(3.8)**	(3.2)
	1,403.6	1,341.7	1,333.4	**370.8**	369.2
Amortization	**(600.3)**	(512.2)	(399.2)	**(167.4)**	(138.2)
Financial expenses	**(334.6)**	(322.9)	(322.6)	**(95.4)**	(77.7)
Gain (loss) on valuation and translation of financial instruments	**197.5**	54.6	46.1	**(44.0)**	82.5
Restructuring of operations, impairment of assets and other special items	**(29.4)**	(30.2)	(37.1)	**(0.6)**	(11.2)
Impairment of goodwill and intangible assets	**(201.5)**	–	–	**–**	–
Loss on debt refinancing	**(67.7)**	(6.6)	(12.3)	**(60.4)**	–
Income taxes	**(100.1)**	(141.4)	(151.7)	**6.3**	(60.2)
Net income	**$ 267.5**	$ 383.0	$ 456.6	**$ 9.3**	$ 164.4

Adjusted Income from Continuing Operating Activities

The Corporation defines adjusted income from continuing operations, as reconciled to net income attributable to shareholders under IFRS, as net income attributable to shareholders before gain (loss) on valuation and translation of financial instruments, charge for restructuring of operations, impairment of assets and other special items, charge for impairment of goodwill and of intangible assets, and loss on debt refinancing, net of income tax related to adjustments and net income attributable to non-controlling interests related to adjustments. 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's definition of adjusted income from continuing operating activities may not be identical to similarly titled measures reported by other companies.

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

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

	Year ended December 31			Three months ended December 31	
	2012	2011	2010	**2012**	2011
Adjusted income from continuing operations	**$ 196.1**	$ 191.5	**$** 220.6	$ **56.0**	$ 55.6
Gain (loss) on valuation and translation of financial instruments	**197.5**	54.6	46.1	**(44.0)**	82.5
Restructuring of operations, impairment of assets and other special items	**(29.4)**	(30.2)	(37.1)	**(0.6)**	(11.2)
Impairment of goodwill and intangible assets	**(201.5)**	–	–	**–**	–
Loss on debt refinancing	**(67.7)**	(6.6)	(12.3)	**(60.4)**	–
Income taxes related to adjustments[1]	**24.3**	(3.8)	7.9	**31.1**	(17.5)
Net income (loss) attributable to non-controlling interests related to adjustments	**48.4**	(4.5)	0.1	**27.1**	(24.0)
Net income attributable to shareholders	**$ 167.7**	$ 201.0	**$** 225.3	$ **9.2**	$ 85.4

[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 operating income, less additions to property, plant and equipment and additions to intangible assets (excluding disbursements for license 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, 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. When cash flows from segment operations is reported, a reconciliation to operating income is provided in the same section of the report.

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 operating activities less additions to property, plant and equipment and additions to intangible assets (excluding disbursements for license 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, 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 its operating activities.

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.

INTEREST IN SUBSIDIARIES

As of December 31, 2012, Quebecor held a 75.4% interest in Quebecor Media. Table 3 shows Quebecor Media's equity interest in its main subsidiaries at that date.

Table 3
Quebecor Media's interest (direct and indirect) in its main subsidiaries
December 31, 2012

	Percentage of equity	Percentage of vote
Videotron Ltd.	100.0%	100.0%
Sun Media Corporation	100.0	100.0
Quebecor Media Printing Inc.	100.0	100.0
TVA Group Inc.	51.4	99.9
Archambault Group Inc.	100.0	100.0
Sogides Group Inc.	100.0	100.0
CEC Publishing Inc.	100.0	100.0
Nurun Inc.	100.0	100.0

Quebecor Media's interest in its subsidiaries has not varied significantly over the past three years.

On June 30, 2012, Sun Media Corporation bought a 2% interest in SUN News General Partnership ("SUN News") from TVA Group, bringing its interest to 51%.

On May 1, 2011, Canoe Inc. ("Canoe") was wound up and its operations integrated into Sun Media Corporation, with the exception of the operations of the specialty sites *jobboom.com* and *reseaucontact.com*, which were integrated into Videotron.

On January 1, 2011, Osprey Media Publishing Inc. ("Osprey Media") was wound up and its operations integrated into Sun Media Corporation.

TREND INFORMATION

Some of Quebecor's lines of business are cyclical in nature. They are dependent on advertising and, in the News Media segment in particular, circulation sales. Operating results are therefore sensitive to prevailing economic conditions, especially in Québec, Ontario and Alberta.

In the News Media segment, circulation, measured in terms of copies sold, has been generally declining in the industry over the past several years. Also, the traditional run of press advertising for major multimarket retailers has been declining over the past few years due to consolidation in the retail industry, combined with a shift in marketing strategy toward other media. In order to respond to such competition, the News Media operations continue to develop their Internet presence through branded websites, including French- and English-language portals and specialized sites.

Changes in the price of newsprint can have a significant effect on the News Media segment's operating results as newsprint is its principal expense besides wages and benefits, representing approximately 9.4% ($79.8 million) of the News Media segment's operating expenses for the year ended December 31, 2012. Newsprint prices have historically experienced significant volatility.

Competition continues to be intense in the cable and alternative multichannel broadcast distribution industry and in the mobile telephony market. Moreover, the significant subscriber growth recorded in the Telecommunications segment in past years is not necessarily representative of future growth, due to the penetration rates currently reached.

The Telecommunications segment has in the past required substantial capital for the upgrade, expansion and maintenance of its network, the launch and expansion of new or additional services to support growth in its customer base, and demands for increased bandwidth capacity and other services. The Corporation expects that additional capital expenditures will be required in the short and medium term in order to expand and maintain the Telecommunications segment's systems and services, including expenditures relating to mobile telephony infrastructure upgrades, as well as costs relating to advancements in Internet access and high definition ("HD") television. Moreover, demand for wireless data services has been growing at unprecedented rates and it is projected that this demand will further increase in the future. The anticipated levels of data traffic will represent a significant challenge to the current mobile network's ability to serve this traffic. The Telecommunications segment may have to acquire additional spectrum, as available, in order to address this increased demand.

The broadcasting industry is undergoing a period of significant change. Television audiences are fragmenting as viewing habits shift not only toward specialty channels, but also toward content delivery platforms that allow users greater control over content and timing, such as the Internet, Video on Demand and mobile devices. Audience fragmentation has prompted many advertisers to review their strategies. The Broadcasting segment is taking steps to adjust to the profound changes occurring in its industry so as to maintain its leadership position and offer audiences and advertisers alike the best available content, when they want it and on the media platform they want.

2012/2011 FINANCIAL YEAR COMPARISON

The 2011 financial year contained an additional week in the News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications segments.

Analysis of Consolidated Results of Quebecor

Revenues: $4.35 billion, an increase of $145.2 million (3.5%).

- Revenues increased in Telecommunications ($204.4 million or 8.4% of segment revenues), Interactive Technologies and Communications ($24.6 million or 20.3%) and Broadcasting ($15.6 million or 3.5%).
- Revenues decreased in News Media ($58.4 million or -5.7%) and Leisure and Entertainment ($20.4 million or -6.5%).

Operating income: $1.40 billion, an increase of $61.9 million (4.6%).

- Operating income increased in Telecommunications ($126.2 million or 11.5% of segment operating income) and Interactive Technologies and Communications ($1.9 million or 24.1%).
- Operating income decreased in News Media ($35.0 million or -23.3%), Leisure and Entertainment ($13.5 million or -50.8%), Broadcasting ($12.4 million or -24.6%), and Head Office ($5.3 million). The decrease at Head Office mainly reflects the unfavourable variance in the fair value of stock options.
- The change in the fair value of Quebecor Media stock options resulted in a $10.4 million unfavourable variance in the consolidated stock-based compensation charge in 2012 compared with 2011. The fair value of the options increased in 2012, whereas it decreased in 2011. The change in the fair value of Quebecor stock options resulted in an $11.3 million unfavourable variance in the Corporation's consolidated stock-based compensation charge in 2012.

Net income attributable to shareholders: $167.7 million ($2.65 per basic share) compared with $201.0 million ($3.14 per basic share) in 2011, a decrease of $33.3 million ($0.49 per basic share).

- The decrease was mainly due to:
    - $201.5 million charge for impairment of goodwill and intangible assets recorded in 2012;
    - $88.1 million increase in amortization charge;
    - $61.1 million unfavourable variance in loss on debt refinancing;
    - $11.7 million increase in financial expenses.

  Partially offset by:
    - $142.9 million favourable variance in gain on valuation and translation of financial instruments;
    - $61.9 million increase in operating income.

Adjusted income from continuing operations: $196.1 million in 2012 ($3.10 per basic share) compared with $191.5 million ($2.99 per basic share) in 2011, an increase of $4.6 million ($0.11 per basic share).

Amortization charge: $600.3 million, an $88.1 million increase due essentially to the impact of significant capital expenditures since 2010 in the Telecommunications segment, including amortization of 4G network equipment and impact of emphasis on equipment leasing in the promotional strategy.

Financial expenses: $334.6 million, an increase of $11.7 million due mainly to higher indebtedness.

Gain on valuation and translation of financial instruments: $197.5 million in 2012 compared with $54.6 million in 2011. The positive variance of $142.9 million was mainly due to a favourable change in the fair value of early settlement options caused by interest rate and credit premium fluctuations.

Charge for restructuring of operations, impairment of assets and other special items: $29.4 million in 2012 compared with $30.2 million in 2011, a favourable variance of $0.8 million.

- In 2012, a $31.8 million charge for restructuring of operations was recorded in the News Media segment, mainly in connection with staff-reduction programs implemented in the third quarter of 2012, compared with a $11.0 million net charge in 2011 for restructuring initiatives implemented that year. Also as part of those initiatives, a $7.5 million charge for impairment of certain assets was recorded in 2012, compared with a $0.8 million charge for impairment of intangible assets recorded in 2011.
- A $12.9 million gain on disposal of businesses was recorded in 2012 in the Broadcasting segment as a result of the sale by TVA Group of its interest in the specialty channels mysteryTV and The Cave. A $0.1 million restructuring charge was also recorded in the Broadcasting segment in 2012. In 2011, the Broadcasting segment recorded a $0.7 million charge for impairment of intangible assets, a $0.8 million restructuring charge related primarily to staff reductions, and a $0.2 million charge for other special items.
- In connection with the startup of its 4G network, the Telecommunications segment recorded a $0.5 million charge for migration costs in 2012, compared with $14.8 million in 2011. In addition, a $0.6 million charge for restructuring of other operations was recorded in the segment in 2011.
- In 2012, $2.4 million in other special items was recorded in other segments, compared with $1.3 million in 2011.

Charge for impairment of goodwill and intangible assets: $201.5 million in 2012.

- In October 2012, the Corporation completed its annual review of its three-year strategic plan. Continuing weak economic and market conditions in the newspaper and music industries led the Corporation to perform impairment tests on the News Media and Music cash generating units ("CGUs"). Quebecor Media concluded that the recoverable amount based on value in use was less than the carrying amount of both CGUs. Accordingly, a non-cash goodwill impairment charge of $145.0 million (without any tax consequences) and a non-cash impairment charge of $30.0 million on mastheads and customer relationships were recorded in the News Media segment and a goodwill impairment charge of $12.0 million (without any tax consequences) was recorded in the Leisure and Entertainment segment.
- As a result of new tariffs adopted in 2012 with respect to business contributions for costs related to waste recovery services provided by Québec municipalities, the costs of magazine publishing activities have been adversely affected. Accordingly, the Corporation reviewed its business plan for the segment and determined that goodwill was no longer fully recoverable. A $14.5 million non-cash goodwill impairment charge (without any tax consequences) was therefore recorded in 2012.

Loss on debt refinancing: $67.7 million in 2012 compared with $6.6 million in 2011, a $61.1 million unfavourable variance.

- In 2012, Videotron redeemed all of its 6.875% Senior Notes maturing in January 2014 in the aggregate principal amount of US$395.0 million. During the same period, Quebecor Media redeemed US$580.0 million principal amount of its 7.75% Senior Notes maturing in March 2016 and settled some of the related hedging contracts. Finally, Quebecor Media prepaid the outstanding balance of its term loan "B" credit facility for a cash consideration of $153.9 million. The transactions generated a total $67.7 million loss on debt refinancing, including a gain of $15.3 million previously reported in "Other comprehensive income".
- On July 18, 2011, Videotron redeemed and withdrew US$255.0 million principal amount of its issued and outstanding 6.875% Senior Notes maturing in 2014 and settled the related hedges. On February 15, 2011, Sun Media Corporation redeemed and withdrew the entirety of its 7.625% Senior Notes in the aggregate principal amount of US$205.0 million and settled the related hedges. The transactions generated a $6.6 million loss on debt refinancing, including a loss of $0.8 million previously reported in "Other comprehensive income".

Income tax expense: $100.1 million (effective tax rate of 18.6%, considering only taxable and deductible items) in 2012, compared with $141.4 million (effective tax rate of 27.0%) in 2011.

- The decrease in the income tax expense and in the effective tax rate were due to the following factors:
  - in the third quarter of 2012, the Corporation reviewed the recognition of deferred income tax assets in light of jurisprudence and tax developments, and consequently reduced the deferred income tax expense by $34.8 million;
  - impact of lowering of statutory tax rate.

SEGMENTED ANALYSIS

Telecommunications

Videotron, in Quebecor Media's Telecommunications segment, is the largest cable operator in Québec and the third-largest in Canada by customer base. Its state-of-the-art network passes 2,701,200 homes and businesses. As of December 31, 2012, the total number of revenue generating units stood at 4,917,300. At that date, Videotron had 1,855,000 cable television customers, including 1,484,600 subscribers to its illico Digital TV service. Videotron is also an Internet Service Provider and telephony service provider, with 1,387,700 subscribers to its cable Internet access services and 1,264,900 subscribers to its cable telephony service. In September 2010, Videotron also launched a 4G network to deliver advanced mobile telephony services, including high-speed Internet access, mobile television, and many other functionalities supported by smartphones. As of December 31, 2012, there were 402,600 subscriber connections to Videotron's mobile service. Videotron also includes Videotron Business Solutions, a full-service business telecommunications provider that offers telephony, high-speed data transmission, Internet access, hosting, and cable television services, and Le SuperClub Vidéotron ltée ("Le SuperClub Vidéotron") and its franchise network, which sells and rents DVDs, Blu-ray discs and console games. The Telecommunications segment also includes the activities of two specialty websites, the employment and training site *jobboom.com* and the dating site *reseaucontact.com*.

2012 operating results

Revenues: $2.64 billion, an increase of $204.4 million (8.4%).

- Combined revenues from all cable television services increased $66.7 million (6.6%) to $1.08 billion, due primarily to higher revenue per client resulting from increases in some rates, the impact of migration to digital, leasing of digital set-top boxes, and an increase in subscriptions to HD services.
- Revenues from Internet access services increased $74.3 million (10.6%) to $772.5 million. The favourable variance was mainly due to customer growth and increases in some rates.
- Revenues from cable telephony service increased $18.2 million (4.2%) to $454.9 million, primarily as a result of customer base growth and more lines for business customers.
- Revenues from mobile telephony service increased $58.9 million (52.3%) to $171.6 million, essentially due to customer growth.
- Revenues of Videotron Business Solutions increased $1.8 million (2.9%) to $64.9 million.
- Revenues from customer equipment sales decreased $12.5 million (-22.4%) to $43.4 million, mainly because of campaigns promoting cable television equipment leasing.
- Revenues of Le SuperClub Vidéotron decreased $2.3 million (-10.6%) to $19.3 million, mainly as a result of store closures.
- Other revenues decreased $0.7 million (-2.3%) to $29.2 million.

ARPU: $111.57 in 2012 compared with $103.28 in 2011, an increase of $8.29 (8.0%).

Customer statistics

Revenue generating units – As of December 31, 2012, the total number of revenue generating units stood at 4,917,300, an increase of 221,800 (4.7%) from the end of 2011 (Table 4). In 2011, the number of revenue generating units increased by 379,100. The 2011 figure constituted the largest one-year increase in revenue generating units since 2008, resulting largely from the marketing of bundled services, including mobile telephony, and the end of over-the-air analog television broadcasting. 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 6,500 (-0.3%) in 2012 (Table 4), compared with an increase of 49,900 in 2011. As of December 31, 2012, Videotron had 1,855,000 customers for its cable television services, a household and business penetration rate of 68.7% (number of subscribers as a proportion of the total 2,701,200 homes and businesses passed by Videotron's network as of the end of December 2012, up from 2,657,300 at the end of December 2011), compared with 70.1% a year earlier.

- As of December 31, 2012, the number of subscribers to the illico Digital TV service stood at 1,484,600, a 12-month increase of 83,800 (6.0%), compared with a 181,200-subscriber increase in 2011. As of December 31, 2012, illico Digital TV had a household and business penetration rate of 55.0% versus 52.7% a year earlier.
- The customer base for analog cable television services decreased by 90,300 (-19.6%) in 2012, compared with a decrease of 131,300 customers in 2011, largely as a result of customer migration to illico Digital TV.

Cable Internet access – The number of subscribers to cable Internet access services stood at 1,387,700 at December 31, 2012, an increase of 55,200 (4.1%) from year-end 2011, compared with an increase of 80,400 in 2011 (Table 4)**.** At December 31, 2012, Videotron's cable Internet access services had a household and business penetration rate of 51.4%, compared with 50.1% a year earlier.

Cable telephony service – The number of subscribers to cable telephony service stood at 1,264,900 at December 31, 2012, an increase of 59,600 (4.9%) from year-end 2011, compared with an increase of 91,000 in 2011 (Table 4)**.** At December 31, 2012, the cable telephony service had a household and business penetration rate of 46.8% versus 45.4% a year earlier.

Mobile telephony service – As of December 31, 2012, the number of subscriber connections to the mobile telephony service stood at 402,600, an increase of 112,000 (38.5%) from year-end 2011, compared with an increase of 154,500 connections in 2011 (Table 4).

Table 4
Telecommunications segment year-end customer numbers (2008-2012)
(in thousands of customers)

	2012	2011	2010	2009	2008
Cable television:					
Analog	**370.4**	460.7	592.0	692.9	788.3
Digital	**1,484.6**	1,400.8	1,219.6	1,084.1	927.3
	1,855.0	1,861.5	1,811.6	1,777.0	1,715.6
Cable Internet	**1,387.7**	1,332.5	1,252.1	1,170.6	1,063.8
Cable telephony	**1,264.9**	1,205.3	1,114.3	1,014.0	852.0
Mobile telephony[1]	**402.6**	290.6	136.1	82.8	63.4
Internet over wireless[2]	**7.1**	5.6	2.3	–	–
Total (revenue generating units)	**4,917.3**	4,695.5	4,316.4	4,044.4	3,694.8

1 Thousands of connections
2 Internet over wireless subscriptions have been added to revenue generating units because of recent growth.

Operating income: $1.23 billion, an increase of $126.2 million (11.5%).

- The increase in operating income was mainly due to:
  - impact of higher revenues.

  Partially offset by:
  - increases in some operating expenses, among them network maintenance costs (including the 4G network), customer service costs incurred to support customer base growth, and marketing expenses;
  - $7.5 million increase in stock-based compensation charge.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 53.5% in 2012, compared with 54.8% in 2011.

- 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 increase in some operating costs.

Cash flows from operations

Cash flows from segment operations: $484.3 million in 2012, compared with $306.5 million in 2011 (Table 5).

- The $177.8 million increase was due to the $126.2 million increase in operating income and the $55.7 million decrease in additions to property, plant and equipment, mainly reflecting lower investment in the 4G network and in network modernization, partially offset by the $5.1 million increase in additions to intangible assets.

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

	2012	2011
Operating income	**$ 1,225.0**	$ 1,098.8
Additions to property, plant and equipment	**(669.6)**	(725.3)
Additions to intangible assets	**(78.3)**	(73.2)
Proceeds from disposal of assets	**7.2**	6.2
Cash flows from segment operations	**$ 484.3**	$ 306.5

News Media

In Quebecor Media's News Media segment, Sun Media Corporation operates Canada's largest newspaper chain, counting both paid and free circulation, according to corporate figures. As of December 31, 2012, Sun Media Corporation was publishing 36 paid-circulation dailies and 6 free dailies, including newspapers in 9 of the 10 largest urban markets in the country. It also publishes 229 community weeklies, magazines, weekly buyers' guides, farm publications, and other specialty publications. According to corporate figures, the aggregate circulation of the News Media segment's paid and free newspapers was approximately 14.2 million copies per week as of December 31, 2012. Sun Media Corporation holds a 51% interest in the English-language news and opinion specialty channel SUN News, launched in April 2011 in partnership with TVA Group, which holds 49%.

Sun Media Corporation's newspapers disseminate information in traditional print form as well as through 8 urban daily news portals (*journaldemontreal.com*, *journaldequebec.com*, *ottawasun.com*, *torontosun.com*, *lfpress.com*, *winnipegsun.com*, *edmontonsun.com* and *calgarysun.com*), the portals of nearly 200 community newspapers, free dailies and magazines, as well as specialty information portals. The Canoe network also operates a number of sites, including *canoe.ca*, *canoe.tv* and *lesacplus.ca*, as well as the e-commerce sites *micasa.ca* (real estate), *autonet.ca* (automobiles), *space.canoe.ca* and *espace.canoe.ca* (social networking), *classifiedExtra.ca* (classified ads), and *canoeklix.com* (cost-per-click advertising solutions). The News Media segment's portals log over 10.3 million unique visitors per month in Canada, including 5.1 million in Québec (according to comScore Media Metrix figures for December 2012).

As well, the News Media segment is engaged in the distribution of newspapers, magazines, inserts and flyers through the Quebecor Media Network, among others. The segment also includes the QMI Agency, a news agency that provides content to all Quebecor Media properties and external customers. In addition, the News Media segment offers commercial printing and related services to other publishers through its national printing and production platform, and is also engaged in outdoor advertising through Quebecor Media Out of Home.

2012 operating results

Revenues: $960.0 million, a decrease of $58.4 million (-5.7%).

- Advertising revenues decreased 8.3%; circulation revenues decreased 3.8%; digital revenues increased 0.3%; combined revenues from commercial printing and other sources increased 6.4%, mainly because of higher volume in flyer distribution.
- Revenues decreased 5.8% at the urban dailies and 7.5% at the community newspapers.
- Portal revenues decreased 22.0%. Revenues unrelated to website development decreased 18.4%. Website development has been transferred to the Nurun Inc. subsidiary ("Nurun").

Operating income: $115.1 million, a decrease of $35.0 million (-23.3%).

- The decrease was due primarily to:
  - impact of revenue decrease;
  - unfavourable variance related to investments in Quebecor Media Network;
  - unfavourable impact on 2012 comparative analysis of recognition in 2011 of non-recurring gains on rationalization of postretirement benefits of $5.8 million;
  - $4.0 million unfavourable variance in multimedia employment tax credits;
  - $3.4 million increase in stock-based compensation charge.

  Partially offset by:
  - $30.5 million favourable impact related to restructuring initiatives announced in November 2011 and 2012, and to other reductions in operating expenses.

Cost/revenue ratio: Operating costs for all News Media segment operations, expressed as a percentage of revenues, were 88.0% in 2012 compared with 85.3% in 2011. The increase was due to the unfavourable impact of investments in Quebecor Media Network, the fixed component of operating costs, which does not fluctuate in proportion to revenue decreases, the unfavourable impact on the 2012 comparative analysis of the recognition in 2011 of gains on rationalization of postretirement benefits, multimedia tax credits, and the stock-based compensation charge, partially offset by the favourable impact in 2012 of lower operating expenses.

Cash flows from operations

Cash flows from segment operations: $97.9 million in 2012 compared with $131.2 million in 2011 (Table 6), a decrease of $33.3 million, mainly due to the $35.0 million decrease in operating income.

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

	2012	2011
Operating income	**$ 115.1**	$ 150.1
Additions to property, plant and equipment	**(6.5)**	(13.7)
Additions to intangible assets	**(11.9)**	(10.8)
Proceeds from disposal of assets	**1.2**	5.6
Cash flows from segment operations	**$ 97.9**	$ 131.2

Broadcasting

In the Broadcasting segment, TVA Group operates the largest French-language private television network in North America. TVA Group is the sole owner of 6 of the 10 television stations in the TVA Network and the specialty channels LCN, addik^{TV}, Argent, Prise 2, Yoopa, CASA, Moi&cie (formerly Mlle) and TVA Sports. TVA Group also holds interests in two other TVA Network affiliates and the Évasion specialty channel. As well, TVA Group holds a 49% interest in the English-language news and opinion specialty channel SUN News, launched in April 2011 in partnership with Sun Media Corporation, which holds 51%. TVA Group's TVA Accès division is engaged in commercial production, its TVA Boutiques inc. subsidiary in teleshopping and online shopping, and its TVA Films division in the distribution of films and television programs. The TVA Publications Inc. ("TVA Publications") subsidiary publishes more than 75 general-interest and entertainment magazines spread across more than 20 brands. It is the largest publisher of French-language magazines in Québec. Its TVA Studio division specializes in commercial production for the magazines.

2012 operating results

Revenues: $461.1 million, an increase of $15.6 million (3.5%).

- Revenues from television operations increased $18.9 million, mainly due to:
  - increased subscription revenues at the specialty channels, attributable largely to the TVA Sports, SUN News, LCN, Moi&cie and Yoopa channels.

  Partially offset by:

  - unfavourable variance caused by the sale of TVA Group's interest in the specialty channels mysteryTV and The Cave in the second quarter of 2012.
- Total publishing revenues decreased $3.3 million, mainly because of lower newsstand and advertising revenues.

Operating income: $38.1 million, a decrease of $12.4 million (-24.6%).

- Operating income from television operations decreased $6.7 million, mainly due to:
  - full year of operating costs at TVA Sports in 2012, compared with four months in 2011;
  - $1.9 million increase in stock-based compensation charge.

  Partially offset by:

  - impact of increased advertising and subscription revenues at the specialty channels.
- Operating income from publishing operations decreased by $5.8 million, mainly as a result of:
  - impact of recognition of a $3.4 million charge related to the adoption of new tariffs for 2010, 2011 and 2012 with respect to business contributions for costs related to waste recovery services provided by Québec municipalities, of which $2.3 million is attributable to 2010 and 2011;
  - impact of revenue decrease.

Cost/revenue ratio: Operating costs for all Broadcasting segment operations, expressed as a percentage of revenues, were 91.8% in 2012, compared with 88.7% in 2011. The increase in costs as a proportion of revenues was mainly due to the operating loss at TVA Sports, higher operating expenses at some other specialty channels and recognition of costs related to waste-recovery services.

Cash flows from operations

Cash flows from segment operations: $12.7 million in 2012, compared with $14.2 million in 2011 (Table 7). The $1.5 million decrease was due to the $12.4 million decline in operating income, partially offset by a $10.9 million decrease in additions to property, plant and equipment and additions to intangible assets.

Table 7: Broadcasting
Cash flows from operations
(in millions of Canadian dollars)

	2012	2011
Operating income	**$ 38.1**	$ 50.5
Additions to property, plant and equipment	**(22.1)**	(30.5)
Additions to intangible assets	**(3.3)**	(5.8)
Cash flows from segment operations	**$ 12.7**	$ 14.2

Leisure and Entertainment

The operations of the Leisure and Entertainment segment consist primarily of retail sales of CDs, books, DVDs, Blu-ray discs, musical instruments, games and toys, video games, gift ideas and magazines through the chain of stores operated by Archambault Group and the *archambault.ca* e-commerce site. They also include online sales of downloadable music and e-books; distribution of CDs and videos (Distribution Select); the ZIK music streaming service; distribution of music to Internet download services (Select Digital); music recording and video production (Musicor); recording of live concerts, production of concert videos and television commercials (Les Productions Select TV inc.), and concert promotion (Musicor Spectacles). With Musicor Spectacles and Les Productions Select TV inc., Archambault Group is a fully integrated Canadian music corporation, a producer offering a complete range of media solutions and an increasingly active player in the concerts and cultural events industry.

The Leisure and Entertainment segment is also engaged in the book industry (Book division), specifically academic publishing through CEC Publishing Inc., general literature through 16 publishing houses, and physical and digital distribution through Messageries ADP inc. ("Messageries ADP"), the exclusive distributor for approximately 170 Québec and European French-language publishers. The general literature publishing houses and Messageries ADP are operated under the Sogides Group Inc. umbrella.

The Leisure and Entertainment segment also includes the QMJHL hockey team, Armada de Blainville-Boisbriand, and BlooBuzz Studios LP, a new Québec video game developer created in February 2012.

2012 operating results

Revenues: $292.5 million, a decrease of $20.4 million (-6.5%) compared with 2011.

- Archambault Group's revenues decreased 4.2%, mainly because of:
  - 5.0% decrease in retail sales due to lower sales of CDs, videos and books than in 2011, which included an extra week;
  - 9.3% decrease in distribution revenues reflecting the larger number of successful CD releases in 2011.
- The Book division's revenues decreased by 11.7%, mainly because of lower sales of textbooks in the academic segment following completion of the education reform in Québec and lower revenues from general literature publishing and distribution.

Operating income: $13.1 million, a decrease of $13.5 million (-50.8%) compared with 2011, due primarily to impact of decrease in revenues.

Cash flows from operations

Cash flows from segment operations: $3.2 million in 2012 compared with $18.6 million in 2011 (Table 8).

- The $15.4 million decrease was due to the $13.5 million decrease in operating income and the $1.8 million increase in additions to intangible assets.

Table 8: Leisure and Entertainment
Cash flows from operations
(in millions of Canadian dollars)

	2012	2011
Operating income	**$ 13.1**	$ 26.6
Additions to property, plant and equipment	**(6.3)**	(6.3)
Additions to intangible assets	**(3.6)**	(1.8)
Proceeds from disposal of assets	**–**	0.1
Cash flows from segment operations	**$ 3.2**	$ 18.6

Interactive Technologies and Communications

The Interactive Technologies and Communications segment consists of Nurun, which is engaged in Internet, intranet and extranet development, technological platforms, e-commerce, interactive television, automated publishing solutions, and e-marketing and online customer relationship management strategies and programs. Nurun has offices in North America, Europe and China.

2012 operating results

Revenues: $145.5 million, an increase of $24.6 million (20.3%).

- The increase was mainly due to:
  - impact of acquisition of an interactive advertising agency in the United States in the third quarter of 2011;
  - higher volume from customers in North America, generated by new contracts, among other things;
  - higher volume from government customers.

  Partially offset by:
  - lower volumes in Europe.

Operating income: $9.8 million, an increase of $1.9 million (24.1%). The favourable variance was mainly due to impact of revenue increase, partially offset by higher labour costs related to strategic personnel retention programs and provision for bonuses.

Cash flows from operations

Cash flows from segment operations: $5.6 million in 2012 compared with $3.6 million in 2011 (Table 9).

- The $2.0 million increase was mainly due to the $1.9 million increase in operating income.

Table 9: Interactive Technologies and Communications
Cash flows from operations
(in millions of Canadian dollars)

	2012	2011
Operating income	**$ 9.8**	$ 7.9
Additions to property, plant and equipment	**(4.2)**	(4.3)
Cash flows from segment operations	**$ 5.6**	$ 3.6

2012/2011 FOURTH QUARTER COMPARISON

The fourth quarter of the 2011 financial year contained an additional week in the News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications segments.

Analysis of Consolidated Results of Quebecor

Revenues: $1.14 billion, a decrease of $5.6 million (-0.5%).

- Revenues decreased in News Media ($31.1 million or -11.3% of segment revenues), Leisure and Entertainment ($16.7 million or -15.7%) and Broadcasting ($2.7 million or -2.1%).
- Revenues increased in Telecommunications ($43.5 million or 6.9%).

Operating income: $370.8 million, an increase of $1.6 million (0.4%).

- Operating income increased in Telecommunications ($15.7 million or 5.3% of segment operating income) and Interactive Technologies and Communications ($0.9 million or 36.0%).
- Operating income decreased in News Media ($8.4 million or -17.9%), Broadcasting ($3.4 million or -16.5%), and Leisure and Entertainment ($2.6 million or -34.2%).
- The change in the fair value of Quebecor Media stock options resulted in a $3.1 million unfavourable variance in the consolidated stock-based compensation charge in the fourth quarter of 2012 compared with the same period of 2011. The change in the fair value of Quebecor stock options resulted in a $3.7 million unfavourable variance in the Corporation's consolidated stock-based compensation charge in the fourth quarter of 2012.

Net income attributable to shareholders: $9.2 million ($0.15 per basic share) compared with $85.4 million ($1.34 per basic share) in the fourth quarter of 2011, a decrease of $76.2 million ($1.19 per basic share).

- The unfavourable variance was due primarily to:
  - $126.5 million unfavourable variance in gains and losses on valuation and translation of financial instruments;
  - recognition of a $60.4 million loss on debt refinancing;
  - $29.2 million increase in amortization charge;
  - $17.7 million increase in financial expenses.

  Partially offset by:

  - $10.6 million decrease in charge for restructuring of operations, impairment of assets and other special items.

Adjusted income from continuing operations: $56.0 million in the fourth quarter of 2012 ($0.89 per basic share), compared with $55.6 million ($0.87 per basic share) in the same quarter of 2011, an increase of $0.4 million ($0.02 per basic share).

Amortization charge: $167.4 million compared with $138.2 million in the fourth quarter of 2011, an increase of $29.2 million due essentially to the same factors as those noted above in the 2012/2011 financial year comparison.

Financial expenses: $95.4 million, an increase of $17.7 million, due primarily to higher indebtedness.

Loss on valuation and translation of financial instruments: $44.0 million in the fourth quarter of 2012 compared with an $82.5 million gain in the same period of 2011. The unfavourable variance of $126.5 million was mainly due to an unfavourable change in the fair value of early settlement options caused by interest rate and credit premium fluctuations.

Charge for restructuring of operations, impairment of assets and other special items: $0.6 million in the fourth quarter of 2012 compared with $11.2 million in the same period of 2011, a favourable variance of $10.6 million.

- A $0.3 million net charge reversal was recorded in the News Media segment in the fourth quarter of 2012, compared with an $8.9 million net charge for restructuring of operations recorded in the fourth quarter of 2011, in connection with staff-reduction programs.
- A $0.9 million net charge for restructuring and other special items was recorded in other segments in the fourth quarter of 2012, compared with $2.3 million in the same period of 2011.

Loss on debt refinancing: $60.4 million in the fourth quarter of 2012 compared with nil in the same period of 2011.

- In the fourth quarter of 2012, Quebecor Media redeemed US$320.0 million principal amount of its 7.75% Senior Notes maturing in March 2016. The transaction generated a $60.4 million loss on debt refinancing.

Reversal of income tax expense: $6.3 million in the fourth quarter of 2012 compared with a $60.2 million income tax expense (effective tax rate of 26.8%) in the fourth quarter of 2011.

- The $66.5 million favourable variance was mainly due to:
  - impact of decrease in income before income tax;
  - impact of tax rate mix on various components of gain or loss on valuation and translation of financial instruments.

SEGMENTED ANALYSIS

Telecommunications

Revenues: $678.3 million, an increase of $43.5 million (6.9%), essentially due to the same factors as those noted above in the 2012/2011 financial year comparison.

- Combined revenues from all cable television services increased $12.6 million (4.8%) to $274.3 million.
- Revenues from Internet access services increased $12.4 million (6.8%) to $195.6 million.
- Revenues from cable telephony service increased $4.8 million (4.3%) to $116.3 million.
- Revenues from mobile telephony service increased $13.8 million (40.2%) to $48.1 million.
- Revenues from Videotron Business Solutions decreased $0.4 million (-2.4%) to $16.1 million.
- Revenues from customer equipment sales increased $1.2 million (8.7%) to $15.0 million.
- Revenues of Le SuperClub Vidéotron decreased $0.8 million (-13.3%) to $5.2 million.
- Other revenues decreased $0.1 million (-1.3%) to $7.7 million.

ARPU: $114.02 in fourth quarter 2012, compared with $106.09 in the same period of 2011, an increase of $7.93 (7.5%).

Customer statistics

Revenue generating units – 59,400-unit increase (1.2%) in the fourth quarter of 2012, compared with a 102,200-unit increase in the same period of 2011.

Cable television – 2,100 (0.1%) increase in combined customer base for all cable television services in the fourth quarter of 2012, compared with an increase of 17,300 in the same quarter of 2011.

- illico Digital TV: 26,800 (1.8%) subscriber increase in the fourth quarter of 2012, compared with an increase of 52,700 in the same period of 2011.
- Analog cable TV: 24,700 (-6.3%) subscriber decrease in the fourth quarter of 2012, compared with a decrease of 35,400 in the fourth quarter of 2011.

Cable Internet access – 18,100 (1.3%) increase in the fourth quarter of 2012, compared with an increase of 26,100 in the same period of 2011.

Cable telephony – 15,200 (1.2%) subscriber increase in the fourth quarter of 2012, compared with an increase of 25,900 in the same period of 2011.

Mobile telephony service – 24,300 (6.4%) increase in subscriber connections in the fourth quarter of 2012, compared with an increase of 32,500 in the same period of 2011.

Operating income: $310.4 million, an increase of $15.7 million (5.3%).

- The increase in operating income was mainly due to:
  - impact of higher revenues.

  Partially offset by:
  - increases in some operating expenses, related mainly to customer service costs, network maintenance, and advertising and sponsorship expenses;
  - $1.3 million increase in stock-based compensation charge.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 54.3% in the fourth quarter of 2012 compared with 53.6% in the same period of 2011. The increase was mainly due to certain operating expense increases in the fourth quarter of 2012.

News Media

Revenues: $244.5 million, a decrease of $31.1 million (-11.3%), due in part to the extra week in 2011.

- Advertising revenues decreased 13.8%; circulation revenues decreased 9.1%; combined revenues from commercial printing and other sources decreased 4.3%; digital revenues increased 2.5%.
- Revenues decreased 10.0% at the urban dailies and 13.7% at the community newspapers.
- Portal revenues decreased 25.4% because of lower advertising revenues at the special-interest portals.

Operating income: $38.6 million, a decrease of $8.4 million (-17.9%).

- The decrease was due primarily to:
    - impact of revenue decrease;
    - unfavourable variance related to investments in Quebecor Media Out of Home, which started up in the fourth quarter 2012.

    Partially offset by:

    - $7.7 million favourable impact related to restructuring initiatives announced in November 2011 and 2012, and to other efforts to reduce operating expenses;
    - $2.1 million favourable variance in multimedia employment tax credits.

Cost/revenue ratio: Operating costs for all News Media segment operations, expressed as a percentage of revenues, were 84.2% in the fourth quarter of 2012 compared with 82.9% in the same period of 2011. The increase was mainly due to the unfavourable impact of investments in Quebecor Media Out of Home and to the fixed component of operating costs, which does not fluctuate in proportion to revenue decreases, partially offset by the favourable impact of the reduction in operating costs in 2012.

Broadcasting

Revenues: $128.9 million, a decrease of $2.7 million (-2.1%).

- Revenues from television operations decreased $2.1 million, mainly due to:
    - lower advertising revenues at the TVA Network and the specialty services, due in part to the extra week in 2011;
    - unfavourable variance resulting from the sale by TVA Group of its interest in the specialty channels mysteryTV and The Cave in the second quarter of 2012.

    Partially offset by:

    - increased subscription revenues at the specialty channels, including TVA Sports and LCN.
- Total publishing revenues decreased $0.9 million, mainly because of lower newsstand and advertising revenues.

Operating income: $17.2 million, a decrease of $3.4 million (-16.5%).

- Operating income from television operations decreased by $2.9 million, mainly as a result of the impact of the revenue decrease.
- Operating income from publishing operations decreased by $0.7 million, also due to the impact of lower revenues.

Cost/revenue ratio: Operating costs for all Broadcasting segment operations, expressed as a percentage of revenues, were 86.7% in the fourth quarter of 2012, compared with 84.3% in the same period of 2011. The increase was mainly due to the decrease in revenues at TVA Network, since the fixed component of operating costs does not fluctuate in proportion to revenues.

Leisure and Entertainment

Revenues: $89.5 million, a decrease of $16.7 million (-15.7%) due in part to the extra week in 2011.

- Archambault Group's revenues decreased 15.5%, mainly because of:
  - 8.2% decrease in revenues from retail sales, as well as lower sales of CDs and books;
  - 36.3% decrease in distribution revenues, primarily because of a larger number of successful releases in the fourth quarter of 2011 than in the same period of 2012;
- The Book division's revenues decreased 16.5%, mainly because Messageries ADP distributed fewer books in the fourth quarter of 2012 than in the same period of 2011, in both the mass market and bookstore segments.

Operating income: $5.0 million in the fourth quarter of 2012, a decrease of $2.6 million (-34.2%) compared with the same period of 2011. The unfavourable variance was due primarily to impact of revenue decrease.

Interactive Technologies and Communications

Revenues: $35.8 million, a decrease of $0.2 million (-0.6%).

- The decrease was mainly due to:
  - decrease in volume in Europe.

  Offset by:
  - customer growth in the United States;
  - higher volume from government customers.

Operating income: $3.4 million, an increase of $0.9 million (36.0%). The favourable variance was mainly due to a larger contribution to operating margin from the Montréal operations and to revenue growth in the United States.

2011/2010 FINANCIAL YEAR COMPARISON

The 2011 financial year contained an additional week in the News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications segments.

Analysis of Consolidated Results of Quebecor

Revenue: $4.21 billion, an increase of $206.5 million (5.2%).

- Revenues increased in Telecommunications ($201.9 million or 9.1% of segment revenues), Interactive Technologies and Communications ($22.9 million or 23.4%), Leisure and Entertainment ($10.4 million or 3.4%), and News Media ($3.4 million or 0.3%).
- Revenues decreased in Broadcasting ($2.7 million or -0.6%).
- New activities generated a $29.4 million unfavourable variance in intersegment sales in 2011.

Operating income: $1.34 billion, an increase of $8.3 million (0.6%).

- Operating income increased in Telecommunications ($51.5 million or 4.9% of segment operating income) and Interactive Technologies and Communications ($1.9 million or 31.7%).
- Operating income decreased in News Media ($41.3 million or -21.6%), Broadcasting ($24.4 million or -32.6%), and Leisure and Entertainment ($1.0 million or -3.6%).
- The change in the fair value of Quebecor Media stock options resulted in a $12.8 million favourable variance in the consolidated stock-based compensation charge in 2011 compared with 2010. The fair value of the options decreased in 2011, whereas it increased in 2010. The change in the fair value of Quebecor stock options resulted in a $31.2 million favourable variance in the Corporation's consolidated stock-based compensation charge in 2011.

Net income attributable to shareholders: $201.0 million ($3.14 per basic share) compared with $225.3 million ($3.50 per basic share) in 2010, a decrease of $24.3 million ($0.36 per basic share).

- The decrease was mainly due to:
  - $113.0 million increase in amortization charge.

  Partially offset by:

  - $8.5 million favourable variance in gain on valuation and translation of financial instruments;
  - $8.3 million increase in operating income;
  - $6.9 million decrease in charge for restructuring of operations, impairment of assets and other special items;
  - $5.7 million decrease in loss on debt refinancing.

Adjusted income from continuing operations: $191.5 million in 2011 ($2.99 per basic share) compared with $220.6 million ($3.42 per basic share) in 2010, a decrease of $29.1 million ($0.43 per basic share).

Amortization charge: $512.2 million, a $113.0 million increase essentially due to significant capital expenditures in 2010 and 2011 in the Telecommunications segment, including commencement of amortization of 4G network equipment and licenses following network launch in September 2010, and impact of emphasis on equipment leasing in the promotional strategy.

Financial expenses: $322.9 million, a slight $0.3 million increase.

- Higher base interest rates and the impact of rebalancing fixed- and floating-rate debt on the average interest paid on the debt were offset by the reduction in interest rates on exchangeable debentures Series 2001 and Series Abitibi from 1.5% to 0.1%, as well as the $7.1 million favourable variance in other financial expenses, reflecting a reduction in interest following the settlement of a dispute, among other things.

Gain on valuation and translation of financial instruments: $54.6 million in 2011 compared with $46.1 million in 2010, a favourable variance of $8.5 million.

- The variance was due to a favourable change in the fair value of early settlement options due to interest rate and credit premium fluctuations, and to fluctuations in the ineffective portion of derivative financial instruments.

Charge for restructuring of operations, impairment of assets and other special items: $30.2 million in 2011 compared with $37.1 million in 2010, a favourable variance of $6.9 million.

- In connection with the startup of its 4G network in the third quarter of 2010, the Telecommunications segment recorded a $14.8 million charge for migration costs in 2011, compared with $13.9 million in 2010. In addition, a $0.6 million charge for restructuring of other operations was recorded in 2011, the same as in 2010. A $3.3 million gain on disposal of assets and a $0.2 million charge for impairment of assets were also recorded in the Telecommunications segment in 2010.
- An $11.0 million charge for restructuring of operations was recorded in the News Media segment in 2011 in connection with staff-reduction programs, compared with a $17.9 million charge in 2010. As a result of these initiatives, a $0.8 million non-cash impairment charge on intangible assets was recorded in the segment in 2011, compared with $3.5 million in 2010. In addition, some segment assets were sold in 2010, resulting in a $4.9 million net gain.
- In 2010, the Broadcasting segment decided to terminate programming on its Sun TV conventional television station on the launch of the new SUN News specialty channel. In connection with this repositioning, the Broadcasting segment recognized an $8.2 million asset impairment charge on equipment and broadcast rights in 2010, compared with a $0.7 million asset impairment charge in 2011. In addition, a $0.8 million restructuring charge was recorded in 2011, primarily in connection with staff reductions, compared with $1.4 million in 2010. Finally, the Broadcasting segment recorded a $0.2 million charge for other special items in 2011, compared with a $0.5 million gain on disposal of assets in 2010.
- A $0.2 million net charge for restructuring of operations and other special items was recorded in other segments in 2011, compared with $0.9 million in 2010. A $1.1 million charge for other special items was recorded in 2011, compared with a $0.8 million gain in 2010.

Loss on debt refinancing: $6.6 million in 2011 compared with $12.3 million in 2010.

- On July 18, 2011, Videotron redeemed US$255.0 million principal amount of its issued and outstanding 6.875% Senior Notes maturing in 2014 and settled the related hedges for a total cash consideration of $303.1 million. The transaction generated a $2.7 million gain on debt refinancing.
- On February 15, 2011, Sun Media Corporation redeemed and withdrew the entirety of its 7.625% Senior Notes in the aggregate principal amount of US$205.0 million and settled the related hedges for a total cash consideration of $308.2 million. The transaction generated a $9.3 million loss on debt refinancing.
- On January 14, 2010, Quebecor Media made a US$170.0 million early payment on drawings on its term loan "B" and settled a corresponding portion of the related hedge agreements for a total cash disbursement of $206.7 million. As a result of this transaction, a $10.4 million loss on debt refinancing was charged to income.
- In May 2010, Osprey Media paid down the balance of its term credit facility and settled related hedge agreements for a total cash consideration of $116.3 million. As a result of this transaction, a $1.9 million loss on debt refinancing was charged to income.

Income tax expense: $141.4 million (effective tax rate of 27.0%) in 2011, compared with $151.7 million (effective tax rate of 24.9%) in 2010.

- The $10.3 million favourable variance was due to reduced income before income taxes, partially offset by the impact of a decrease in deferred income tax liabilities recorded in 2010 in light of developments in tax audits, jurisprudence and tax legislation.

CASH FLOWS AND FINANCIAL POSITION

This section provides an analysis of sources and uses of cash flows, as well as an analysis of the financial position as of the balance sheet date. This section should be read in conjunction with the discussions on trends under "Trend Information" above and on the Corporation's financial risks under "Financial Risks" below.

<u>Operating activities</u>

Cash flows provided by operating activities: $1.12 billion in 2012 compared with $866.3 million in 2011.

- The $256.3 million favourable variance was mainly due to:
  - $277.5 million favourable variance in the net change in non-cash balances related to operations, mainly because of favourable variances in income tax liabilities, inventory, accounts payable, accrued charges, and provisions for restructuring of operations and stock-based compensation plans;
  - $126.2 million increase in operating income in the Telecommunications segment.

  Partially offset by:
  - $74.7 million unfavourable variance in current income taxes;
  - operating income decreases in News Media ($35.0 million), Leisure and Entertainment ($13.5 million) and Broadcasting ($12.4 million);
  - $10.0 million increase in cash interest expense.

Profit growth in the Telecommunications segment had a favourable impact on cash flows in 2012. On the other hand, the costs of product and service launches and the negative impact of more aggressive competition and weak market conditions in the News Media and Broadcasting segments had an unfavourable impact on cash flows provided by operating activities. Finally, the deferral of current income taxes of a general partnership created in 2011 had the effect of deferring some income tax expenses.

Working capital: Negative $113.8 million at December 31, 2012 compared with negative $133.3 million at December 31, 2011. The impact of an increase in cash and cash equivalents was more than offset by decreases in accounts receivable, inventory, and income tax receivable, and by increases in accounts payable and accrued charges, provisions, and income tax liabilities.

<u>Investing activities</u>

Additions to property, plant and equipment: $710.6 million in 2012 compared with $781.0 million in 2011. The $70.4 million difference was mainly due to:

- $55.7 million decrease in additions to property, plant and equipment in the Telecommunications segment, mainly because of reduce spending on the 4G network and network modernization;
- $8.4 million decrease in the Broadcasting segment and a $7.2 million decrease in the News Media segment.

Additions to intangible assets: $94.9 million in 2012 compared with $91.6 million in 2011.

Acquisition of non-controlling interests: $1.00 billion in 2012, due to the repurchase in October 2012 of part of the 45.3% interest in Quebecor Media held by CDP Capital (*see* "Financing" above for details of the transaction).

Business acquisitions: $2.0 million in 2012 compared with $55.7 million in 2011, a $53.7 million decrease mainly due to impact of acquisition in 2011 of community newspapers in the News Media segment and of a digital agency in the United States in the Interactive Technologies and Communications segment.

Disposal of businesses: $18.7 million in 2012, mainly reflecting the sale of the Broadcasting segment's interest in the specialty channels mysteryTV and The Cave.

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

Free cash flows from continuing operating activities of the Quebecor Media subsidiary: $345.2 million in 2012 compared with $21.9 million in 2011 (Table 10).

- The $323.3 million increase was essentially due to:
  - o $260.1 million increase in cash flows provided by continuing operating activities;
  - o $70.1 million decrease in additions to property, plant and equipment.

Table 10
Cash flows provided by continuing operating activities of the Quebecor Media subsidiary and free cash flows from continuing operating activities
(in millions of Canadian dollars)

	2012	2011
Operating income:		
Telecommunications	**$ 1,225.0**	$ 1,098.8
News Media	**115.1**	150.1
Broadcasting	**38.1**	50.5
Leisure and Entertainment	**13.1**	26.6
Interactive Technologies and Communications	**9.8**	7.9
Head Office	**4.2**	2.3
	1,405.3	1,336.2
Cash interest expense	**(312.1)**	(298.7)
Cash portion of charge for restructuring of operations, impairment of assets and other special items	**(34.8)**	(28.7)
Current income taxes	**(57.0)**	17.7
Other	**6.2**	(2.1)
Net change in non-cash balances related to operations	**134.7**	(142.2)
Cash flows provided by continuing operating activities	**1,142.3**	882.2
Additions to property, plant and equipment and additions to intangible assets, less proceeds from disposal of assets:		
Telecommunications	**(740.7)**	(792.3)
News Media	**(17.2)**	(18.9)
Broadcasting	**(25.4)**	(36.3)
Leisure and Entertainment	**(9.9)**	(8.0)
Interactive Technologies and Communications	**(4.2)**	(4.3)
Head Office	**0.3**	(0.5)
	(797.1)	(860.3)
Free cash flows from continuing operating activities	**$ 345.2**	$ 21.9

Financing activities

Consolidated debt (long-term debt plus bank borrowings): $724.3 million increase in 2012; $17.6 million favourable net variance in assets and liabilities related to derivative financial instruments.

- Summary of debt increases in 2012:
  - issuance by Videotron on March 14, 2012 of US$800.0 million aggregate principal amount of Senior Notes for net proceeds of $787.6 million, net of financing fees of $11.9 million. The Notes bear 5.0% interest and mature on July 15, 2022;
  - Issuance by Quebecor Media on October 11, 2012 of US$850.0 million aggregate principal amount of Senior Notes bearing interest at 5.75% and maturing in 2023, and $500.0 million aggregate principal amount of Senior Notes bearing interest at 6.625% and maturing in 2023, for total net proceeds of $1.31 billion, net of financing fees of $16.5 million (*see* "Partial repurchase of CDP Capital's interest in Quebecor Media" below).
- Summary of debt reductions in 2012:
  - repayment by Videotron in March 2012 of all of its 6.875% Senior Notes maturing in January 2014 in the aggregate principal amount of US$395.0 million;
  - repayment by Quebecor Media in March, April and November 2012 of US$580.0 million aggregate principal amount of its 7.75% Senior Notes maturing in March 2016;
  - prepayment by Quebecor Media in December 2012 of the outstanding balance on its term loan "B" for a cash consideration of $153.9 million;
  - $195.8 million decrease in debt due to favourable variance in fair value of embedded derivatives, resulting mainly from interest rate and credit premium fluctuations;
  - estimated $53.2 million favourable impact of exchange rate fluctuations. Any decrease in this item is offset by an increase in the liability (or decrease in the asset) related to cross-currency swap agreements entered under "Derivative financial instruments";
  - repayment of $37.6 million balance on Sun Media Corporation's term credit facility on February 3, 2012 and cancellation of the facility;
  - current payments, totalling $47.4 million, on the credit facilities and other debt of TVA Group, Quebecor Media and Videotron.
- Assets and liabilities related to derivative financial instruments totalled a net liability of $262.9 million at December 31, 2012, compared with a net liability of $280.5 million at December 31, 2011. The favourable net variance of $17.6 million was due to:
  - settlement of hedges by Quebecor Media following repayment in March and April 2012 of US$260.0 million aggregate principal amount of its 7.75% Senior Notes;
  - favourable impact of interest rate trends in Canada, compared with the United States, on the fair value of derivative financial instruments.

  Partially offset by:
  - unfavourable impact of exchange rate fluctuations on the value of derivative financial instruments.
- On January 25, 2012, Quebecor Media amended its bank credit facilities to extend the maturity of its $100.0 million revolving credit facility from January 2013 to January 2016 and added a new $200.0 million revolving credit facility "C," also maturing in January 2016. In December 2012, this credit facility was combined with the existing facility for a total amount of $300.0 million.
- On February 24, 2012, TVA Group amended its bank credit facilities to extend the maturity of its $100.0 million revolving credit facility from December 2012 to February 2017.
- On June 4, 2012, Videotron announced a public exchange offer for the exchange of the entirety of its outstanding 5% Senior Notes maturing on July 15, 2022 for an equivalent principal amount of Notes registered pursuant to the *Securities Act of 1933*. The exchange was completed on July 20, 2012.

- On October 10, 2012, the Corporation amended its $150.0 million revolving credit facility to extend the maturity from November 2014 to November 2015 and to modify certain terms and conditions of the facility.
- In September 2011, the Corporation redeemed exchangeable debentures, Series 2001, in the notional principal amount of $135.0 million for nil consideration. At December 31, 2012, the combined notional principal amount of the two series of exchangeable debentures was $844.9 million.
- On July 20, 2011, Videotron amended its $575.0 million revolving credit facility to extend the expiry date from April 2012 to July 2016 and to modify some of the terms and conditions.
- The terms and conditions of the exchangeable debentures, Series 2001 and Series Abitibi, were amended in February and June 2011 respectively to reduce the interest rate from 1.50% to 0.10% on the notional principal amount of the debentures. Other related terms and conditions have not changed and remain applicable.

Partial repurchase of CDP Capital's interest in Quebecor Media

- The Corporation increased its interest in Quebecor Media further to the closing, on October 11, 2012, of the following transactions:
    - o Quebecor Media repurchased 20,351,307 of its common shares held by CDP Capital for an aggregate purchase price of $1.0 billion, paid in cash. All the repurchased shares were cancelled;
    - o Quebecor purchased 10,175,653 common shares of Quebecor Media held by CDP Capital. To evidence the obligation of the Corporation to pay the purchase price of such shares, the Corporation issued to CDP Capital $500.0 million aggregate principal amount of subordinated debentures, which are convertible into Class B Shares of Quebecor ("Convertible Debentures").

  Further to the completion of these transactions, Quebecor's interest in Quebecor Media increased from 54.7% to 75.4% and CDP Capital's interest decreased from 45.3% to 24.6%. The parties' intention in entering into the agreement was to enable the immediate monetization by CDP Capital of a significant portion of its interest in Quebecor Media, while achieving certain fundamental financial objectives of Quebecor and Quebecor Media, such as ensuring that Quebecor and Quebecor Media continue to maintain a sufficient level of operational and financial flexibility, as well as maintain a debt level favourable to the ongoing refinancing of debt maturities. CDP Capital will also have the ability to sell its remaining shares in Quebecor Media on or after January 1, 2019 through, among other things, an initial public offering, thereby completing the monetization of its investment in Quebecor Media.
- To carry out the repurchase of 20,351,307 of its common shares, Quebecor Media was able to take advantage of favourable conditions on the debt markets. The following financial operations were carried out by Quebecor Media as part of this major transaction:
    - o Issuance, on October 11, 2012, of US$850.0 million aggregate principal amount of Senior Notes bearing interest at 5.75% and maturing in 2023, and $500.0 million aggregate principal amount of Senior Notes bearing interest at 6.625% and maturing in 2023, the latter being one of the largest single-tranche high-yield offerings ever completed in Canada;
    - o Quebecor Media increased the size of the offering as a result of oversubscription and favourable financing terms, which provided an opportunity to extend the maturities of its credit instruments by redeeming US$320.0 million in aggregate principal amount of its 7.75% Senior Notes issued in 2007 and maturing in 2016.
- The Convertible Debentures issued on October 11, 2012 bear interest at an annual rate of 4.125% and will mature in October 2018. The main terms and conditions of the debentures are as follows:
    - o Interest is payable semi-annually in cash, in Quebecor Class B Shares or with the proceeds from the sale of Quebecor Class B shares;
    - o At maturity, the Convertible Debentures will be payable in cash by Quebecor at the outstanding principal amount, plus accrued and unpaid interest, subject to redemption, conversion, purchase or prior repayment;
    - o One day prior to maturity, Quebecor may redeem the outstanding Convertible Debentures by issuing that number of Quebecor Class B shares obtained by dividing the outstanding principal amount by the then current market price of a Quebecor Class B share, subject to a floor price of $38.50 per share (that is, a maximum number of 12,987,013 Quebecor Class B shares corresponding to a ratio of $500.0 million to the floor price), and a ceiling price of $48.125 per share (that is, a minimum number of 10,389,610 Quebecor Class B shares corresponding to a ratio of $500.0 million to the ceiling price);

- At any time one day prior to maturity, Quebecor may redeem or convert, in whole or in part, the outstanding Convertible Debentures, subject to the terms of the trust indenture;
- The Convertible Debentures will be convertible, at all times prior to the maturity date, into Quebecor Class B shares by the holder in accordance with the terms of the trust indenture;
- In all cases, Quebecor has the option to pay an amount in cash equal to the market value of the shares that would otherwise have been issued, being the product of (i) the number of Quebecor Class B shares, and (ii) the then current market price of a Quebecor Class B share;
- A registration rights agreement granting demand registration rights and piggyback registration rights to CDP Capital in respect of the Convertible Debentures and the underlying Quebecor Class B Shares was also entered into at closing.

Financial position at December 31, 2012

Net available liquidity: $1.09 billion for Quebecor Media and its wholly owned subsidiaries, consisting of $215.5 million in cash and $874.9 million in available unused lines of credit.

Net available liquidity: $81.8 million for Quebecor at the corporate level, consisting of a $1.3 million bank overdraft and $83.1 million in available unused lines of credit.

Consolidated debt: $4.53 billion at December 31, 2012, a $724.3 million increase; $17.6 million favourable net variance in assets and liabilities related to derivative financial instruments (*see* "Financing Activities" above).

- Consolidated debt essentially consisted of Videotron's $2.13 billion debt ($1.86 billion at December 31, 2011), TVA Group's $74.4 million debt ($96.4 million at December 31, 2011), Quebecor Media's $2.23 billion debt ($1.71 billion at December 31, 2011), and Quebecor's $102.6 million debt ($105.2 million at December 31, 2011). Sun Media Corporation's debt was redeemed in full in the first quarter of 2012 ($37.4 million at December 31, 2011).

At December 31, 2012, minimum principal payments on long-term debt in the coming years were as follows:

Table 11
Minimum principal amount on Quebecor's long-term debt
12 months ending December 31
(in millions of Canadian dollars)

2013	$ 22.2
2014	97.3
2015	263.0
2016	643.4
2017	41.6
2018 and thereafter	3,777.6
Total	**$ 4,845.1**

The weighted average term of Quebecor's consolidated debt was approximately 7.1 years as of December 31, 2012 (5.1 years as of December 31, 2011). The debt consists of approximately 89.7% fixed-rate debt (82.6% at December 31, 2011) and 10.3% floating-rate debt (17.4% at December 31, 2011).

Management of the Corporation believes that cash flows and available sources of financing should be sufficient to cover 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 operating income). At December 31, 2012, the Corporation and its subsidiaries were in compliance with all required financial ratios and restrictive covenants in their financing agreements.

Dividends declared

- On March 13, 2013, the Board of Directors of Quebecor declared a quarterly dividend of $0.05 per share on its Class A Multiple Voting Shares and Class B Shares, payable on April 22, 2013 to shareholders of record at the close of business on March 28, 2013.

Analysis of consolidated balance sheet at December 31, 2012

Table 12
Consolidated balance sheet of Quebecor
Analysis of main variances between December 31, 2012 and 2011
(in millions of Canadian dollars)

	December 31, 2012	December 31, 2011	Difference	Main reasons for difference
Assets				
Cash and cash equivalents	**$ 228.7**	$ 146.4	$ 82.3	Cash flows from operating activities in excess of investing and financing activities
Property, plant and equipment	**3,405.8**	3,211.1	194.7	Additions to property, plant and equipment (*see* "Investing activities" above), less amortization for the period
Intangible assets	**956.7**	1,041.0	(84.3)	Partial write-down of customer relationships and mastheads in the News Media segment and amortization, partially offset by current acquisitions
Goodwill	**3,371.6**	3,543.8	(172.2)	Partial write-down of goodwill in the News Media segment, the Leisure and Entertainment segment's Music division, and the TVA Group's publishing segment
Liabilities				
Long-term debt, including short-term portion and bank indebtedness	**4,531.3**	3,807.0	724.3	*See* "Financing activities"
Other liabilities	**467.1**	344.7	122.4	Recognition of liability and derivative components of convertible debentures on issuance of convertible debentures in October 2012 (*see* "Financing activities")
Derivative financial instruments[1]	**262.9**	280.5	(17.6)	*See* "Financing activities"

[1] Current and long-term liabilities less long-term assets

ADDITIONAL INFORMATION

Contractual Obligations

At December 31, 2012, material contractual obligations of operating activities included: capital repayment and interest on long-term debt; coupon payments on 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 December 31, 2012
(in millions of Canadian dollars)

	Total	Under 1 year	1-3 years	3-5 years	5 years or more
Long-term debt[1]	**$ 4,845.1**	$ 22.2	$ 360.3	$ 685.0	$ 3,777.6
Interest payments[2]	**2,525.6**	318.1	707.6	578.4	921.5
Operating leases	**311.4**	57.5	79.3	52.7	121.9
Additions to property, plant and equipment and other commitments	**318.2**	93.6	104.8	29.6	90.2
Derivative financial instruments[3]	**294.4**	24.7	143.1	40.9	85.7
Coupon payments on convertible debentures	**124.0**	20.8	41.3	41.3	20.6
Total contractual obligations	**$ 8,418.7**	**$ 536.9**	**$ 1,436.4**	**$ 1,427.9**	**$ 5,017.5**

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 Estimated interest payable on long-term debt, based on interest rates, hedging of interest rates and hedging of foreign exchange rates as of December 31, 2012.

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

On October 30, 2012, Quebecor Media signed an agreement to install, maintain and advertise on STM bus shelters for the next 20 years. The agreement includes, among other terms, a commitment from Quebecor Media to pay total royalties of $120.0 million over the 20-year period. This commitment could increase based on future advertising revenues generated by the agreement.

Videotron leases sites for its 4G network and other equipment under operating lease arrangements and has contracted long-term commitments to acquire services and equipment for a total future consideration of $132.2 million. During the year ended December 31, 2012, Videotron renewed or extended several leases and signed new operating lease arrangements.

In the normal course of business, TVA Group contracts commitments regarding broadcast rights for television programs and films, as well as distribution rights for audiovisual content. The outstanding balance on such commitments was $85.7 million at December 31, 2012.

Large quantities of newsprint, paper and ink are among the most important raw materials used by Quebecor Media. During 2012, the total newsprint consumption of its News Media segment's operations was approximately 140,300 metric tonnes. Newsprint accounted for approximately 9.4% ($79.8 million) of the News Media segment's operating expenses for the year ended December 31, 2012. In order to obtain more favourable pricing, Quebecor Media sources substantially all of its newsprint from a single newsprint producer. Quebecor Media currently obtains newsprint from this supplier at a discount to market prices, and receives additional volume rebates for purchases above certain ceiling thresholds. However, there can be no assurance that this supplier will continue to supply newsprint to Quebecor Media on favourable terms or at all.

Pension Plan Contributions

The expected employer contributions to the Corporation's defined benefit pension plans and post-retirement benefit plans will be $57.6 million in 2013 (contributions of $60.3 million were paid in 2012).

Related Party Transactions

During the year ended December 31, 2012, the Corporation and its subsidiaries made purchases and incurred rent charges with affiliated corporations in the amount of $6.2 million ($3.2 million in 2011), which are included in purchase of goods and services. The Corporation and its subsidiaries made sales to affiliated corporations in the amount of $3.8 million ($3.2 million in 2011). These transactions were concluded on terms equivalent to those that prevail on an arm's length basis and were accounted for at the consideration agreed between the parties.

Off-Balance Sheet Arrangements

Guarantees

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

Operating leases

The Corporation has guaranteed a portion of the residual values of certain assets under operating leases for the benefit of the lessor. Should the Corporation terminate these leases prior to term (or at the end of the lease term) and should the fair value of the assets be less than the guaranteed residual value, then the Corporation must, under certain conditions, compensate the lessor for a portion of the shortfall. In addition, the Corporation has provided guarantees to the lessor of certain premises leases with expiry dates through 2017. Should the lessee default under the agreement, the Corporation must, under certain conditions, compensate the lessor. As of December 31, 2012, the maximum exposure with respect to these guarantees was $16.8 million and no liability has been recorded in the consolidated balance sheet. The Corporation has not made any payments relating to these guarantees in prior years.

Business and asset disposals

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

Outsourcing companies and suppliers

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

Capital Stock

In accordance with Canadian financial reporting standards, Table 14 below presents information on the Corporation's capital stock as at February 28, 2013. In addition, 361,632 share options were outstanding as of February 28, 2013.

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

	At February 28, 2013	
	Issued and outstanding	Book value
Class A Shares	19,578,986	$ 8.7
Class B Shares	42,751,096	$ 325.3

On August 9, 2012, the Corporation filed a normal course issuer bid for a maximum of 980,357 Class A shares, representing approximately 5% of the issued and outstanding Class A shares, and for a maximum of 4,351,276 Class B shares, representing approximately 10% of the public float of the Class B shares as of July 31, 2012. Purchases can be made from August 13, 2012 to August 12, 2013 at prevailing market prices, on the open market, through the facilities of the Toronto Stock Exchange. All shares purchased under the bid have been or will be cancelled.

In 2012, the Corporation purchased and cancelled 1,058,800 Class B shares for a total cash consideration of $38.3 million (928,100 Class B shares for a total cash consideration of $30.2 million in 2011). The excess of $30.3 million of the purchase price over the carrying value of Class B shares repurchased was recorded in reduction of retained earnings in 2012 ($23.1 million in 2011).

Risks and Uncertainties

The Corporation operates in the telecommunications and media industries, which entails a variety of risk factors and uncertainties. The Corporation's operating environment and financial results may be materially affected by the risks and uncertainties discussed below. Unless the context otherwise requires, in this section to Quebecor Media refers to Quebecor Media and its subsidiaries.

Competition and technological development

Quebecor Media competes against direct broadcast satellite providers, (or "DBS" also called DTH in Canada for "direct-to-home" satellite), multichannel multipoint distribution systems (or "MDS"), and satellite master antenna television systems. In addition, it competes against incumbent local exchange carriers (or "ILECs"), which have secured licenses to launch video distribution services using video digital subscriber line (or "VDSL") technology (also known as Internet protocol television "IPTV"). The primary ILEC in Quebecor Media's market holds a regional license to provide terrestrial broadcasting distribution in Montréal and several other communities in Québec. The same ILEC recently launched its own IPTV service in Montréal (including part of the greater Montréal area) and Québec City, with a full rollout throughout the Province of Québec expected in the years to come. The direct access to some broadcasters' websites that provide in high definition streaming video-on-demand content is also available for some of the same channels that Quebecor Media offers in its television programming. In addition, third-party Internet access providers (or "TPIAs") could launch IP video services in Quebecor Media's footprint.

Quebecor Media also faces competition from illegal providers of cable television services and illegal access to non-Canadian DBS (also called grey market piracy) as well as from DBS signal theft that enables customers to access programming services from U.S. and Canadian DBSs without paying any fees (also called black market piracy). Competitors in the video business also include the video store industry (rental and sale), as well as other emerging content delivery platforms. Furthermore, "over-the-top" ("OTT") content providers such as Netflix are expected to compete for viewership.

Due to ongoing technological developments, the distinction between traditional platforms (broadcasting, Internet, and telephony) is fading rapidly. For instance, the Internet and distribution over mobile devices are becoming important broadcasting and distribution platforms. In addition, mobile operators, with the development of their respective 4G and Long Term Evolution and Advanced (also known as "LTE-Advanced") networks, are now offering wireless and fixed wireless Internet services. In addition, VoIP telephony service also competes with Internet-based solutions.

In its Internet access business, Quebecor Media competes against other Internet service providers, or ISPs, offering residential and commercial Internet access services as well as WiMAX and open Wi-Fi networks in some cities. In addition, satellite operators such as Xplornet are increasing their existing high-speed Internet access ("HSIA") capabilities with the launch of high-throughput satellites, targeting households in rural and remote locations and claiming future download speeds of up to 25 Mbps. The Canadian Radio-television and Telecommunications Commission ("CRTC") also requires cable and ILEC network providers, including Quebecor Media, to offer wholesale access to its high-speed Internet systems to third-party ISP competitors for the purpose of providing retail Internet access services. These third-party ISP competitors may also provide telephony and networking applications.

Quebecor Media's cable telephony business has numerous competitors, including ILECs, competitive local exchange carriers (or "CLECs"), mobile telephony service operators and other providers of telephony, VoIP and Internet communications, including competitors that are not facilities-based and therefore have a much lower infrastructure cost. In addition, Internet protocol-based products and services are generally subject to downward pricing pressure, lower margins and technological evolution, all of which could have an adverse effect on Quebecor Media's business, prospects and results of operations.

In its mobile telephony business, Quebecor Media competes against a mix of market participants, some of them active in some or all the products it offers, while others offer only mobile telephony services in its market. In addition, users of mobile voice and data systems may find their communications needs satisfied by other current or developing adjunct technologies, such as Wi-Fi, WiMAX, “hotspots” or trunk radio systems, which have the technical capability to handle mobile data communications and mobile telephone calls. There can be no assurance that current or future competitors will not provide network capacity and/or services comparable or superior to those Quebecor Media provides or may in the future provide, or at lower prices, or adapt more quickly to evolving industry trends or changing market requirements, or introduce competing services. For instance, some providers of mobile telephony services (including most of the incumbent carriers as well as at least one other new entrant) have launched lower-cost mobile telephony services in order to acquire additional market share and increase their respective mobile telephony penetration rates in its market.

Also, the Canadian incumbents have started rolling out their LTE-Advanced networks, and this technology is expected to become an industry standard. The cost of implementing, modifying its existing network or competing against future technological innovations may be prohibitive for Quebecor Media, and it may lose customers if it fails to keep pace with these changes or fails to keep pace with surging network capacity demand. Any of these factors could adversely affect Quebecor Media’s ability to operate its mobile business successfully and profitably.

Moreover, Quebecor Media may not be able to compete successfully in the future against existing or potential competitors, and increased competition could have a material adverse effect on its business, prospects, revenues, financial condition and results of operations.

Finally, a few of its competitors are offering special discounts to customers who subscribe to two or more of their services (cable television or IPTV, Internet, residential phone and mobile telephony services). As a result, should Quebecor Media fail to keep existing customers and lose them to such competitors, it may end up losing up to one subscriber for each of its services. This could have an adverse effect on its business, prospects, revenues, financial condition and results of operations.

Roaming agreements

Quebecor Media has entered into roaming agreements with multiple carriers around the world (including Canada, the United States and Europe), and has established worldwide coverage. Its inability to renew or to substitute for these agreements at their respective terms and on acceptable terms may place Quebecor Media at a competitive disadvantage, which could adversely affect its ability to operate its mobile business successfully and profitably.

In addition, various aspects of mobile communications operations, including the ability of mobile providers to enter into interconnection agreements with traditional landline telephone companies and the ability of mobile providers to manage data traffic on their networks, are subject to regulation by the CRTC. Regulations adopted or actions taken by government agencies having jurisdiction over any mobile business that Quebecor Media may develop could adversely affect its mobile business and operations, including actions that could increase competition or costs.

Reputation

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

Limited offer of handsets

Advanced wireless services (“AWS”) in the 2GHz range is a spectrum that has not been broadly used until recently for mobile telephony. While certain mobile-device suppliers offer hardware for AWS technology, there are still only a limited number of AWS handsets on the market, which could reduce Quebecor Media’s ability to compete with competitors offering a broader range of handsets. As a result, the handset portfolio for AWS that Quebecor Media is currently offering does not include certain more popular devices and is not as broad as those of certain other providers. Moreover, most handset manufacturers have reduced the number of stock keeping units in their portfolio. In addition, the handsets available to us are sometimes subject to an exclusivity period which varies in length when they are released to market. If manufacturers continue to offer exclusivity on future products in Canada, this could potentially reduce the number of handsets available to Quebecor Media in the AWS band. Quebecor Media could potentially incur higher customer acquisition costs due to a smaller market for this type of technology and could potentially have a reduced offer of handsets to offer to its customers, which could slow the growth of its customer base and adversely affect its ability to operate its mobile business successfully and competitively.

Capital expenditures

Quebecor Media's strategy of maintaining a leadership position in the suite of products and services it offers and launching new products and services requires capital investments in its network and infrastructure to support growth in its customer base and demands for increased bandwidth capacity and other services. In this regard, Quebecor Media has in the past required substantial capital for the upgrade, expansion and maintenance of its network and the launch and deployment of new or additional services. Quebecor Media expects that additional capital expenditures will be required in the short and medium term in order to expand and maintain its systems and services, including expenditures relating to advancements in Internet access and high-definition television, as well as the cost of infrastructure deployment for its mobile services.

The demand for wireless data services has been growing at unprecedented rates and it is projected that this demand will further accelerate, driven by increases in: levels of broadband penetration, need for personal connectivity and networking, affordability of smartphones and Internet-only devices (e.g., high-usage data devices such as mobile Internet keys, tablets and electronic book readers), multimedia-rich services and applications, wireless competition, and, possibly, unlimited data plans. The anticipated levels of data traffic will represent a growing challenge to the current mobile network's ability to serve this traffic. Quebecor Media may have to acquire additional spectrum, if available on reasonable terms, in order to address this increased demand. The ability to acquire additional spectrum (if needed) is dependent on the timing and the rules established by Industry Canada. If Quebecor Media is not successful in acquiring any additional spectrum needed on reasonable terms, it could have a material adverse effect on its business, prospects and financial condition.

There can be no assurance that Quebecor Media will be able to obtain the funds necessary to finance its capital improvement programs, new strategies and services, or other capital expenditure requirements, whether through cash from operations, additional borrowings, or other sources. If Quebecor Media is unable to generate sufficient funds or obtain additional financing on acceptable terms, it may not be able to implement its business strategies or proceed with the capital expenditures and investments required to maintain its leadership position, and its business, financial condition, results of operations, reputation and prospects could be materially adversely affected. Even if Quebecor Media was able to obtain adequate funding, the period of time required to upgrade its network could have a material adverse effect on its ability to successfully compete in the future. Moreover, additional funds that Quebecor Media invests in its business may not transfer into incremental revenues.

Consumer switch from landline telephony to mobile telephony

The recent trend for mobile substitution or "Cord-Cutting" (subscribers ending their landline telephony services and opting for mobile telephony services only), due to the increasing mobile penetration rate in Canada and to the various unlimited offers launched by mobile operators, could affect the demand for cable telephony services. Quebecor Media may not be successful in converting its existing cable telephony subscriber base to its mobile telephony services, which could have a material adverse effect on its business, financial condition and results of operations.

Competition from alternative technologies

The media industry is experiencing rapid and significant technological change, which has resulted in alternative means of program and content transmission. The continued growth of the Internet has presented alternative content distribution options that compete with traditional media. Furthermore, in each of Quebecor Media's broadcasting markets, industry regulators have authorized DTH, microwave services and VDSL services, and may authorize other alternative methods of transmitting television and other content with improved speed and quality. Quebecor Media may not be able to successfully compete with existing or newly developed alternative technologies, such as IPTV, or it may be required to acquire, develop or integrate new technologies. The cost of the acquisition, development or implementation of new technologies could be significant, and Quebecor Media's ability to fund such implementation may be limited and could have a material adverse effect on its ability to successfully compete in the future. Any such difficulty or inability to compete could have a material adverse effect on its business, reputation, prospects, financial condition, or results of operations.

The continuous technological improvement of the Internet, combined with higher download speeds and cost reductions for customers, may divert a portion of Quebecor Media's existing television subscriber base from its video-on-demand services to the benefit of a new video-over-the-Internet model. While having a positive impact on the demand for its Internet services, video-over-the-Internet could adversely impact the demand for its video-on-demand services.

Successful implementation of business and operating strategies

Quebecor Media's business strategies are based on leveraging an integrated platform of media assets. Its strategies include offering multiplatform advertising solutions, generating and distributing content across a spectrum of media properties and assets, launching and deploying additional value-added products and services, pursuing cross-promotional opportunities, maintaining its advanced broadband network, pursuing enhanced content development to reduce costs, further integrating the operations of its subsidiaries, leveraging geographic clustering, and maximizing customer satisfaction. Quebecor Media may not be able to fully implement these strategies or realize their anticipated results without incurring significant costs, or at all. In addition, its ability to successfully implement these strategies could be adversely affected by a number of factors beyond its control, including operating difficulties, increased ongoing operating costs, regulatory developments, general or local economic conditions, increased competition, technological changes, and other factors described here. While the centralization of certain business operations and processes has the advantage of standardizing practices, thereby reducing costs and increasing its effectiveness, it also represents a risk in itself should a business solution implemented by a centralized office throughout the organization fail to produce the intended results. Quebecor Media may also be required to make capital expenditures or other investments which may affect its ability to implement its business strategies to the extent it is unable to secure additional financing on acceptable terms or generate sufficient funds internally to cover those requirements. Any material failure to implement its strategies could have a material adverse effect on its reputation, business, financial condition, prospects, or results of operations, and on its ability to meet its obligations, including its ability to service its indebtedness.

Rapid growth

Quebecor Media has experienced substantial growth in its business and has significantly expanded its operations in recent years. In the past, Quebecor Media sought, and may in the future seek, to make opportunistic or strategic acquisitions under appropriate conditions to further expand the types of businesses in which it participates, as was the case in its expansion into facilities-based mobile telephony operations. Quebecor Media can provide no assurance that it will be successful in either developing or fulfilling the objectives of any such acquisition or business expansion.

In addition, Quebecor Media's expansion and acquisitions may require it to incur significant costs or to divert significant resources, which may limit its ability to pursue other strategic and business initiatives and which could have an adverse effect on Quebecor Media's business, financial condition, prospects, or results of operations. Furthermore, if Quebecor Media is not successful in managing and integrating any acquired businesses, or if it is required to incur significant or unforeseen costs, its business, results of operations and financial condition could be adversely affected.

Key personnel

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

Competition for advertising, circulation and audiences

Advertising revenue is the primary source of revenues for Quebecor Media's News Media and Broadcasting businesses. Quebecor Media's revenues and operating results in these businesses depend on the relative strength of the economy in its principal News Media and television markets, as well as the strength or weakness of local, regional and national economic factors. These economic factors affect the levels of retail, national and classified News Media advertising revenue, as well as television advertising revenue. Since a significant portion of Quebecor Media's advertising revenue is derived from retail and automotive sector advertisers, weakness in these sectors and in the real estate industry has had, and may continue to have, an adverse impact on the revenues and results of operations of the News Media and Broadcasting businesses. Continuing or deepening softness in the Canadian or U.S. economy could further adversely affect key national advertising revenues.

Advertising revenues in the News Media business are also driven by readership and circulation levels, as well as market demographics, price, service, and advertiser results. Readership and circulation levels tend to depend on the content of the newspaper, service, availability and price. A prolonged decline in readership and circulation levels in Quebecor Media's newspaper business and a lack of audience acceptance of content would have a material effect on the rate and volume of its newspaper advertising revenues (since rates reflect circulation and readership, among other factors), and could also affect its ability to institute circulation price increases for its print products, all of which could have a material adverse effect on its results of operations, financial condition, business and prospects.

The newspaper industry is experiencing structural changes, including the growing availability of free access to media, shifting readership habits, digital transferability, the advent of real-time information, and secular changes in the advertising industry as well as the declining frequency of regular newspaper buying, particularly among young people, who increasingly rely on non-traditional media as a source for news. As a result, competition for advertising spend and circulation revenues comes not only from other newspapers and traditional media but also from digital media technologies, which have introduced a wide variety of media distribution platforms (including, most significantly, the Internet and distribution over wireless devices and e-readers) to readers and advertisers.

While Quebecor Media continues to pursue initiatives to offer value-added advertising solutions to its advertisers and to maintain circulation base, such as investments in the redesign and overhaul of its newspaper websites and the publication of e–editions of a number of its newspapers, it may not be successful in retaining its historical share of advertising revenues or transferring its audiences to its new digital products. The ability of the News Media business to grow and succeed over the long term depends on various factors, including its ability to attract advertisers and readers (including subscribers) to its online sites. New initiatives developed to generate additional revenues from the websites (such as digital platform advertising and/or the paywall revenue model) may not be accepted by users and, consequently, negatively affect online traffic. In addition, Quebecor Media can provide no assurance that it will be able to recover the costs associated with the implementation of these initiatives through increased circulation, advertising and digital revenues.

In broadcasting, the proliferation of cable and satellite channels, progress in mobile and wireless technology, the migration of television audiences to the Internet and the viewing public's increased control over the manner, content and timing of their media consumption through personal video recording devices, have all contributed to the fragmentation of the television viewing audience, and to a more challenging advertising sales environment. For example, the increased availability of personal video recording devices and video programming on the Internet, as well as increased access to various media through mobile devices, have the potential to reduce the viewing of its content through traditional distribution outlets. Some of these new technologies also give consumers greater flexibility to watch programming on a time-delayed or on-demand basis or to fast-forward or skip advertisements within its programming, which may adversely impact the advertising revenues it receives. Delayed viewing and skipped advertising have the potential to become more common as the penetration of personal video recording devices increases and content becomes increasingly available via Internet sources.

If the broadcasting market continues to fragment, Quebecor Media's audience share levels and its advertising revenues, results of operations, financial condition, business and prospects could be materially adversely affected.

Distribution of a wide range of television programming

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

In addition, Quebecor Media's ability to attract and retain cable customers depends, to a certain extent, on its capacity to offer quality content, high definition programming, an appealing variety of programming choices and packages, as well as multiplatform distribution and on-demand content at competitive prices. If the number of specialty channels being offered does not increase at a level and pace comparable to its competitors, if the content offered on such channels does not receive audience acceptance, or if it is unable to offer multiplatform availability, high definition programming and on-demand content, it may have a significant negative impact on revenues from Quebecor Media's cable operations.

Costs, quality and variety of television programming

The most significant costs in television broadcasting are programming and production costs. Increased competition in the television broadcasting industry, developments affecting producers and distributors of programming content, the vertical integration of distributors and broadcasters, changes in viewer preferences and other developments could impact both the availability and the costs of programming content and the costs of production. Future increases or volatility in programming and production costs could adversely affect Quebecor's operating results. Developments in cable, satellite, Internet over wireless or other forms of distribution could also affect both the availability and the cost of programming and production and increase competition for advertising expenditures.

Cost of newsprint

Newsprint, which is the basic raw material used to publish newspapers, has historically been and may continue to be subject to significant price volatility. In 2012, the total newsprint consumption of Quebecor Media's newspaper operations was approximately 140,300 metric tonnes. Newsprint represents its single largest raw material expense and one of its most significant operating costs. Newsprint expense represented approximately 9.4% ($79.8 million) of the News Media segment's operating expenses for the year ended December 31, 2012. Changes in the price of newsprint could significantly affect Quebecor Media's earnings, and volatile or increased newsprint costs have had, and may in the future have, a material adverse effect on its results of operations.

In order to obtain more favourable pricing, Quebecor Media sources substantially all of its newsprint from a single newsprint producer (the "Newsprint Supplier"). Pursuant to the terms of its agreement with its Newsprint Supplier, Quebecor Media obtains newsprint at a discount to market prices, receives additional volume rebates for purchases if certain thresholds are met, and benefits from a ceiling on the unit cost of newsprint. Quebecor Media's agreement with its Newsprint Supplier expires on December 31, 2014 and there can be no assurance that it will be able to renew this agreement or that its Newsprint Supplier will continue to supply newsprint to Quebecor Media on favourable terms or at all after the expiry of the agreement. If Quebecor Media is unable to continue to source newsprint from its Newsprint Supplier on favourable terms, or if Quebecor Media is unable to otherwise source sufficient newsprint on terms acceptable to the corporation, its costs could increase materially, which could materially adversely affect the profitability of its newspaper business and its results of operations. Quebecor Media also relies on its Newsprint Supplier for deliveries of newsprint. The availability of its newsprint supply, and therefore its operations, may be adversely affected by various factors, including labour disruptions affecting its Newsprint Supplier or the cessation of its Newsprint Supplier's operations.

In addition, since newspaper operations are labour intensive and since Quebecor Media's operations are spread across Canada, its newspaper business has a relatively high fixed-cost structure. During periods of economic contraction, its revenues may decrease while certain costs remain fixed, resulting in decreased earnings.

Single clustered network

Quebecor Media provides its digital television, Internet access and cable telephony services through a primary headend and its analog television services through 12 additional regional headends in a single clustered network. Despite available emergency backup or replacement sites, a failure in Quebecor Media's primary headend, including exogenous threats, such as natural disasters, sabotage or terrorism, or dependence on certain external infrastructure providers (such as electricity), could prevent it from delivering some of its products and services throughout its network until Quebecor Media has resolved the failure, which may result in significant customer dissatisfaction, loss of revenues and potential civil litigation.

Dependence on information technology systems

The day-to-day operation of Quebecor Media's business is highly dependent on information technology systems, including those of certain third–party suppliers. An inability to maintain and enhance its existing information technology systems or obtain new systems to accommodate additional customer growth or to support new products and services could have an adverse impact on its ability to acquire new subscribers, retain existing customers, produce accurate and timely billing, generate revenue growth and manage operating expenses, all of which could adversely impact its financial results and position. In addition, although Quebecor Media uses industry standard networks and established information technology security and survivability/disaster recovery practices, a security breach, a disaster, or a violation of Internet security could have a material adverse effect on its reputation, business, prospects, financial condition and results of operations.

Third-party suppliers and providers

Quebecor Media depends on third–party suppliers and providers for certain services, hardware and equipment that are critical to its operations and to network evolution. These materials and services include set-top boxes, mobile telephony handsets and network equipment, cable and telephony modems, servers and routers, fibre-optic cable, telephony switches, inter-city links, support structures, software, the “backbone” telecommunications network for its Internet access and telephony service, and construction services for expansion and upgrades of its cable and mobile networks. These services and equipment are available from a limited number of suppliers and therefore Quebecor Media faces the risks of supplier disruption, including business difficulties, restructuring or supply-chain issues. If no supplier can provide Quebecor Media with the equipment or services that it requires or that comply with evolving Internet and telecommunications standards, or that are compatible with its other equipment and software, its business, financial condition and results of operations could be materially adversely affected. In addition, if Quebecor Media is unable to obtain critical equipment, software, services or other items on a timely basis and at an acceptable cost, its ability to offer its products and services and roll out its advanced services may be delayed, and its business, financial condition and results of operations could be materially adversely affected.

In addition, Quebecor Media obtains significant information through licensing arrangements with content providers. Some providers may seek to increase fees for providing their proprietary content. If Quebecor Media is unable to renegotiate commercially acceptable arrangements with these content providers or to find alternative sources of equivalent content, its News Media operations may be adversely affected.

Strikes and other labour protests

At December 31, 2012, approximately 40% of Quebecor Media’s employees were represented by collective bargaining agreements. Through its subsidiaries, Quebecor Media is currently party to 98 collective bargaining agreements.

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

Pension plan liability

Economic cycles and employee demographics could have a negative impact on the funding of Quebecor Media’s defined benefit pension plans and the related expenditures. There is no guarantee that the expenditures and contributions required to fund these pension plans will not increase in the future and therefore negatively impact its operating results and financial position. Risks related to the funding of defined benefit plans may materialize if a pension plan’s total obligations exceed the total value of its trust fund. Shortfalls may arise due to lower–than–expected returns on investments, changes in the discount rate used to assess the pension plan’s obligations, and actuarial losses. This risk is mitigated by policies and procedures instituted by Quebecor Media and its pension committees to monitor investment risk and pension plan funding. It is also mitigated by the fact that some of Quebecor Media’s defined benefit pension plans are no longer offered to new employees.

Exchange rate fluctuations

Most of the Corporation’s revenues and expenses are denominated in CAN dollars. However, certain expenditures, such as the purchase of set-top boxes and cable modems, mobile devices (handsets) and certain capital expenditures, including certain costs related to the development and maintenance of its mobile network, are paid in U.S. dollars. Also, a substantial portion of its debt is denominated in U.S. dollars, and interest, principal and premium, if any, thereon is payable in U.S. dollars. For the purposes of financial reporting, any change in the value of the CAN dollar against the U.S. dollar during a given financial reporting period would result in a foreign exchange gain or loss on the translation of any unhedged U.S.-dollar-denominated debt into CAN dollars. Consequently, reported earnings and debt could fluctuate materially as a result of foreign-exchange gains or losses. Although the Corporation has entered into transactions to hedge the exchange rate risk with respect to 100% of its U.S.-dollar-denominated debt outstanding at December 31, 2012, and while it intends to enter into such transactions for new U.S.-dollar-denominated debt in the future, these hedging transactions could, under certain circumstances, prove economically ineffective and may not be successful in protecting against exchange rate fluctuations. The Corporation may in the future be required to provide cash and other collateral to secure its obligations with respect to such hedging transactions, or may in the future be unable to enter into such transactions on favorable terms or at all.

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

Environmental laws and regulations

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

Environmental laws and regulations and their interpretation have changed rapidly in recent years and may continue to do so in the future. Quebecor Media's properties, as well as areas surrounding those properties, particularly those in areas of long-term industrial use, may have had historic uses, or may have current uses, in the case of surrounding properties, which may affect its properties and require further study or remedial measures. Quebecor Media cannot provide assurance that all environmental liabilities have been determined, that any prior owner of its properties did not create a material environmental condition not known to Quebecor Media, that a material environmental condition does not otherwise exist on any such property, or that expenditures will not be required to deal with known or unknown contamination.

Concerns about alleged health risks relating to radiofrequency emissions

Some studies have alleged links between radiofrequency emissions from certain wireless devices and cell sites and various health problems or possible interference with electronic medical devices, including hearing aids and pacemakers. All cell sites comply with applicable laws and Quebecor Media relies on its suppliers to ensure that the network equipment and customer equipment supplied meet all applicable safety requirements. While there is no definitive evidence of harmful effects from exposure to radiofrequency emissions when the limits imposed by applicable laws and regulations are complied with, additional studies of radiofrequency emissions are ongoing and Quebecor Media cannot be sure that the results of any such future studies will not demonstrate a link between radiofrequency emissions and health problems.

The current concerns over radiofrequency emissions or perceived health risks of exposure to radiofrequency emissions could lead to additional governmental regulation, diminished use of wireless services, including Videotron's, or expose Quebecor Media to potential litigation. Any of the above could have a material adverse effect on Quebecor Media's business, prospects, revenues, financial condition and results of operations.

Legal disputes

In the normal course of business, Quebecor and its subsidiaries are involved in various legal proceedings and other claims relating to the conduct of their business.

Although, in the opinion of management, the outcome of current pending claims and other litigation is not expected to have a material adverse effect on Quebecor and its subsidiaries' reputation, results of operations, liquidity or financial position, a negative outcome in respect of any such claim or litigation could have such an adverse effect. Moreover, the cost of defending against lawsuits and the diversion of management's attention could be significant.

Government acts and regulations risks

Quebecor Media's operations are subject to extensive government regulation and policy-making in Canada. Laws and regulations govern the issuance, amendment, renewal, transfer, suspension, revocation or ownership of broadcast programming and distribution licenses. With respect to distribution, regulations govern, among other things, the distribution of Canadian and non-Canadian programming services and the maximum fees to be charged to the public in certain circumstances. There are significant restrictions on the ability of non-Canadian entities to own or control broadcasting licenses and telecommunications carriers in Canada, although the federal government recently eliminated the foreign ownership restrictions on telecommunications companies with less than 10% of total Canadian telecommunications market revenues. Quebecor Media's broadcasting distribution and telecommunications operations (including Internet access service) are regulated, respectively, by the *Broadcasting Act* (Canada) and the *Telecommunications Act* (Canada) and regulations thereunder. The CRTC, which administers the *Broadcasting Act* and the *Telecommunications Act*, has the power to grant, amend, suspend, revoke and renew broadcasting licenses, approve certain changes in corporate ownership and control, and make regulations and policies in accordance with the *Broadcasting Act* and the *Telecommunications Act*, subject to certain directions from the federal cabinet.

Quebecor Media's wireless and cable operations are also subject to technical requirements, license conditions and performance standards under the *Radiocommunication Act* (Canada), which is administered by Industry Canada.

In addition, laws relating to communications, data protection, e-commerce, direct marketing and digital advertising and the use of public records have become more prevalent in recent years. Existing and proposed legislation and regulations, including changes to the manner in which such legislation and regulations are interpreted by courts in Canada, the United States and other jurisdictions, may impose limits on the collection and use of certain kinds of information.

Changes to the laws, regulations and policies governing Quebecor Media's operations, the introduction of new laws, regulations, policies or terms of licensing, the issuance of new licenses, including additional spectrum licenses to its competitors or changes in the treatment of the tax deductibility of advertising expenditures could have a material adverse effect on its business (including how it provides products and services), financial condition, prospects and results of operations. In addition, Quebecor Media may incur increased costs in order to comply with existing and newly adopted laws and regulations or pay penalties for any failure to comply. It is difficult to predict in what form laws and regulations will be adopted or how they will be construed by the relevant courts, or the extent to which any changes might adversely affect Quebecor Media.

License renewals

Videotron's AWS licenses were issued in December 2008, for a term of 10 years. At least 2 years before the end of this term, and any subsequent term, Videotron may apply for a renewed license for a term of up to 10 years. AWS license renewal, including whether license fees should apply for a subsequent license term, will be subject to a public consultation process initiated in year eight of the license.

Access to support structures

Quebecor Media requires access to the support structures of hydroelectric and telephone utilities and to municipal rights of way to deploy its cable network. Where access to the structures of telephone utilities cannot be secured, Quebecor Media may apply to the CRTC to obtain a right of access under the *Telecommunications Act* (Canada).

Quebecor Media has entered into comprehensive support structure access agreements with all of the major hydroelectric companies and all of the major telecommunications companies in its service territory. Quebecor Media's agreement with Hydro-Québec, the most significant one, expired in December 2012. Negotiations are under way toward renewing this agreement. An increase in the rates charged by Hydro-Québec could have a significant impact on Videotron's cost structure.

Indebtedness

Quebecor and its subsidiaries currently have a substantial amount of debt and significant interest payment requirements. As at December 31, 2012, Quebecor and its subsidiaries had $4.53 billion of consolidated long-term debt. Quebecor's and its subsidiaries' indebtedness could have significant consequences, including the following:

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

While Quebecor and its subsidiaries are leveraged, their respective debt instruments permit Quebecor and its subsidiaries to incur substantial additional indebtedness in the future.

Restrictive covenants

Quebecor's and its subsidiaries' debt instruments contain a number of operating and financial covenants restricting their ability to, among other things;

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

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

Holding corporation

Quebecor is a holding corporation and a substantial portion of its assets is the capital stock of its subsidiaries. As a holding corporation, Quebecor conducts practically all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, Quebecor's cash flow and ability to service its debt obligations are dependent on the cash flow of existing and future subsidiaries and the distribution of this cash flow to Quebecor, or on loans, advances or other payments made by these entities to the Corporation. The ability of these entities to pay dividends or make loans, advances or payments will depend on their operating results and will be subject to applicable laws and contractual restrictions in the instruments governing their debt.

If the cash flow and earnings of Quebecor's operating subsidiaries and the amount that they are able to distribute to Quebecor as dividends or otherwise is not sufficient, Quebecor may not be able to satisfy its debt obligations. Inability to generate sufficient cash flow to satisfy Quebecor's debt obligations, or to refinance those obligations on commercially reasonable terms, could have a material adverse effect on its business, financial condition, results of operations and prospects.

Ability to refinance

Quebecor and its subsidiaries may be required from time to time to refinance some of their respective existing debt instruments at or prior to their maturity. Quebecor's and its subsidiaries' ability to obtain additional financing to repay such existing debt at maturity will depend on a number of factors, including prevailing market conditions and operating performance. The tightening of credit availability and the challenges affecting global capital markets could also limit their ability to refinance existing maturities. There can be no assurance that any such financing will be available to Quebecor and its subsidiaries on favourable terms or at all.

Volatility and disruptions in capital and credit markets

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

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

Longer-term volatility and continued disruptions in capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives, or failures of significant financial institutions could adversely affect Quebecor's and its subsidiaries' access to the liquidity and affordability of funding needed for their businesses in the longer term. Such disruptions could require Quebecor and its subsidiaries to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for their business needs can be arranged. Continued market disruptions and broader economic challenges may lead to lower demand for certain of Quebecor's and its subsidiaries' products and increased incidences of customers' inability to pay or to timely pay for the services or products they have purchased. Events such as these could adversely impact Quebecor's and its subsidiaries' results of operations, cash flows, financial position and prospects.

Volatility in the price of Quebecor's Class A and Class B Shares

The trading prices of shares of media companies of Quebecor's size can experience price and volume fluctuations. These fluctuations often have been unrelated to, or out of proportion with the operating performance of these companies. The Corporation's stock price has experienced periods of volatility. Broad market fluctuations may also harm its stock price. Any negative change in the public's perception of the prospects of media and telecommunications companies could also depress the stock price, regardless of actual results. In addition to the other risk factors described above and below, factors affecting the trading price of Quebecor's Class A and Class B Shares include:

- economic changes and overall market volatility;
- political uncertainties;
- ariations in operating results;
- hanges to the estimates of the Corporation's operating results or changes in recommendations by any securities analyst that elects to follow its common stock;
- market conditions in the industry, the industries of Quebecor's customers, and the economy as a whole;
- sales of large blocks of the Corporation's shares; and
- changes in accounting principles or changes in interpretations of existing principles, which could affect the Corporation's financial results.

Articles containing certain provisions that could discourage or prevent a takeover

Provisions of the Corporation's articles and bylaws could make it more difficult for a third party to acquire it, even if doing so would be beneficial in the opinion of the holders of Quebecor's Class B Shares. These provisions principally include:

- the multiple voting feature of Quebecor's Class A Shares; and
- the election structure of the Board of Directors, whereby holders of Class A Shares elect 75% of the Corporation's directors, and holders of Class B Shares elect 25%.

The existence of these provisions could have the effect of delaying, preventing or deterring a change of control of Quebecor, could deprive its shareholders of an opportunity to receive a premium for their Class B Shares as part of a sale of Quebecor, and might ultimately affect the market price of its shares.

Interests of holders of Quebecor's Class A Shares that may conflict with the interests of other shareholders

Pierre Karl Péladeau, directly and indirectly, owns substantially all of Quebecor's Class A Shares. The Class B Shares have one vote per share, while the Class A Shares have 10 votes per share on all matters to be voted on by shareholders. As a result, Pierre Karl Péladeau indirectly controls approximately 73% of the combined voting power of the outstanding equity shares, and thereby exercises a controlling influence over the Corporation's business and affairs and has the power to determine or significantly influence all matters submitted to a vote of shareholders, including the election of directors and approval of significant corporate transactions such as amendments to the Corporation's articles, mergers, amalgamations and the sale of all or substantially all of its assets.

The holders of the Class A Shares may also have interests that differ from those of the other shareholders and may vote in a way with which other shareholders disagree and which may be adverse to their interests. This concentration of voting power may have the effect of delaying, preventing or deterring a change of control of Quebecor, could deprive its shareholders of an opportunity to receive a premium for their Class B Shares as part of a sale of Quebecor, and might ultimately affect the market price of its shares.

Risk of an asset impairment charge

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

Financial instruments and financial risk

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

Quebecor and its subsidiaries use a number of financial instruments, mainly cash and cash equivalents, trade receivables, long-term investments, bank indebtedness, trade payables, accrued liabilities, long-term debt and derivative financial instruments. As a result of their use of financial instruments, the Corporation and its subsidiaries are exposed to credit risk, liquidity risk and market risks relating to foreign exchange fluctuations and interest rate fluctuations.

In order to manage its foreign exchange and interest rate risks, the Corporation and its subsidiaries use derivative financial instruments (i) to set in CAN dollars all future payments on debts denominated in U.S. dollars (interest and principal) and certain purchases of inventories and other capital expenditures denominated in a foreign currency, (ii) to achieve a targeted balance of fixed- and floating-rate debts, and (iii) to reverse existing hedging positions 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. The Corporation and its subsidiaries designate their derivative financial instruments either as fair value hedges or cash flow hedges when they qualify for hedge accounting.

Table 15
Description of derivative financial instruments
As of December 31, 2012
(in millions of dollars)

Foreign exchange forward contracts

	CAN dollar average exchange rate per one U.S. dollar	Notional amount sold		Notional amount bought	
Quebecor Media					
2013[1]	0.9871	US$	157.3	$	155.3
2016[2]	1.0154	US$	320.0	$	324.9
Videotron					
Less than 1 year	0.9961	$	87.8	US$	88.1
2014[3]	1.0151	US$	395.0	$	401.0

Cross-currency interest rate swaps

Hedged item	Hedging instrument			
	Period covered	Notional amount	Annual interest rate on notional amount in CAN dollars	CAN dollar exchange rate on interest and capital payments per one U.S. dollar
Quebecor Media				
7.750% Senior Notes due 2016	2007 to 2016	US$ 380.0	7.69%	1.0001
5.750% Senior Notes due 2023[2]	2007 to 2016	US$ 320.0	7.69%	0.9977
7.750% Senior Notes due 2016	2006 to 2016	US$ 265.0	7.39%	1.1597
5.750% Senior Notes due 2023	2016 to 2023	US$ 431.3	7.27%	0.9792
5.750% Senior Notes due 2023	2012 to 2023	US$ 418.7	6.85%	0.9759
No hedged item[1]	2009 to 2013	US$ 109.8	Bankers' acceptances 3 months + 2.22%	1.1625
No hedged item[1]	2006 to 2013	US$ 46.6	6.45%	1.1625
Videotron				
5.000% Senior Notes due 2022[3]	2003 to 2014	US$ 200.0	Bankers' acceptances 3 months + 2.73%	1.3425
5.000% Senior Notes due 2022[3]	2004 to 2014	US$ 60.0	Bankers' acceptances 3 months + 2.80%	1.2000
5.000% Senior Notes due 2022[3]	2003 to 2014	US$ 135.0	7.66%	1.3425
6.375% Senior Notes due 2015	2005 to 2015	US$ 175.0	5.98%	1.1781
9.125% Senior Notes due 2018	2008 to 2018	US$ 455.0	9.65%	1.0210
9.125% Senior Notes due 2018	2009 to 2018	US$ 260.0	9.12%	1.2965
5.000% Senior Notes due 2022	2014 to 2022	US$ 543.1	6.01%	0.9983
5.000% Senior Notes due 2022	2012 to 2022	US$ 256.9	5.81%	1.0016

1 These cross-currency interest rate swaps, maturing in January 2013, were used by the Corporation to hedge the foreign currency exposure under its term loan "B" credit facility that was prepaid in full in December 2012. In conjunction with the prepayment of the term loan "B" and pending the maturity of these swaps in January 2013, the Corporation has entered into US$157.3 million offsetting foreign exchange forward contracts to reverse the hedging position related to the January 17, 2013 notional exchange.

2 The Corporation initially entered into these cross-currency interest rate swaps to hedge the foreign currency risk exposure under its 7.75% Senior Notes due 2016 redeemed in 2012. These swaps are now used to set in CAN dollars all coupon payments through 2016 on US$431.3 million of notional amount under its 5.75% Senior Notes due 2023 issued on October 11, 2012. In conjunction with the repurposing of these swaps, the Corporation has entered into US$320.0 million offsetting foreign exchange forward contracts to reverse the hedging position related to the March 15, 2016 notional exchange.

3 Videotron initially entered into these cross-currency interest rate swaps to hedge the foreign currency risk exposure under its 6.875% Senior Notes due 2014 and redeemed in 2012. These swaps are now used to set in CAN dollars all coupon payments through 2014 on US$543.1 million of notional amount under its 5.00% Senior Notes due 2022 issued on March 14, 2012. In conjunction with the repurposing of these swaps, Videotron has entered into US$395.0 million offsetting foreign exchange forward contracts to reverse the hedging position related to the January 15, 2014 notional exchange.

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 losses (gains) on valuation and translation of financial instruments for 2012 and 2011 are summarized in Table 16.

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

	2012	2011
Gain on embedded derivatives and derivative financial instruments for which hedge accounting is not used	**$ (197.5)**	$ (55.2)
Gain on the ineffective portion of cash flow hedges	**(1.1)**	–
Loss on the ineffective portion of fair value hedges	**0.3**	0.6
Loss on the fair value of derivative component of convertible debentures	**0.8**	–
	$ (197.5)	$ (54.6)

A $33.1 million gain was recorded under “Other comprehensive income” in relation to cash flow hedging relationships in 2012 ($9.5 million loss in 2011).

Fair value of financial instruments

The carrying amount of accounts receivable (classified as loans and receivables), accounts payable, accrued charges and provisions (classified as other liabilities) approximates their fair value since these items will be realized or paid within one year or are due on demand. Other financial instruments classified as loans and receivables or as available for sale are not significant and their carrying value approximates their fair value.

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

The fair value of cash equivalents and bank indebtedness, classified as held for trading and accounted for at their fair value on the consolidated balance sheets, is determined using inputs that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

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 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 recognized as embedded derivatives and derivative component of convertible debentures is determined by option pricing models using market inputs, including volatility and discount factors.

The carrying value and fair value of long term debt, derivative financial instruments and liability and derivative components of convertible debentures as of December 31, 2012 and 2011 are as follows:

Table 17
Fair value of long-term debt and derivative financial instruments
(in millions of Canadian dollars)

	2012		2011	
Asset (liability)	**Carrying value**	**Fair value**	Carrying value	Fair value
Long-term debt[1]	**$ (4,845.1)**	**$ (5,109.1)**	$ (3,953.0)	$ (4,107.4)
Derivative financial instruments[2] :				
Early settlement options	**264.9**	**264.9**	138.0	138.0
Interest rate swaps	**–**	**–**	(0.9)	(0.9)
Foreign exchange forward contracts[3]	**0.1**	**0.1**	3.2	3.2
Cross-currency interest rate swaps[3]	**(263.0)**	**(263.0)**	(282.8)	(282.8)
Liability and derivative components of convertible debentures	**(132.7)**	**(132.7)**	–	–

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 The fair value of derivative financial instruments designated as hedges is a liability position of $168.9 million as of December 31, 2012 ($280.5 million as of December 31, 2011).

3 The value of foreign exchange forward contracts entered into to reverse existing hedging positions is netted from the value of the offset financial instruments.

The estimated sensitivity on income and other comprehensive income, before income tax, of a 100 basis-point variance in the credit default premium used to calculate the fair value of derivative financial instruments as of December 31, 2012, as per the Corporation's valuation models, is as follows:

Increase (decrease)	**Income**	**Other comprehensive income**
Increase of 100 basis points	$ 0.1	$ 2.0
Decrease of 100 basis points	(0.1)	(2.0)

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

Credit risk management

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

In the normal course of business, the Corporation continuously monitors the financial condition of its customers and reviews the credit history of each new customer. As of December 31, 2012, no customer balance represented a significant portion of the Corporation's consolidated trade receivables. The Corporation establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. The allowance for doubtful accounts amounted to $29.6 million as of December 31, 2012 ($30.4 million as of December 31, 2011). As of December 31, 2012, 9.9% of trade receivables were 90 days past their billing date (7.9% as of December 31, 2011).

The following table shows changes to the allowance for doubtful accounts for the years ended December 31, 2012 and 2011:

	2012	2011
Balance as of beginning of year	**$ 30.4**	$ 39.1
Charged to income	**35.0**	20.0
Utilization	**(35.8)**	(28.7)
Balance at end of year	**$ 29.6**	$ 30.4

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

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

Liquidity risk management

Liquidity risk is the risk that the Corporation and its subsidiaries will not be able to meet their financial obligations as they fall due or the risk that those financial obligations will have to be met at excessive cost. The Corporation and its subsidiaries manage this exposure through staggered debt maturities. The weighted average term of the Corporation's consolidated debt was approximately 7.1 years as of December 31, 2012 (5.1 years as of December 31, 2011).

Market risk

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

Foreign currency risk

Most of the Corporation's consolidated revenues and expenses, other than interest expense on U.S.-dollar-denominated debt, purchases of set-top boxes, handsets and cable modems and certain capital expenditures, are received or denominated in CAN dollars. A large portion of the interest, principal and premium, if any, payable on its debt is payable in U.S. dollars. The Corporation and its subsidiaries have entered into transactions to hedge the foreign currency risk exposure on 100% of their U.S.-dollar-denominated debt obligations outstanding as of December 31, 2012, to hedge their exposure on certain purchases of set-top boxes, handsets, cable modems and capital expenditures, and to reverse existing hedging positions through offsetting transactions. Accordingly, the Corporation's sensitivity to variations in foreign exchange rates is economically limited.

The following table summarizes the estimated sensitivity on income and other comprehensive income, before income tax, of a variance of $0.10 in the year-end exchange rate of a CAN dollar per one U.S. dollar as of December 31, 2012:

Increase (decrease)	**Income**	**Other comprehensive income**
Increase of $0.10		
U.S- dollar-denominated accounts payable	**$ (0.7)**	**$ –**
Gain on valuation and translation of financial instruments and derivative financial instruments	**1.0**	**79.6**
Decrease of $0.10		
U.S.-dollar-denominated accounts payable	**0.7**	**–**
Gain on valuation and translation of financial instruments and derivative financial instruments	**(1.0)**	**(79.6)**

Interest rate risk

Some of the Corporation’s and its subsidiaries’ revolving and bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers’ acceptance rate, (ii) Canadian London Interbank Offered Rate (“LIBOR”), (iii) U.S. LIBOR, (iv) Canadian prime rate, and (v) U.S. prime rate. The Senior Notes issued by the Corporation and its subsidiaries bear interest at fixed rates. The Corporation and its subsidiaries have entered into various interest rate and cross-currency interest rate swap agreements in order to manage cash flow and fair value risk exposure due to changes in interest rates. As of December 31, 2012, after taking into account the hedging instruments, long-term debt was comprised of 89.7% fixed-rate debt (82.6% in 2011) and 10.3% floating-rate debt (17.4% in 2011).

The estimated sensitivity on interest payments of a 100 basis-point variance in the year-end Canadian Bankers’ acceptance rate as of December 31, 2012 is $5.1 million.

The estimated sensitivity on income and other comprehensive income, before income tax, of a 100 basis-point variance in the discount rate used to calculate the fair value of financial instruments as of December 31, 2012, as per the Corporation’s valuation models, is as follows:

Increase (decrease)	**Income**	**Other comprehensive income**
Increase of 100 basis points	$ 0.1	$ 2.0
Decrease of 100 basis points	(0.1)	(2.0)

Capital management

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

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

The Corporation’s capital structure is composed of equity, bank indebtedness, long-term debt, net assets and liabilities related to derivative financial instruments, and liability and derivative components of convertible debentures, less cash and cash equivalents. The capital structure is as follows:

Table 18
Capital structure of Quebecor
(in millions of Canadian dollars)

	2012	2011
Bank indebtedness	**$ 1.3**	$ 4.2
Long-term debt	**4,530.0**	3,802.8
Derivative financial instruments	**262.9**	280.5
Liability and derivative components of convertible debentures	**132.7**	–
Cash and cash equivalents	**(228.7)**	(146.7)
Net liabilities	**4,698.2**	3,940.8
Equity	**$ 1,942.8**	$ 2,870.6

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

Contingencies

In February 2012, a settlement was reached in legal proceedings against some of the Corporation's subsidiaries, initiated by another company in relation to printing contracts, including the cancellation of printing contracts. The settlement will have no material impact on the Corporation's financial statements.

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

Critical Accounting Policies and Estimates

Revenue recognition

The Corporation recognizes operating revenues when the following criteria are met:

- the amount of revenue can be measured reliably;
- the receipt of economic benefits associated with the transaction is probable;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably;
- the stage of completion can be measured reliably where services have been rendered; and
- significant risks and rewards of ownership, including effective control, have been transferred to the buyer where goods have been sold.

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

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

Telecommunications

The Telecommunications segment provides services under arrangements with multiple deliverables, for which there are two separate accounting units: one for subscriber services (cable television, Internet, cable telephony or mobile telephony, including connection costs and rental of equipment); the other for equipment sales to subscribers. Components of multiple deliverable arrangements are separately accounted for, provided the delivered elements have stand-alone value to the customer and the fair value of any undelivered elements can be objectively and reliably determined. Arrangement consideration is allocated among the separate accounting units based on their relative fair values.

Cable connection revenues are deferred and recognized as revenues over the estimated average period that subscribers are expected to remain connected to the network. The incremental and direct costs related to cable connection costs, in an amount not exceeding the revenue, are deferred and recognized as an operating expense over the same period. The excess of those costs over the related revenues is recognized immediately in income. Operating revenues from cable and other services, such as Internet access, cable and mobile telephony, are recognized when services are rendered. Promotional offers and rebates are accounted for as a reduction in the service revenue to which they relate. Revenues from equipment sales to subscribers and their costs are recognized in income when the equipment is delivered. Promotional offers related to equipment, with the exclusion of mobile devices, are accounted for as a reduction of related equipment sales on delivery while promotional offers related to the sale of mobile devices are accounted for as a reduction of related equipment sales on activation. Operating revenues related to service contracts are recognized in income over the life of the specific contracts on a straight-line basis over the period in which the services are provided.

News Media

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

Broadcasting

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

Revenues derived from the distribution of televisual products and movies and from television program rights are recognized over the broadcasting period or over the viewing period in theatres based on a percentage of revenues generated, when exploitation, exhibition or sale can commence, and the license period of the arrangement has begun.

Revenues generated from the distribution of DVD and Blu-ray units are recognized at the time of their delivery, less a provision for estimated returns, or are accounted for based on a percentage of retail sales.

Leisure and Entertainment

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

Impairment of assets

For the purposes of assessing impairment, assets are grouped in CGUs, which represent the lowest levels for which there are separately identifiable cash inflows generated by those assets. The Corporation reviews at each balance sheet date whether events or circumstances have occurred to indicate that the carrying amounts of its long-lived assets with finite useful lives may be less than their recoverable amounts. Goodwill, other intangible assets having an indefinite useful life, and intangible assets not yet available for use are tested for impairment on April 1 of each financial year, as well as whenever there is an indication that the carrying amount of the asset or the CGU, to which an asset has been allocated, exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or the CGU. Fair value less costs to sell represents the amount an entity could obtain at the valuation date from the asset's disposal in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use represents the present value of the future cash flows expected to be derived from the asset or the CGU.

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

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

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

The determination of CGUs requires judgment when determining the lowest level for which there are separately identifiable cash inflows generated by the asset category.

In addition, when determining the fair value less costs to sell of an asset or CGU, assessment of the information available at the valuation date is based on management's judgment and may involve estimates and assumptions. Furthermore, the discounted cash flow method used in determining the value in use of an asset or CGU relies on the use of estimates such as the amount and timing of cash flows, expected variations in the amount or timing of those cash flows, the time value of money as represented by the risk-free rate, and the risk premium associated with the asset or CGU.

Therefore, the judgment used in determining the recoverable amount of an asset or CGU may affect the amount of the impairment loss to an asset or CGU to be recorded, as well as the potential reversal of the impairment charge in the future.

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

The net book value of goodwill as at December 31, 2012 was $3.37 billion, and the net book value of intangible assets with indefinite useful lives as at December 31, 2012 was $148.2 million.

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

Derivative financial instruments that do not qualify for hedge accounting, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, such as early settlement options on long-term debt, are reported on a fair value basis in the consolidated balance sheets. Any change in the fair value of these derivative financial instruments is recorded in income as a gain or loss on valuation and translation of financial instruments.

Early settlement options are not considered closely related to their debt contract and are accordingly accounted for separately from the debt when the corresponding option exercise price is not approximately equal to the amortized cost of the debt.

The judgment used in determining the fair value of derivative financial instruments including embedded derivatives, using valuation and pricing models, may have a significant effect on the value of the gain or loss on valuation and translation of financial instruments recorded in the consolidated statements of income, and the value of the gain or loss on derivative financial instruments reported in the consolidated statements of comprehensive income. Also, valuation and financial models are based on a number of assumptions, including future cash flows, period-end swap rates, foreign exchange rates, credit default premium, volatility and discount factors.

In addition, judgment is required to determine if an option exercise price is not approximately equal to the amortized cost of the debt. This determination may have a significant impact on the amount of gains or losses on valuation and translation of financial instruments recorded in the consolidated statements of income.

Convertible debentures

In accordance with the substance of the contractual arrangement, convertible debentures are compound financial instruments which are accounted for separately into their components: a financial liability, a derivative financial liability, and an equity instrument. The financial liability, which represents the obligation to pay coupons on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The derivative financial liability, which represents the potential change in the number of Class B shares to be issued according to the contractual arrangement when the price of a share fluctuates between $38.50 and $48.125, is measured at fair value, and any subsequent change in the fair value is recorded in income as a gain or loss on valuation and translation of financial instruments. At issuance, any residual amount is accounted for as an equity instrument.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance date and the subsequent recognition of interest on the liability component and of changes in fair value on the derivative financial liability component.

Determination of the fair value of the liability and derivative components is also based on a number of assumptions, including contractual future cash flows and volatility and discount factors.

Pension and postretirement benefits

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

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

Actuarial gains and losses are recognized immediately through other comprehensive income and in retained earnings. Actuarial gains and losses arise from the difference between the actual rate of return on plan assets for a given period and the expected rate of return on plan assets for that period, experience adjustments on liabilities, or changes in actuarial assumptions used to determine the defined benefit obligation.

The recognition of the net benefit asset is limited under certain circumstances to the amount recoverable, which is primarily based on the extent to which the Corporation can unilaterally reduce future contributions to the plan. In addition, an adjustment to the net benefit asset or the net benefit obligation can be recorded to reflect a minimum funding liability in a certain number of the Corporation’s pension plans. Changes in the net benefit asset limit or in the minimum funding liability are recognized immediately in other comprehensive income and in retained earnings. The assessment of the amount recoverable in the future, for the purpose of calculating the limit on the net benefit asset, is based on a number of assumptions, including future service costs and reductions in future plan contributions.

As an alternative to the recognition policy in other comprehensive income chosen by the Corporation, an accounting policy might have been adopted, applicable to all defined benefit plans, whereby actuarial gains and losses, as well as changes in the net benefit asset limit or in the minimum funding adjustment, are recognized immediately in income or expense as they occur. The Corporation might have also elected as an accounting policy choice to account for actuarial gains and losses using the corridor method, as permitted under IFRS.

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

Stock-based compensation

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

Estimates of the fair value of stock option awards are determined by applying an option-pricing model, taking into account the terms and conditions of the grant and assumptions such as the risk-free interest rate, the dividend yield, the expected volatility and the expected remaining life of the option.

The judgment and assumptions used in determining the fair value of liability classified stock-based awards may have an effect on the compensation cost recorded in the statements of income.

Provisions

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

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

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

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

Allowance for doubtful accounts

The Corporation maintains an allowance for doubtful accounts to cover anticipated losses from customers who are unable to pay their debts. The allowance is reviewed periodically and is based on an analysis of specific significant accounts outstanding, the age of the receivable, customer creditworthiness, and historical collection experience.

Business combinations

A business combination is accounted for by the acquisition method. The cost of an acquisition is measured at the fair value of the consideration given in exchange for control of the business acquired at the acquisition date. This consideration can be comprised of cash, assets transferred, financial instruments issued, or future contingent payments. The identifiable assets and liabilities of the business acquired are recognized at their fair value at the acquisition date. The excess of the purchase price over the sum of the values ascribed to the acquired assets and assumed liabilities is recorded as goodwill. The judgments made in determining the estimated fair value and the expected useful life of each acquired asset, and the estimated fair value of each assumed liability, can significantly impact net income, because, among other things, of the impact of the useful lives of the acquired assets, which may vary from projections. Also, future income taxes on temporary differences between the book and tax value of most of the assets are recorded in the purchase price equation, while no future income taxes are recorded on the difference between the book value and the tax value of goodwill. Consequently, to the extent that greater value is ascribed to long-lived than to shorter-lived assets under the acquisition method, less amortization may be recorded in a given period.

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

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

Income taxes

Deferred income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to an amount that is more likely than not to be realized.

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

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

Recent Accounting Pronouncements

Unless otherwise indicated, based on current facts and circumstances, the Corporation does not expect to be materially affected by the application of the following standards.

(i) *IFRS 9 – Financial Instruments* is required to be applied retrospectively for periods beginning January 1, 2015, with early adoption permitted.

IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides a fair value option in the designation of a non-derivative financial liability and its related classification and measurement.

(ii) *IFRS 10 – Consolidated Financial Statements* is required to be applied retrospectively for periods beginning January 1, 2013, with early adoption permitted.

IFRS 10 replaces SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements* and provides additional guidance regarding the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent corporation.

(iii) *IFRS 11 – Joint Arrangements* is required to be applied retrospectively for periods beginning January 1, 2013, with early adoption permitted.

IFRS 11 replaces IAS 31, *Interests in Joint Ventures*, with guidance that focuses on the rights and obligations of the arrangement, rather than its legal form. It also withdraws the option to proportionately consolidate an entity's interests in joint ventures. The new standard requires that such interests be recognized using the equity method.

(iv) *IFRS 12 – Disclosure of Interests in Other Entities* is required to be applied retrospectively for periods beginning January 1, 2013, with early adoption permitted.

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities, and other off-balance sheet vehicles.

(v) *IAS 19 – Post-employment Benefits (including Pensions) (Amended)* is required to be applied retrospectively for periods beginning January 1, 2013.

Amendments to IAS 19 involve, among other changes, the immediate recognition of the re-measurement component in other comprehensive income, thereby removing the accounting option previously available in IAS 19 to recognize or to defer recognition of changes in defined benefit obligations and in the fair value of plan assets directly in the consolidated statements of income. IAS 19 allows amounts recorded in other comprehensive income to be recognized either immediately in retained earnings or as a separate category within equity. IAS 19 also introduces a net interest approach that replaces the expected return on assets and interest costs on the defined benefit obligation with a single net interest component determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation. In addition, all past service costs are required to be recognized in profit or loss when the employee benefit plan is amended and no longer spread over any future service period.

The adoption of the amended standard will have the following impacts will have the following impacts on years ended December 31:

Consolidated statements of income

Increase (decrease)	**2012**	2011
Employee costs	**$ 3.8**	$ 2.1
Net interest cost on defined benefit plans	**12.9**	10.5
Income tax expense	**(4.5)**	(3.4)
Net income	**$ (12.2)**	$ (9.2)
Net income attributable to:		
Shareholders	**$ (6.6)**	$ (4.6)
Non-controlling interests	**(5.6)**	(4.6)

Consolidated statements of comprehensive income

Increase (decrease)	**2012**	2011
Net income	**$ (12.2)**	$ (9.2)
Actuarial loss	**(18.3)**	(14.2)
Deferred income taxes related to actuarial loss	**4.9**	3.8
Comprehensive income	**$ 1.2**	$ 1.2
Comprehensive income attributable to:		
Shareholders	**$ 2.3**	$ 0.4
Non-controlling interests	**(1.1)**	0.8

Controls and Procedures

In accordance with Regulation 52-109 on Certification of Disclosure in Issuers' Annual and Interim Filings, the effectiveness of the Corporation's disclosure controls and procedures ("DCP") and "Internal control over financial reporting" ("ICFR") has been evaluated. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that DCP and ICFR were effective as of the end of the financial year ended December 31, 2012. The design of DCP therefore provides reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Corporation in its annual, interim and other reports, which it files or releases in accordance with securities laws, is recorded, processed, summarized and reported within the time periods specified under those laws. Moreover, the design of ICFR provides reasonable assurance of the reliability of the Corporation's financial reporting and of the preparation of its financial statements, for the purpose of financial reporting, in accordance with the Corporation's IFRS.

Finally, no change to ICFR that has had or is liable to have a material effect was identified by management during the financial period beginning October 1, 2012 and ending December 31, 2012.

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 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 licenses 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 this document.

The forward-looking statements in this Management Discussion and Analysis reflect the Corporation's expectations as of March 14, 2013, and are subject to change after that date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

Montréal, Québec

March 14, 2013

QUEBECOR INC. AND ITS SUBSIDIARIES
SELECTED FINANCIAL DATA

Years ended December 31, 2012, 2011 and 2010
(in millions of Canadian dollars, except per share data)

	2012	2011	2010
Operations			
Revenues	**$ 4,351.8**	$ 4,206.6	$ 4,000.1
Operating income	**1,403.6**	1,341.7	1,333.4
Contribution to net income attributable to shareholders:			
Continuing operations	**196.1**	191.5	220.6
Gain on valuation and translation of financial instruments	**75.4**	20.6	20.8
Unusual items	**(103.8)**	(11.1)	(16.1)
Net income attributable to shareholders	**167.7**	201.0	225.3
Cash flows provided by continuing operating activities	**1,122.6**	866.3	809.9
Basic per share data			
Contribution to net income attributable to shareholders:			
Continuing operations	**$ 3.10**	$ 2.99	$ 3.42
Gain on valuation and translation of financial instruments	**1.19**	0.32	0.32
Unusual items	**(1.64)**	(0.17)	(0.24)
Net income attributable to shareholders	**2.65**	3.14	3.50
Dividends	**0.20**	0.20	0.20
Equity attributable to shareholders	**20.76**	22.28	20.29
Weighted average number of shares outstanding (in millions)	**63.2**	64.0	64.3
Diluted per share data			
Contribution to net income attributable to shareholders:			
Continuing operations	**$ 2.99**	$ 2.96	$ 3.36
Gain on valuation and translation of financial instruments	**1.14**	0.32	0.32
Unusual items	**(1.57)**	(0.17)	(0.24)
Net income attributable to shareholders	**2.56**	3.11	3.44
Diluted weighted average number of shares (in millions)	**66.1**	64.4	65.1
Financial position			
Working capital	**$ (113.8)**	$ (133.3)	$ (44.9)
Long-term debt	**4,507.8**	3,688.3	3,587.3
Equity attributable to shareholders	**1,311.8**	1,426.2	1,304.8
Equity	**1,942.8**	2,870.6	2,651.7
Total assets	**9,007.8**	9,038.8	8,616.1

QUEBECOR INC. AND ITS SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL DATA

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

				2012				2011
	Dec. 31	**Sept. 30**	**June 30**	**March 31**	Dec. 31	Sept. 30	June 30	March 31
Operations								
Revenues	**$ 1,142.3**	**$ 1,059.1**	**$ 1,086.4**	**$ 1,064.0**	$ 1,147.9	$ 1,014.8	$ 1,053.4	$ 990.5
Operating income	**370.8**	**352.8**	**357.8**	**322.2**	369.2	319.7	358.5	294.3
Contribution to net income attributable to shareholders:								
Continuing operations	**56.0**	**52.1**	**48.7**	**39.3**	55.6	40.0	60.0	35.9
Gain (loss) on valuation and translation of financial instruments	**(22.3)**	**47.5**	**16.1**	**34.1**	34.0	(16.3)	(2.3)	5.2
Unusual items	**(24.5)**	**(81.0)**	**2.2**	**(0.5)**	(4.2)	2.4	(2.5)	(6.8)
Net income attributable to shareholders	**9.2**	**18.6**	**67.0**	**72.9**	85.4	26.1	55.2	34.3
Basic per share data								
Contribution to net income attributable to shareholders:								
Continuing operations	**$ 0.89**	**$ 0.83**	**$ 0.77**	**$ 0.62**	$ 0.87	$ 0.63	$ 0.93	$ 0.56
Gain (loss) on valuation and translation of financial instruments	**(0.35)**	**0.75**	**0.25**	**0.54**	0.53	(0.26)	(0.03)	0.08
Unusual items	**(0.39)**	**(1.28)**	**0.03**	**(0.01)**	(0.06)	0.04	(0.04)	(0.11)
Net income attributable to shareholders	**0.15**	**0.30**	**1.05**	**1.15**	1.34	0.41	0.86	0.53
Weighted average number of shares outstanding (in millions)	**62.7**	**63.1**	**63.5**	**63.5**	63.5	63.9	64.3	64.3
Diluted per share data								
Contribution to net income attributable to shareholders:								
Continuing operations	**$ 0.78**	**$ 0.83**	**$ 0.77**	**$ 0.61**	$ 0.87	$ 0.62	$ 0.92	$ 0.55
Gain (loss) on valuation and translation of financial instruments	**(0.30)**	**0.75**	**0.25**	**0.54**	0.53	(0.26)	(0.03)	0.08
Unusual items	**(0.33)**	**(1.28)**	**0.03**	**(0.01)**	(0.06)	0.04	(0.04)	(0.11)
Net income attributable to shareholders	**0.15**	**0.30**	**1.05**	**1.14**	1.34	0.40	0.85	0.52
Weighted average number of diluted shares outstanding (in millions)	**74.3**	**63.2**	**63.6**	**63.7**	63.8	64.5	65.0	65.0