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

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**FORM 20-F**

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_
- OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

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

Commission file number 033-51000

**VIDEOTRON LTD. / VIDÉOTRON LTÉE**

(Exact name of Registrant as specified in its charter)

**Province of Québec, Canada**  
(Jurisdiction of incorporation or organization)

**612 St. Jacques Street**  
**Montréal, Québec, Canada H3C 4M8**  
(Address of principal executive offices)

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

Title of each class

None

Name of each exchange on which registered

None

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

**None**  
(Title of Class)

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

**5% Senior Notes due July 15, 2022**  
(Title of Class)

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

**172,516,829 Class "A" Common Shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP  International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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## EXPLANATORY NOTES

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

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

All references in this annual report to our “Senior Notes” are to, collectively, our issued and outstanding 6<sup>7/8</sup>% Senior Notes due July 15, 2021, our 5% Senior Notes due July 15, 2022, our 5<sup>3/8</sup>% Senior Notes due June 15, 2024, our 5<sup>5/8</sup>% Senior Notes due June 15, 2025 and our 5<sup>3/4</sup>% Senior Notes due January 15, 2026.

## INDUSTRY AND MARKET DATA

Industry statistics and market data used throughout this annual report were obtained from internal surveys, market research, publicly available information and industry publications, including the CRTC and Numeris. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of this information is not guaranteed. Cable penetration and market share data contained in this annual report is generally based on sources published in the first quarter of 2016. Industry and company data is approximate and may reflect rounding in certain cases.

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

## PRESENTATION OF FINANCIAL INFORMATION

### *IFRS and Functional Currency*

Our audited consolidated financial statements for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

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

### *Non-IFRS Measures*

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

We provide a definition of adjusted operating income, adjusted operating income margin and average monthly revenue per user (“ARPU”) under “Item 5. Operating and Financial Review and Prospects – Non-IFRS Financial Measures” and “Item 5. Operating and Financial Review and Prospects – Key Performance Indicator”. We also provide a definition of adjusted operating income, a reconciliation of adjusted operating income and a reconciliation of long-term debt, excluding QMI subordinated loans to the most directly comparable financial measures under IFRS in footnotes 4 and 5 to the tables under “Item 3. Key Information – A. Selected Financial Data”. We also provide a definition of ARPU in footnote 12 to the tables under “Item 3. Key Information – A. Selected Financial Data”.

Unless otherwise indicated, information provided in this annual report, including all operating data presented, is as of December 31, 2015.

### EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, the average, high, low and end of period noon rates published by the Bank of Canada. Such rates are presented as U.S. dollars per CAN\$1.00. On March 17, 2016, the noon rate was CAN\$1.00 equals US\$0.7702. We do not make any representation that Canadian dollars could have been converted into U.S. dollars at the rates shown or at any other rate. You should note that the rates set forth below may differ from the actual rates used in our accounting processes and in the preparation of our consolidated financial statements.

<u>Year Ended:</u>	<u>Average<sup>(1)</sup></u>	<u>High</u>	<u>Low</u>	<u>Period End</u>
December 31, 2015	0.7820	0.8527	0.7148	0.7225
December 31, 2014	0.9054	0.9422	0.8589	0.8620
December 31, 2013	0.9710	1.0164	0.9348	0.9402
December 31, 2012	1.0004	1.0299	0.9599	1.0051
December 31, 2011	1.0111	1.0583	0.9430	0.9833

<u>Month Ended:</u>	<u>Average<sup>(2)</sup></u>	<u>High</u>	<u>Low</u>	<u>Period End</u>
March 2016 (through March 17, 2016)	0.7509	0.7702	0.7425	0.7702
February 29, 2016	0.7248	0.7395	0.7123	0.7395
January 31, 2016	0.7031	0.7159	0.6854	0.7102
December 31, 2015	0.7297	0.7485	0.7148	0.7225
November 30, 2015	0.7530	0.7637	0.7485	0.7500
October 31, 2015	0.7650	0.7750	0.7552	0.7644
September 30, 2015	0.7538	0.7606	0.7455	0.7466

- (1) The average of the daily noon rates for each day during the applicable year.  
(2) The average of the daily noon rates for each day during the applicable month.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

## **ITEM 1 – IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

## **ITEM 2 – OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

## **ITEM 3 – KEY INFORMATION**

### **A- Selected Financial Data**

The following tables present selected consolidated financial information for our business presented in accordance with IFRS for each of the years ended December 31, 2015, 2014, 2013, 2012 and 2011. We derived this selected consolidated financial information from our audited consolidated financial statements, which are comprised of consolidated balance sheets as at December 31, 2015, 2014, 2013, 2012 and 2011 and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the five-year period ended December 31, 2015. The selected consolidated financial information presented below should be read in conjunction with the information contained in “Item 5. Operating and Financial Review and Prospects” and our audited consolidated financial statements as at December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 and notes thereto contained in “Item 18. Financial Statements” of this annual report (beginning on page F-1). Our audited consolidated financial statements as at December 31, 2013, 2012 and 2011 and for the years ended December 31, 2012 and 2011, are not included in this annual report. Our consolidated financial statements as at December 31, 2015, 2014, 2013, 2012 and 2011 and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, prepared in accordance with IFRS, have been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young LLP’s report on our consolidated financial statements as at December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 is included in this annual report.

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

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

## SELECTED FINANCIAL DATA

	2015	2014 <sup>(1)</sup>	Year ended December 31, 2013 <sup>(1)</sup>	2012	2011
	(dollars in thousands, except percentages, ratios and Operating Data)				
<b>Consolidated Statement of Income Data:</b>					
Operating revenues:					
Cable television	\$ 1,053,797	\$ 1,074,821	\$ 1,090,261	\$1,079,343	\$1,012,604
Internet <sup>(1)</sup>	920,746	856,051	814,682	772,497	698,234
Cable telephony	458,028	475,143	473,798	454,861	436,694
Mobile telephony	403,668	287,665	220,561	171,624	112,762
Over-the-top video <sup>(1)</sup>	23,596	12,213	3,718	—	—
Business solutions	69,134	65,632	63,525	64,945	63,109
Equipment sales	57,627	45,627	36,524	43,412	55,953
Other	11,383	9,613	8,754	11,162	9,974
Total operating revenues	<u>2,997,979</u>	<u>2,826,765</u>	<u>2,711,823</u>	<u>2,597,844</u>	<u>2,389,330</u>
Employee costs	356,503	342,399	347,097	338,591	294,472
Purchase of goods and services	1,259,179	1,136,055	1,079,919	1,055,549	1,021,270
Depreciation and amortization	625,366	601,381	561,743	485,385	407,011
Financial expenses <sup>(2)</sup>	167,429	169,177	174,145	179,498	161,211
Loss (gain) on valuation and translation of financial instruments	518	3,430	163,725	(75,738)	(53,869)
Loss (gain) on debt refinancing	12,153	21,403	18,912	(7,608)	(4,986)
(Gain) loss on litigation, restructuring of operations and other items	(129,737)	39,445	684	478	15,094
Income taxes expense	120,665	93,283	29,449	115,855	105,067
Income from discontinued operations	—	—	40,706	8,145	12,175
Net income	<u>\$ 585,903</u>	<u>\$ 420,192</u>	<u>\$ 376,855</u>	<u>\$ 513,979</u>	<u>\$ 456,235</u>
<b>Consolidated Balance Sheet Data (at year end):</b>					
Cash and cash equivalents	\$ 1,774	\$ 342,802	\$ 322,469	\$ 163,231	\$ 94,093
Total assets	7,656,559	6,255,596	7,029,396	6,992,107	6,545,195
Long-term debt, excluding QMI subordinated loans <sup>(3)(4)</sup>	3,266,642	2,924,540	2,399,105	2,127,057	1,857,057
QMI subordinated loans <sup>(3)(4)</sup>	2,090,000	1,080,000	2,280,000	1,630,000	1,630,000
Capital stock	132,401	3,401	3,401	3,401	3,401
Equity attributable to shareholder	813,092	793,096	820,807	773,269	975,475
Cash dividends declared	665,000	410,000	361,880	760,000	140,000
<b>Other Financial Data and Ratios:</b>					
Adjusted operating income <sup>(5)</sup>	\$ 1,382,297	\$ 1,348,311	\$ 1,284,807	\$1,203,704	\$1,073,588
Adjusted operating income margin <sup>(5)</sup>	46.1%	47.7%	47.4%	46.3%	44.9%
Cash flows provided by operating activities	1,207,964	1,106,452	1,058,340	1,147,847	892,453
Cash flows (used in) provided by investing activities	(1,975,082)	294,905	(1,174,875)	(708,810)	(823,222)
Cash flows provided by (used in) financing activities	426,090	(1,381,024)	272,601	(380,674)	(82,455)
Capital expenditures <sup>(6)</sup>	723,105	693,224	582,530	745,853	795,972
Additions to spectrum licenses <sup>(6)</sup>	219,033	217,364	15,964	—	—
Ratio of earnings to fixed charges <sup>(7)</sup>	5.3x	3.8x	3.2x	4.3x	4.3x
<b>Operating Data (at year end, except ARPU):</b>					
Homes passed <sup>(8)</sup>	2,806,001	2,777,264	2,742,476	2,701,242	2,657,315
Basic cable customers <sup>(9)</sup>	1,736,892	1,782,242	1,825,081	1,854,981	1,861,477
Basic cable penetration <sup>(10)</sup>	61.9%	64.2%	66.5%	68.7%	70.1%
Digital customers <sup>(13)</sup>	1,570,622	1,553,593	1,527,363	1,480,894	1,397,640
Digital penetration <sup>(11)(13)</sup>	90.4%	87.2%	83.7%	79.8%	75.1%
Cable Internet customers	1,568,165	1,537,532	1,505,992	1,443,992	1,359,600
Cable Internet penetration <sup>(10)</sup>	55.9%	55.4%	54.9%	53.5%	51.2%
Cable telephony lines	1,316,293	1,349,010	1,348,520	1,316,327	1,245,893
Cable telephony penetration <sup>(10)</sup>	46.9%	48.6%	49.2%	48.7%	46.9%
Mobile telephony lines <sup>(13)</sup>	768,589	632,766	504,314	403,804	290,742
Over-the-top video customers <sup>(1)(13)</sup>	257,477	177,667	58,238	—	—
ARPU <sup>(12)</sup>	\$ 135.68	\$ 125.16	\$ 118.03	\$ 111.57	\$ 103.28

(1) As a result of the addition of the “over-the-top video services” product line to our consolidated statements of income, operating revenues for the years ended December 31, 2014 and 2013 have been restated.



- (2) We are party to a number of back-to-back transactions with Quebecor Media and 9101-0835 Québec inc., a subsidiary of Quebecor Media. With respect to these back-to-back transactions, we recorded interest expense of \$213.2 million for the year ended December 31, 2015, \$218.6 million for the year ended December 31, 2014, \$265.9 million for the year ended December 31, 2013, \$213.9 million for the year ended December 31, 2012 and \$171.6 million for the year ended December 31, 2011, but we recorded \$216.3 million, \$224.2 million, \$272.5 million, \$221.1 million and \$177.4 million in dividends from Quebecor Media in 2015, 2014, 2013, 2012 and 2011 respectively. See “Item 5. Operating and Financial Review and Prospects — Uses of Liquidity and Capital Resources — Purchase of Shares of Quebecor Media and Servicing of Subsidiary Subordinated Loan.”
- (3) For the years ended December 31, 2015, 2014, 2013, 2012 and 2011, the term “QMI subordinated loans” refers to the \$1.0 billion subordinated loan due in 2022 we entered into in 2007 in favor of Quebecor Media (entirely redeemed for \$670.0 million and \$330.0 million in 2010 and 2014, respectively), the \$1.3 billion subordinated loan due in 2025 we entered into in 2010 in favor of Quebecor Media (partly redeemed for \$870.0 million in 2014), the \$3.25 billion subordinated loan due in 2043 we entered into in 2013 in favor of Quebecor Media (partly redeemed for \$2.6 billion in 2013) and the \$1.01 billion subordinated loan due in 2045 we entered into in 2015 in favor of Quebecor Media. See “Item 5. Operating and Financial Review and Prospects — Uses of Liquidity and Capital Resources — Purchase of Shares of Quebecor Media and Servicing of Subsidiary Subordinated Loan.”
- (4) We believe that long-term debt, excluding QMI subordinated loans, provides investors with a meaningful measure of our long-term debt because the QMI subordinated loans are subordinated in right of payment to the prior payment in full of our senior indebtedness, including our notes, and because the proceeds of our QMI subordinated loans due 2022, 2025, 2043 and 2045 were invested in retractable preferred shares of Quebecor Media or its subsidiaries as part of back-to-back transactions to reduce our income tax obligations. Consequently, we disclose long-term debt, excluding QMI subordinated loans, as a supplemental measure of our indebtedness in this annual report. Long-term debt, excluding QMI subordinated loans, is not intended to be, and should not be, regarded as an alternative to other financial reporting measures, and it should not be considered in isolation as a substitute for measures of liabilities prepared in accordance with IFRS. Long-term debt, excluding QMI subordinated loans, is calculated from and reconciled to long-term debt as follows:

	At December 31				
	2015	2014	2013	2012	2011
	(Canadian dollars in millions) (unaudited)				
Long-term debt	\$ 5,356.6	\$ 4,004.5	\$ 4,679.1	\$ 3,757.1	\$ 3,487.1
QMI subordinated loans <sup>(3)</sup>	(2,090.0)	(1,080.0)	(2,280.0)	(1,630.0)	(1,630.0)
Long-term debt, excluding QMI subordinated loans, as defined	<u>\$ 3,266.6</u>	<u>\$ 2,924.5</u>	<u>\$ 2,399.1</u>	<u>\$ 2,127.1</u>	<u>\$ 1,857.1</u>

- (5) Adjusted operating income and ratios based on this measure are not calculated in accordance with, or recognized by, IFRS. We define adjusted operating income, as reconciled to net income under IFRS, as net income before depreciation and amortization, financial expenses, gain or loss on valuation and translation of financial instruments, gain or loss on debt refinancing, gain or loss on litigation, restructuring of operations and other items, income taxes and income from discontinued operations. We define adjusted operating income margin as adjusted operating income expressed as a percentage of revenues under IFRS. Adjusted operating income, and ratios using this measure, are not intended to be regarded as alternatives to other financial operating performance measures or to the consolidated statement of cash flows as a measure of liquidity and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. We use adjusted operating income because we believe that it is a meaningful measure in evaluating our consolidated results. This measure eliminates the effect of significant levels of non-cash charges related to depreciation of tangible assets and amortization of certain intangible assets, and it is unaffected by the capital structure or our investment activities. A limitation of this measure, however, is that it does not reflect the periodic costs of tangible and intangible assets used in generating revenues. Our definition of adjusted operating income may not be the same as similarly titled measures reported by other companies, therefore limiting its usefulness as a comparative measure. See “Presentation of Financial Information — Non-IFRS Measures”. Our adjusted operating income is calculated from and reconciled to net income under IFRS for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 in the table below:

	Year ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in millions)				
	(unaudited)				
Net income	\$ 585.9	\$ 420.2	\$ 376.9	\$ 514.0	\$ 456.2
Depreciation and amortization	625.4	601.4	561.7	485.4	407.0
Financial expenses <sup>(2)</sup>	167.4	169.2	174.1	179.4	161.2
Loss (gain) on valuation and translation of financial instruments	0.5	3.4	163.7	(75.7)	(53.9)
Loss (gain) on debt refinancing	12.2	21.4	18.9	(7.6)	(5.0)
(Gain) loss on litigation, restructuring of operations and other items	(129.7)	39.4	0.7	0.5	15.1
Income taxes expense	120.7	93.3	29.4	115.8	105.1
Income from discontinued operations	—	—	(40.7)	(8.1)	(12.1)
Adjusted operating income, as defined	<u>\$1,382.4</u>	<u>\$1,348.3</u>	<u>\$1,284.7</u>	<u>\$1,203.7</u>	<u>\$1,073.6</u>

- (6) Capital expenditures are comprised of additions to fixed assets and intangible assets, excluding additions to spectrum licenses, which are presented separately in the table.
- (7) For the purpose of calculating the ratio of earnings to fixed charges, (i) earnings consist of net income plus income taxes, fixed charges, amortized capitalized interest, less interest capitalized, and (ii) fixed charges consist of interest expensed and capitalized, excluding interest on QMI subordinated loans, plus premiums and discounts amortization, financing fees amortization and an estimate of the interest within rental expense.
- (8) “Homes passed” means the number of residential premises, such as single dwelling units or multiple dwelling units, and commercial premises passed by the cable television distribution network in a given cable system service area in which the programming services are offered.
- (9) “Basic cable customers” are customers who receive basic cable television service in either analog or digital mode.
- (10) Represents customers as a percentage of total homes passed.
- (11) Represents customers for the digital service as a percentage of basic cable customers.
- (12) ARPU is not a measurement that is calculated in accordance with IFRS, and our definition and calculation of ARPU may not be the same as identically titled measurements reported by other companies. We calculate our ARPU by dividing our combined cable television, Internet access, over-the-top video and cable and mobile telephony revenues by the average number of basic cable customers during the applicable period, and then dividing the resulting amount by the number of months in the applicable period.
- (13) Customer statistics and their related penetration rates have been restated for the years 2014, 2013, 2012 and 2011 to reflect certain adjustments to product definitions and to add over-the-top video customers.

## **B- Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

## **D- Risk Factors**

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

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

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

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

We also face competition from illegal providers of cable television services and illegal access to non-Canadian DBS (also called grey market piracy), as well as from signal theft of DBS that enables customers to access programming services from U.S. and Canadian DBS without paying any fees (also called black market piracy). Competitors in the video business also include emerging content delivery platforms. Furthermore, OTT content providers, such as Netflix and Apple TV, as well as Canadian services such as Crave TV and Shomi, compete for viewership and a share of the monthly entertainment spending currently allocated to traditional cable television and cable service video-on-demand offerings.

Unlike us, OTT service providers are not subject to CRTC’s regulations and do not have to contribute financially to the Canadian traditional television business model or internet infrastructure. Consequently, this could place us at a competitive disadvantage, lead to increased operational costs and have an adverse effect on our business, prospects, revenues, financial conditions, and results of operations.

In our Internet access business, we compete against other ISPs offering residential and commercial Internet access services as well as WiMAX and open Wi-Fi networks in some cities. The main competitors are the ILECs that offer Internet access through digital subscriber line (“**DSL**”), fibre to the node and fibre to the home technologies, often offering comparable download speeds to ours. In addition, satellite operators such as Xplornet are increasing their existing high-speed Internet access capabilities with the launch of high-throughput satellites, targeting households in rural and remote locations and claiming future download speeds comparable to our low and medium download speeds. The CRTC also requires cable and ILEC network providers, including ourselves, to offer wholesale access to our high-speed Internet systems to third-party ISP competitors for them to provide retail Internet access services. These third-party ISP competitors may also provide telephony, IPVS and networking applications.

Our cable telephony business has numerous competitors, including ILECs, competitive local exchange carriers, mobile telephony service operators and other providers of telephony, Voice over Internet Protocol (“VoIP”) and Internet communications, including competitors that are not facility-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 our business, prospects and results of operation.

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

Due to ongoing technological developments, the distinction between traditional platforms (broadcasting, Internet and telephony) is fading rapidly. For instance, emerging Go Platforms such as HBO Go, allow customers to view their traditional television content directly on their mobile devices or computers via Internet connection (although authentication as a broadcasting distribution undertaking’s subscriber (“BDU’s subscriber”) is still required in Canada). Also, the Internet, through wired and mobile devices, is becoming an important broadcasting and distribution platform. In addition, mobile operators, with the development of their respective 4G and Long Term Evolution (also known as “LTE”) networks, are now offering wireless and fixed wireless Internet services. In addition, our VoIP telephony service also competes with Internet-based solutions.

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

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

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

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

In addition, various aspects of mobile communication operations, including the ability of mobile providers to enter into interconnection agreements with traditional landline telephone companies and 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 we may operate or develop could adversely affect our mobile business and operations, including actions that could increase competition or our costs.

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

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

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

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

Also, with the CRTC’s Wireless Code introduced in 2013 limiting wireless term contracts to two years from three years, the number of BYOD customers with no-term contracts could increase. Such customers are under no contractual obligation to remain with us, this could have a material adverse effect on our churn rate and, consequently, on our business, financial condition and results of operations.

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

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

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

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

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

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

Developing, maintaining and enhancing our LTE network requires capital expenditures to remain competitive and to comply with our obligations under the agreement with our partner governing the joint build-out of our LTE network. A geographical expansion or densification of our LTE network may require us to incur significant costs and to make significant capital expenditures. See also “Item 4. Information on the Corporation — History and Development of the Corporation.”

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

We have not to our knowledge been subject to cyber-attacks or breaches which, individually or in the aggregate, have had a material impact on our operations (including the integrity of our customers' data) or financial condition. However, the preventive actions we take to reduce the risks associated with cyber-attacks, including protection of our data centres, systems, infrastructure, networks and processes, may be insufficient to repel or mitigate the effects of a major cyber-attack in the future.

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

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

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

The day-to-day operation of our business is highly dependent on information technology systems, including those of certain third-party suppliers. An inability to maintain and enhance our existing information technology systems or obtain new systems to accommodate additional customer growth or to support new products and services could have an adverse impact on our ability to acquire new subscribers, retain existing customers, produce accurate and timely billing, generate revenue growth and manage operating expenses, all of which could adversely impact our financial results and position.

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

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

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

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

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

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

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

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

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

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

As of December 31, 2015, approximately 60% of our employees are unionized, and the terms of their employment are governed by one of our five regional collective bargaining agreements.

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

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

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

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

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

Also, a substantial portion of our debt is denominated in U.S. dollars, and interest, principal and premium, if any, are payable in U.S. dollars. For the purposes of financial reporting, any change in the value of the Canadian dollar against the U.S. dollar during a given financial reporting period would result in a foreign exchange gain or loss on the translation of any unhedged U.S. dollar-denominated debt into Canadian dollars. Consequently, our reported earnings and debt could fluctuate materially as a result of foreign-exchange gains or losses. We have entered into transactions to hedge the exchange rate risk with respect to our U.S. dollar-denominated debt outstanding at December 31, 2015, and we intend in the future to enter into such transactions for new U.S. dollar-denominated debt. These hedging transactions could, in certain circumstances, prove economically ineffective and may not be successful in protecting us against exchange rate fluctuations, or we may in the future be required to provide cash and other collateral in order to secure our obligations with respect to such hedging transactions, or we may in the future be unable to enter into such transactions on favorable terms, or at all.

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

The fair value of the derivative financial instruments we are party to is estimated using period-end market rates and reflects the amount we would receive or pay if the instruments were terminated and settled at those dates, as adjusted for counterparties' non-performance risk. At December 31, 2015, the net aggregate fair value of our cross-currency interest rate swaps and foreign-exchange forward contracts was in an asset position of \$494.2 million on a consolidated basis. See also "Item 11. Quantitative and Qualitative Disclosures About Market Risk" of this annual report.

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

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

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

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

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

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

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

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

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

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

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

If we determine to sell individual properties or other assets or businesses, we will benefit from the net proceeds realized from such sales. However, our revenues may suffer in the long term due to the disposition of a revenue generating asset, or the timing of such dispositions may be poor, causing us to fail to realize the full value of the disposed asset, all of which may diminish our ability to repay our indebtedness at maturity.

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

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

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

## **Risks Relating to Regulation**

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

Our operations are subject to extensive government regulation and policy-making in Canada. Laws and regulations govern the issuance, amendment, renewal, transfer, suspension, revocation and ownership of broadcast programming and distribution licenses. With respect to distribution, regulations govern, among other things, the distribution of Canadian and non-Canadian programming services and the maximum fees to be charged to the public in certain circumstances. 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 percent of total Canadian telecommunications market revenues. Our broadcasting distribution and telecommunications operations (including Internet access service) are regulated respectively by the *Broadcasting Act* (Canada) (the "**Broadcasting Act**") and the *Telecommunications Act* and regulations thereunder. The CRTC, which administers the *Broadcasting Act* and the *Telecommunications Act*, has the power to grant, amend, suspend, revoke and renew broadcasting licenses, approve certain changes in corporate ownership and control, and make regulations and policies in accordance with the *Broadcasting Act* and the *Telecommunications Act*, subject to certain directions from the federal cabinet. For instance, the

CRTC recently adopted a new Wireless Code which regulates numerous aspects of the provision of retail wireless services and a new Television Service Provider Code which regulates numerous aspects of the provisions of retail television services. Our wireless and cable operations are also subject to technical requirements, license conditions and performance standards under the *Radiocommunication Act* (Canada) (the “**Radiocommunication Act**”), which is administered by Innovation, Science and Economic Development 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 in the manner in which such legislation and regulations are interpreted by courts in Canada, the United States and other jurisdictions may impose limits on our collection and use of certain kinds of information. On December 17, 2014, an amendment to the Telecommunications Act and the Radiocommunication Act was adopted to give to the CRTC and Innovation, Science and Economic Development Canada the power to impose monetary sanctions for failure to comply with current regulations. For a more extensive description of the regulatory environment affecting our business, see “Item 4. Information on the Corporation – Regulation”.

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

***Innovation, Science and Economic Development Canada may not renew our mobile spectrum licenses on acceptable terms, or at all.***

Our AWS-1 licenses were issued in December 2008 for a 10-year term. Beginning two years before the end of this term, and any subsequent term, we may apply for renewed licenses for a term of up to 10 years. AWS-1 license renewal, including whether license fees should apply for a subsequent license term, will be subject to a public consultation process initiated in the eighth year of the applicable licenses, meaning in 2016 in respect of our current AWS-1 licenses.

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

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

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

In a decision issued on July 22, 2015, the CRTC ordered substantial changes to the framework for the provision of wholesale services to third-party ISPs. The provision of aggregated services will no longer be mandated and will be phased out in conjunction with the implementation of a new mandatory disaggregated service which will involve third-party ISPs provisioning their own regional transport services. This disaggregated service will also include, for the first time, mandated access to high-speed services provided over fibre-access facilities, including the fibre-access facilities of the large incumbent telephone companies. As a result of this decision, we may experience increased competition for retail cable Internet and telephony customers. In addition, because our third-party Internet access rates are regulated by the CRTC, we could be limited in our ability to recover our costs associated with providing this access.

***We are subject to a variety of environmental laws and regulations.***

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

Environmental laws and regulations and their interpretation have changed rapidly in recent years and may continue to do so in the future. For instance, most Canadian provinces have recently implemented Extended Producer Responsibility (EPR) regulations in order to encourage sustainability practices such as the “Ecological recovery and reclamation of electronic products”, which sets certain recovery targets and which may require us to monitor and adjust our practices in the future.

Our properties, as well as areas surrounding those properties, particularly those in areas of long-term industrial use, may have had historic uses, or may have current uses, in the case of surrounding properties, which may affect our properties and require further study or remedial measures. We cannot provide assurance that all environmental liabilities have been determined, that any prior owner of our properties did not create a material environmental condition not known to us, that a material environmental condition does not otherwise exist on any of our properties, or that expenditure will not be required to deal with known or unknown contamination.

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

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 our cell sites comply with applicable laws and we rely on our suppliers to ensure that the network equipment and customer equipment supplied to us meets all applicable regulatory and safety requirements. 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 we 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 us to potential litigation. Any of these could have a material adverse effect on our business, prospects, revenues, financial condition and results of operations.

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

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

We currently have a substantial amount of debt and significant interest payment requirements. As at December 31, 2015, we had \$3.3 billion of consolidated long-term debt (excluding QMI subordinated loans). Our indebtedness could have significant consequences, including the following:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to making interest and principal payments on our indebtedness, reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt or greater financial resources; and
- limit, along with the financial and other restrictive covenants in our indebtedness, our ability to, among other things, borrow additional funds on commercially reasonable terms, if at all.

Although we have significant indebtedness, as at December 31, 2015, we had approximately \$718 million available for additional borrowings under our existing credit facilities on a consolidated basis, and the indentures governing our outstanding Senior Notes which permit us to incur substantial additional indebtedness in the future. If we or our subsidiaries incur additional debt, the risks we now face as a result of our leverage could intensify. For more information regarding our long-term debt and its maturities, refer to Note 18 to our audited consolidated financial statements for the year ended December 31, 2015 included under “Item 18. Financial Statements” of this annual report. See also the risk factor “— Restrictive covenants in our outstanding debt instruments may reduce our operating and financial flexibility, which may prevent us from capitalizing on certain business opportunities.”

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

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

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

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



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

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

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

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

In addition, the market for non-investment grade debt has historically been subject to disruptions that have caused volatility in prices of securities. It is possible that the market for our Senior Notes will be subject to such disruptions. Any such disruptions may have a negative effect on a holder’s ability to sell our Senior Notes, regardless of our prospects and financial performance.

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

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

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

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

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

be in default under the applicable debt instrument, during the period that the stay against proceedings remains in place. In addition, it may be possible in certain circumstances to restructure certain debt obligations under the corporate governing statute applicable to the debtor.

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

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

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

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

We are incorporated under the laws of the Province of Québec. Substantially all of our directors, controlling persons and officers are residents of Canada or other jurisdictions outside the United States, and all or a substantial portion of their assets and substantially all of our assets are located outside the United States. We have agreed, in accordance with the terms of the respective indentures governing each series of our Senior Notes (other than our Canadian-dollar denominated Senior Notes), to accept service of process in any suit, action or proceeding with respect to the indentures or such Senior Notes brought in any federal or state court located in New York City by an agent designated for such purpose, and to submit to the jurisdiction of such courts in connection with such suits, actions or proceedings. However, it may be difficult for holders of our Senior Notes to effect service of process within the United States upon directors, controlling persons, officers and experts who are not residents of the United States or to enforce against us or them in the United States upon judgments of courts of the United States predicated upon civil liability under United States federal or state securities laws or other laws of the United States. In addition, there is doubt as to the enforceability in Canada of liabilities predicated solely upon United States federal or state securities laws against us or against our directors, controlling persons, officers and experts who are not residents of the United States, in original actions or in actions for enforcement of judgments of courts of the United States.

***Although our Senior Notes are referred to as “senior notes,” they are effectively subordinated to our secured indebtedness and structurally subordinated to the liabilities of our subsidiaries.***

Our Senior Notes are unsecured and, therefore, are effectively subordinated to any secured indebtedness that we may incur to the extent of the assets securing such indebtedness. In the event of a bankruptcy or similar proceeding involving us, the assets that serve as collateral for any secured indebtedness will be available to satisfy the obligations under the secured indebtedness before any payments are made on the Senior Notes. The Senior Notes are effectively subordinated to any borrowings under our senior credit facilities. In addition, our credit facilities and the respective indentures governing our Senior Notes permit us to incur additional secured indebtedness in the future, which could be significant.

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

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

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

## ITEM 4 – INFORMATION ON THE CORPORATION

### A- History and Development of the Corporation

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

Our registered office is located at 612 St-Jacques Street, Montréal, Québec, Canada H3C 4M8, and our telephone number is (514) 281-1232. Our corporate website may be accessed through the URL <http://www.videotron.com>. The information found on our corporate website or on any other website to which we refer in this annual report does not, however, form part of this annual report and is not incorporated by reference herein. Our agent for service of process in the United States with respect to our Senior Notes (other than our Senior Notes due 2021, 2025 and 2026) is CT Corporation System, 111 Eighth Avenue, New York, New York 10011.

Since December 31, 2012, we have undertaken and/or completed several business acquisitions, capital expenditures, business development projects and transactions, including, among others, the following:

- We have continued to actively pursue the roll-out of our mobile network. As of December 31, 2015, our mobile telephony services covered the Province of Québec (7.4 million persons) and Eastern Ontario. During 2015, we activated 135,800 net new lines on our advanced mobile network at a pace of approximately 11,300 net new lines per month, bringing our total mobile customer base to 768,600 activated lines.
- On January 7, 2016, we announced the closing of a transaction whereby we acquired Fibrenoire Inc. (“**Fibrenoire**”), a company that provides businesses with fibre-optic connectivity services, for cash consideration of \$125.0 million subject to certain adjustments.
- On October 27, 2015, we announced a multi-year \$35.0 million expansion of the 4Degrees Colocation data hosting centre located in Québec City, which we acquired in March 2015 for cash consideration of \$35.5 million. The project will add two new server rooms to the facility, bringing its square footage to a total of 33,000 square feet. 4Degrees Colocation is one of the few data centres in the Province of Québec to be Tier III certified by the Uptime Institute, an international standard that recognizes maximum reliability and operational sustainability. This expansion follows the \$40.0 million investment announcement we made on September 16, 2015, in relation with the construction of a new data centre to be located in Technoparc Montréal which will provide colocation solutions to businesses. The \$40.0 million investment will be spread over several years.
- On September 15, 2015, we issued \$375.0 million aggregate principal amount of 5<sup>3</sup>/<sub>4</sub>% Senior Notes, maturing on January 15, 2026, for net proceeds of \$370.1 million (net of financing expenses). The proceeds of this offering were used to (i) partially repay the amounts outstanding under our senior credit facilities, and (ii) pay transaction fees and expenses.
- On July 16, 2015, we redeemed and retired (i) the entire principal amount outstanding of our 9<sup>1</sup>/<sub>8</sub>% Senior Notes issued on April 15, 2008, and due April 15, 2018, representing an aggregate principal amount of US\$75.0 million, and unwound the related hedges in an asset position, and (ii) the entire principal amount outstanding of our 7<sup>1</sup>/<sub>8</sub>% Senior Notes issued on January 13, 2010, and due January 15, 2020, representing an aggregate principal amount of \$300.0 million.

- On June 16, 2015, we amended our senior credit facilities to (i) increase the amount available under our secured revolving credit facility from \$575.0 million to \$615.0 million, (ii) extend the maturity of our secured revolving credit facility from July 19, 2018 to July 20, 2020, and (iii) create a new \$350.0 million unsecured revolving credit facility maturing on July 20, 2020.
- On May 12, 2015, the predecessor to Innovation, Science and Economic Development Canada announced that we were the successful bidder for eighteen 20 MHz licenses in its 2500 MHz spectrum auction. The operating licenses, acquired for \$187.0 million, cover all of the Province of Québec and the largest urban centres in other provinces of Canada, namely Toronto, Ottawa, Calgary, Edmonton and Vancouver, making it possible to reach more than 21 million people, or approximately 65% of Canada's population.
- On April 10, 2015, we redeemed and retired the entire principal amount outstanding of our 6<sup>3/8</sup>% Senior Notes due December 15, 2015, representing an aggregate principal amount of US\$175.0 million, and unwound the related hedges in an asset position.
- On March 6, 2015, the predecessor to Innovation, Science and Economic Development Canada announced that we were the successful bidder for four 30 MHz licenses in its AWS-3 commercial mobile spectrum auction. We obtained the 30 MHz licenses for Eastern Québec, Southern Québec, Northern Québec and Eastern Ontario / Outaouais, covering 100% of the population of the Province of Québec and the Ottawa region, for a total price of \$31.8 million.
- On September 10, 2014, we launched our LTE mobile network, which reaches nearly 90% of the population of the Province of Québec and supports speed of up to 150 mbps.
- On April 9, 2014, we issued US\$600.0 million aggregate principal amount of 5<sup>3/8</sup>% Senior Notes, maturing on June 15, 2024, for net proceeds of \$654.5 million (net of financing expenses). The proceeds of this offering were used on April 24, 2014 to (i) finance the early redemption and withdrawal of US\$260.0 million aggregate principal amount of our outstanding 9<sup>1/8</sup>% Senior Notes, issued on March 5, 2009 and maturing on April 15, 2018, (ii) repay borrowings under our revolving credit facility, (iii) pay related fees and expenses, and (iv) the remainder for general corporate purposes.
- On April 3, 2014, after final payment was made on the spectrum awarded in the auction ended February 19, 2014, the predecessor to Innovation, Science and Economic Development Canada issued us seven 700 MHz licenses. The operating licenses, acquired for \$233.3 million, cover the entire provinces of Québec, Ontario (except Northern Ontario), Alberta and British Columbia, for a total covered population of more than 28 million, representing approximately 80% of Canada's population.
- On June 17, 2013, we issued \$400.0 million aggregate principal amount of 5<sup>5/8</sup>% Senior Notes, maturing on June 15, 2025, for net proceeds of \$394.8 million (net of financing expenses). The proceeds of this offering were used on July 2, 2013 to finance the early redemption and withdrawal of US\$380.0 million aggregate principal amount of our outstanding 9<sup>1/8</sup>% Senior Notes due 2018, and to settle the related hedging contracts.
- On May 31, 2013, we sold our specialized websites Jobboom and Réseau Contact to our parent corporation Quebecor Media for a total consideration of \$65.0 million. On the same day, Quebecor Media announced that Mediagrif Interactive Technologies (“**Mediagrif**”) and Quebecor Media reached a definitive agreement pursuant to which Mediagrif acquired Jobboom and Réseau Contact.
- On May 29, 2013, we announced an agreement with Rogers Communications Partnership (“**Rogers**”) for the cooperation and collaboration in the build-out and operation of a shared LTE wireless network in the Province of Québec and the Ottawa region (the “**Rogers LTE Agreement**”). We will both maintain our business independence, including product and service portfolios, billing systems and customer data. As part of the Rogers LTE Agreement, we will provide each other with services for which we will receive \$93.0 million and Rogers will receive \$200.0 million, payable over a period of 10 years. In addition to the LTE network build-out and sharing agreement, we have also come to an agreement with Rogers regarding our unused AWS spectrum in the Greater Toronto Area. Under this agreement, we have the option to transfer our Toronto spectrum license to Rogers since January 1, 2014, for an aggregate consideration of \$180.0 million.

## **B- Business Overview**

### **Overview**

We are the largest cable operator in the Province of Québec and the third largest in Canada, in each case based on the number of cable customers, as well as an Internet service provider and a provider of cable and mobile telephony and OTT video services in the Province of Québec. Our cable network covers approximately 79% of the Province of Québec's approximately 3.6 million residential premises. The deployment of our LTE network and our enhanced offering of mobile communication services for residential and business customers allow us to consolidate our position as a provider of integrated telecommunication services. Products and services are supported by extensive coaxial, fibre-optic and LTE wireless networks. Since May 1, 2015, the coverage of our LTE network was expanded coast-to-coast through roaming agreements with other wireless service providers.

Videotron Business Solutions is a premier full-service telecommunications provider serving small-, medium- and large-sized businesses, as well as telecommunications carriers. In recent years, we have significantly grown our customer base and have become a leader in the Province of Québec's business telecommunication segment. Products and services include cable television, Internet, telephony, mobile services and business solutions products such as hosting, private network connectivity, Wi-Fi, audio and video transmission. Through 4Degrees Colocation, we operate a data centre in Québec City which is one of the few data centres in the Province of Québec to be Tier III certified by the Uptime Institute, an international standard that recognizes maximum reliability and operational sustainability. On September 16, 2015, we announced the construction of a 30,000-square-foot data centre in Montréal to provide business customers with the colocation solutions they need for hosting and processing growing quantities of data. On October 27, 2015, we announced the expansion of the data hosting centre in Québec City. The project will add two new server rooms to the facility. More recently, on January 7, 2016, we announced the acquisition of Fibrenoire, a company that provides fibre-optic connectivity services. The transaction will enable Videotron Business Solutions and Fibrenoire to join forces to meet the growing demand from business customers for fibre-optic connectivity.

### **Competitive Strengths**

#### *Leading Market Positions*

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

#### *Differentiated Bundled Services*

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

### *Advanced Broadband Network*

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

### *Focused and Highly Reliable Network Cluster*

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

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

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

## **Products and Services**

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

### ***Cable Services***

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

Our cable network's large bandwidth is a key factor in the successful delivery of advanced products and services. Several emerging technologies and increasing Internet usage by our customers have presented us with significant opportunities to expand our sources of revenue. We currently offer a variety of advanced products and services, including cable Internet access, digital television, residential telephony and selected interactive services. In 2015, we introduced on the market the very latest in technology: the illico 4K set-top box. This high-tech personal video recorder has a processor 12 times more powerful than the previous generation, thus allowing customers to program up to eight simultaneous recordings and keep up to 115 hours of UHD recording. We intend to continue to develop and deploy additional value-added services to further broaden our service offering.

- *Cable Internet Access.* Leveraging our advanced cable infrastructure, we offer cable Internet access to our customers primarily via cable modems. We provide this service at download speeds of up to 200 Mbps to more than 85% of our homes passed. As of December 31, 2015, we had 1,568,200 cable Internet access customers, representing 90.3% of our basic customers and 55.9% of our total homes passed. Based on internal estimates, we are the largest provider of Internet access services in the areas we serve with an estimated market share of 53.4% as of December 31, 2015.
- *Digital Television.* We have installed headend equipment through an hybrid optical fibre and coax network capable of delivering digitally encoded transmissions to a two-way digital set-top box in the customer's home and premises. This digital connection provides significant advantages. In particular, it increases channel capacity, which allows us to increase both programming and service offerings while providing increased flexibility in packaging our services and a HD quality. All of our television packages include 52 basic television channels, audio services providing digital-quality music, 21 FM radio channels and an interactive

programming guide. Our extended digital television offering allows customers to customize their choices with the ability to choose between custom or pre-assembled packages with a selection of more than 300 additional channels, including U.S. super-stations and other special entertainment programs. This also offers customers significant programming flexibility including the option of French-language only, English-language only or a combination of French- and English-language programming, as well as many foreign-language channels. As of December 31, 2015, we had 1,570,600 customers for our digital television service, representing 90.4% of our total basic customers and 56.0% of our total homes passed.

- *Cable Telephony.* We offer cable telephony service using VoIP technology. We offer discounts to our customers who subscribe to more than one of our services. As of December 31, 2015, we had 1,316,300 subscribers to our cable telephony service, representing a penetration rate of 75.8% of our basic cable subscribers and 46.9% of our homes passed.
- *Video-On-Demand.* Video-on-demand service enables digital cable customers to rent content from a library of movies, documentaries and other programming through their digital set-top box, computer, tablet or mobile phone respectively through illico Digital TV, illico.tv, our illico tablet app and illico mobile. Our digital cable customers are able to rent their video-on-demand selections for a period of up to 48 hours, which they are then able to watch at their convenience with full stop, rewind, fast forward, pause and replay functionality during their rental period. In addition, customers can now resume viewing on-demand programming that was paused on either the television, illico.tv, the illico tablet app, or illico mobile, both offered on the iOS and Android platforms. These applications feature a customizable, intuitive interface that brings up selections of content based on the customer's individual settings and enhances the experience by suggesting personalized themed content. These applications smartly and swiftly highlight any content available from the entire illico catalog, including video-on-demand titles, live television broadcasts or recorded shows, and allow the customer to transfer it directly and seamlessly from their mobile devices to their television. We sometimes group movies, events or TV programs available on video-on-demand and offer them, when available, for a period of seven days. We also offer a substantial amount of video-on-demand content free of charge to our digital cable customers, comprised predominantly of previously aired television programs and youth-oriented programming.
- *Pay-Per-View and pay television channels.* Pay-Per-View is a group of channels that allows our digital customers to order live events and movies based on a pre-determined schedule. In addition, we offer pay television channels on a subscription basis that permits our customers to access and watch most of the movies available on the linear pay TV channels these customers subscribe to.

## ii. Traditional Cable Television Services

Customers subscribing to our traditional analog "basic" and analog "extended basic" services generally receive a line-up of 42 channels of television programming, depending on the bandwidth capacity of their local cable system. We are no longer offering this service to new customers.

As of December 31, 2015, we had 166,300 customers for our analog television service, representing 9.6% of our total basic customers.

### ***Mobile Services***

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

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

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

In August 2015, we launched the Unlimited Music service, which allows some mobile customers to stream music through the most popular online platforms without using data from their mobile plan.

In the 700 MHz auction held in 2014, we acquired a package of seven spectrum licenses consisting of a single paired 5+5 MHz spectrum block in the upper 700 MHz band over a geographic territory which encompasses the provinces of Québec, Ontario (excluding the region of Northern Ontario), Alberta and British Columbia, for a total covered population of more than 28 million. The 700 MHz band presents certain superior propagation characteristics and benefits from well-developed LTE equipment and device ecosystems in North America. Ownership of the licenses acquired during the auction held in 2014 enhances our ability to maintain a leading edge, high capacity wireless network in the Province of Québec and in the Ottawa region, and provides us with a number of options to maximize the value of our investment in the rest of Ontario, Alberta and British Columbia.

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

On May 12, 2015, after the closing of Innovation, Science and Economic Development Canada's auction for 2500 MHz commercial mobile spectrum, we were declared the successful bidder for eighteen licenses covering all of the Province of Québec as well as the major urban centres in the rest of Canada, including Toronto, Ottawa, Calgary, Edmonton and Vancouver.

As of December 31, 2015, most households and businesses on our cable footprint had access to our advanced mobile services. As of December 31, 2015, there were 768,600 lines activated on our wireless network, representing a year-over-year increase of 135,800 lines (21.5%).

#### ***Over-the-top video***

Our clients can also benefit from Club illico, our subscription based OTT entertainment platform, offering a rich and varied selection of unlimited, on-demand content (movies, television shows, children's shows, documentaries, comedy performances and concerts). In late 2013, Club illico began co-producing television series and offering them in their first broadcast window, prior to their linear broadcast. On December 31, 2015, the Club illico service had 257,500 subscribers.

#### ***Business Telecommunications Services***

Videotron Business Solutions is a premier telecommunications service provider, offering reliable and state-of-the-art mobile telephony, Internet, cable telephony, data and cable television solutions to all business segments: small and medium-sized companies, large corporations and other telecommunications carriers. Through 4Degrees Colocation, we operate a data centre in Québec City which is one of the few data centres in the Province of Québec to be Tier III certified by the Uptime Institute, an international standard that recognizes maximum reliability and operational sustainability.

During 2015, we announced the construction of a new 30,000-square-foot data centre in Montreal that will offer an available load of 16 megawatts. We also announced the expansion of our data centre located in Québec City to 33,000 square feet thereby offering additional cabinet space.

In 2016, with the acquisition of Fibrevoire, we will increase our presence in the growing market of fibre-optic connectivity.



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

### Customer Statistics Summary

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

	<b>As of December 31,</b>				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(in thousands of customers)				
<b>Revenue-generating units (RGUs)</b>	<b>5,647.5</b>	<b>5,479.3</b>	<b>5,242.1</b>	<b>5,019.1</b>	<b>4,757.7</b>
<b>Mobile Telephony</b>					
Mobile telephony lines	768.6	632.8	504.3	403.8	290.7
<b>Cable Internet</b>					
Cable Internet customers	1,568.2	1,537.5	1,506.0	1,444.0	1,359.6
Penetration <sup>(1)</sup>	55.9%	55.4%	54.9%	53.5%	51.2%
<b>Cable Television</b>					
Basic customers <sup>(2)</sup>	1,736.9	1,782.3	1,825.1	1,855.0	1,861.5
Penetration <sup>(1)</sup>	61.9%	64.2%	66.5%	68.7%	70.1%
Digital customers <sup>(3)</sup>	1,570.6	1,553.6	1,527.4	1,480.9	1,397.6
Penetration <sup>(3)(4)</sup>	90.4%	87.2%	83.7%	79.8%	75.1%
<b>Cable Telephony</b>					
Cable telephony lines	1,316.3	1,349.0	1,348.5	1,316.3	1,245.9
Penetration <sup>(1)</sup>	46.9%	48.6%	49.2%	48.7%	46.9%
<b>Over-the-top video</b>					
Over-the-top video customers <sup>(3)</sup>	257.5	177.7	58.2	—	—
<b>Homes passed<sup>(5)</sup></b>	<b>2,806.0</b>	<b>2,777.3</b>	<b>2,742.5</b>	<b>2,701.2</b>	<b>2,657.3</b>

- (1) Represents customers as a percentage of total homes passed.
- (2) Basic customers are customers who receive basic cable service in either the analog or digital mode.
- (3) Customer statistics and their related penetration rates have been restated for the years 2014, 2013, 2012 and 2011 to reflect certain adjustments to product definitions and to add over-the-top video customers.
- (4) Represents customers for the digital service as a percentage of basic customers.
- (5) Homes passed means the number of residential premises, such as single dwelling units or multiple dwelling units, and commercial premises passed by our cable television distribution network in a given cable system service area in which the programming services are offered.

### Pricing of our Products and Services

Our revenues are derived from the monthly fees our customers pay for cable television, Internet and telephony and mobile services. The rates we charge vary based on the market served and the level of service selected. Rates are usually adjusted annually. We also offer discounts to our customers who subscribe to more than one of our services, when compared to the sum of the prices of the individual services provided to these customers. As of December 31, 2015, the average monthly invoice on recurring subscription fees per residential customer was \$113.97 (representing a 4% year-over-year increase) and approximately 82% of our customers were bundling two services or more. A one-time installation fee, which may be waived in part during certain promotional periods, is charged to new customers. Monthly fees for rented equipment, such as set-top boxes or Wi-Fi routers, are also charged to customers.

Although our service offerings vary by market, because of differences in the bandwidth capacity of the cable network in each of our markets and other factors, our services are typically offered at monthly price ranges, which reflect discounts for bundled service offerings.

## Our Network Technology

### *Cable*

As of December 31, 2015, our cable network consisted of 33,929 km of fibre-optic cable and 45,597 km of coaxial cable, covering approximately 2.8 million homes and serving approximately 2.2 million customers. Our network is the largest broadband network in the Province of Québec covering approximately 79% of households and, according to our estimates, our fibre-optic network is covering approximately 81% of the business customers located in the Province of Québec. Our extensive network supports direct connectivity with networks in Ontario, the Maritimes and the United States.

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

We have adopted the hybrid fibre coaxial (“**HFC**”) network architecture as the standard for our ongoing system upgrades. HFC network architecture combines the use of both fibre-optic and coaxial cables. Fibre-optic cable has good broadband frequency characteristics, noise immunity and physical durability and can carry hundreds of video and data channels over extended distances. Coaxial cable is less expensive and requires greater signal amplification in order to obtain the desired transmission levels for delivering channels. In most systems, we deliver our signals via fibre-optic cable from the headend to a group of optical nodes and then via coax to the homes passed served by the nodes. We currently build our network by implementing cells of 125 homes (which can evolve to 64 homes). As a result of the modernization of our network in recent years, our network design now provides for average cells of 250 homes throughout our footprint. To allow for this configuration, secondary headends were put into operation in the Greater Montréal Area, in the Greater Québec City Area and in the Greater Gatineau City Area. Remote secondary headends must also be connected with fibre-optic links. From the secondary headends to the homes, the customer services are provided through the transmission of a radiofrequency (“**RF**”) signal which contains both downstream and upstream information (two-way). The loop structure of the two-way HFC networks brings reliability through redundancy, the cell size improves flexibility and capacity, while the reduced number of amplifiers separating the home from the headend improves signal quality and reliability. The HFC network design provided us with significant flexibility to offer customized programming to individual cells, which is critical to our advanced services, such as video-on-demand, Switched Digital Video Broadcast and the continued expansion of our interactive services. Starting in 2008, we began an extensive network modernization effort in the Greater Montréal Area in order to meet the ever expanding service needs of the customer in terms of video, telephony and Internet services. This ongoing modernization implies an extension of the upper limit of the RF spectrum available for service offerings and a deep fibre deployment, which significantly extends the fibre portion in the HFC network (thereby reducing the coax portion). Additional optical nodes were systematically deployed to increase the segmentation of customer cells, both for upstream and downstream traffic. This modernization initiative results in (i) a network architecture where the segmentation for the upstream traffic is for 125 homes while that for the downstream traffic is set to 250 (which can evolve to 125 homes), and (ii) the availability of a 1 GHz spectrum for service offerings. The robustness of the network is greatly enhanced (much less active equipment in the network such as RF amplifiers for the coax portion), the service offering potential and customization to the customer base is significantly improved (through the extension of the spectrum to 1 GHz and the increased segmentation) and allows much greater speeds of transmission for Internet services which are presently unrivalled. The overall architecture employs Division Wavelength Multiplexing, which allows us to limit the amount of fibre required, while providing an effective customization potential. As such, in addition to the broadcast information, up to 24 wavelengths can be combined on a transport fibre from the secondary headend to a 3,000 home aggregation point. Each of these wavelengths is dedicated to the specific requirements of 125

homes. The RF spectrum is set with analog content (to be phased out eventually) and digital information using quadrature amplitude modulation. MPEG video compression techniques and the Data over Cable Service Interface Specification (“**DOCSIS**”) protocol allow us to provide a great service offering of standard definition, HD and now UHD video, as well as complete voice and Internet services. This modernization project gives us flexibility to meet customer needs and future network evolution requirements. The modernization of the Greater Montréal Area network is scheduled to be completed by 2020.

Our strategy of maintaining a leadership position in respect of the suite of products and services that we offer and launching new products and services requires investments in our network to support growth in our customer base and increases in bandwidth requirements. Approximately 99.90% of our network in the Province of Québec has been upgraded to a bandwidth of 750 MHz or greater. Also, in light of the greater availability of HD television and UHD television programming and the ever increasing speed of Internet access, further investment in our network will be required.

### *Mobile Telephony*

As of December 31, 2015, our shared LTE network reached more than 90% of the population of the Province of Québec and the Greater Ottawa Area, allowing the vast majority of our potential clients to have access to the latest mobile services. The vast majority of our towers and transmission equipment being linked through our fibre-optic network using a multiple label switching – or MPLS – protocol, our network is designed to support important customer growth in coming years as well as rapidly evolving mobile technologies.

Our strategy in the coming years is to build on our position as a telecommunication leader with our LTE mobile services and to keep the technology at the cutting edge as it continues to evolve rapidly and new market standards such as LTE-Advanced and heterogeneous networks are being deployed. The Rogers LTE Agreement provides and allows Rogers and us to continue the evolution of the shared LTE network. Our and Rogers’ spectrum contribution will allow us to continue to exploit LTE evolutive technologies and to provide our subscribers with high throughput data connections.

During 2015, we maintained our HSPA+ network throughout the Province of Québec and over the Greater Ottawa Area.

### **Marketing and Customer Care**

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

- develop attractive bundle offers to encourage our customers to subscribe to two or more products, which increases average revenue per user – or ARPU – customer retention and operating margins;
- continue to rapidly deploy advanced products on all our services – cable, Internet, telephony, content and mobile – to maintain and increase our leadership and offer competitive mobile rate plans and products to gain additional market share;
- design product offers that provide greater opportunities for customer entertainment and information;
- develop targeted marketing programs to attract former customers and households that have never subscribed to certain of our services and customers of alternative or competitive services as well as target specific market segments;
- enhance the relationship between customer service representatives and our customers by training and motivating customer service representatives to promote advanced products and services;
- leverage the retail presence of our Videotron-branded stores and kiosks, and third-party commercial retailers;

- maintain and promote our leadership in content and entertainment by leveraging the wide variety of services offered within the Quebecor Media group to our existing and future customers;
- introduce new value added packages of products and services, which we believe will increase ARPU and improve customer retention; and
- leverage our business market, using our network and expertise with our commercial customer base, to offer additional bundled services to our customers.

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

Maximizing customer satisfaction is a key element of our business strategy. In support of our commitment to customer satisfaction, we offer the service of dedicated, knowledgeable and well-trained technical experts which we call our “PROS”, the primary mission of which is to support our customers by helping them get the most out of what we have to offer. Through personalized demonstration sessions, the PROS provide customers with continued customer service after subscription has been made. We continue to provide a 24-hour customer service hotline seven days a week across most of our systems, in addition to our web-based customer service capabilities. All of our customer service representatives and technical support staff are trained to assist customers with all of our products and services, which in turn allows our customers to be served more efficiently and seamlessly. Our customer care representatives continue to receive extensive training to perfect their product knowledge and skills, which contributes to retention of customers and higher levels of customer service. We utilize surveys, focus groups and other research tools to assist us in our marketing efforts and anticipate customer needs. To increase customer loyalty, we are also starting to leverage strategic partnerships to offer exclusive promotions, privileges and contests which contribute in expanding our value proposition to our customers.

### **Programming**

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

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

### **Competition**

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

- *Providers of Other Entertainment.* Cable systems face competition from alternative methods of distributing and receiving television signals and from other sources of entertainment such as live sporting events, movie theatres and home video products, including digital recorders, OTT content providers, such as Netflix and Apple TV, Blu-ray players and video games. The extent to which a cable television service is competitive depends in significant part upon the cable system's ability to provide a greater variety of programming, superior technical performance and superior customer service that are available through competitive alternative delivery sources. The introduction of Club illico, our subscription based OTT platform offering a rich and varied selection of unlimited on-demand content, aims to reduce the effect of competition from alternative delivery sources.
- *DSL.* The deployment of DSL technology provides customers with Internet access at data transmission speeds greater than that available over conventional telephone lines. DSL service provides access speeds that are comparable to low-to-medium speeds of cable-modem Internet access but that decreases with the distance between the DSL modem and the line card.
- *FTTN and FTTH.* Fibre to the neighborhood ("FTTN") technology addresses the distance limitation by bringing the fibre closer to the end user. The last mile is provided by the DSL technology. Fibre to the home ("FTTH") brings the fibre up to the end user location. The speed is then limited by the end equipment rather than the medium (fibre) itself. It provides speeds comparable to high speeds of cable-modem Internet access. Because of the cost involved with FTTH and FTTN, deployment of these technologies is progressive. The main competition for cable-modem Internet access comes from a provider of DSL and Fibre to the x (FTTx) services.
- *Internet Video Streaming.* The continuous technology improvement of the Internet, combined with higher download speeds and its affordability, favors the development and deployment of alternative technologies such as digital content offered by OTT service providers through various Internet streaming platforms. While having a positive impact on the demand for our Internet services, this model could adversely impact the demand for our cable television services.
- *VDSL.* VDSL technology increases the available capacity of DSL lines, thereby allowing the distribution of digital video. Multi-system operators are now facing competition from ILECs, which have been granted licenses to launch video distribution services using this technology, which operates over copper phone lines. The transmission capabilities of VDSL will be significantly boosted with the deployment of technologies such as vectoring (the reduction or elimination of the effects of far-end crosstalk) and twisted pair bonding (use of additional twisted pairs to increase data carriage capacity). Certain ILECs have already started replacing many of their main feeds with fibre-optic cable and positioning VDSL transceivers, a VDSL gateway, in larger multiple-dwelling units, in order to overcome the initial distance limitations of VDSL. With this added capacity, along with the evolution of compression technology, VDSL-2 will offer significant opportunities for services and increase its competitive threat against other multi-system operators.
- *Direct Broadcast Satellite.* DBS is also a competitor to cable systems. DBS delivers programming via signals sent directly to receiving dishes from medium and high-powered satellites, as opposed to cable delivery transmissions. This form of distribution generally provides more channels than some of our television systems and is fully digital. DBS service can be received virtually anywhere in Canada through the installation of a small rooftop or side-mounted antenna. Like digital cable distribution, DBS systems use video compression technology to increase channel capacity and digital technology to improve the quality of the signals transmitted to their customers.
- *Mobile Telephony Services.* With our mobile network, we compete against a mix of participants, some of them being active in some or all the products we offer, while others only offer mobile telephony services in our market. The Canadian incumbents have deployed their LTE networks and this technology has become an industry standard.

- *Private Cable.* Additional competition is posed by satellite master antenna television systems known as “SMATV systems” serving multi dwelling units, such as condominiums, apartment complexes, and private residential communities.
- *Wireless Distribution.* Cable television systems also compete with wireless program distribution services such as MMDS. This technology uses microwave links to transmit signals from multiple transmission sites to line-of-sight antennas located within the customer’s premises.
- *Grey and Black Market Providers.* Cable and other distributors of television signals continue to face competition from the use of access codes and equipment that enable the unauthorized decoding of encrypted satellite signals, from unauthorized access to our analog and digital cable signals (black market) and from the reception of foreign signals through subscriptions to foreign satellite television providers that are not lawful distributors in Canada (grey market).
- *Telephony Service.* Our cable telephony service competes against ILECs and other telephony service providers, VoIP telephony service providers and mobile telephony service providers.
- *Other Internet Service Providers.* In the Internet access business, cable operators compete against other Internet service providers offering residential and commercial Internet access services. The CRTC requires the large Canadian incumbent cable operators to offer access to their high-speed Internet network to competitive Internet service providers at mandated rates.

## C- Regulation

### Ownership and Control of Canadian Broadcast Undertakings

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

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

### *Diversity of Voices*

The CRTC’s Broadcasting Public Notice CRTC 2008-4, entitled “Diversity of Voices,” sets forth the CRTC’s policies with respect to cross-media ownership; the common ownership of television services, including pay and specialty services; the common ownership of BDUs; and the common ownership of over-the-air television and radio undertakings. Pursuant to these policies, the CRTC will generally permit ownership by one person of no more than one conventional

television station in one language in a given market. The CRTC, as a general rule, will not approve applications for a change in the effective control of broadcasting undertakings that would result in the ownership or control, by one person, of a local radio station, a local television station and a local newspaper serving the same market. The CRTC, as a general rule, will not approve applications for a change in effective control that would result in the control, by one person, of a dominant position in the delivery of television services to Canadians that would impact on the diversity of programming available to television audiences. In terms of BDUs, the CRTC, as a general rule, will not approve applications for a change in the effective control of BDUs in a market that would result in one person being in a position to effectively control the delivery of programming services in that market. The CRTC is not prepared to allow one person to control all BDUs in any given market.

### **Jurisdiction Over Canadian Broadcast Undertakings**

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

The CRTC has, among other things, the power under the Broadcasting Act and regulations promulgated thereunder to issue, subject to appropriate conditions, amend, renew, suspend and revoke broadcasting licenses, approve certain changes in corporate ownership and control, and establish and oversee compliance with regulations and policies concerning broadcasting, including various programming and distribution requirements, subject to certain directions from the Federal Cabinet.

### **Broadcasting License Fees**

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

### **Canadian Broadcasting Distribution (Cable Television)**

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

A cable distribution undertaking distributes broadcasting services to customers predominantly over closed transmission paths. A license to operate a cable distribution undertaking gives the cable television operator the right to distribute television programming services in its licensed service area. Broadcasting licenses may be issued for periods not exceeding seven years and are usually renewed, except in particular circumstances or in cases of a serious breach of the conditions attached to the license or the regulations of the CRTC. The CRTC is required to hold a public hearing in connection with the issuance, suspension or revocation of a license. We operate 53 cable systems pursuant either to the issuance of a license or of an order that exempts certain network operations from the obligation to hold a license.

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

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

### ***Distribution of Canadian Content***

The Broadcasting Distribution Regulations issued by the CRTC pursuant to the Broadcasting Act mandate the types of Canadian and non-Canadian programming services that may be distributed by BDUs, including cable television systems. For example, local television stations are subject to “must carry” rules which require terrestrial distributors, such as cable and MMDS operators, to carry these signals and, in some instances, those of regional television stations as part of their basic service. The guaranteed carriage enjoyed by local television broadcasters under the “must carry” rules is designed to ensure that the signals of local broadcasters reach cable households. Furthermore, cable operators, DTH operators and MMDS operators must offer their customers more Canadian programming than non-Canadian programming services. In summary, each cable television system is required to distribute all of the Canadian programming services that the CRTC has determined are appropriate for the market it serves, which includes local and regional television stations, certain specialty channels and pay television channels, and a pay-per-view service, but does not include Category B and mainstream sports Category C digital services.

### ***Broadcasting Distribution Regulations***

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

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

### ***Rates***

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

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



### ***Vertical Integration***

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

### ***Hybrid Video-on-demand (VOD) License***

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

The hybrid VOD services will benefit from the following incentives:

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

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

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

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

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

## **Copyrights Royalties Payment Obligations**

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

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

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

## **ISP Liability**

In 1996, SOCAN proposed a tariff to be applied against ISPs, in respect of composers’/publishers’ rights in musical works communicated over the Internet to ISPs’ customers. SOCAN’s proposed tariff was challenged by a number of industry groups and companies. In 1999, the Copyright Board decided that ISPs should not be liable for the communication of musical works by their customers, although they might be liable if they themselves operated a musical website. In June 2004, the Supreme Court of Canada upheld this portion of the decision of the Copyright Board and determined that ISPs do not incur liability for copyright content when they engage in normal intermediary activities, including web hosting for third parties and caching. As a consequence, ISPs may, however, be found liable if their conduct leads to the inference that they have authorized a copyright violation. At the end of 2012, amendments to the Copyright Act received royal assent. These amendments clarify ISPs’ liability with respect to acts other than communication to the public by telecommunication, such as reproductions, implements “safe harbours” for the benefit of ISPs, and further put in place a “notice and notice” process to be followed by ISPs, meaning that copyright infringement notices must now be sent to the Internet end-users by ISPs.

## **Canadian Telecommunications Services**

### ***Jurisdiction***

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

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

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

Our AWS-1 licenses were issued on December 23, 2008, for a term of ten years. At a minimum of two years before the end of this term, and any subsequent terms, we may apply for license renewal for an additional license term of up to ten years. AWS-1 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.

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

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

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

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

In a series of decisions, the CRTC has determined that the carriage of “non-programming” services by a cable company results in that company being regulated as a carrier under the Telecommunications Act. This applies to a company serving its own customers, or allowing a third party to use its distribution network to provide non-programming services to customers, such as providing access to cable Internet services.

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

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

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

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

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

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

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

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

We have outstanding disputes with several Québec municipalities related to the use of municipal rights-of-way. Should these disputes not be resolved to the mutual satisfaction of the parties, and should they be referred to the CRTC for resolution, the outcome of which could have a material impact on our costs for municipal access for our wireline facilities.

### ***Access by Third Parties to Cable Networks***

In Canada, access to the Internet is a telecommunications service. While Internet access services are not regulated on a retail (price and terms of service) basis, Internet access for third-party ISPs is mandated and tariffed according to conditions approved by the CRTC for cable operators.

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

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

In a decision issued on July 22, 2015, the CRTC ordered substantial changes to the framework for the provision of wholesale services to third-party ISPs. The provision of aggregated services will no longer be mandated and will be phased out in conjunction with the implementation of a new mandatory disaggregated service which will involve third-party ISPs provisioning their own regional transport services. This disaggregated service will also include, for the first time, mandated access to high-speed services provided over fibre-access facilities, including the fibre-access facilities of the large incumbent telephone companies. As a result of this decision, we may experience increased competition for retail cable Internet and telephony customers. In addition, because our third-party Internet access rates are regulated by the CRTC, we could be limited in our ability to recover our costs associated with providing this access.

On October 20, 2015, Bell Canada filed a petition requesting the Governor in Council to modify the CRTC’s wholesale policy framework decision to exclude high-speed services provided over fibre-access facilities and DOCSIS 3.1 access facilities. The Governor in Council may, within one year of the date of the original decision, vary or rescind the decision or refer it back to the CRTC for reconsideration of all or a portion of it. Any of these actions, if taken, could have an impact on the competitive environment emerging from the decision.

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

In June 2013, the predecessor to Innovation, Science and Economic Development Canada published its new framework relating to transfers, divisions and subordinate licensing of spectrum licenses for commercial mobile spectrum. The framework sets out a series of considerations and criteria for reviewing license transfers and prospective transfers, while refraining from imposing specific quantitative or other approval thresholds. Among the considerations and criteria are: the current license holdings of the applicants in the licensed area, the overall distribution of holdings in the band and other commercial mobile bands in the licensed area, the availability of alternative spectrum, and the degree to which the applicants have deployed networks. The framework also sets out review procedures and timelines (normally 12 weeks from the time of receipt of all required information) and establishes a definition of “deemed transfers” subject to review. The new framework applies to license transfers and prospective transfers on or after the date of publication, and therefore will apply if and when we exercise our option to sell our Toronto AWS-1 license to Rogers under the Rogers LTE Agreement.

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

The new Wireless Code was published on June 3, 2013 and came into force on December 2, 2013. It includes, among other things, a limit on early cancellation fees to ensure customers can take advantage of competitive offers at least every two years, as well as measures requiring service providers to unlock wireless devices, to offer a trial period for wireless contracts, and to set default caps on data overage charges and data roaming charges.

On July 31, 2014, after an investigation that confirmed instances of unjust discrimination and undue preference by one incumbent wireless carrier, the CRTC took action to prohibit exclusivity provisions in wholesale mobile wireless roaming agreements between Canadian carriers for service in Canada. Subsequently, on May 5, 2015, after a broader follow-up proceeding, the CRTC issued a comprehensive policy framework for the provision of wholesale wireless services, including roaming, tower sharing and mobile virtual network operator (MVNO) access services. Most notably, the CRTC decided that each of the three national wireless incumbent carriers would be obliged to provide wholesale roaming services to regional and new entrant carriers at cost-based rates. A tariff proceeding is currently underway to determine these rates. The CRTC elected not to order cost-based rates for either tower sharing or MVNO access services. The result of the wholesale roaming tariff proceeding may have an impact on Videotron's roaming cost structure and on the types of retail packages it is able to offer its customers in this regard.

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

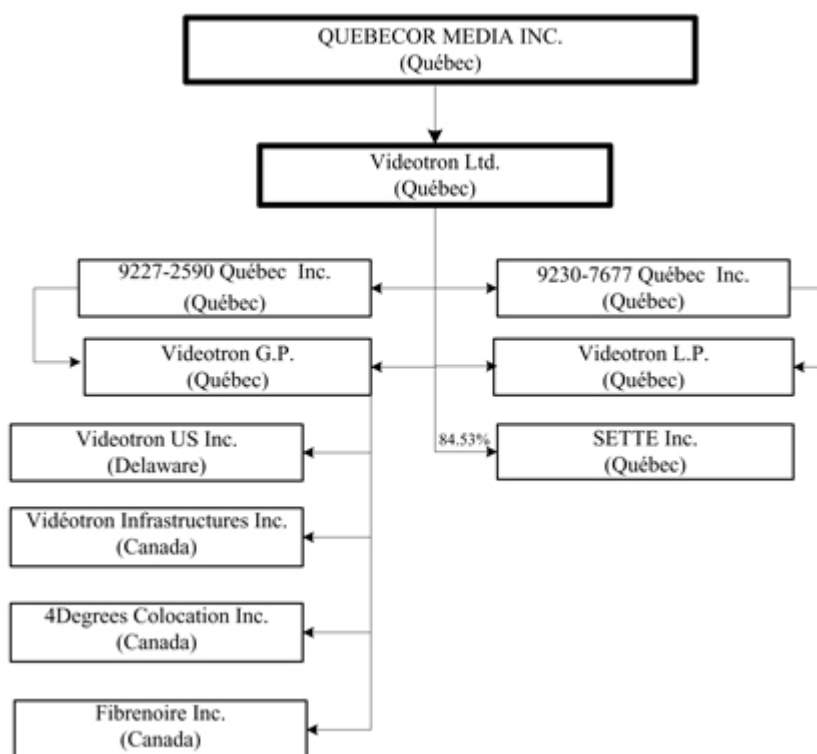
#### ***Municipal Siting Processes for Wireless Antenna Systems***

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

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

#### **D- Organizational Structure**

We are a wholly-owned subsidiary of Quebecor Media. Quebecor Media is a 81.1% owned subsidiary of Quebecor. The remaining 18.9% of Quebecor Media is owned by a subsidiary of CDPQ, one of Canada's largest pension fund managers. The following chart illustrates our corporate structure as of March 18, 2015, including our significant subsidiaries, together with the jurisdiction of incorporation or organization of each entity. In each case, unless otherwise indicated, we own a 100% equity and voting interest in our subsidiaries).



## E- Property, Plants and Equipment

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

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

<u>Address</u>	<u>Owned/Leased Property</u>	<u>Use of Property</u>	<u>Floor Space Occupied (approximate sq. ft.)</u>
Montréal, Québec 2155 Pie IX Street	Owned property	Office and Technical spaces, Headend	128,000
Montréal, Québec 150 Beaubien Street	Owned property	Office and Technical spaces, Headend	72,000
Montréal, Québec 800 de la Gauchetière Street	Leased property	Office space	52,000
Montréal, Québec 4545 Frontenac Street	Leased property	Office space, Warehouse, Headend	54,000
Montréal, Québec 888 De Maisonneuve Street	Leased property	Office space	49,000
Québec City, Québec 2200 Jean-Perrin Street	Owned property	Regional Headend for the Québec City region and Office space	40,000
Québec City, Québec 2675 Parc Technologique Blvd.	Owned property	Data Centre and Office space	47,000 <sup>(1)</sup>

(1) This number includes an additional 23,000 square feet that is currently under construction.

## **Liens and Charges**

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

## **Intellectual Property**

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

## **Environment**

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

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

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

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

## **ITEM 4A – UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 5 - OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

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

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

### **CORPORATE PROFILE**

We are a wholly owned subsidiary of Quebecor Media Inc. (“Quebecor Media”), incorporated under the Business Corporations Act (Québec). We are the largest cable operator in the Province of Québec and the third-largest in Canada, based on the number of cable customers, as well as being a major cable Internet service and telephony services provider in the Province of Québec. Our cable network covers approximately 79% of the Province of Québec’s approximately 3.6 million residential and commercial premises. The deployment of our LTE network and our enhanced offering of mobile communication services for residential and business customers allow us to consolidate our position as a provider of integrated telecommunication services.

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

Videotron’s primary sources of revenue include: subscriptions for cable television, Internet access, cable and mobile telephony services, over-the-top (“OTT”) video services and business solutions services.

### **TREND INFORMATION**

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 past years is not necessarily indicative of future growth due to penetration rates currently reached.

The Corporation requires substantial capital for the upgrade, expansion and maintenance of its wireline and wireless networks, the launch and expansion of new and additional services to support growth in its customer base and demand for increased bandwidth capacity and other services. The Corporation expects that additional capital expenditures will be required in the short and medium term in order to expand and upgrade systems and services, including expenditures relating to advancements in Internet access and ultra-high definition television (“UHD”) and TV everywhere/every platform requiring IP delivery technology, as well as the cost of its mobile services’ infrastructure deployment, maintenance and enhancement.

Moreover, the demand for wireless data services has been growing at unprecedented rates and it is projected that this demand will further accelerate. The anticipated levels of data traffic will represent a growing challenge to the current wireless network’s ability to serve this traffic. The Corporation may have to acquire additional spectrum, if available, in order to address this increased demand.

### **HIGHLIGHTS SINCE DECEMBER 31, 2014**

- In 2015, revenues and ARPU grew 6.1% and 8.4%, respectively, compared to 2014.
- Net growth of 168,200 revenue-generating units (“RGUs”) in 2015 (representing the total of our cable television, cable Internet and over-the-top video subscribers as well as cable and mobile telephony lines), compared with 237,200 net RGUs added in 2014. Total RGUs were 5,647,500 as of December 31, 2015.
- We activated 135,800 net new lines on our mobile telephony service, the largest annual increase since 2011, bringing our total mobile customer base to 768,600 lines.



- Videotron received two honourable distinctions in 2015. For the second consecutive year, according to an Ipsos-Infopresse study, Videotron was ranked Québec's most influential brand in the industry. In addition, for the tenth consecutive year, according to market research firm Léger, Videotron was ranked Québec's most admired company in the telecommunication industry.
- On January 7, 2016, Videotron announced the acquisition of Fibrenoire Inc. ("Fibrenoire"), a company that provides fibre-optic connectivity services, for a cash consideration of \$125.0 million, subject to certain adjustments. The transaction will enable Videotron Business Solutions and Fibrenoire to join forces to continue to meet the growing demand from business customers for fibre-optic connectivity.
- On October 27, 2015, Videotron announced a \$35.0 million expansion, spread over several years, of the 4Degrees Colocation Inc. ("4Degrees Colocation") data hosting centre in Québec City, acquired for a net amount of \$35.3 million on March 11, 2015. The project will add two new server rooms to the facility. Also, on September 16, 2015, Videotron announced the construction of a 30,000-square-foot data centre in Montréal to provide business customers with the colocation solutions they need for hosting and processing the growing quantities of data. The \$40.0 million investment will also be spread over several years.
- On October 15, 2015, the Supreme Court of Canada rejected Bell ExpressVu Limited Partnership's ("Bell ExpressVu") application for leave to appeal the Québec Court of Appeal judgment rendered on March 6, 2015 relating to Bell ExpressVu's negligence in failing to implement an appropriate security system to prevent piracy of the signals broadcast by its satellite television service between 1999 and 2005, thereby harming its competitors and broadcasters. Accordingly, on October 19, 2015, Bell ExpressVu paid to the Corporation an amount of \$138.4 million, including interest.
- On September 15, 2015, the Corporation announced the closing of its issuance and sale of \$375.0 million aggregate principal amount of 5.75% Senior Notes, due in January 2026, for net proceeds of \$370.1 million, net of financing fees of \$4.9 million. The Corporation used the proceeds to partially repay the amounts outstanding under its revolving credit facilities and to pay transaction fees and expenses.
- On August 27, 2015, we launched the Unlimited Music service, which allows certain mobile customers to stream music through the most popular online platforms without counting data from their mobile plan.
- On August 11, 2015, we introduced the brand-new illico 4K set-top box. Packed with innovative features, it is 12 times more powerful than an illico TV new generation set-top box, providing 4 times faster navigation speed and storing up to 115 hours of ultra-high definition content.
- On June 16, 2015, we issued a notice of redemption for all of our outstanding 7.125% Senior Notes due January 15, 2020, for an aggregate principal amount of \$300.0 million. On July 16, 2015, the Senior Notes were redeemed.
- On June 16, 2015, we issued a notice of redemption for all of our outstanding 9.125% Senior Notes due April 15, 2018, for an aggregate principal amount of US\$75.0 million. On July 16, 2015, the Senior Notes were redeemed and the related hedging contracts were settled.
- On June 16, 2015, we increased our secured revolving credit facility from \$575.0 million to \$615.0 million and extended its maturity date to July, 20, 2020. Furthermore, we entered into a new unsecured revolving credit facility of \$350.0 million maturing in July 2020. The terms and conditions of the new unsecured credit facility are similar to those of our secured revolving.
- On May 12, 2015, we acquired eighteen 20 MHz licences in the auction for 2500 MHz commercial mobile spectrum, covering the province of Québec and the largest urban centres in other provinces of Canada: Toronto, Ottawa, Calgary, Edmonton and Vancouver, for a total price of \$187.0 million, or \$0.42/MHz-pop.
- On April 14, 2015, less than a year after launching our LTE wireless network, we announced the widest coverage across Canada through strategic partnerships, starting May 13, 2015.
- On April 7, 2015, we announced our sponsorship of the new arena in Québec City which is now known as the Videotron Centre.
- On March 11, 2015, we issued a notice of redemption for all of our outstanding 6.375% Senior Notes due December 15, 2015, for an aggregate principal amount of US\$175.0 million. On April 10, 2015, the Senior Notes were redeemed and the related hedging contracts were settled.
- On March 6, 2015, Industry Canada, now known as Innovation, Science, and Economic Development Canada, announced that the Corporation was the successful bidder for four 30 MHz licences in the auction for AWS-3 commercial mobile spectrum. Videotron acquired the licences for Eastern Québec, Southern Québec, Northern Québec and Eastern Ontario / Outaouais, covering 100% of Québec's population and the Ottawa area, for a total price of \$31.8 million, or \$0.11/MHz-pop.

## **NON-IFRS FINANCIAL MEASURES**

The non-IFRS financial measures used by the Corporation to assess its financial performance, such as adjusted operating income and adjusted operating income margin are not calculated in accordance with, or recognized by IFRS. The Corporation's method of calculating these non-IFRS financial measures may differ from methods used by other companies and, as a result, the non-IFRS financial measures presented in this document may not be comparable to other similarly titled measures disclosed by other companies.

### **Adjusted Operating Income Margin**

The Corporation defines adjusted operating income margin as the adjusted operating income expressed as a percentage of revenues under IFRS.

### **Adjusted Operating Income**

The Corporation defines adjusted operating income, as reconciled to net income under IFRS, as net income before depreciation and amortization, financial expenses, gain or loss on valuation and translation of financial instruments, gain or loss on debt refinancing, gain or loss on litigation, restructuring of operations and other items, income taxes and income from discontinued operations. Adjusted operating income as defined above is not a measure of results that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the consolidated statement of cash flows as a measure of liquidity and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Our management and Board of Directors use this measure in evaluating our consolidated results. As such, this measure eliminates the effect of significant levels of non-cash charges related to the depreciation of tangible assets and amortization of certain intangible assets and is unaffected by the capital structure or investment activities of the Corporation. Adjusted operating income is also relevant because it is a significant component of our 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. Our definition of adjusted operating income may not be the same as similarly titled measures reported by other companies.

## **KEY PERFORMANCE INDICATOR**

### **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 and OTT video services revenues per average basic cable customer. ARPU is not a measurement that is calculated in accordance 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, cable and mobile telephony and OTT video services revenues by the average number of basic cable customers during the applicable period, and then dividing the resulting amount by the number of months in the applicable period.

Table 1 below presents a reconciliation of adjusted operating income to net income as disclosed in our consolidated financial statements. The consolidated income statement data for the three-month periods ended December 31, 2015 and 2014 is derived from the unaudited consolidated statements and are not included in this annual report.

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

	Three - month period ended December 31		Twelve - month period ended December 31		
	2015	2014	2015	2014	2013
<b>Adjusted operating income</b>	<b>\$ 347.8</b>	<b>\$ 343.9</b>	<b>\$1,382.4</b>	<b>\$1,348.3</b>	<b>\$1,284.7</b>
Depreciation and amortization	(158.3)	(158.2)	(625.4)	(601.4)	(561.7)
Financial expenses	(43.0)	(43.4)	(167.4)	(169.2)	(174.1)
Loss on valuation and translation of financial instruments	(3.8)	(5.0)	(0.5)	(3.4)	(163.7)
Loss on debt refinancing	—	—	(12.2)	(21.4)	(18.9)
(Loss)/ gain on litigation restructuring of operations and other items	(3.5)	(38.5)	129.7	(39.4)	(0.7)
Income taxes	(22.6)	(29.2)	(120.7)	(93.3)	(29.4)
Income from discontinued operations	—	—	—	—	40.7
<b>Net income</b>	<b>\$ 116.6</b>	<b>\$ 69.6</b>	<b>\$ 585.9</b>	<b>\$ 420.2</b>	<b>\$ 376.9</b>

## Analysis of Consolidated Results of Videotron

### 2015/2014 Year Comparison

#### Customer Statistics

**Revenue-generating units** – As of December 31, 2015, the total number of revenue-generating units stood at 5,647,500, an increase of 168,200 (3.1%) in 2015, compared with an increase of 237,200 (4.5%) in 2014.

**Mobile telephony services** – As of December 31, 2015, 768,600 lines were activated on our wireless telephony network, an increase of 135,800 (21.5%) in 2015, compared with an increase of 128,500 (25.5%) in 2014.

**Cable Internet access services** – The number of subscribers to cable Internet access services stood at 1,568,200 as at the end of 2015, an increase of 30,700 (2.0%) in 2015, compared with an increase of 31,500 (2.1%) in 2014. Our cable Internet access services household penetration rate (number of subscribers as a proportion of the 2,806,000 total homes passed) was 55.9% as of December 31, 2015, compared with 55.4% as of December 31, 2014.

**Cable television services** – Our combined customer base for cable television services decreased by 45,400 (2.5%) in 2015, compared with a decrease of 42,800 (2.3%) in 2014. As of December 31, 2015, our cable network household penetration rate was 61.9%, compared with 64.2% a year earlier.

- The number of subscribers to illico Digital TV stood at 1,570,600 as at the end of 2015, an increase of 17,000 (1.1%) in 2015, compared with an increase of 26,400 (1.7%) in 2014. As of December 31, 2015, 90.4% of our cable television customers were subscribers to our illico Digital TV services, compared with 87.2% as of December 31, 2014. Our illico Digital TV household penetration rate was 56.0% as of December 31, 2015, compared with 55.9% as of December 31, 2014.
- The customer base for analog cable television services decreased by 62,400 (27.3%) in 2015, compared with a decrease of 69,000 customers (23.2%) in 2014.

**Cable telephony services** – The number of cable telephony lines stood at 1,316,300 as at the end of 2015, a decrease of 32,700 (2.4%) in 2015, compared with an increase of 500 (0.1%) in 2014. Our cable telephony services household penetration rate was 46.9% as of December 31, 2015, compared with 48.6% as of December 31, 2014.

**Over-the-top video services** – The number of subscribers to over-the-top video services stood at 257,500 as at the end of 2015, an increase of 79,800 (44.9%) in 2015, compared with an increase of 119,500 (205.3%) in 2014.

**Table 2**  
**End-of-year customer numbers**  
**(in thousands of customers)**

	2015	2014	2013	2012	2011
Mobile telephony <sup>1</sup>	<b>768.6</b>	632.8	504.3	403.8	290.7
Cable Internet	<b>1,568.2</b>	1,537.5	1,506.0	1,444.0	1,359.6
Cable television:					
Analog <sup>2</sup>	<b>166.3</b>	228.7	297.7	374.1	463.9
Digital <sup>2</sup>	<b>1,570.6</b>	1,553.6	1,527.4	1,480.9	1,397.6
	<b>1,736.9</b>	1,782.3	1,825.1	1,855.0	1,861.5
Cable telephony <sup>1</sup>	<b>1,316.3</b>	1,349.0	1,348.5	1,316.3	1,245.9
Over-the-top video <sup>2</sup>	<b>257.5</b>	177.7	58.2	–	–
<b>Revenue-generating units (RGUs)</b>	<b>5,647.5</b>	5,479.3	5,242.1	5,019.1	4,757.7

<sup>1</sup> In thousands of lines.

<sup>2</sup> Customer statistics have been restated for the years 2011, 2012, 2013 and 2014 to reflect certain adjustments to product definitions and to add over-the-top video customers.

## 2015/2014 Analysis of Results

**Revenues:** \$3.0 billion, an increase of \$171.2 million (6.1%) compared with 2014.

Revenues from mobile telephony services increased by \$116.0 million (40.3%) to \$403.7 million, essentially due to customer growth and higher revenues per line.

Revenues from Internet access services increased by \$64.6 million (7.5%) to \$920.7 million. The favourable variance was mainly due to subscriber plans mix, increased usage, higher revenues from Internet access resellers and subscriber growth.

Revenues from cable television services decreased by \$21.0 million (2.0%) to \$1.05 billion, primarily due to net customer base erosion, however partially offset by higher revenues per customer.

Revenues from cable telephony services decreased by \$17.1 million (3.6%) to \$458.0 million. This decrease was mainly due to net customer base erosion, lower revenues per residential line and lower long distance call revenues, partially offset by higher revenues from business customers.

Revenues from over-the-top video services increased by \$11.4 million (93.4%) to \$23.6 million, essentially due to customer growth.

Revenues from business solutions increased by \$3.5 million (5.3%) to \$69.1 million, mainly due to the new revenues generated through the acquisition and integration of 4Degrees Colocation.

Revenues from equipment sales increased by \$12.0 million (26.3%) to \$57.6 million, mainly due to higher sales of mobile devices.

Other revenues increased by \$1.8 million (18.8%) in 2015 to \$11.4 million.

**Monthly ARPU:** \$135.68 in 2015, compared with \$125.16 in 2014, an increase of \$10.52 (8.4%). This growth is mainly explained by an increase in revenues from mobile telephony and Internet access services, as detailed above.

**Adjusted operating income:** \$1.40 billion in 2015, an increase of \$34.1 million (2.5%).

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

Partially offset by:

- increase in operating expenses such as professional fees, engineering costs, call centre costs and marketing costs;
- increase in losses on sale of mobile devices;
- increase in programming fees, including the impact of a non-recurring adjustment of \$7.2 million recorded in 2014; and
- unfavourable variances of \$13.9 million related to other non-recurring items, including \$10.6 million related to provisions on litigations.

**Purchase of goods and services, expressed as a percentage of revenues:** 42.0% in 2015, compared with 40.2% in 2014.

- Purchase of goods and services expenses as a proportion of revenues increased, primarily due to:
  - increase in losses on sale of mobile devices; and
  - unfavourable variance of \$21.1 million related to non-recurring items.

**Employee costs, expressed as a percentage of revenues:** 11.9% in 2015, compared with 12.1% in 2014.

- Employee costs as a proportion of revenues decreased slightly as revenues grew more rapidly.

**Depreciation and amortization charge:** \$625.4 million, an increase of \$24.0 million (4.0%) over 2014.

- The increase was mainly due to:
  - increase in assets related to our wireless LTE network launched in September 2014; and
  - increase in illico Digital TV set-top boxes related to our rental program.

Partially offset by:

- a change in the assessment of the useful life of our spectrum licences, resulting in the cessation of the amortization of those assets during the second quarter of 2015.

**Financial expenses** (primarily comprised of interest on long-term debt): \$167.4 million, a decrease of \$1.8 million (1.1%) over 2014.

- The decrease was mainly due to:
  - \$14.2 million decrease in interest on long-term debt, mainly due to lower interest rates on our indebtedness.

Partially offset by:

- \$5.7 million unfavourable variance in other financial expenses, mainly due to interest charges on legal provisions recorded during the year, and lower interest revenues on cash and cash equivalents;
- \$3.0 million increase in loss on foreign currency translation of short-term monetary items, due to a weaker Canadian currency;
- \$2.5 million decrease in net dividend income from the parent corporation, due to changes in tax consolidation arrangements; and
- \$1.9 million increase in interest costs on defined benefit plans.

**Gain or loss on valuation and translation of financial instruments:** Loss of \$0.5 million in 2015, compared with a loss of \$3.4 million in 2014, a favourable variance of \$2.9 million.

- The change was mainly due to a \$3.1 million loss on financial instruments for which hedge accounting was not used recorded in 2014 and a favourable variance in the fair value of early settlement options, caused by fluctuations in valuation assumptions, including interest rates and credit premiums implicit in the adjusted prices of the underlying instruments.

**Gain or loss on litigation, restructuring of operations and other items:** \$129.7 million gain recorded in 2015, compared with a \$39.4 million loss in 2014, a favourable variance of \$169.1 million.

- This variation is mainly due to:
  - the gain on litigation of \$138.4 million recorded in 2015;
  - the loss on litigation of \$34.3 million recorded in 2014; and
  - an increase in charges related to the gradual decommissioning of our analog cable television network infrastructure.

**Income tax expense:** \$120.7 million (effective tax rate of 17.1%) in 2015, compared with \$93.3 million (effective tax rate of 18.2%) in 2014.

- The increase of \$27.4 million was mainly due to:
  - \$51.9 million related to an increase in taxable income.

Partially offset by:

- \$16.1 million in light of developments in tax audits, jurisprudence and tax legislation; and
- \$11.1 million related to other non-taxable or non-deductible items and other items.

**Net income attributable to shareholder:** \$585.9 million, an increase of \$165.7 million (39.4%).

- The increase was mainly due to:
  - \$169.1 million favourable variance in gain or loss on litigation, restructuring of operations and other items;
  - \$34.1 million increase in adjusted operating income;
  - \$9.2 million favourable variance in gain or loss on debt refinancing;
  - \$2.9 million favourable variance in gain or loss on valuation and translation of financial instruments; and
  - \$1.8 million decrease in financial expenses.

Partially offset by:

- \$27.4 million increase in income taxes; and
- \$24.0 million increase in depreciation and amortization charges.

## 2015/2014 Fourth Quarter Comparison

### Customer statistics

**Revenue-generating units** – 41,600 (0.7%) increase in the fourth quarter of 2015, compared with an increase of 59,100 (1.1%) in the same period of 2014.

**Mobile telephony services** – As of December 31, 2015, 768,600 lines were activated on our mobile telephony services, an increase of 26,100 (3.5%) in the quarter, compared with an increase of 42,400 (7.2%) in the same period of 2014.

**Cable Internet access services** – The number of subscribers to cable Internet access services stood at 1,568,200 as at the end of the fourth quarter of 2015, an increase of 8,700 (0.6%) in the quarter, compared with an increase of 3,700 (0.2%) in the same period of 2014.

**Cable television services** – The combined customer base for cable television services decreased by 9,000 (0.5%) in the fourth quarter of 2015, compared with a decrease of 14,000 (0.8%) in the same period of 2014.

- The number of subscribers to illico Digital TV stood at 1,570,600 as at the end of the fourth quarter of 2015, an increase of 6,000 (0.4%) during the quarter, compared with an increase of 8,700 (0.6%) in the same period of 2014.

- The customer base for analog cable television services decreased by 15,000 (8.3%) in the fourth quarter of 2015, compared with a decrease of 22,700 customers (9.1%) in the same period of 2014, primarily as a result of customer migration to illico Digital TV.

***Cable telephony services*** – The number of cable telephony lines stood at 1,316,300 as at the end of the fourth quarter of 2015, a decrease of 13,200 (1.0%) in the quarter, compared with a decrease of 7,000 (0.5%) in the same period of 2014.

**Over-the-top video services** – The number of subscribers to over-the-top video services stood at 257,500 as at the end of the fourth quarter of 2015, an increase of 29,000 (12.7%) in the quarter, compared with an increase of 34,000 (23.7%) during the same period of 2014.

#### **2015/2014 Fourth Quarter Analysis of Results**

**Revenues:** \$774.8 million, an increase of \$44.6 million (6.1%) compared with the fourth quarter of 2014.

Revenues from mobile telephony services increased by \$28.0 million (33.5%) to \$111.5 million, essentially due to customer growth and higher revenues per line.

Revenues from Internet access services increased by \$22.0 million (10.1%) to \$239.5 million. The favourable variance was mainly due to subscriber plans mix, increased usage, higher revenues from Internet access resellers and subscriber growth.

Revenues from cable television services decreased by \$4.7 million (1.8%) to \$263.5 million, mainly due to net customer base erosion, however partially offset by higher revenues per customer.

Revenues from cable telephony service decreased by \$9.1 million (7.5%) to \$111.5 million. This decrease was mainly due to lower revenues per residential line, net customer base erosion, and lower long distance call revenues, partially offset by higher revenues from business customers.

Revenues from over-the-top video services increased by \$2.2 million (45.8%) to \$7.0 million, essentially due to customer growth.

Revenues from business solutions increased by \$1.3 million (7.7%) to \$18.1 million, mainly due to the new revenues generated through the acquisition and integration of 4Degrees Colocation. Revenues from equipment sales increased by \$4.0 million (24.2%) to \$20.5 million, mainly due to higher sales of mobile devices.

Other revenues increased by \$0.6 million (24.0%) in the fourth quarter to \$3.1 million.

**Monthly ARPU:** \$140.19 in the fourth quarter of 2015, compared with \$129.36 in the same period of 2014, an increase of \$10.83 (8.4%). This growth is mainly explained by an increase in revenues from mobile telephony and Internet access services, as detailed above.

**Adjusted operating income:** \$347.8 million in the fourth quarter of 2015, an increase of \$3.9 million (1.1%) compared to the same quarter of 2014.

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

Partially offset by:

- increase in programming fees, including the impact of a non-recurring adjustment of \$7.2 million recorded in 2014;
- unfavourable variances of \$4.6 million related to other non-recurring items, including \$2.7 million related to provisions on litigation;
- increase in operating expenses such as professional fees, marketing costs and engineering costs; and
- increase in losses on sale of mobile devices.

**Purchase of goods and services, expressed as a percentage of revenues:** 43.3% in 2015, compared with 40.8% in 2014.

- Purchase of goods and services expenses as a proportion of revenues increased, primarily due to:
  - unfavourable variance of \$11.9 million related to non-recurring items; and
  - increase in losses on sale of mobile devices.

**Employee costs, expressed as a percentage of revenues:** 11.8% in 2015, compared with 12.1% in 2014.

- Employee costs as a proportion of revenues decreased slightly as revenues grew more rapidly.

**Depreciation and amortization charge:** \$158.3 million, an increase of \$0.1 million (0.1%), compared with 2014.

- The increase was mainly due to:
  - increase in illico Digital TV set-top boxes related to our rental program; and
  - increase in assets related to our wireless LTE network launched in September 2014.



Largely offset by:

- a change in the assessment of the useful life of our spectrum licences, resulting in the cessation of the amortization of those assets during the second quarter of 2015.

**Financial expenses** (primarily comprised of interest on long-term debt): \$43.0 million in 2015, a decrease of \$0.4 million (0.9%) compared with 2014.

- The decrease was mainly due to:
  - \$3.8 million decrease in interest on long-term debt, mainly due to lower interest rates on our indebtedness; and
  - \$1.2 million decrease in loss on foreign currency translation of short-term monetary items.

Partially offset by:

- \$4.2 million unfavourable variance in other financial expenses, mainly due to interest charges on legal provisions recorded during the year, and lower interest revenues on cash and cash equivalents.

**Gain or loss on valuation and translation of financial instruments:** \$3.8 million loss in the fourth quarter of 2015, compared with a \$5.0 million loss in the same quarter of 2014, a favourable variance of \$1.2 million.

- The positive variance was mainly due to the variance in the fair value of early settlement options caused by fluctuations in valuation assumptions, including interest rates and credit premiums implicit in the adjusted prices of the underlying instruments.

**Gain or loss on litigation, restructuring of operations and other items:** \$3.5 million loss recorded in the fourth quarter of 2015, compared with a \$38.5 million loss in the same quarter of 2014.

- The favourable variance of \$35.0 million is mainly due to a \$34.3 million charge recorded in 2014 as a result of an unfavourable judgment against the Corporation in a legal action.

**Income tax expense:** \$22.6 million (effective tax rate of 16.3%) in the fourth quarter of 2015, compared with \$29.2 million (effective tax rate of 29.6%) in the same quarter of 2014.

- The favourable variance of \$6.6 million was mainly due to:
  - \$11.1 million related to other non-taxable or non-deductible items, and other items; and
  - \$4.8 million related to changes in tax consolidation arrangements with our parent corporation and affiliated corporations.

Partially offset by:

- \$10.9 million related to the increase in taxable income.

**Net income attributable to shareholder:** \$116.6 million, an increase of \$47.0 million (67.6%).

- The increase was mainly due to:
  - \$35.0 million favourable variance in gain or loss on litigation, restructuring of operations and other items;
  - \$6.6 million decrease in income taxes expense;
  - \$3.9 million increase in adjusted operating income;
  - \$1.2 million favourable variance in gain or loss on valuation and translation of financial instruments; and
  - \$0.4 million decrease in financial expenses.

Partially offset by:

- \$0.1 million increase in depreciation and amortization charges.

## 2014/2013 Year Comparison

### Customer Statistics

**Revenue-generating units** – As of December 31, 2014, the total number of revenue-generating units stood at 5,479,300, an increase of 237,200 (4.5%) in 2014, compared with an increase of 223,000 (4.4%) in 2013.

**Mobile telephony services** – As of December 31, 2014, 632,800 lines were activated on our wireless telephony network, an increase of 128,500 (25.5%) in 2014, compared with an increase of 100,500 (24.9%) in 2013.

**Cable Internet access services** – The number of subscribers to cable Internet access services stood at 1,537,500 as at the end of 2014, an increase of 31,500 (2.1%) in 2014, compared with an increase of 62,000 (4.3%) in 2013. Our cable Internet access services household penetration rate (number of subscribers as a proportion of the 2,777,300 total homes passed) was 55.4% as of December 31, 2014, compared with 54.9% as of December 31, 2013.

**Cable television services** – Our combined customer base for cable television services decreased by 42,800 (2.3%) in 2014, compared with a decrease of 29,900 (1.6%) in 2013. Our cable network household penetration rate was 64.2% as of December 31, 2014, compared with 66.5% a year earlier.

- The number of subscribers to illico Digital TV stood at 1,553,600 as at the end of 2014, an increase of 26,200 (1.7%) in 2014, compared with an increase of 46,500 (3.1%) in 2013. As of December 31, 2014, 87.2% of our cable television customers were subscribers to our illico Digital TV services, compared with 83.7% as of December 31, 2013. Our illico Digital TV household penetration rate was 55.9% as of December 31, 2014, compared with 55.7% as of December 31, 2013.
- The customer base for analog cable television services decreased by 69,000 (23.2%) in 2014, compared with a decrease of 76,400 customers (20.4%) in 2013, mainly as a result of customer migration to illico Digital TV services.

**Cable telephony services** – The number of cable telephony lines stood at 1,349,000 as at the end of 2014, an increase of 500 (0.1%) in 2014, compared with an increase of 32,200 (2.4%) in 2013. Our cable telephony services household penetration rate was 48.6% as of December 31, 2014, compared with 49.2% as of December 31, 2013.

**Over-the-top video services** – The number of subscribers to over-the-top video services stood at 177,700 as at the end of 2014, an increase of 119,500 (205.3%) in 2014, compared with an increase of 58,200 in 2013.

### 2014/2013 Analysis of Results

**Revenues:** \$2,826.8 million, an increase of \$115.0 million (4.2%) compared with 2013.

Revenues from mobile telephony services increased by \$67.1 million (30.4%) to \$287.7 million, essentially due to customer growth.

Revenues from Internet access services increased by \$41.4 million (5.1%) to \$856.1 million. The favourable variance was mainly due to increased usage, higher revenues from Internet access resellers, customer base growth and higher revenues per customer.

Revenues from cable television services decreased by \$15.5 million (1.4%) to \$1,074.8 million mainly due to a decrease in our combined customer base for cable television services, as detailed above.

Revenues from cable telephony services increased by \$1.3 million (0.3%) to \$475.1 million. This increase was mainly due to price increases and customer growth, partly offset by a decrease in long distance call revenues.

Revenues from over-the-top video services increased by \$8.5 million (229.7%) to \$12.2 million, essentially due to customer growth.

Revenues from business solutions increased by \$2.1 million (3.3%) to \$65.6 million.

Revenues from equipment sales increased by \$9.1 million (24.9%) to \$45.6 million, mainly due to mobile devices.

Other revenues increased by 0.8 million (9.1%) in 2014 at \$9.6 million.

**Monthly ARPU:** \$125.16 in 2014, compared with \$118.03 in 2013, an increase of \$7.13 (6.0%). This growth is mainly explained by an increase in revenues from mobile telephony and Internet access services, as detailed above.

**Adjusted operating income:** \$1,348.3 million in 2014, an increase of \$63.6 million (5.0%).

- This increase was primarily due to:
  - revenue increase, as detailed above;
  - non-recurring adjustment of \$7.2 million related to programming fees; and
  - net decrease in employee costs due to higher capitalization to fixed assets and intangible assets, mainly as the result of an increase in investments in our LTE network.

Partially offset by:

- increase in marketing costs;
- non-recurring adjustments recorded in the second quarter of 2013 mainly related to CRTC licence fees; and
- increase in losses on sale of mobile devices.

**Purchase of goods and services, expressed as a percentage of revenues:** 40.2% in 2014, compared with 39.8% in 2013.

- Purchase of goods and services expenses as a proportion of revenues increased, primarily due to:
  - increase in losses on sale of mobile devices;
  - increase in marketing costs; and
  - non-recurring adjustments recorded in the second quarter of 2013 mainly related to CRTC licence fees.

**Employee costs, expressed as a percentage of revenues:** 12.1% in 2014, compared with 12.8% in 2013.

- Employee costs as a proportion of revenues decreased slightly as revenues grew more rapidly.

**Depreciation and amortization charge:** \$601.4 million, an increase of \$39.7 million (7.1%) over 2013.

- The increase was mainly due to:
  - increase in illico Digital TV set-top boxes related to our rental program;
  - increase in fixed assets related to cable Internet access services and to the upgrade and expansion of our wireline and wireless networks; and
  - increase in assets related to our wireless LTE network launched in September 2014.

**Financial expenses** (primarily comprised of interest on long-term debt): \$169.2 million, a decrease of \$4.9 million (2.8%) over 2013.

- The decrease was mainly due to:
  - \$2.8 million decrease in interest costs on defined benefit plans; and
  - \$2.5 million decrease in interest on long-term debt, mainly due to lower interest rates on our indebtedness; partially offset by higher indebtedness.

Partially offset by:

- \$1.2 million increase in loss on foreign currency translation of short-term monetary items.

**Gain or loss on valuation and translation of financial instruments:** Loss of \$3.4 million in 2014, compared with a loss of \$163.7 million in 2013, a favourable variance of \$160.3 million.

- The change was mainly due to the variance in the fair value of early settlement options caused by fluctuations in valuation assumptions, including interest rates and credit premiums implicit in the adjusted prices of the underlying instruments, and to the favourable variation on loss on reversal of embedded derivatives upon debt redemption.

**Gain or loss on litigation, restructuring of operations and other items:** \$39.4 million expense recorded in 2014, compared with \$0.7 million in 2013.

- The increase of \$38.7 million was mainly due to a \$34.3 million charge recorded in 2014 as a result of an unfavourable judgment against the Corporation in a legal action.

**Income tax expense:** \$93.3 million (effective tax rate of 18.2%) in 2014, compared with \$29.4 million (effective tax rate of 8.1%) in 2013.

- The increase of \$63.9 million was mainly due to:
  - \$39.8 million related to an increase in taxable income;
  - \$12.5 million related to other non-taxable or non-deductible items and other items; and
  - \$9.9 million related to changes in tax consolidation arrangements with our parent corporation and affiliated corporations.

**Net income attributable to shareholder:** \$420.2 million, an increase of \$43.7 million (11.6%).

- The increase was mainly due to:
  - \$160.3 million favourable variance in gain or loss on valuation and translation of financial instruments;
  - \$63.6 million increase in adjusted operating income; and
  - \$4.9 million decrease in financial expenses.

Partially offset by:

- \$63.9 million increase in income taxes;
- \$40.7 million decrease in income from discontinued operations;
- \$39.7 million increase in depreciation and amortization charges;
- \$38.7 million increase in gain or loss on litigation, restructuring of operations and other items; and
- \$2.5 million unfavourable variance in gain or loss on debt refinancing.

## CASH FLOW AND FINANCIAL POSITION

This section provides an analysis of sources and uses of cash flows, as well as a financial position analysis as of the balance sheet date. This section should be read in conjunction with the discussions on trends under “Trend Information” above and on the Corporation’s financial risks under “Financial Instruments and Financial Risk Management” below.

### Operating activities

#### *2015 Financial Year*

**Cash flows provided by operating activities:** \$1,208.0 million in 2015, compared with \$1,106.5 million in 2014, an increase of \$101.5 million (9.2%).

- The increase was mainly due to:
  - \$169.1 million favourable variance in gain or loss on litigation, restructuring of operations and other items, as discussed above;
  - \$53.4 million decrease in current income tax expenses;
  - \$34.1 million increase in adjusted operating income; and
  - \$2.7 million favourable variance on cash interest expenses.

Partially offset by:

- \$158.2 million unfavourable variance in non-cash balances related to operations, mainly due to an increase in inventories, payment of outstanding income tax balances and a decrease in current income taxes.

**Working capital:** Negative \$380.9 million as of December 31, 2015, compared with negative \$332.0 million as of December 31, 2014. The difference mainly reflects the payment of \$218.8 million for 2500 MHz and AWS-3 spectrum licences acquired during the year, cash outflows from debt redemption transactions and distributions paid to the parent corporation; partially offset by the net cash inflow from share capital issuance, the cash inflow from the gain on the litigation with Bell ExpressVu, the decrease in income taxes payable and the cash inflows from debt issuance and revolving credit facility drawings.

#### *2014 Financial Year*

**Cash flows provided by operating activities:** \$1,106.5 million in 2014, compared with \$1,058.3 million in 2013, an increase of \$48.2 million (4.6%).

- The increase was mainly due to:
  - \$63.6 million increase in adjusted operating income;
  - \$45.7 million favourable variance in non-cash balances related to operations, mainly due to a \$83.5 million favourable a net variation in accounts payable, accrued charges and provisions; partially offset by a \$70.0 million unfavourable net variation in income taxes payable; and
  - \$5.6 million favourable variance on other items.

Partially offset by:

- \$38.8 million increase in gain or loss on litigation, restructuring of operations and other items; and
- \$28.0 million increase in current income tax expenses.

**Working capital:** Negative \$332.0 million as of December 31, 2014, compared with negative \$195.4 million as of December 31, 2013. The difference mainly reflects the reclassification to short-term liabilities of our US\$175 million Senior Notes due in December 2015 and a \$34.3 million provision recorded due to an unfavourable judgment against the Corporation; partially offset by the impact of the settlement of the derivative financial instruments in January 2014.

## **Investing Activities**

### *2015 Financial Year*

**Additions to fixed assets:** \$630.1 million in 2015, compared with \$606.0 million in 2014. The increase is mainly explained by our illico Digital set-top boxes rental program and investments in our data centers following the acquisition of 4Degrees Colocation, as well as investments related to our wireless LTE network.

**Additions to intangible assets:** \$312.1 million in 2015, compared with \$304.5 million in 2014. The variance is due to higher investments in various software upgrade projects. In 2015, the Corporation disbursed \$218.8 million for the acquisition of spectrum licences (\$217.4 million in 2014).

**Business acquisition:** In March 2015, the Corporation acquired 4 Degrees Colocation and its data center for a total consideration of \$35.2 million, net of cash acquired and working capital adjustments. This acquisition will enable the Corporation to continue to meet its business customers' growing technological and hosting needs.

**Net proceeds from business disposal:** In 2015, \$7.8 million net proceeds from the sale to our parent corporation of the specialized web site reseaucontact.com that occurred in November 2013.

### *2014 Financial Year*

**Additions to fixed assets:** \$606.0 million in 2014, compared with \$530.9 million in 2013. The increase is mainly explained by investments made on our wireless LTE network and our Internet infrastructure.

**Additions to intangible assets:** \$304.5 million in 2014, compared with \$67.6 million in 2013. In 2014, the Corporation acquired 700 MHz wireless operating licenses, for which total payments of \$217.4 million were made during the year (\$15.9 million in 2013). The variance is also due to various software upgrade projects and licence purchases made in 2014, in addition to the development of our LTE technology platform.

**Proceeds from disposal of assets:** \$5.5 million in 2014, compared with \$12.8 million in 2013. The decrease of \$7.7 million is mainly explained by significant disposals recorded in 2013.

## **Financing Activities**

### *2015 Financial Year*

**Consolidated debt** (long-term debt plus bank indebtedness): \$353.8 million increase in 2015.

- Summary of debt increases in 2015:
  - issuance, on September 15, 2015, of \$375.0 million aggregate principal amount of Senior Notes for net proceeds of \$370.1 million, net of financing fees of \$4.9 million. The Notes bear interest at 5.75% per annum and mature on January 15, 2026;
  - \$246.7 million drawings on our revolving credit facilities;
  - \$337.8 million unfavourable impact of exchange rate fluctuations. This increase in long-term debt is offset by a decrease in the liability (or an increase in the asset) related to cross-currency interest rate swaps, recorded under "Derivative financial instruments"; and
  - \$11.7 million net change in bank indebtedness.
- Summary of debt reductions during the same period:
  - redemption and retirement, on April 10, 2015, of all of our outstanding 6.375% Senior Notes due in December 2015, for a total aggregate notional amount of US\$175.0 million;
  - redemption and retirement, on July 16, 2015, of all of our outstanding 9.125% Senior Notes due in April 2018, for a total aggregate notional amount of US\$75.0 million;
  - redemption and retirement, on July 16, 2015, of all of our outstanding 7.125% Senior Notes due in January 2020, for a total aggregate notional amount of \$300.0 million; and
  - repayment of \$10.7 million of borrowings under a bank credit facility.

**Assets and liabilities related to derivative financial instruments:** Net asset of \$494.2 million as of December 31, 2015, compared with a net asset of \$111.2 million as of December 31, 2014, a \$383.0 million favourable variance.

- The variance was mainly due to:
  - favourable net impact of exchange rate and interest rate fluctuations on the value of derivative financial instruments; and
  - early settlement of an offsetting foreign exchange forward contract used in conjunction with cross-currency interest rate swaps to hedge the foreign exchange risk exposure on US\$441.4 million of notional amount on our 5.375% Senior Notes maturing on June 15, 2024.

Partially offset by:

- settlement, on April 10, 2015, of hedging contracts in an asset position related to the redemption of our 6.375% Senior Notes; and
- settlement, on July 16, 2015, of hedging contracts in an asset position related to the redemption of our 9.125% Senior Notes.

**Dividends:** Net increase of \$255.0 million in cash distributions to our parent corporation in 2015 compared with 2014.

#### *2014 Financial Year*

**Consolidated debt** (long-term debt plus bank borrowings): \$525.4 million increase in 2014.

- Summary of debt increases in 2014:
  - issuance, on April 9, 2014, of US\$600.0 million aggregate principal amount of Senior Notes for net proceeds of \$654.5 million, net of financing fees of \$7.8 million. The Notes bear interest at 5.375% per annum and mature on June 15, 2024;
  - \$145.1 million unfavourable impact of exchange rate fluctuations. This increase in long-term debt is offset by a decrease in the liability (or an increase in the asset) related to cross-currency interest rate swaps, recorded under “Derivative financial instruments”; and
  - \$8.2 million adjustment to record the change in the fair value of long-term debt related to hedged interest rate risk.
- Summary of debt reductions during the same period:
  - redemption and retirement, on April 24, 2014, of US\$260.0 million aggregate principal amount of 9.125% Senior Notes due in April 2018; and
  - repayment of \$10.7 million of borrowings under a bank credit facility.

**Assets and liabilities related to derivative financial instruments:** Net asset of \$111.2 million as of December 31, 2014, compared with a net liability of \$163.9 million as of December 31, 2013. This \$275.1 million favourable variance was due primarily to the settlement of hedging contracts in January 2014 and to the favourable net impact of exchange rate and interest rate fluctuations on the value of derivative financial instruments.

**Dividends:** Net increase of \$48.1 million in cash distributions to our parent corporation in 2014 compared with 2013.

## **Financial Position as of December 31, 2015**

**Net available liquid assets:** \$706.3 million for the Corporation and its wholly owned subsidiaries, consisting of \$11.7 million in bank indebtedness and \$718.0 million in unused availabilities under credit facilities.

### **Uses of Liquidity and Capital Resources**

Our principal liquidity and capital resource requirements consist of:

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

**Capital expenditures:** \$942.1 million in 2015, an increase of \$31.6 million (3.5%) compared with 2014.

- The increase was mainly due to:
  - Our illico Digital set-top boxes rental program; and
  - The investments made on our wireless LTE network and the data centers following the acquisition of 4Degrees Colocation.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Customer premises equipment	<u>\$239.1</u>	<u>\$220.5</u>	<u>\$231.5</u>
Scalable infrastructure	<u>253.5</u>	<u>233.2</u>	<u>162.2</u>
Line extensions	<u>58.7</u>	<u>59.1</u>	<u>52.9</u>
Upgrade/rebuild	<u>62.9</u>	<u>74.6</u>	<u>66.1</u>
Support capital and other	<u>327.9</u>	<u>323.1</u>	<u>85.8</u>
<b>Total additions to fixed and intangible assets</b>	<b><u>\$942.1</u></b>	<b><u>\$910.5</u></b>	<b><u>\$598.5</u></b>

**Consolidated long-term debt (long-term debt plus bank indebtedness):** \$3,278.3 million as of December 31, 2015, an increase of \$353.8 million; \$383.0 million favourable net variance in assets and liabilities related to derivative financial instruments (see “Financing Activities” above).

As of December 31, 2015, mandatory debt repayments on the Corporation’s long-term debt in the coming years are as follows:

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

2016	\$ 10.7
2017	10.7
2018	5.4
2019	—
2020	246.7
2021 and thereafter	3,012.6
<b>Total</b>	<b><u>\$3,286.1</u></b>



The weighted average term of Videotron's consolidated debt was approximately 7.6 years as of December 31, 2015 (7.3 years as of December 31, 2014). The debt consisted of approximately 84.0% fixed-rate debt (85.0% as of December 31, 2014) and 16.0% floating-rate debt (15.0% as of December 31, 2014).

Videotron's management believes that cash flows from continuing operations and available sources of financing should be sufficient to cover committed cash requirements for capital investments, including investments required for our wireline and wireless networks, working capital, interest payments, debt repayments, pension plan contributions, and dividends and distributions in the future. Videotron has access to cash flows generated by its subsidiaries through dividends and cash advances paid by its wholly owned subsidiaries. The Corporation believes it will be able to meet future debt maturities, which are fairly staggered over the coming years. Pursuant to its financing agreements, the Corporation is required to maintain certain financial ratios. The key indicators listed in these financing agreements include debt service coverage ratio and debt ratio (long-term debt over adjusted operating income). As of December 31, 2015, the Corporation was in compliance with all required financial ratios.

**Servicing and Repayment of Debt:** Cash interest payments of \$150.1 million in 2015, a decrease of \$18.1 million compared with 2014.

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

**Tax Consolidation Arrangements with the Parent Corporation:** On September 20, 2013, the Corporation contracted a subordinated loan of \$3.25 billion from Quebecor Media Inc., bearing interest at a rate of 10.75%, payable every six months on June 20 and December 20, and maturing on September 20, 2043. On the same day, the Corporation invested the total proceeds of \$3.25 billion into 3,250,000 preferred shares, Series B, of 9101-0835 Québec Inc., a subsidiary of Quebecor Media Inc. These shares carry the right to receive an annual dividend of 10.85%, payable semi-annually.

On December 27, 2013, 9101-0835 Québec Inc., redeemed 2,600,000 preferred shares, Series B, for a total cash consideration of \$2.6 billion, and settled cumulative unpaid dividends of \$5.4 million. On the same day, the Corporation used the total proceeds of \$2.6 billion to repay part of its subordinated loan contracted from Quebecor Media Inc.

On October 28, 2014, 9101-0835 Québec Inc. redeemed 1,200,000 preferred shares, Series B, for a total cash consideration of \$1.2 billion, and settled cumulative unpaid dividends of \$46.4 million. On the same day, the Corporation used the total proceeds of \$1.2 billion to repay part of its subordinated loan contracted from Quebecor Media Inc.

On February 5, 2015, the Corporation contracted a subordinated loan of \$1.01 billion from Quebecor Media Inc., bearing interest at a rate of 10.75%, payable every six months on June 20 and December 20, and maturing on February 5, 2045. On the same day, the Corporation invested the total proceeds of \$1.01 billion into 1,010,000 preferred shares, Series B, of 9101-0835 Québec Inc. These shares carry the right to receive an annual dividend of 10.85%, payable semi-annually.

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

**Distributions to our shareholder:** We paid \$85.0 million in common dividends to our shareholder, Quebecor Media, in the fourth quarter of 2015 (none in the fourth quarter of 2014). For the year ended December 31, 2015, we paid \$665.0 million in common dividends to our shareholder, compared with \$410.0 million in 2014. We expect to make cash distributions to our shareholder in the future, as determined by our Board of Directors, and within the limits set by the terms of our indebtedness and applicable laws. During the third quarter of 2015, we also reduced our paid-up capital and distributed \$41.0 million to Quebecor Media.

**AWS-3 and 2500 MHz wireless spectrum auction:** On March 6, 2015, the Corporation announced that it had acquired four 30 MHz licences in the auction for AWS-3 commercial mobile spectrum licences, covering the province of Quebec and the Ottawa region, at a total price of \$31.8 million. These licences were issued to the Corporation by Industry Canada, now known as Innovation, Science and Economic Development Canada, on April 21, 2015.

On May 12, 2015, the Corporation announced that it had acquired eighteen 20 MHz licences in the auction for 2500 MHz commercial mobile spectrum licences, covering the province of Quebec, the Ottawa region and the cities of Toronto, Vancouver, Calgary and Edmonton, at a total price of \$187.0 million. These licences were issued to the Corporation by Industry Canada on June 24, 2015.

## Analysis of Consolidated Balance Sheets as of December 31, 2015

**Table 5**  
**Consolidated Balance Sheets of Videotron**  
**Analysis of significant variances between December 31, 2015 and December 31, 2014**  
**(in millions of dollars)**

	December 31, 2015	December 31, 2014	Variance	Variance detail
<b>Assets</b>				
Net cash and cash equivalents <sup>1</sup>	\$ (9.9)	\$ 342.8	(352.7)	Cash outflows related to investing and financing activities, less inflows provided by operating activities
Inventories	114.2	79.1	35.1	Increase in set-top boxes and mobile devices
Investments	2,090.0	1,080.0	1,010.0	Acquisition of preferred shares of an affiliated corporation for tax consolidation arrangements
Fixed assets	3,080.7	3,000.8	79.9	Investments on our LTE wireless network, acquisition of 4 Degrees Colocation and investments on our data centers, and customer premises equipment related to our rental program
Intangible assets	1,071.4	830.6	240.8	Acquisition of AWS-3 and 2500 MHz spectrum licences
Goodwill	448.9	429.3	19.6	Acquisition of 4Degrees Colocation
Derivative financial instruments <sup>2</sup>	494.2	111.2	383.0	See "Financing Activities" above
<b>Liabilities</b>				
Income taxes (receivables) payable	(17.9)	69.8	(87.7)	Impact of income tax payments and expenses
Long-term debt, including short-term portion	3,266.6	2,924.5	342.1	See "Financing Activities" above
Subordinated loan from parent corporation	2,090.0	1,080.0	1,010.0	Increase in loan payable to the parent corporation for tax consolidation arrangements
Deferred income taxes	561.3	476.3	85.0	Increase in temporary differences mainly related to intangible assets
<b>Equity</b>				
Capital stock	132.4	3.4	129.0	Issuance of shares and reduction in paid-up capital

<sup>1</sup> Cash and cash equivalents less bank indebtedness

<sup>2</sup> Long-term assets less current and long-term liabilities

## ADDITIONAL INFORMATION

### Contractual Obligations and Other Commercial Commitments

As of December 31, 2015, material contractual obligations included: capital repayment and interest payments on long-term debt, obligations related to derivative financial instruments, less estimated future receipts on derivative financial instruments, operating lease arrangements and capital asset purchases and other commitments. Table 6 below shows a summary of our contractual obligations.

**Table 6**  
**Contractual obligations of the Corporation as of December 31, 2015**  
**(in millions of dollars)**

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>5 years or more</u>
<b>Contractual obligations<sup>1</sup></b>					
Accounts payable and accrued charges	\$ 422.8	\$ 422.8	\$ –	\$ –	\$ –
Amounts payable to affiliated corporations	62.9	62.9	–	–	–
Bank credit facility	26.8	10.7	16.1	–	–
Revolving credit facilities	246.7	–	–	246.7	–
6 <sup>7</sup> / <sub>8</sub> % Senior Notes due July 15, 2021	300.0	–	–	–	300.0
5% Senior Notes due July 15, 2022	1,107.2	–	–	–	1,107.2
5 <sup>3</sup> / <sub>8</sub> % Senior Notes due June 15, 2024	830.4	–	–	–	830.4
5 <sup>5</sup> / <sub>8</sub> % Senior Notes due June 15, 2025	400.0	–	–	–	400.0
5 <sup>3</sup> / <sub>4</sub> % Senior Notes due January 15, 2026	375.0	–	–	–	375.0
Interest payments <sup>2</sup>	1,173.8	116.8	306.9	305.5	444.6
Derivative financial instruments <sup>3</sup>	(489.5)	4.6	(18.3)	–	(475.8)
Operating lease commitments	186.7	40.7	60.1	38.1	47.8
Services and capital equipment commitments	398.3	114.9	93.1	51.2	139.1
<b>Total contractual cash obligations</b>	<b><u>\$5,041.1</u></b>	<b><u>\$ 773.4</u></b>	<b><u>\$457.9</u></b>	<b><u>\$641.5</u></b>	<b><u>\$3,168.3</u></b>

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

<sup>2</sup> Estimated interest payable on long-term debt, based on interest rates, hedging of interest rates and hedging of foreign exchange rates as of December 31, 2015.

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

### Material commitments included in Table 6

The Corporation leases sites for its LTE wireless network under operating lease contracts, and has contracted long-term commitments to acquire equipment for a total future disbursement of \$155.2 million.

In May 2013, the Corporation and Rogers have announced a 20-year agreement to build out and operate a shared LTE wireless network in the Province of Québec and in the Ottawa Region. As of December 31, 2015, a total commitment of \$260.0 million was outstanding under this agreement.

### Pension plan contributions

The expected employer contributions to the Corporation's defined benefit pension plans and postretirement benefits plans will be \$22.3 million in 2016 (contributions of \$23.1 million were paid in 2015).

## Related Party Transactions

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ultimate parent and parent corporation :			
Revenues	\$ 0.7	\$ 0.7	\$ 0.5
Purchase of goods and services	8.6	7.6	8.5
Operating expenses recovered	(0.6)	(0.7)	(4.2)
Affiliated corporations :			
Revenues	8.1	10.3	11.0
Purchase of goods and services	103.4	81.1	73.2
Operating expenses recovered	(1.4)	(0.7)	(3.4)

## 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 terms) and should the fair value of the assets be less than the guaranteed residual value, then the Corporation must, under certain conditions, compensate the lessor for a portion of the shortfall. As of December 31, 2015, the maximum exposure with respect to the guarantees was \$15.4 million and no liability has been recorded in the consolidated balance sheet.

- *Business and asset disposals*

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

- *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.

- *Guarantees Related to our Bank Credit Facilities*

The bank credit facilities provide for a \$615.0 million secured revolving credit facility that matures in July 2020, a \$350.0 million unsecured revolving credit facility that matures in July 2020 and a \$75.0 million secured export financing facility providing for a term loan that matures in June 2018. The revolving credit facility bears interest at Bankers' acceptance rate, Canadian prime rate or U.S. prime rate, plus a margin, depending on the Corporation's leverage ratio. Advances under the export financing facility bear interest at Bankers' acceptance rate plus a margin. The secured bank credit facilities are secured by a first ranking hypothec on the universality of all tangible and intangible assets, current and future, of the Corporation and most of its wholly owned subsidiaries. As of December 31, 2015, the secured bank credit facilities were secured by assets with a carrying value of \$7,646.3 million (\$6,238.3 million in 2014). The bank credit facilities contain covenants such as maintaining certain financial ratios, limitations on the Corporation's ability to incur additional indebtedness, pay dividends and make other distributions. As of December 31, 2015, \$246.7 million was drawn on the secured revolving credit facilities (no amount was drawn in 2014), \$26.8 million was outstanding on the export financing facility (\$37.5 million in 2014) and no amount was drawn on the unsecured revolving credit facility.

### **Financial instruments and financial risk management**

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

The Corporation uses a number of financial instruments, mainly cash and cash equivalents, accounts receivable, accounts payable and accrued charges, provisions, long-term debt, and derivative financial instruments. As a result of its use of financial instruments, the Corporation is exposed to credit risk, liquidity risk and market risks relating to foreign exchange fluctuations and interest rate fluctuations.

In order to manage its foreign exchange and interest rate risks, the Corporation uses derivative financial instruments (i) to set in Canadian dollars future payments on debts denominated in U.S. dollars (interest and principal) and certain purchases of inventories and other capital expenditures denominated in a foreign currency, (ii) to achieve a targeted balance of fixed- and floating-rate debts and (iii) to lock-in the value of certain derivative financial instruments through offsetting transactions. The Corporation does not intend to settle its derivative financial instruments prior to their maturity as none of these instruments is held or issued for speculative purposes.

### **Description of Derivative Financial Instruments**

**Table 8**  
**Foreign exchange forward contracts as of December 31, 2015**  
**(in millions of dollars)**

<b>Maturity</b>	<b>Canadian dollar average exchange rate per one U.S. dollar</b>	<b>Notional amount sold</b>	<b>Notional amount bought</b>
Less than 1 year	1.3105	\$ 168.7	US\$ 128.7
2017 <sup>1</sup>	1.3849	US\$ 260.0	\$ 360.1

**Table 9**  
**Cross-currency interest rate swaps as of December 31, 2015**  
**(in millions of dollars)**

<u>Hedged item</u>	<u>Hedging instrument</u>			
	<u>Period covered</u>	<u>Notional amount</u>	<u>Annual interest rate on notional amount in Canadian dollars</u>	<u>Canadian dollar exchange rate on interest and capital payments per one U.S. dollar</u>
5.000% Senior Notes due 2022	2014 to 2022	US\$543.1	6.01%	0.9983
5.000% Senior Notes due 2022	2012 to 2022	US\$256.9	5.81%	1.0016
5.375% Senior Notes due 2024 <sup>1</sup>	2008 to 2017	US\$260.0	9.21%	1.2965
5.375% Senior Notes due 2024	2014 to 2024	US\$158.6	Bankers' acceptances 3 months +2.67%	1.1034
5.375% Senior Notes due 2024	2017 to 2024	US\$441.4	5.62%	1.1039

<sup>1</sup> The Corporation initially entered into these cross-currency interest rate swaps to hedge the foreign currency risk exposure under its 9.125% Senior Notes due in 2018 redeemed in 2014. These swaps are now used to set in CAN dollars all coupon payments through 2017 on US\$441.4 million of notional amount under its 5.375% Senior Notes due in 2024 and issued in 2014. In conjunction with the repurposing of these swaps, the Corporation has entered into US\$260.0 million offsetting foreign exchange forward contracts to lock-in the value of its hedging position related to the December 15, 2017 notional exchange.

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

The gain or loss on valuation and translation of financial instruments for the years ended December 31, 2015, 2014 and 2013 is summarized in the following table.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Loss on embedded derivatives	\$ 3.6	\$ 4.9	\$ 97.4
(Gain) loss on reversal of embedded derivatives upon debt redemption	(0.3)	(0.6)	67.0
Loss on derivative financial instruments for which hedge accounting is not used	–	3.1	0.4
Loss (gain) on the ineffective portion of cash flow hedges	0.7	(0.8)	(1.1)
Gain on the ineffective portion of fair value hedges	(3.5)	(3.2)	–
	<u>\$ 0.5</u>	<u>\$ 3.4</u>	<u>\$163.7</u>

A gain of \$2.1 million was recorded under “Other comprehensive income” in 2015 in relation to cash flow hedging relationships (gain of \$7.2 million in 2014 and loss of \$25.0 million in 2013).

Fair value of financial instruments

The fair value of long-term debt in Table 11 is estimated based on quoted market prices when available or on valuation models. When the Corporation uses valuation models, the fair value is estimated using discounted cash flows using year-end market yields or the market value of similar instruments with the same maturity.

The fair value of cash equivalents 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 sheet is estimated as per the Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative 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 is determined by option pricing models using market inputs, including volatility, discount factors and underlying instruments adjusted implicit interest rate and credit premium.

The carrying value and fair value of long-term debt and derivative financial instruments as of December 31, 2015 and 2014 are as follows:

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

Asset (liability)	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
<b>Long-term debt<sup>1, 2</sup></b>	<b>\$(3,286.1)</b>	<b>\$(3,289.6)</b>	<b>\$(2,951.0)</b>	<b>\$(3,020.9)</b>
<b>Derivative financial instruments<sup>3</sup></b>				
Early settlement options	1.0	1.0	5.6	5.6
Foreign exchange forward contracts <sup>4</sup>	9.3	9.3	4.2	4.2
Cross-currency interest rate swaps <sup>4</sup>	484.9	484.9	107.0	107.0

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

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

<sup>3</sup> The fair value of the derivative financial instruments designated as hedges is an asset position of \$494.2 million as of December 31, 2015 (\$111.2 million as of December 31, 2014).

<sup>4</sup> The value of foreign exchange forward contracts entered into to lock-in the value of existing hedging positions is netted from the value of the offset financial instruments.

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

### Credit Risk Management

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

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, 2015, no customer balance represented a significant portion of the Corporation's consolidated accounts receivable. 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 \$16.6 million as of December 31, 2015 (\$15.4 million as of December 31, 2014). As of December 31, 2015, 7.4% of accounts receivable were 90 days past their billing date (7.0% as of December 31, 2014), of which 63.3% had an allowance for doubtful accounts (61.2% as of December 31, 2014).

The following table shows changes to the allowance for doubtful accounts for the years ended December 31, 2015 and 2014:

**Table 12**  
**Changes in Allowance for Doubtful Accounts**  
**(in millions of dollars)**

	<u>2015</u>	<u>2014</u>
Balance as of beginning of year	\$ 15.4	\$ 15.7
Charged to income	30.2	28.9
Utilization	<u>(29.0)</u>	<u>(29.2)</u>
<b>Balance as of end of year</b>	<b><u>\$ 16.6</u></b>	<b><u>\$ 15.4</u></b>

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

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

#### Liquidity risk management

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due or the risk that those financial obligations will have to be met at excessive cost. The Corporation manages this exposure through staggered debt maturities. The weighted average term of the Corporation's consolidated debt was approximately 7.6 years as of December 31, 2015 (7.3 years as of December 31, 2014). (see also "Contractual obligations" above).

#### Market Risk

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

#### Foreign Currency Risk

Most of the Corporation's consolidated revenues and expenses, other than interest expense on U.S.-dollar-denominated debt, purchases of set-top boxes, handsets and cable modems and certain capital expenditures, are received or denominated in Canadian dollars. A significant portion of the interest, principal and premium, if any, payable on its debt is payable in U.S. dollars. The Corporation has entered into transactions to hedge the foreign currency risk exposure on its U.S.-dollar-denominated debt obligations outstanding as of December 31, 2015, to hedge its exposure on certain purchases of set-top boxes, handsets, cable modems and capital expenditures and to lock-in the value of certain derivative financial instruments 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 Canadian dollar per one U.S. dollar:

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

<u>Increase (decrease)</u>	<u>Income</u>	<u>Other comprehensive income</u>
<b>Increase of \$0.10</b>		
Gain on valuation and translation of financial instruments and derivative financial instruments	\$ 2.2	\$ 31.5
<b>Decrease of \$0.10</b>		
Gain on valuation and translation of financial instruments and derivative financial instruments	(2.2)	(31.5)

#### Interest Rate Risk

The Corporation's bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers' acceptance rate, (ii) Canadian prime rate and (iii) U.S. prime rate. The Senior Notes issued by the Corporation bear interest at fixed rates. The Corporation has entered into various cross-currency interest rate swap agreements in order to manage interest rate risk exposure. As of December 31, 2015, after taking into account the hedging instruments, long-term debt was comprised of 84.0% fixed-rate debt (85.0% in 2014) and 16.0% floating-rate debt (15.0% in 2014).

The estimated sensitivity on interest payments of a 100 basis point variance in the year-end Canadian Banker's acceptance rate as of December 31, 2015 is \$4.5 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 per the Corporation's valuation model, is as follows:

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

<u>Increase (decrease)</u>	<u>Income</u>	<u>Other comprehensive income</u>
Increase of 100 basis points	\$ (3.6)	\$ (25.1)
Decrease of 100 basis points	3.6	25.1

#### Capital Management

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

In managing its capital structure, the Corporation takes into account the asset characteristics of its subsidiaries and planned requirements for funds. Management of the capital structure involves the issuance of new debt, the repayment of existing debt using cash flows generated by operations, and the level of distributions to the parent corporation. The Corporation has not significantly changed its strategy regarding the management of its capital structure since the last financial year.

The Corporation's capital structure is composed of equity, bank indebtedness, long-term debt and net assets and liabilities related to derivative financial instruments, less cash and cash equivalents. The capital structure as of December 31, 2015 and 2014 is as follows:

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

	December 31, 2015	December 31, 2014
Bank indebtedness	\$ 11.7	\$ –
Long-term debt	3,266.6	2,924.5
Derivative financial instruments asset	(494.2)	(111.2)
Cash and cash equivalents	(1.7)	(342.8)
Net liabilities	2,782.4	2,470.5
Equity	<u>\$ 813.8</u>	<u>\$ 793.9</u>

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

#### Contingencies and legal disputes

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

#### 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.

The Corporation provides services under arrangements with multiple deliverables, for which there are two separate accounting units: one for subscriber services (cable television, Internet, cable telephony, mobile telephony and over-the-top video, 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.

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

- Operating revenues from subscriber services such as cable television, Internet access, cable and mobile telephony and over-the-top video are recognized when services are provided. 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; and

- 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.

#### *Impairment of assets*

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

The Corporation uses the discounted cash flow method to estimate the recoverable amount, consisting of future cash flows derived mainly from the most recent budget and three-year strategic plan approved by the Corporation’s management and presented to the Board of Directors. These forecasts consider each CGU’s past operating performance and market share as well as economic trends, along with specific and market industry trends and corporate strategies. In particular, specific assumptions are used for each type of revenues generated by a CGU or for each nature of expenses as well as for future capital expenditures. As such, assumptions will consider, among many other factors, subscribers, competitive landscape, evolution of products and services offerings, wireless penetration growth, proliferation of media platforms, technology evolution, bargaining agreements, Canadian GDP rates and operating cost structures. 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 statement of income to the extent that the resulting carrying value does not exceed the carrying value that would have been the result if no impairment losses had been previously recognized.

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

Therefore, the judgment used in determining the recoverable amount of an asset or CGU may affect the amount of the impairment loss to 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 of December 31, 2015 was \$448.9 million.

### *Useful life of spectrum licences*

Management has concluded that spectrum licences have an indefinite useful life. This conclusion was based on the analysis of factors such as the Corporation's financial ability to renew the spectrum licences, the competitive, legal and regulatory landscape, and the future expected use of the licences. Therefore, the determination that spectrum licences have an indefinite useful life involves judgment and it could have an impact on the amortization charge recorded in the consolidated statement of income if management was to change its conclusion in the future as it did in 2015.

### *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 objectives. 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 offsetting foreign exchange forward contracts in combination with cross-currency interest rate swaps to hedge foreign currency rate exposure on interest and principal payments on foreign currency denominated debt. These foreign exchange forward contracts are designated as cash flow hedges.
- The Corporation uses cross-currency interest rate swaps to hedge (i) foreign currency rate exposure on interest and principal payments on foreign currency denominated debt and/or (ii) fair value exposure on certain debt resulting from changes in interest rates. The cross-currency interest rate swaps that set all future interest and principal payments on U.S.-dollar-denominated debt in fixed CAN dollars, in addition to converting an interest rate from a floating rate to a floating rate or from a fixed rate to a fixed rate, are designated as cash flow hedges. The cross-currency interest rate swaps are designated as fair value hedges when they set all future interest and principal payments on U.S.-dollar-denominated debt in fixed CAN dollars, in addition to converting the interest rate from a fixed rate to a floating rate.

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 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 recorded 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, discount factors and underlying instrument adjusted implicit interest rate and credit premium.

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.

#### *Pension and postretirement benefits*

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

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

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

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

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

#### *Stock-based compensation*

Stock-based awards to employees that call for settlement in cash 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 distribution 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.

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.

### *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 asset 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.

### **Change in accounting estimate**

In the second quarter of 2015, the Corporation changed its assessment of the useful life of its spectrum licences. In light of recent spectrum auctions and developments in the telecommunication industry, the Corporation is now of the view that these spectrum licences have an indefinite useful life based on the following facts:

- The Corporation intends to renew the spectrum licences and believes that they are likely to be renewed by Industry Canada;
- The Corporation has the financial and operational ability to renew these spectrum licences;
- Currently, the competitive, legal and regulatory landscape does not limit the useful lives of the spectrum licences; and
- The Corporation foresees no limit to the period during which these licences can be expected to generate cash flows in the future.

Accordingly, the Corporation ceased to amortize spectrum licences used in its operations as of April 1, 2015 and no amortization expense was recorded after this date. The straight-line amortization expense recorded relating to these licences was \$13.9 million in 2015 (\$55.4 million in 2014 and 2013).

## Recent Accounting Pronouncements

The Corporation has not yet completed its assessment of the impact of the adoption of these pronouncements on its consolidated financial statements.

- (i) IFRS 9 – *Financial Instruments* is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

- (ii) IFRS 15 – *Revenue from Contracts with Customers* is required to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

- (iii) IFRS 16 – *Leases* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that IFRS 15 has been applied or is applied at the same time as IFRS 16.

IFRS 16 sets out new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides lessees with a single accounting model for all leases, with certain exemptions. In particular, lessees will be required to report most leases on their balance sheets by recognising right-of-use assets and related financial liabilities.

## ITEM 6 – DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A- Directors and Senior Management

The following table sets forth certain information concerning our directors and executive officers at March 18, 2016:

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Position</u>
THE RIGHT HONOURABLE BRIAN MULRONEY, P.C., C.C., LL.D. Montréal, Québec	76	Director and Chair of the Board
JEAN LA COUTURE, FCPA, FCA <sup>(1)</sup> Montréal, Québec	69	Director and Chair of the Audit Committee
SYLVIE LALANDE Lachute, Québec	65	Director
A. MICHEL LAVIGNE, FCPA, FCA <sup>(1)</sup> Laval, Québec	65	Director
NORMAND PROVOST <sup>(1)</sup> Brossard, Québec	61	Director
MANON BROUILLETTE Montréal, Québec	47	President and Chief Executive Officer
JEAN NOVAK Knowlton, Québec	52	President, Videotron Business Solutions, President, Le SuperClub Vidéotron ltée, and Senior Vice President, Sales Network and Retail Sector
HUGUES SIMARD Montréal, Québec	49	Senior Vice President and Chief Financial Officer
DANIEL PROULX Montréal, Québec	58	Chief Technological Officer
SYLVAIN BROUSSEAU Varenes, Québec	52	Senior Vice President, Operations, Customer Service
MYRIANNE COLLIN Montréal, Québec	42	Senior Vice President, Strategy and Market Development
PIERRE BONIN Montreal West, Québec	53	Vice President, Information Technology
ALAIN CHARLEBOIS Laval, Québec	44	Vice President, Human Resources
CHLOÉ POIRIER Nuns' Island, Québec	46	Vice President and Treasurer
MARC M. TREMBLAY Westmount, Québec	55	Corporate Secretary

(1) Member of the Audit Committee

*The Right Honourable Brian Mulroney, P.C., C.C., LL.D., Director and Chairman of the Board.* Mr. Mulroney was appointed as Director and Chairman of the Board of Videotron on June 19, 2014. He has been a Director of Quebecor Media since January 31, 2001 and director of Quebecor since 1999. He was appointed Chairman of the Board



of Quebecor and Quebecor Media on June 19, 2014. He also served as Vice Chairman of the Board of Quebecor from November 2009 to June 2014 and as Vice-Chairman of the Board of Quebecor Media from March 2014 to June 2014. Mr. Mulroney also served as Chairman of the Board of Directors of Quebecor World Inc. from April 2002 to July 2009. Mr. Mulroney served as Chairman of the Board of Directors of Sun Media Corporation from January 2000 to June 2001. Since 1993, Mr. Mulroney has been a Senior Partner with the law firm Norton Rose Fulbright Canada LLP (formerly Ogilvy Renault LLP) in Montréal, Québec. Prior to that, Mr. Mulroney was the Prime Minister of Canada from 1984 until 1993. Mr. Mulroney practiced law in Montréal and served as President of The Iron Ore Company of Canada before entering politics in 1983. Mr. Mulroney serves as a Director of a number of public corporations, including Wyndham Worldwide Corporation (New Jersey), The Blackstone Group LP (New York) and Lion Capital (London). He is also Chairman of the International Advisory Board of Barrick Gold Corporation. He is Companion of the Order of Canada as well as *Grand Officier de l'Ordre national du Québec*.

**Jean La Couture, FCPA, FCA, Director and Chairman of the Audit Committee.** Mr. La Couture has served as a Director and as Chair of our Audit Committee since October 2003. Mr. La Couture is a Director and Chair of the Audit Committee of Quebecor and Quebecor Media. He was a Director of Quebecor World Inc. from December 2007 to December 2008. Mr. La Couture, a Fellow Chartered Professional Accountant, is President of Huis Clos Ltée., a management and mediation firm. He headed Le Groupe Mallette (an accounting firm) before becoming, from 1990 to 1994, President and Chief Executive Officer of The Guarantee Company of North America. He is Chairman of the Board of Innergex Renewable Energy Inc., Chairman of the Board of Groupe Pomerleau (a Québec-based construction company) and a Director and Chair of the Investment and Risk Management Committee of CDPQ and Chairman of the Board of Ébénisterie Beaubois Ltée.

**Sylvie Lalonde, Director.** Ms. Lalonde is a Director of Videotron since July 2014 and of Quebecor Media since May 2013. She has served as a Director of Quebecor since May 2011. She is a member of the Human Resources and Compensation Committee of Quebecor and Quebecor Media since June 2014. She is a Director of TVA Group since December 2001, and was appointed as Chair of the Board on March 10, 2014. She has also served as Chair of the Human Resources and Corporate Governance Committee of TVA Group since May 2013. Ms. Lalonde held several senior positions in the media, marketing, communication marketing and company communications sectors. Until October 2001, she was Chief Communications Officer of Bell Canada. From 1994 to 1997, she was President and Chief Executive Officer of UBI Consortium, a consortium formed to develop and manage interactive and transactional communication services. From 1987 to 1994, she occupied several senior positions within TVA Group and Le Groupe Vidéotron Ltée. Ms. Lalonde began her career in the radio industry, after which she founded her own consultation firm. In 2006, Ms. Lalonde earned a degree in corporate governance from the Collège des administrateurs de sociétés. Ms. Lalonde is a Director and Chair of the Corporate Governance and Human Resources Committee and Lead Director of Ovivo Inc. In November 2013, Ms. Lalonde was appointed Chair of the Board of the Collège des administrateurs de sociétés (CAS) of *Université Laval*.

**A. Michel Lavigne, FCPA, FCA, Director and member of the Audit Committee.** Mr. Lavigne has served as a Director of Videotron and as a member of its Audit Committee since June 30, 2005. Mr. Lavigne has also served as a Director and member of the Audit Committee and the Human Resources and Compensation Committee of Quebecor Media since June 30, 2005. He was appointed Chair of the Human Resources and Compensation Committee in June 2014. Since June 30, 2005, Mr. Lavigne has also served as a Director and a member of the Audit Committee of TVA Group. Since May 2013, he is also a member of the Human Resources and Corporate Governance Committee of TVA Group. He also is a Director and member of the Audit Committee and of the Human Resources and Compensation Committee of Quebecor since May 2013 and as Chair of the latter committee since June 2014. Mr. Lavigne is a Director, a member of the Audit Committee and Chair of the Pension Committee of Canada Post and a Director and member of the Risk Management Committee of Laurentian Bank of Canada. Until May 2005, he served as President and Chief Executive Officer of Raymond Chabot Grant Thornton in Montréal, Québec, as Chairman of the Board of Grant Thornton Canada and as a member of the Board of Governors of Grant Thornton International. Mr. Lavigne is a Fellow Chartered Professional Accountant of the *Ordre des comptables professionnels agréés du Québec* and a member of the Canadian Institute of Chartered Accountants since 1973.

**Normand Provost, Director.** Mr. Provost is a Director of Videotron since June 2014. He has served as a Director of Quebecor Media since July 2004 and a Director of Quebecor since May 2013. He has also served as a member of the Audit Committee of Quebecor and Quebecor Media since June 2014. From May 2014 to December 2015, Mr. Provost

was Assistant to the President of CDPQ, one of the largest institutional fund managers in Canada and North America. Mr. Provost joined CDPQ in 1980 and has held various management positions during his time there. He served as President of CDP Capital Americas from 1995 to 2003. He also served as Executive Vice President, Private Equity, of CDPQ from October 2003 until May 2014. In addition to his responsibilities in the investment sector, Mr. Provost served as Chief Operations Officer of CDPQ from April 2009 to March 2012. Mr. Provost is a Director of the *Fondation de l'Entrepreneurship*.

**Manon Brouillette, President and Chief Executive Officer.** In May 2014, Ms. Brouillette was promoted President and Chief Executive Officer of Videotron. From May 2013 to May 2014, she acted as President and Chief Operating Officer of Videotron, after acting as President, Consumer Market from January 2012 to May 2013. She acted as Executive Vice President, Strategy and Market Development of Videotron from March 2009 to January 2012, as President, Consumer Market. From January 2011 to May 2012, she also acted as Vice President and Chief Digital Officer of Quebecor Media. From June 2008 to March 2009, she acted as Senior Vice President, Strategic Development and Market Development of Quebecor Media. She joined Videotron in July 2004 and acted as Vice President, Marketing, from July 2004 to January 2005, as Vice President, New Product Development, from January 2005 to August 2006 and as Senior Vice President, Marketing, Content and New Product Development, from September 2006 to June 2008. Before joining the Corporation, Ms. Brouillette was Vice President, Marketing and Communications of the San Francisco Group from April 2003 to February 2004. She was also responsible for the national and regional accounts of the Blitz division of Groupe Cossette Communication Marketing from April 2002 to April 2003. From September 1998 to April 2002, she worked at Publicité Martin inc. Ms. Brouillette holds a Bachelor's degree in communications with a minor in marketing from *Université Laval*.

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

**Hugues Simard, Senior Vice President and Chief Financial Officer.** Mr. Simard was appointed to his current position in August 2014. Mr. Simard served as Vice President Finance of Sun Media Corporation from January 2011 to August 2014 and as Vice President, Corporate Advertising Sales from December 2008 to January 2011. He was also Senior Vice President, Development and Strategy of Quebecor Media from February 2007 to January 2011. Mr. Simard joined the Quebecor group of companies in July 1998 as Director, Business Development of Quebecor Printing which became Quebecor World in 1999. He was appointed Vice President, Corporate Development of Quebecor New Media in 1999 and President & CEO of Netgraphe/Canoe in 2000. He rejoined Quebecor World in 2003, first as Vice President, Development and Planning and then as President of the Commercial Printing Group in 2004. Prior to his appointment as Senior Vice President, Development and Strategy at Quebecor Media, he spent a year in Paris, France as Managing Director of Secor Conseil, a management consulting firm. Mr. Simard holds a Bachelor's degree of Applied Science degree in industrial engineering from the University of Toronto and an MBA from Harvard Business School.

**Daniel Proulx, Chief Technological Officer.** Mr. Proulx was appointed Chief Technological Officer in April 2011. Prior to his appointment, he had served as Vice President, Engineering since July 2003 and as Vice President, Information Technology since July 2002. Mr. Proulx has held various management positions within Videotron since joining the Corporation in 1995. Mr. Proulx holds a Bachelor's degree in Engineering from *l'École polytechnique de Montréal*.

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

**Myrienne Collin, Senior Vice President, Strategy and Market Development.** Ms. Collin was promoted to her current position in December 2011. She had served as Vice President, Marketing, Consumer division since June 2008. She

joined Videotron in April 2005 as Senior Director Marketing, Cable Telephony and Bundling. In September 2006, Ms. Collin was appointed Senior Director, Broadcast Services & Relationship Marketing. From 1995 to 2005, Ms. Collin held various positions with Bell Canada and Alliance Data System (Air Miles). She holds a Bachelor's degree in marketing from *Université de Sherbrooke*.

**Pierre Bonin, Vice President, Information Technology.** Mr. Bonin was appointed Vice President, Information Technology in March 2014. Prior to joining the Corporation, Mr. Bonin was President and Chief Executive Officer of StrongKase Enterprise Inc., a private equity firm where, from 2005 to 2014, he has been actively involved in the data center industry through various investments and ventures. Prior to 2005, Mr. Bonin held various executive positions in the telecommunications industry as Executive Vice President and Chief Information Technology Officer at Microcell Telecommunications Inc. (FIDO), Vice President Information Technology as well as Vice President Finance and Administration at Bell Canada. Mr. Bonin graduated in Mathematics and Computer Science from *Université de Sherbrooke* and received an MBA from HEC Montreal. He holds the designation of Chartered Director from the *Collège des administrateurs de sociétés (CAS)* of *l'Université Laval* and from the Directors College of McMaster University.

**Alain Charlebois, Vice President, Human Resources.** Mr. Charlebois was appointed Vice President, Human Resources in January 2013. Prior to joining the Corporation, Mr. Charlebois has held various positions within Videotron since joining the Company as Section Head, Human Resources in 2003. Mr. Charlebois holds a Bachelor's degree in Human Resources Management from the *Université du Québec à Montréal*.

**Chloé Poirier, Vice President and Treasurer.** Ms. Poirier was promoted Vice President and Treasurer in June 2013 from her previous position as Treasurer, a position she held since August 2009. She also serves as Vice President and Treasurer of Quebecor and Quebecor Media. Ms. Poirier joined the Corporation in 2001 as Director, Treasury / Assistant Treasurer, Treasury Operations. Prior to that, she was Analyst, Treasury and Finance with Natrel inc./Agropur from 1997 to 2001 and trader at the *Caisse de dépôt et placement du Québec* from 1995 to 1997. She is a Chartered Financial Analyst (CFA) and holds a Bachelor's degree in Actuarial Science and an MBA from *Université Laval*.

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

## **B- Compensation**

Our Directors do not receive any remuneration for acting in their capacity as directors of Videotron. Since July 1, 2013, the Chairman of our Audit Committee receives an annual fee of \$25,000 while the other two members receive an annual fee of \$10,000. Our Directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with meetings of our Board of Directors and our Audit Committee. During the financial year ended December 31, 2015, the amount of compensation (including benefits in kind) paid to four of our directors for services in all capacities to Videotron and its subsidiaries was \$45,000. None of our directors have contracts with us or any of our subsidiaries that provide for benefits upon termination of employment.

The aggregate amount of compensation we paid for the year ended December 31, 2015 to our executive officers as a group, excluding those who are also executive officers of, and compensated by, Quebecor Media, was approximately \$6.6 million, including salaries, bonuses and benefits in kind. In addition, an aggregate total of 109,000 options were granted to them under Quebecor Media's Stock Option Plan, with a weighted average price of \$70.558.

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

Under a stock option plan established by Quebecor Media, 6,180,140 common shares of Quebecor Media (representing 6.4% of all of the outstanding common shares of Quebecor Media) have been set aside for directors,

officers, senior employees, and other key employees of Quebecor Media and its subsidiaries, including Videotron. Each option may be exercised within a maximum period of ten years following the date of grant at an exercise price not lower than, as the case may be, the fair market value of the common shares of Quebecor Media at the date of grant, as determined by its Board of Directors (if the common shares of Quebecor Media are not listed on a stock exchange at the time of the grant) or the 5-day weighted average closing price ending on the day preceding the date of grant of the common shares of Quebecor Media on the stock exchange(s) where such shares are listed at the time of grant, as applicable. For so long as the shares of Quebecor Media are not listed on a recognized stock exchange, optionees may exercise their vested options during one of the following annual periods: from March 1 to March 30, from June 1 to June 29, from September 1 to September 29 and from December 1 to December 30. Holders of options under the plan have the choice at the time of exercising their options to receive an amount in cash equal to the difference between the fair market value of the common shares, as determined by Quebecor Media's Board of Directors, and the exercise price of their vested options or, subject to certain stated conditions, purchase common shares of Quebecor Media at the exercise price. Except under specific circumstances, and unless Quebecor Media's Human Resources and Compensation Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules as determined by Quebecor Media's Human Resources and Compensation Committee at the time of grant: (i) equally over five years with the first 20% vesting on the first anniversary of the date of the grant; (ii) equally over four years with the first 25% vesting on the second anniversary of the date of grant; and (iii) equally over three years with the first 33 1/3% vesting on the third anniversary of the date of grant. Pursuant to the terms of this plan, no optionee may hold options representing more than 5% of the outstanding common shares of Quebecor Media.

During the year ended December 31, 2015, a total of 145,000 options were granted under this plan to executive officers of Videotron (excluding directors, officers and employees who, at the date of grant, were directors, officers or employees at multiple Quebecor Media group of companies). During the year ended December 31, 2015, a total of 57,150 options were exercised by officers and employees of Videotron, for aggregate gross value realized of \$1.15 million. The value realized on option exercises represents the difference between the option exercise price and the fair market value of Quebecor Media common shares (as determined as set forth above) at the date of exercise. As of December 31, 2015, an aggregate total of 386,611 options granted to directors, officers and employees of Videotron (excluding directors, officers and employees who, at the date of grant, were directors, officers or employees at multiple Quebecor Media group of companies) remain outstanding, with a weighted average exercise price of \$62.34 per share, as determined by Quebecor Media's Human Resources and Compensation Committee. For more information on this stock option plan, refer to Note 21 to our audited consolidated financial statements included under "Item 18. Financial Statements" of this annual report.

### ***Quebecor's Stock Option Plan***

Under a stock option plan established by Quebecor, 13,000,000 Quebecor Class B Shares have been set aside for Directors, officers, senior employees and other key employees of Quebecor and its subsidiaries, including Videotron. The exercise price of each option is equal to the weighted average trading price of Quebecor Class B Shares on the Toronto Stock Exchange over the last five trading days immediately preceding the grant of the option. Each option may be exercised during a period not exceeding ten years from the date granted. Options usually vest as follows: 1/3 after one year, 2/3 after two years, and 100% three years after the original grant. Holders of options under the Quebecor stock option plan have the choice, when they want to exercise their options, to acquire Quebecor Class B Shares at the corresponding option exercise price or to receive a cash payment from Quebecor equivalent to the difference between the market value of the underlying shares and the exercise price of the option. The Board of Directors of Quebecor may, at its discretion, affix different vesting periods at the time of each grant.

During the year ended December 31, 2015, no options to purchase Quebecor Class B Shares were granted to senior executive officers of Videotron. As of December 31, 2015, a total of 50,000 options to purchase Quebecor Class B Shares, with a weighted average exercise price of \$25.49 per share, were held by one senior executive officer of Videotron for acting in such capacity. The closing sale price of the Quebecor Class B Shares on the TSX on December 31, 2015, was \$33.88.

## ***Pension Benefits***

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

Videotron's pension plan provides pension benefits to our executive officers equal to 2.0% of salary (excluding bonuses) for each year of membership in the plan. The pension benefits so calculated are payable at the normal retirement age of 65 years, or sooner at the election of the executive officer, subject to an early retirement reduction. In addition, the pension benefits may be deferred, but not beyond the age limit under the relevant provisions of the *Income Tax Act* (Canada), in which case the pension benefits are adjusted to take into account the delay in their payment in relation to the normal retirement age. The maximum pension benefits payable under our pension plan are as prescribed under the *Income Tax Act* (Canada). An executive officer contributes to this plan an amount equals to 5.0% of his or her salary up to a maximum of \$7,225 in respect of 2016. Videotron changed this pension plan to a defined contribution plan for new employees hired on and after May 1, 2012. Videotron reserves the right, in exceptional circumstances, to override the above conditions in order to allow an executive officer to join the pension plan as of the date of hire or any subsequent date.

Quebecor Media's pension plan provides greater pension benefits to eligible executive officers than it does to other employees. The higher pension benefits under this plan equal 2.0% of the average salary over the best five consecutive years of salary (including bonuses), multiplied by the number of years of membership in the plan as an executive officer. The pension benefits so calculated are payable at the normal retirement age of 65 years, or sooner at the election of the executive officer, and, from age 61, without early retirement reduction. In addition, the pension benefits may be deferred, but not beyond the age limit under the relevant provisions of the *Income Tax Act* (Canada), in which case the pension benefits are adjusted to take into account the delay in their payment in relation to the normal retirement age. The maximum pension benefits payable under Quebecor Media's pension plan are as prescribed by the *Income Tax Act* (Canada) and is based on a maximum salary of \$144,500. An executive officer contributes to this plan an amount equals to 5.0% of his or her salary up to a maximum of \$7,225 in respect of 2016. Videotron has no liability regarding Quebecor Media's pension plan. Quebecor Media closed this pension plan to all new employees hired on and after December 27, 2008. However, Quebecor Media reserves the right, in exceptional circumstances, to override the above conditions in order to allow an executive officer to join the pension plan as of the date of hire or any subsequent date. New employees are eligible to enroll in a retirement savings plan.

The total amount we contributed for the year ended December 31, 2015 to provide the pension benefits to our senior executives, as a group, was \$223,200. For a description of the amount set aside or accrued for pension plans and post-retirement benefits by us to all participants, refer to Note 27 to our audited consolidated financial statements for the year ended December 31, 2015 included under "Item 18. Financial Statements" of this annual report.

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

<u>Compensation</u>	<u>Years of Participation</u>				
	<u>10</u>	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>
\$144,500	\$28,900	\$43,350	\$57,800	\$72,250	\$86,700

## ***Liability Insurance***

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

## **C- Board Practices**

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

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

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

#### ***Audit Committee***

Videotron's Audit Committee is currently composed of three Directors, namely Messrs. Jean La Couture, A. Michel Lavigne and Normand Provost. Mr. La Couture is the Chair of our Audit Committee and our Board of Directors has determined that Mr. La Couture is an "audit committee financial expert" as defined under SEC rules. See "Item 16A. Audit Committee Financial Expert". Our Board of Directors has adopted the mandate of our Audit Committee in light of the Sarbanes-Oxley Act of 2002 and related SEC rulemaking. Our Audit Committee assists our Board of Directors in overseeing our financial controls and reporting. Our Audit Committee also oversees our compliance with financial covenants and legal and regulatory requirements governing financial disclosure matters and financial risk management.

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

#### **D- Employees**

At December 31, 2015, we had 6,410 employees. At December 31, 2014 and 2013, we had 6,432 and 6,310 employees, respectively (excluding, at December 31, 2013, the employees of Jobboom inc., which was sold in 2013). Substantially all of our employees are based and work in the Province of Quebec. We had 3,843 unionized employees, and the terms of their employment are governed by one of our four regional collective bargaining agreements. The collective bargaining agreement covering 2,800 unionized employees in the Montréal region will expire on December 2018. We also have two collective bargaining agreements covering our unionized employees in the Québec and Saguenay regions, with terms running through December 31, 2018 and December 31, 2019 respectively. Our Gatineau region collective bargaining agreement expired on August 31, 2015, and one other collective bargaining agreement, covering 73 employees of our SETTE inc. subsidiary expired on December 31, 2015. These two collective bargaining agreements are currently being negotiated.

#### **E- Share Ownership**

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

## ITEM 7 – MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A- Major Shareholders

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

Quebecor holds, directly and indirectly, 77,812,366 common shares of Quebecor Media, representing a 81.07% voting and equity interest in Quebecor Media and Caisse de dépôt et placement du Québec (“CDPQ”), indirectly holds 18,170,810 shares of Quebecor Media, representing a 18.93% interest in Quebecor Media. The primary asset of Quebecor, a communications holding company, is its interest in Quebecor Media. CDPQ is one of Canada’s largest pension fund managers.

### B- Related Party Transactions

The Corporation enters into related party transactions from time to time. These related party transactions are further described under “Item 5. Operating and Financial Review and Prospects – Cash Flow and Financial Position – Financial Position as of December 31, 2015” and in Note 8, in Note 11 and in Note 26 to our audited consolidated financial statements included under “Item 18. Financial Statements” in this annual report. These related party transactions have been accounted for at the consideration agreed between parties:

	As of December 31,		
	2015	2014	2013
	(in thousands of dollars)		
<b><i>Ultimate Parent and Parent Corporation:</i></b>			
Revenues	\$ 696	\$ 680	\$ 541
Purchase of goods and services	8,584	7,572	8,508
Operating expenses recovered	(597)	(682)	(4,207)
<b><i>Affiliated Corporations:</i></b>			
Revenues	8,059	10,349	11,019
Purchase of goods and services	103,435	81,148	73,193
Operating expenses recovered	(1,395)	(701)	(3,418)

#### ***Management fee***

The Corporation pays annual management fees to the parent corporation for services rendered to the Corporation, including internal audit, legal and corporate, financial planning and treasury, tax, real estate, human resources, risk management, public relations and other services. Management fees amounted to \$48.0 million in 2015, \$43.5 million in 2014 and \$45.0 million in 2013. The agreement provides for an annual management fee to be agreed upon for the year 2015. In addition, the parent corporation is entitled to the reimbursement of out-of-pocket expenses incurred in connection with the services provided under the agreement.

#### ***Income tax transactions***

On February 5, 2015, the Corporation contracted a subordinated loan of \$1.01 billion from Quebecor Media, bearing interest at a rate of 10.75%, payable every six months on June 20 and December 20, and maturing on February 5, 2045. On the same day, we invested the total proceeds of \$1.01 billion into 1,010,000 preferred shares, Series B, of 9101-0835 Québec inc., a subsidiary of Quebecor Media. These shares carry the right to receive an annual dividend of 10.85%, payable semi-annually.

On October 28, 2014, 9101-0835 Québec inc., a subsidiary of Quebecor Media, redeemed 1,200,000 preferred shares, Series B, for a total cash consideration of \$1.2 billion, and settled cumulative unpaid dividends of \$46.4 million. On the same day, the Corporation used the total proceeds of \$1.2 billion to repay part of its subordinated loan contracted from Quebecor Media.

On December 27, 2013, 9101-0835 Québec inc., a subsidiary of Quebecor Media, redeemed 2,600,000 preferred shares, Series B, for a total cash consideration of \$2.6 billion, and settled cumulative unpaid dividends of \$5.4 million. On the same day, the Corporation used the total proceeds of \$2.6 billion to repay part of its subordinated loan contracted from Quebecor Media.

On October 18, 2013, Vidéotron Infrastructures inc. redeemed from Le SuperClub Vidéotron 80,000 preferred shares, Class G, for a total cash consideration of \$80.0 million, and settled cumulative unpaid dividends of \$3.0 million. On the same day, Le SuperClub Vidéotron used the total proceeds of \$80.0 million to repay the outstanding portion of the subordinated loan contracted from Vidéotron Infrastructures Inc.

On September 20, 2013, the Corporation contracted a subordinated loan of \$3.25 billion from Quebecor Media, bearing interest at a rate of 10.75%, payable every six months on June 20 and December 20, and maturing on September 20, 2043. On the same day, we invested the total proceeds of \$3.25 billion into 3,250,000 preferred shares, Series B, of 9101-0835 Québec inc., a subsidiary of Quebecor Media. These shares carry the right to receive an annual dividend of 10.85%, payable semi-annually.

On January 21, 2013, Vidéotron Infrastructures inc. redeemed from Le SuperClub Vidéotron 720,000 preferred shares, Class G, for a total cash consideration of \$720.0 million, and settled cumulative unpaid dividends of \$7.1 million. On the same day, Le SuperClub Vidéotron used the total proceeds of \$720.0 million to repay a portion of the subordinated loan contracted from Vidéotron Infrastructures Inc.

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

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

Unlike corporations in the United States, corporations in Canada are not permitted to file consolidated tax returns. As a result, we enter into certain transactions from time to time that have the effect of using tax losses within the Quebecor Media Group. These transactions are described further under "Item 5. Operating and Financial Review and Prospects – Cash Flow and Financial Position – Financial Position as of December 31, 2015" and in Note 11 and in Note 26 to our audited consolidated financial statements which are included under "Item 18. Financial Statements" in this annual report.

#### **C- Interests of Experts and Counsel**

Not applicable.

### **ITEM 8 – FINANCIAL INFORMATION**

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

Our consolidated balance sheets as at December 31, 2015 and 2014, and our consolidated statements of income, comprehensive income, equity and cash flows for the years ended December 31, 2015, 2014 and 2013, including the notes thereto and together with the report of Independent Registered Public Accounting Firm, are included beginning on page F-1 of this annual report.

#### ***Legal Proceedings***

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



In 2001, we refused to complete the acquisition of Cable-Axion, a cable operator, claiming that a material adverse change had occurred. However, Telus and Novacap disagreed and, as shareholders and interest owners of Cable-Axion, they filed an action in damages against us for an amount of \$18.8 million in 2002. The trial occurred during the fall of 2014. On January 20, 2015, the Superior Court of Québec rendered a judgement against us in the amount of \$34.3 million (including accrued interest). On February 18, 2015, we filed an appeal against this judgment with the Court of Appeal of Québec.

### **Dividend Policy**

During the years ended December 31, 2015, 2014 and 2013 we paid aggregate cash dividends on our common shares of \$665,000,000, \$410,000,000 and \$361,880,099.43, respectively. We currently expect to pay dividends and other distributions on our common shares in the future. The declaration and payment of dividends and other distributions is in the sole discretion of our Board of Directors, and any decision regarding the declaration of dividends and other distributions will be made by our Board of Directors depending on, among other things, our financial resources, the cash flows generated by our business, our capital needs, and other factors considered relevant by our Board of Directors, including the terms of our indebtedness and applicable law.

### **B- Significant Changes**

Except as otherwise disclosed in this annual report, there has been no other material adverse change in our financial position since December 31, 2015.

## **ITEM 9 – THE OFFER AND LISTING**

### **A- Offer and Listing Details**

Not applicable.

### **B- Plan of Distribution**

Not applicable.

### **C- Markets**

#### ***Outstanding Notes***

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

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

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

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

On July 5, 2011, we issued and sold \$300.0 million aggregate principal amount of our 6 7/8% Senior Notes due July 15, 2021 in private placements exempt from the registration requirement of the Securities Act and the prospectus requirements of applicable Canadian securities laws.

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

The record holder of our 5% Senior Notes due 2022 and our 5 3/8% Senior Notes due 2024 is Cede & Co., a nominee of The Depository Trust Company, and the record holder of our 6 7/8% Senior Notes due 2021, our 5 5/8% Senior Notes due 2025 and our 5 3/4% Senior Notes due 2026 is CDS Clearing and Depository Services Inc.

**D- Selling Shareholders**

Not applicable.

**E- Dilution**

Not applicable.

**F- Expenses of the Issue**

Not applicable.

**ITEM 10 – ADDITIONAL INFORMATION**

**A- Share Capital**

Not applicable.

**B- Memorandum and Articles of Association**

The Articles of Amalgamation of Videotron, dated as of July 1, 2006, and the Articles of Amendment of Videotron, dated as of June 30, 2008 and December 12, 2008 are referred to as our “Articles”. Our Articles are included as exhibits to this annual report. The following is a summary of certain provisions of our Articles and by-laws:

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

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

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

- (i) relates primarily to the remuneration of the director or an associate of the director as a director of the Corporation or an affiliate of the Corporation;

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

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

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

## **Common Shares**

### ***Class "A" Common Shares***

- (a) *Dividend rights:* Subject to the rights of the holders of our preferred shares (including their redemption rights) and subject to applicable law, each Class "A" Common Share is entitled to receive such dividends as our Board of Directors shall determine.
- (b) *Voting rights:* The holders of Class "A" Common Shares are entitled to vote at each shareholders' meeting with the exception of meetings at which only the holders of another class of shares are entitled to vote. Each Class "A" Common Share entitles the holder to one vote. The holders of the Class "A" Common Shares shall elect the directors of Videotron at an annual or special meeting of shareholders called for that purpose, except that any vacancy occurring in the Board of Directors may be filled, for the remainder of the term, by our Directors. At any meeting of shareholders called for such purpose, directors are elected by a majority of the votes cast in respect of such election.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class "A" Common Shares are entitled to receive dividends as determined by our Board of Directors subject to certain restrictions) and paragraph (d) below (whereby the holders of our Class "A" Common Shares are entitled to participation in the remaining property and assets of our company available for distribution in the event of liquidation or dissolution), None.

- (d) *Rights upon liquidation:* In the event of our liquidation or dissolution or any other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of our Class “A” Common Shares shall be entitled, subject to the rights of the holders of our preferred shares, to participate equally, share for share, in our residual property and assets available for distribution to our shareholders, without preference or distinction.
- (e) *Redemption provisions:* None.
- (f) *Sinking fund provisions:* None.
- (g) *Liability to further capital calls by us:* None, provided that our directors may make calls upon the shareholders in respect of any moneys unpaid upon their shares.
- (h) *Provisions discriminating against existing or prospective holders of common shares as a result of such holders owning a substantial number of common shares:* None.

## **Preferred Shares**

### ***Class “B” Preferred Shares***

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “B” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares, Class “C” Preferred Shares, Class “D” Preferred Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “G” Preferred Shares, a preferential and non-cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the applicable redemption value of our Class “B” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.
- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “B” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “B” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “B” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “B” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “B” Preferred Shares shall be entitled to repayment of the amount paid for the Class “B” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “B” Preferred Shares.

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

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

In addition, Videotron may, at its option, redeem any or all of the Class “B” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “B” Preferred Shares.

Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “B” Preferred Shares outstanding at a purchase price for any such Class “B” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.

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

### **Class “C” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “C” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares, Class “D” Preferred Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “B” Preferred Shares and Class “G” Preferred Shares, a preferential and non-cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the applicable redemption value of our Class “C” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.
- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “C” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “C” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “C” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “C” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “C” Preferred Shares shall be entitled to repayment of the amount paid for the Class “C” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “C” Preferred Shares.

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

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

In addition, Videotron may, at its option, redeem any or all of the Class “C” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “C” Preferred Shares.

Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “C” Preferred Shares outstanding at a purchase price for any such Class “C” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.

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

#### **Class “D” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “D” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “B” Preferred Shares, Class “C” Preferred Shares and Class “G” Preferred Shares, a preferential and non cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the applicable redemption value of our Class “D” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.
- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “D” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “D” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “D” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “D” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “D” Preferred Shares shall be entitled to repayment of the amount paid for the Class “D” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “D” Preferred Shares.

In addition, in the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the rights of holders of Class “D” Preferred Shares as regards to payment of dividends and the right to participate in

the distribution of residual assets, shall rank in priority to the rights of the holders of our Class “A” Common Shares, Class “E” Preferred Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the rights of holders of our Class “B” Preferred Shares, Class “C” Preferred Shares and Class “G” Preferred Shares.

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

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

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

#### **Class “E” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “E” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares, Class “F” Preferred Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “B” Preferred Shares, Class “C” Preferred Share, Class “D” Preferred Share and Class “G” Preferred Shares, a preferential and non cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the applicable redemption value of our Class “E” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.
- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “E” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “E” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “E” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “E” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “E” Preferred Shares shall be entitled to repayment of the amount paid for the Class “E” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “E” Preferred Shares.

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

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

In addition, Videotron may, at its option, redeem any or all of the Class “E” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “E” Preferred Shares.

Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “E” Preferred Shares outstanding at a purchase price for any such Class “E” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.

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

#### **Class “F” Preferred Shares**

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “F” Preferred Shares have the right to receive, in priority over the holders of our Class “A” Common Shares and Class “H” Preferred Shares, but subordinated to the holders of our Class “B” Preferred Shares, Class “C” Preferred Shares, Class “D” Preferred Shares, Class “E” Preferred Shares and Class “G” Preferred Shares, a preferential and non-cumulative dividend at the fixed rate of 1% per month, calculated on the basis of the applicable redemption value of our Class “F” Preferred Shares. A dividend may be declared and payable in cash, in kind or through the issuance of fully paid shares of any class of our corporation.
- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “F” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Other than as described in paragraph (a) above (whereby the holders of our Class “F” Preferred Shares are entitled to receive certain dividends, if and when declared by our Board of Directors), paragraph (d) below (whereby the holders of our Class “F” Preferred Shares are entitled to participate in the distribution of the residual property and assets of Videotron available for distribution in the event of our liquidation or winding-up) and paragraph (e) below (whereby the holders of our Class “F” Preferred Shares have certain redemption rights): None.
- (d) *Rights upon liquidation:* In the event of our liquidation, dissolution or other distribution of our assets among our shareholders for the purpose of winding-up our affairs, whether voluntarily or involuntarily, the holders of the Class “F” Preferred Shares shall be entitled to repayment of the amount paid for the Class “F” Preferred Shares in the subdivision of the issued and paid-up share capital account relating to the Class “F” Preferred Shares.



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

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

In addition, Videotron may, at its option, redeem any or all of the Class “F” Preferred Shares outstanding at any time at an aggregate redemption price equal to the consideration received by Videotron for these Class “F” Preferred Shares.

Videotron may also, when it deems it appropriate and without giving notice or taking into account the other classes of shares, buy, pursuant to a private agreement, all or some of the Class “F” Preferred Shares outstanding at a purchase price for any such Class “F” Preferred Shares not exceeding the retraction right purchase price described above or the book value of Videotron’s net assets.

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

#### ***Class “G” Preferred Shares***

- (a) *Dividend rights:* When our Board of Directors declares a dividend, the holders of our Class “G” Preferred Shares have the right to receive, in priority over the holders of our common shares and preferred shares of other series, a preferential and cumulative dividend, payable semi-annually, at the fixed rate of 11.25% per year, calculated daily on the basis of the applicable redemption value of our Class “G” Preferred Shares. No dividends may be paid on any common shares or preferred shares of other series unless all dividends which shall have become payable on the Class “G” Preferred Shares have been paid or set aside for payment.
- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “G” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.

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

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

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

#### ***Class “H” Preferred Shares***

- (a) *Dividend rights:* The holders of Class “H” Preferred Shares shall be entitled to receive, every year, in such manner and at such time as our Board of Directors may declare, a non cumulative dividend at the fixed rate of 1% per month, calculated on the redemption price of the Class “H” Preferred Shares, payable in cash, property or through the issuance of fully paid shares of any class of the Corporation.
- (b) *Voting rights:* Subject to applicable law and except as expressly otherwise provided, the holders of our Class “H” Preferred Shares do not have the right to receive notice of meetings of shareholders or to attend any such meeting or vote at any such meeting.
- (c) *Rights to share in our profits:* Except as described in paragraph (a) above (whereby the holders of our Class “H” Preferred Shares are entitled to receive, every year, in such manner and at such time as our Board of Directors may declare, a non cumulative dividend at the fixed rate of 1% per month), paragraph (d) below (whereby the holders of our Class “H” Preferred Shares are entitled to repayment of the amount paid for the Class “H” Preferred Shares in the event of our liquidation, winding-up or reorganization) and paragraph (e) below (whereby the holders of our Class “H” Preferred Shares may require us to redeem the Class “H” Preferred Shares at a specified redemption price): None.

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

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

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

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

5. **Limitations on right to own securities.** There is no limitation imposed by Canadian law or by the Articles or our other constituent documents on the right of non-residents or foreign owners to hold or vote shares, other than as provided in the *Investment Canada Act* (Canada) and the Radiocommunication Act. The *Investment Canada Act* (Canada) requires “non-Canadian” (as defined in the *Investment Canada Act* (Canada)) individuals, governments, corporations and other entities who wish to acquire control of a “Canadian business” (as defined in the *Investment Canada Act* (Canada)) to file either an application for review (when certain asset value thresholds are met) or a post closing notification with the Director of Investments appointed under the *Investment Canada Act* (Canada), unless a specific exemption applies. The *Investment Canada Act* (Canada) requires that, when an acquisition of control of a Canadian business by a “non-Canadian” is subject to review, it must be approved by the Minister responsible for the *Investment Canada Act* (Canada) on the basis that the Minister is satisfied that the acquisition is “likely to be of net benefit to Canada”, having regard to criteria set forth in the *Investment Canada Act* (Canada). Radio licenses may be issued under the Radiocommunication Act to radiocommunication service providers (“**Service Providers**”) that meet the eligibility criteria of Canadian ownership and control set forth in the *Canadian Telecommunications Common Carrier Ownership and Control Regulations* (the “**CTCCOCR**”). Under the CTCCOCR, the Service Provider may refuse to accept any subscription for or register the transfer of any of its voting shares unless it receives a declaration that such subscription or transfer would not result in the percentage of the total voting shares of the Service Provider that are beneficially owned and controlled by non-Canadians exceeding 33 1/3%.
6. **Provisions that could have the effect of delaying, deferring or preventing a change of control.** The Articles provide that our directors shall refuse to issue (including on the occasion or because of a conversion of shares or in shares), and to allow a transfer of, any share of our capital stock if this issuance or transfer would, in the opinion of our directors, affect our eligibility or of any other corporation or partnership in which we have or may have an interest, to obtain, preserve or renew a license or authorization required for the operation or continuation of its broadcasting company (as defined in the Broadcasting Act, as amended) (or any part thereof) or of any other activity necessary for the continuation of our corporation. See “Item 4. Information on the Corporation — Regulation — Ownership and Control of Canadian Broadcast Undertakings”.
7. Not applicable.
8. Not applicable.
9. Not applicable.

#### **C- Material Contracts**

The following is a summary of each material contract, other than contracts entered into in the ordinary course of business, to which we or any of our subsidiaries is a party, for the two years preceding publication of this annual report.

- (a) **Indenture relating to US\$175,000,000 of our 6 3/8% Senior Notes due December 15, 2015, dated as of September 16, 2005, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.**

On September 16, 2005, we issued US\$175,000,000 aggregate principal amount of our 6 3/8% Senior Notes due December 15, 2015, pursuant to an Indenture, dated as of September 16, 2005, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee. These senior notes were unsecured and bore a maturity date of December 15, 2015. Interest on these senior notes is payable in cash semi-annually in arrears on June 15 and December 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the redemption prices set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our

subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. On April 10, 2015, we redeemed and retired the entire remaining principal amount outstanding of our 6<sup>3</sup>/<sub>8</sub>% Senior Notes due December 15, 2015.

**(b) Indenture relating to US\$715,000,000 of our 9<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2018, dated as of April 15, 2008, as supplemented, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.**

On April 15, 2008, we issued US\$455,000,000 aggregate principal amount of our 9<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2018, and on March 5, 2009, we issued and sold an additional US\$260,000,000 aggregate principal amount of our 9<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2018, in each case pursuant to an Indenture, dated as of April 15, 2008, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee. These senior notes, which form a single series and class, were unsecured and bore a maturity date of April 15, 2018. Interest on these senior notes is payable in cash semi-annually in arrears on June 15 and December 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the redemption prices set forth in an indenture dated as of April 15, 2008. This indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all of such senior notes to be due and payable immediately. On July 2, 2013, we redeemed and retired US\$380,000,000 aggregate principal amount of our outstanding 9<sup>1</sup>/<sub>8</sub>% Senior Notes due 2018. On April 24, 2014, we redeemed and retired US\$260,000,000 aggregate principal amount of our outstanding 9<sup>1</sup>/<sub>8</sub>% Senior Notes due 2018. On July 16, 2015, we redeemed and retired the entire remaining principal amount outstanding of our 9<sup>1</sup>/<sub>8</sub>% Senior Notes due April 15, 2018.

**(c) Indenture relating to CAN\$300,000,000 of our 7<sup>1</sup>/<sub>8</sub>% Senior Notes due January 15, 2020, dated as of January 13, 2010, as supplemented, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee.**

On January 13, 2010, we issued CAN\$300,000,000 aggregate principal amount of our 7<sup>1</sup>/<sub>8</sub>% Senior Notes due January 15, 2020, pursuant to an Indenture, dated as of January 13, 2010, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee. These senior notes were unsecured and bore a maturity date of January 15, 2020. Interest on these senior notes is payable in cash semi-annually in arrears on June 15 and December 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the redemption prices set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture were not and will not be registered under the Securities Act or under the laws of any other jurisdiction. On July 16, 2015, we redeemed and retired the entire remaining principal amount outstanding of our 7<sup>1</sup>/<sub>8</sub>% Senior Notes due January 15, 2020.

**(d) Indenture relating to CAN\$300,000,000 of our 6<sup>7</sup>/<sub>8</sub>% Senior Notes due July 15, 2021, dated as of July 5, 2011, as supplemented, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee.**

On July 5, 2011, we issued CAN\$300,000,000 aggregate principal amount of our 6<sup>7</sup>/<sub>8</sub>% Senior Notes due July 15, 2021, pursuant to an Indenture, dated as of July 5, 2011, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee. These senior notes are unsecured and mature on July 15, 2021. Interest on these senior notes is payable in cash semi-annually in arrears on

June 15 and December 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the redemption prices set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture were not and will not be registered under the Securities Act or under the laws of any other jurisdiction.

**(e) Indenture relating to US\$800,000,000 of our 5% Senior Notes due July 15, 2022, dated as of March 14, 2012, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.**

On March 14, 2012, we issued US\$800,000,000 aggregate principal amount of our 5% Senior Notes due July 15, 2022, pursuant to an Indenture, dated as of March 14, 2012, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee. These senior notes are unsecured and mature on July 15, 2022. Interest on these senior notes is payable in cash semi-annually in arrears on January 15 and July 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the make-whole redemption price set forth in the indenture. This indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately.

**(f) Indenture relating to CAN\$400,000,000 of our 5<sup>5</sup>/<sub>8</sub>% Senior Notes due June 15, 2025, dated as of June 17, 2013, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee.**

On June 17, 2013, we issued CAN\$400,000,000 aggregate principal amount of our 5<sup>5</sup>/<sub>8</sub>% Senior Notes due June 15, 2025, pursuant to an Indenture, dated as of June 17, 2013, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee. These senior notes are unsecured and mature on June 15, 2025. Interest on these senior notes is payable in cash semi-annually in arrears on April 15 and October 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the make-whole redemption price set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture have not been and will not be registered under the Securities Act or under the laws of any other jurisdiction.

**(g) Indenture relating to US\$600,000,000 of our 5<sup>3</sup>/<sub>8</sub>% Senior Notes due June 15, 2024, dated as of April 9, 2014, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee.**

On April 9, 2014, we issued US\$600,000,000 aggregate principal amount of its 5<sup>3</sup>/<sub>8</sub>% Senior Notes due June 15, 2024, pursuant to an Indenture, dated as of April 9, 2014, by and among Videotron, the guarantors party thereto, and Wells Fargo Bank, National Association, as trustee. These senior notes are unsecured and mature on June 15, 2024. Interest on these senior notes is payable in cash semi-annually in arrears on June 15 and December 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of our subsidiaries. These senior notes are redeemable, at our option, under certain circumstances and at the make-whole redemption price set forth in the indenture. The indenture contains customary restrictive covenants with respect to us and certain of our subsidiaries,

and customary events of default. If an event of default occurs and is continuing, other than our bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture have not been and will not be registered under the Securities Act or under the laws of any other jurisdiction.

**(h) Indenture relating to CAN\$375,000,000 of our 5<sup>3</sup>/<sub>4</sub>% Senior Notes due January 15, 2026, dated as of September 15, 2015, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee.**

On September 15, 2015, we issued CAN\$375,000,000 aggregate principal amount of its 5<sup>3</sup>/<sub>4</sub>% Senior Notes due January 15, 2026, pursuant to an Indenture, dated as of September 15, 2015, by and among Videotron, the guarantors party thereto, and Computershare Trust Company of Canada, as trustee. These senior notes are unsecured and mature on January 15, 2026. Interest on these senior notes is payable in cash semi-annually in arrears on March 15 and September 15 of each year. These senior notes are guaranteed on a senior unsecured basis by most, but not all, of Videotron's subsidiaries. These senior notes are redeemable, at Videotron's option, under certain circumstances and at the redemption prices set forth in the indenture. The indenture contains customary restrictive covenants with respect to Videotron and certain of its subsidiaries, and customary events of default. If an event of default occurs and is continuing, other than Videotron's bankruptcy or insolvency, the trustee or the holders of at least 25% in principal amount at maturity of the then-outstanding senior notes may declare all the senior notes to be due and payable immediately. The senior notes issued pursuant to this indenture have not been and will not be registered under the Securities Act or under the laws of any other jurisdiction.

**(i) Credit Agreement originally dated as of November 28, 2000, by and among Videotron, as borrower, the guarantors party thereto, the financial institutions party thereto from time to time, as lenders, and Royal Bank of Canada, as administrative agent, as amended.**

Our senior credit facilities, as amended and restated as of June 16, 2015, provide for a \$615,000,000 secured revolving credit facility and a \$350,000,000 unsecured revolving credit facility that both mature on July 20, 2020, as well as a secured export financing facility (in a principal amount of \$32,142,857 as of the amendment and restatement date of June 16, 2015) providing for a term loan that matures on June 15, 2018. The proceeds of the revolving credit facilities can be used for general corporate purposes including, without limitation, to issue letters of credit and to pay dividends to Quebecor Media subject to certain conditions. The proceeds of the term loan were used for payments and reimbursement of payments of export equipment and local services in relation to our contracts for mobile infrastructure equipment with an affiliate of Nokia Corporation and also for the financing of the Finnvera guarantee fee (Finnvera plc being a specialized financing company owned by the State of Finland which is providing an export buyer credit guarantee in favor of the lenders under the export financing facility covering political and commercial risks).

Advances under our secured revolving credit facility bear interest at the Canadian prime rate, the U.S. prime rate (solely under the swingline commitment) or the bankers' acceptance rate plus, in each instance, an applicable margin determined by the Leverage Ratio (as defined in our credit agreement) of the Relevant Group (as defined in our credit agreement). The applicable margin for Canadian prime rate advances and U.S. prime rate advances ranges from 0.325% when this ratio is less than 1.5x, to 1.625% when this ratio is greater than or equal to 4.5x. The applicable margin for bankers' acceptance advances or letters of credit fees ranges from 1.325% when this ratio is less than 1.5x, to 2.625% when this ratio is greater than or equal to 4.5x.

Advances under our unsecured revolving credit facility bear interest at the Canadian prime rate or the bankers' acceptance rate plus, in each instance, an applicable margin determined by the Leverage Ratio (as referred to above). The applicable margin for Canadian prime rate advances ranges from 0.65% when this ratio is less than 1.5x, to 2.00% when this ratio is greater than or equal to 4.5x. The applicable margin for bankers' acceptance advances or letters of credit fees ranges from 1.65% when this ratio is less than 1.5x, to 3.00% when this ratio is greater than or equal to 4.5x.

We have also agreed to pay specified commitment fees in respect of our revolving credit facilities. Advances under our export financing facility bear interest at the bankers' acceptance rate plus a margin at a rate of 0.875%.

Our revolving credit facilities are both repayable in full on July 20, 2020. Drawdowns under the export financing facility are repayable by way of seventeen equal and consecutive semi-annual payments that commenced on June 15, 2010.

Borrowings under our senior credit facilities (excluding the unsecured revolving credit facility) and under eligible derivative instruments are secured by a first-ranking hypothec or security interest (subject to certain permitted encumbrances) on all current and future assets of Videotron and of the guarantors under the senior credit facilities (which include most, but not all of Videotron's subsidiaries), guarantees by such guarantors, pledges of shares by us and such guarantors and other security.

In respect of the unsecured revolving credit facility, our credit agreement contemplates that within approximately fifteen (15) days following the date on which our 6<sup>7/8</sup>% Senior Notes due 2021 have all been repaid in full, then the entire amount of the unsecured revolving credit facility shall be added to the amount of the secured revolving credit facility (with the relevant commitments being transferred and converted), such that all unsecured obligations under the unsecured revolving credit facility shall become secured obligations under the secured revolving credit facility.

Our senior credit facilities contain customary covenants that restrict and limit our ability and the members of the VL Group (as defined in the credit agreement to mean us and all of our wholly-owned subsidiaries) to, among other things, enter into merger or amalgamation transactions or liquidate or dissolve, grant encumbrances, sell assets, pay dividends or make other distributions, issue shares of capital stock, incur indebtedness and enter into related party transactions. In addition, our senior credit facilities contain customary financial covenants and customary events of default including the non-payment of principal or interest, the breach of any financial covenant, the failure to perform or observe any other covenant, certain bankruptcy events relating to us or any member of the VL Group (other than an Immaterial Subsidiary, as defined in the credit agreement), and the occurrence of a change of control.

#### **D- Exchange Controls**

There are currently no laws, decrees, regulations or other legislation in Canada that restricts the export or import of capital, or affects the remittance of dividends, interest or other payments to non-resident holders of our securities, other than withholding tax requirements. See "— Taxation — Canadian Material Federal Income Tax Considerations for Residents of the United States" below.

There is no limitation imposed by Canadian law or by the Articles or our other charter documents on the right of a non-resident to hold our voting shares, other than as provided by the *Investment Canada Act* (Canada), as amended, as amended by the *North American Free Trade Agreement Implementation Act* (Canada), and the *World Trade Organization (WTO) Agreement Implementation Act*. The *Investment Canada Act* (Canada) requires notification and, in certain cases, advance review and approval by the Government of Canada of the acquisition by a "non-Canadian" of "control of a Canadian business", all as defined in the *Investment Canada Act* (Canada). Generally, the threshold for review will be higher in monetary terms for a member of the WTO or NAFTA. In addition, there are regulations related to the ownership and control of Canadian broadcast undertakings. See "Item 4. Information on the Corporation — Regulation".



## E- Taxation

### Certain U.S. Federal Income Tax Considerations

The following discussion is a summary of certain U.S. federal income tax consequences applicable to the purchase, ownership and disposition of (i) our 6<sup>7/8</sup>% Senior Notes due 2021 (our “**6<sup>7/8</sup>% Senior Notes**”), (ii) our 5% Senior Notes due 2022 (our “**5% Senior Notes**”), (iii) our 5<sup>3/8</sup>% Senior Notes due 2024 (our “**5<sup>3/8</sup>% Senior Notes**”), (iv) our 5<sup>5/8</sup>% Senior Notes due 2025 (our “**5<sup>5/8</sup>% Senior Notes**”), and (v) our 5<sup>3/4</sup>% Senior Notes (our “**5<sup>3/4</sup>% Senior Notes**”) (collectively, the “**notes**”) by a U.S. Holder (as defined below), but does not purport to be a complete analysis of all potential U.S. federal income tax effects. Our 6<sup>7/8</sup>% Senior Notes, 5<sup>5/8</sup>% Senior Notes and our 5<sup>3/4</sup>% Senior Notes are denominated in Canadian dollars (the “**Canadian dollar Notes**”). This summary is based on the Internal Revenue Code of 1986, as amended (the “**Code**”), U.S. Treasury regulations promulgated thereunder, Internal Revenue Service (“**IRS**”) rulings and judicial decisions now in effect. All of these are subject to change, possibly with retroactive effect, or different interpretations.

This summary does not address all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders in light of their specific circumstances (for example, U.S. Holders subject to the alternative minimum tax provisions of the Code or U.S. Holders subject to the 3.8% Medicare tax on net investment income) or to U.S. Holders that may be subject to special rules under U.S. federal income tax law, including:

- dealers in stocks, securities or currencies;
- persons using a mark-to-market accounting method;
- banks and financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt organizations;
- persons holding notes as part of a hedging or conversion transaction or a straddle;
- persons deemed to sell notes under the constructive sale provisions of the Code;
- persons who or that are, or may become, subject to the expatriation provisions of the Code;
- persons whose functional currency is not the U.S. dollar; and
- direct, indirect or constructive owners of 10% or more of our outstanding voting shares.

The summary also does not discuss any aspect of state, local or non-U.S., or U.S. federal estate and gift tax law as applicable to U.S. Holders. Moreover, this discussion is limited to U.S. Holders who acquire and hold the notes as “capital assets” within the meaning of Section 1221 of the Code (generally, property held for investment). In addition, this summary assumes that the notes are properly characterized as debt that is not contingent debt for U.S. federal income tax purposes.

For purposes of this summary, “U.S. Holder” means the beneficial holder of a note who or that for U.S. federal income tax purposes is:

- an individual citizen or resident alien of the United States;

- a corporation or other entity treated as such formed in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of such trust and one or more “U.S. persons” (within the meaning of the Code) have the authority to control all substantial decisions of the trust, or if a valid election is in effect to be treated as a U.S. person.

No ruling has been or will be sought from the IRS with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the notes or that any such position will not be sustained.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the notes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. Such partner should consult its own tax advisor as to the tax consequences of the partnership purchasing, owning and disposing of the notes.

U.S. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH REGARD TO THE APPLICATION OF THE TAX CONSEQUENCES DESCRIBED BELOW TO THEIR PARTICULAR SITUATIONS AS WELL AS THE APPLICATION OF ANY STATE, LOCAL, NON-U.S. OR OTHER TAX LAWS, INCLUDING GIFT AND ESTATE TAX LAWS.

### *Interest on the Notes*

Payments of stated interest on the notes generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes. Interest on the notes will constitute income from sources outside the United States and generally, with certain exceptions, will be “passive category income” which is treated separately from other income for purposes of computing the foreign tax credit allowable to a U.S. Holder under the federal income tax laws. Due to the complexity of the foreign tax credit rules, U.S. Holders should consult their own tax advisors with respect to the amount of foreign taxes that may be claimed as a credit.

In certain circumstances we may be obligated to pay amounts in excess of stated interest or principal on the notes or may make payments or redeem the notes in advance of their expected maturity. According to U.S. Treasury regulations, the possibility that any such payments or redemptions will be made will not affect the amount of interest income a U.S. Holder recognizes if there is only a remote chance as of the date the notes were issued that such payments will be made, or if such payments are incidental. We believe the likelihood that we will make any such payments is remote and/or that such payment will be incidental. Therefore, we do not intend to treat the potential payments or redemptions pursuant to the provisions related to changes in Canadian laws or regulations applicable to tax-related withholdings or deductions, any registration rights provisions, or the other redemption and repurchase provisions as part of the yield to maturity of the notes or as affecting the tax treatment of the notes. Our determination that these contingencies are remote and/or incidental is binding on a U.S. Holder unless such holder discloses its contrary position in the manner required by applicable U.S. Treasury regulations. Our determination is not, however, binding on the IRS, and if the IRS were to challenge this determination, a U.S. Holder may be required to accrue income on its notes in excess of stated interest and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of a note before the resolution of the contingencies. In the event a contingency occurs, it would affect the amount and timing of the income recognized by a U.S. Holder. If we pay additional amounts on the notes, U.S. Holders will be required to recognize such amounts as income.

Interest on the Canadian dollar Notes will be included in a U.S. Holder’s gross income in an amount equal to the U.S. dollar value of the Canadian dollar amount, regardless of whether the Canadian dollars are converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. A cash method U.S. Holder generally will not realize foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the Canadian dollars received.

Generally, a U.S. Holder of Canadian dollar Notes that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the U.S. Holder's taxable year). Alternatively, an accrual basis U.S. Holder may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year in the case of a partial accrual period) or the spot rate on the date of receipt, if that date is within five business days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate applicable to an accrual of that interest. The amount of foreign currency gain or loss to be recognized by such U.S. Holder will be an amount equal to the difference between the U.S. dollar value of the Canadian dollar interest payment (determined on the basis of the spot rate on the date the interest income is received) in respect of the accrual period and the U.S. dollar value of the interest income that has accrued during the accrual period (as determined above). This foreign currency gain or loss will be ordinary income or loss and generally will not be treated as an adjustment to interest income or expense.

Foreign currency gain or loss generally will be U.S. source provided that the residence of a taxpayer is considered to be the United States for purposes of the rules regarding foreign currency gain or loss.

### ***Market Discount and Bond Premium***

#### *Market Discount*

If a U.S. Holder purchases notes for an amount less than their stated redemption price at maturity, the difference is treated as market discount. Subject to a *de minimis* exception, gain realized on the maturity, sale, exchange or retirement of a market discount note will be treated as ordinary income to the extent of any accrued market discount not previously recognized (including in the case of a note exchanged for a registered note pursuant to a registration offer, any market discount accrued on the related outstanding note). A U.S. Holder may elect to include market discount in income currently as it accrues, on either a ratable or constant yield method. In that case, a U.S. Holder's tax basis in its notes will increase by such income inclusions. An election to include market discount in income currently, once made, will apply to all market discount obligations acquired by the U.S. Holder during the taxable year of the election and thereafter, and may not be revoked without the consent of the IRS. If a U.S. Holder does not make such an election, in general, all or a portion of such holder's interest expense on any indebtedness incurred or continued in order to purchase or carry notes may be deferred until the maturity of the notes, or certain earlier dispositions. Unless a U.S. Holder elects to accrue market discount under a constant yield method, any market discount will accrue ratably during the period from the date of acquisition of the related outstanding note to its maturity date.

In the case of Canadian dollar Notes, market discount is accrued in Canadian dollars, and the amount includible in income by a U.S. Holder upon a sale of such note in respect of accrued market discount will be the U.S. dollar value of the amount accrued. Such U.S. dollar value is generally calculated at the spot rate of exchange on the date such note is sold. Any market discount on a Canadian dollar Note that is currently includible in income under the election noted above will be translated into U.S. dollars at the average exchange rate for the accrual period or portion of such accrual period within the U.S. Holder's taxable year. In such case, a U.S. Holder generally will recognize foreign currency gain or loss with respect to accrued market discount under the rules similar to those that apply to accrued interest on a note received by an accrual basis U.S. Holder, as described above.

#### *Bond Premium*

If a U.S. Holder purchases notes for an amount greater than the sum of all amounts (other than qualified stated interest) payable with respect to the notes after the date of acquisition, such holder will have purchased such notes with amortizable bond premium. A U.S. Holder generally may elect to amortize that premium from the purchase date to the maturity date of the notes under a constant yield method. Amortizable premium generally may be deducted against

interest income on such notes and generally may not be deducted against other income. A U.S. Holder's basis in a note will be reduced by any premium amortization deductions. An election to amortize premium on a constant yield method, once made, generally applies to all debt obligations held or subsequently acquired by a U.S. Holder during the taxable year of the election and thereafter, and may not be revoked without IRS consent. For a U.S. Holder that did not elect to amortize bond premium, the amount of such premium will be included in such U.S. Holder's tax basis upon the sale of a note. In the case of Canadian dollar Notes, premium is computed in Canadian dollars. At the time amortized bond premium offsets interest income, foreign currency gain or loss (taxable as ordinary income or loss) will be realized on such amortized bond premium based on the difference between the spot rate of exchange on the date or dates such premium is recovered through interest payments on the Canadian dollar Note and the spot rate of exchange on the date on which the U.S. Holder acquired the note.

The market discount and bond premium rules are complicated, and U.S. Holders are urged to consult their own tax advisors regarding the tax consequences of owning and disposing of notes with market discount or bond premium, including the availability of certain elections.

### ***Sale, Exchange or Retirement of a Note***

A U.S. Holder generally will recognize gain or loss upon the sale, exchange (other than in a tax-free transaction), redemption, retirement or other taxable disposition of a note, equal to the difference, if any, between:

- the amount realized (or the U.S. dollar value thereof if received in a foreign currency) less any portion allocable to the payment of accrued interest not previously included in income, which amount will be taxable as ordinary interest income; and
- the U.S. Holder's adjusted tax basis in the note.

Except with respect to gains or losses attributable to changes in exchange rates, as described below, gain or loss so recognized generally will be capital gain or loss (except as described under "— Market Discount and Bond Premium" above) and generally will be long-term capital gain or loss if the note has been held or deemed held for more than one year at the time of the disposition. Long-term capital gains of noncorporate U.S. Holders, including individuals, may be taxed at lower rates than items of ordinary income. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized by a U.S. Holder on the sale or other disposition of a note generally will be treated as income from sources within the United States or loss allocable to income from sources within the United States. U.S. Holders should consult their own tax advisors regarding the source of gain attributable to market discount.

A U.S. Holder's adjusted tax basis in a note will generally equal the U.S. Holder's U.S. dollar cost therefor, increased by the amount of market discount, if any, previously included in income in respect of the note and decreased (but not below zero) by the amount of principal payments received by such U.S. Holder in respect of the note, any amounts treated as a return of pre-issuance accrued interest and the amount of amortized bond premium, if any, previously taken into account with respect to the note. If a U.S. Holder purchases a Canadian dollar Note with Canadian dollars, the U.S. dollar cost of the Canadian dollar Note will generally be the U.S. dollar value of the purchase price on the date of purchase calculated at the spot rate of exchange on that date. The amount realized upon the disposition of a Canadian dollar Note will generally be the U.S. dollar value of the amount received on the date of the disposition calculated at the spot rate of exchange on that date. However, if the Canadian dollar Note is traded on an established securities market, a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the cost of or amount received on the Canadian dollar Note, as applicable, by translating the amount paid or received at the spot rate of exchange on the settlement date of the purchase or disposition. The election available to accrual basis U.S. Holders in respect of the purchase and disposition of Canadian dollar Notes traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Gain or loss recognized by a U.S. Holder on the sale, exchange or retirement of a Canadian dollar Note that is attributable to changes in the rate of exchange between the U.S. dollar and foreign currency generally will be treated as U.S. source ordinary income or loss. Such foreign currency gain or loss will equal the difference between (i) the U.S. dollar value of the U.S. Holder's Canadian dollar purchase price for the Canadian dollar Note calculated at the spot rate of exchange on the date of the sale, exchange, retirement or other disposition and (ii) the U.S. dollar value of the U.S.

Holder's Canadian dollar purchase price for the Canadian dollar Note calculated at the spot rate of exchange on the date of purchase of the Canadian dollar Note. If the Canadian dollar Note is traded on an established securities market, with respect to a cash basis U.S. Holder (and, if it so elects, an accrual basis U.S. Holder), such foreign currency gain or loss will equal the difference between (x) the U.S. dollar value of the U.S. Holder's Canadian dollar purchase price for the Canadian dollar Note calculated at the spot rate of exchange on the settlement date of the disposition and (y) the U.S. dollar value of the U.S. Holder's Canadian dollar purchase price for the Canadian dollar Note calculated at the spot rate of exchange on the settlement date of the purchase of the Canadian dollar Note. Such foreign currency gain or loss is recognized on the sale or retirement of such Note only to the extent of total gain or loss recognized on the sale or retirement of such Note. Prospective investors should consult their own tax advisors regarding certain foreign currency translation elections that may be available with respect to a sale, exchange, or redemption of the Canadian dollar Notes.

### ***Transactions in Foreign Currency***

Foreign currency received as a payment of interest on, or on the sale or retirement of, a Canadian dollar Note will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time the note is disposed of or payment is received in consideration of such sale or retirement (as applicable). The amount of gain or loss recognized on a subsequent sale or other disposition of such foreign currency will be equal to the difference between (i) the amount of U.S. dollars, or the fair market value in U.S. dollars of the other currency or property received in such sale or other disposition, and (ii) the tax basis of the recipient in such foreign currency. A U.S. Holder who acquires such Note with previously owned foreign currency will recognize ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the note on the date of acquisition. Such gain or loss generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes.

### ***Reportable Transaction Reporting***

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on IRS Form 8886. Under the relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Canadian dollar Note as a reportable transaction if this loss exceeds the relevant threshold in the regulations. For individuals and trusts, this loss threshold is US\$50,000 in any single year. U.S. Holders should consult their own tax advisors as to the possible obligation to file IRS Form 8886 with respect to the ownership or disposition of the Canadian dollar Notes, or any related transaction, including without limitation, the disposition of any non-U.S. currency received as interest or as proceeds from the sale, exchange, retirement or other disposition of the Canadian dollar Notes.

### ***Information Reporting and Backup Withholding***

In general, information reporting requirements may apply to payments of principal and interest on a note and to the proceeds of the sale or other disposition of a note made to U.S. Holders other than certain exempt recipients (such as corporations). A U.S. Holder of the notes may be subject to "backup withholding" with respect to certain "reportable payments", including interest payments and, under certain circumstances, principal payments on the notes or upon the receipt of proceeds upon the sale or other disposition of such notes. These backup withholding rules apply if the U.S. Holder, among other things:

- fails to furnish a social security number or other taxpayer identification number ("TIN") certified under penalty of perjury within a reasonable time after the request for the TIN;
- furnishes an incorrect TIN;
- is notified by the IRS that it has failed to report properly interest or dividends; or
- under certain circumstances, fails to provide a certified statement, signed under penalties of perjury, that the TIN furnished is the correct number and that such holder is not subject to backup withholding.

A U.S. Holder that does not provide us with its correct TIN also may be subject to penalties imposed by the IRS. Any amount withheld from a payment to a U.S. Holder under the backup withholding rules is creditable against the U.S. Holder's federal income tax liability, *provided* that the required information is timely furnished to the IRS. Backup withholding will not apply, however, with respect to payments made to certain exempt U.S. Holders, including corporations and tax-exempt organizations, *provided* their exemptions from backup withholding are properly established.

In addition, U.S. individuals that hold specified foreign financial assets (including stock and securities of a foreign issuer) with an aggregate value in excess of US\$50,000 on the last day of the taxable year or US\$75,000 at any time during the taxable year are required to report their holdings, along with other information, on their tax returns, with certain exceptions. Holders should consult their own tax advisors to determine the scope of these disclosure responsibilities.

### **Certain Canadian Material Federal Income Tax Considerations for Residents of the United States**

The following is, at the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires, as beneficial owner, the Senior Notes, including entitlement to all payments thereunder, pursuant to this offering and who, at all relevant times and for the purposes of the *Income Tax Act* (Canada) (the "Tax Act") and the regulations thereunder, (i) is not, and is not deemed to be, resident in Canada (including as a consequence of the Canada-United States Income Tax Convention (1980), as amended), (ii) deals at arm's length with Videotron and with any transferee resident or deemed resident in Canada to whom the holder disposes of Senior Notes, (iii) does not use or hold and is not deemed to use or hold the Senior Notes in or in the course of carrying on business in Canada, (iv) does not receive any payment of interest (including any amounts deemed to be interest) on the Senior Notes in respect of a debt or other obligation to pay an amount to a person with whom Videotron does not deal at arm's length, (v) is not an "authorized foreign bank", as defined in the Tax Act, (vi) is not a "registered non-resident insurer", as defined in the Tax Act, (vii) is not an insurer carrying on an insurance business in Canada and elsewhere, and (viii) is not a, and deals at arm's length with any, "specified shareholder" of Videotron for purposes of the thin capitalization rules in the Tax Act (a "**Non-Resident Holder**"). A "specified shareholder" for these purposes generally includes a person who (either alone or together with persons with whom that person is not dealing at arm's length for the purposes of the Tax Act) owns or has the right to acquire or control or is otherwise deemed to own 25% or more of Videotron's shares determined on a votes or fair market value basis.

This summary is based on the current provisions of the Tax Act and the regulations thereunder and the current administrative and assessing practices and policies of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder announced by or on behalf of the Minister of Finance of Canada prior to the date hereof (the "**Proposed Amendments**") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that the Proposed Amendments will be enacted as proposed or at all. This summary does not otherwise take into account or anticipate any changes in law or any administrative or assessing practice, whether by judicial, governmental, regulatory or legislative decision or action, nor does it take into account provincial, territorial or foreign income tax considerations which may differ from the Canadian federal income tax considerations described herein.

THIS SUMMARY IS OF A GENERAL NATURE ONLY AND IS NOT EXHAUSTIVE OF ALL CANADIAN FEDERAL INCOME TAX CONSIDERATIONS THAT MAY BE RELEVANT TO A PARTICULAR HOLDER. THIS SUMMARY IS NOT INTENDED TO BE, AND SHOULD NOT BE INTERPRETED AS, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER, AND NO REPRESENTATION WITH RESPECT TO THE INCOME TAX CONSEQUENCES TO ANY PARTICULAR HOLDER IS MADE. ACCORDINGLY, YOU SHOULD CONSULT YOUR OWN TAX ADVISORS WITH RESPECT TO YOUR PARTICULAR CIRCUMSTANCES.

No Canadian withholding tax will apply to interest (including any amounts deemed to be interest), principal or premium paid or credited by Videotron on the Senior Notes to a Non-Resident Holder, or to the proceeds received by a Non-Resident Holder on a disposition of a Senior Note, including a redemption, payment on maturity, repurchase or purchase for cancellation.

No other taxes on income or gains will be payable under the Tax Act by a Non-Resident Holder on interest (including any amounts deemed to be interest), principal or premium or on the proceeds received by such Non-Resident Holder on the disposition of a Senior Note, including a redemption, payment on maturity, repurchase or purchase for cancellation.

**F- Dividends and Paying Agents**

Not applicable.

**G- Statement By Experts**

Not applicable.

**H- Documents on Display**

We file periodic reports and other information with the SEC. These reports include certain financial and statistical information about us and may be accompanied by exhibits. You may read and copy this information at the Public Reference Room at the SEC's Headquarters, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, or obtain copies of this information by mail from the Public Reference Room at the prescribed rates. You may call the SEC at 1-800-SEC-0330 for further information on the SEC's Public Reference Room. The SEC also maintains an Internet website that contains reports and other information about issuers like us who file electronically with the SEC. The URL of that website is <http://www.sec.gov>. Any documents referred to in this annual report may also be inspected without charge at our offices at 612 St. Jacques Street, Montréal, Québec, Canada, H3C 4M8.

**I- Subsidiary Information**

Not applicable.

**ITEM 11 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We use certain financial instruments, such as cross-currency interest rate swaps and foreign exchange forward contracts, to manage interest rate and foreign exchange risk exposures. These instruments are used solely to manage the financial risks associated with our obligations and are not used for trading or speculation purposes. For more information regarding our financial instruments and financial risk management, refer to Note 25 to our audited consolidated financial statements for the year ended December 31, 2015 included under "Item 18. Financial Statements" of this annual report.

**Foreign Currency Risk**

Most of our consolidated revenues and expenses, other than interest expense on U.S.-dollar-denominated debt, purchases of set-top boxes, handsets and cable modems and certain capital expenditures, are received or denominated in Canadian dollars. A large portion of the interest, principal and premium, if any, payable on our debt is payable in U.S. dollars. We have entered into transactions to hedge the foreign currency risk exposure on our U.S.-dollar-denominated debt obligations outstanding as of December 31, 2015, to hedge our exposure on certain purchases of set-top boxes, handsets, cable modems and capital expenditures and to lock-in the value of certain derivative financial instruments through offsetting transactions. Accordingly, the Corporation's sensitivity to variations in foreign exchange rates is economically limited.

**Interest Rate Risk**

Videotron's bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers' acceptance rate, (ii) Canadian prime rate and (iii) U.S. prime rate. The Senior Notes issued by Videotron bear interest at fixed rates. Videotron has entered into cross-currency interest rate swap agreements in order to manage interest rate risk exposure. As of December 31, 2015, after taking into account the hedging instruments, long-term debt was comprised of 84.0% fixed rate debt (85.0% in 2014) and 16.0% floating rate debt (15.0% in 2014).

The estimated sensitivity on interest payments of a 100 basis-point variance in the year-end Canadian Bankers' acceptance rate as of December 31, 2015 is \$4.5 million.

## Credit Risk

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

In the normal course of business, Videotron continuously monitors the financial condition of its customers and reviews the credit history of each new customer. As of December 31, 2015, no customer balance represented a significant portion of Videotron's consolidated accounts receivables. Videotron 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 \$16.6 million as of December 31, 2015 (\$15.4 million as of December 31, 2014). As of December 31, 2015, 7.4% of accounts receivables were 90 days past their billing date (7.0% as of December 31, 2014), of which 63.3% had an allowance for doubtful accounts (61.2% as of December 31, 2014).

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

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

## Fair Value of Financial Instruments

See "Item 5 – Operating and Financial Review and Prospects – Additional Information – Financial Instruments and Financial Risks – Fair Value of Financial Instruments" in this annual report.

## Material Limitations

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## Principal Repayments

As at December 31, 2015, the aggregate amount of minimum principal payments on long-term debt required in each of the next five years and thereafter based on borrowing levels as at that date, are as follows:

<u>Year ending December 31,</u>	<u>(in thousands of dollars)</u>
2016	10,714
2017	10,714
2018	5,358
2019	—
2020	246,729
2021 and thereafter	3,012,600
<b>Total</b>	<b>\$ 3,286,115</b>

## ITEM 12 – DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

## ITEM 13 – DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.



## ITEM 14 – MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

### Material Modifications to the Rights of Security Holders

There have been no material modifications to the rights of security holders.

### Use of Proceeds

Not applicable.

## ITEM 15 – CONTROLS AND PROCEDURES

As at the end of the period covered by this report, Videotron’s President and Chief Executive Officer and Videotron’s Senior Vice President and Chief Financial Officer, together with members of Videotron’s senior management, have carried out an evaluation of the effectiveness of Videotron’s disclosure controls and procedures. These are defined (in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”)) as controls and procedures designed to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within specified time periods. As of the date of the evaluation, Videotron’s President and Chief Executive Officer and Videotron’s Senior Vice President and Chief Financial Officer, concluded that Videotron’s disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that Videotron files or submits under the Exchange Act is accumulated and communicated to management, including the Corporation’s principal executive and principal financial officer, to allow timely decisions regarding disclosure.

Videotron’s management is responsible for establishing and maintaining adequate internal control over financial reporting of the Corporation (as defined by Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Videotron’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Videotron’s assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS, and that receipts and expenditures of Videotron are being made only in accordance with authorizations of Videotron’s management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Videotron’s assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Videotron’s management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“**COSO**”). Based on this evaluation, management concluded that Videotron’s internal control over financial reporting was effective as of December 31, 2015.

Pursuant to the *Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010* and related SEC rules, Videotron is not required to include in its annual report an attestation report of Videotron’s independent registered public accounting firm regarding Videotron’s internal control over financial reporting. Our management’s report regarding the effectiveness of our internal control over financial reporting was therefore not subject to attestation procedures by Videotron’s independent registered public accounting firm.

There have been no changes in Videotron’s internal control over financial reporting (as defined in Rule 13a-15 or 15d-15 under the Exchange Act) that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, Videotron’s internal control over financial reporting.

## ITEM 16 – [RESERVED]

### ITEM 16A – AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Mr. La Couture is an “audit committee financial expert” (as defined in Item 16A of Form 20-F) serving on our Audit Committee. Our Board of Directors has determined that Mr. La Couture is an “independent” director, as defined under SEC rules.

### ITEM 16B – CODE OF ETHICS

We have a Code of Ethics (as defined in Item 16B of Form 20-F) that applies to all directors, officers and employees of Videotron, including our Chief Executive Officer, Chief Financial Officer, principal accounting officer, controller and persons performing similar functions. Our Code of Ethics is included as an exhibit to this annual report on Form 20-F.

### ITEM 16C – PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young LLP has served as our independent registered public accounting firm for the fiscal years ended December 31, 2015, 2014 and 2013. The audited consolidated financial statements for each of the fiscal years in the three-year period ended December 31, 2015 are included in this annual report on Form 20-F.

The Audit Committee establishes the independent auditors’ compensation. The Audit Committee adopted a policy relating to the pre-approval of services to be rendered by its independent auditors. The Audit Committee pre-approves all audit services, determines which non-audit services the independent auditors are prohibited from providing, and authorizes permitted non-audit services to be performed by the independent auditors to the extent those services are permitted by the Sarbanes-Oxley Act and Canadian law. For each of the years ended December 31, 2015, 2014 and 2013, none of the non-audit services described below were approved by the Audit Committee of our Board of Directors pursuant to the “*de minimis* exception” to the pre-approval requirement for non-audit services. The following table presents the aggregate fees billed for professional services and other services rendered by our independent auditors, Ernst & Young LLP, for the fiscal years ended December 31, 2015, 2014 and 2013.

	2015	2014	2013
Audit Fees <sup>(1)</sup>	\$ 940,918	\$916,811	\$1,055,899
Audit related Fees <sup>(2)</sup>	78,351	62,467	48,837
All Other Fees <sup>(3)</sup>	15,067	17,347	10,710
<b>Total</b>	<b>\$1,034,336</b>	<b>\$996,625</b>	<b>\$1,115,446</b>

(1) Audit Fees consist of fees approved for the annual audit of the Corporation’s consolidated financial statements and quarterly reviews of interim financial statements of the Corporation with the SEC, including required assistance or services that only the external auditor reasonably can provide and accounting consultations on specific issues.

(2) Audit-Related Fees include fees for the review of one subsidiary’s financial statements and various reports to statutory authorities.

(3) All Other Fees include fees billed for assistance with Canadian, U.S. and international tax compliance.

### ITEM 16D – EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

### ITEM 16E – PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

### ITEM 16F – CHANGES IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

### ITEM 16G – CORPORATE GOVERNANCE

Not applicable.

## ITEM 17 – FINANCIAL STATEMENTS

Not applicable.

## ITEM 18 – FINANCIAL STATEMENTS

Our consolidated balance sheets as at December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the three-year period ended December 31, 2015, including the notes thereto and together with the report of the Independent Registered Public Accounting Firm, are included beginning on page F-1 of this annual report.

## ITEM 19 – EXHIBITS

The following documents are filed as exhibits to this Form 20-F:

- 1.1 Certificate and Articles of Amalgamation of Videotron Ltd. as of July 1, 2006 (translation) (incorporated by reference to Exhibit 1.1 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2006, filed on March 30, 2007).
- 1.2 Certificate and Articles of Amendment of Videotron Ltd. as of June 30, 2008 (incorporated by reference to Exhibit 1.2 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009).
- 1.3 Certificate and Articles of Amendment of Videotron Ltd. as of December 12, 2008 (incorporated by reference to Exhibit 1.3 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009).
- 1.4 By-laws of Videotron Ltd. (translation) (incorporated by reference to Exhibit 1.4 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012).
- 1.5 Certificate and Articles of Amalgamation of Le SuperClub Vidéotron Ltée (translation) (incorporated by reference to Exhibit 1.5 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009).
- 1.6 By-laws of Le SuperClub Vidéotron Ltée (translation) (incorporated by reference to Exhibit 1.6 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012).
- 1.7 Certificate of Amendment for Le SuperClub Vidéotron Ltée (translation) (incorporated by reference to Exhibit 1.7 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000).
- 1.8 Articles of Incorporation of Vidéotron Infrastructures Inc., as amended as of February 17, 2011 (incorporated by reference to Exhibit 1.7 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed on March 21, 2011).
- 1.9 By-laws of Vidéotron Infrastructures Inc. (translation) (incorporated by reference to Exhibit 1.8 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012).
- 1.10 Certificate of Incorporation of Videotron US Inc. as of September 20, 2007 (incorporated by reference to Exhibit 1.9 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009).
- 1.11 Amended and Restated Certificate of Incorporation of Videotron US Inc. as of October 1, 2008 (incorporated by reference to Exhibit 1.10 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009).

- 1.12 By-laws of Videotron US Inc. (incorporated by reference to Exhibit 1.11 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009).
- 1.13 Declaration of registration of Videotron G.P. (incorporated by reference to Exhibit 1.12 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed on March 21, 2011).
- 1.14 Declaration of registration of Videotron L.P. (incorporated by reference to Exhibit 1.13 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed on March 21, 2011).
- 1.15 Certificate and Articles of Constitution of 9230-7677 Québec inc. (translation) (incorporated by reference to Exhibit 1.14 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed on March 21, 2011).
- 1.16 By-laws of 9230-7677 Québec inc. (translation) (incorporated by reference to Exhibit 1.15 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012).
- 1.17 Certificate and Articles of Incorporation of Jobboom inc. (translation) (incorporated by reference to Exhibit 1.16 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012).
- 1.18 By-laws of Jobboom inc. (translation) (incorporated by reference to Exhibit 1.17 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012).
- 1.19 Certificate and Articles of Amalgamation of Jobboom Inc. as of May 30, 2013 (translation) (incorporated by reference to Exhibit 1.19 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000).
- 1.20 Certificate of Amendment of 8487782 Canada Inc. as of May 30, 2013 (translation) (incorporated by reference to Exhibit 1.20 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000).
- 1.21 By-laws of 8487782 Canada Inc. (translation) (incorporated by reference to Exhibit 1.21 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000).
- 1.22 Certificate and Articles of Constitution of 9227-2590 Québec inc. (translation) (incorporated by reference to Exhibit 1.18 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 1.23 By-laws of 9227-2590 Québec inc. (translation) (incorporated by reference to Exhibit 1.19 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 1.24 Certificate and Articles of Constitution of 4Degrees Colocation Inc. (translation)
- 1.25 By-laws of 4Degrees Colocation Inc. (translation)
- 1.26 Certificate and Articles of Incorporation as of 9529454 Canada Inc. as of November 30, 2011 (translation).
- 1.27 By-laws of 9529454 Canada Inc. (translation).
- 1.28 Certificate and Articles of Amalgamation of 8480869 Canada Inc. as of January 7, 2016.
- 1.29 By-laws of 8480869 Canada Inc. (translation).

- 1.30 Certificate and Articles of Amalgamation of Fibre Noire Internet Inc. as of April 19, 2013, as amended on June 27, 2014, and January 6, 2016.
- 1.31 By-laws of Fibrenoire Inc. (translation).
- 1.32 Certificate and Articles of Incorporation of Canadian P2P Fibre Systems Ltd. as of June 15, 2007.
- 1.33 By-laws of Canadian P2P Fibre Systems Ltd (translation).
- 2.1 Form of 6<sup>7/8</sup>% Senior Notes due July 15, 2021 of Videotron Ltd. (incorporated by reference to Exhibit A to Exhibit 2.42 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 2.2 Form of Notation of Guarantee of the subsidiary guarantors of the 6<sup>7/8</sup>% Senior Notes due July 15, 2021 of Videotron Ltd. (incorporated by reference to Exhibit E to Exhibit 2.42 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 2.3 Indenture, dated as of July 5, 2011, by and among Videotron Ltd., the subsidiary guarantors signatory thereto and Computershare Trust Company of Canada, as trustee (incorporated by reference to Exhibit 2.42 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 2.4 Supplemental Indenture, dated as of March 12, 2015, by and among Videotron Ltd., 4Degrees Colocation Inc., as guarantor, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of July 5, 2011.
- 2.5 Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of July 5, 2011.
- 2.6 Form of 5% Senior Notes due July 15, 2022 of Videotron Ltd. (incorporated by reference to Exhibit A to Exhibit 2.47 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 2.7 Form of Notation of Guarantee by the subsidiary guarantors of the 5% Senior Notes due July 15, 2022 of Videotron Ltd. (incorporated by reference to Exhibit E to Exhibit 2.47 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 2.8 Indenture, dated as of March 14, 2012, by and among Videotron Ltd., the subsidiary guarantors signatory thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 2.47 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 2.9 Supplemental Indenture, dated as of March 12, 2015, by and among Videotron Ltd., 4Degrees Colocation Inc., as guarantor, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of March 14, 2012.
- 2.10 Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of March 14, 2012.
- 2.11 Form of 5<sup>5/8</sup>% Senior Notes due June 15, 2025 of Videotron Ltd. (incorporated by reference to Exhibit A to Exhibit 2.40 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000).

- 2.12 Form of Notation of Guarantee of the subsidiary guarantors of the 5<sup>5/8</sup>% Senior Notes due June 15, 2025 of Videotron Ltd. (incorporated by reference to Exhibit E to Exhibit 2.40 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-5100).
- 2.13 Indenture, dated as of June 17, 2013, by and among Videotron Ltd., the subsidiary guarantors party thereto, and Computershare Trust Company of Canada, as trustee (incorporated by reference to Exhibit 2.40 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file No. 033-51000).
- 2.14 Supplemental Indenture, dated as of March 12, 2015, by and among Videotron Ltd., 4Degrees Colocation Inc., as guarantor, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of June 17, 2013.
- 2.15 Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of June 17, 2013 (incorporated by reference to Exhibit 2.5 above).
- 2.16 Form of 5<sup>3/8</sup>% Senior Notes due June 15, 2024 of Videotron Ltd. (incorporated by reference to Exhibit A to Exhibit 2.32 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 23, 2015, Commission file No. 033-51000).
- 2.17 Form of Notation of Guarantee of the subsidiary guarantors of the 5<sup>3/8</sup>% Senior Notes due June 15, 2024 of Videotron Ltd. (incorporated by reference to Exhibit E to Exhibit 2.32 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 23, 2015, Commission file No. 033-51000).
- 2.18 Indenture, dated as of April 9, 2014, by and among Videotron Ltd., the subsidiary guarantors party thereto, and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 2.32 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed on March 23, 2015, Commission file No. 033-51000).
- 2.19 Supplemental Indenture, dated as of March 12, 2015, by and among Videotron Ltd., 4Degrees Colocation Inc., as guarantor, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of April 9, 2014.
- 2.20 Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Wells Fargo Bank, National Association, as trustee, to the Indenture dated as of April 9, 2014.
- 2.21 Form of 5<sup>3/4</sup>% Senior Notes due January 15, 2026 of Videotron Ltd. (incorporated by reference to Exhibit A to Exhibit 2.23 below).
- 2.22 Form of Notation of Guarantee by the subsidiary guarantors of the 5<sup>3/4</sup>% Senior Notes due January 15, 2026 of Videotron Ltd. (incorporated by reference to Exhibit E to Exhibit 2.23 below).
- 2.23 Indenture, dated as of September 15, 2015, by and among Videotron Ltd., the subsidiary guarantors signatory thereto and Computershare Trust Company of Canada, as trustee.
- 2.24 Supplemental Indenture, dated as of January 8, 2016, by and among Videotron, 9529454 Canada Inc., 8480869 Canada Inc., Fibrenoire Inc. and Canadian P2P Fibre Systems Ltd., as guarantors, and Computershare Trust Company of Canada, as trustee, to the Indenture dated as of September 15, 2015 (incorporated by reference to Exhibit 2.5 above).

- 4.1 Amended and Restated Credit Agreement, dated as of July 20, 2011, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by Le SuperClub Videotron, Videotron Infrastructures Inc., Jobboom Inc., Videotron US Inc., 9227-2590 Québec Inc., 9230-7677 Québec Inc., Videotron G.P., and Videotron L.P., as guarantors (incorporated by reference to Exhibit 4.1 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 4.2 First Amending Agreement, dated as of June 14, 2013, amending the Amended and Restated Credit Agreement, dated as of July 20, 2011, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by Le SuperClub Videotron, Videotron Infrastructures Inc., Videotron US Inc., 9227-2590 Québec inc., 9230-7677 Québec inc., Videotron G.P., Videotron L.P. and 8487782 Canada Inc. as guarantors (incorporated by reference to Exhibit 4.2 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed on March 20, 2014, Commission file, No. 033-51000).
- 4.3 Second Amending Agreement, dated as of January 28, 2015, amending the Amended and Restated Credit Agreement, dated as of July 20, 2011, as amended, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by 9293-6707 Québec Inc., 9227-2590 Québec Inc., 9230-7677 Québec Inc., 8487782 Canada Inc., Videotron G.P., Videotron L.P. and Videotron Infrastructures Inc., as guarantors.
- 4.4 Third Amending Agreement, dated as of June 16, 2015, amending the Amended and Restated Credit Agreement, dated as of July 20, 2011, as amended, by and among Videotron Ltd., Royal Bank of Canada, as administrative agent, and the financial institutions signatory thereto and acknowledged by 9293-6707 Québec Inc., 9227-2590 Québec Inc., 9230-7677 Québec Inc., 8487782 Canada Inc., Videotron G.P., Videotron L.P., Videotron Infrastructures Inc. and 4Degrees Colocation Inc., as guarantors.
- 4.6 Form of Guarantee of the Guarantors of the Credit Agreement (incorporated by reference to Schedule D of Exhibit 4.1 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 4.7 Form of Share Pledge of the shares of Videotron Ltd. and the Guarantors of the Credit Agreement (incorporated by reference to Schedule E of Exhibit 4.1 to Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, filed on March 21, 2012, Commission file No. 033-51000).
- 4.8 Management Services Agreement, effective as of January 1, 2002, between Quebecor Media and Videotron Ltd. (incorporated by reference to Exhibit 10.5 to Videotron Ltd.'s Registration Statement on Form F-4 dated November 24, 2003, Registration Statement No. 333-110697).
- 7.1 Statement regarding calculation of ratio of earnings to fixed charges.
- 8.1 Subsidiaries of Videotron Ltd.
- 11.1 Code of Ethics. (incorporated by reference to Exhibit 11.1 of Videotron Ltd.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2008, filed on March 6, 2009).
- 12.1 Certification of Manon Brouillette, President and Chief Executive Officer of Videotron Ltd., pursuant to 15 U.S.C. Section 78(m)(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Hugues Simard, Senior Vice President and Chief Financial Officer of Videotron Ltd., pursuant to 15 U.S.C. Section 78(m)(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of Manon Brouillette, President and Chief Executive Officer of Videotron Ltd., pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 13.2 Certification of Hugues Simard, Senior Vice President and Chief Financial Officer of Videotron Ltd. pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**VIDEOTRON LTD.**

By: /s/ Hugues Simard

Name: Hugues Simard

Title: Senior Vice President and  
Chief Financial Officer

Dated: March 18, 2016



**VIDEOTRON LTD.**  
CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2015, 2014 and 2013

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Report of Independent Registered Public Accounting Firm

**Consolidated financial statements**

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## Report of Independent Registered Public Accounting Firm

### To the Board of Directors and to the shareholder of Videotron Ltd.

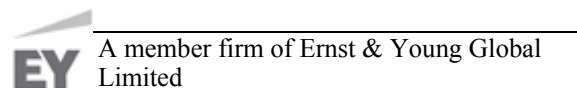
We have audited the accompanying consolidated balance sheets of Videotron Ltd. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Videotron Ltd. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ ERNST & YOUNG LLP<sup>1</sup>  
Montreal, Canada  
March 8, 2016

<sup>1</sup> FCPA auditor, FCA public accountancy permit no. A107913



**VIDEOTRON LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Years ended December 31, 2015, 2014 and 2013  
(in thousands of Canadian dollars)

	Note	2015	2014	2013
<b>Revenues</b>				
Cable television		<b>\$1,053,797</b>	\$1,074,821	\$1,090,261
Internet		<b>920,746</b>	856,051	814,682
Cable telephony		<b>458,028</b>	475,143	473,798
Mobile telephony		<b>403,668</b>	287,665	220,561
Over-the-top video		<b>23,596</b>	12,213	3,718
Business solutions		<b>69,134</b>	65,632	63,525
Equipment sales		<b>57,627</b>	45,627	36,524
Other		<b>11,383</b>	9,613	8,754
		<b>2,997,979</b>	2,826,765	2,711,823
Employee costs	2	<b>356,503</b>	342,399	347,097
Purchase of goods and services	2	<b>1,259,179</b>	1,136,055	1,079,919
Depreciation and amortization		<b>625,366</b>	601,381	561,743
Financial expenses	3	<b>167,429</b>	169,177	174,145
Loss on valuation and translation of financial instruments	4	<b>518</b>	3,430	163,725
Loss on debt refinancing	5	<b>12,153</b>	21,403	18,912
(Gain) loss on litigation, restructuring of operations and other items	6	<b>(129,737)</b>	39,445	684
<b>Income before income taxes</b>		<b>706,568</b>	513,475	365,598
<b>Income taxes</b>				
Current	7	<b>54,412</b>	107,839	79,792
Deferred	7	<b>66,253</b>	(14,556)	(50,343)
		<b>120,665</b>	93,283	29,449
<b>Income from continuing operations</b>		<b>585,903</b>	420,192	336,149
Income from discontinued operations	8	—	—	40,706
<b>Net income</b>		<b>\$ 585,903</b>	<b>\$ 420,192</b>	<b>\$ 376,855</b>
<b>Net income from continuing operations attributable to</b>				
Shareholder		<b>\$ 585,851</b>	\$ 420,169	\$ 335,842
Non-controlling interests		<b>52</b>	23	307
<b>Net income attributable to</b>				
Shareholder		<b>\$ 585,851</b>	\$ 420,169	\$ 376,548
Non-controlling interests		<b>52</b>	23	307

See accompanying notes to consolidated financial statements.

**VIDEOTRON LTD.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years ended December 31, 2015, 2014 and 2013  
(in thousands of Canadian dollars)

	<u>Note</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Net income</b>		<b>\$585,903</b>	\$420,192	\$376,855
Other comprehensive (loss) income:				
Items that may be reclassified to income:				
Cash flows hedges:				
Gain (loss) on valuation of derivative financial instruments		2,054	7,193	(24,975)
Deferred income taxes		(22,096)	(10,006)	(349)
Items that will not be reclassified to income:				
Defined benefit plans:				
Re-measurement (loss) gain	27	(9,614)	(47,918)	56,755
Deferred income taxes		2,590	12,890	(15,197)
Reclassification to income:				
(Gain) loss related to cash flows hedges	5	(3,914)	1,640	(6,516)
Deferred income taxes		1,125	(1,679)	199
		<u>(29,855)</u>	<u>(37,880)</u>	<u>9,917</u>
<b>Comprehensive income</b>		<b><u>\$556,048</u></b>	<b><u>\$382,312</u></b>	<b><u>\$386,772</u></b>
<b>Comprehensive income attributable to</b>				
Shareholder		\$555,996	\$382,289	\$386,465
Non-controlling interests		52	23	307

See accompanying notes to consolidated financial statements.

**VIDEOTRON LTD.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
Years ended December 31, 2015, 2014 and 2013  
(in thousands of Canadian dollars)

	Equity attributable to shareholder			Equity attributable to non-controlling interests	Total equity
	Capital stock (note 20)	Retained earnings	Accumulated other comprehensive loss (note 22)		
Balance as of December 31, 2012	3,401	788,894	(19,026)	1,037	774,306
Net income	—	376,548	—	307	376,855
Other comprehensive income	—	—	9,917	—	9,917
Related party transaction	—	22,953	—	—	22,953
Dividends	—	(361,880)	—	(401)	(362,281)
Balance as of December 31, 2013	3,401	826,515	(9,109)	943	821,750
Net income	—	420,169	—	23	420,192
Other comprehensive loss	—	—	(37,880)	—	(37,880)
Dividends	—	(410,000)	—	(155)	(410,155)
Balance as of December 31, 2014	3,401	836,684	(46,989)	811	793,907
Net income	—	585,851	—	52	585,903
Other comprehensive loss (note 22)	—	—	(29,855)	—	(29,855)
Issuance of capital stock (note 20)	170,000	—	—	—	170,000
Reduction in paid-up capital (note 20)	(41,000)	—	—	—	(41,000)
Dividends	—	(665,000)	—	(155)	(665,155)
<b>Balance as of December 31, 2015</b>	<b><u>\$ 132,401</u></b>	<b><u>\$ 757,535</u></b>	<b><u>\$ (76,844)</u></b>	<b><u>\$ 708</u></b>	<b><u>\$ 813,800</u></b>

See accompanying notes to consolidated financial statements.

**VIDEOTRON LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2015, 2014 and 2013

(in thousands of Canadian dollars)

	Note	2015	2014	2013
<b>Cash flows related to operating activities</b>				
Income from continuing operations		\$ 585,903	\$ 420,192	\$ 336,149
Adjustments for:				
Depreciation of fixed assets	12	545,612	490,501	455,189
Amortization of intangible assets	13	79,754	110,880	106,554
Loss on valuation and translation of financial instruments	4	518	3,430	163,725
Amortization of financing costs and long-term debt discount	3	4,008	4,650	5,263
Deferred income taxes	7	66,253	(14,556)	(50,343)
Loss on debt refinancing	5	12,153	21,403	18,912
Other		6,262	4,262	2,882
		<u>1,300,463</u>	<u>1,040,762</u>	<u>1,038,331</u>
Net change in non-cash balances related to operating activities		<u>(92,499)</u>	<u>65,690</u>	<u>20,009</u>
Cash flows provided by continuing operating activities		<u>1,207,964</u>	<u>1,106,452</u>	<u>1,058,340</u>
<b>Cash flows related to investing activities</b>				
Additions to fixed assets	12	(630,076)	(606,040)	(530,878)
Additions to intangible assets	13	(312,062)	(304,548)	(67,616)
Net proceeds from business disposal	8	7,848	—	50,318
Business acquisition (net of cash acquired)	9	(35,167)	—	—
Dividends from an affiliated corporation		—	—	10,500
(Acquisition) redemption of preferred shares of an affiliated corporation	11	(1,010,000)	1,200,000	(650,000)
Proceeds from disposal of assets		4,375	5,493	12,801
Cash flows (used in) provided by continuing investing activities		<u>(1,975,082)</u>	<u>294,905</u>	<u>(1,174,875)</u>
<b>Cash flows related to financing activities</b>				
Net change in bank indebtedness		11,698	—	—
Net change under revolving credit facility, net of financing fees		244,631	—	—
Issuance of long-term debt, net of financing fees	18	370,130	654,475	394,820
Repayment of long-term debt	5, 18	(637,083)	(306,160)	(428,547)
Settlement of hedging contracts	5	(37,131)	(119,157)	19,431
Issuance of capital stock	20	170,000	—	—
Reduction in paid-up capital	20	(41,000)	—	—
Dividends		(665,000)	(410,000)	(361,880)
Issuance (repayment) of a loan from the parent corporation	11	1,010,000	(1,200,000)	650,000
Other		(155)	(182)	(1,223)
Cash flows provided by (used in) continuing financing activities		<u>426,090</u>	<u>(1,381,024)</u>	<u>272,601</u>
Net change in cash and cash equivalents from continuing operations		<u>(341,028)</u>	<u>20,333</u>	<u>156,066</u>
Cash flows provided by discontinued operations	8	—	—	3,172
Cash and cash equivalents at the beginning of the year		<u>342,802</u>	<u>322,469</u>	<u>163,231</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>\$ 1,774</u>	<u>\$ 342,802</u>	<u>\$ 322,469</u>

**VIDEOTRON LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

Years ended December 31, 2015, 2014 and 2013

(in thousands of Canadian dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Additional information on the consolidated statements of cash flows</b>			
<b>Cash and cash equivalents consist of</b>			
Cash	\$ 175	\$103,369	\$ 93,156
Cash equivalents	1,599	239,433	229,313
	<u>\$ 1,774</u>	<u>\$342,802</u>	<u>\$322,469</u>
<b>Changes in non-cash balances related to operating activities</b>			
Accounts receivable	\$ (13,515)	\$ (8,860)	\$ 4,444
Amounts receivable from and payable to affiliated corporations	12,017	18,836	11,341
Inventories	(35,139)	15,194	1,147
Prepaid expenses	(7,709)	1,938	(9,344)
Accounts payable, accrued charges and provisions	31,751	39,582	(43,944)
Income taxes	(85,072)	(10,672)	59,320
Stock-based compensation	57	798	(3,477)
Deferred revenues	(1,505)	8,159	(1,249)
Defined benefit plans	571	(6,765)	(6,068)
Other	6,045	7,480	7,839
	<u>\$ (92,499)</u>	<u>\$ 65,690</u>	<u>\$ 20,009</u>
<b>Non-cash investing activities</b>			
Net change in additions to fixed assets and intangible assets financed with accounts payable	<u>\$ (11,751)</u>	<u>\$ 1,387</u>	<u>\$ (1,243)</u>
<b>Interest and taxes reflected as operating activities</b>			
Cash interest payments	\$150,094	\$168,164	\$168,436
Cash income tax payments (net of refunds)	<u>139,502</u>	<u>120,277</u>	<u>21,789</u>

See accompanying notes to consolidated financial statements.

**VIDEOTRON LTD.**  
**CONSOLIDATED BALANCE SHEETS**

December 31, 2015 and 2014  
(in thousands of Canadian dollars)

	Note	2015	2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 1,774	\$ 342,802
Accounts receivable		272,593	259,030
Income taxes		17,896	—
Amounts receivable from affiliated corporations	26	12,330	18,324
Inventories	10	114,206	79,066
Prepaid expenses		31,158	23,735
<b>Total current assets</b>		<b>449,957</b>	<b>722,957</b>
<b>Non-current assets</b>			
Investments	11	2,090,000	1,080,000
Fixed assets	12	3,080,687	3,000,816
Intangible assets	13	1,071,398	830,585
Goodwill	14	448,864	429,252
Derivative financial instruments	25	494,197	164,859
Other assets	15	21,456	27,127
<b>Total non-current assets</b>		<b>7,206,602</b>	<b>5,532,639</b>
<b>Total assets</b>		<b>\$7,656,559</b>	<b>\$6,255,596</b>



**VIDEOTRON LTD.**  
**CONSOLIDATED BALANCE SHEETS (continued)**

December 31, 2015 and 2014  
(in thousands of Canadian dollars)

	Note	2015	2014
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Bank indebtedness		\$ 11,698	\$ —
Accounts payable and accrued charges	16	422,769	412,917
Amounts payable to affiliated corporations	26	62,913	49,384
Provisions	17	55,564	45,744
Deferred revenue		267,283	262,496
Income taxes		—	69,819
Derivative financial instruments	25	—	902
Current portion of long-term debt	18	10,714	213,688
<b>Total current liabilities</b>		<b>830,941</b>	<b>1,054,950</b>
<b>Non-current liabilities</b>			
Long-term debt	18	3,255,928	2,710,852
Subordinated loan from parent corporation	11	2,090,000	1,080,000
Derivative financial instruments	25	—	52,718
Deferred income taxes	7	561,318	476,317
Other liabilities	19	104,572	86,852
<b>Total non-current liabilities</b>		<b>6,011,818</b>	<b>4,406,739</b>
<b>Total liabilities</b>		<b>6,842,759</b>	<b>5,461,689</b>
<b>Equity</b>			
Capital stock	20	132,401	3,401
Retained earnings		757,535	836,684
Accumulated other comprehensive loss	22	(76,844)	(46,989)
<b>Equity attributable to shareholder</b>		<b>813,092</b>	<b>793,096</b>
Non-controlling interests		708	811
<b>Total equity</b>		<b>813,800</b>	<b>793,907</b>
Commitments and contingencies	17, 23		
Guarantees	24		
Subsequent event	28		
<b>Total liabilities and equity</b>		<b>\$7,656,559</b>	<b>\$6,255,596</b>

See accompanying notes to consolidated financial statements.

On March 8, 2016, the Board of Directors approved the consolidated financial statements for the years ended December 31, 2015, 2014 and 2013.

On behalf of the Board of Directors,

/s/ **Jean La Couture**  
Jean La Couture, Director

/s/ **A. Michel Lavigne**  
A. Michel Lavigne, Director

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

Videotron Ltd. (the “Corporation”) is incorporated under the laws of Québec and is a wholly owned subsidiary of Quebecor Media Inc. (the parent corporation) and is a subsidiary of Quebecor Inc. (the ultimate parent corporation). The Corporation’s head office and registered office is located at 612, rue Saint-Jacques, Montréal (Québec), Canada. The percentages of voting rights and equity in its major subsidiaries are as follows:

	<b>% equity and voting</b>
Videotron G.P.	100.0%
Videotron Infrastructures Inc.	100.0%
Videotron US Inc.	100.0%
4 Degrees Colocation Inc.	100.0%
SETTE Inc.	84.53%

The Corporation offers television distribution, Internet access, business solutions, cable and mobile telephony and over-the-top video services in Canada and is engaged in the rental of movies and televisual products through its video-on-demand services.

## **VIDEOTRON LTD.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

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#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments (note 1(j)), the liability related to stock-based compensation (note 1(s)), and the net defined benefit liability (note 1(t)), and they are presented in Canadian dollars ("CAN dollars"), which is the currency of the primary economic environment in which the Corporation and its subsidiaries operate ("functional currency").

Comparative figures for the years ended December 31, 2014 and 2013 have been restated to conform to the presentation adopted for the year ended December 31, 2015.

(b) Change in accounting estimates

In the second quarter of 2015, the Corporation changed its assessment of the useful life of its spectrum licences used in its operations. In light of recent spectrum auctions and developments in the telecommunication industry, the Corporation is now of the view that these spectrum licences have an indefinite useful life based on the following facts:

- The Corporation intends to renew the spectrum licences and believes that they are likely to be renewed by Innovation, Science and Economic Development Canada;
- The Corporation has the financial and operational ability to renew these spectrum licences;
- Currently, the competitive, legal and regulatory landscape does not limit the useful lives of the spectrum licences; and
- The Corporation foresees no limit to the period during which these licences can be expected to generate cash flows in the future.

Accordingly, the Corporation ceased to amortize spectrum licences used in its operations as of April 1, 2015 and no amortization expense has been recorded after this date. The straight-line amortization expense recorded relating to these licences was \$13.9 million in 2015 (\$55.4 million in 2014 and 2013).

(c) Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

A subsidiary is an entity controlled by the Corporation. Control is achieved when the Corporation is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Non-controlling interests in the net assets and results of consolidated subsidiaries are identified separately from the parent corporation's ownership interest in them. Non-controlling interests in the equity of a subsidiary consist of the amount of non-controlling interests calculated at the date of the original business combination and their share of changes in equity since that date. Changes in non-controlling interests in a subsidiary that do not result in a loss of control by the Corporation are accounted for as equity transactions.

(d) 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. Results of operations of a business acquired are included in the Corporation's consolidated financial statements from the date of the business acquisition. Business acquisition and integration costs are expensed as incurred and included as other items in the consolidated statements of income.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

## (d) Business combinations (continued)

Non-controlling interests in an entity acquired are presented in the consolidated balance sheets within equity, separately from the equity attributable to the shareholder and are initially measured at fair value.

## (e) Foreign currency translation

Foreign currency transactions are translated to the functional currency by applying the exchange rate prevailing at the date of the transactions. Translation gains and losses on assets and liabilities denominated in a foreign currency are included in financial expenses, or in gain or loss on valuation and translation of financial instruments, unless hedge accounting is used.

## (f) 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.

The Corporation provides services under arrangements with multiple deliverables, for which there are two separate accounting units: one for subscriber services (cable television, Internet access, cable or mobile telephony and over-the-top video, 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, limited to the non-contingent amount.

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

- Operating revenues from subscriber services such as cable television, Internet access, cable and mobile telephony and over-the-top video are recognized when services are provided. 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 in related equipment sales on delivery, while promotional offers related to the sale of mobile devices are accounted for as a reduction in 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; and
- 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.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(g) Impairment of assets**

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

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

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

**(h) Income taxes**

Current income taxes are recognized with respect to amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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

In the course of the Corporation’s operations, there are a number of uncertain tax positions due to the complexity of certain transactions and due to the fact that related tax interpretations and legislation are continually changing. When a tax position is uncertain, the Corporation recognizes an income tax benefit or reduces an income tax liability only when it is probable that the tax benefit will be realized in the future or that the income tax liability is no longer probable.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

## (i) Leases

Assets under leasing agreements are classified at the inception of the lease as (i) finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee, or as (ii) operating leases for all other leases.

Operating lease rentals are recognized in the consolidated statement of income on a straight-line basis over the period of the lease. Any lessee incentives are deferred and then recognized evenly over the lease term.

## (j) Financial instruments

Classification, recognition and measurement

Financial instruments are classified as held-for-trading, available-for-sale, loans and receivables, or as other financial liabilities, and measurement in subsequent periods depends on their classification. The Corporation has classified its financial instruments (except derivative financial instruments) as follows:

<u>Held-for-trading</u>	<u>Loans and receivables</u>	<u>Available-for-sale</u>	<u>Other liabilities</u>
<ul style="list-style-type: none"> <li>• Cash and cash equivalents</li> <li>• Bank indebtedness</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts receivable</li> <li>• Amounts receivable from affiliated corporations</li> <li>• Investments</li> </ul>	<ul style="list-style-type: none"> <li>• Other portfolio investments included in "Other assets"</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts payable and accrued charges</li> <li>• Amounts payable to affiliated corporations</li> <li>• Provisions</li> <li>• Long-term debt</li> <li>• Subordinated loan from parent corporation</li> <li>• Other long-term financial liabilities included in "Other liabilities"</li> </ul>

Financial instruments held-for-trading are measured at fair value with changes recognized in income as a gain or loss on valuation and translation of financial instruments. Available-for-sale portfolio investments are measured at fair value or at cost in the case of equity investments that do not have a quoted market price in an active market and where fair value is insufficiently reliable, and changes in fair value are recorded in other comprehensive income. Financial assets classified as loans and receivables and financial liabilities classified as Other liabilities are initially measured at fair value and subsequently measured at amortized cost, using the effective interest rate method of amortization.

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.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Financial instruments (continued)**

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

- The Corporation uses foreign exchange forward contracts to hedge foreign currency rate exposure on anticipated equipment or inventory purchases in a foreign currency. The Corporation also uses offsetting foreign exchange forward contracts in combination with cross-currency interest rate swaps to hedge foreign currency rate exposure on interest and principal payments on foreign currency denominated debt. These foreign exchange forward contracts are designated as cash flow hedges.
- The Corporation uses cross-currency interest rate swaps to hedge (i) foreign currency rate exposure on interest and principal payments on foreign currency denominated debt and/or (ii) fair value exposure on certain debt resulting from changes in interest rates. The cross-currency interest rate swaps that set all future interest and principal payments on U.S.-dollar-denominated debt in fixed CAN dollars, in addition to converting an interest rate from a floating rate to a floating rate or from a fixed rate to a fixed rate, are designated as cash flow hedges. The cross-currency interest rate swaps are designated as fair value hedges when they set all future interest and principal payments on U.S.-dollar-denominated debt in fixed CAN dollars, in addition to converting the interest rate from a fixed rate to a floating rate.

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

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

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

Derivative financial instruments that do not qualify for hedge accounting, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, 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 the consolidated statements of income as a gain or loss on valuation and translation of financial instruments.

Early settlement options are accounted for separately from the debt when the corresponding option exercise price is not approximately equal to the amortized cost of the debt.

**(k) Financing fees**

Financing fees related to long-term debt are capitalized in reduction of long-term debt and amortized using the effective interest rate method.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

## (l) Tax credits and government assistance

The Corporation receives tax credits mainly related to its research and development activities. Government financial assistance is accounted for as revenue or as a reduction in related costs, whether capitalized and amortized or expensed, in the year the costs are incurred and when management has reasonable assurance that the conditions of the government programs are met.

## (m) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are recorded at fair value.

## (n) Trade receivables

Trade receivables are stated at their nominal value, less an allowance for doubtful accounts. The Corporation establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. Individual accounts receivables are written off when management deems them not collectible.

## (o) Inventories

Inventories are valued at the lower of cost, determined by the weighted-average cost method, and net realizable value. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed.

## (p) Fixed assets

Fixed assets are stated at cost. Cost represents the acquisition costs, net of government grants and investment tax credits, or construction costs, including preparation, installation and testing costs. In the case of projects to construct cable and mobile networks, the cost includes equipment, direct labour and related overhead costs. Projects under development may also be comprised of advance payments made to suppliers for equipment under construction.

Borrowing costs are also included in the cost of fixed assets during the development phase. Expenditures such as maintenance and repairs are expensed as incurred.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Estimated useful life</u>
Buildings and their components	25 to 40 years
Furniture and equipment	3 to 7 years
Receiving, distribution and telecommunication networks	3 to 20 years
Customer equipment	3 to 5 years

Depreciation methods, residual values, and the useful lives of significant fixed assets are reviewed at least once a year. Any change is accounted for prospectively as a change in accounting estimate.

Leasehold improvements are depreciated over the shorter of the term of the lease and their estimated useful life.



**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

## (p) Fixed assets (continued)

The Corporation does not record any decommissioning obligations in connection with its cable distribution networks. The Corporation expects to renew all of its agreements with utility companies to access their support structures in the future, making the retirement date so far into the future that the present value of the restoration costs is insignificant for those assets. A decommissioning obligation is however recorded for the rental of sites related to the mobile network.

The Corporation is engaged in an agreement to operate a shared Long-Term Evolution mobile network in the Province of Québec and in the Ottawa region.

## (q) Goodwill and intangible assets

Goodwill

Goodwill initially arising from a business acquisition is measured and recognized as the excess of the fair value of the consideration paid over the fair value of the recognized identifiable assets acquired and liabilities assumed. When the Corporation acquires less than 100% of the equity interests in the business acquired at the acquisition date, goodwill attributable to the non-controlling interests is also recognized at fair value.

Goodwill is allocated as at the date of a business acquisition to a CGU for purposes of impairment testing (note 1(g)). The allocation is made to the CGU or group of CGUs expected to benefit from the synergies of the business acquisition.

Intangible assets

Spectrum licences are recorded at cost. Spectrum licences have an indefinite useful life and are not amortized based on the following facts: (i) the Corporation intends to renew the spectrum licences and believes that they are likely to be renewed by Innovation, Science and Economic Development Canada, (ii) the Corporation has the financial and operational ability to renew these spectrum licences, (iii) currently, the competitive, legal and regulatory landscape does not limit the useful lives of the spectrum licences, and (iv) the Corporation foresees no limit to the period during which these licences can be expected to generate cash flows in the future (note 1 (b)).

Software is recorded at cost. In particular, internally generated intangible assets are mainly comprised of internal costs in connection with the development of software to be used internally or to provide services to customers. These costs are capitalized when the development stage of the software application begins and costs incurred prior to that stage are recognized as expenses.

Customer relationships acquired through a business acquisition are recorded at fair value at the date of acquisition.

Borrowing costs directly attributable to the acquisition, development or production of an intangible asset are also included as part of the cost of that asset during the development phase.

Intangible assets with finite useful lives are amortized over their useful lives using the straight-line method over the following periods:

<u>Assets</u>	<u>Estimated useful life</u>
Software, licences and other intangible assets	3 to 7 years
Customer relationships	5 years

Amortization methods, residual values, and the useful lives of significant intangible assets are reviewed at least once a year. Any change is accounted for prospectively as a change in accounting estimate.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

## (r) 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 statement of income in the reporting period in which changes occur.

## (s) 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. Key assumptions are described in note 21.

## (t) Pension plans and postretirement benefits

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

## (i) Defined contribution pension plans

Under its defined contribution pension plans, the Corporation pays fixed contributions to participating employees' pension plans and has no legal or constructive obligation to pay any further amounts. Obligations for contributions to defined contribution pension plans are recognized as employee benefits in the consolidated statements of income when the contributions become due.

## (ii) Defined benefit pension plans and postretirement plans

Defined benefit pension plan costs are determined using actuarial methods and are accounted for using the projected unit credit method, which incorporates management's best estimates of future salary levels, other cost escalations, retirement ages of employees, and other actuarial factors. Defined benefit pension costs recognized in the consolidated statements of income as employee costs, mainly include the following:

- service costs provided in exchange for employee services rendered during the period;
- prior service costs recognized at the earlier of (a) when the employee benefit plan is amended or (b) when restructuring costs are recognized;
- curtailment or settlement gain or loss.

Interest on net defined benefit liability or asset recognized in the consolidated statements of income, as financial expenses, is determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

## (t) Pension plans and postretirement benefits (continued)

## (ii) Defined benefit pension plans and postretirement plans (continued)

Re-measurements of the net defined benefit liability or asset are recognized immediately in other comprehensive loss and in accumulated other comprehensive loss. Re-measurements are comprised of the following:

- actuarial gains and losses arising from changes in financial and demographic actuarial assumptions used to determine the defined benefit obligation or from experience adjustments on liabilities;
- the difference between actual return on plan assets and interest income on plan assets anticipated as part of the interest on net defined benefit liability or asset calculation;
- changes in the net benefit asset limit or in the minimum funding liability.

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

The Corporation also offers discounts on telecommunication services and health and life insurance plans to some of its retired employees. The cost of postretirement benefits is determined using an accounting methodology similar to that for defined benefit pension plans. The benefits related to these plans are funded by the Corporation as they become due.

## (u) Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates are based on management's best judgment and information available at the time of the assessment date, actual results could differ from those estimates.

The following significant areas represent management's most difficult, subjective or complex estimates:

## (i) Recoverable amount of an asset or a CGU

When an impairment test is performed on an asset or a CGU, management estimates the recoverable amount of the asset or CGU based on its fair value less costs of disposal or its value in use. These estimates are based on valuation models requiring the use of a number of assumptions such as forecasts of future cash flows, pre-tax discount rate (WACC) and perpetual growth rate. These assumptions have a significant impact on the results of impairment tests and on the impairment charge, as the case may be, recorded in the consolidated statements of income. A description of key assumptions used in the goodwill impairment tests and a sensitivity analysis of recoverable amounts are presented in note 14.

## (ii) Fair value of derivative financial instruments, including embedded derivatives

Derivative financial instruments must be accounted for at their fair value, which is estimated using valuation models based on a number of assumptions such as future cash flows, period-end swap rates, foreign exchange rates, and credit default premium. Also, the fair value of embedded derivatives related to early settlement options on debt is determined with option pricing models using market inputs, including volatility, discount factors and the underlying instrument's adjusted implicit interest rate and credit premium. The assumptions used in the valuation models have a significant impact on the gain or loss on valuation and translation of financial instruments recorded in the consolidated statements of income, the gain or loss on valuation of financial instruments recorded in the consolidated statements of comprehensive income, and the carrying value of derivative financial instruments in the consolidated balance sheets. A description of valuation models used and sensitivity analysis on key assumptions are presented in note 25.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

## (u) Use of estimates and judgments (continued)

## (iii) Costs and obligations related to pension and postretirement benefit plans

Estimates of costs and obligations related to pension and postretirement benefit obligations are based on a number of assumptions, such as the discount rate, the rate of increase in compensation, the retirement age of employees, health care costs, and other actuarial factors. Certain of these assumptions may have a significant impact on employee costs and financial expenses recorded in the consolidated statements of income, the re-measurement gain or loss on defined benefit plans recorded in the consolidated statements of comprehensive income, and on the carrying value of other assets or other liabilities in the consolidated balance sheets. Key assumptions and a sensitivity analysis on the discount rate are presented in note 27.

## (iv) Provisions

The recognition of provisions requires management to estimate expenditures required to settle a present obligation or to transfer it to a third party at the date of assessment. More specifically, an assessment of the probable outcomes of legal proceedings or other contingencies is also required. A description of the main provisions, including management expectations on the potential effect on the consolidated financial statements of the possible outcomes of legal disputes, is presented in note 17.

The following areas represent management's most significant judgments, apart from those involving estimates:

## (i) Useful life periods for the depreciation and amortization of assets with finite useful lives

For each class of assets with finite useful lives, management has to determine over which period the Corporation will consume the assets' future economic benefits. The determination of a useful life period involves judgment and has an impact on the depreciation and amortization charge recorded in the consolidated statements of income.

## (ii) Indefinite useful life of spectrum licences

Management has concluded that spectrum licences have an indefinite useful life. This conclusion was based on an analysis of factors, such as the Corporation's financial ability to renew the spectrum licences, the competitive, legal and regulatory landscape, and the future expectation regarding the use of the spectrum licences. Therefore, the determination that spectrum licences have an indefinite useful life involves judgment, which could have an impact on the amortization charge recorded in the consolidated statements of income if management changed its conclusion in the future as it did in 2015 (note 1 (b)).

## (iii) CGU's determination for the purpose of impairment tests

The determination of CGUs requires judgment when determining the lowest level for which there are separately identifiable cash inflows generated by the group of assets. In identifying assets to group in CGUs, the Corporation considers, among other factors, offering bundled services, sharing telecommunication network infrastructure, similarity on exposure to market risk, and materiality. The determination of CGUs could affect the results of impairment tests and, as the case may be, the impairment charge recorded in the consolidated statements of income.

## (iv) Determination if early settlement options are not closely related to their debt contract

Early settlement options are not considered closely related to their debt contract when the corresponding option exercise price is not approximately equal to the amortized cost of the debt. Judgment is therefore 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.

**VIDEOTRON LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(u) Use of estimates and judgments (continued)

(v) Interpretation of laws and regulations

Interpretation of laws and regulation, including tax regulations, requires judgment from management that could have an impact on the recognition of provisions for legal litigation and income taxes in the consolidated financial statements.

(v) Recent accounting pronouncements

The Corporation has not yet completed its assessment of the impact of the adoption of these pronouncements on its consolidated financial statements.

(i) IFRS 9 – *Financial Instruments* is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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

(ii) IFRS 15 – *Revenue from Contracts with Customers* is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative disclosures. The standard provides a single, principles-based, five-step model to be applied to all contracts with customers.

(iii) IFRS 16 – *Leases* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that IFRS 15 has been applied or is applied at the same time as IFRS 16.

IFRS 16 sets out new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides lessees with a single accounting model for all leases, with certain exemptions. In particular, lessees will be required to report most leases on their balance sheets by recognizing right-of-use assets and related financial liabilities.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**2. EMPLOYEE COSTS AND PURCHASE OF GOODS AND SERVICES**

The main components are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Employee costs	\$ 527,549	\$ 495,906	\$ 488,901
Less: employee costs capitalized to fixed assets and to intangible assets	<u>(171,046)</u>	<u>(153,507)</u>	<u>(141,804)</u>
	<b>356,503</b>	342,399	347,097
Purchase of goods and services			
Royalties and rights	435,740	413,922	426,455
Cost of retail products	243,224	193,421	144,891
Subcontracting costs	117,973	115,778	126,774
Marketing and distribution expenses	63,062	61,097	57,101
Other	399,180	351,837	324,698
	<u>1,259,179</u>	<u>1,136,055</u>	<u>1,079,919</u>
	<b><u>\$1,615,682</u></b>	<b><u>\$1,478,454</u></b>	<b><u>\$1,427,016</u></b>

**3. FINANCIAL EXPENSES**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Third parties :			
Interest on long-term debt	\$ 155,036	\$ 169,274	\$ 171,803
Amortization of financing costs and long-term debt discount	4,008	4,650	5,263
Loss on foreign currency translation on short-term monetary items	6,593	3,568	2,333
Other	1,948	(3,751)	(2,755)
	<u>167,585</u>	<u>173,741</u>	<u>176,644</u>
Affiliated corporations and parent corporation :			
Interest expense (net of interest income)	213,189	218,587	254,580
Dividend income (net of dividend expense)	<u>(216,257)</u>	<u>(224,194)</u>	<u>(260,909)</u>
	<u>(3,068)</u>	<u>(5,607)</u>	<u>(6,329)</u>
Interest on net defined benefit liability	2,912	1,043	3,830
	<b><u>\$ 167,429</u></b>	<b><u>\$ 169,177</u></b>	<b><u>\$ 174,145</u></b>

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**4. LOSS ON VALUATION AND TRANSLATION OF FINANCIAL INSTRUMENTS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Loss on embedded derivatives related to long-term debt	<b>\$ 3,583</b>	\$ 4,913	\$ 97,423
(Gain) loss on reversal of embedded derivatives on debt redemption	<b>(336)</b>	(611)	67,002
Loss on derivative financial instruments for which hedge accounting is not used	—	3,078	448
Loss (gain) on the ineffective portion of cash flow hedges	<b>737</b>	(737)	(1,148)
Gain on the ineffective portion of fair value hedges	<b>(3,466)</b>	(3,213)	—
	<b><u>\$ 518</u></b>	<b><u>\$ 3,430</u></b>	<b><u>\$163,725</u></b>

**5. LOSS ON DEBT REFINANCING**2015

- On April 10, 2015, the Corporation redeemed all of its issued and outstanding 6.375% Senior Notes due December 15, 2015, in aggregate principal amount of US\$175.0 million and the related hedging contracts were unwound for a total cash consideration of \$204.5 million.
- On July 16, 2015, the Corporation redeemed all of its issued and outstanding 9.125% Senior Notes due April 15, 2018, in aggregate principal amount of US\$75.0 million and the related hedging contracts were unwound for a total cash consideration of \$75.9 million.
- On July 16, 2015, the Corporation redeemed all of its issued and outstanding 7.125% Senior Notes due January 15, 2020, in aggregate principal amount of \$300.0 million for a total cash consideration of \$310.7 million.

These transactions resulted in a total loss of \$12.2 million in 2015, net of a gain of \$3.9 million previously reported in other comprehensive income.

2014

In April 2014, the Corporation redeemed US\$260.0 million in aggregate principal amount of its issued and outstanding 9.125% Senior Notes due April 2018 for a total cash consideration of \$295.4 million. This transaction resulted in a total loss of \$21.4 million (before income taxes), net of a loss of \$1.6 million previously reported in other comprehensive income.

2013

In July 2013, the Corporation redeemed US\$380.0 million in aggregate principal amount of its issued and outstanding 9.125% Senior Notes due April 2018 and settled its related hedging contracts for a total cash consideration of \$399.6 million. This transaction resulted in a total loss of \$18.9 million (before income taxes), net of a gain of \$6.5 million previously reported in other comprehensive income.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**6. (GAIN) LOSS ON LITIGATION, RESTRUCTURING OF OPERATIONS AND OTHER ITEMS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
(Gain) loss on litigation	<b>\$(137,396)</b>	\$34,323	\$ —
Restructuring of operations	<b>6,181</b>	1,725	1,917
Other	<b>1,478</b>	3,397	(1,233)
	<b><u>\$(129,737)</u></b>	<b><u>\$39,445</u></b>	<b><u>\$ 684</u></b>

(Gain) loss on litigation

On March 6, 2015, the Québec Court of Appeal ruled in favour of the Corporation and TVA Group Inc., an affiliated corporation, and ordered Bell ExpressVu Limited Partnership (“Bell ExpressVu”), a subsidiary of Bell Canada, to pay to the Corporation \$135.3 million, including interest, for negligence in failing to implement an appropriate security system to prevent piracy of the signals broadcast by its satellite television service between 1999 and 2005, thereby harming its competitors and broadcasters. On October 15, 2015, the Supreme Court of Canada rejected Bell ExpressVu’s application for leave to appeal the judgment. The related gain of \$138.4 million was recorded in 2015.

Also, in 2014, a charge of \$34.3 million, including interest, was accounted for as a result of an unfavorable judgment against the Corporation in a legal action. The Corporation is currently appealing this judgment. \$1.0 million in interest relating to this litigation was recorded in 2015.

Restructuring of operations

In 2015, the Corporation recorded a charge for restructuring costs of \$6.2 million (\$1.7 million in 2014 and \$1.9 million in 2013), mainly related to the migration of its subscribers from analog to digital television services.

**7. INCOME TAXES**

The following table reconciles income taxes at the Corporation’s domestic statutory tax rate of 26.9% in 2015, 2014 and 2013, and income taxes in the consolidated statements of income:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Income taxes at domestic statutory tax rate	<b>\$190,067</b>	\$138,125	\$ 98,346
(Reduction) increase resulting from:			
Effect of non-deductible charges, non-taxable income and differences between current and future tax rates	<b>3,060</b>	9,932	(1,856)
Change in benefit arising from the recognition of current and prior year tax losses	<b>2,179</b>	1,661	—
Effect of tax consolidation transactions with the parent corporation and affiliated corporations	<b>(58,173)</b>	(60,308)	(70,185)
Other <sup>1</sup>	<b>(16,468)</b>	3,873	3,144
<b>Income taxes</b>	<b><u>\$120,665</u></b>	<b><u>\$ 93,283</u></b>	<b><u>\$ 29,449</u></b>

<sup>1</sup> In 2015, includes a decrease of \$16.1 million in deferred income tax liability resulting from recent developments in tax audit matters, jurisprudence and tax legislation.



**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**7. INCOME TAXES (continued)**

The significant items comprising the Corporation's net deferred income tax liability and their impact on the deferred income tax expense are as follows:

	Consolidated balance sheets		Consolidated income statements		
	2015	2014	2015	2014	2013
Accounts payable, accrued charges and provisions	\$ 10,290	\$ 4,948	\$ 5,342	\$ 1,132	\$ (102)
Defined benefit plans	17,182	13,507	1,085	(1,468)	(544)
Fixed assets	(385,191)	(382,433)	(2,758)	(13,085)	(20,133)
Goodwill and intangible assets	(99,746)	(50,891)	(47,477)	4,675	5,936
Benefits from a general partnership	(67,618)	(56,510)	(11,108)	30,860	14,461
Long-term debt and derivative financial instruments	(32,610)	2,269	(13,908)	(9,034)	48,674
Other	(3,625)	(7,207)	2,571	1,476	2,051
	<u>\$ (561,318)</u>	<u>\$ (476,317)</u>	<u>\$ (66,253)</u>	<u>\$ 14,556</u>	<u>\$ 50,343</u>

Changes in the net deferred income tax liability are as follows:

	2015	2014
Balance as of beginning of the year	\$(476,317)	\$(492,078)
Recognized in income	(66,253)	14,556
Recognized in other comprehensive income	(18,381)	1,205
Business acquisition (note 9)	(367)	—
<b>Balance as of the end of the year</b>	<u><b>\$(561,318)</b></u>	<u><b>\$(476,317)</b></u>

The Corporation has not recognized a deferred income tax liability for the undistributed earnings of its foreign subsidiary in the current or prior years since the Corporation does not expect to sell or repatriate funds from those investments, in which case the undistributed earnings might become taxable.

There are no income tax consequences attached to the payment of dividends or distributions in 2015, 2014 or 2013 by the Corporation to its shareholder.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**8. DISCONTINUED OPERATIONS**

On May 31, 2013, the Corporation sold its specialized Web sites *Jobboom* and *Réseau Contact* to its parent corporation, for a total consideration of \$65.0 million. This transaction resulted in a gain on sale of \$38.0 million. The results and cash flows related to these businesses, as well as the gain of \$38.0 million on the sale of *Jobboom* and *Réseau Contact*, were reclassified as discontinued operations in the consolidated statements of income and cash flows, as this transaction occurred in connection with the sale of *Jobboom* and *Réseau Contact* by the parent corporation to an external party in 2013.

In 2015, the Corporation received an amount of \$7.8 million from its parent corporation in connection with this transaction.

**9. BUSINESS ACQUISITION**

On March 11, 2015, the Corporation acquired 4Degrees Colocation Inc. (“4Degrees Colocation”) and its data centre, the largest in Québec City, for a purchase price of \$35.5 million in cash. An amount of \$0.2 million was received in June 2015 as an adjustment related to working capital items. The acquisition will enable the Corporation to continue to meet its business customers’ growing technological and hosting needs. The assets acquired are mainly comprised of tangible assets of \$11.2 million, intangible assets of \$5.1 million and goodwill of \$19.6 million, which mainly reflects 4 Degrees Colocation’s expertise and expected future growth potential.

The pro forma revenues and net income in 2015 would not have been significantly different than the actual figures if this business acquisition had occurred at the beginning of the year.

The goodwill that was recorded is not deductible for tax purposes.

**10. INVENTORIES**

	<u>2015</u>	<u>2014</u>
Customer equipment	<b>\$ 95,563</b>	\$62,709
Network materials	<b>18,643</b>	16,357
	<b><u>\$114,206</u></b>	<b><u>\$79,066</u></b>

Cost of inventories included in purchase of goods and services amounted to \$205.7 million in 2015 (\$165.6 million in 2014 and \$120.7 million in 2013). Write-downs of inventories totalling \$1.5 million were recognized in purchase of goods and services in 2015 (\$1.4 million in 2014 and \$0.5 million in 2013).

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**11. INVESTMENTS AND SUBORDINATED LOAN FROM PARENT CORPORATION**

	2015	2014
Subordinated loan – Quebecor Media Inc.	<u>\$2,090,000</u>	<u>\$1,080,000</u>

On September 20, 2013, the Corporation contracted a subordinated loan of \$3.25 billion from Quebecor Media Inc., bearing interest at a rate of 10.75%, payable every six months on June 20 and December 20, and maturing on September 20, 2043. On the same day, the Corporation invested the total proceeds of \$3.25 billion into 3,250,000 preferred shares, Series B, of 9101-0835 Québec Inc., a subsidiary of Quebecor Media Inc. These shares carry the right to receive an annual dividend of 10.85%, payable semi-annually.

On December 27, 2013, 9101-0835 Québec Inc. redeemed 2,600,000 preferred shares, Series B, for a total cash consideration of \$2.6 billion, and settled cumulative unpaid dividends of \$5.4 million. On the same day, the Corporation used the total proceeds of \$2.6 billion to repay part of its subordinated loan contracted from Quebecor Media Inc.

On October 28, 2014, 9101-0835 Québec Inc. redeemed 1,200,000 preferred shares, Series B, for a total cash consideration of \$1.2 billion, and settled cumulative unpaid dividends of \$46.4 million. On the same day, the Corporation used the total proceeds of \$1.2 billion to repay part of its subordinated loan contracted from Quebecor Media Inc.

On February 5, 2015, the Corporation contracted a subordinated loan of \$1.01 billion from Quebecor Media Inc., bearing interest at a rate of 10.75%, payable every six months on June 20 and December 20, and maturing on February 5, 2045. On the same day, the Corporation invested the total proceeds of \$1.01 billion into 1,010,000 preferred shares, Series B, of 9101-0835 Québec Inc. These shares carry the right to receive an annual dividend of 10.85%, payable semi-annually.

The above transactions were carried out for tax consolidation purposes of Quebecor Media Inc. and its subsidiaries.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**12. FIXED ASSETS**

For the years ended December 31, 2015 and 2014, changes in the net carrying amount of fixed assets are as follows:

	<u>Land and buildings</u>	<u>Furniture and equipment</u>	<u>Receiving and distribution networks</u>	<u>Customer equipment</u>	<u>Projects under development</u>	<u>Total</u>
<b>Cost:</b>						
Balance as of December 31, 2013	\$168,225	\$ 492,478	\$4,776,058	\$495,031	\$ 34,984	\$5,966,776
Additions	16,609	47,190	289,055	111,622	141,564	606,040
Net change in additions financed with accounts payable	—	(24)	(1,226)	1,906	1,004	1,660
Retirement, disposals and other	(149)	(45,178)	(80,784)	(15,572)	(3,397)	(145,080)
Reclassification	—	28,487	119,131	—	(147,618)	—
Balance as of December 31, 2014	<u>184,685</u>	<u>522,953</u>	<u>5,102,234</u>	<u>592,987</u>	<u>26,537</u>	<u>6,429,396</u>
Additions	20,226	45,650	295,014	124,607	144,579	630,076
Business acquisition (note 9)	9,617	1,564	—	—	—	11,181
Net change in additions financed with accounts payable	—	3	(404)	2,878	(22,838)	(20,361)
Retirement, disposals and other	(280)	(5,009)	(79,917)	(26,112)	(785)	(112,103)
Reclassification	—	5,105	97,974	—	(103,079)	—
<b>Balance as of December 31, 2015</b>	<b><u>\$214,248</u></b>	<b><u>\$ 570,266</u></b>	<b><u>\$5,414,901</u></b>	<b><u>\$694,360</u></b>	<b><u>\$ 44,414</u></b>	<b><u>\$6,938,189</u></b>

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**12. FIXED ASSETS (continued)**

	<u>Land and buildings</u>	<u>Furniture and equipment</u>	<u>Receiving and distribution networks</u>	<u>Customer equipment</u>	<u>Projects under development</u>	<u>Total</u>
<b>Accumulated depreciation:</b>						
Balance as of December 31, 2013	\$ (50,642)	\$ (259,968)	\$(2,518,579)	\$(245,469)	\$ —	\$(3,074,658)
Depreciation	(5,718)	(59,298)	(319,970)	(105,515)	—	(490,501)
Retirement and disposals	149	44,635	79,911	11,884	—	136,579
Balance as of December 31, 2014	(56,211)	(274,631)	(2,758,638)	(339,100)	—	(3,428,580)
Depreciation	(4,141)	(65,519)	(347,300)	(128,652)	—	(545,612)
Retirement and disposals	260	3,827	90,025	22,578	—	116,690
<b>Balance as of December 31, 2015</b>	<b><u>\$ (60,092)</u></b>	<b><u>\$ (336,323)</u></b>	<b><u>\$(3,015,913)</u></b>	<b><u>\$(445,174)</u></b>	<b><u>\$ —</u></b>	<b><u>\$(3,857,502)</u></b>
<b>Net carrying amount:</b>						
As of December 31, 2014	128,474	248,322	2,343,596	253,887	26,537	3,000,816
<b>As of December 31, 2015</b>	<b><u>\$154,156</u></b>	<b><u>\$ 233,943</u></b>	<b><u>\$ 2,398,988</u></b>	<b><u>\$ 249,186</u></b>	<b><u>\$ 44,414</u></b>	<b><u>\$ 3,080,687</u></b>

**VIDEOTRON LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**13. INTANGIBLE ASSETS**

For the years ended December 31, 2015 and 2014, changes in the net carrying amount of intangible assets are as follows:

	Spectrum licences <sup>1,2,3</sup>	Software, licences and other intangible assets	Projects under development	Total
<b>Cost:</b>				
Balance as of December 31, 2013	\$ 570,513	\$468,756	\$ 9,872	\$1,049,141
Additions	217,364	64,439	22,745	304,548
Net change in additions financed with accounts payable	—	1,065	(1,338)	(273)
Retirements and other	—	(12,936)	—	(12,936)
Reclassification	—	28,284	(28,284)	—
Balance as of December 31, 2014	787,877	549,608	2,995	1,340,480
Additions	219,033	60,005	33,024	312,062
Business acquisitions (note 9)	—	5,074	—	5,074
Net change in additions financed with accounts payable	—	16,339	(7,729)	8,610
Retirements and other	—	(6,908)	—	(6,908)
Reclassification and other items	—	7,389	(7,389)	—
<b>Balance as of December 31, 2015</b>	<b><u>\$1,006,910</u></b>	<b><u>\$631,507</u></b>	<b><u>\$ 20,901</u></b>	<b><u>\$1,659,318</u></b>

<sup>1</sup> The Corporation holds an option to sell its unused AWS spectrum licence in the Toronto area to Rogers Communications Partnership for a price of \$180.0 million. The spectrum licence was purchased at a cost of \$96.4 million in 2008.

<sup>2</sup> In 2014, the Corporation acquired seven 700 MHz spectrum licences, covering the entirety of the provinces of Québec, Ontario (except Northern Ontario), Alberta and British Columbia, for a total price of \$233.3 million, for which Videotron made a cash deposit of \$15.9 million in 2013 and paid the balance in 2014.

<sup>3</sup> In 2015, the Corporation acquired four AWS-3 spectrum licences, covering the Province of Québec and the Ottawa region, and eighteen 2500 MHz spectrum licences, covering the Province of Québec, the Ottawa region and the cities of Toronto, Vancouver, Calgary and Edmonton, for a total price of \$219.0 million.

The cost of internally generated intangible assets, mainly composed of software, was \$396.8 million as of December 31, 2015 (\$373.3 million as of December 31, 2014). For the year ended December 31, 2015, the Corporation recorded additions of internally generated intangible assets of \$25.7 million (\$54.8 million in 2014 and \$37.2 million in 2013).

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**13. INTANGIBLE ASSETS (continued)**

	Spectrum licences	Software, licences and other intangible assets	Projects under development	Total
<b><u>Accumulated amortization:</u></b>				
Balance as of December 31, 2013	\$(178,128)	\$(230,983)	\$ —	\$ (409,111)
Amortization	(55,630)	(55,250)	—	(110,880)
Retirements	—	10,096	—	10,096
Balance as of December 31, 2014	(233,758)	(276,137)	—	(509,895)
Amortization	(13,906)	(65,848)	—	(79,754)
Retirements	—	1,729	—	1,729
<b>Balance as of December 31, 2015</b>	<b><u>\$(247,664)</u></b>	<b><u>\$(340,256)</u></b>	<b><u>\$ —</u></b>	<b><u>\$(587,920)</u></b>
<b><u>Net carrying amount:</u></b>				
As of December 31, 2014	554,119	273,471	2,995	830,585
<b>As of December 31, 2015</b>	<b><u>\$ 759,246</u></b>	<b><u>\$ 291,251</u></b>	<b><u>\$ 20,901</u></b>	<b><u>\$1,071,398</u></b>

The accumulated amortization of internally generated intangible assets, mainly composed of software, was \$214.4 million as of December 31, 2015 (\$181.0 million as of December 31, 2014). For the year ended December 31, 2015, the Corporation recorded \$33.6 million of amortization (\$38.8 million in 2014 and \$33.6 million in 2013) for its internally generated intangible assets.

The net carrying value of internally generated intangible assets was \$182.4 million as of December 31, 2015 (\$192.3 million as of December 31, 2014).

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**14. GOODWILL**

For the years ended December 31, 2015 and 2014, changes in the net carrying amount of goodwill are as follows:

<b><u>Cost:</u></b>	
Balance as of December 31, 2014 and 2013	\$462,563
Business acquisition (note 9)	<u>19,612</u>
<b>Balance as of December 31, 2015</b>	<b><u>482,175</u></b>
<b><u>Accumulated amortization:</u></b>	
<b>Balance as of December 31, 2015 and 2014</b>	<b><u>\$(33,311)</u></b>
<b><u>Net carrying amount:</u></b>	
As of December 31, 2014	429,252
<b>As of December 31, 2015</b>	<b><u>\$448,864</u></b>

The net carrying amount of goodwill as of December 31, 2015 and 2014 is allocated to the Telecommunications CGU.

**Recoverable amounts**

The recoverable amount of the Telecommunications CGU was determined based on the higher of value in use or fair value less costs of disposal with respect to the impairment tests performed. The Corporation uses the discounted cash flow method to estimate the recoverable amount, consisting of future cash flows derived primarily from the most recent budget and three-year strategic plan approved by the Corporation's management and presented to the Board of Directors. These forecasts considered the CGU's past operating performance and market share as well as economic trends, along with specific and market industry trends and corporate strategies. In particular, specific assumptions are used for each type of revenue generated by the CGU or for each nature of expenses as well as for future capital expenditures. Such assumptions will consider, among many other factors, subscribers, competitive landscape, evolution of products and services offerings, wireless penetration growth, technology evolution, bargaining agreements, Canadian GDP rates and operating cost structures.

A perpetual growth rate is used for cash flows beyond the three-year strategic plan period. The discount rate used by the Corporation is a pre-tax rate derived from the weighted average cost of capital pertaining to the CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risk specific to the assets for which the future cash flow estimates have not been risk-adjusted. The perpetual growth rate was determined with regard to the specific markets in which the CGU participates.



**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**14. GOODWILL (continued)**

The following key assumptions were used to determine recoverable amounts in the most recent impairment tests performed:

CGU groups	2015		2014	
	Pre-tax discount rate (WACC)	Perpetual growth rate	Pre-tax discount rate (WACC)	Perpetual growth rate
Telecommunications <sup>1</sup>	9.0%	2.5%	9.0%	2.5%

<sup>1</sup> As allowed by IAS 36, *Impairment of assets*, the recoverable amount calculated in the 2014 annual impairment test was used in the test performed in 2015 for this CGU. Accordingly, pre-tax discount rates and perpetual growth rates are the same in 2015 and 2014. The recoverable amount of this CGU was based on value in use, using the discounted cash flow method.

Sensitivity of recoverable amounts

An incremental increase in the pre-tax discount rate of 11.2% and an incremental decrease in the perpetual growth rate of 12.8% would have been required in the most recently performed test for the recoverable amount to equal the carrying value of the Telecommunications CGU in 2015.

Since the recoverable amount calculated in the 2014 annual impairment test was used in the test performed in 2015, sensitivity tests are the same as those disclosed in 2014.

**15. OTHER ASSETS**

	2015	2014
Deferred connection costs	\$18,189	\$24,340
Other	3,267	2,787
	<u>\$21,456</u>	<u>\$27,127</u>

**16. ACCOUNTS PAYABLE AND ACCRUED CHARGES**

	2015	2014
Trade and accruals	\$304,702	\$305,026
Salaries and employee benefits	79,874	74,968
Interest payable	36,561	31,481
Stock-based compensation	1,632	1,442
	<u>\$422,769</u>	<u>\$412,917</u>

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**17. PROVISIONS AND CONTINGENCIES**

	Contingencies, legal disputes and other
Balance as of December 31, 2014	\$ 50,390
Recognized in income	14,209
Payments	(4,083)
Other	10,332
<b>Balance as of December 31, 2015</b>	<b>\$ 70,848</b>
<b>Current portion</b>	<b>\$ 55,564</b>
<b>Non-current portion<sup>1</sup></b>	<b>15,284</b>

<sup>1</sup> *The non-current portion of provisions and contingencies is included in other liabilities (note 19)*

The recognition of provisions, in terms of both timing and amounts, requires the exercise of judgment based on relevant circumstances and events that can be subject to change over time. Provisions are primarily comprised of the following:

Contingencies and legal disputes

There are a number of legal proceedings against the Corporation and its subsidiaries that are pending. In the opinion of the management of the Corporation and its subsidiaries, the outcome of those proceedings is not expected to have a material adverse effect on the Corporation's results or on its financial position. Management of the Corporation, after taking legal advice, has established provisions for specific claims or actions considering the facts of each case. The Corporation cannot determine when and if any payment will be made related to those provisions.

Other

Other provisions are principally related to decommissioning obligations.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**18. LONG-TERM DEBT**

	Effective interest rate as of December 31, 2015	2015	2014
Bank credit facilities (i)	2.32%	<b>273,515</b>	37,500
Senior Notes (ii) (note 5)	(ii)	<b>3,012,600</b>	2,913,511
<b>Total long-term debt</b>		<b>3,286,115</b>	2,951,011
Change in fair value related to hedged interest rate risk		<b>11,450</b>	8,168
Adjustments related to embedded derivatives		<b>(312)</b>	(3,559)
Financing fees, net of amortization		<b>(30,611)</b>	(31,080)
		<b>(19,473)</b>	(26,471)
<b>Less current portion</b>		<b>(10,714)</b>	(213,688)
		<b><u>\$3,255,928</u></b>	<b><u>\$2,710,852</u></b>

- (i) The bank credit facilities provide for a \$615.0 million secured revolving credit facility that matures in July 2020, a \$350.0 million unsecured revolving credit facility that matures in July 2020 and a \$75.0 million secured export financing facility providing for a term loan that matures in June 2018. The revolving credit facilities bear interest at Bankers' acceptance rate, Canadian prime rate or U.S. prime rate, plus a margin, depending on the Corporation's leverage ratio. Advances under the export financing facility bear interest at Bankers' acceptance rate plus a margin. The secured bank credit facilities are secured by a first ranking hypothec on the universality of all tangible and intangible assets, current and future, of the Corporation and most of its wholly owned subsidiaries. As of December 31, 2015, the secured bank credit facilities were secured by assets with a carrying value of \$7,646.3 million (\$6,238.3 million in 2014). The bank credit facilities contain covenants such as maintaining certain financial ratios, limitations on the Corporation's ability to incur additional indebtedness, pay dividends, or make other distributions. As of December 31, 2015, \$246.7 million had been drawn on the secured revolving credit facilities (no amount was drawn in 2014), \$26.8 million was outstanding on the export financing facility (\$37.5 million in 2014) and no amount was drawn on the unsecured revolving credit facility.

**VIDEOTRON LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**18. LONG-TERM DEBT (continued)**

- (ii) The Senior Notes are unsecured and contain certain restrictions on the Corporation, including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions. Some Notes are redeemable at the option of the issuer, in whole or in part, at a price based on a make-whole formula during the first five years of the term of the Notes and at a decreasing premium thereafter, while the remaining Notes are redeemable at a price based on a make-whole formula at any time prior to their maturity. The Notes are guaranteed by specific subsidiaries of the Corporation and, on a non-consolidated basis, the Corporation has no independent assets or operations, the guarantees are full and unconditional and joint and several and any non-guarantor subsidiaries are minor. The following table summarizes terms of the outstanding Senior Notes as of December 31, 2015:

<u>Principal amount</u>	<u>Annual nominal interest rate</u>	<u>Effective interest rate (after discount at issuance)</u>	<u>Maturity date</u>	<u>Interest payable every 6 months on</u>
\$ 300,000	6.875%	6.875%	July 15, 2021	June and December 15
US\$ 800,000	5.000%	5.000%	July 15, 2022	January and July 15
US\$ 600,000 <sup>1</sup>	5.375%	5.375%	June 15, 2024	June and December 15
\$ 400,000 <sup>2</sup>	5.625%	5.625%	June 15, 2025	April and October 15
\$ 375,000 <sup>3</sup>	5.750%	5.750%	January 15, 2026	March and September 15

<sup>1</sup> The Notes were issued in April 2014 for net proceeds of \$654.5 million, net of financing fees of \$7.8 million.

<sup>2</sup> The Notes were issued in June 2013 for net proceeds of \$394.8 million, net of financing fees of \$5.2 million.

<sup>3</sup> The Notes were issued in September 2015 for net proceeds of \$370.1 million, net of financing fees of \$4.9 million.

On December 31, 2015, the Corporation and its subsidiaries were in compliance with all debt covenants.

Principal repayments of long-term debt over the coming years are as follows:

2016	\$ 10,714
2017	10,714
2018	5,358
2019	—
2020	246,729
2021 and thereafter	3,012,600

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**19. OTHER LIABILITIES**

	Note	2015	2014
Defined benefit plans	27	\$ 68,983	\$55,886
Deferred revenue		18,166	24,458
Asset retirement obligation	17	15,284	4,646
Stock-based compensation <sup>1</sup>	21	1,173	965
Other		966	897
		<u>\$104,572</u>	<u>\$86,852</u>

<sup>1</sup> The current \$1.6 million portion of stock-based compensation is included in accounts payable and accrued charges (\$1.4 million in 2014) (note 16).

**20. CAPITAL STOCK**

## (a) Authorized capital stock

An unlimited number of Common Shares, without par value, voting and participating

An unlimited number of Preferred Shares, Series B, Series C, Series D, Series E, Series F, and Series H, without par value, ranking prior to the Common Shares with regards to payment of dividends and repayment of capital, non-voting, non-participating, a fixed monthly non-cumulative dividend of 1%, retractable and redeemable.

An unlimited number of Preferred Shares, Series G, ranking prior to all other shares with regards to payment of dividends and repayment of capital, non-voting, non-participating carrying the rights and restrictions attached to the class as well as a fixed annual cumulative preferred dividend of 11.25%, retractable and redeemable.

## (b) Issued and outstanding capital stock

	Common Shares	
	Number	Amount
Balance as of December 31, 2014	2,516,829	\$ 3,401
Issuance of capital stock to parent corporation	170,000,000	170,000
Reduction in paid-up capital	—	(41,000)
<b>Balance as of December 31, 2015</b>	<u>172,516,829</u>	<u>\$132,401</u>

On June 23, 2015, the Corporation issued 170,000,000 common shares to its parent corporation for a total cash consideration of \$170.0 million.

On July 20, 2015 and July 30, 2015, the Corporation reduced its paid-up capital for a cash consideration of \$21.0 million and \$20.0 million, respectively.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**21. STOCK-BASED COMPENSATION PLANS**

## (a) Ultimate parent corporation stock option plan

Under a stock option plan established by the ultimate parent corporation, 13,000,000 Class B Shares of the ultimate parent corporation have been set aside for directors, officers, senior employees, and other key employees of the ultimate parent corporation and its subsidiaries. The exercise price of each option is equal to the weighted average trading price of the parent corporation's Class B Shares on the Toronto Stock Exchange over the last five trading days immediately preceding the granting of the option. Each option may be exercised during a period not exceeding 10 years from the date granted. Options usually vest as follows: 1/3 after one year, 2/3 after two years, and 100% three years after the original grant. Holders of options under the stock option plan have the choice, when they exercise their options, of acquiring the Class B Shares at the corresponding option exercise price, or receiving a cash payment equivalent to the difference between the market value of the underlying shares and the exercise price of the option. The Board of Directors of the ultimate parent corporation may, at its discretion, affix different vesting periods at the time of each grant.

The following table gives details on changes to outstanding options for the years ended December 31, 2015 and 2014:

	2015		2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance at beginning of year	50,000	\$ 25.49	—	\$ —
Granted	—	—	50,000	25.49
<b>Balance at end of year</b>	<b>50,000</b>	<b>\$ 25.49</b>	<b>50,000</b>	<b>\$ 25.49</b>

During the year ended December 31, 2015, none of the ultimate parent corporation's stock options were exercised.

The following table gives summary information on outstanding options as of December 31, 2015:

Exercise price	Outstanding options			Vested options	
	Number	Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
\$25.49	50,000	8.23	\$ 25.49	—	\$ —

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**21. STOCK-BASED COMPENSATION PLANS (continued)**

## (b) Parent corporation stock option plan

Under a stock option plan established by the parent corporation, options have been set aside for officers, senior employees, directors and other key employees of the Corporation. Each option may be exercised within a maximum period of 10 years following the date of grant at an exercise price not lower than, as the case may be, the fair market value of the Common Shares of the parent corporation at the date of grant, as determined by its Board of Directors (if the Common Shares of the parent corporation are not listed on a stock exchange at the time of the grant), or the five-day weighted average market price ending on the day preceding the date of grant of the Common Shares of the parent corporation on the stock exchange (s) where such shares are listed at the time of grant. As long as the Common Shares of the parent corporation are not listed on a recognized stock exchange, optionees may exercise their vested options during one of the following periods: from March 1 to March 30, from June 1 to June 29, from September 1 to September 29, and from December 1 to December 30. Holders of options under the plan have the choice at the time of exercising their options of receiving an amount in cash (equal to the difference between either the five-day weighted average market price ending on the day preceding the date of exercise of the Common Shares of the parent corporation on the stock exchange(s) where such shares are listed at the time of exercise or the fair market value of the Common Shares, as determined by the parent corporation's Board of Directors, and the exercise price of their vested options) or, subject to certain stated conditions, exercise their options to purchase Common Shares of the parent corporation at the exercise price. Except under specific circumstances, and unless the Human Resources and Compensation Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules as determined by the Human Resources and Compensation Committee at the time of grant: (i) equally over five years with the first 20% vesting on the first anniversary of the date of the grant; (ii) equally over four years with the first 25% vesting on the second anniversary of the date of grant; and (iii) equally over three years with the first 33 1/3% vesting on the third anniversary of the date of grant.

The following table gives details on changes to outstanding options granted as of December 31, 2015 and 2014:

	2015		2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance at beginning of year	241,211	\$ 56.20	273,061	\$ 54.00
Transferred	58,750	55.40	—	—
Granted	145,000	70.56	14,000	63.50
Exercised	(57,150)	50.24	(32,850)	42.49
Cancelled	(1,200)	57.64	(13,000)	52.63
<b>Balance at end of year</b>	<b>386,611</b>	<b>\$ 62.34</b>	<b>241,211</b>	<b>\$ 56.20</b>
<b>Vested options at end of year</b>	<b>53,758</b>	<b>\$ 56.70</b>	<b>24,700</b>	<b>\$ 48.85</b>

During the year ended December 31, 2015, 57,150 of the Corporation's stock options were exercised for a cash consideration of \$1.2 million (32,850 stock options for \$0.7 million in 2014).

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**21. STOCK-BASED COMPENSATION PLANS (continued)**

## (b) Parent corporation stock-based compensation plan (continued)

The following table gives summary information on outstanding options as of December 31, 2015:

Range of exercise price	Outstanding options			Vested options	
	Number	Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
\$44.45 to \$57.64	227,611	7.31	\$ 57.03	50,778	\$ 56.33
\$63.50 to \$70.56	159,000	9.14	69.94	2,800	63.50
	<b>386,611</b>	<b>8.06</b>	<b>\$ 62.34</b>	<b>53,578</b>	<b>\$ 56.70</b>

## (c) Assumptions in estimating the fair value of stock-based awards

The fair value of stock-based awards under the stock option plans of the ultimate parent corporation and parent corporation was estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used to estimate the fair value of all outstanding stock options under the stock option plans as of December 31, 2015 and 2014:

December 31, 2015	Ultimate parent corporation	Parent corporation
	Risk-free interest rate	0.91%
Distribution yield	0.42%	1.50%
Expected volatility	20.46%	19.19%
Expected remaining life	4.7 years	3.8 years

December 31, 2014	Ultimate parent corporation	Parent corporation
	Risk-free interest rate	1.66%
Distribution yield	0.31%	1.38%
Expected volatility	25.83%	18.95%
Expected remaining life	5.7 years	3.7 year

Except for the parent corporation, the expected volatility is based on the historical volatility of the underlying share price for a period equivalent to the expected remaining life of the options. Since the Common Shares of the parent corporation are not publicly traded on a stock exchange, expected volatility is derived from the implied volatility of the ultimate parent corporation's stock. The expected remaining life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate over the expected remaining life of the option is based on the Government of Canada yield curve in effect at the time of the valuation. Distribution yield is based on the current average yield.



**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**21. STOCK-BASED COMPENSATION PLANS (continued)**

## (d) Liability of vested options

As of December 31, 2015, the liability for all vested options was \$0.7 million as calculated using the intrinsic value (\$0.5 million as of December 31, 2014).

## (e) Consolidated compensation charge

For the year ended December 31, 2015, a consolidated charge related to all stock-based compensation plans was recorded in the amount of \$1.3 million (charge of \$1.3 million in 2014 and \$2.7 million in 2013).

**22. ACCUMULATED OTHER COMPREHENSIVE LOSS**

	Cash flow hedges	Defined benefit plans	Total
Balance as of December 31, 2012	\$ 16,888	\$(35,914)	\$(19,026)
Other comprehensive (loss) gain	(31,641)	41,558	9,917
Balance as of December 31, 2013	(14,753)	5,644	(9,109)
Other comprehensive loss	(2,852)	(35,028)	(37,880)
Balance as of December 31, 2014	(17,605)	(29,384)	(46,989)
Other comprehensive loss	(22,831)	(7,024)	(29,855)
<b>Balance as of December 31, 2015</b>	<b><u>\$(40,436)</u></b>	<b><u>\$(36,408)</u></b>	<b><u>\$(76,844)</u></b>

No significant amount is expected to be reclassified in income over the next 12 months in connection with derivatives designated as cash flow hedges. The balance is expected to reverse over a 8 1/2 year period.

**23. COMMITMENTS**

The Corporation rents premises and equipment under operating leases and has entered into long-term commitments to purchase services and capital equipment that call for total future payments of \$585.0 million, including an amount of \$48.3 million for future rent payments to the ultimate parent corporation. The operating leases have various terms, escalation clauses, purchase options and renewal rights. The minimum payments for the coming years are as follows:

	Leases	Other commitments
2016	\$40,708	\$ 114,905
2017 to 2020	98,178	144,257
2021 and thereafter	47,763	139,203

The Corporation and its subsidiaries' operating lease expenses amounted to \$52.1 million in 2015 (\$48.9 million in 2014 and \$48.0 million in 2013).

**VIDEOTRON LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**24. GUARANTEES**

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

*Operating leases*

The Corporation has guaranteed a portion of the residual value of certain assets under operating leases for the benefit of the lessor. Should the Corporation terminate these leases prior to term (or at the end of the lease terms) and should the fair value of the assets be less than the guaranteed residual value, then the Corporation must, under certain conditions, compensate the lessor for a portion of the shortfall. As of December 31, 2015, the maximum exposure with respect to the guarantees was \$15.4 million and no liability has been recorded in the consolidated balance sheet.

*Business and asset disposals*

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

*Outsourcing companies and suppliers*

In the normal course of its operations, the Corporation enters into contractual agreements with outsourcing companies and suppliers. In some cases, the Corporation agrees to provide indemnifications in the event of legal procedures initiated against them. In other cases, the Corporation provides indemnification to counterparties for damages resulting from the outsourcing companies and suppliers. The nature of the indemnification agreements prevents the Corporation from estimating the maximum potential liability it could be required to pay. No amount has been accrued in the consolidated balance sheet with respect to these indemnifications.

**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

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

The Corporation uses a number of financial instruments, mainly cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued charges, 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 uses derivative financial instruments (i) to set in CAN dollars future payments on debts denominated in U.S. dollars (interest and principal) and certain purchases of inventories and other capital expenditures denominated in a foreign currency, (ii) to achieve a targeted balance of fixed and floating rate debts, and (iii) to lock-in the value of certain derivative financial instruments through offsetting transactions. The Corporation does not intend to settle its derivative financial instruments prior to their maturity as none of these instruments is held or issued for speculative purposes.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

## (a) Description of derivative financial instruments

## (i) Foreign exchange forward contracts

Maturity	CAN dollar average exchange rate per one U.S. dollar	Notional amount sold (in millions of dollars)	Notional amount bought (in millions of dollars)
Less than 1 year	1.3105	\$168.7	US\$128.7
2017 <sup>1</sup>	1.3849	US\$260.0	\$360.1

<sup>1</sup> See footnote 1 below Cross-currency interest rate swaps table.

## (ii) 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	
5.000% Senior Notes due 2022	US\$543,125	6.01%	0.9983	
5.000% Senior Notes due 2022	US\$256,875	5.81%	1.0016	
5.375% Senior Notes due 2024 <sup>1</sup>	US\$260,000	9.21%	1.2965	
		Bankers' acceptance 3 months +		
5.375% Senior Notes due 2024	US\$158,605	2.67%	1.1034	
5.375% Senior Notes due 2024	US\$441,395	5.62%	1.1039	

<sup>1</sup> The Corporation initially entered into these cross-currency interest rate swaps to hedge the foreign currency risk exposure under its 9.125% Senior Notes due in 2018 redeemed in 2014. These swaps are now used to set in CAN dollars all coupon payments through 2017 on US\$441.4 million of notional amount under its 5.375% Senior Notes due in 2024 and issued in 2014. In conjunction with the repurposing of these swaps, the Corporation has entered into US\$260.0 million offsetting foreign exchange forward contracts to lock-in the value of its hedging position related to the December 15, 2017 notional exchange.

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

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

## (b) Fair value of financial instruments

In accordance with IFRS 13, *Fair value measurement*, the Corporation considers the following fair value hierarchy which reflects the significance of the inputs used in measuring its other financial instruments accounted for at fair value in the consolidated balance sheets:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs that are not based on observable market data (unobservable inputs).

The fair value of long-term debt is estimated based on quoted market prices when available or on valuation models using Level 1 and Level 2 inputs. When the Corporation uses valuation models, the fair value is estimated using discounted cash flows using year-end market yields or the market value of similar instruments with the same maturity.

The fair value of 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 Level 2 inputs.

The fair value of derivative financial instruments recognized in the consolidated balance sheets is estimated as per the Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative instrument and factors observable in external market data, such as period-end swap rates and foreign exchange rates (Level 2 inputs). An adjustment is also included to reflect non-performance risk impacted by the financial and economic environment prevailing at the date of the valuation in the recognized measure of the fair value of the derivative instruments by applying a credit default premium estimated using a combination of observable and unobservable inputs in the market (Level 3 inputs) to the net exposure of the counterparty or the Corporation. Derivative financial instruments are classified as Level 2.

The fair value of early settlement options recognized as embedded derivatives is determined by option pricing models using Level 2 market inputs, including volatility, discount factors and the underlying instrument's adjusted implicit interest rate and credit premium.

**VIDEOTRON LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

## (b) Fair value of financial instruments (continued)

The carrying value and fair value of long term debt and derivative financial instruments as of December 31, 2015 and 2014 are as follows:

Asset (liability)	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
<b>Long-term debt<sup>1, 2</sup></b>	<b>\$(3,286,115)</b>	<b>\$(3,289,600)</b>	<b>\$(2,951,011)</b>	<b>\$(3,020,851)</b>
<b>Derivative financial instruments<sup>3</sup></b>				
Early settlement options	1,000	1,000	5,551	5,551
Foreign exchange forward contracts <sup>4</sup>	9,282	9,282	4,216	4,216
Cross-currency interest rate swaps <sup>4</sup>	484,915	484,915	107,023	107,023

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

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

<sup>3</sup> The fair value of derivative financial instruments designated as hedges is an asset position of \$494.2 million as of December 31, 2015 (\$111.2 million as of December 31, 2014).

<sup>4</sup> The value of foreign exchange forward contracts entered into to lock-in the value of existing hedging positions is netted from the value of the offset financial instruments.

## (c) Credit risk management

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

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, 2015, no customer balance represented a significant portion of the Corporation's consolidated accounts receivable. 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 \$16.6 million as of December 31, 2015 (\$15.4 million as of December 31, 2014). As of December 31, 2015, 7.4% of accounts receivable were 90 days past their billing date (7.0% as of December 31, 2014), of which 63.3% had an allowance for doubtful accounts (61.2% as of December 31, 2014).

The following table shows changes to the allowance for doubtful accounts for the years ended December 31, 2015 and 2014:

	2015	2014
Balance at beginning of the year	\$ 15,422	\$ 15,678
Charged to income	30,189	28,962
Utilization	(29,042)	(29,218)
<b>Balance at the end of the year</b>	<b>\$ 16,569</b>	<b>\$ 15,422</b>

**VIDEOTRON LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2015, 2014 and 2013

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**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

## (c) Credit risk management (continued)

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

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

## (d) Liquidity risk management

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due or the risk that those financial obligations will have to be met at excessive cost. The Corporation manages this exposure through staggered debt maturities. The weighted average term of the Corporation's consolidated debt was approximately 7.6 years as of December 31, 2015 (7.3 years as of December 31, 2014).

The Corporation's management believes that cash flows and available sources of financing should be sufficient to cover committed cash requirements for capital investments, working capital, interest payments, debt repayments, pension plan contributions, and dividends (or distributions) in the future. The Corporation has access to cash flows generated by its subsidiaries through dividends and cash advances paid by its wholly owned subsidiaries.

As of December 31, 2015, material contractual obligations related to financial instruments included capital repayment and interest on long-term debt and obligations related to derivative instruments, less estimated future receipts on derivative instruments. These obligations and their maturities are as follows:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>5 years or more</u>
Bank indebtedness	\$ 11,698	\$ 11,698	\$ —	\$ —	\$ —
Accounts payable and accrued charges	422,769	422,769	—	—	—
Amounts payable to affiliated corporations	62,913	62,913	—	—	—
Long-term debt <sup>1</sup>	3,286,115	10,714	16,072	246,729	3,012,600
Interest payments <sup>2</sup>	1,173,779	116,798	306,932	305,523	444,526
Derivative instruments <sup>3</sup>	(489,545)	4,646	(18,346)	—	(475,845)
<b>Total</b>	<b>\$4,467,729</b>	<b>\$629,538</b>	<b>\$304,658</b>	<b>\$552,252</b>	<b>\$2,981,281</b>

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

<sup>2</sup> Estimate of interest payable on long-term debt, based on interest rates, hedging of interest rates and hedging of foreign exchange rates as of December 31, 2015.

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

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

## (e) Market risk

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

*Foreign currency risk*

Most of the Corporation's consolidated revenues and expenses, other than interest expense on U.S.-dollar-denominated debt, purchases of set-top boxes, handsets and cable modems and certain capital expenditures, are received or denominated in CAN dollars. A large portion of the interest, principal and premium, if any, payable on its debt is payable in U.S. dollars. The Corporation has entered into transactions to hedge the foreign currency risk exposure on its U.S.-dollar-denominated debt obligations outstanding as of December 31, 2015, to hedge its exposure on certain purchases of set-top boxes, handsets, cable modems and capital expenditures and to lock-in the value of certain derivative financial instruments through offsetting transactions. Accordingly, the Corporation's sensitivity to variations in foreign exchange rates is economically limited.

The estimated sensitivity on income and on other comprehensive income, before income tax, of a variance of \$0.10 in the year-end exchange rate of a CAN dollar per one U.S. dollar used to calculate the fair value of financial instruments as of December 31, 2015 is as follows:

<u>Increase (decrease)</u>	<u>Income</u>	<u>Other comprehensive income</u>
<b>Increase of \$0.10</b>		
Gain on valuation and translation of financial instruments and derivative financial instruments	<b>\$ 2,188</b>	<b>\$ 31,459</b>
<b>Decrease of \$0.10</b>		
Gain on valuation and translation of financial instruments and derivative financial instruments	<b>(2,188)</b>	<b>(31,459)</b>

*Interest rate risk*

The Corporation's bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers' acceptance rate, (ii) Canadian prime rate and (iii) U.S. prime rate. The Senior Notes issued by the Corporation bear interest at fixed rates. The Corporation has entered into cross-currency interest rate swap agreements in order to manage cash flow risk exposure. As of December 31, 2015, after taking into account the hedging instruments, long-term debt was comprised of 84.0% fixed rate debt (85.0% in 2014) and 16.0% floating rate debt (15.0% in 2014).

The estimated sensitivity on interest payments of a 100 basis-point variance in the year-end Canadian Bankers' acceptance rate as of December 31, 2015 was \$4.5 million.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**25. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)**

## (e) Market risk (continued)

The estimated sensitivity on income and on 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, 2015, as per the Corporation's valuation models, was as follows:

<u>Increase (decrease)</u>	<u>Income</u>	<u>Other comprehensive income</u>
Increase of 100 basis points	\$(3,585)	\$ (25,147)
Decrease of 100 basis points	3,585	25,147

## (f) Capital management

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

In managing its capital structure, the Corporation takes into account the asset characteristics of its subsidiaries and planned requirements for funds. Management of the capital structure involves the issuance of new debt, the repayment of existing debt using cash flows generated by operations, and the level of distributions to the parent corporation. The Corporation has not significantly changed its strategy regarding the management of its capital structure since the last financial year.

The Corporation's capital structure is composed of equity, bank indebtedness, long-term debt and net assets and liabilities related to derivative financial instruments less cash and cash equivalents. The capital structure as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Bank indebtedness	\$ 11,698	\$ —
Long-term debt	3,266,642	2,924,540
Derivative financial instruments asset	(494,197)	(111,239)
Cash and cash equivalents	(1,774)	(342,802)
Net liabilities	2,782,369	2,470,499
Equity	<u>\$ 813,800</u>	<u>\$ 793,907</u>

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



**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**26. RELATED PARTY TRANSACTIONS**Compensation of key management personnel

Key management personnel comprises members of the Board of Directors and key senior managers of the Corporation and its main subsidiaries. Their compensation is as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Salaries and short-term benefits	<b>\$5,100</b>	\$4,528	\$4,242
Post-employment benefits	<b>225</b>	167	534
Share-based compensation	<b>1,226</b>	1,105	1,709
Other long-term benefits	<b>1,688</b>	1,889	1,859
	<b><u>\$8,239</u></b>	<u>\$7,689</u>	<u>\$8,344</u>

Operating transactions

During the years ended December 31, 2015, 2014 and 2013, the Corporation and its subsidiaries made purchases and incurred rent charges with the parent corporation and affiliated corporations, which are included in purchase of goods and services. The Corporation and its subsidiaries also made sales to the parent corporation and affiliated corporations. These transactions were accounted for at the consideration agreed between parties:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Ultimate parent and parent corporation :</b>			
Revenues	<b>\$ 696</b>	\$ 680	\$ 541
Purchase of goods and services	<b>8,584</b>	7,572	8,508
Operating expenses recovered	<b>(597)</b>	(682)	(4,207)
<b>Affiliated corporations :</b>			
Revenues	<b>8,059</b>	10,349	11,019
Purchase of goods and services	<b>103,435</b>	81,148	73,193
Operating expenses recovered	<b>(1,395)</b>	(701)	(3,418)

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**26. RELATED PARTY TRANSACTIONS (continued)**Accounts receivable from affiliated corporations:

	<u>2015</u>	<u>2014</u>
Ultimate parent and parent corporation :		
Accounts receivable	\$ 474	\$ 234
Dividends receivable	7,455	3,852
Amount receivable from business disposal (note 8)	—	7,848
Affiliated corporations :		
Accounts receivable	4,401	6,390
	<u>\$12,330</u>	<u>\$18,324</u>

Accounts payable to affiliated corporations:

	<u>2015</u>	<u>2014</u>
Ultimate parent and parent corporation :		
Accounts payable	\$35,743	\$27,368
Interest payable	7,351	3,782
Affiliated corporations :		
Accounts payable	19,819	18,234
	<u>\$62,913</u>	<u>\$49,384</u>

Management arrangements

The Corporation pays annual management fees to the parent corporation for services rendered to the Corporation, including internal audit, legal and corporate, financial planning and treasury, tax, real estate, human resources, risk management, public relations and other services. Management fees amounted to \$48.0 million in 2015 (\$43.5 million in 2014 and \$45.0 million in 2013). The agreement provides for an annual management fee to be agreed upon for the year 2016. In addition, the parent corporation is entitled to the reimbursement of out-of-pocket expenses incurred in connection with the services provided under the agreement.

**VIDEOTRON LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2015, 2014 and 2013

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**27. PENSION PLANS AND POSTRETIREMENT BENEFITS**

The Corporation maintains various defined benefit and defined contribution plans. The Corporation also provides postretirement benefits to eligible retired employees, principally health care and cable services. The Corporation's pension plans are registered with a Québec or federal regulatory authority.

The Corporation's funding policy for its funded pension plans is to maintain its contribution at a level sufficient to cover benefits and to meet requirements of the applicable regulations and plan provisions that govern the funding of the plans. These provisions establish, among others, the future payment of amortization payments when the degree of solvency of the pension plans is less than 100% as defined by the relevant Québec and federal laws. Payments are determined by an actuarial report performed by an independent company at least every three years or annually, according to the applicable laws and in accordance with plan provisions.

By their design, the defined benefit plans expose the Corporation to the typical risks faced by defined benefit plans, such as investment performance, changes to the discount rates used to value the obligation, longevity of plan participants, and future inflation. The administration of the plans is assured by pension committees composed of members of the plans, independent members of the Corporation's management, or the Corporation in accordance with the provisions each plan. Under the Corporation's rules of governance, the approval and oversight of the defined benefit plan policies are performed at different levels through the pension committees, the Corporation's management, or the Audit Committee. The risk management of pension plans is also performed under the leadership of these committees at various levels. The custody of securities and management of security transactions are assigned to trustees within a mandate given by the pension committee or the Corporation, as the case may be. Policies include those on investment objectives, risk mitigation strategies and the mandate to hire investment fund managers and monitor their work and performance. The benefit pension plans are monitored on an ongoing basis to assess the benefit, funding and investment policies, financial status, and the Corporation's funding requirement.

The following tables show a reconciliation of the changes in the plans' benefit obligations and the fair value of plan assets for the years ended December 31, 2015 and 2014:

	Pension benefits		Postretirement benefits	
	2015	2014	2015	2014
<b>Change in benefit obligations</b>				
Benefit obligations at the beginning of the year	\$309,394	\$230,598	\$31,617	\$16,739
Service costs	21,875	16,384	1,373	545
Interest costs	12,962	11,473	1,344	834
Plan participants' contributions	7,385	7,600	—	—
Actuarial loss (gain) arising from:				
Demographic assumptions	—	1,898	—	(246)
Financial assumptions	7,870	48,327	792	3,631
Participant experience	5,742	978	—	10,478
Benefits and settlements paid	(10,355)	(9,869)	(436)	(195)
Other	537	2,005	—	(169)
<b>Benefit obligations at the end of the year</b>	<b>\$355,410</b>	<b>\$309,394</b>	<b>\$34,690</b>	<b>\$31,617</b>

**VIDEOTRON LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**27. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**

	Pension benefits		Postretirement benefits	
	2015	2014	2015	2014
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$285,125	\$234,614	\$ —	\$ —
Actual return on plan assets	15,800	27,008	—	—
Employer contributions	22,625	23,767	436	195
Plan participants' contributions	7,385	7,600	—	—
Benefits and settlements paid	(10,355)	(9,869)	(436)	(195)
Other	537	2,005	—	—
<b>Fair value of plan assets at end of year</b>	<b>\$321,117</b>	<b>\$285,125</b>	<b>\$ —</b>	<b>\$ —</b>

As of December 31, 2015, the weighted average duration of defined benefit obligations was 23.5 years (23.7 years in 2014). The Corporation expects future benefit payments of \$10.9 million in 2016.

The Corporation's investment strategy for plan assets takes into account a number of factors, including the time horizon of the pension plans' obligations and the investment risk. For each of the plans, an allocation range by asset class is developed whereby a mix of equities and fixed-income investments is used to optimize the risk-return profile of plan assets and to mitigate asset-liability mismatch. Plan assets are comprised of:

	2015	2014
Equity securities:		
Canadian	24.2%	25.1%
Foreign	37.5	37.6
Debt securities	38.3	37.0
Other	—	0.3
	<u>100.0%</u>	<u>100.0%</u>

Where funded plans have a net defined benefit asset, the Corporation determines if potential reductions in future contributions are permitted by applicable regulations. When a defined benefit asset is created, it cannot exceed the future economic benefit that the Corporation can expect to obtain from the asset. The future economic benefit represents the value of reductions in future contributions and expenses payable to the pension fund. It does not reflect gains that could be generated in the future that would allow reductions in contributions by the Corporation. When there is a minimum funding requirement, this could also limit the amount recognized in the balance sheet. A minimum funding requirement represents the present value of amortization payments based on the most recent actuarial financing reports filed.

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**27. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**

The reconciliation of funded status to the net amount recognized in the consolidated balance sheets is as follows:

	Pension benefits		Postretirement benefits	
	2015	2014	2015	2014
Benefit obligations	<b>\$(355,410)</b>	\$(309,394)	<b>\$(34,690)</b>	\$(31,617)
Fair value of plan assets	<b>321,117</b>	285,125	—	—
<b>Plan deficit and net amount recognized<sup>1</sup></b>	<b><u>\$(34,293)</u></b>	<b><u>\$(24,269)</u></b>	<b><u>\$(34,690)</u></b>	<b><u>\$(31,617)</u></b>

<sup>1</sup> The net amount recognized for 2015 is included in Other liabilities (note 19).

Components of re-measurements are as follows:

	Pension benefits			Postretirement benefits		
	2015	2014	2013	2015	2014	2013
Actuarial (loss) gain on benefit obligations	<b>\$(13,612)</b>	\$(51,203)	\$29,839	<b>\$(792)</b>	\$(13,863)	\$5,598
Actual return on plan assets, less interest income anticipated in the interest on the net defined benefit liability calculation	<b>4,790</b>	16,134	22,284	—	—	—
Asset limit and minimum funding adjustment	—	1,014	(966)	—	—	—
<b>Re-measurements recorded in other comprehensive income</b>	<b><u>\$(8,822)</u></b>	<b><u>\$(34,055)</u></b>	<b><u>\$51,157</u></b>	<b><u>\$(792)</u></b>	<b><u>\$(13,863)</u></b>	<b><u>\$5,598</u></b>

Components of the net benefit costs are as follows:

	Pension benefits			Postretirement benefits		
	2015	2014	2013	2015	2014	2013
Employee costs:						
Service costs	<b>\$21,875</b>	\$16,384	\$20,101	<b>\$1,373</b>	\$545	\$762
Other fees	<b>384</b>	437	386	—	—	—
Interest on net defined benefit liability	<b>1,569</b>	209	2,892	<b>1,344</b>	834	938
<b>Net benefit costs</b>	<b><u>\$23,828</u></b>	<b><u>\$17,030</u></b>	<b><u>\$23,379</u></b>	<b><u>\$2,717</u></b>	<b><u>\$1,379</u></b>	<b><u>\$1,700</u></b>

The expense related to defined contribution pension plans amounted to \$12.1 million in 2015 (\$10.8 million in 2014 and \$10.0 million in 2013).

The expected employer contributions to the Corporation's defined benefit pension plans and post-retirement benefit plans will be \$22.3 million in 2016 based on the most recent financial actuarial reports filed (contributions of \$23.1 million were paid in 2015).

**VIDEOTRON LTD.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2015, 2014 and 2013

(tabular amounts in thousands of Canadian dollars, except for option data)

**27. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**Assumptions

The Corporation determines its assumption for the discount rate to be used for purposes of computing annual service and interest costs based on an index of high-quality corporate bond-yield and matched-funding yield curve analysis as of the measurement date.

The actuarial assumptions used in measuring the Corporation's benefit obligations as of December 31, 2015, 2014 and 2013 and current periodic benefit costs are as follows:

	Pension benefits			Postretirement benefits		
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Benefit obligations</b>						
Rates as of year-end:						
Discount rate	<b>4.00%</b>	4.10%	4.90%	<b>4.00%</b>	4.10%	4.90%
Rate of compensation increase	<b>3.25</b>	3.25	3.25	<b>3.00</b>	3.00	3.00
<b>Current periodic costs</b>						
Rates as of preceding year-end:						
Discount rate	<b>4.10%</b>	4.90%	4.40%	<b>4.10%</b>	4.90%	4.40%
Rate of compensation increase	<b>3.25</b>	3.25	3.50	<b>3.00</b>	3.00	3.25

The assumed average retirement age of participants used was of 62 years in 2015, 2014 and 2013.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 7.0% at the end of 2015. These costs, as per the estimate, are expected to decrease gradually over the next 10 years to 4.5% and to remain at that level thereafter.

Sensitivity analysis

An increase of 10 basis points in the discount rate would have decreased the pension benefits obligation by \$8.1 million and the postretirement benefits obligation by \$0.8 million as of December 31, 2015. There are limitations to this sensitivity analysis since it only considers the impacts of an increase of 10 basis points in the discount rate assumption without changing any other assumptions. No sensitivity analysis was performed on other assumptions as a similar change to those assumptions would not have a significant impact on the consolidated financial statements.

**28. SUBSEQUENT EVENT**

On January 7, 2016, the Corporation acquired Fibrenoire Inc. ("Fibrenoire"), a company that provides businesses with fibre-optic connectivity services. The transaction will enable Videotron Business Solutions and Fibrenoire to join forces to meet the growing demand from business customers for fibre-optic connectivity. The purchase price was \$125.0 million, including \$120.9 million paid at closing, subject to certain adjustments.