MANAGEMENT DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

CORPORATE PROFILE

This Management Discussion and Analysis covers the main activities of Quebecor Inc. ("Quebecor" or the "Corporation") in the second quarter of 2012 and the major changes from the previous financial year.

All amounts are stated in Canadian dollars unless otherwise indicated. This report should be read in conjunction with the information in the consolidated financial statements and Management Discussion and Analysis for the financial year ended December 31, 2011.

Quebecor is a holding company with a 54.7% interest in Quebecor Media Inc. ("Quebecor Media"), one of Canada's largest media groups. Quebecor Media's subsidiaries operate in the following business segments: Telecommunications, News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications. Quebecor Media is pursuing a convergence strategy to capture synergies among all its media properties.

HIGHLIGHTS SINCE END OF FIRST QUARTER 2012

- Quebecor's sales increased by $33.0 million (3.1%) to $1.09 billion in the second quarter of 2012, mainly because of revenue growth of 8.4% in the Telecommunications segment.

<u>Telecommunications</u>

- In the second quarter of 2012, Videotron Ltd. ("Videotron") recorded revenue increases for its main services: Internet access ($20.4 million or 11.9%), cable television ($15.4 million or 6.1%), mobile telephony service ($14.8 million or 56.9%), and cable telephony service ($4.9 million or 4.5%).
- Videotron recorded a net increase of 31,100 revenue-generating units[1] in the second quarter of 2012, compared with an increase of 53,100 in the same quarter of 2011. In the 12-month period ended June 30, 2012, the number of revenue-generating units increased by 333,400 (7.5%).
- Wireline revenue generating units[2] showed a net increase of 26,000 units in the month of July 2012, completely recovering the loss of 4,600 cable generating units recorded mostly during the busiest moving period in the second quarter of 2012.
- The illico TV new generation service was rolled out throughout Videotron's service area. Since May 30, 2012, more than six million Quebecers have had access to illico TV new generation. The service is distinguished by its user-friendliness and superior interfaces.
- On May 17, 2012, Videotron launched Ultimate Speed Internet 200, an Internet access service that sets a new standard for speed.

<u>Other highlights</u>

- On June 21, 2012, following an invitation to tender, Quebecor Media was selected to install, maintain and advertise on Société de transport de Montréal (STM) bus shelters for the next 20 years. It was Quebecor Media's first move into a line of business that is experiencing significant technological change.
- Sun Media Corporation announced the acquisition of *Pub Extra* magazine, which is distributed monthly to nearly 190,000 households in the Montréal North Shore area. It also closed the acquisition of the community weekly *L'Impact de Drummondville*, with a circulation of nearly 50,000, and launched a new weekly in the Bois-Francs area, *L'Écho de Victoriaville*, with a circulation of more than 43,000. *L'Écho de Victoriaville* is the 76th publication in Quebecor Media's Québec community newspapers network, which now has a combined weekly circulation of over 2.5 million copies.
- On May 31, 2012, TVA Group Inc. ("TVA Group") closed the sale of its interest in the specialty channels mysteryTV and The Cave to Shaw Media Global Inc.
- On May 18, 2012, Quebecor Media announced a partnership with ReadBooks SAS, a Franco-Québec company specializing in multi-language ebook libraries, software and consulting services. Among other things, the partnership will support the development of new software for Archambault Group Inc. ("Archambault Group") and Librairie Paragraphe Bookstore that

[1] Revenue generating units are the sum of cable television, cable and wireless Internet access, and cable telephony service subscriptions, plus subscriber connections to the mobile telephony service.

[2] Wireline revenue generating units are the sum of cable television, cable Internet and cable telephony service subscriptions.

will allow them to increase their offerings and enhance the reading experience.

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

Operating Income

In its analysis of operating results, the Corporation defines operating income, as reconciled to net income under IFRS, as net income before amortization, financial expenses, gain (loss) on valuation and translation of financial instruments, charge for restructuring of operations, impairment of assets and other special items, impairment of goodwill, loss on debt refinancing, and income tax. Operating income as defined above is not a measure of results that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Corporation uses operating income in order to assess the performance of its investment in Quebecor Media. The Corporation's management and Board of Directors use this measure in evaluating its consolidated results as well as the results of the Corporation's operating segments. This measure eliminates the significant level of depreciation and amortization of tangible and intangible assets and is unaffected by the capital structure or investment activities of the Corporation and its segments. Operating income is also relevant because it is a significant component of the Corporation's annual incentive compensation programs. A limitation of this measure, however, is that it does not reflect the periodic costs of tangible and intangible assets used in generating revenues in the Corporation's segments. The Corporation also uses other measures that do reflect such costs, such as cash flows from segment operations and free cash flows from operations. In addition, measures like operating income are commonly used by the investment community to analyze and compare the performance of companies in the industries in which the Corporation is engaged. The Corporation's definition of operating income may not be the same as similarly titled measures reported by other companies.

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

Table 1

Reconciliation of the 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	
	2012	2011	**2012**	2011
Operating income (loss):				
Telecommunications	**$ 301.7**	$ 274.2	**$ 604.7**	$ 528.7
News Media	**36.4**	45.7	**53.0**	74.0
Broadcasting	**19.7**	22.3	**13.9**	26.9
Leisure and Entertainment	**(1.1)**	6.3	**(0.8)**	7.5
Interactive Technologies and Communications	**3.0**	1.3	**6.0**	2.2
Head Office	**(1.9)**	8.7	**3.2**	13.5
	357.8	358.5	**680.0**	652.8
Amortization	**(144.2)**	(121.5)	**(286.2)**	(243.0)
Financial expenses	**(79.1)**	(80.4)	**(162.3)**	(161.8)
Gain (loss) on valuation and translation of financial instruments	**41.9**	(4.0)	**123.8**	6.5
Restructuring of operations, impairment of assets and other special items	**12.0**	(6.6)	**10.9**	(16.1)
Impairment of goodwill	**–**	–	**(14.5)**	–
Loss on debt refinancing	**–**	–	**(7.3)**	(9.3)
Income taxes	**(52.0)**	(40.0)	**(91.8)**	(59.8)
Net income	**$ 136.4**	$ 106.0	**$ 252.6**	$ 169.3

Adjusted Income from Continuing Operations

The Corporation defines adjusted income from continuing operations, as reconciled to net income attributable to shareholders under IFRS, as net income attributable to shareholders before gain (loss) on valuation and translation of financial instruments, charge for restructuring of operations, impairment of assets and other special items, impairment of goodwill and loss on debt refinancing, net of income tax and net income attributable to non-controlling interests. Adjusted income from continuing operations, as defined above, is not a measure of results that is consistent with IFRS. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Corporation's definition of adjusted income from continuing operating activities may not be identical to similarly titled measures reported by other companies.

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

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Adjusted income from continuing operations	**$ 48.7**	$ 60.0	**$ 88.0**	$ 95.9
Gain (loss) on valuation and translation of financial instruments	**41.9**	(4.0)	**123.8**	6.5
Restructuring of operations, impairment of assets and other special items	**12.0**	(6.6)	**10.9**	(16.1)
Impairment of goodwill	**–**	–	**(14.5)**	–
Loss on debt refinancing	**–**	–	**(7.3)**	(9.3)
Income taxes related to adjustments[1]	**(13.2)**	1.7	**(26.5)**	6.1
Net income attributable to non-controlling interest related to adjustments	**(22.4)**	4.1	**(34.5)**	6.4
Net income attributable to shareholders	**$ 67.0**	$ 55.2	**$ 139.9**	$ 89.5

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

Cash Flows from Segment Operations

Cash flows from segment operations represents operating income, less additions to property, plant and equipment and acquisitions of 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, the payment of dividends and the repayment of long-term debt. Cash flows from segment operations is not a measure of liquidity that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. Cash flows from segment operations is used by the Corporation's management and Board of Directors to evaluate cash flows generated by its segments' operations. When cash flows from segment operations is reported, a reconciliation to operating income is provided in the same section of the report.

Free Cash Flows from Continuing Operating Activities of the Quebecor Media Subsidiary

Free cash flows from continuing operating activities of the Quebecor Media subsidiary consists of cash flows from segment operations (*see* "Cash Flows from Segment Operations" above), minus cash interest payments and cash charges for restructuring of operations, impairment of assets and other special items, plus or minus current income tax expenses, other receipts (disbursements), and the net change in non-cash balances related to operations. Free cash flows from continuing operating activities is used by the Corporation's management and Board of Directors to evaluate cash flows generated by the operations of the Quebecor Media subsidiary. Free cash flows from continuing operating activities represents Quebecor Media's available funds for business acquisitions, the payment of dividends and the repayment of long-term debt. Free cash flows from continuing operating activities is not a measure of liquidity that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. The Corporation's definition of free cash flows from continuing operating activities may not be identical to similarly titled measures reported by other companies.

Table 3 provides a reconciliation of free cash flows from continuing operating activities of Quebecor Media to cash flows provided by its operating activities.

Table 3

Reconciliation of free cash flows from continuing operating activities to cash flows provided by continuing operating activities of the Quebecor Media subsidiary

(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Free cash flows from continuing operating activities (Table 4)	**$ 36.4**	$ (43.3)	**$ 75.0**	$ (77.4)
Additions to property, plant and equipment	**172.6**	172.9	**365.8**	366.7
Acquisitions of intangible assets	**20.4**	20.7	**42.9**	41.7
Proceeds from disposal of assets	**(1.2)**	(4.0)	**(2.4)**	(5.0)
Cash flows provided by operating activities	**$ 228.2**	$ 146.3	**$ 481.3**	$ 326.0

Average Monthly Revenue per User

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

Analysis of Consolidated Results of Quebecor

2012/2011 second quarter comparison

Revenues: $1.09 billion, an increase of $33.0 million (3.1%).

- Revenues increased in Telecommunications ($50.7 million or 8.4% of segment revenues) and Interactive Technologies and Communications ($11.2 million or 39.7%).
- Revenues decreased in News Media ($12.7 million or -4.7%), Leisure and Entertainment ($8.6 million or -12.0%) and Broadcasting ($2.1 million or -1.8%).

Operating income: $357.8 million, a decrease of $0.7 million (-0.2%).

- Operating income decreased in News Media ($9.3 million or -20.4% of segment operating income), Leisure and Entertainment ($7.4 million), Broadcasting ($2.6 million or -11.7%) and Head Office ($10.6 million). The decrease at Head Office was caused mainly by the unfavourable variation in the fair value of stock options, as well as higher operating expenses, including the donations and sponsorships expense.
- Operating income increased in Telecommunications ($27.5 million or 10.0%) and Interactive Technologies and Communications ($1.7 million or 130.8%).
- The change in the fair value of Quebecor Media stock options resulted in a $5.0 million unfavourable variance in the stock-based compensation charge in the second quarter of 2012 compared with the same period of 2011. 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 second quarter of 2012.

Net income attributable to shareholders: $67.0 million ($1.05 per basic share) compared with $55.2 million ($0.86 per basic share) in the second quarter of 2011, an increase of $11.8 million ($0.19 per basic share).

- The increase was due mainly to:
  - $45.9 million favourable variance in the gain on valuation and translation of financial instruments;
  - $18.6 million favourable variance in the charge for restructuring of operations, impairment of assets and other special items.

  Offset by:
  - $22.7 million increase in amortization charge.

Adjusted income from continuing operations: $48.7 million in the second quarter of 2012 ($0.77 per basic share) compared with $60.0 million ($0.93 per basic share) in the same period of 2011, a decrease of $11.3 million ($0.16 per basic share).

Amortization charge: $144.2 million compared with $121.5 million in the same quarter of 2011. The $22.7 million increase was essentially due to impact of significant capital expenditures in the Telecommunications segment since 2010, including amortization of 4G network equipment and impact of emphasis on equipment leasing in the promotional strategy.

Financial expenses: $79.1 million, a decrease of $1.3 million.

Gain on valuation and translation of financial instruments: $41.9 million in the second quarter of 2012 compared with a $4.0 million loss in the same quarter of 2011. The positive variance of $45.9 million was mainly due to a favourable change in the fair value of early settlement options caused by interest rate and credit premium fluctuations.

Restructuring of operations, impairment of assets and other special items: $12.0 million gain in the second quarter of 2012 compared with a $6.6 million expense in the same period of 2011, a favourable variance of $18.6 million.

- A $12.9 million gain on disposal of businesses was recorded in the second quarter of 2012 in the Broadcasting segment as a result of the sale of TVA Group’s interest in the specialty channels mysteryTV and The Cave. A $0.1 million restructuring charge was also recorded in the Broadcasting segment in the second quarter of 2012, compared with a $0.3 million charge for impairment of intangible assets in the same quarter of 2011.
- In connection with the startup of its 4G network, the Telecommunications segment recorded a $0.3 million charge for

migration costs in the second quarter of 2012 compared with $5.9 million in the second quarter of 2011.

- In other segments, a $0.5 million net charge for restructuring of operations was recorded in the second quarter of 2012, compared with a $0.4 million charge for other special items in the same quarter of 2011.

Income tax expense: $52.0 million (effective tax rate of 27.6%) in the second quarter of 2012 compared with $40.0 million (effective tax rate of 27.4%) in the second quarter of 2011.

- The $12.0 million unfavourable variance was due primarily to the increase in income before income taxes.

2012/2011 year-to-date comparison

Revenues: $2.15 billion, an increase of $106.5 million (5.2%).

- Revenues increased in Telecommunications ($113.3 million or 9.6% of segment revenues), Interactive Technologies and Communications ($21.0 million or 38.2%) and Broadcasting ($8.6 million or 3.8%).
- Revenues decreased in News Media ($19.7 million or -3.9%) and Leisure and Entertainment ($2.9 million or -2.2%).

Operating income: $680.0 million, an increase of $27.2 million (4.2%).

- Operating income increased in Telecommunications ($76.0 million or 14.4% of segment operating income) and Interactive Technologies and Communications ($3.8 million or 172.7%).
- Operating income decreased in News Media ($21.0 million or -28.4%), Broadcasting ($13.0 million or -48.3%), Leisure and Entertainment ($8.3 million), and Head Office ($10.3 million). The decrease at Head Office mainly reflects the unfavourable variance in the fair value of stock options.
- The change in the fair value of Quebecor Media stock options resulted in a $9.7 million unfavourable variance in the stock-based compensation charge in the first half of 2012 compared with the same period of 2011. The change in the fair value of Quebecor stock options resulted in a $14.3 million unfavourable variance in the Corporation's stock-based compensation charge in the first half of 2012.

Net income attributable to shareholders: $139.9 million ($2.20 per basic share) compared with $89.5 million ($1.39 per basic share) in the first half of 2011, an increase of $50.4 million ($0.81 per basic share).

- The increase was due mainly to:
  - $117.3 million favourable variance in the gain on valuation and translation of financial instruments;
  - $27.2 million increase in operating income;
  - $27.0 million favourable variance in the charge for restructuring of operations, impairment of assets and other special items.

  Partially offset by:

  - $43.2 million increase in amortization charge;
  - $14.5 million goodwill impairment charge recognized in the first half of 2012.

Adjusted income from continuing operations: $88.0 million in the first half of 2012 ($1.39 per basic share) compared with $95.9 million ($1.49 per basic share) in the same period of 2011, a decrease of $7.9 million ($0.10 per basic share).

Amortization charge: $286.2 million, an increase of $43.2 million due essentially to the factor noted above in the 2012/2011 second quarter comparison.

Financial expenses: $162.3 million, an increase of $0.5 million.

Gain on valuation and translation of financial instruments: $123.8 million in the first half of 2012 compared with $6.5 million in the same period of 2011. The positive variance of $117.3 million was mainly due to a favourable change in the fair value of early settlement options caused by interest rate and credit premium fluctuations.

Restructuring of operations, impairment of assets and other special items: $10.9 million gain, compared with a $16.1 million charge in the same period of 2011, a $27.0 million favourable variance.

- A $12.9 million gain on disposal of businesses was recorded in the second quarter of 2012 in the Broadcasting segment as a result of the sale of TVA Group's interest in the specialty channels mysteryTV and The Cave. A $0.1 million restructuring charge was also recorded in the Broadcasting segment in the first half of 2012 compared with a $0.3 million charge for impairment of intangible assets in the same period of 2011.
- In connection with the startup of its 4G network, the Telecommunications segment recorded a $0.5 million charge for migration costs in the first half of 2012 compared with $14.5 million in the same period of 2011.
- In other segments, a $1.4 million net charge for restructuring of operations was recorded in the first half of 2012 compared with a $1.3 million charge for other special items in the same period of 2011.

Goodwill impairment charge: $14.5 million in the first half of 2012.

- As a result of new fees adopted in 2012 with respect to business contributions for costs related to waste recovery services provided by Québec municipalities, the costs of magazine publishing activities will be adversely affected. Quebecor Media therefore reviewed its business plan for the segment and determined that goodwill was no longer fully recoverable. Accordingly, a $14.5 million goodwill impairment charge was recorded in the first half of 2012.

Loss on debt refinancing: $7.3 million in the first half of 2012 compared with $9.3 million in the same period of 2011.

- In the first half of 2012, Videotron redeemed all of its 6 7/8% Senior Notes maturing in January 2014 in the aggregate principal amount of US$395.0 million. During the same period, Quebecor Media redeemed US$260.0 million principal amount of its 7 3/4% Senior Notes maturing in March 2016 and settled related hedging contracts. The transactions generated a total $7.3 million loss on debt refinancing.
- On February 15, 2011, Sun Media Corporation redeemed and withdrew the entirety of its 7 5/8% Senior Notes in the aggregate principal amount of US$205.0 million and settled the related hedges. The transaction generated a $9.3 million loss on debt refinancing.

Income tax expense: $91.8 million (effective tax rate of 26.7%) in the first half of 2012 compared with $59.8 million (effective tax rate of 26.1%) in the same period of 2011.

- The $32.0 million unfavourable variance was due primarily to the increase in income before income taxes.

Free cash flows from continuing operating activities of Quebecor Media subsidiary

Free cash flows from continuing operating activities of Quebecor Media: $36.4 million in the second quarter of 2012 compared with negative $43.3 million in the same period of 2011 (Table 4*)*.

- The $79.7 million increase was mainly due to:
  - $98.5 million favourable variance in net change in non-cash balances related to operations, mainly because of delays in receipt of some trade receivables in the second quarter of 2011 due to a labour dispute at Canada Post, as well as the favourable variance created by a reduction in income taxes receivable in the second quarter of 2012, combined with a reduction in income taxes payable in the same quarter of 2011;
  - $5.7 million decrease in cash portion of charge for restructuring of operations, impairment of assets and other special items;
  - $4.4 million increase in operating income.

  Partially offset by:
  - $25.8 million increase in current income taxes.

Free cash flows from continuing operating activities of Quebecor Media: $75.0 million in the first half of 2012 compared with negative $77.4 million in the same period of 2011 (Table 4*)*.

- The $152.4 million increase was mainly due to:
  - $137.0 million favourable variance in net change in non-cash balances related to operations, mainly because of a decrease in trade receivables in the first half of 2012 and the favourable variance created in 2012 by a reduction in

income tax liabilities and deferred revenues in the first half of 2011. The variance in deferred revenues was related to a different customer billing cycle;

- $37.6 million increase in operating income;
- $13.6 million decrease in cash portion of charge for restructuring of operations, impairment of assets and other special items.

Partially offset by:

- $30.9 million increase in current income taxes;
- $4.2 million increase in cash interest expense.

Table 4
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	
	2012	2011	**2012**	2011
Cash flows from segment operations:				
Telecommunications	**$ 126.6**	$ 100.6	**$ 228.4**	$ 162.0
News Media	**31.5**	42.3	**43.4**	62.6
Broadcasting	**12.2**	14.6	**0.5**	9.5
Leisure and Entertainment	**(4.1)**	3.7	**(5.4)**	3.3
Interactive Technologies and Communications	**1.9**	(0.9)	**3.8**	(1.0)
Head Office and other	**(4.0)**	1.6	**3.1**	2.7
	164.1	161.9	**273.8**	239.1
Cash interest expense[1]	**(74.0)**	(74.0)	**(151.9)**	(147.7)
Cash portion of charge for restructuring of operations, impairment of assets and other special items	**(0.6)**	(6.3)	**(1.3)**	(14.9)
Current income taxes	**(20.3)**	5.5	**(25.8)**	5.1
Other	**(1.7)**	(0.8)	**0.8**	(1.4)
Net change in non-cash balances related to operations	**(31.1)**	(129.6)	**(20.6)**	(157.6)
Free cash flows from continuing operating activities	**$ 36.4**	$ (43.3)	**$ 75.0**	$ (77.4)

1 Interest on long-term debt, foreign currency translation on short-term monetary items, and other interest expenses.

Table 5
Reconciliation of cash flows from segment operations of Quebecor Media to its operating income
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Operating income	**$ 355.9**	$ 351.5	**$ 680.1**	$ 642.5
Additions to property, plant and equipment	**(172.6)**	(172.9)	**(365.8)**	(366.7)
Acquisitions of intangible assets	**(20.4)**	(20.7)	**(42.9)**	(41.7)
Proceeds from disposal of assets	**1.2**	4.0	**2.4**	5.0
Cash flows from segment operations	**$ 164.1**	$ 161.9	**$ 273.8**	$ 239.1

SEGMENTED ANALYSIS

Telecommunications

Second quarter 2012 operating results

Revenues: $651.8 million, an increase of $50.7 million (8.4%).

- Combined revenues from all cable television services increased $15.4 million (6.1%) to $267.9 million, due primarily to customer base growth and to higher ARPU resulting from increases in some rates, leasing of digital set-top boxes, and increase in subscriptions to high definition packages.
- Revenues from Internet access services increased $20.4 million (11.9%) to $191.4 million. The favourable variance was mainly due to customer growth and increases in some rates.
- Revenues from cable telephony service increased $4.9 million (4.5%) to $113.1 million, primarily as a result of customer base growth and more lines per customer.
- Revenues from mobile telephony service increased $14.8 million (56.9%) to $40.8 million, essentially due to customer growth.
- Revenues from Videotron Business Solutions decreased $0.4 million (-2.5%) to $15.7 million.
- Revenues from customer equipment sales decreased $4.4 million (-28.8%) to $10.9 million, mainly because of campaigns promoting cable television equipment leasing.
- Revenues of Le SuperClub Vidéotron ltée ("Le SuperClub Vidéotron") decreased $0.4 million (-8.0%) to $4.6 million, mainly as a result of store closures.
- Other revenues increased $0.4 million (5.6%) to $7.5 million.

ARPU: $110.75 in the second quarter of 2012 compared with $102.85 in the same period of 2011, an increase of $7.90 (7.7%).

Customer statistics

Revenue generating units – As of June 30, 2012, the total number of revenue generating units stood at 4,756,800, an increase of 31,100 (0.7%) from the end of the first quarter of 2012 (compared with an increase of 53,100 in the second quarter of 2011) (Table 6). In the 12-month period ended June 30, 2012, the number of revenue generating units increased by 333,400 (7.5%). Revenue generating units are the sum of cable television, cable and wireless Internet access and cable telephony service subscriptions and subscriber connections to the mobile telephony service.

Cable television – The combined customer base for all of Videotron's cable television services decreased by 16,100 (-0.9%) in the second quarter of 2012 (compared with a decrease of 7,900 in the same quarter of 2011) and increased by 37,200 (2.1%) during the 12-month period ended June 30, 2012 (Table 6). Because many people in Québec move during the second quarter, negative variances are not unusual. At the end of the second quarter of 2012, Videotron had 1,837,900 customers for its cable television services. The household penetration rate (number of subscribers as a proportion of total homes passed by Videotron's network, i.e., 2,681,100 homes as of the end of June 2012, compared with 2,635,800 one year earlier) was 68.6% versus 68.3% a year earlier.

- As of June 30, 2012, the number of subscribers to the illico Digital TV service stood at 1,425,000, a quarterly increase of 7,500 or 0.5% (compared with a 26,700-subscriber increase in the second quarter of 2011) and a 12-month increase of 154,600 (12.2%). As of June 30, 2012, illico Digital TV had a household penetration rate of 53.1% versus 48.2% a year earlier.
- The customer base for analog cable television services decreased by 23,600 (-5.4%) in the second quarter of 2012 due to, among other things, the customer migration to illico Digital TV (compared with a decrease of 34,600 customers in the same quarter of 2011) and by 117,400 (-22.1%) over a 12-month period.

Cable Internet access – The number of subscribers to cable Internet access services stood at 1,341,100 at June 30, 2012, a quarterly increase of 600 (compared with an increase of 2,900 in the second quarter of 2011) and a 12-month increase of 74,600 (5.9%) (Table 6). At June 30, 2012, Videotron's cable Internet access services had a household penetration rate of 50.0% versus 48.0% a year earlier.

Cable telephony service – The number of subscribers to the cable telephony service stood at 1,223,400 as of June 30, 2012, a quarterly increase of 10,900 (0.9%) (compared with a 11,800-customer increase in the second quarter of 2011) and a 12-month increase of 81,800 (7.2%) (Table 6). At June 30, 2012, the cable telephony service had a household penetration rate of 45.6% versus 43.3% a year earlier.

Mobile telephony service – As of June 30, 2012, the number of subscriber connections to the mobile telephony service stood at 347,600, an increase of 34,800 (11.1%) from the end of the previous quarter (compared with an increase of 45,900 connections in the second quarter of 2011) and a 12-month increase of 137,000 (65.1%).

Table 6
Telecommunications segment quarter-end customer numbers for the last eight quarters
(in thousands of customers)

	June 2012	Mar. 2012	Dec. 2011	Sept. 2011	June 2011	Mar. 2011	Dec. 2010	Sept. 2010
Cable television :								
Analog	**412.9**	436.5	460.7	496.1	530.3	564.9	592.0	619.7
Digital	**1,425.0**	1,417.5	1,400.8	1,348.1	1,270.4	1,243.7	1,219.6	1,182.3
	1,837.9	1,854.0	1,861.5	1,844.2	1,800.7	1,808.6	1,811.6	1,802.0
Cable Internet	**1,341.1**	1,340.5	1,332.5	1,306.4	1,266.5	1,263.6	1,252.1	1,233.8
Cable telephony	**1,223.4**	1,212.5	1,205.3	1,179.4	1,141.6	1,129.8	1,114.3	1,098.1
Mobile telephony[1]	**347.6**	312.8	290.6	258.1	210.6	164.7	136.1	95.4
Internet over wireless[2]	**6.8**	5.9	5.6	5.2	4.0	3.6	2.3	0.6
Total (revenue generating units)	**4,756.8**	4,725.7	4,695.5	4,593.3	4,423.4	4,370.3	4,316.4	4,229.9

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

Operating income: $301.7 million, an increase of $27.5 million (10.0%).

- The increase in operating income was mainly due to:
  - o impact of revenue increase.

  Partially offset by:
  - o increases in some operating expenses, including marketing expenses, costs related to maintenance of the 4G network and customer service costs incurred to support customer base growth;
  - o $5.0 million increase in stock-based compensation charge.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 53.7% in the second quarter of 2012 compared with 54.4% in the same period of 2011.

- The decrease was mainly due to impact of revenue growth (as the fixed component of operating costs does not fluctuate in proportion to revenues), partially offset by increases in some operating costs.

Year-to-date operating results

Revenues: $1.30 billion, an increase of $113.3 million (9.6%), essentially due to the same factors as those noted above in the discussion of second quarter 2012 results.

- Combined revenues from all cable television services increased $37.8 million (7.6%) to $535.9 million.
- Revenues from Internet access services increased $43.4 million (12.8%) to $382.8 million.
- Revenues from cable telephony service increased $9.3 million (4.3%) to $224.8 million.
- Revenues from mobile telephony service increased $31.7 million (67.9%) to $78.4 million.
- Revenues of Videotron Business Solutions increased $1.4 million (4.5%) to $32.6 million.
- Revenues from customer equipment sales decreased $9.1 million (-32.2%) to $19.2 million.

- Revenues of Le SuperClub Vidéotron decreased $0.8 million (-7.8%) to $9.5 million.
- Other revenues decreased $0.2 million (-1.3%) to $14.7 million.

ARPU: $109.98 in the first half of 2012 compared with $101.31 in the same period of 2011, an increase of $8.67 (8.6%).

Customer statistics

Revenue generating units – 61,300-unit increase (1.3%) in the first half of 2012 compared with a 107,000-unit increase in the same period of 2011.

Cable television – 23,600 (-1.3%) decrease in the combined customer base for all of Videotron's cable television services in the first half of 2012 compared with a 10,900-customer decrease in the same period of 2011.

- Subscriptions to illico Digital TV service increased by 24,200 (1.7%) in the first six months of 2012 compared with an increase of 50,800 in the same period of 2011.
- Subscriptions to analog cable television services decreased by 47,800 (-10.4%) compared with a decrease of 61,700 in the first six months of 2011.

Cable Internet access – 8,600 (0.6%) increase in the first half of 2012 compared with an increase of 14,400 in the same period of 2011.

Cable telephony service – 18,100 (1.5%) increase in the first half of 2012 compared with an increase of 27,300 in the same period of 2011.

Mobile telephony service – 57,000 (19.6%) increase in subscriber connections in the first half of 2012 compared with an increase of 74,500 in the same period of 2011.

Operating income: $604.7 million, an increase of $76.0 million (14.4%).

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

  Partially offset by:
  - increases in some operating expenses, related mainly to maintenance of the 4G network, customer service costs and marketing expenses;
  - $7.0 million increase in stock-based compensation charge.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 53.4% in the first half of 2012 compared with 55.4% in the same period of 2011. The decrease was due to the same factors as those noted above in the discussion of second quarter 2012 operating results.

Cash flows from operations

Quarterly cash flows from segment operations: $126.6 million compared with $100.6 million in the same period of 2011, an increase of $26.0 million (Table 7), due mainly to the $27.5 million increase in operating income.

Year-to-date cash flows from segment operations: $228.4 million compared with $162.0 million in the same period of 2011 (Table 7).

- The $66.4 million increase was due primarily to the $76.0 million increase in operating income, partially offset by a $7.4 million increase in additions to property, plant and equipment, mainly reflecting impact of emphasis on equipment leasing in the promotional strategy.

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Operating income	**$ 301.7**	$ 274.2	**$ 604.7**	$ 528.7
Additions to property, plant and equipment	**(161.5)**	(160.4)	**(345.0)**	(337.6)
Acquisitions of intangible assets	**(14.8)**	(14.8)	**(33.7)**	(31.7)
Proceeds from disposal of assets	**1.2**	1.6	**2.4**	2.6
Cash flows from segment operations	**$ 126.6**	$ 100.6	**$ 228.4**	$ 162.0

News Media

Second quarter 2012 operating results

Revenues: $254.8 million, a decrease of $12.7 million (-4.7%).

- Digital revenues increased 13.6%; combined revenues from commercial printing and other sources increased 4.8%; circulation revenues decreased 1.9%; advertising revenues decreased 7.6%.
- Revenues decreased 4.5% at the urban dailies and 7.2% at the community newspapers.
- Revenues decreased 32.5% at the general-interest portals because, among other things, of the transfer of intercompany website development activities to the Nurun Inc. ("Nurun") subsidiary. Revenues unrelated to website development decreased 15.6% at the general-interest portals.

Operating income: $36.4 million, a decrease of $9.3 million (-20.4%).

- The decrease was due primarily to:
  - impact of revenue decrease;
  - unfavourable variance related to investments in Quebecor Media Network Inc. ("Quebecor Media Network");
  - $1.6 million unfavourable variance in multimedia employment tax credits;
  - $1.1 million increase in stock-based compensation charge.

  Partially offset by:
  - $4.9 million favourable impact related to restructuring initiatives announced in November 2011 and other reductions in operating expenses.

Cost/revenue ratio: Operating costs for all News Media segment operations, expressed as a percentage of revenues, were 85.7% in the second quarter of 2012 compared with 82.9% in the same period of 2011. The increase was due to the unfavourable impact of investments in Quebecor Media Network, multimedia tax credits, and the fixed component of operating costs, which does not fluctuate in proportion to revenue decreases, partially offset by the reduction in operating expenses.

Year-to-date operating results

Revenues: $487.9 million, a decrease of $19.7 million (-3.9%).

- Combined revenues from commercial printing and other sources increased 10.2%, mainly because of higher volume in flyer distribution; advertising revenues decreased 6.0%; circulation revenues decreased 2.4%; digital revenues decreased 5.4%.
- Revenues decreased 4.8% at the urban dailies and 4.9% at the community newspapers.
- Revenues decreased 37.6% at the general-interest portals because, among other things, of the transfer of intercompany website development activities to the Nurun subsidiary. Revenues unrelated to website development decreased 16.9%.

Operating income: $53.0 million, a decrease of $21.0 million (-28.4%).

- The decrease was due primarily to:
  - o impact of revenue decrease;
  - o unfavourable variance related to investments in Quebecor Media Network;
  - o $5.7 million unfavourable variance in multimedia employment tax credits;
  - o $2.8 million increase in stock-based compensation charge.

  Partially offset by:
  - o $9.3 million favourable impact related to restructuring initiatives announced in November 2011 and other reductions in operating expenses.

Cost/revenue ratio: Operating costs for all News Media segment operations, expressed as a percentage of revenues, were 89.1% in the first half of 2012 compared with 85.4% in the same period of 2011. The increase was mainly due to the same negative factors as those noted above in the discussion of second quarter 2012 operating results.

Cash flows from operations

Quarterly cash flows from segment operations: $31.5 million compared with $42.3 million in the same quarter of 2011 (Table 8).

- The $10.8 million decrease was due primarily to the $9.3 million decrease in operating income and a $2.4 million unfavourable variance in proceeds from disposal of assets.

Year-to-date cash flows from segment operations: $43.4 million compared with $62.6 million in the same period of 2011 (Table 8).

- The $19.2 million decrease was due primarily to the $21.0 million decrease in operating income and a $2.4 million unfavourable variance in proceeds from disposal of assets, partially offset by a $4.9 million decrease in additions to property, plant and equipment.

Table 8: News Media
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Operating income	**$ 36.4**	$ 45.7	**$ 53.0**	$ 74.0
Additions to property, plant and equipment	**(1.6)**	(2.5)	**(3.5)**	(8.4)
Acquisitions of intangible assets	**(3.3)**	(3.3)	**(6.1)**	(5.4)
Proceeds from disposal of assets	**–**	2.4	**–**	2.4
Cash flows from segment operations	**$ 31.5**	$ 42.3	**$ 43.4**	$ 62.6

Broadcasting

Second quarter 2012 operating results

Revenues: $115.4 million, a decrease of $2.1 million (-1.8%).

- Revenues from television operations decreased $1.6 million, mainly due to:
  - o lower advertising revenues at the TVA Network.

Partially offset by:

- o increased advertising and subscription revenues at the specialty services, partly because of the new TVA Sports, Mlle and SUN News channels.

- Total publishing revenues decreased $0.5 million, mainly because of lower newsstand and advertising revenues.

Operating income: $19.7 million compared with $22.3 million in the second quarter of 2011, a decrease of $2.6 million (-11.7%).

- Operating income from television operations decreased $2.3 million, mainly due to:
  - o operating loss of TVA Sports;
  - o $1.2 million increase in stock-based compensation charge.

  Partially offset by:

  - o lower operating loss at SUN News;
  - o increase in operating income at the other specialty services.

- Operating income from publishing operations decreased by $0.4 million, mainly as a result of impact of revenue decrease.

Cost/revenue ratio: Operating costs for all Broadcasting segment operations, expressed as a percentage of revenues, were 82.9% in the second quarter of 2012 compared with 81.0% in the same period of 2011. The increase in costs as a proportion of revenues was mainly due to higher operating expenses related to the new TVA Sports channel and impact of decreased advertising revenues at TVA Network.

Year-to-date operating results

Revenues: $233.2 million, an increase of $8.6 million (3.8%).

- Revenues from television operations increased $9.9 million, mainly due to:
  - o increased advertising and subscription revenues at the specialty services, partly because of the new TVA Sports, Mlle and SUN News channels.

  Partially offset by:

  - o lower revenues from production activities.

- Total publishing revenues decreased $1.6 million due to the same factors as those noted above in the discussion of second quarter 2012 results.

Operating income: $13.9 million, a decrease of $13.0 million (-48.3%).

- Operating income from television operations decreased $8.8 million, mainly due to:
  - o operating loss at TVA Sports;
  - o lower operating income at TVA Network;
  - o $1.3 million increase in stock-based compensation charge.

  Partially offset by:

  - o impact of increased advertising and subscription revenues at the specialty services.

- Operating income from publishing operations decreased by $4.2 million, mainly as a result of:
  - o impact of recognition of a $3.0 million charge related to the adoption of new fees for 2010, 2011 and 2012 with respect to business contributions for costs related to waste recovery services provided by Québec municipalities, of which $2.3 million is attributable to 2010 and 2011;
  - o impact of revenue decrease.

Cost/revenue ratio: Operating costs for all Broadcasting segment operations, expressed as a percentage of revenues, were 94.0% in the first half of 2012 compared with 88.0% in the same period of 2011. The increase in costs as a proportion of revenues was mainly due to higher operating expenses related to the new specialty services and recognition of costs related to waste recovery services.

Cash flows from operations

Quarterly cash flows from segment operations: $12.2 million compared with $14.6 million in the same period of 2011 (Table 9). The $2.4 million decrease was due primarily to the $2.6 million unfavourable variance in operating income.

Year-to-date cash flows from segment operations: $0.5 million compared with $9.5 million in the same period of 2011 (Table 9). The $9.0 million decrease was mainly due to the $13.0 million decline in operating income, partially offset by a $4.0 million decrease in additions to property, plant and equipment and in acquisitions of intangible assets.

Table 9: Broadcasting
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Operating income	**$ 19.7**	$ 22.3	**$ 13.9**	$ 26.9
Additions to property, plant and equipment	**(6.8)**	(6.5)	**(12.1)**	(15.4)
Acquisitions of intangible assets	**(0.7)**	(1.2)	**(1.3)**	(2.0)
Cash flows from segment operations	**$ 12.2**	$ 14.6	**$ 0.5**	$ 9.5

Leisure and Entertainment

Second quarter 2012 operating results

Revenues: $62.9 million, a decrease of $8.6 million (-12.0%) compared with the second quarter of 2011.

- The Book Division's revenues decreased by 25.3%, mainly because of lower sales of textbooks in the academic segment following completion of the education reform in Québec.
- Archambault Group's revenues decreased 2.3%, mainly because of lower retail sales and fewer successful CD releases than in the second quarter of 2011.

Operating loss: $1.1 million compared with operating income of $6.3 million in the second quarter of 2011. The $7.4 million unfavourable variance was due primarily to impact of lower revenues and decreases in some gross margins.

Year-to-date operating results

Revenues: $130.0 million, a decrease of $2.9 million (-2.2%).

- Archambault Group's revenues increased 4.7%, primarily because of:
  - 26.5% increase in distribution revenues, primarily because of intercompany DVD and Blu-ray distribution activities.

  Partially offset by:
  - 4.5% decrease in revenues from retail sales;
  - impact of larger number of successful CD releases in the same period of 2011.
- The Book Division's revenues decreased by 15.5%, mainly because of lower sales of textbooks in the academic segment following completion of the education reform in Québec.

Operating loss: $0.8 million in the first half of 2012 compared with operating income of $7.5 million in the same period of 2011. The $8.3 million unfavourable variance was due to the same factors as those noted above in the discussion of second quarter 2012 results.

Cash flows from operations

Quarterly cash flows from segment operations: Negative $4.1 million, compared with positive $3.7 million in the same period of 2011 (Table 10).

- The $7.8 million unfavourable variance was caused essentially by the $7.4 million decrease in operating income.

Year-to-date cash flows from segment operations: Negative $5.4 million compared with positive $3.3 million in the same period of 2011 (Table 10).

- The $8.7 million unfavourable variance was mainly due to the $8.3 million decline in operating income.

Table 10: Leisure and Entertainment
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Operating (loss) income	**$ (1.1)**	$ 6.3	**$ (0.8)**	$ 7.5
Additions to property, plant and equipment	**(0.9)**	(1.2)	**(1.8)**	(1.6)
Acquisitions of intangible assets	**(2.1)**	(1.4)	**(2.8)**	(2.6)
Cash flows from segment operations	**$ (4.1)**	$ 3.7	**$ (5.4)**	$ 3.3

Interactive Technologies and Communications

Second quarter 2012 operating results

Revenues: $39.4 million, an increase of $11.2 million (39.7%).

- The increase was due mainly to:
  - impact of acquisition of a digital agency in the United States in the third quarter of 2011;
  - higher volume from customers in Canada, generated by, among other things, the transfer of intercompany technological activities from the News Media segment and new contracts;
  - higher volumes in Europe and from government customers.

Operating income: $3.0 million compared with $1.3 million in the second quarter of 2011. The $1.7 million (130.8%) favourable variance was mainly due to impact of revenue increase, partially offset by higher labour costs related to strategic personnel retention programs.

Year-to-date operating results

Revenues: $76.0 million, an increase of $21.0 million (38.2%), essentially due to the same factors as those noted above in the discussion of second quarter 2012 results.

Operating income: $6.0 million, an increase of $3.8 million (172.7%), due mainly to the same factors as those noted above in the discussion of second quarter 2012 results.

Cash flows from operations

Quarterly cash flows from segment operations: $1.9 million compared with negative $0.9 million in the same period of 2011 (Table 11).

- The $2.8 million favourable variance was due to the $1.7 million increase in operating income, combined with a $1.1 million decrease in additions to property, plant and equipment.

Year-to-date cash flows from segment operations: $3.8 million compared with negative $1.0 million in the same period of 2011 (Table 11), a favourable variance of $4.8 million.

- The improvement was due to the $3.8 million increase in operating income and the $1.0 million decrease in additions to property, plant and equipment.

Table 11: Interactive Technologies and Communications
Cash flows from operations
(in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Operating income	**$ 3.0**	$ 1.3	**$ 6.0**	$ 2.2
Additions to property, plant and equipment	**(1.1)**	(2.2)	**(2.2)**	(3.2)
Cash flows from segment operations	**$ 1.9**	$ (0.9)	**$ 3.8**	$ (1.0)

CASH FLOWS AND FINANCIAL POSITION

Operating activities

Second quarter 2012

Cash flows provided by operating activities: $228.1 million in the second quarter of 2012 compared with $141.5 million in the same period of 2011.

- The $86.6 million increase was mainly due to:
  - $106.1 million favourable variance in net change in non-cash balances related to operations, mainly because of delays in receipt of some trade receivables in the second quarter of 2011 due to a labour dispute at Canada Post, as well as the favourable variance created by a reduction in income taxes receivable in the second quarter of 2012, combined with a reduction in income taxes payable in the same quarter of 2011;
  - $5.7 million decrease in cash portion of charge for restructuring of operations, impairment of assets and other special items.

  Partially offset by:
  - $25.8 million increase in current income taxes.

Year to date

Cash flows provided by operating activities: $465.4 million in the first six months of 2012 compared with $312.2 million in the same period of 2011.

- The $153.2 million increase was mainly due to:
  - $140.0 million favourable variance in net change in non-cash balances related to operations, mainly because of a decrease in trade receivables in the first half of 2012 and the favourable variance created in 2012 by a reduction in income tax liabilities and deferred revenues in the first half of 2011. The variance in deferred revenues was related to a different customer billing cycle;
  - $27.2 million increase in operating income;
  - $13.6 million decrease in cash portion of charge for restructuring of operations, impairment of assets and other special items.

  Partially offset by:
  - $30.9 million increase in current income taxes.

Working capital: Negative $104.1 million at June 30, 2012 compared with negative $133.3 million at December 31, 2011. The difference mainly reflects decrease in accounts payable and accrued liabilities and increase in cash and cash equivalents, offset first and foremost by recognition under current liabilities of Quebecor Media credit facilities maturing in January 2013 and decrease in accounts receivable.

Investing activities

Second quarter 2012

Additions to property, plant and equipment: $172.6 million in the second quarter of 2012 compared with $173.1 million in the same period of 2011.

Acquisitions of intangible assets: $20.4 million in the second quarter of 2012 compared with $20.7 million in the same period of 2011.

Business acquisitions: $0.8 million in the second quarter of 2012, mainly reflecting acquisition of community newspapers in the News Media segment, compared with $5.0 million in the same period of 2011, primarily in the Leisure and Entertainment segment.

Disposal of businesses: $17.9 million in the second quarter of 2012, reflecting the sale of the Broadcasting segment's interest in the specialty channels mysteryTV and The Cave.

Year to date

Additions to property, plant and equipment: $365.8 million in the first half of 2012 compared with $366.9 million in the same period of 2011.

Acquisitions of intangible assets: $42.9 million in the first half of 2012 compared with $41.7 million in the same period of 2011.

Business acquisitions: $0.8 million in the first half of 2012 compared with $50.1 million in the same period of 2011. The $49.3 million decrease mainly reflects impact of acquisition of community newspapers in the News Media segment in the first half of 2011.

Disposal of businesses: $17.9 million in the first half of 2012, reflecting the sale of the Broadcasting segment's interest in the specialty channels mysteryTV and The Cave.

Financing activities

Consolidated debt (long-term debt plus bank borrowings): $48.9 million reduction in the first half of 2012; $65.8 million favourable net variance in assets and liabilities related to derivative financial instruments.

- Summary of debt reductions during the first half of 2012:
  - repayment by Videotron in March 2012 of all of its 6 7/8% Senior Notes maturing in January 2014, in the aggregate principal amount of US$395.0 million;
  - repayment by Quebecor Media in March and April 2012 of US$260.0 million aggregate principal amount of its 7 3/4% Senior Notes maturing in March 2016;
  - $121.1 million decrease in debt due to favourable variance in fair value of embedded derivatives, resulting mainly from interest rate and credit premium fluctuations;
  - repayment of the $37.6 million balance of Sun Media Corporation's term credit facility on February 3, 2012 and cancellation of the facility;
  - current payments, totalling $30.0 million, on the credit facilities and other debt of TVA Group, Quebecor Media, and Videotron.

- Summary of debt increases during the same period:
  - issuance by Videotron on March 14, 2012 of US$800.0 million aggregate principal amount of Senior Notes for net proceeds of $787.6 million, net of financing fees of $11.9 million. The Notes bear 5.0% interest and mature on July 15, 2022.

- Assets and liabilities related to derivative financial instruments totalled a net liability of $280.5 million at December 31, 2011 compared with a net liability of $214.7 million at June 30, 2012. The favourable net variance of $65.8 million was due to:
  - settlement of hedges by Quebecor Media following repayment of the 7 3/4% Senior Notes maturing in 2016;
  - favourable impact of interest rate trends in Canada compared with the United States.

- On February 24, 2012, TVA Group amended its bank credit facilities to extend the maturity of its $100.0 million revolving credit facility from December 2012 to February 2017.

- On January 25, 2012, Quebecor Media amended its bank credit facilities to extend the maturity of its $100.0 million revolving credit facility from January 2013 to January 2016 and added a new $200.0 million revolving credit facility "C," also maturing in January 2016.

- On June 4, 2012, Videotron made a public exchange offer for the exchange of all of its outstanding 5% Senior Notes maturing on July 15, 2022 for an equivalent principal amount of Notes registered pursuant to the *Securities Act of 1933*. The exchange of virtually all (99.9%) of the Notes had been completed as of July 20, 2012.

Financial position at June 30, 2012

Net available liquidity: $1.08 billion for Quebecor Media and its wholly owned subsidiaries, consisting of $202.2 million in cash and $874.9 million in available unused lines of credit.

Net available liquidity: $81.8 million for Quebecor at the corporate level, consisting of a $1.4 million bank overdraft and $83.2 million in available unused lines of credit.

Consolidated debt: $3.76 billion at June 30, 2012, a $48.9 million decrease; $65.8 million favourable net variance in assets and liabilities related to derivative financial instruments (*see* “Financing Activities” above).

- Consolidated debt essentially consisted of Videotron’s $2.15 billion debt ($1.86 billion at December 31, 2011), TVA Group’s $79.9 million debt ($96.4 million at December 31, 2011), Quebecor Media’s $1.42 billion debt ($1.71 billion at December 31, 2011) and Quebecor’s $102.0 million debt ($105.2 million at December 31, 2011). Sun Media Corporation’s debt was redeemed in full during the first quarter of 2012 ($37.4 million at December 31, 2011).

At June 30, 2012, minimum principal payments on long-term debt in the coming years are as follows:

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

2013	$	215.4
2014		22.0
2015		163.1
2016		1,152.8
2017		11.4
2018 and thereafter		2,470.6
Total	**$**	**4,035.3**

The weighted average term of Quebecor’s consolidated debt was approximately 6.0 years as of June 30, 2012 (5.1 years as of December 31, 2011). The debt consists of approximately 82.3% fixed-rate debt (82.6% at December 31, 2011) and 17.7% floating-rate debt (17.4% at December 31, 2011).

Management of the Corporation believes that cash flows from continuing operating activities and available sources of financing should be sufficient to cover planned cash requirements for capital investments, working capital, interest payments, debt repayments, disbursements related to foreign exchange hedges, pension plan contributions, share repurchases, and dividends. The Corporation believes it will be able to meet future debt maturities, which are fairly staggered over the coming years.

Pursuant to their financing agreements, the Corporation and its subsidiaries are required to maintain certain financial ratios and financial covenants. The key indicators listed in these financing agreements include debt service coverage ratio and debt ratio (long-term debt over operating income). At June 30, 2012, the Corporation and its subsidiaries were in compliance with all required financial ratios and restrictive covenants in their financing agreements.

Dividends declared

- On August 8, 2012, the Board of Directors of Quebecor declared a quarterly dividend of $0.05 per share on Class A Multiple Voting Shares (“Class A shares”) and Class B Subordinate Voting Shares (“Class B shares”), payable on September 18, 2012 to shareholders of record at the close of business on August 24, 2012.

Analysis of consolidated balance sheet at June 30, 2012

Table 13
Consolidated balance sheet of Quebecor
Analysis of main variances between June 30, 2012 and December 31, 2011
(in millions of Canadian dollars)

	June 30, 2012	Dec. 31, 2011	Difference	Main reason for difference
Assets				
Cash and cash equivalents	**$ 204.4**	$ 146.4	$ 58.0	Cash flows provided by operations in excess of investing and financing activities
Accounts receivable	**565.3**	603.7	(38.4)	Impact of current variances in activity
Property, plant and equipment	**3,289.9**	3,211.1	78.8	Additions to property, plant and equipment (*see* "Investing activities" above), less amortization for the period
Goodwill	**3,529.5**	3,543.8	(14.3)	Partial write-down of goodwill in TVA Group's publishing segment
Liabilities				
Accounts payable and accrued charges	**631.3**	776.5	(145.2)	Impact of current variances in activity
Long-term debt, including short-term portion and bank indebtedness	**3,758.1**	3,807.0	(48.9)	*See* "Financing activities" above
Derivative financial instruments[1]	**214.7**	280.5	(65.8)	*See* "Financing activities" above
Net future tax liabilities[2]	**640.0**	571.9	68.1	Use of tax benefits and capital cost allowance in excess of book amortization

1 Current and long-term liabilities less long-term assets
2 Long-term liabilities less long-term assets

ADDITIONAL INFORMATION

Contractual Obligations

At June 30, 2012, material contractual obligations of operating activities included capital and interest payments on long-term debt, 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 14 below shows a summary of these contractual obligations.

Table 14
Contractual obligations of Quebecor as of June 30, 2012
(in millions of Canadian dollars)

	Total	Under 1 year	1-3 years	3-5 years	5 years or more
Long-term debt[1]	**$ 4,035.3**	$ 215.4	$ 185.1	$ 1,164.2	$ 2,470.6
Interest payments[2]	**1,844.4**	262.3	577.1	449.8	555.2
Operating leases	**320.1**	55.6	80.3	52.8	131.4
Additions to property, plant and equipment and other commitments	**149.0**	73.2	37.9	37.9	–
Derivative financial instruments[3]	**248.7**	21.9	116.0	52.1	58.7
Total contractual obligations	**$ 6,597.5**	**$ 628.4**	**$ 996.4**	**$ 1,756.8**	**$ 3,215.9**

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

2 Estimated interest payable on long-term debt, based on interest rates; hedged interest rates and hedged foreign exchange rates as of June 30 2012.

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

Financial Instruments

Quebecor and its subsidiaries use a number of financial instruments, mainly cash and cash equivalents, trade receivables, long-term investments, bank indebtedness, trade payables, accrued liabilities, long-term debt, and derivative financial instruments.

At June 30, 2012, Quebecor Media was using derivative financial instruments to manage its exchange rate and interest rate exposure. It has entered into foreign exchange forward contracts and cross-currency interest rate swap agreements to hedge the foreign currency risk exposure on the entirety of its U.S.-dollar-denominated long-term debt. Quebecor Media also uses interest rate swaps in order to manage the impact of interest rate fluctuations on its long-term debt.

Quebecor Media has also entered into currency forward contracts in order to hedge, among other things, the planned purchase, in U.S. dollars, of digital set-top boxes, modems, mobile handsets and other equipment in the Telecommunications segment, including equipment for the 4G network. As well, Quebecor Media has entered into currency forward contracts in order to hedge future contractual instalments payable in euros.

Quebecor Media does not hold or use any derivative financial instruments for trading purposes.

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

The fair value of long-term debt and derivative financial instruments at June 30, 2012 is shown in Table 15.

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

	June 30, 2012		December 31, 2011	
	Carrying value	**Fair value asset (liability)**	Carrying value	Fair value asset (liability)
Long-term debt[1]	**$ (4,035.3)**	**$ (4,231.3)**	$ (3,953.0)	$ (4,107.4)
Derivative financial instruments:				
Early settlement options	**243.4**	**243.4**	138.0	138.0
Interest rate swaps	**(0.5)**	**(0.5)**	(0.9)	(0.9)
Foreign exchange forward contracts	**(2.4)**	**(2.4)**	3.2	3.2
Cross-currency interest rate swaps	**(211.8)**	**(211.8)**	(282.8)	(282.8)

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.

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

The fair value of derivative financial instruments is estimated using valuation models that project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative financial instrument and factors observable in external 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 instruments, by applying a credit default premium estimated using a combination of observable and unobservable inputs in the market to a net exposure by the counterparty or by the Corporation.

The fair value of early settlement options recognized as embedded derivatives is determined by option pricing models, including volatility and discount factors.

Losses (gains) on valuation and translation of financial instruments for the second quarter and first half of 2012 are summarized in Table 16.

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
(Gain) loss on embedded derivatives and derivative financial instruments for which hedge accounting is not used	**$ (41.8)**	$ 2.5	**$ (123.8)**	$ (7.6)
(Gain) loss on ineffective portion of fair value hedges	**(0.1)**	1.5	**–**	1.1
	$ (41.9)	$ 4.0	**$ (123.8)**	$ (6.5)

Gains of $6.5 million and $25.4 million on cash flow hedges were recorded under Other comprehensive income in the second quarter and first half of 2012 respectively ($6.8 million and $6.0 million loss in the second quarter and first half of 2011 respectively).

Related party transactions

In the second quarter of 2012, the Corporation and its subsidiaries made purchases and incurred rent charges with affiliated corporations in the amount of $0.9 million ($0.6 million in the same period of 2011), which is included in cost of sales and selling and administrative expenses. The Corporation and its subsidiaries made sales to affiliated corporations in the amount of $1.1 million ($0.7 million in the second quarter of 2011). These transactions were concluded and accounted for at the exchange amount.

In the first half of 2012, the Corporation and its subsidiaries made purchases and incurred rent charges with affiliated corporations in the amount of $3.1 million ($1.2 million in the same period of 2011), which is included in cost of sales and selling and administrative expenses. The Corporation and its subsidiaries made sales to affiliated corporations in the amount of $2.0 million ($1.6 million in the first half of 2011). These transactions were concluded and accounted for at the exchange amount.

Capital Stock

In accordance with Canadian financial reporting standards, Table 17 below presents information on the Corporation's capital stock at July 31, 2012. In addition, 671,869 share options were outstanding as of July 31, 2012.

Table 17
Capital stock
(in shares and millions of Canadian dollars)

	July 31, 2012	
	Issued and outstanding	Book value
Class A shares	19,607,151	$ 8.7
Class B shares	43,725,831	$ 332.9

On August 10, 2011, the Corporation filed a normal course issuer bid for a maximum of 985,233 Class A shares representing approximately 5% of the issued and outstanding Class A shares, and a maximum of 4,453,304 Class B shares, representing approximately 10% of the public float for the Class B shares as of August 2, 2011. Purchases can be made from August 12, 2011 to August 10, 2012 at prevailing market prices, on the open market, through the facilities of the Toronto Stock Exchange. All shares purchased under the bid have been or will be cancelled.

During the second quarter of 2012, the Corporation purchased and cancelled 133,400 Class B shares for a total cash consideration of $4.9 million under the normal course issuer bid announced on August 10, 2011. The excess of $3.9 million of the purchase price over the carrying value of the repurchased Class B shares was recorded as a reduction in retained earnings.

During the first half of 2012, the Corporation purchased and cancelled 143,400 Class B shares for a total cash consideration of $5.3 million under the normal course issuer bid announced on August 10, 2011. The $4.2 million excess of the purchase price over the carrying value of the repurchased Class B shares was recorded as a reduction in retained earnings.

On August 9, 2012, the Corporation filed a normal course issuer bid to purchase for cancellation, between August 13, 2012 and August 12, 2013, a maximum of 980,357 Class A shares, representing approximately 5% of the issued and outstanding Class A shares, and a maximum of 4,351,276 Class B shares, representing approximately 10% of the public float for Class B shares as of the offer date. The Corporation will purchase its Class A and Class B shares at the market price at the time of the purchase, plus brokerage fees.

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, 2012 that have materially adversely affected, or are reasonably likely to materially adversely affect, the Corporation's internal controls over financial reporting.

Additional Information

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

Cautionary Statement Regarding Forward-Looking Statements

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

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

The forward-looking statements in this document are made to provide investors and the public with a better understanding of the Corporation's circumstances and are based on assumptions it believes to be reasonable as of the day on which they are made. Investors and others are cautioned that the foregoing list of factors that may affect future results is not exhaustive and that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that could cause the Corporation's actual results to differ from current expectations, please refer to the Corporation's public filings, available at <www.sedar.com> and <www.quebecor.com>, including, in particular, the "Risks and Uncertainties" section of the Corporation's Management Discussion and Analysis for the year ended December 31, 2011.

The forward-looking statements in this Management Discussion and Analysis reflect the Corporation's expectations as of August 9, 2012, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

Montréal, Québec

August 9, 2012

QUEBECOR INC. AND ITS SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL DATA

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

	2012					2011		2010
	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30
Operations								
Revenues	**$ 1,086.4**	$ 1,064.0	$ 1,147.9	$ 1,014.8	$ 1,053.4	$ 990.5	$ 1,088.1	$ 969.9
Net income before amortization, financial expenses, gain (loss) on valuation and translation of financial instruments, restructuring of operations, impairment of assets and other special items, impairment of goodwill, loss on debt refinancing and income taxes	**357.8**	322.2	369.2	319.7	358.5	294.3	359.1	332.0
Contribution to net income attributable to shareholders:								
Continuing operations	**48.7**	39.3	55.6	40.0	60.0	35.9	58.2	56.1
Gain (loss) on valuation and translation of financial instruments	**16.1**	34.1	34.0	(16.3)	(2.3)	5.2	(10.0)	32.1
Unusual items	**2.2**	(0.5)	(4.2)	2.4	(2.5)	(6.8)	(1.6)	(5.2)
Net income attributable to shareholders	**67.0**	72.9	85.4	26.1	55.2	34.3	46.6	83.0
Basic per share data								
Contribution to net income attributable to shareholders:								
Continuing operations	**$ 0.77**	$ 0.62	$ 0.87	$ 0.63	$ 0.93	$ 0.56	$ 0.90	$ 0.87
Gain (loss) on valuation and translation of financial instruments	**0.25**	0.54	0.53	(0.26)	(0.03)	0.08	(0.16)	0.50
Unusual items	**0.03**	(0.01)	(0.06)	0.04	(0.04)	(0.11)	(0.02)	(0.08)
Net income attributable to shareholders	**1.05**	1.15	1.34	0.41	0.86	0.53	0.72	1.29
Weighted average number of shares outstanding (in millions)	**63.5**	63.5	63.5	63.9	64.3	64.3	64.3	64.3
Diluted per share data								
Contribution to net income attributable to shareholders:								
Continuing operations	**$ 0.77**	$ 0.61	$ 0.87	$ 0.62	$ 0.92	$ 0.55	$ 0.88	$ 0.86
Gain (loss) on valuation and translation of financial instruments	**0.25**	0.54	0.53	(0.26)	(0.03)	0.08	(0.16)	0.50
Unusual items	**0.03**	(0.01)	(0.06)	0.04	(0.04)	(0.11)	(0.02)	(0.08)
Net income attributable to shareholders	**1.05**	1.14	1.34	0.40	0.85	0.52	0.70	1.28
Weighted average number of diluted shares outstanding (in millions)	**63.6**	63.7	63.8	64.5	65.0	65.0	65.0	65.0