MANAGEMENT DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

CORPORATE PROFILE

This Management Discussion and Analysis covers the main activities of Quebecor Inc. in the second quarter of 2016 and the major changes from the previous financial year. Quebecor Inc. is a holding company with an 81.07% interest in Quebecor Media Inc., one of Canada's largest media groups. Quebecor Media Inc. operates in the following business segments: Telecommunications, Media, and Sports and Entertainment. Quebecor Media Inc. is pursuing a convergence strategy to capture synergies among all its properties. Unless the context otherwise requires, "Quebecor" or the "Corporation" refer to Quebecor Inc. and its subsidiaries, and "Quebecor Media" refers to Quebecor Media Inc. and its subsidiaries.

On September 9, 2015, Quebecor Media purchased part of the interest in Quebecor Media held by CDP Capital d'Amérique Investissement inc., a subsidiary of the Caisse de dépôt et placement du Québec. All the repurchased shares were cancelled. Upon completion of the transaction, the Corporation's interest in Quebecor Media increased from 75.36% to 81.07%.

This report should be read in conjunction with the information in the consolidated financial statements and Management Discussion and Analysis for the financial year ended December 31, 2015. All amounts are stated in Canadian dollars unless otherwise indicated.

During the fourth quarter of 2015, the Corporation changed its organizational structure and transferred its music distribution and production operations from the Sports and Entertainment segment to the Media segment. Accordingly, prior-period figures in the Corporation's segmented reporting have been reclassified to reflect those changes.

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

HIGHLIGHTS SINCE END OF FIRST QUARTER 2016

- Quebecor's revenues totalled $992.5 million in the second quarter of 2016, a $28.7 million (3.0%) increase from the same period of 2015.

Telecommunications

- The Telecommunications segment grew its revenues by $38.9 million (5.2%) and its adjusted operating income by $20.3 million (5.9%) in the second quarter of 2016.
- In the second quarter of 2016, Videotron Ltd. ("Videotron") significantly increased its revenues from mobile telephony ($26.5 million or 27.5%), Internet access ($16.5 million or 7.3%), business solutions ($10.3 million or 62.0%) and Club illico over-the-top video service ("Club illico") ($2.0 million or 37.0%).
- The number of subscriber connections to the mobile telephony service increased by 33,200 (4.2%) from the previous quarter.
- Videotron's average monthly revenue per user ("ARPU") increased by $9.30 (7.0%) from $133.71 in the second quarter of 2015 to $143.01 in the second quarter of 2016.
- On July 13, 2016, Videotron launched Giga Fibre Hybrid Internet access service, which offers residential and business customers connection speeds of up to 940 Mbps. The product confirms Videotron's status as the leader in high-speed Internet, an area in which it has been a trailblazer for more than 20 years.

Media

- On June 20, 2016, Quebecor Media Group announced the launch of Immersion, a new video advertising format that enables businesses and their brands to leverage existing content and reduce their advertising video production costs. The innovative technology displays full-screen, high-resolution videos that integrate perfectly into the front end of most websites.
- On April 12, 2016, TVA Group Inc. ("TVA Group") released the Molto app, a new digital newsstand that gives users unlimited access to the full content of all its magazines on their tablets and smartphones.

Sports and Entertainment

- On April 7, 2016, Gestev became the official imprint for all shows and events produced by Quebecor. The new grouping is capitalizing on the 25 years of experience Event Management Gestev Inc. has in organizing events and on its powerful brand in order to establish itself as a major player in showbiz and entertainment.

Financial transactions

- In June 2016, Quebecor amended its revolving credit facility to extend its term to July 2019, Quebecor Media amended its secured revolving credit facility to extend its term to July 2020 and Videotron amended its secured revolving credit facility and its unsecured revolving credit facility to extend their term to July 2021. Some of the terms and conditions of the credit facilities were also amended.

NON-IFRS FINANCIAL MEASURES

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

Adjusted operating income

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

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

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

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Adjusted operating income (loss):				
Telecommunications	**$ 362.5**	$ 342.2	**$ 721.2**	$ 685.7
Media	**6.9**	11.1	**4.2**	5.0
Sports and Entertainment	**(4.1)**	(3.9)	**(4.9)**	(3.8)
Head Office	**(5.0)**	(0.1)	**(5.5)**	1.6
	360.3	349.3	**715.0**	688.5
Depreciation and amortization	**(161.7)**	(167.0)	**(323.4)**	(348.5)
Financial expenses	**(80.1)**	(80.8)	**(160.9)**	(168.6)
(Loss) gain on valuation and translation of financial instruments	**(56.4)**	45.9	**(49.8)**	40.8
Restructuring of operations and other items	**(5.6)**	(5.7)	**(13.5)**	(10.1)
Impairment of goodwill	**–**	(30.0)	**–**	(30.0)
Loss on debt refinancing	**–**	(13.8)	**–**	(12.1)
Income taxes	**(31.3)**	(5.5)	**(59.0)**	(27.4)
Loss from discontinued operations	**–**	(11.8)	**–**	(16.1)
Net income	**$ 25.2**	$ 80.6	**$ 108.4**	$ 116.5

Adjusted income from continuing operating activities

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

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

Table 2

Reconciliation of the adjusted income from continuing operating activities measure used in this report to the net income attributable to shareholders measure used in the condensed consolidated financial statements

(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Adjusted income from continuing operating activities	**$ 69.9**	$ 66.5	**$ 137.6**	$ 107.9
(Loss) gain on valuation and translation of financial instruments	**(56.4)**	45.9	**(49.8)**	40.8
Restructuring of operations and other items	**(5.6)**	(5.7)	**(13.5)**	(10.1)
Impairment of goodwill	**–**	(30.0)	**–**	(30.0)
Loss on debt refinancing	**–**	(13.8)	**–**	(12.1)
Income taxes related to adjustments[1]	**1.1**	6.8	**3.2**	3.9
Net income attributable to non-controlling interest related to adjustments	**0.8**	11.5	**2.2**	12.3
Discontinued operations	**–**	(9.1)	**–**	(11.2)
Net income attributable to shareholders	**$ 9.8**	$ 72.1	**$ 79.7**	$ 101.5

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

Cash flows from segment operations

Cash flows from segment operations represents adjusted operating income, less additions to property, plant and equipment and intangible assets (excluding disbursements for licence acquisitions and renewals), plus proceeds from disposal of assets. The Corporation uses cash flows from segment operations as a measure of the liquidity generated by its segments. Cash flows from segment operations represents funds available for interest and income tax payments, expenditures related to restructuring programs, business acquisitions, licence acquisitions and renewals, payment of dividends, reduction of paid-up capital by Quebecor Media, repayment of long-term debt and purchase of non-controlling interest. Cash flows from segment operations is not a measure of liquidity that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. Cash flows from segment operations is used by the Corporation's management and Board of Directors to evaluate cash flows generated by its segments' operations. The Corporation's definition of cash flows from segment operations may not be identical to similarly titled measures reported by other companies. Tables 7 and 8 provide a reconciliation of cash flows from segment operations to cash flows provided by continuing operating activities reported in Quebecor's condensed consolidated financial statements.

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

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

Table 8 provides a reconciliation of free cash flows from continuing operating activities of Quebecor Media to cash flows provided by continuing operating activities reported in Quebecor's condensed consolidated financial statements.

KEY PERFORMANCE INDICATOR

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

ANALYSIS OF CONSOLIDATED RESULTS OF QUEBECOR

<u>**2016/2015 second quarter comparison**</u>

Revenues: $992.5 million, a $28.7 million (3.0%) increase.

- Revenues increased in Telecommunications ($38.9 million or 5.2% of segment revenues) and Sports and Entertainment ($4.6 million).
- Revenues decreased in Media ($22.4 million or -8.9%).

Adjusted operating income: $360.3 million, an $11.0 million (3.1%) increase.

- Adjusted operating income increased in Telecommunications ($20.3 million or 5.9% of segment adjusted operating income).
- Adjusted operating income decreased in Media ($4.2 million or -37.8%). There were unfavourable variances in Sports and Entertainment ($0.2 million or -5.1%) and at Head Office ($4.9 million). The change at Head Office was essentially due to an unfavourable variance in the stock-based compensation charge.
- The change in the fair value of Quebecor Media stock options resulted in a $0.3 million favourable variance in the stock-based compensation charge in the second quarter of 2016 compared with the same period of 2015. The change in the fair value of Quebecor stock options resulted in a $6.7 million unfavourable variance in the Corporation's consolidated stock-based compensation charge in the second quarter of 2016.

Net income attributable to shareholders: $9.8 million ($0.08 per basic share) in the second quarter of 2016, compared with $72.1 million ($0.59 per basic share) in the same period of 2015, a decrease of $62.3 million ($0.51 per basic share).

- The unfavourable variance was essentially due to:
  - $102.3 million unfavourable variance in losses and gains on valuation and translation of financial instruments, including $105.3 million without any tax consequences;
  - $25.8 million increase in income tax expense.

  Partially offset by:
  - $30.0 million favourable variance arising from recognition of a goodwill impairment charge (without any tax consequences) in the second quarter of 2015;
  - $13.8 million favourable variance due to recognition of a loss on debt refinancing in the second quarter of 2015;
  - $11.8 million favourable variance in the loss related to discontinued operations;
  - $11.0 million increase in adjusted operating income;
  - $5.3 million decrease in the depreciation and amortization charge.

Adjusted income from continuing operating activities: $69.9 million ($0.57 per basic share) in the second quarter of 2016, compared with $66.5 million ($0.54 per basic share) in the same period of 2015, an increase of $3.4 million ($0.03 per basic share).

Depreciation and amortization charge: $161.7 million in the second quarter of 2016, a $5.3 million decrease due primarily to the end of the accounting useful lives of some assets acquired as part of the acquisition of Videotron in October 2000, partially offset by the impact of capital expenditures in the Telecommunications segment, including depreciation of capital assets related to the capacity expansion of the wired and wireless networks.

Financial expenses: $80.1 million, a $0.7 million decrease caused mainly by the impact of lower interest rates on long-term debt due to debt refinancing at lower rates, partially offset by higher average indebtedness.

Loss on valuation and translation of financial instruments: $56.4 million in the second quarter of 2016 compared with a $45.9 million gain in the second quarter of 2015. The $102.3 million unfavourable variance was essentially due to the unfavourable variance, without any tax consequences, in losses and gains on embedded derivatives related to convertible debentures.

Charge for restructuring of operations and other items: $5.6 million in the second quarter of 2016, compared with $5.7 million in the same period of 2015, a $0.1 million favourable variance. In both 2016 and 2015, the charges were attributable to various workforce-reduction programs in the Corporation's business segments and customer migration from analog to digital service at Videotron.

Goodwill impairment charge: $30.0 million in the second quarter of 2015.

- In the second quarter of 2015, Quebecor Media performed an annual impairment test on the Newspapers cash generating unit ("CGU"), which continued to be affected by the shift to digital and by challenging market conditions. Quebecor Media concluded that the recoverable amount based on fair value less disposal costs was less than the carrying amount of this CGU. Accordingly, the Media segment recorded a $30.0 million non-cash goodwill impairment charge, without any tax consequences.

Loss on debt refinancing: $13.8 million in the second quarter of 2015.

- In accordance with a notice issued on June 16, 2015, Videotron redeemed, on July 16, 2015, the entirety of its outstanding 9.125% Senior Notes issued on April 15, 2008 and maturing on April 15, 2018, in the aggregate principal amount of US$75.0 million, at a redemption price of 101.521% of their principal amount, and unwound the related hedges in an asset position. A $0.2 million loss was recorded in the consolidated statement of income in the second quarter of 2015 in connection with this redemption, including a $2.1 million net gain previously recorded in "Other comprehensive income."
- In accordance with a notice issued on June 16, 2015, Videotron redeemed, on July 16, 2015, the entirety of its outstanding 7.125% Senior Notes issued on January 13, 2010 and maturing on January 15, 2020, in the aggregate principal amount of $300.0 million, at a redemption price of 103.563% of their principal amount. A $13.6 million loss was recorded in the consolidated statement of income in the second quarter of 2015 in connection with this redemption.

Income tax expense: $31.3 million in the second quarter of 2016 (effective tax rate of 27.4%) compared with $5.5 million in the same period of 2015 (effective tax rate of 6.8%), a $25.8 million unfavourable variance. The effective tax rate is calculated considering only taxable and deductible items.

- The unfavourable variance in income tax and the unfavourable variance in the effective tax rate were mainly due to the impact of a decrease in deferred income tax liabilities in the second quarter of 2015, in light of developments in tax audits, jurisprudence and tax legislation.
- The increase in taxable income was also a factor in the unfavourable variance in the income tax expense.

<u>2016/2015 year-to-date comparison</u>

Revenues: $1.97 billion, a $75.1 million (4.0%) increase.

- Revenues increased in Telecommunications ($77.2 million or 5.2% of segment revenues) and Sports and Entertainment ($10.1 million).
- Revenues decreased in Media ($16.4 million or -3.5%).

Adjusted operating income: $715.0 million, a $26.5 million (3.8%) increase.

- Adjusted operating income increased in Telecommunications ($35.5 million or 5.2% of segment adjusted operating income).
- Adjusted operating income decreased in Media ($0.8 million or -16.0%). There were unfavourable variances in Sports and Entertainment ($1.1 million) and at Head Office ($7.1 million). The change at Head Office was essentially due to the unfavourable variance in the stock-based compensation charge.
- The change in the fair value of Quebecor Media stock options resulted in a $0.8 million unfavourable variance in the stock-based compensation charge in the first half of 2016 compared with the same period of 2015. The change in the fair value of Quebecor stock options resulted in a $7.8 million unfavourable variance in the Corporation's stock-based compensation charge in the first half of 2016.

Net income attributable to shareholders: $79.7 million ($0.65 per basic share) in the first half of 2016, compared with $101.5 million ($0.83 per basic share) in the same period of 2015, an unfavourable variance of $21.8 million ($0.18 per basic share).

- The unfavourable variance was mainly due to:
  - $90.6 million unfavourable variance in losses and gains on valuation and translation of financial instruments, including $89.9 million without any tax consequences;
  - $31.6 million unfavourable variance in the income tax expense;
  - $3.4 million increase in the charge for restructuring of operations and other items.

  Partially offset by:
  - recognition of a $30.0 million goodwill impairment charge in the first half of 2015 (without any tax consequences);
  - $26.5 million increase in adjusted operating income;
  - $25.1 million decrease in the depreciation and amortization charge;
  - $16.1 million favourable variance in the loss related to discontinued operations;
  - $12.1 million favourable variance due to recognition of a loss on debt refinancing in the second quarter of 2015;
  - $7.7 million decrease in financial expenses.

Adjusted income from continuing operating activities: $137.6 million ($1.12 per basic share) in the first half of 2016, compared with $107.9 million ($0.88 per basic share) in the same period of 2015, an increase of $29.7 million ($0.24 per basic share).

Depreciation and amortization charge: $323.4 million, a $25.1 million decrease due primarily to the impact of the end of amortization of spectrum in the Telecommunications segment in the second quarter of 2015, in accordance with a change in the estimated useful lives of the licences, and the end of the accounting useful lives of some assets acquired as part of the acquisition of Videotron in October 2000.

Financial expenses: $160.9 million, a $7.7 million decrease caused mainly by the impact of lower interest rates on long-term debt due to debt refinancing at lower rates and a favourable variance in gains and losses on foreign currency translation on short-term monetary items, partially offset by higher average indebtedness.

Loss on valuation and translation of financial instruments: $49.8 million in the first half of 2016 compared with a $40.8 million gain in the same period of 2015. The $90.6 million unfavourable variance was essentially due to the unfavourable variance, without any tax consequences, in losses and gains on embedded derivatives related to convertible debentures.

Charge for restructuring of operations and other items: $13.5 million in the first half of 2016, compared with $10.1 million in the same period of 2015, a $3.4 million unfavourable variance. In both 2016 and 2015, the charges were attributable to various workforce-reduction programs in the Corporation's business segments and customer migration from analog to digital service at Videotron.

Goodwill impairment charge: $30.0 million in the first half of 2015, due to the factors noted above in the 2016/2015 second quarter comparison.

Loss on debt refinancing: $12.1 million in the first half of 2015.

- In accordance with a notice issued on June 16, 2015, Videotron redeemed, on July 16, 2015, the entirety of its outstanding 9.125% Senior Notes issued on April 15, 2008 and maturing on April 15, 2018, in the aggregate principal amount of US$75.0 million, at a redemption price of 101.521% of their principal amount, and unwound the related hedges in an asset position. A $0.2 million loss was recorded in the consolidated statement of income in the second quarter of 2015 in connection with this redemption, including a $2.1 million net gain previously recorded in "Other comprehensive income."
- In accordance with a notice issued on June 16, 2015, Videotron redeemed, on July 16, 2015, the entirety of its outstanding 7.125% Senior Notes issued on January 13, 2010 and maturing on January 15, 2020, in the aggregate principal amount of $300.0 million, at a redemption price of 103.563% of their principal amount. A $13.6 million loss was recorded in the consolidated statement of income in the second quarter of 2015 in connection with this redemption.

- In accordance with a notice issued on March 11, 2015, Videotron redeemed, on April 10, 2015, the entirety of its 6.375% Senior Notes maturing on December 15, 2015, in the aggregate principal amount of US$175.0 million, at a redemption price of 100% of their principal amount, and unwound the related hedges in an asset position. A $1.7 million net gain was recorded in the consolidated statement of income in the first quarter of 2015 in connection with this redemption, including a $1.8 million gain previously recorded in "Other comprehensive income."

Income tax expense: $59.0 million in the first half of 2016 (effective tax rate of 27.2%), compared with $27.4 million in the same period of 2015 (effective tax rate of 18.3%), a $31.6 million unfavourable variance. The effective tax rate is calculated considering only taxable and deductible items.

- The unfavourable variance in income tax and the unfavourable variance in the effective tax rate were mainly due to the impact of a decrease in deferred income tax liabilities in the second quarter of 2015, in light of developments in tax audits, jurisprudence and tax legislation.
- The increase in taxable income was also a factor in the unfavourable variance in the income tax expense.

SEGMENTED ANALYSIS

Telecommunications

Second quarter 2016 operating results

Revenues: $780.4 million in the second quarter of 2016, a $38.9 million (5.2%) increase.

- Revenues from the mobile telephony service increased $26.5 million (27.5%) to $122.8 million, essentially due to the increase in the number of subscriber connections and higher net revenue per connection.
- Revenues from Internet access services increased $16.5 million (7.3%) to $242.8 million, mainly because of higher per-subscriber revenues, increases in some rates, customer base growth and increased usage.
- Combined revenues from all cable television services decreased $7.8 million (-3.0%) to $255.0 million, due primarily to the impact of the net decrease in the customer base, higher discounts, and a decrease in video-on-demand and pay TV orders, partially offset by increases in some rates and increased revenues from the leasing of digital set-top boxes.
- Revenues from the cable telephone service decreased $8.7 million (-7.5%) to $106.6 million, mainly because of higher discounts and the impact of the net decrease in subscribers.
- Revenues from Club illico increased $2.0 million (37.0%) to $7.4 million, essentially because of subscriber growth.
- Revenues of Videotron Business Solutions increased $10.3 million (62.0%) to $26.9 million, due primarily to the acquisition of Fibrenoire inc. ("Fibrenoire") on January 7, 2016, and to higher revenues at 4Degrees Colocation Inc. ("4Degrees Colocation"), acquired on March 11, 2015.
- Revenues from customer equipment sales increased $0.9 million (6.4%) to $14.9 million.
- Revenues of the Le SuperClub Vidéotron ltée ("Le SuperClub Vidéotron") retail chain decreased $0.5 million (-23.8%) to $1.6 million, mainly because of the impact of store closings.
- Other revenues decreased $0.3 million (-11.1%) to $2.4 million.

ARPU: $143.01 in the second quarter of 2016, compared with $133.71 in the second quarter of 2015, a $9.30 (7.0%) increase.

Customer statistics

Revenue generating units – As of June 30, 2016, the total number of revenue generating units stood at 5,648,400, a decrease of 16,900 (-0.3%) in the second quarter of 2016 (compared with an increase of 12,900 in the second quarter of 2015) and a 12-month increase of 128,300 (2.3%) (Table 3). Revenue-generating units are the sum of subscriptions to the cable television, cable Internet access and Club illico services, plus subscriber connections to the cable and mobile telephony services.

Mobile telephony service – As of June 30, 2016, the number of subscriber connections to the mobile telephony service stood at 828,900, an increase of 33,200 (4.2%) in the second quarter of 2016 (compared with an increase of 40,800 in the second quarter of 2015) and a 12-month increase of 126,000 (17.9%) (Table 3).

Cable Internet access – As of June 30, 2016, the number of subscribers to cable Internet access services stood at 1,571,700, a decrease of 6,400 (-0.4%) in the second quarter of 2016 (compared with a decrease of 4,000 in the same period of 2015) and a 12-month increase of 32,600 (2.1%) (Table 3). At the end of the second quarter of 2016, Videotron's cable Internet access services had a household and business penetration rate (number of subscribers as a proportion of the total 2,825,300 homes and businesses passed by Videotron's network as of June 30, 2016, up from 2,793,600 one year earlier) of 55.6% compared with 55.1% a year earlier.

Cable television – The combined customer base for all of Videotron's cable television services decreased by 24,500 (-1.4%) in the second quarter of 2016 (compared with a decrease of 23,000 in the second quarter of 2015) and by 50,100 (-2.9%) in the 12-month period ended June 30, 2016 (Table 3). At the end of the second quarter of 2016, Videotron had 1,697,500 subscribers to its cable television services. The household and business penetration rate was 60.1% versus 62.6% a year earlier.

- As of June 30, 2016, the number of subscribers to the illico Digital TV service stood at 1,559,800, a decrease of 9,100 (-0.6%) in the second quarter of 2016 (compared with a decrease of 2,700 in the second quarter of 2015) and a 12-month increase of 7,000 (0.5%). As of June 30, 2016, illico Digital TV had a household and business penetration rate of 55.2% versus 55.6% a year earlier.

- The customer base for analog cable television services decreased by 15,400 (-10.1%) in the second quarter of 2016 (compared with a decrease of 20,300 in the second quarter of 2015) and by 57,100 over a 12-month period.

Cable telephony service – As of June 30, 2016, the number of subscribers to the cable telephony service stood at 1,284,000, a decrease of 20,300 (-1.6%) in the second quarter of 2016 (compared with a decrease of 6,900 in the second quarter of 2015) and a 12-month decrease of 53,700 (-4.0%) (Table 3). At June 30, 2016, the cable telephony service had a household and business penetration rate of 45.4% versus 47.9% a year earlier.

Club illico – As of June 30, 2016, the number of subscribers to Club illico stood at 266,300, an increase of 1,100 (0.4%) in the second quarter of 2016 (compared with an increase of 6,000 in the second quarter of 2015) and a 12-month increase of 73,500 (Table 3).

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

	June 2016	March 2016	Dec. 2015	Sept. 2015	June 2015	March 2015	Dec. 2014	Sept. 2014
Mobile telephony[1]	**828.9**	795.7	768.6	742.5	702.9	662.1	632.8	590.4
Cable Internet	**1,571.7**	1,578.1	1,568.2	1,559.5	1,539.1	1,543.1	1,537.5	1,533.8
Cable television:								
Analog	**137.7**	153.1	166.3	181.3	194.8	215.1	228.7	251.4
Digital	**1,559.8**	1,568.9	1,570.6	1,564.6	1,552.8	1,555.5	1,553.6	1,544.9
	1,697.5	1,722.0	1,736.9	1,745.9	1,747.6	1,770.6	1,782.3	1,796.3
Cable telephony[1]	**1,284.0**	1,304.3	1,316.3	1,329.5	1,337.7	1,344.6	1,349.0	1,356.0
Club illico	**266.3**	265.2	257.5	228.5	192.8	186.8	177.7	143.7
Total (revenue-generating units)	**5,648.4**	5,665.3	5,647.5	5,605.9	5,520.1	5,507.2	5,479.3	5,420.2

[1] In thousands of connections

Adjusted operating income: $362.5 million in the second quarter of 2016, a $20.3 million (5.9%) increase caused mainly by:

- impact of increase in revenues on a same-store basis;
- favourable impact on income of the acquisition of Fibrenoire on January 7, 2016.

Partially offset by:

- increases in some operating expenses, primarily administrative expenses, professional fees and engineering expenses;
- impact of the increased loss incurred on mobile device sales, partially offset by lower customer acquisition costs due to the growing popularity of “bring your own device” plans.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 53.5% in the second quarter of 2016 compared with 53.9% in the same period of 2015.

Year-to-date operating results

Revenues: $1.55 billion, a $77.2 million (5.2%) increase, essentially due to the same factors as those noted above in the discussion of second quarter 2016 results.

- Revenues from mobile telephony service increased $53.6 million (28.9%) to $239.2 million.
- Revenues from Internet access services increased $34.7 million (7.7%) to $484.5 million.
- Combined revenues from all cable television services decreased $14.7 million (-2.8%) to $515.4 million.
- Revenues from cable telephony service decreased $19.0 million (-8.2%) to $214.1 million.
- Revenues from Club illico increased $4.2 million (38.9%) to $15.0 million.
- Revenues of Videotron Business Solutions increased $19.3 million (58.0%) to $52.6 million.
- Revenues from customer equipment sales increased $0.7 million (3.1%) to $23.4 million.
- Revenues of the Le SuperClub Vidéotron retail chain decreased $1.1 million (-23.9%) to $3.5 million.
- Other revenues decreased $0.4 million (-7.0%) to $5.3 million.

ARPU: $142.19 in the first half of 2016 compared with $132.83 in the same period of 2015, a $9.36 (7.0%) increase.

Customer statistics

Revenue-generating units – 900-unit increase in the first half of 2016 compared with an increase of 40,800 in the same period of 2015.

Mobile telephony service – 60,300 (7.8%) subscriber-connection increase in the first half of 2016 compared with an increase of 70,100 in the same period of 2015.

Cable Internet access – 3,500 (0.2%) customer increase in the first half of 2016 compared with an increase of 1,600 in the same period of 2015.

Cable television – 39,400 (-2.3%) decrease in the combined customer base for all of Videotron's cable television services in the first half of 2016 compared with a decrease of 34,700 in the same period of 2015.

- Subscriptions to illico Digital TV service decreased by 10,800 (-0.7%) in the first half of 2016 compared with a decrease of 800 in the same period of 2015.
- Subscriptions to analog cable television services decreased by 28,600 (-17.2%) compared with a decrease of 33,900 in the first half of 2015.

Cable telephony service – 32,300 (-2.5%) subscriber-connexion decrease in the first half of 2016 compared with a decrease of 11,300 in the same period of 2015.

Club illico – 8,800 (3.4%) subscriber increase in the first half of 2016 compared with an increase of 15,100 in the same period of 2015.

Adjusted operating income: $721.2 million, a $35.5 million (5.2%) increase due primarily to:

- impact of increase in revenues on a same-store basis;
- favourable impact on income of the acquisition of Fibrenoire on January 7, 2016.

Partially offset by:

- impact of the increased loss incurred on mobile device sales, partially offset by lower customer acquisition costs, due to the growing popularity of "bring your own device" plans;
- increases in some operating expenses, primarily administrative expenses, professional fees and engineering expenses, partially offset by the favourable impact of recognition of one-time items in the first quarter of 2015.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 53.6% in the first half of 2016 compared with 53.5% in the same period of 2015.

Cash flows from operations

Quarterly cash flows from segment operations: $140.8 million, compared with $181.0 million in the second quarter of 2015, a $40.2 million decrease (Table 4).

- The decrease was due primarily to the $59.5 million increase in additions to property, plant and equipment and intangible assets, reflecting in part investment in the data centres and in expanding the capacity of the LTE network, partially offset by the $20.3 million increase in adjusted operating income.

Year-to-date cash flows from segment operations: $301.7 million compared with $344.7 million in the first half of 2015 (Table 4).

- The $43.0 million decrease was due primarily to the $77.6 million increase in additions to property, plant and equipment and intangible assets, reflecting in part investment in the data centres, in expanding the capacity of the LTE network, and in computer software and hardware. Those factors were partially offset by the $35.5 million increase in adjusted operating income.

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Adjusted operating income	**$ 362.5**	$ 342.2	**$ 721.2**	$ 685.7
Additions to property, plant and equipment	**(196.3)**	(141.6)	**(355.9)**	(303.2)
Additions to intangible assets (excluding spectrum)	**(26.0)**	(21.2)	**(64.6)**	(39.7)
Proceeds from disposal of assets	**0.6**	1.6	**1.0**	1.9
Cash flows from segment operations	**$ 140.8**	$ 181.0	**$ 301.7**	$ 344.7

Media

Second quarter 2016 operating results

Revenues: $229.2 million in the second quarter of 2016, a $22.4 million (-8.9%) decrease.

- Broadcasting revenues decreased $5.5 million (-5.0%), mainly due to:
  - lower advertising revenues at TVA Sports;
  - decreased revenues from commercial production.

  Partially offset by:
  - increased subscription revenues at the specialty channels, including TVA Sports and addik[TV];
  - higher advertising revenues at the TVA Network.
- Film production and audiovisual service revenues decreased by $7.2 million (-36.2%), mainly because of:
  - fewer productions in the second quarter of 2016 than in the same period of 2015;
  - decreased revenues from visual effects.

- Newspaper publishing revenues decreased $10.8 million (-17.4%).
  - Advertising revenues decreased 17.6%; circulation revenues increased 3.8%; digital revenues decreased 5.4%; combined revenues from commercial printing and other sources decreased 32.5%.
- Magazine publishing revenues decreased by $2.1 million (-6.7%) in the second quarter of 2016, mainly because of the discontinuation of some titles and decreased advertising revenues, partially offset by the impact of the inclusion for the full quarter of the revenues of the magazines acquired from Transcontinental Inc. ("Transcontinental") on April 12, 2015.
- Revenues of Quebecor Media Out of Home increased by $1.0 million (30.3%), essentially because of higher advertising revenues, including digital revenues.
- Book distribution revenues increased $1.9 million (8.8%), primarily as a result of higher volume in bookstore distribution and increased scholastic publishing sales.
- Music distribution and production revenues increased by $0.8 million (8.8%), primarily as a result of higher retail distribution revenues, including increased video sales, partially offset by lower album production revenues.

Adjusted operating income: $6.9 million in the second quarter of 2016, a $4.2 million (-37.8%) decrease compared with the same period of 2015.

- The $3.3 million unfavourable variance in adjusted operating income from broadcasting operations was due to:
  - impact of decreased advertising revenues at the specialty channels.

  Partially offset by:
  - lower operating expenses at TVA Network and TVA Sports, including content costs;
  - favourable impact of higher subscription revenues at the specialty services.
- Adjusted operating income from film production and audiovisual services decreased by $4.4 million (-83.0%), mainly because of the impact of the revenue decrease.
- Adjusted operating income from newspaper publishing decreased by $1.3 million (-25.5%), primarily as a result of:
  - impact of the revenue decrease.

  Partially offset by:
  - favourable impact on adjusted operating income of reduced operating expenses, including the impact of restructuring initiatives.
- Adjusted operating income from magazine publishing operations more than tripled to $3.9 million. The increase was mainly due to the impact of decreased operating expenses and the inclusion of the income from the magazines acquired from Transcontinental on April 12, 2015, partially offset by the impact of the decrease in revenues on a same-store basis.
- There was a $0.5 million favourable variance in the adjusted operating income of Quebecor Media Out of Home, mainly because of the impact of the revenue increase.
- There was a $2.2 million favourable variance in adjusted operating income from book distribution and publishing, due primarily to the impact of the increase in revenues and the reduction in some operating expenses.

Cost/revenue ratio: Employee costs and purchases of goods and services for the Media segment's operations, expressed as a percentage of revenues, were 97.0% in the second quarter of 2016 compared with 95.6% in the same period of 2015. The increase was mainly due to the large fixed component of operating costs, which does not fluctuate in proportion to the decrease in revenues, partially offset by the impact of lower operating expenses at TVA Network and at newspaper, magazine and book publishing operations.

Year-to-date operating results

Revenues: $450.3 million in the first half of 2016, a $16.4 million (-3.5%) decrease.

- Broadcasting revenues decreased $3.1 million (-1.4%), mainly due to:
  - lower advertising revenues at TVA Sports.

  Partially offset by:
  - increased subscription revenues at the specialty channels, including TVA Sports, addik^TV and Casa;
  - higher advertising and commercial production revenues at TVA Network.
- Film production and audiovisual service revenues decreased by $1.9 million (-6.3%), mainly because of the decline in revenues from visual effects.
- Newspaper publishing revenues decreased $19.3 million (-16.0%).
  - Advertising revenues decreased 15.7%; circulation revenues increased 2.9%; digital revenues increased 4.7%; combined revenues from commercial printing and other sources decreased 32.1%.
- Magazine publishing revenues increased by $10.5 million (22.7%), mainly because of the favourable impact on revenues of the acquisition of magazines from Transcontinental on April 12, 2015, partially offset by the impact of the discontinuation of some titles and the decrease in advertising revenues.
- Revenues of Quebecor Media Out of Home increased by $1.2 million (22.2%), mainly because of higher advertising revenues, including digital revenues.
- Book distribution and publishing revenues decreased by $1.2 million (-2.7%), primarily as a result of lower volume in mass market and bookstore distribution, partially offset by higher scholastic and general literature sales.
- Music distribution and production revenues decreased $1.7 million (-7.8%) as a result of the impact of the reorganization of some business units and lower album production revenues.

Adjusted operating income: $4.2 million in the first half of 2016, a $0.8 million (-16.0%) decrease.

- The adjusted operating loss of broadcasting operations decreased $1.5 million due to:
  - lower operating expenses at TVA Network and TVA Sports, including content and labour costs;
  - impact of increased subscription revenues at the specialty services, including TVA Sports;
  - impact of higher advertising and commercial production revenues at TVA Network.

  Partially offset by:
  - impact of decreased advertising revenues at the specialty channels.
- There was a $2.2 million (-41.5%) unfavourable variance in adjusted operating income from film production and audiovisual services, due mainly to the impact of the revenue decrease.
- There was a $5.2 million (-57.8%) unfavourable variance in adjusted operating income from newspaper publishing operations, due mainly to the same factors as those noted above in the discussion of second quarter 2016 operating results.
- Adjusted operating income from magazine publishing increased by $3.8 million, due to the same factors as those noted above in the discussion of second quarter 2016 operating results.
- The adjusted operating loss of Quebecor Media Out of Home decreased by $0.9 million as a result of the impact of the increase in revenues.
- The adjusted operating loss of book distribution and publishing operations decreased by $1.6 million, due primarily to the reduction in some operating expenses, including selling and administrative expenses, and the impact of the increase in publishing revenues.

Cost/revenue ratio: Employee costs and purchases of goods and services for the Media segment's operations, expressed as a percentage of revenues, were 99.1% in the first half of 2016 compared with 98.9% in the same period of 2015. The increase was mainly due to the same factors as those noted above in the discussion of second quarter 2016 operating results.

Cash flows from operations

Quarterly cash flows from segment operations: Negative $1.6 million compared with positive $0.1 million in the second quarter of 2015 (Table 5). The $1.7 million unfavourable variance was due primarily to the $4.2 million decrease in adjusted operating income, partially offset by a $2.5 million decrease in additions to property, plant and equipment and intangible assets.

Year-to-date cash flows from segment operations: Negative $19.8 million compared with negative $14.8 million in the first half of 2015 (Table 5). The $5.0 million unfavourable variance was due to the $4.2 million increase in additions to property, plant and equipment and intangible assets, combined with a $0.8 million decrease in adjusted operating income.

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Adjusted operating income	**$ 6.9**	$ 11.1	**$ 4.2**	$ 5.0
Additions to property, plant and equipment	**(5.1)**	(8.6)	**(18.8)**	(15.7)
Additions to intangible assets	**(3.4)**	(2.4)	**(5.2)**	(4.1)
Cash flows from segment operations	**$ (1.6)**	$ 0.1	**$ (19.8)**	$ (14.8)

Sports and Entertainment

Second quarter 2016 operating results

Revenues: $6.7 million in the second quarter of 2016, a $4.6 million increase due primarily to:

- addition of revenues from events at the Videotron Centre;
- naming rights revenues;
- increased revenues at Gestev.

Adjusted operating loss: $4.1 million in the second quarter of 2016 compared with $3.9 million in the same period of 2015. The $0.2 million unfavourable variance was due primarily to the startup of Videotron Centre management operations, partially offset by the impact of the revenue increase.

Year-to-date operating results

Revenues: $17.0 million, a $10.1 million increase from the same period of 2015, due primarily to the same factors as those noted above in the discussion of second quarter 2016 operating results, as well as the reorganization of some business units.

Adjusted operating loss: $4.9 million in the first half of 2016 compared with $3.8 million in the same period of 2015. The $1.1 million unfavourable variance was due primarily to the same factors as those noted above in the discussion of second quarter 2016 operating results.

Cash flows from operations

Quarterly cash flows from segment operations: Negative $4.7 million compared with negative $7.7 million in the second quarter of 2015 (Table 6).

- The $3.0 million favourable variance was mainly due to a $3.2 million net decrease in additions to property, plant and equipment and intangible assets.

Year-to-date cash flows from segment operations: Negative $6.4 million, compared with negative $8.8 million in the first half of 2015 (Table 6). The $2.4 million favourable variance was due to the $3.5 million decrease in additions to property, plant and equipment and intangible assets, partially offset by the $1.1 million increase in the adjusted operating loss.

Table 6: Sports and Entertainment
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Adjusted operating loss	**$ (4.1)**	$ (3.9)	**$ (4.9)**	$ (3.8)
Additions to property, plant and equipment	**(0.6)**	(3.6)	**(1.2)**	(4.7)
Additions to intangible assets	**–**	(0.2)	**(0.3)**	(0.3)
Cash flows from segment operations	**$ (4.7)**	$ (7.7)	**$ (6.4)**	$ (8.8)

CASH FLOWS 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.

Operating activities

Second quarter 2016

Cash flows provided by continuing operating activities: $240.6 million in the second quarter of 2016 compared with $180.0 million in the same period of 2015.

- The $60.6 million increase was due primarily to:
  - $102.3 million favourable change in non-cash operating assets and liabilities, due primarily to favourable variances in the provision for current income taxes and inventory in the Telecommunications segment;
  - $20.3 million increase in adjusted operating income in the Telecommunications segment.

  Partially offset by:
  - $53.7 million unfavourable variance in current income taxes.

Year to date

Cash flows provided by operating activities: $460.1 million in the first half of 2016 compared with $326.3 million in the same period of 2015.

- The $133.8 million increase was essentially due to:
  - $159.3 million favourable change in operating assets and liabilities, due primarily to favourable variances in the provision for current income taxes, income tax payments and inventory in the Telecommunications segment;
  - $35.5 million increase in adjusted operating income in the Telecommunications segment;
  - $7.3 million decrease in the cash portion of financial expenses.

  Partially offset by:
  - $55.6 million increase in current income taxes;
  - $3.4 million increase in the cash portion of the charge for restructuring of operations and other items.

In the first half of 2016, decreased income tax payments, reduced inventory, higher profits in the Telecommunications segment and debt refinancing at lower interest rates had a positive impact on cash flows provided by continuing operating activities.

Working capital: Negative $299.1 million at June 30, 2016 compared with negative $328.1 million at December 31, 2015. The $29.0 million favourable variance was mainly due to current variances in activity.

Investing activities

Second quarter 2016

Additions to property, plant and equipment: $203.3 million in the second quarter of 2016 compared with $153.9 million in the same period of 2015. The $49.4 million increase, primarily in the Telecommunications segment, was mainly due to investment in the data centres and in expanding the capacity of the LTE network.

Additions to intangible assets: $30.3 million in the second quarter of 2016, compared with $237.2 million in the same period of 2015, a $206.9 million decrease. Additions to intangible assets in the second quarter of 2015 included payments totalling $212.4 million for acquisition of spectrum.

Proceeds from disposal of assets: $1.4 million in the second quarter of 2016 compared with $1.6 million in the same period of 2015.

Business acquisitions: Cash inflows in the amount of $0.2 million in the second quarter of 2016 compared with business acquisitions in the amount of $55.3 million in the same quarter of 2015.

- Business acquisitions in the second quarter of 2015 included the acquisition of magazines from Transcontinental by the Media segment.

Business disposals: $304.2 million in the second quarter of 2015.

- Business disposals in the second quarter of 2015 consisted primarily in the sale of Canadian English-language newspaper businesses by the Media segment.

Year to date

Additions to property, plant and equipment: $377.5 million in the first half of 2016 compared with $323.7 million in the same period of 2015. The $53.8 million increase, primarily in the Telecommunications segment, was mainly due to investment in the data centres and in expanding the capacity of the LTE network.

Additions to intangible assets: $71.8 million in the first half of 2016 compared with $264.5 million in the same period of 2015. The $192.7 million decrease, primarily in the Telecommunications segment, mainly reflects payments totalling $218.8 million made in the first half of 2015 to acquire spectrum, partially offset by increased spending in the first half of 2016 on computer hardware and software, and on expanding the capacity of the LTE network.

Proceeds from disposal of assets: $1.8 million in the first half of 2016 compared with $1.9 million in the same period of 2015.

Business acquisitions: $119.1 million in the first half of 2016, compared with $90.8 million in the same period of 2015, a $28.3 million increase.

- In the first half of 2016, business acquisitions consisted primarily in the acquisition of Fibrenoire by the Telecommunications segment.
- Business acquisitions in the first half of 2015 consisted primarily in the acquisition of 4Degrees Colocation by the Telecommunications segment and of magazines from Transcontinental by the Media segment.

Business disposals: $3.0 million in the first half of 2016 compared with $304.2 million in the same period of 2015.

- Business disposals in the first half of 2016 consisted of the balance of the selling price of Archambault Group Inc.'s retail operations.
- Business disposals in the first half of 2015 consisted primarily in the sale of Canadian English-language newspaper businesses by the Media segment.

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

Second quarter 2016

Free cash flows from continuing operating activities of Quebecor Media: $19.8 million in the second quarter of 2016 compared with $13.8 million in the same period of 2015 (Table 7).

- The $6.0 million favourable variance was mainly due to:
  - o $61.8 million increase in cash flows provided by continuing operating activities.

  Partially offset by:
  - o $49.3 million increase in additions to property, plant and equipment;
  - o $5.5 million increase in additions to intangible assets (excluding acquisition of spectrum).

Year to date

Free cash flows from continuing operating activities of Quebecor Media: $24.2 million in the first half of 2016 compared with negative $24.1 million in the same period of 2015 (Table 7).

- The $48.3 million favourable variance was mainly due to:
  - $128.9 million increase in cash flows provided by continuing operating activities.

  Partially offset by:
  - $53.6 million increase in additions to property, plant and equipment;
  - $26.1 million increase in additions to intangible assets (excluding acquisition of spectrum).

Table 7
Cash flows from segment operations and free cash flows from continuing operating activities of Quebecor Media
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Cash flows from segment operations				
Telecommunications	**$ 140.8**	$ 181.0	**$ 301.7**	$ 344.7
Media	**(1.6)**	0.1	**(19.8)**	(14.8)
Sports and Entertainment	**(4.7)**	(7.7)	**(6.4)**	(8.8)
Quebecor Media Head Office	**(4.7)**	(2.1)	**(6.3)**	(1.4)
	129.8	171.3	**269.2**	319.7
Cash interest expense	**(72.2)**	(72.8)	**(145.3)**	(152.2)
Cash portion of charge for restructuring of operations and other items	**(6.1)**	(5.7)	**(14.0)**	(10.1)
Current income taxes	**(41.1)**	12.6	**(79.3)**	(23.7)
Other	**1.2**	0.4	**2.7**	2.4
Net change in operating assets and liabilities	**8.2**	(92.0)	**(9.1)**	(160.2)
Free cash flows from continuing operating activities of Quebecor Media	**$ 19.8**	$ 13.8	**$ 24.2**	$ (24.1)

Table 8
Free cash flows from continuing operating activities of Quebecor Media and cash flows provided by operating activities of Quebecor
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Free cash flows from continuing operating activities of Quebecor Media presented in Table 7	**$ 19.8**	$ 13.8	**$ 24.2**	$ (24.1)
Quebecor Head Office cash flow items:				
Cash flows from segment operations	**(1.7)**	0.9	**(1.8)**	1.3
Cash interest expense	**(6.1)**	(6.2)	**(12.2)**	(12.6)
Net change in operating assets and liabilities	**(3.5)**	(5.6)	**2.4**	(5.8)
	(11.3)	(10.9)	**(11.6)**	(17.1)
Plus additions to property, plant and equipment	**203.2**	153.9	**377.5**	323.7
Plus additions to intangible assets (excluding expenditures for spectrum acquisition)	**30.3**	24.8	**71.8**	45.7
Minus proceeds from disposal of assets	**(1.4)**	(1.6)	**(1.8)**	(1.9)
Cash flows provided by continuing operating activities of Quebecor	**$ 240.6**	$ 180.0	**$ 460.1**	$ 326.3

Financing activities

Consolidated debt (long-term debt plus bank indebtedness): $101.3 million reduction in the first half of 2016; $176.9 million net unfavourable variance in assets and liabilities related to derivative financial instruments.

- Summary of year-to-date debt reductions:
  - $230.4 million favourable impact of exchange rate fluctuations. The decrease in this item was offset by a decrease in the asset (or increase in the liability) related to cross-currency swap agreements entered under “Derivative financial instruments”;
  - $23.9 million reduction in Quebecor’s debt;
  - current payments, totalling $9.1 million, on the credit facilities and other debt of Videotron, TVA Group and Quebecor Media.
- Summary of year-to-date debt increases:
  - $129.3 million increase in Videotron’s total drawings on its secured revolving credit facility;
  - $19.3 million net increase in the bank indebtedness of Videotron, TVA Group and Quebecor Media;
  - $11.0 million increase in debt attributable to changes in the fair value related to hedged interest rate risk.
- Assets and liabilities related to derivative financial instruments totalled a net asset of $776.8 million at June 30, 2016 compared with $953.7 million at December 31, 2015. The $176.9 million net unfavourable variance was mainly due to:
  - unfavourable impact of exchange rate fluctuations on the value of derivative financial instruments;
  - unwinding of Quebecor Media’s hedging contracts in an asset position at maturity on March 15, 2016; the contracts had been repurposed to cover a portion of the term of 5.75% Senior Notes in the notional amount of US$431.3 million issued in 2012 and maturing in 2023.

  Partially offset by:
  - favourable impact of interest rate trends in Canada, compared with the United States, on the fair value of derivative financial instruments.

- In June 2016, Quebecor amended its revolving credit facility to extend its term to July 2019, Quebecor Media amended its secured revolving credit facility to extend its term to July 2020 and Videotron amended its secured revolving credit facility and its unsecured revolving credit facility to extend their term to July 2021. Some of the terms and conditions of the credit facilities were also amended.

Financial position

Net available liquidity: $843.4 million at June 30, 2016 for Quebecor Media and its wholly owned subsidiaries, consisting of $888.5 million in available unused revolving credit facilities, less $45.1 million in bank indebtedness.

Net available liquidity: $148.9 million as at June 30, 2016 for Quebecor at the corporate level, consisting of $1.1 million in bank indebtedness and $150.0 million in available unused revolving credit facilities.

Consolidated debt (long-term debt plus bank indebtedness): $5.79 billion at June 30, 2016, a $101.3 million decrease compared with December 31, 2015; $176.9 million net unfavourable variance in assets and liabilities related to derivative financial instruments (*see* "Financing activities" above).

- Consolidated debt essentially consisted of Videotron's $3.30 billion debt ($3.28 billion at December 31, 2015); TVA Group's $80.5 million debt ($73.0 million at December 31, 2015); Quebecor Media's $2.37 billion debt ($2.48 billion at December 31, 2015); and Quebecor's $32.4 million debt ($56.3 million at December 31, 2015).

As of June 30, 2016, minimum principal payments on long-term debt in the coming years were as follows:

Table 9
Minimum principal payments on Quebecor's long-term debt
12-month periods ended June 30
(in millions of Canadian dollars)

2017	$	20.5
2018		53.5
2019		17.4
2020		51.2
2021		751.6
2022 and thereafter		4,864.3
Total	**$**	**5,758.5**

The weighted average term of Quebecor's consolidated debt was approximately 6.5 years as of June 30, 2016 (7.0 years as of December 31, 2015). At June 30, 2016, taking into account interest rate swaps, the debt consisted of approximately 80.9% fixed-rate debt (82.5% at December 31, 2015) and 19.1% floating-rate debt (17.5% at December 31, 2015).

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

Pursuant to its financing agreements, the Corporation is required to maintain certain financial ratios and comply with certain financial covenants. The key indicators listed in those financing agreements include debt service coverage ratio and debt ratio (long-term debt over adjusted operating income). At June 30, 2016, the Corporation was in compliance with all required financial ratios and restrictive covenants in its financing agreements.

Dividends declared

- On August 3, 2016, the Board of Directors of Quebecor declared a quarterly dividend of $0.045 per share on its Class A Multiple Voting Shares ("Class A Shares") and Class B Subordinate Voting Shares ("Class B Shares"), payable on September 13, 2016 to shareholders of record at the close of business on August 19, 2016.

Analysis of consolidated balance sheet as at June 30, 2016

Table 10
Consolidated balance sheet of Quebecor
Analysis of main differences between June 30, 2016 and December 31, 2015
(in millions of Canadian dollars)

	June 30, 2016	Dec. 31, 2015	Difference	Main reason for difference
Assets				
Inventories	**$ 169.7**	$ 215.5	$ (45.8)	Impact of current variances in activity
Property, plant and equipment	**3,535.1**	3,424.9	110.2	Additions to property, plant and equipment (*see* "Investing activities" above) and impact of acquisition of Fibrenoire, less depreciation for the period
Goodwill	**2,771.8**	2,678.4	93.4	Impact of acquisition of Fibrenoire
Derivative financial instruments[1]	**776.8**	953.7	(176.9)	*See* "Financing activities"
Liabilities				
Accounts payable and accrued charges	**586.0**	654.9	(68.9)	Impact of current variances in activity
Long-term debt, including short-term portion and bank indebtedness	**5,789.4**	5,890.7	(101.3)	*See* "Financing activities"
Other liabilities	**657.0**	448.2	208.8	Loss on re-measurement of defined benefit plans and losses on embedded derivatives related to convertible debentures
Deferred income tax[2]	**512.5**	584.2	(71.7)	Tax benefits upon re-measurement of defined benefit plans and derivative financial instruments

1 Long-term assets less long-term liabilities

2 Long-term liabilities less long-term assets

ADDITIONAL INFORMATION

Contractual obligations

At June 30, 2016, material contractual obligations of operating activities included: capital repayment and interest on long-term debt; principal repayment and interest on convertible debentures; operating lease arrangements; capital asset purchases and other commitments; and obligations related to derivative financial instruments, less estimated future receipts on derivative financial instruments. Table 11 below shows a summary of these contractual obligations.

Table 11
Contractual obligations of Quebecor as of June 30, 2016
(in millions of Canadian dollars)

	Total	Under 1 year	1-3 years	3-5 years	5 years or more
Long-term debt[1]	**$ 5,758.5**	$ 20.5	$ 70.9	$ 802.8	$ 4,864.3
Convertible debentures[2]	**769.9**	–	769.9	–	–
Interest payments[3]	**1,948.2**	265.2	609.1	552.1	521.8
Operating leases	**234.4**	48.0	71.3	35.2	79.9
Additions to property, plant and equipment and other commitments	**1,222.2**	221.5	255.5	208.9	536.3
Derivative financial instruments[4]	**(716.6)**	5.3	(19.4)	(84.4)	(618.1)
Total contractual obligations	**$ 9,216.6**	**$ 560.5**	**$ 1,757.3**	**$ 1,514.6**	**$ 5,384.2**

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

2 Based on the market value at June 30, 2016 of a number of shares obtained by dividing the outstanding principal amount by the market price of a Quebecor Class B share at that date, subject to a floor price of $19.25 per share and a ceiling price of $24.0625. The Corporation may also redeem convertible debentures by issuing the corresponding number of Class B Shares.

3 Estimated interest payable on long-term debt and convertible debentures, based on interest rates, hedging of interest rates and hedging of foreign exchange rates as of June 30, 2016.

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

Related party transactions

In the second quarter of 2016, the Corporation made sales to affiliated corporations in the amount of $0.6 million ($1.1 million in the same period of 2015). In the second quarter of 2015, the Corporation made purchases and incurred rent charges with affiliated corporations in the amount of $1.7 million (nil in the second quarter of 2016), which is included in purchase of goods and services. These transactions were accounted for at the consideration agreed between the parties.

In the first half of 2016, the Corporation made sales to affiliated corporations in the amount of $1.6 million ($2.0 million in the same period of 2015). In the first half of 2015, the Corporation made purchases and incurred rent charges with affiliated corporations in the amount of $2.6 million (nil in the first half of 2016), which is included in purchase of goods and services. These transactions were accounted for at the consideration agreed between the parties.

Capital stock

In accordance with Canadian financial reporting standards, Table 12 below presents information on the Corporation’s capital stock as at July 15, 2016. In addition, 1,310,000 share options were outstanding as of July 15, 2016.

Table 12
Capital stock
(in shares and millions of Canadian dollars)

	July 15, 2016	
	Issued and outstanding	**Book value**
Class A Shares	**38,886,172**	$ **8.6**
Class B Shares	**83,467,392**	$ **316.6**

On July 29, 2015, the Board of Directors of Quebecor authorized the renewal of its normal course issuer bid for a maximum of 500,000 Class A Shares, representing approximately 1.3% of issued and outstanding Class A Shares, and for a maximum of 2,000,000 Class B Shares, representing approximately 2.4% of issued and outstanding Class B Shares as of July 29, 2015. The purchases can be made from August 13, 2015 to August 12, 2016 at prevailing market prices on the open market through the facilities of the Toronto Stock Exchange or other alternative trading systems. All shares purchased under the bid will be cancelled.

On August 3, 2016, the Board of Directors of Quebecor authorized the renewal of its normal course issuer bid for a maximum of 500,000 Class A Shares, representing approximately 1.3% of issued and outstanding Class A Shares, and for a maximum of 2,000,000 Class B Shares, representing approximately 2.4% of issued and outstanding Class B Shares as of July 31, 2016. The purchases can be made from August 15, 2016 to August 14, 2017 at prevailing market prices on the open market through the facilities of the Toronto Stock Exchange or other alternative trading systems. All shares purchased under the bid will be cancelled.

In the first half of 2016, the Corporation purchased and cancelled 109,600 Class B Shares for a total cash consideration of $3.6 million (203,300 Class B Shares for a total cash consideration of $6.3 million in the first half of 2015). The $3.2 million excess of the purchase price over the carrying value of the repurchased Class B Shares was recorded in reduction of retained earnings ($5.5 million in the first half of 2015).

Financial instruments

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

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 those instruments is held or issued for speculative purposes.

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 carrying value and fair value of long-term debt, convertible debentures and derivative financial instruments as of June 30, 2016 and December 31, 2015 are as follows:

Table 13
Fair value of long-term debt, convertible debentures and derivative financial instruments
(in millions of Canadian dollars)

Asset (liability)	**June 30, 2016**		December 31, 2015	
	Carrying value	**Fair value**	Carrying value	Fair value
Long-term debt[1,2]	**$ (5,758.5)**	**$ (5,871.8)**	$ (5,892.5)	$ (5,894.9)
Convertible debentures[3]	**(758.9)**	**(758.9)**	(706.4)	(706.4)
Derivative financial instruments				
Early settlement options	**1.0**	**1.0**	1.0	1.0
Foreign exchange forward contracts[4]	**(6.2)**	**(6.2)**	9.3	9.3
Interest rate swaps	**(0.6)**	**(0.6)**	(0.8)	(0.8)
Cross-currency interest rate swaps[4]	**783.6**	**783.6**	945.2	945.2

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

2 The fair value of the long-term debt does not include the fair value of early settlement options, which is presented separately in the table.

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

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

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

The fair value of 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. An adjustment is also included to reflect non-performance risk impacted by the financial and economic environment prevailing at the date of the valuation in the recognized measure of the fair value of the derivative financial instruments by applying a credit default premium estimated using a combination of observable and unobservable inputs in the market to the net exposure of the counterparty or the Corporation.

The fair value of early settlement options recognized as embedded derivatives and embedded derivatives related to convertible debentures is determined by option pricing models using market inputs, including volatility, discount factors and the underlying instrument's adjusted implicit interest rate and credit premium.

Losses and gains on valuation and translation of financial instruments in the second quarters and first halves of 2016 and 2015 are summarized in Table 14.

Table 14
Loss (gain) on valuation and translation of financial instruments
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Loss (gain) on embedded derivatives related to convertible debentures	**$ 57.7**	$ (47.6)	**$ 49.9**	$ (40.0)
(Gain) loss on ineffective portion of fair value hedges	**(1.3)**	1.4	**(0.1)**	(1.5)
Loss on ineffective portion of cash flow hedges	**–**	0.4	**0.1**	1.2
Gain on embedded derivatives related to long-term debt	**–**	–	**(0.1)**	(0.1)
Gain on reversal of embedded derivatives upon debt redemption	**–**	(0.1)	**–**	(0.4)
	$ 56.4	$ (45.9)	**$ 49.8**	$ (40.8)

Gains on cash flow hedges in the amounts of $36.1 million and $46.2 million were recorded under "Other comprehensive income" in the second quarter and first half of 2016 respectively (losses of $32.2 million and $24.9 million in the second quarter and first half of 2015 respectively).

Controls and procedures

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

No changes to internal controls over financial reporting have come to the attention of the Corporation's management during the three months ended June 30, 2016 that have materially adversely affected, or are reasonably likely to materially adversely affect, the Corporation's internal controls over financial reporting.

Additional information

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

Cautionary statement regarding forward-looking statements

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

- Quebecor Media's ability to continue successfully developing its network and the facilities that support its mobile services;
- general economic, financial or market conditions and variations in the businesses of local, regional and national advertisers in Quebecor Media's newspapers, television outlets and other media properties;
- the intensity of competitive activity in the industries in which Quebecor operates;
- fragmentation of the media landscape;
- new technologies that might change consumer behaviour with respect to Quebecor Media's product suites;
- unanticipated higher capital spending required for developing its network or to address the continued development of competitive alternative technologies, or the inability to obtain additional capital to continue the development of Quebecor's business;
- Quebecor's ability to implement its business and operating strategies successfully and to manage its growth and expansion;
- disruptions to the network through which Quebecor Media provides its digital cable television, Internet access, telephony and

Club illico services, and its ability to protect such services against piracy, unauthorized access and other security breaches;

- labour disputes or strikes;
- changes in Quebecor Media's ability to obtain services and equipment critical to its operations;
- changes in laws and regulations, or in their interpretations, which could result, among other things, in the loss (or reduction in value) of Quebecor Media's licences or markets, or in an increase in competition, compliance costs or capital expenditures;
- Quebecor Media's ability to successfully develop its Sports and Entertainment segment and other expanding lines of business in its other segments;
- Quebecor's substantial indebtedness, the tightening of credit markets, and the restrictions on its business imposed by the terms of its debt; and
- interest rate fluctuations that could affect Quebecor's interest payment requirements on long-term debt.

The forward-looking statements in this document are made to provide investors and the public with a better understanding of the Corporation's circumstances and are based on assumptions it believes to be reasonable as of the day on which they are made. Investors and others are cautioned that the foregoing list of factors that may affect future results is not exhaustive and that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that could cause the Corporation's actual results to differ from current expectations, please refer to the Corporation's public filings, available at <www.sedar.com> and <www.quebecor.com>, including, in particular, the "Risks and Uncertainties" section of the Corporation's Management Discussion and Analysis for the year ended December 31, 2015.

The forward-looking statements in this Management Discussion and Analysis reflect the Corporation's expectations as of August 4, 2016, and are subject to change after that date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

Montréal, Québec

August 4, 2016

QUEBECOR INC. AND ITS SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL DATA

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

	2016		2015				2014	
	June 30	**March 31**	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30
Revenues	**$ 992.5**	**$ 975.4**	$ 1,023.5	$ 974.5	$ 963.8	$ 929.0	$ 956.7	$ 890.9
Adjusted operating income	**360.3**	**354.7**	360.8	391.4	349.3	339.2	353.1	361.8
Contribution to net income (loss) attributable to shareholders:								
Continuing operating activities	**69.9**	**67.7**	58.0	74.0	66.5	41.4	50.6	58.1
(Loss) gain on valuation and translation of financial instruments	**(57.0)**	**6.8**	(85.5)	51.1	47.7	(8.6)	(92.5)	(26.9)
Unusual items	**(3.1)**	**(4.6)**	(6.6)	(38.1)	(33.0)	(1.3)	(30.5)	(21.4)
Discontinued operations	**-**	**-**	(0.7)	(1.9)	(9.1)	(2.1)	12.9	35.3
Net income (loss) attributable to shareholders	**9.8**	**69.9**	(34.8)	85.1	72.1	29.4	(59.5)	45.1
Basic data per share								
Contribution to net income (loss) attributable to shareholders:								
Continuing operating activities	**$ 0.57**	**$ 0.55**	$ 0.47	$ 0.60	$ 0.54	$ 0.34	$ 0.41	$ 0.47
(Loss) gain on valuation and translation of financial instruments	**(0.47)**	**0.06**	(0.70)	0.42	0.39	(0.07)	(0.75)	(0.22)
Unusual items	**(0.02)**	**(0.04)**	(0.05)	(0.31)	(0.27)	(0.01)	(0.25)	(0.17)
Discontinued operations	**-**	**-**	-	(0.02)	(0.07)	(0.02)	0.11	0.29
Net income (loss) attributable to shareholders	**0.08**	**0.57**	(0.28)	0.69	0.59	0.24	(0.48)	0.37
Weighted average number of shares outstanding (in millions)	**122.4**	**122.5**	122.5	122.7	122.8	122.9	122.9	122.9
Diluted data per share								
Contribution to net income (loss) attributable to shareholders:								
Continuing operating activities	**$ 0.51**	**$ 0.50**	$ 0.43	$ 0.54	$ 0.49	$ 0.32	$ 0.38	$ 0.43
Dilution impact	**0.06**	**-**	0.04	-	-	0.02	0.03	0.04
Loss on valuation and translation of financial instruments	**(0.47)**	**(0.01)**	(0.70)	-	-	(0.07)	(0.75)	(0.22)
Unusual items	**(0.02)**	**(0.03)**	(0.05)	(0.27)	(0.23)	(0.01)	(0.25)	(0.17)
Discontinued operations	**-**	**-**	-	(0.01)	(0.07)	(0.02)	0.11	0.29
Net income (loss) attributable to shareholders	**0.08**	**0.46**	(0.28)	0.26	0.19	0.24	(0.48)	0.37
Weighted average number of diluted shares outstanding (in millions)	**122.8**	**143.6**	122.5	143.7	143.9	123.2	122.9	122.9