Consolidated financial statements of

QUEBECOR INC. AND ITS SUBSIDIARIES

Years ended December 31, 2012 and 2011

QUEBECOR INC. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2012 and 2011

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MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Quebecor Inc. and its subsidiaries are the responsibility of management and have been approved by the Board of Directors of Quebecor Inc.

These consolidated financial statements have been prepared by management in conformity with International Financial Reporting Standards and include amounts that are based on best estimates and judgments.

The management of the Corporation and of its subsidiaries, in furtherance of the integrity and objectivity of the data in the consolidated financial statements, has developed and maintains internal accounting control systems and supports a program of internal audit. Management believes that these internal accounting control systems provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements and that assets are properly accounted for and safeguarded, and that the preparation and presentation of other financial information are consistent with the consolidated financial statements.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Committee, consisting solely of outside directors. The Audit Committee reviews the Corporation's annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee meets with the Corporation's management, internal auditors and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and formulates the appropriate recommendations to the Board of Directors. The auditor appointed by the shareholders has full access to the Audit Committee, with or without management being present.

These consolidated financial statements have been audited by the auditor appointed by the shareholders and its report is presented hereafter.

Pierre Karl Péladeau
President and Chief Executive Officer

Jean-François Pruneau
Chief Financial Officer

Montréal, Canada

March 13, 2013

INDEPENDENT AUDITORS' REPORT

To the shareholders of
Quebecor Inc.

We have audited the accompanying consolidated financial statements of Quebecor Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, comprehensive income, equity and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Quebecor Inc. and its subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Montréal, Canada
March 13, 2013

[1] CPA auditor, CA, public accountancy permit no. A104687

QUEBECOR INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

	Note	2012	2011
Revenues	2	**$ 4,351.8**	$ 4,206.6
Employee costs	3	**1,060.6**	1,005.6
Purchase of goods and services	3	**1,887.6**	1,859.3
Amortization		**600.3**	512.2
Financial expenses	4	**334.6**	322.9
Gain on valuation and translation of financial instruments	5	**(197.5)**	(54.6)
Restructuring of operations, impairment of assets and other special items	6	**29.4**	30.2
Impairment of goodwill and intangible assets	7	**201.5**	–
Loss on debt refinancing	8	**67.7**	6.6
Income before income taxes		**367.6**	524.4
Income taxes	10	**100.1**	141.4
Net income		**$ 267.5**	$ 383.0
Net income attributable to			
Shareholders		**$ 167.7**	$ 201.0
Non-controlling interests		**99.8**	182.0
Earnings per share attributable to shareholders	11		
Basic		**$ 2.65**	$ 3.14
Diluted		**2.56**	3.11
Weighted average number of shares outstanding (in millions)		**63.2**	64.0
Weighted average number of diluted shares (in millions)		**66.1**	64.4

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2012 and 2011
(in millions of Canadian dollars)

	Note		**2012**		2011
Net income		**$**	**267.5**	$	383.0
Other comprehensive loss:					
(Loss) gain on translation of net investments in foreign operations			**(1.4)**		1.6
Cash flows hedges:					
Gain (loss) on valuation of derivative financial instruments			**33.1**		(9.5)
Deferred income taxes			**2.9**		(2.0)
Defined benefit plans:					
Actuarial loss and net change in asset limit and in minimum funding liability	30		**(36.8)**		(90.0)
Deferred income taxes			**9.8**		23.7
Reclassification to income:					
Other comprehensive (gain) loss related to cash flows hedges	8		**(15.3)**		0.8
Deferred income taxes			**0.5**		(0.2)
			(7.2)		(75.6)
Comprehensive income		**$**	**260.3**	$	307.4
Comprehensive income attributable to					
Shareholders		**$**	**159.9**	$	164.4
Non-controlling interests			**100.4**		143.0

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

Years ended December 31, 2012 and 2011
(in millions of Canadian dollars)

	Equity attributable to shareholders						
	Capital stock (note 22)	Contributed surplus	Equity component of convertible debentures (note 24)	Retained earnings	Accumulated other comprehensive income (note 25)	Equity attributable to non-controlling interests	Total equity
Balance as of December 31, 2010	$ 346.6	$ 0.9	$ –	$ 943.6	$ 13.7	$ 1,346.9	$ 2,651.7
Net income	–	–	–	201.0	–	182.0	383.0
Other comprehensive loss	–	–	–	(31.5)	(5.1)	(39.0)	(75.6)
Issuance of shares of a subsidiary	–	–	–	–	–	1.0	1.0
Repurchase of Class B shares (note 22)	(7.1)	–	–	(23.1)	–	–	(30.2)
Dividends	–	–	–	(12.8)	–	(46.5)	(59.3)
Balance as of December 31, 2011	339.5	0.9	–	1,077.2	8.6	1,444.4	2,870.6
Net income	–	–	–	167.7	–	99.8	267.5
Other comprehensive (loss) income	–	–	–	(17.8)	10.0	0.6	(7.2)
Issuance of Class B shares	3.6	1.5	–	–	–	–	5.1
Repurchase of Class B shares (note 22)	(8.0)	–	–	(30.3)	–	–	(38.3)
Acquisitions of non-controlling interests (note 9)	–	(0.1)	–	(635.0)	8.3	(873.2)	(1,500.0)
Issuance of convertible debentures (note 24)	–	–	398.3	–	–	–	398.3
Dividends	–	–	–	(12.6)	–	(40.6)	(53.2)
Balance as of December 31, 2012	**$ 335.1**	**$ 2.3**	**$ 398.3**	**$ 549.2**	**$ 26.9**	**$ 631.0**	**$ 1,942.8**

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011
(in millions of Canadian dollars)

	Note	2012	2011
Cash flows related to operating activities			
Net income		**$ 267.5**	$ 383.0
Adjustments for:			
Amortization of property, plant and equipment	14	**459.7**	391.3
Amortization of intangible assets	15	**140.6**	120.9
Gain on valuation and translation of financial instruments	5	**(197.5)**	(54.6)
Gain on disposal of assets and businesses	6	**(12.9)**	–
Impairment of assets	6	**7.5**	1.5
Impairment of goodwill and intangible assets	7	**201.5**	–
Loss on debt refinancing	8	**67.7**	6.6
Amortization of financing costs and long-term debt discount	4	**14.5**	12.8
Deferred income taxes	10	**43.1**	159.1
Other		**5.6**	(2.1)
		997.3	1,018.5
Net change in non-cash balances related to operating activities		**125.3**	(152.2)
Cash flows provided by operating activities		**1,122.6**	866.3
Cash flows related to investing activities			
Non-controlling interests acquisition	9	**(1,000.0)**	–
Business acquisitions	9	**(2.0)**	(55.7)
Business disposals	6	**18.7**	–
Additions to property, plant and equipment	14	**(710.6)**	(781.0)
Additions to intangible assets	15	**(94.9)**	(91.6)
Proceeds from disposals of assets		**8.4**	12.0
Other		**(1.5)**	3.2
Cash flows used in investing activities		**(1,781.9)**	(913.1)
Cash flows related to financing activities			
Net change in bank indebtedness		**(2.9)**	(1.5)
Net change under revolving facilities		**(23.6)**	2.7
Issuance of long-term debt, net of financing fees	20	**2,136.7**	685.8
Repayments of long-term debt	8	**(1,236.8)**	(487.9)
Settlement of hedging contracts	8	**(43.6)**	(160.2)
Issuance of Class B shares	22	**3.6**	–
Repurchase of Class B shares	22	**(38.3)**	(30.2)
Dividends		**(12.6)**	(12.8)
Dividends paid to non-controlling interests		**(40.6)**	(46.5)
Other		**(0.3)**	1.0
Cash flows used in financing activities		**741.6**	(49.6)
Net change in cash and cash equivalents		**82.3**	(96.4)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**–**	0.1
Cash and cash equivalents at beginning of year		**146.4**	242.7
Cash and cash equivalents at end of year		**$ 228.7**	$ 146.4

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended December 31, 2012 and 2011
(in millions of Canadian dollars)

	Note	2012	2011
Additional information on the consolidated statements of cash flows			
Cash and cash equivalents consist of			
Cash		**$ 76.0**	$ 29.9
Cash equivalents		**152.7**	116.5
		$ 228.7	$ 146.4
Changes in non-cash balances related to operating activities (net of effect of business acquisitions and disposals)			
Accounts receivable		**$ 22.4**	$ (13.4)
Inventories		**23.7**	(38.1)
Accounts payable, accrued charges and provisions		**93.0**	(21.3)
Income taxes		**53.0**	(51.2)
Stock-based compensation		**(12.9)**	(31.7)
Deferred revenues		**(8.6)**	22.9
Defined benefit plans		**(24.3)**	(29.2)
Other		**(21.0)**	9.8
		$ 125.3	$ (152.2)
Non-cash investing activities			
Net change in additions to property, plant and equipment and intangible assets financed with accounts payable		**$ 52.8**	$ (26.7)
Non-controlling interests acquisition financed with the issuance of convertible debentures	9	**(500.0)**	–
Interest and taxes reflected as operating activities			
Cash interest payments		**$ 305.6**	$ 320.5
Cash income tax payments (net of refunds)		**6.6**	30.7

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011
(in millions of Canadian dollars)

	Note	**2012**	2011
Assets			
Current assets			
Cash and cash equivalents		**$ 228.7**	$ 146.4
Accounts receivable	12	**578.7**	603.7
Income taxes		**10.6**	29.0
Inventories	13	**255.5**	283.6
Prepaid expenses		**38.0**	31.3
		1,111.5	1,094.0
Non-current assets			
Property, plant and equipment	14	**3,405.8**	3,211.1
Intangible assets	15	**956.7**	1,041.0
Goodwill	16	**3,371.6**	3,543.8
Derivative financial instruments	28	**35.7**	34.9
Deferred income taxes	10	**23.9**	20.6
Other assets	17	**102.6**	93.4
		7,896.3	7,944.8
Total assets		**$ 9,007.8**	$ 9,038.8

QUEBECOR INC. AND ITS SUBSIDIARIES

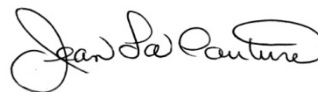
CONSOLIDATED BALANCE SHEETS (continued)

December 31, 2012 and 2011
(in millions of Canadian dollars)

	Note	**2012**	2011
Liabilities and equity			
Current liabilities			
Bank indebtedness		**$ 1.3**	$ 4.2
Accounts payable and accrued charges	18	**804.5**	776.5
Provisions	19	**45.9**	33.7
Deferred revenue		**289.0**	295.7
Income taxes		**33.9**	2.7
Derivative financial instruments	28	**28.5**	–
Current portion of long-term debt	20	**22.2**	114.5
		1,225.3	1,227.3
Non-current liabilities			
Long-term debt	20	**4,507.8**	3,688.3
Derivative financial instruments	28	**270.1**	315.4
Other liabilities	21	**467.1**	344.7
Deferred income taxes	10	**594.7**	592.5
		5,839.7	4,940.9
Equity			
Capital stock	22	**335.1**	339.5
Contributed surplus		**2.3**	0.9
Equity component of convertible debentures	24	**398.3**	–
Retained earnings		**549.2**	1,077.2
Accumulated other comprehensive income	25	**26.9**	8.6
Equity attributable to shareholders		**1,311.8**	1,426.2
Non-controlling interests		**631.0**	1,444.4
		1,942.8	2,870.6
Commitments and contingencies	19, 26		
Guarantees	27		
Total liabilities and equity		**$ 9,007.8**	$ 9,038.8

See accompanying notes to consolidated financial statements.

On March 13, 2013, the Board of Directors approved the consolidated financial statements for the years ended December 31, 2012 and 2011.
On behalf of the Board of Directors,



Pierre Karl Péladeau, President and Chief Executive Officer

Jean La Couture, Director

QUEBECOR INC. AND ITS SUBSIDIARIES

SEGMENTED INFORMATION

Years ended December 31, 2012 and 2011
(in millions of Canadian dollars)

Quebecor Inc. (“Quebecor” or the “Corporation”) is incorporated under the laws of Québec. The Corporation’s head office and registered office is located at 612 rue Saint-Jacques, Montréal (Québec), Canada. Quebecor is a holding corporation with interests in Quebecor Media Inc. (“Quebecor Media”) and in subsidiaries controlled by Quebecor Media. The percentages of voting rights and of equity in Quebecor Media and in its major subsidiaries are as follows:

	% voting	% equity
Quebecor Media Inc. (note 9)	75.4 %	75.4 %
Quebecor Media Inc. interest in its major subsidiaries		
Videotron Ltd.	100.0 %	100.0 %
Sun Media Corporation	100.0 %	100.0 %
Quebecor Media Printing Inc.	100.0 %	100.0 %
TVA Group Inc.	99.9 %	51.4 %
Archambault Group Inc.	100.0 %	100.0 %
Sogides Group Inc.	100.0 %	100.0 %
CEC Publishing Inc.	100.0 %	100.0 %
Nurun Inc.	100.0 %	100.0 %

The Corporation is engaged, through its subsidiaries, in the following industry segments: Telecommunications, News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications. The Telecommunications segment offers television distribution, Internet, business solutions, cable and mobile telephony services in Canada, operates in the rental of movies and televisual products through its video-on-demand service and its distribution and rental stores, and operates specialized Internet sites. The News Media segment produces original content in Canada for all of Quebecor Media’s platforms. Its operations include the printing, publishing and distribution of daily newspapers, weekly newspapers and commercial inserts in Canada, the operation of Internet sites in Canada, including French- and English-language portals and specialized sites, and the operation of out-of-home advertising. The Broadcasting segment operates general-interest television networks, specialized television networks, magazine publishing, and movie distribution businesses in Canada. The Leisure and Entertainment segment combines book publishing and distribution, retail sales of CDs, books, DVD and Blu-ray units, musical instruments and magazines in Canada, online sales of downloadable music and books, music streaming service, music production and distribution in Canada and operation of a Quebec Major Junior Hockey League team. The Interactive Technologies and Communications segment offers e-commerce solutions through a combination of strategies, technology integration, IP solutions and creativity on the Internet and is active in Canada, the United States, Europe and Asia.

These segments are managed separately since they all require specific market strategies. The accounting policies of each segment are the same as the accounting policies used for the consolidated financial statements. Segment income includes income from sales to third parties and inter-segment sales. Transactions between segments are measured at exchange amounts between the parties.

QUEBECOR INC. AND ITS SUBSIDIARIES

SEGMENTED INFORMATION (continued)

Years ended December 31, 2012 and 2011
(in millions of Canadian dollars)

INDUSTRY SEGMENTS

	Telecommu-nications	News Media	Broad-casting	Leisure and Enter-tainment	Interactive Techno-logies and Communi-cations	Head office and Inter-segments	Total
							2012
Revenues	**$ 2,635.1**	**$ 960.0**	**$ 461.1**	**$ 292.5**	**$ 145.5**	**$ (142.4)**	**$ 4,351.8**
Employee costs	**365.1**	**345.3**	**152.3**	**55.3**	**89.3**	**53.3**	**1,060.6**
Purchase of goods and services	**1,045.0**	**499.6**	**270.7**	**224.1**	**46.4**	**(198.2)**	**1,887.6**
Operating income[1]	**1,225.0**	**115.1**	**38.1**	**13.1**	**9.8**	**2.5**	**1,403.6**
Amortization							**600.3**
Financial expenses							**334.6**
Gain on valuation and translation of financial instruments							**(197.5)**
Restructuring of operations, impairment of assets and other special items							**29.4**
Impairment of goodwill and intangible assets							**201.5**
Loss on debt refinancing							**67.7**
Income before income taxes							**$ 367.6**
Additions to property, plant and equipment	**$ 669.6**	**$ 6.5**	**$ 22.1**	**$ 6.3**	**$ 4.2**	**$ 1.9**	**$ 710.6**
Additions to intangible assets	**78.3**	**11.9**	**3.3**	**3.6**	**–**	**(2.2)**	**94.9**

QUEBECOR INC. AND ITS SUBSIDIARIES
SEGMENTED INFORMATION (continued)

Years ended December 31, 2012 and 2011
(in millions of Canadian dollars)

INDUSTRY SEGMENTS (continued)

	Telecommu-nications	News Media	Broad-casting	Leisure and Enter-tainment	Interactive Techno-logies and Communi-cations	Head office and Inter-segments	Total
							2011
Revenues	$ 2,430.7	$ 1,018.4	$ 445.5	$ 312.9	$ 120.9	$ (121.8)	$ 4,206.6
Employee costs	326.7	363.6	142.7	54.0	78.7	39.9	1,005.6
Purchase of goods and services	1,005.2	504.7	252.3	232.3	34.3	(169.5)	1,859.3
Operating income[1]	1,098.8	150.1	50.5	26.6	7.9	7.8	1,341.7
Amortization							512.2
Financial expenses							322.9
Gain on valuation and translation of financial instruments							(54.6)
Restructuring of operations, impairment of assets and other special items							30.2
Loss on debt refinancing							6.6
Income before income taxes							$ 524.4
Additions to property, plant and equipment	$ 725.3	$ 13.7	$ 30.5	$ 6.3	$ 4.3	$ 0.9	$ 781.0
Additions to intangible assets	73.2	10.8	5.8	1.8	–	–	91.6

[1] The Chief Executive Officer uses operating income as the measure of profit to assess the performance of each segment. Operating income is referred as a non-International Financial Reporting Standards ("IFRS") measure and is defined as net income before amortization, financial expenses, gain on valuation and translation of financial instruments, restructuring of operations, impairment of assets and other special items, impairment of goodwill and intangible assets, loss on debt refinancing and income taxes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments (note 1(j) and 1(v)) and the liability related to stock-based compensation (note 1(t)), which have been measured at fair value, and are presented in Canadian dollars ("CAN dollars"), which is the currency of the primary economic environment in which the Corporation and its subsidiaries operate ("functional currency").

Comparative figures for the year ended December 31, 2011 have been restated to conform to the presentation adopted for the year ended December 31, 2012.

(b) Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

A subsidiary is an entity controlled by the Corporation. Control is achieved where the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interests in the net assets and results of consolidated subsidiaries are identified separately from the parent's ownership interest in them. Non-controlling interests in the equity of a subsidiary consist of the amount of non-controlling interests calculated at the date of the original business combination and their share of changes in equity since that date. Changes in non-controlling interests in a subsidiary that do not result in a loss of control by the Corporation are accounted for as equity transactions.

(c) Business combinations

A business combination is accounted for by the acquisition method. The cost of an acquisition is measured at the fair value of the consideration given in exchange for control of the business acquired at the acquisition date. This consideration can be comprised of cash, assets transferred, financial instruments issued, or future contingent payments. The identifiable assets and liabilities of the business acquired are recognized at their fair value at the acquisition date. Results of operations of a business acquired are included in the Corporation's consolidated financial statements from the date of the business acquisition. Business acquisition and integration costs are expensed as incurred.

Non-controlling interests in an entity acquired are presented in the consolidated balance sheet within equity, separately from the equity attributable to shareholders and are initially measured at fair value.

(d) Foreign currency translation

Financial statements of foreign operations are translated using the rate in effect at the balance sheet date for assets and liabilities, and using the average exchange rates during the period for revenues and expenses. Adjustments arising from foreign currency translation since January 1, 2010 are recorded in other comprehensive income.

Foreign currency transactions are translated to the functional currency by applying the exchange rate prevailing at the date of the transactions. Translation gains and losses on assets and liabilities denominated in a foreign currency are included in financial expenses, or in gain or loss on valuation and translation of financial instruments, unless hedge accounting is used.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

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

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

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

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

Telecommunications

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

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

News Media

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition (continued)

Broadcasting

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

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

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

Leisure and Entertainment

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

(f) Impairment of assets

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Barter transactions

In the normal course of operations, the News Media and the Broadcasting segments principally offer advertising in exchange for goods and services. Revenues thus earned and expenses incurred are accounted for on the basis of the fair value of the goods and services provided.

For the year ended December 31, 2012, the Corporation recorded $16.9 million of barter advertising revenues ($15.5 million in 2011).

(h) Income taxes

Current income taxes are recognized with respect to amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

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

In the course of the Corporation’s operations, there are a number of uncertain tax positions due to the complexity of certain transactions and due to the fact that related tax interpretations and legislation are continually changing. When a tax position is uncertain, the Corporation recognizes an income tax benefit or reduces an income tax liability only when it is probable that the tax benefit will be realized in the future or that the income tax liability is no longer probable.

(i) Leases

Assets under leasing agreements are classified at the inception of the lease as (i) finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee, or as (ii) operating leases for all other leases. All of the Corporation’s current leases are classified as operating leases.

Operating lease rentals are recognized in the consolidated statement of income on a straight-line basis over the period of the lease. Any lessee incentives are deferred and then recognized evenly over the lease term.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments

Classification, recognition and measurement

Financial instruments are classified as held for trading, available for sale, held to maturity, loans and receivables, or as other financial liabilities, and measurement in subsequent periods depends on their classification. The Corporation has classified its financial instruments (except derivative financial instruments) as follows:

Held for trading	Loans and receivables	Available for sale	Other liabilities
• Cash and cash equivalents • Bank indebtedness • Exchangeable debentures	• Accounts receivable • Loans and other long-term receivables included in "Other assets"	• Other portfolio investments included in "Other assets"	• Accounts payable and accrued charges • Provisions • Long-term debt • Other long-term financial liabilities included in "Other liabilities"

Financial instruments held-for-trading are measured at fair value with changes recognized in income as a gain or loss on valuation and translation of financial instruments. Available-for-sale portfolio investments are measured at fair value or at cost in the case of equity investments that do not have a quoted market price in an active market and where fair value is insufficiently reliable, and changes in fair value are recorded in other comprehensive income. Financial assets classified as loans and receivables and financial liabilities classified as other liabilities are initially measured at fair value and subsequently measured at amortized cost, using the effective interest rate method of amortization. Liabilities recognized as a result of contingent consideration arising from a business acquisition and included in other liabilities, are initially recorded at their acquisition-date fair value and re-measured at fair value in subsequent periods. These changes in fair value are recorded in income as other special items.

Derivative financial instruments and hedge accounting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financing fees

Financing fees related to long-term debt are capitalized in reduction of long-term debt and amortized using the effective interest rate method.

(l) Tax credits and government assistance

The Corporation has access to several government programs designed to support production and distribution of televisual products and movies, as well as music products, magazine and book publishing in Canada. In addition, the Corporation receives tax credits mainly related to its research and development activities, publishing activities and digital activities. Government financial assistance is accounted for as revenue or as a reduction in related costs, whether capitalized and amortized or expensed, in the year the costs are incurred and when management has reasonable assurance that the conditions of the government programs are met.

(m) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are recorded at fair value. These highly liquid investments consisted mainly of Bankers' acceptances and term deposits.

(n) Trade receivables

Trade receivables are stated at their nominal value, less an allowance for doubtful accounts and an allowance for sales returns. The Corporation establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. Individual trade receivables are written off when management deems them not collectible.

(o) Inventories

Inventories are valued at the lower of cost, determined by the first-in, first-out method or the weighted-average cost method, and net realizable value. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed. Work in progress is valued at the prorated billing value of the work completed.

In particular, Broadcasting segment inventories, which primarily are comprised of programs and broadcast and distribution rights, are accounted for as follows:

(i) Programs produced and productions in progress

Programs produced and productions in progress related to broadcasting activities are accounted for at the lesser of cost and net realizable value. Cost includes direct charges for goods and services and the share of labour and general expenses related to each production. The cost of each program is charged to operating expenses when the program is broadcast.

(ii) Broadcast rights

Broadcast rights are essentially contractual rights allowing the limited or unlimited broadcast of televisual products or movies. The Broadcasting segment records the broadcast rights acquired as inventory and the obligations incurred under a license agreement as a liability when the broadcast period begins and all of the following conditions have been met: (a) the cost of each program, movies or series is known or can be reasonably determined; (b) the programs, movies or series have been accepted in accordance with the conditions of the broadcast license agreement; (c) the programs, movies or series are available for first showing or telecast.

Amounts paid for broadcast rights before all of the above conditions are met are recorded as prepaid broadcast rights.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Inventories (continued)

(ii) Broadcast rights (continued)

Broadcast rights are classified as short or long term, based on management's estimate of the broadcast period. These rights are charged to operating expenses when televisual products and movies are broadcast over the contract period, using a method based on future revenues and the estimated number of showings. Broadcast rights payable are classified as current or long-term liabilities based on the payment terms included in the license.

(iii) Distribution rights

Distribution rights include costs to acquire distribution rights for televisual products and movies and other operating costs incurred that generate future economic benefits. The Broadcasting segment records an inventory and a liability for the distribution rights and obligations incurred under a license agreement when (a) the cost of the license is known or can be reasonably estimated, (b) the televisual product and movie has been accepted in accordance with the conditions of the license agreement, and (c) the televisual product or movie is available for distribution.

Amounts paid for distribution rights before all of the above conditions are met are recorded as prepaid distribution rights. Distribution rights are charged to operating expenses using the individual film forecast computation method based on actual revenues realized over total revenues expected.

Estimates of future revenues used to determine net realizable values of inventories related to the distribution or broadcasting of television products and movies, are examined periodically by Broadcasting segment management and revised as necessary. The carrying value of programs produced and productions in progress, broadcast rights and distribution rights is reduced to net realizable value, as necessary, based on this assessment.

(p) Long-term investments

Investments in companies subject to significant influence are accounted for using the equity method. Under the equity method, the share of the results of operations of the associated corporation is recorded in the consolidated statement of income. Carrying values of investments are reduced to estimated fair values if there is objective evidence that the investment is impaired.

(q) Property, plant and equipment

Property, plant and equipment are stated at cost. Cost represents the acquisition costs, net of government grants and investment tax credits, or construction costs, including preparation, installation and testing costs. In the case of projects to construct cable and mobile networks, the cost includes equipment, direct labour and direct overhead costs. Projects under development may also be comprised of advance payments made to suppliers for equipment under construction.

Borrowing costs are also included in the cost of property, plant and equipment when the development of the asset commenced after January 1, 2010. Future expenditures, such as maintenance and repairs, are expensed as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Property, plant and equipment (continued)

Amortization is calculated on a straight-line basis over the following estimated useful lives:

Assets	Estimated useful life
Buildings and leasehold improvements	10 to 40 years
Machinery and equipment	3 to 20 years
Telecommunication networks	3 to 20 years

Amortization methods, residual values, and the useful lives of significant property, plant and equipment are reviewed at each financial year-end. Any change is accounted for prospectively as a change in accounting estimate.

Leasehold improvements are amortized over the shorter of the term of the lease and economic life.

The Corporation does not record any decommissioning obligations in connection with its cable distribution networks. The Corporation expects to renew all of its agreements with utility companies to access their support structures in the future, making the retirement date so far into the future that the present value of the restoration costs is insignificant for these assets. A decommissioning obligation is however recorded for the rental of sites related to the advanced mobile network.

(r) Goodwill and intangible assets

Goodwill

For all business acquisitions entered into since January 1, 2010, goodwill initially arising from a business acquisition is measured and recognized as the excess of the fair value of the consideration paid over the fair value of the recognized identifiable assets acquired and liabilities assumed. When the Corporation acquires less than 100% of the equity interests in the business acquired at the acquisition date, goodwill attributable to the non-controlling interests is also recognized at fair value.

For business acquisitions that occurred prior to January 1, 2010, goodwill represented the excess of the cost of acquisition over the Corporation's interest in the fair value of the identifiable assets and liabilities of the business acquired at the date of acquisition. No goodwill attributable to non-controlling interests was recognized.

Goodwill is allocated as at the date of a business acquisition to a CGU for purposes of impairment testing (note 1(f)). The allocation is made to the CGU or group of CGUs expected to benefit from the synergies of the business acquisition.

Intangible assets

Broadcasting licenses and mastheads have indefinite useful lives. In particular, given the low cost of renewal of broadcasting licenses, management believes it is economically compelling to renew the licenses and to comply with all rules and conditions attached to those licenses.

Internally generated intangible assets are mainly comprised of internal costs in connection with the development of software to be used internally or for providing services to customers. These costs are capitalized when the development stage of the software application begins and costs incurred prior to that stage are recognized as expenses.

Borrowing costs directly attributable to the acquisition, construction or production of an intangible asset that commenced after January 1, 2010 are also included as part of the cost of that asset during the development phase.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Goodwill and intangible assets (continued)

Intangible assets (continued)

Intangible assets with finite useful lives are amortized over their useful lives using the straight-line method over the following periods:

Assets	Estimated useful life
Advanced mobile services (“AWS”) spectrum licenses[1]	10 years
Software	3 to 7 years
Customer relationships	3 to 10 years
Non-competition agreements and other	3 to 5 years

[1] The useful life represents the initial term of the licenses issued by Industry Canada.

Amortization methods, residual values, and the useful lives of significant intangible assets are reviewed at each financial year-end. Any change is accounted for prospectively as a change in accounting estimate.

(s) Provisions

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

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

(t) Stock-based compensation

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

Estimates of the fair value of stock option awards are determined by applying an option pricing model, taking into account the terms and conditions of the grant. Key assumptions are described in note 23.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Pension plans and postretirement benefits

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

(i) Defined contribution pension plans

Under its defined contribution pension plans, the Corporation pays fixed contributions to participating employees' pension plans and it has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as employee benefits in the consolidated statements of income when the contributions become due.

(ii) Defined benefit pension plans and postretirement plans

Defined benefit pension plan costs are determined using actuarial methods and are accounted for using the projected unit credit method, which incorporates management's best estimates of future salary levels, other cost escalations, retirement ages of employees, and other actuarial factors. Defined benefit pension costs recognized in the consolidated statements of income, as part of employee costs, include the following:

- cost of pension plan benefits provided in exchange for employee services rendered during the year;
- interest cost of pension plan obligations;
- expected return on pension fund assets;
- recognition of prior service costs on a straight-line basis over the vesting period.

When an event gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement.

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

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

The Corporation also offers health, life and dental insurance plans to some of its retired employees. The cost of postretirement benefits is determined using an accounting methodology similar to that for defined benefit pension plans. The benefits related to these plans are funded by the Corporation as they become due.

(v) Convertible debentures

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates are based on management’s best judgment and information available at the time of the assessment date, actual results could differ from these estimates.

The following significant areas represent management's most difficult, subjective or complex estimates:

(i) Fair value of an asset or a CGU

When an impairment test is performed on an asset or a CGU, management estimates the recoverable amount of the asset or CGU based on its fair value less costs to sell or its value in use. These estimates are based on valuation models requiring the use of a number of assumptions such as pre-tax discount rate (WACC) and perpetual growth rate. These assumptions have a significant impact on the results of impairment tests and on the impairment charge, as the case may be, recorded in the consolidated statement of income. A description of key assumptions used in the goodwill impairment tests and a sensitivity analysis of recoverable amounts are presented in note 16.

(ii) Fair value of derivative financial instruments, including embedded derivatives not closely related to the host contract

Derivative financial instrument must be accounted for at their fair value, which is estimated using valuation models based on a number of assumptions such as future cash flows, period-end swap rates, foreign exchange rates, and credit default premium. Also, the fair value of embedded derivatives related to early settlement option on debt is determined with option pricing models using market inputs, including volatility and discount factors. The assumptions used in the valuation models have a significant impact on the gain or loss on valuation and translation of financial instruments recorded in the consolidated statement of income, the gain or loss on valuation of financial instruments recorded in the consolidated statement of comprehensive income, and the carrying value of derivative financial instruments in the consolidated balance sheet. A description of valuation models used and sensitivity analysis on key assumptions are presented in note 28.

(iii) Cost and obligation related to pension and postretirement benefit plans

Estimates of costs and obligations related to pension and postretirement benefit obligations are based on a number of assumptions, such as the discount rate, the expected return on the plan’s assets, the rate of increase in compensation, the retirement age of employees, health care costs, and other actuarial factors. These assumptions have a significant impact on employee costs recorded in the consolidated statement of income, the actuarial gain or loss recorded in the consolidated statement of comprehensive income, and on the carrying value of other assets or other liabilities in the consolidated balance sheet. Key assumptions and sensitivity analysis of key assumptions are presented in note 30.

(iv) Provisions

The recognition of provisions requires management to estimate expenditure required to settle a present obligation or to transfer it to third parties at the date of assessment. An assessment of the probable outcomes of legal proceedings or other contingency is also required. A description of the main provisions, including management expectations on the potential effect on the consolidated financial statements of the possible outcomes of legal disputes, is presented in note 19.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Use of estimates and judgments (continued)

The following areas represent management's most significant judgments, apart from those involving estimates:

(i) Determination of useful life periods for the amortization of assets with finite useful lives

For each class of assets with finite useful lives, management has to determine over which period the Corporation will consume the assets' future economic benefits. The determination of a useful life period involves judgment and has an impact on the amortization charge recorded in the consolidated statements of income.

(ii) Determination of CGUs for the purpose of impairment test

The determination of CGUs requires judgment when determining the lowest level for which there are separately identifiable cash inflows generated by the group of assets. In identifying assets to group in CGUs, the Corporation considers, among other factors, offering bundled services, sharing telecommunication or broadcasting networks infrastructure, integration of media assets, geographical proximity, similarity on exposure to market risk, and materiality. The determination of CGUs could affect the results of impairment tests and, as the case may be, the impairment charge recorded in the consolidated statement of income.

(iii) Determination if early settlement options are not closely related to their debt contract

Early settlement options are not considered closely related to their debt contract when the corresponding option exercise price is not approximately equal to the amortized cost of the debt. Judgment is required to determine if an option exercise price is not approximately equal to the amortized cost of the debt. This determination may have a significant impact on the amount of gains or losses on valuation and translation of financial instruments recorded in the consolidated statement of income.

(iv) Interpretation of laws and regulations

Interpretation of laws and regulation, including tax regulations, requires judgment from management that could have an impact on the recognition of provisions for legal litigation and income taxes in the consolidated financial statements.

(v) Convertible debentures

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Recent accounting pronouncements

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

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

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Recent accounting pronouncements (continued)

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

Amendments to IAS 19 involve, among other changes, the immediate recognition of the re-measurement component in other comprehensive income, thereby removing the accounting option previously available in IAS 19 to recognize or to defer recognition of changes in defined benefit obligations and in the fair value of plan assets directly in the consolidated statement of income. IAS 19 allows amounts recorded in other comprehensive income to be recognized either immediately in retained earnings or as a separate category within equity. IAS 19 also introduces a net interest approach that replaces the expected return on assets and interest costs on the defined benefit obligation with a single net interest component determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation. In addition, all past service costs are required to be recognized in profit or loss when the employee benefit plan is amended and no longer spread over any future service period.The adoption of the amended standard will have the following impacts on years ended December 31:

Consolidated statement of income

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

Consolidated statement of comprehensive income

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

2. REVENUES

The breakdown of revenues between services rendered and product sales is as follows:

	2012	2011
Services rendered	**$ 3,717.6**	$ 3,555.3
Product sales	**634.2**	651.3
	$ 4,351.8	$ 4,206.6

3. EMPLOYEE COSTS AND PURCHASE OF GOODS AND SERVICES

The main components are as follows:

	2012	2011
Employee costs	**$ 1,184.7**	$ 1,125.7
Less: Employee costs capitalized to property, plant and equipment and intangible assets	**(124.1)**	(120.1)
	1,060.6	1,005.6
Purchase of goods and services:		
Royalties, rights and creation costs	**664.6**	631.0
Cost of retail products	**302.2**	337.8
Marketing, circulation and distribution expenses	**189.6**	182.3
Service and printing contracts	**229.9**	214.8
Paper, ink and printing supplies	**113.2**	112.9
Other	**388.1**	380.5
	1,887.6	1,859.3
	$ 2,948.2	$ 2,864.9

4. FINANCIAL EXPENSES

	2012	2011
Interest on long-term debt and exchangeable debentures	**$ 317.3**	$ 314.2
Amortization of financing costs and long-term debt discount	**14.5**	12.8
Loss on foreign currency translation on current monetary items	**3.2**	1.6
Interest on liability component of convertible debentures	**1.7**	–
Other	**(2.1)**	(5.7)
	$ 334.6	$ 322.9

5. GAIN ON VALUATION AND TRANSLATION OF FINANCIAL INSTRUMENTS

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

6. RESTRUCTURING OF OPERATIONS, IMPAIRMENT OF ASSETS AND OTHER SPECIAL ITEMS

	2012	2011
Restructuring of operations	**$ 33.3**	$ 27.4
Impairment of assets	**7.5**	1.5
Gain on disposal of assets and businesses	**(12.9)**	–
Other	**1.5**	1.3
	$ 29.4	$ 30.2

(a) Telecommunications

For the year ended December 31, 2012, Videotron Ltd. ("Videotron") recorded costs of $0.5 million for the migration of its pre-existing Mobile Virtual Network Operator subscribers to its mobile network ($14.8 million in 2011).

The Telecommunications segment also recorded a charge for restructuring costs of $0.6 million in 2011.

(b) News Media

In recent years, the News Media segment has implemented various restructuring initiatives to reduce operating costs and, in particular, during the third quarter of 2012, the News Media segment announced the reorganization of its editorial, advertising and industrial operations in Canada. As a result of these initiatives, the News Media segment recorded restructuring costs of $31.8 million in 2012 ($11.0 million in 2011), mainly related to the elimination of positions at several publications.

As part of these restructuring initiatives, an impairment charge of $7.5 million related to tangible and intangible assets was recorded in 2012 ($0.8 million in 2011).

(c) Broadcasting

In the second quarter of 2012, the Broadcasting segment disposed of its interests in two specialized channels, The Cave and mysteryTV, for a total cash consideration of $17.9 million, resulting in a gain of $12.9 million. The Broadcasting segment also recorded a charge for restructuring costs of $0.1 million in 2012 ($0.8 million in 2011) and a charge for other special items of $0.2 million in 2011.

In 2011, the Broadcasting segment recorded an impairment charge on certain equipment and broadcasting rights of $0.7 million related to the termination of the operations of its general-interest television station, Sun TV.

6. RESTRUCTURING OF OPERATIONS, IMPAIRMENT OF ASSETS AND OTHER SPECIAL ITEMS (continued)

(d) Other segments

In 2012, other segments recorded restructuring costs of $0.9 million ($0.2 million in 2011) and a charge for other special items of $1.5 million ($1.1 million in 2011).

7. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

News Media and Leisure and Entertainment

In October 2012, the Corporation completed its annual review of its three-year strategic plan. Continuing weak economic and market conditions in the newspaper and music industries led the Corporation to perform impairment tests on the News Media and Music CGUs. The Corporation concluded that the recoverable amount based on value in use was less than the carrying amount of both CGUs. Accordingly, a goodwill impairment charge of $145.0 million (without any tax consequences) and an impairment charge of $30.0 million on mastheads and customer relationships were recorded in the News Media segment and a goodwill impairment charge of $12.0 million (without any tax consequences) was recorded in the Leisure and Entertainment segment.

Broadcasting

As a result of new tariffs adopted in 2012 with respect to business contributions for costs related to waste recovery services provided by Québec municipalities, the costs of the magazine publishing activities have been adversely affected. Accordingly, the Corporation reviewed its business plan for these activities and performed an impairment test on the Publishing CGU included in the Broadcasting segment. The Corporation concluded that the recoverable amount based on value in use was less than the carrying amount of the Publishing CGU and a goodwill impairment charge of $14.5 million (without any tax consequences) was recorded during the first quarter of 2012.

8. LOSS ON DEBT REFINANCING

2012

- In March 2012, Videotron redeemed all of its 6.875% Senior Notes due January 2014 in an aggregate principal amount of US$395.0 million for a cash consideration of $394.1 million.
- In March and April 2012, Quebecor Media redeemed US$260.0 million in aggregate principal amount of its 7.75% Senior Notes due March 2016 and settled hedging contracts for a total cash consideration of $304.9 million.
- In November 2012, Quebecor Media redeemed US$320.0 million in aggregate principal amount of its 7.75% Senior Notes due March 2016 for a cash consideration of $327.1 million.
- In December 2012, Quebecor Media prepaid the balance outstanding under its term loan “B” credit facility for a cash consideration of $153.9 million.

These transactions resulted in a total loss of $67.7 million (before income taxes) in 2012, including a gain of $15.3 million previously reported in other comprehensive income.

8. LOSS ON DEBT REFINANCING (continued)

2011

- On February 15, 2011, Sun Media Corporation redeemed all of its 7.625% Senior Notes in an aggregate principal amount of US$205.0 million and settled its related hedging contracts, representing a total cash consideration of $308.2 million.
- On July 18, 2011, Videotron redeemed US$255.0 million in aggregate principal amount of its issued and outstanding 6.875% Senior Notes due in 2014 and settled its related hedging contracts, representing a total cash consideration of $303.1 million.

These transactions resulted in a total loss of $6.6 million (before income taxes) in 2011, including a loss of $0.8 million previously reported in other comprehensive income.

9. NON-CONTROLLING INTERESTS AND BUSINESS ACQUISITIONS

(a) Non-controlling interests acquisition

On October 11, 2012, the Corporation increased its interest in Quebecor Media from 54.7% to 75.4% as a result of the following transactions:

- Quebecor Media repurchased 20,351,307 of its common shares held by CDP Capital d’Amérique Investissement inc. (“CDP Capital”) – a subsidiary of Caisse de dépôt et placement du Québec – for an aggregate purchase price of $1.0 billion paid in cash.
- The Corporation purchased 10,175,653 common shares of Quebecor Media held by CDP Capital. To evidence the obligation of the Corporation to pay the purchase price of such shares, the Corporation issued to CDP Capital $500.0 million aggregate principal amount of subordinated debentures, which are convertible into Class B Subordinate Voting shares (“Class B shares”) of Quebecor (note 24).

The partial purchase of CDP Capital’s minority interest in Quebecor Media was accounted for as an equity transaction. The excess of $626.7 million of the purchase price over the carrying value of non-controlling interests of $873.3 million acquired was recorded as a $635.0 million reduction of retained earnings and as a $8.3 million increase of accumulated other comprehensive income.

The agreement between Quebecor and CDP Capital on the partial purchase of CDP Capital’s interest in Quebecor Media also provides that on or after January 1, 2019, CDP Capital will have exit rights, including requiring that Quebecor Media carry out an initial public offering or selling CDP Capital’s remaining interest in Quebecor Media to a financial third party. This agreement does not result in any balance sheet obligation for Quebecor Media or Quebecor.

9. NON-CONTROLLING INTERESTS AND BUSINESS ACQUISITIONS (continued)

(b) Business acquisitions

2012

- In May 2012, the News Media segment acquired two community publications in the Province of Québec.

2011

- In February 2011, the News Media segment acquired 15 community publications in the Province of Québec. The assets acquired were mainly comprised of goodwill of $28.7 million and intangible assets of $15.7 million.
- In August 2011, the Interactive Technologies and Communications segment acquired a digital agency in the United States for a cash consideration and contingent amounts subject to the achievement of specific targets in the future. The assets acquired were mainly comprised of goodwill of $7.8 million and intangible assets of $11.3 million.
- Other businesses, principally in the Leisure and Entertainment segment, were also acquired by the Corporation during the year ended December 31, 2011.

The fair value of identifiable assets and liabilities related to business acquisitions in 2011 are summarized as follows:

		2011
Assets acquired		
Non-cash current assets	$	2.0
Property, plant and equipment		0.9
Intangible assets		31.4
Goodwill		37.1
		71.4
Liabilities assumed		
Non-cash current liabilities		(1.3)
Deferred income taxes		(3.1)
		(4.4)
Net assets acquired at fair value	$	67.0
Consideration		
Cash	$	55.7
Contingent liability		11.3
	$	67.0

The pro forma revenues and net income in 2012 would not be significantly different than actual figures if all business acquisitions had occurred at the beginning of the year.

The amount of goodwill that is deductible for tax purposes is $0.6 million in 2012 ($29.2 million in 2011).

10. INCOME TAXES

Income tax expenses are as follows:

		2012		2011
Current	**$**	**57.0**	$	(17.7)
Deferred		**43.1**		159.1
	$	**100.1**	$	141.4

The following table reconciles income taxes at the Corporation's domestic statutory tax rate of 26.9% in 2012 (28.4% in 2011) and income taxes in the consolidated statements of income:

		2012		2011
Income taxes at domestic statutory tax rate	**$**	**98.9**	$	148.9
(Reduction) increase resulting from:				
Effect of provincial tax rate differences		**(0.5)**		(0.4)
Effect of non-deductible charges, non-taxable income and differences between current and future tax rates		**(4.3)**		(9.1)
Change in benefit arising from current and prior year tax losses		**(40.3)**		(5.4)
Impairment of goodwill		**46.1**		–
Other		**0.2**		7.4
Income taxes	**$**	**100.1**	$	141.4

The significant items comprising the Corporation's net deferred income tax liability and their impact on the deferred income tax expense are as follows:

	Consolidated balance sheets				Consolidated income statements			
		2012		2011		**2012**		2011
Loss carryforwards	**$**	**120.1**	$	125.3	**$**	**5.2**	$	(39.8)
Accounts payable, accrued charges, provisions and deferred revenue		**10.9**		15.2		**4.3**		13.5
Defined benefit plans		**65.8**		61.3		**5.1**		12.7
Property, plant and equipment		**(425.7)**		(415.0)		**10.7**		68.0
Goodwill, intangible assets and other assets		**(108.1)**		(106.3)		**1.8**		6.3
Long-term debt, derivative financial instruments and exchangeable debentures		**(162.1)**		(147.2)		**18.3**		(10.2)
Liability and derivative components of convertible debentures		**30.9**		–		**0.1**		–
Benefits from a general partnership		**(101.4)**		(108.6)		**(7.2)**		108.6
Other		**(1.2)**		3.4		**4.8**		–
	$	**(570.8)**	$	(571.9)	**$**	**43.1**	$	159.1

10. INCOME TAXES (continued)

Changes in the net deferred income tax liability are as follows:

	Note		2012		2011
Balance as of beginning of the year		$	**(571.9)**	$	(431.9)
Recognized in statement of income			**(43.1)**		(159.1)
Recognized in other comprehensive income			**13.2**		21.5
Recognized at issuance of convertible debentures	24		**31.0**		–
Business acquisitions			**–**		(3.1)
Other			**–**		0.7
Balance as of the end of the year		**$**	**(570.8)**	$	(571.9)
Deferred income tax asset		**$**	**23.9**	$	20.6
Deferred income tax liability			**(594.7)**		(592.5)
		$	**(570.8)**	$	(571.9)

As of December 31, 2012, the Corporation had loss carryforwards for income tax purposes of $70.4 million available to reduce future taxable income, including $48.9 million that will expire between 2026 and 2032, and $21.5 million that can be carried forward indefinitely. Of these losses, an amount of $10.5 million has not been recognized. The Corporation also had capital losses of $1,075.8 million that can be carried forward indefinitely and applied only against future capital gains, of which $204.3 million were not recognized.

The Corporation has not recognized a deferred income tax liability for the undistributed earnings of its foreign subsidiaries in the current or prior years since the Corporation does not expect to sell or repatriate funds from those investments, in which case the undistributed earnings might become taxable.

There are no income tax consequences attached to the payment of dividends in either 2012 or 2011 by the Corporation to its shareholders.

11. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share are calculated by dividing net income attributable to shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated by taking into account the potentially dilutive effect of stock options of the Corporation on the number of shares outstanding, the potentially dilutive effect of stock options of the Corporation’s subsidiaries on net income attributable to shareholders, and the potentially dilutive effect of conversion of convertible debentures issued by the Corporation on the number of shares outstanding and on net income attributable to shareholders.

11. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS (continued)

The following table sets forth the computation of basic and diluted earnings per share attributable to shareholders:

		2012		2011
Net income attributable to shareholders	**$**	**167.7**	$	201.0
Impact of assumed conversion of stock options of subsidiaries and of convertible debentures of the Corporation		**1.6**		(0.5)
Net income attributable to shareholders, adjusted for dilution effect	**$**	**169.3**	$	200.5
Weighted average number of shares outstanding (in millions)		**63.2**		64.0
Impact of assumed conversion of stock options and convertible debentures of the Corporation (in millions)		**2.9**		0.4
Weighted average number of diluted shares outstanding (in millions)		**66.1**		64.4

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of certain stock options of the Corporation and its subsidiaries, since their impact is anti-dilutive. During the year ended December 31, 2012, 114,148 options of the Corporation's plan (288,886 in 2011), no options of Quebecor Media's plan (99,000 in 2011), and 819,421 options of TVA Group Inc.'s ("TVA Group") plan (833,610 in 2011) were excluded from the diluted earnings per share calculation.

12. ACCOUNTS RECEIVABLE

	Note		**2012**		2011
Trade	28(c)	**$**	**523.2**	$	519.9
Other			**55.5**		83.8
		$	**578.7**	$	603.7

13. INVENTORIES

		2012		2011
Raw materials and supplies	**$**	**30.1**	$	36.1
Work in progress		**14.2**		23.3
Finished goods		**146.5**		162.1
Programs, broadcast and distribution rights		**64.7**		62.1
	$	**255.5**	$	283.6

Cost of inventories included in purchase of goods and services amounted to $871.0 million in 2012 ($901.2 million in 2011). Write-downs of inventories totalling $6.8 million were recognized in purchase of goods and services in 2012 ($17.6 million in 2011).

14. PROPERTY, PLANT AND EQUIPMENT

For the years ended December 31, 2012 and 2011, changes in the net carrying amount of property, plant and equipment are as follows:

	Land, buildings and leasehold improvements	Machinery and equipment	Telecommu-nications networks	Projects under development	Total
Cost					
Balance as of December 31, 2010	$ 488.3	$ 945.5	$ 3,383.4	$ 125.5	$ 4,942.7
Additions	25.7	197.4	324.3	233.6	781.0
Net change in additions financed with accounts payable	–	(1.8)	22.6	4.0	24.8
Reclassification	2.0	33.4	254.8	(290.2)	–
Retirement, disposals and other	(10.4)	(76.8)	(21.4)	0.1	(108.5)
Balance as of December 31, 2011	505.6	1,097.7	3,963.7	73.0	5,640.0
Additions	43.6	208.3	389.7	69.0	710.6
Net change in additions financed with accounts payable	0.6	–	(47.4)	0.5	(46.3)
Reclassification	1.9	32.1	57.9	(91.9)	–
Retirement, disposals and other	(7.4)	(91.5)	(82.1)	–	(181.0)
Balance as of December 31, 2012	**$ 544.3**	**$ 1,246.6**	**$ 4,281.8**	**$ 50.6**	**$ 6,123.3**
Accumulated amortization and impairment losses					
Balance as of December 31, 2010	$ 155.4	$ 417.8	$ 1,563.8	$ –	$ 2,137.0
Amortization	18.7	112.3	260.3	–	391.3
Retirement, disposals and other	(5.2)	(73.6)	(20.6)	–	(99.4)
Balance as of December 31, 2011	168.9	456.5	1,803.5	–	2,428.9
Amortization	19.7	143.9	296.1	–	459.7
Retirement, disposals and other	(6.2)	(82.3)	(82.6)	–	(171.1)
Balance as of December 31, 2012	**$ 182.4**	**$ 518.1**	**$ 2,017.0**	**$ –**	**$ 2,717.5**
Net carrying amount					
As of December 31, 2011	$ 336.7	$ 641.2	$ 2,160.2	$ 73.0	$ 3,211.1
As of December 31, 2012	**$ 361.9**	**$ 728.5**	**$ 2,264.8**	**$ 50.6**	**$ 3,405.8**

15. INTANGIBLE ASSETS

For the years ended December 31, 2012 and 2011, changes in the net carrying amount of intangible assets are as follows:

	AWS spectrum licenses	Software	Customer relation-ships and other	Broad-casting licenses	Mastheads	Projects under develop-ment	Total
Cost							
Balance as of December 31, 2010	$ 458.8	$ 368.9	$ 187.0	$ 134.1	$ 105.6	$ 120.3	$ 1,374.7
Additions	–	63.1	3.3	0.1	–	25.1	91.6
Net change in additions financed with accounts payable	–	1.7	–	–	–	0.2	1.9
Reclassification	–	16.2	–	–	–	(16.2)	–
Business acquisitions	–	0.5	25.7	–	5.2	–	31.4
Retirement, disposals and other	–	(0.1)	3.7	(30.8)	–	–	(27.2)
Balance as of December 31, 2011	458.8	450.3	219.7	103.4	110.8	129.4	1,472.4
Additions	–	61.8	4.6	–	–	28.5	94.9
Net change in additions financed with accounts payable	–	(6.4)	–	–	–	(0.1)	(6.5)
Reclassification	–	34.1	–	–	–	(34.1)	–
Retirement, disposals and other	–	3.2	0.6	(0.4)	–	–	3.4
Balance as of December 31, 2012	**$ 458.8**	**$ 543.0**	**$ 224.9**	**$ 103.0**	**$ 110.8**	**$ 123.7**	**$ 1,564.2**

The cost of internally generated intangible assets, mainly composed of software, was $358.4 million as of December 31, 2012 ($297.8 million as of December 31, 2011). For the year ended December 31, 2012, the Corporation recorded additions of internally generated intangible assets of $52.9 million ($58.3 million in 2011).

15. INTANGIBLE ASSETS (continued)

	AWS spectrum licenses	Software	Customer relation-ships and other	Broad-casting licenses	Mastheads	Projects under develop-ment	Total
Accumulated amortization and impairment losses							
Balance as of December 31, 2010	$ 14.7	$ 165.1	$ 78.8	$ 31.6	$ 48.2	$ –	$ 338.4
Amortization	52.4	47.6	20.9	–	–	–	120.9
Retirement, disposals and other	–	0.4	2.5	(30.8)	–	–	(27.9)
Balance as of December 31, 2011	67.1	213.1	102.2	0.8	48.2	–	431.4
Amortization	55.6	61.9	23.1	–	–	–	140.6
Impairment	–	–	18.0	–	16.6	–	34.6
Retirement, disposals and other	–	1.2	(0.3)	–	–	–	0.9
Balance as of December 31, 2012	**$ 122.7**	**$ 276.2**	**$ 143.0**	**$ 0.8**	**$ 64.8**	**$ –**	**$ 607.5**
Net carrying amount							
As of December 31, 2011	$ 391.7	$ 237.2	$ 117.5	$ 102.6	$ 62.6	$ 129.4	$ 1,041.0
As of December 31, 2012	**$ 336.1**	**$ 266.8**	**$ 81.9**	**$ 102.2**	**$ 46.0**	**$ 123.7**	**$ 956.7**

The accumulated amortization and impairment losses of internally generated intangible assets, mainly composed of software, was $161.5 million as of December 31, 2012 ($115.2 million as of December 31, 2011). For the year ended December 31, 2012, the Corporation recorded $41.2 million of amortization ($29.3 million in 2011).

The net carrying value of internally generated intangible assets was $196.9 million as of December 31, 2012 ($182.6 million as of December 31, 2011).

Broadcasting licenses are allocated to the Broadcasting group of CGUs and mastheads are allocated to the News Media group of CGUs.

16. GOODWILL

For the years ended December 31, 2012 and 2011, changes in the net carrying amount of goodwill are as follows:

Cost	
Balance as of December 31, 2010	$ 6,955.3
Business acquisitions	37.1
Other	1.5
Balance as of December 31, 2011	6,993.9
Business acquisitions	0.6
Other	(1.3)
Balance as of December 31, 2012	**$ 6,993.2**
Accumulated amortization and impairment losses	
Balance as of December 31, 2010 and 2011	$ 3,450.1
Impairment loss (note 7)	171.5
Balance as of December 31, 2012	**$ 3,621.6**
Net carrying amount	
As of December 31, 2011	$ 3,543.8
As of December 31, 2012	**$ 3,371.6**

The net carrying amount of goodwill as of December 31, 2012 and 2011 is allocated to the following significant groups of CGUs:

Industry segment	**Group of CGUs**	**2012**	2011
Telecommunications	Telecommunications	**$ 2,570.3**	$ 2,570.2
	Specialized websites	**19.5**	19.5
News Media	News Media	**682.6**	827.1
Broadcasting	Broadcasting	**3.1**	3.1
	Publishing	**37.3**	51.8
Leisure and Entertainment	Book publishing and distribution	**16.3**	16.3
	Music	**8.9**	20.9
Interactive Technologies and Communications	Interactive Technologies and Communications	**33.6**	34.9
Total		**$ 3,371.6**	$ 3,543.8

16. GOODWILL (continued)

Recoverable amounts

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

		2012[2]		2011[1]
Group of CGUs	**Pre-tax discount rate (WACC)**	**Perpetual growth rate**	Pre-tax discount rate (WACC)	Perpetual growth rate
Telecommunications:				
Telecommunications[3]	**9.03 %**	**3.00 %**	10.19 %	3.00 %
Specialized websites	**17.88**	**2.00**	15.00	3.00
News Media	**12.86**	**0.00**	11.24	1.00
Broadcasting:				
Broadcasting[3]	**11.27**	**1.00**	11.43	1.00
Publishing	**16.26**	**1.00**	15.89	1.00
Leisure and Entertainment:				
Book publishing and distribution[3]	**13.97**	**1.00**	14.14	1.00
Music	**14.88**	**0.50**	15.00	1.00
Interactive Technologies and Communications	**17.05**	**4.00**	15.17	4.00

[1] All tests were performed as of April 1, 2011.

[2] All tests were performed as of April 1, 2012, except for the Publishing CGU in the Broadcasting segment, which is as of March 31, 2012 (note 7), and for the News Media CGU and Music CGU which are as of September 30, 2012 (note 7).

[3] As allowed by IAS 36, *Impairment of assets*, recoverable amounts calculated as of January 1, 2010 were used in the 2011 impairment test performed for these groups of CGUs.

16. GOODWILL (continued)

Sensitivity of recoverable amounts

The following table presents, for each principal group of CGUs, the change in the discount rate and in the perpetual growth rate used for the tests performed that would have been required in order for the recoverable amount to equal the carrying value of the CGU as of the most recent impairment tests in 2012:

Group of CGUs[1, 2]	**Incremental increase in pre-tax discount rate (WACC)**		**Incremental decrease in perpetual growth rate**	
Telecommunications	4.07	%	4.30	%
Broadcasting	3.41		4.14	
Book publishing and distribution	7.23		11.19	
Interactive Technologies and Communications	3.87		5.16	

[1] No sensitivity tests were performed for the Publishing CGU in the Broadcasting segment, the News Media CGU and the Music CGU in the Leisure and Entertainment segment since impairment charges were recorded as a result of the latest impairment tests on these CGUs (note 7).

[2] The recoverable amount of the specialized websites CGU exceeded significantly its carrying value on the latest impairment test and therefore, has a low level of sensitivity to these assumptions.

17. OTHER ASSETS

		2012		2011
Programs, broadcast and distribution rights	**$**	**33.6**	$	35.5
Deferred connection costs		**38.2**		38.7
Other		**30.8**		19.2
	$	**102.6**	$	93.4

18. ACCOUNTS PAYABLE AND ACCRUED CHARGES

		2012		2011
Trade and accruals	**$**	**578.7**	$	558.9
Salaries and employee benefits		**160.6**		166.5
Interest payable		**35.5**		23.8
Stock-based compensation		**16.2**		27.3
Liability component of convertible debentures		**13.5**		–
	$	**804.5**	$	776.5

19. PROVISIONS AND CONTINGENCIES

	Restructuring of operations	Contingencies and legal disputes	Contractual obligations and other	Total
Balance as of December 31, 2011	$ 22.7	$ 5.8	$ 9.8	$ 38.3
Net change in income	33.3	(0.1)	1.7	34.9
Payments	(21.4)	(0.8)	(1.7)	(23.9)
Other	–	–	0.3	0.3
Balance as of December 31, 2012	**$ 34.6**	**$ 4.9**	**$ 10.1**	**$ 49.6**
Current portion	**$ 34.2**	**$ 4.9**	**$ 6.8**	**$ 45.9**
Non-current portion	**0.4**	**–**	**3.3**	**3.7**

The recognition of provisions, in terms of both timing and amounts, requires the exercise of judgment based on relevant circumstances and events that can be subject to change over time. Provisions are primarily comprised of the following:

Restructuring of operations

Provisions for restructuring activities primarily cover severance payments related to initiatives to eliminate positions in the News Media segment.

Contingencies and legal disputes

There are a number of legal proceedings against the Corporation and its subsidiaries that are pending. In the opinion of the management of the Corporation and its subsidiaries, the outcome of those proceedings is not expected to have a material adverse effect on the Corporation's results or on its financial position. Management of the Corporation, after taking legal advice, has established provisions for specific claims or actions considering the facts of each case. The Corporation cannot determine when and if a payment related to these provisions will be made.

20. LONG-TERM DEBT

	Effective interest rate as of December 31, 2012		2012	2011
Quebecor				
Bank credit facility (i)	**3.97**	**%**	**$ 66.8**	$ 70.7
Other loan (ii)	**3.54**	**%**	**34.7**	34.2
			101.5	104.9
Quebecor Media (iii)				
Bank credit facilities (iv) (note 8)	**–**	**%**	**–**	162.6
Other credit facility (v)	**1.75**	**%**	**31.9**	42.5
Senior Notes (vi) (note 8)	**(vi)**		**2,303.7**	1,544.6
			2,335.6	1,749.7
Videotron (iii)				
Bank credit facilities (vii)	**2.76**	**%**	**58.9**	69.6
Senior Notes (vi) (note 8)	**(vi)**		**2,274.1**	1,898.4
			2,333.0	1,968.0
Sun Media Corporation				
Bank credit facilities	**–**	**%**	**–**	37.4
TVA Group (iii)				
Bank credit facilities (viii)	**5.54**	**%**	**75.0**	93.0
Total long-term debt			**4,845.1**	3,953.0
Change in fair value related to hedged interest rate risk			**–**	15.5
Adjustments related to embedded derivatives			**(254.5)**	(120.0)
Financing fees, net of amortization			**(60.6)**	(45.7)
			(315.1)	(150.2)
			4,530.0	3,802.8
Less current portion			**(22.2)**	(114.5)
			$ 4,507.8	$ 3,688.3

20. LONG-TERM DEBT (continued)

(i) The bank credit facility of Quebecor is a revolving credit facility maturing in 2015 in an amount of $150.0 million. The availability under this facility is dependent on the market value of a portion of the Corporation's interest in Quebecor Media. The credit agreement governing this credit facility contains covenants such as limiting its ability to incur additional indebtedness. The borrowed amounts bear interest at floating rates based on Bankers' acceptance rate, U.S. London Interbanking Offered Rate ("LIBOR"), Canadian prime rate or U.S. prime rate, plus a premium determined by a leverage ratio. The credit facility is secured by a limited number of shares owned in Quebecor Media.

(ii) This mortgage loan bears interest at a fixed rate, payable every month, and matures in August 2017. The Corporation shall repay the principal amount in monthly repayments and the balance at the end of the term. The loan is secured by a first ranking hypothec on the head office building.

(iii) The debts of these subsidiaries are non-recourse to Quebecor.

(iv) The bank credit facilities of Quebecor Media are comprised of (a) a US$350.0 million term loan "B" credit facility, fully prepaid in 2012 (the balance was $162.6 million as of December 31, 2011) and (b) a $300.0 million revolving credit facility, bearing interest at Bankers' acceptance rate, U.S. LIBOR, Canadian prime rate or U.S. prime rate, plus a premium determined by a leverage ratio, and maturing in January 2016. These credit facilities contain covenants such as maintaining certain financial ratios, limiting its ability to incur additional indebtedness and restricting the payment of dividends and other distributions. They are collateralized by liens on all of the movable property and assets of Quebecor Media (primarily shares of its subsidiaries), now owned or hereafter acquired. As of December 31, 2012, the credit facilities of Quebecor Media were secured by assets with a carrying value of $4,492.3 million ($3,845.1 million in 2011). As of December 31, 2012 and 2011, no amount was drawn on the revolving credit facility.

(v) The long-term credit facility with Société Générale (Canada) for the CAN dollar equivalent of €59.4 million, bears interest at Bankers' acceptance rate, plus a premium, and matures in 2015. The facility is secured by all the property and assets of Quebecor Media, now owned and hereafter acquired. This facility mostly contains the same covenants as the bank facilities described in (iv).

20. LONG-TERM DEBT (continued)

(vi) The Senior Notes are unsecured and contain certain restrictions on the respective issuers, including limitations on their ability to incur additional indebtedness, pay dividends or make other distributions. Some notes are redeemable at the option of the issuer, in whole or in part, at a price based on a make-whole formula during the first five years of the term of the notes and at a decreasing premium thereafter, while the remaining notes are redeemable or at a price based on a make-whole formula at any time prior to maturity. The notes issued by Videotron are guaranteed by specific subsidiaries of Videotron. The following table summarizes the terms of the outstanding Senior Notes as of December 31, 2012:

Principal amount	Annual nominal interest rate	Effective interest rate (after discount or premium at issuance)	Maturity date	Interest payable every 6 months on
Quebecor Media				
US$ 380.0	7.750 %	8.810 %	March 15, 2016	June and December 15
US$ 265.0	7.750 %	7.750 %	March 15, 2016	June and December 15
$ 325.0[1]	7.375 %	7.375 %	January 15, 2021	June and December 15
US$ 850.0[2]	5.750 %	5.750 %	January 15, 2023	June and December 15
$ 500.0[2]	6.625 %	6.625 %	January 15, 2023	June and December 15
Videotron				
US$ 175.0	6.375 %	6.444 %	December 15, 2015	June and December 15
US$ 715.0	9.125 %	9.366 %	April 15, 2018	June and December 15
$ 300.0[3]	7.125 %	7.125 %	January 15, 2020	June and December 15
$ 300.0[4]	6.875 %	6.875 %	July 15, 2021	June and December 15
US$ 800.0[5]	5.000 %	5.000 %	July 15, 2022	January and July 15

[1] The notes were issued in January 2011 for net proceeds of $319.9 million, net of financing fees of $5.1 million.

[2] The notes were issued in October 2012 for net proceeds of $1,314.5 million, net of financing fees of $16.5 million.

[3] The notes were issued in January 2010 for net proceeds of $293.9 million, net of financing fees of $6.1 million.

[4] The notes were issued in July 2011 for net proceeds of $294.8 million, net of financing fees of $5.2 million.

[5] The notes were issued in March 2012 for net proceeds of $787.6 million, net of financing fees of $11.9 million.

(vii) The bank credit facilities provide for a $575.0 million secured revolving credit facility that matures in July 2016 and a $75.0 million secured export financing facility providing for a term loan that matures in June 2018. The revolving credit facility bears interest at Bankers' acceptance rate, Canadian prime rate or U.S. prime rate, plus a margin, depending on Videotron's leverage ratio. Advances under the export financing facility bear interest at Bankers' acceptance rate and Canadian LIBOR plus a margin. The bank credit facilities are secured by a first ranking hypothec on the universality of all tangible and intangible assets, current and future, of Videotron and its wholly owned subsidiaries. As of December 31, 2012, the bank credit facilities were secured by assets with a carrying value of $6,206.2 million ($5,990.0 million in 2011). The bank credit facilities contain covenants such as maintaining certain financial ratios, limiting its ability to incur additional indebtedness and restricting the payment of dividends and other distributions. As of December 31, 2012 and 2011, no amount was drawn on the revolving credit facility. As of December 31, 2012, $58.9 million ($69.6 million in 2011) was outstanding on the secured export financing facility.

20. LONG-TERM DEBT (continued)

(viii) The bank credit facilities of TVA Group are comprised of an unsecured revolving credit facility in the amount of $100.0 million, maturing in February 2017, and an unsecured term credit facility in the amount of $75.0 million, maturing in December 2014. TVA Group's revolving credit facility bears interest at floating rates based on Bankers' acceptance rate, LIBOR, Canadian prime rate or U.S. prime rate, plus a premium determined by a leverage ratio, while the term loan bears interest at a rate of 5.54%, payable every six months on June 15 and December 15. The bank credit facilities contain covenants such as maintaining certain financial ratios, limiting its ability to incur additional indebtedness and restricting the payment of dividends and other distributions. As of December 31, 2012, no amount was drawn on the revolving credit facility ($18.0 million in 2011), and $75.0 million ($75.0 million in 2011) was outstanding on the term credit facility.

On December 31, 2012, the Corporation and its subsidiaries were in compliance with all debt covenants.

Principal repayments of long-term debt over the coming years are as follows:

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

21. OTHER LIABILITIES

	Note		**2012**		2011
Defined benefit plans	30	**$**	**261.9**	$	249.6
Liability and derivative components of convertible debentures[1]	24		**119.2**		–
Deferred revenue			**49.5**		51.4
Stock-based compensation[2]	23		**10.7**		14.0
Other[3]			**25.8**		29.7
		$	**467.1**	$	344.7

[1] The current portion of $13.5 million of the liability component of convertible debentures is included in accounts payable and accrued charges (notes 18 and 24).

[2] The current portion of $16.2 million of stock-based compensation is included in accounts payable and accrued charges ($27.3 million in 2011) (note 18).

[3] Including exchangeable debentures, Series 2001 and Series Abitibi that mature in 2026, having a combined principal nominal amount outstanding of $844.9 million as of December 31, 2012 ($844.9 million in 2011) and a combined carrying value of $2.1 million as of December 31, 2012 ($2.1 million in 2011). Exchangeable debentures bear interest at a rate of 0.10% on the debentures' principal amount. Prior to maturity, the Corporation may, at its option, satisfy its obligation without any consideration.

22. CAPITAL STOCK

(a) Authorized capital stock

An unlimited number of Class A Multiple Voting Shares ("Class A shares") with voting rights of 10 votes per share convertible at any time into Class B shares on a one-for-one basis.

An unlimited number of Class B shares convertible into Class A shares on a one-for-one basis, only if a takeover bid for Class A shares is made to holders of Class A shares without being made concurrently and under the same terms to holders of Class B shares, for the sole purpose of allowing the holders of Class B Shares to accept the offer and subject to certain other stated conditions provided in the articles including the acceptance of the offer by the majority holder.

Holders of Class B shares are entitled to elect 25% of the Board of Directors of Quebecor. Holders of Class A shares may elect the other members of the Board of Directors.

(b) Issued and outstanding capital stock

	Class A shares		Class B shares	
	Number	Amount	Number	Amount
Balance as of December 31, 2010	19,826,342	$ 8.8	44,490,680	$ 337.8
Class A shares converted into Class B shares	(122,151)	–	122,151	–
Shares purchased and cancelled	–	–	(928,100)	(7.1)
Balance as of December 31, 2011	19,704,191	8.8	43,684,731	330.7
Shares issued upon exercise of stock options	–	–	137,460	3.6
Class A shares converted into Class B shares	(116,405)	(0.1)	116,405	0.1
Shares purchased and cancelled	–	–	(1,058,800)	(8.0)
Balance as of December 31, 2012	**19,587,786**	**$ 8.7**	**42,879,796**	**$ 326.4**

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

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

On March 13, 2013, the Board of Directors of the Corporation declared a dividend of $0.05 per share on Class A shares and Class B shares, or approximately $3.1 million, payable on April 22, 2013 to shareholders of record at the close of business on March 28, 2013.

23. STOCK-BASED COMPENSATION PLANS

(a) Quebecor plans

(i) Stock option plan

Under a stock option plan established by the Corporation, 6,500,000 of Class B shares of the Corporation have been set aside for directors, officers, senior employees, and other key employees of the Corporation and its subsidiaries. The exercise price of each option is equal to the weighted average trading price of the Corporation's Class B shares on the Toronto Stock Exchange over the last five trading days immediately preceding the granting of the option. Each option may be exercised during a period not exceeding 10 years from the date granted. Options usually vest as follows: 1/3 after one year, 2/3 after two years, and 100% three years after the original grant. Holders of options under the stock option plan have the choice, when they exercise their options, of acquiring the Class B shares at the corresponding option exercise price, or receiving a cash payment equivalent to the difference between the market value of the underlying shares and the exercise price of the option. The Board of Directors of the Corporation may, at its discretion, affix different vesting periods at the time of each grant.

The following table gives details on changes to outstanding options for the years ended December 31, 2012 and 2011:

		2012		2011
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance at beginning of year	**1,322,188**	**$ 27.95**	2,314,938	$ 24.47
Granted	**98,893**	**36.86**	96,296	35.09
Exercised	**(1,059,449)**	**25.60**	(1,089,046)	21.18
Balance at end of year	**361,632**	**$ 37.28**	1,322,188	$ 27.95
Vested options at end of year	**172,393**	**$ 38.72**	863,360	$ 29.91

During the year ended December 31, 2012, 921,989 of the Corporation's stock options were exercised for a cash consideration of $10.3 million (1,089,046 stock options exercised for $14.0 million in 2011) and 137,460 of Class B shares of the Corporation were issued upon exercise of stock options (none in 2011).

The following table gives summary information on outstanding options as of December 31, 2012:

			Outstanding options		**Vested options**
Range of exercise price	**Number**	**Weighted average years to maturity**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
$34.72 to 35.09	148,591	7.92	$ 34.96	58,245	$ 34.92
$36.86 to 40.67	213,041	6.89	38.90	114,148	40.66
$34.72 to 40.67	**361,632**	**7.31**	**$ 37.28**	**172,393**	**$ 38.72**

23. STOCK-BASED COMPENSATION PLANS (continued)

(a) Quebecor plans (continued)

(ii) Mid-term stock-based compensation plan

Under the mid-term stock-based compensation plan, participants are entitled to receive a cash payment at the end of a three-year period, based on the appreciation of the Corporation Class B share price, and subject to the achievement of certain non-market performance criteria. As of December 31, 2012, 878,573 units were outstanding at an average exercise price of $31.97 (577,298 units at an average exercise price of $31.33 in 2011).

(iii) Deferred stock unit plan

The Quebecor deferred stock unit ("DSU") plan is for the benefit of the Corporation's directors. Under this plan, each director receives a portion of his/her compensation in the form of DSUs, such portion representing at least 50% of the annual retainer. Subject to certain conditions, each director may elect to receive up to 100% of the total fees payable for services as a director in the form of units. The value of a DSU is based on the weighted average trading price of the Corporation's Class B shares on the Toronto Stock Exchange over the last five trading days immediately preceding the relevant date. DSUs will entitle the holders thereof to dividends, which will be paid in the form of additional units at the same rate as that applicable to dividends paid from time to time on the Corporation's Class B shares. Subject to certain limitations, the DSUs will be redeemed by the Corporation when the director ceases to serve as a director of the Corporation. For the purpose of redeeming units, the value of a DSU shall correspond to the fair market value of the Corporation's Class B shares on the date of redemption. As of December 31, 2012 and 2011, the total number of DSUs outstanding under this plan was 109,033 and 113,323, respectively.

(b) Quebecor Media stock option plan

Under a stock option plan established by Quebecor Media, 6,180,140 Common Shares of Quebecor Media have been set aside for officers, senior employees, directors, and other key employees of Quebecor Media and its subsidiaries. Each option may be exercised within a maximum period of 10 years following the date of grant at an exercise price not lower than, as the case may be, the fair market value of the Common Shares of Quebecor Media at the date of grant, as determined by its Board of Directors (if the Common Shares of Quebecor Media are not listed on a stock exchange at the time of the grant), or the five-day weighted average market price ending on the day preceding the date of grant of the Common Shares of Quebecor Media on the stock exchange(s) where such shares are listed at the time of grant. As long as the Common Shares of Quebecor Media are not listed on a recognized stock exchange, optionees may exercise their vested options during one of the following periods: from March 1 to March 30, from June 1 to June 29, from September 1 to September 29, and from December 1 to December 30. Holders of options under the plan have the choice at the time of exercising their options of receiving an amount in cash (equal to the difference between either the five-day weighted average market price ending on the day preceding the date of exercise of the Common Shares of Quebecor Media on the stock exchange(s) where such shares are listed at the time of exercise or the fair market value of the Common Shares, as determined by the Quebecor Media's Board of Directors, and the exercise price of their vested options) or, subject to certain stated conditions, exercise their options to purchase Common Shares of Quebecor Media at the exercise price. Except under specific circumstances, and unless the Compensation Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules as determined by the Compensation Committee at the time of grant: (i) equally over five years with the first 20% vesting on the first anniversary of the date of the grant; (ii) equally over four years with the first 25% vesting on the second anniversary of the date of grant; and (iii) equally over three years with the first 33 1/3% vesting on the third anniversary of the date of grant. The vesting on 200,000 options is also subject to market-related performance criteria as the achievement of specific targets in regards to the fair value of the Quebecor Media shares in the future.

23. STOCK-BASED COMPENSATION PLANS (continued)

(b) Quebecor Media stock option plan (continued)

The following table gives summary information on outstanding options granted as of December 31, 2012 and 2011:

		2012		2011
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance at beginning of year	**2,768,712**	**$ 43.85**	3,515,668	$ 42.69
Granted	**146,000**	**52.06**	114,000	50.18
Exercised	**(1,480,355)**	**43.44**	(695,423)	38.74
Cancelled	**(85,350)**	**46.66**	(165,533)	45.15
Balance at end of year	**1,349,007**	**$ 45.02**	2,768,712	$ 43.85
Vested options at end of year	**251,266**	**$ 45.36**	789,921	$ 44.54

During the year ended December 31, 2012, 1,480,355 of Quebecor Media's stock options were exercised for a cash consideration of $12.5 million (695,423 stock options for $7.9 million in 2011).

The following table gives summary information on outstanding options as of December 31, 2012:

		Outstanding options		**Vested options**	
Range of exercise price	**Number**	**Weighted average years to maturity**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
$30.47 to 41.05	302,848	6.53	$ 36.50	26,348	$ 35.93
$44.45 to 46.48	716,818	6.83	46.25	110,577	45.10
$47.29 to 53.40	329,341	7.77	50.15	114,341	47.80
$30.47 to 53.40	**1,349,007**	**6.99**	**$ 45.02**	**251,266**	**$ 45.36**

23. STOCK-BASED COMPENSATION PLANS (continued)

(c) TVA Group stock option plan

Under this stock option plan, 2,200,000 Class B shares of TVA Group have been set aside for senior executives and directors of TVA Group and its subsidiaries. The terms and conditions of options granted are determined by TVA Group's Compensation Committee. The subscription price of an option cannot be less than the closing price of Class B shares on the Toronto Stock Exchange the day before the option is granted. Options granted prior to January 2006 usually vest equally over a four-year period, with the first 25% vesting on the second anniversary date of the date of grant. Beginning January 2006, and unless the Compensation Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules as determined by the Compensation Committee at the time of grant: (i) equally over five years with the first 20% vesting on the first anniversary of the date of the grant; (ii) equally over four years with the first 25% vesting on the second anniversary of the date of grant; and (iii) equally over three years with the first 33 1/3% vesting on the third anniversary of the date of grant. The term of an option cannot exceed 10 years. Holders of options under the plan have the choice, at the time of exercising their options, of receiving a cash payment from TVA Group equal to the number of shares corresponding to the options exercised, multiplied by the difference between the market value of the Class B shares and the exercise price of the option or, subject to certain conditions, exercise their options to purchase TVA Group Class B shares at the exercise price. The market value is defined as the average closing market price of the Class B shares for the last five trading days preceding the date on which the option was exercised.

The following table gives details on changes to outstanding options for the years ended December 31, 2012 and 2011:

		2012		2011
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance at beginning of year	**833,610**	**$ 16.35**	833,610	$ 16.35
Cancelled	**(14,189)**	**16.84**	–	–
Balance at end of year	**819,421**	**$ 16.34**	833,610	$ 16.35
Vested options at end of year	**819,421**	**$ 16.34**	720,266	$ 16.59

The following table gives summary information on outstanding options as of December 31, 2012:

		Outstanding options			**Vested options**
Range of exercise price	**Number**	**Weighted average years to maturity**	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
$14.50 to 16.40	628,412	4.44	$ 14.95	628,412	$ 14.95
$20.50 to 21.38	191,009	1.87	20.91	191,009	20.91
$14.50 to 21.38	**819,421**	**3.84**	**$ 16.34**	**819,421**	**$ 16.34**

23. STOCK-BASED COMPENSATION PLANS (continued)

(d) Assumptions in estimating the fair value of stock-based awards

The fair value of stock-based awards under the stock option plans of Quebecor, Quebecor Media and TVA Group was estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used to estimate the fair value of all outstanding stock options under the stock option plans as of December 31, 2012 and 2011:

December 31, 2012	**Quebecor**	**Quebecor Media**	**TVA Group**
Risk-free interest rate	**1.34 %**	**1.29 %**	**1.13 %**
Dividend yield	**0.52 %**	**1.71 %**	**– %**
Expected volatility	**28.11 %**	**23.88 %**	**37.05 %**
Expected remaining life	**3.4 years**	**3.0 years**	**1.4 year**

December 31, 2011	Quebecor	Quebecor Media	TVA Group
Risk-free interest rate	1.13 %	1.16 %	1.05 %
Dividend yield	0.57 %	1.66 %	– %
Expected volatility	31.69 %	29.44 %	36.26 %
Expected remaining life	2.7 years	2.8 years	1.9 year

Except for Quebecor Media, the expected volatility is based on the historical volatility of the underlying share price for a period equivalent to the expected remaining life of the options. Since the Common Shares of Quebecor Media are not publicly traded on a stock exchange, expected volatility is derived from the implied volatility of Quebecor's stock. The expected remaining life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate over the expected remaining life of the option is based on the Government of Canada yield curve in effect at the time of the valuation. Dividend yield is based on the current average yield.

(e) Liability of vested options

As of December 31, 2012, the liability for all vested options was $3.2 million as calculated using the intrinsic value ($8.3 million as of December 31, 2011).

(f) Consolidated compensation charge

For the year ended December 31, 2012, a consolidated charge related to all stock-based compensation plans was recorded in the amount of $11.3 million (net reversal of $10.4 million in 2011).

24. CONVERTIBLE DEBENTURES

On October 11, 2012, the Corporation issued $500.0 million in aggregate principal amount of convertible debentures bearing interest at an annual rate of 4.125% and maturing in October 2018. Interest is payable semi-annually in cash, in Quebecor Class B shares, or with the proceeds from the sale of Quebecor Class B shares. At maturity, the convertible debentures will be payable in cash by the Corporation at the outstanding principal amount, plus accrued and unpaid interest, subject to redemption, conversion, purchase or previous repayment. One day prior to maturity, the Corporation may redeem the outstanding convertible debentures by issuing that number of Quebecor Class B shares obtained by dividing the outstanding principal amount by the then current market price of a Quebecor Class B share, subject to a floor price of $38.50 per share (that is, a maximum number of 12,987,013 Quebecor Class B shares corresponding to a ratio of $500.0 million to the floor price) and a ceiling price of $48.125 per share (that is, a minimum number of 10,389,610 Quebecor Class B shares corresponding to a ratio of $500.0 million to the ceiling price). At any time prior to the day prior to maturity, the Corporation may redeem or convert, in whole or in part, the outstanding convertible debentures, subject to the terms of the trust indenture. The convertible debentures are convertible at all times prior to the maturity date into Quebecor Class B shares by the holder, in accordance with the terms of the trust indenture. In all cases, the Corporation has the option to pay an amount in cash equal to the market value of shares that would otherwise have been issued, being the product of (i) the number of those Quebecor Class B shares and (ii) the then current market price of a Quebecor Class B share.

On initial recognition, the convertible debentures were broken down into financial components: a financial liability of $98.0 million, a derivative financial liability of $34.0 million, and an equity instrument of $368.0 million. The initial recognition of a deferred income tax asset of $31.0 million, resulting from the difference between the carrying amounts and the tax base of the liability components, also increased the value of the equity component of the convertible debenture by the same amount. Fees related to the issuance of convertible debentures were recorded in reduction of the equity instrument ($0.7 million) and the financial liability ($0.1 million). The liability and derivative components are presented in other liabilities (note 21). The fair value of the derivative financial liability was estimated using the Black-Scholes option pricing model, considering a risk-free rate of 1.60%, a dividend yield of 0.52%, and an expected volatility of 34.55%.

25. ACCUMULATED OTHER COMPREHENSIVE INCOME

	Translation of net investments in foreign operations	Cash flow hedges	Total
Balance as of December 31, 2010	$ (1.6)	$ 15.3	$ 13.7
Other comprehensive income (loss)	0.9	(6.0)	(5.1)
Balance as of December 31, 2011	(0.7)	9.3	8.6
Acquisition of non-controlling interests (note 9)	(1.1)	9.4	8.3
Other comprehensive (loss) income	(0.3)	10.3	10.0
Balance as of December 31, 2012	**$ (2.1)**	**$ 29.0**	**$ 26.9**

No significant amount is expected to be reclassified in income over the next 12 months in connection with derivatives designated as cash flow hedges. The balance is expected to reverse over a 10-year period.

26. COMMITMENTS

The Corporation rents premises and equipment under operating leases and has entered into long-term commitments to purchase services, capital equipment, broadcasting rights, and to pay royalties on an out-of-home advertisement contract. The operating leases have various terms, escalation clauses, purchase options and renewal rights. The minimum payments for the coming years are as follows:

	Leases	Other commitments
2013	$ 57.5	$ 93.6
2014 to 2017	132.0	134.4
2018 and thereafter	121.9	90.2

The Corporation and its subsidiaries' operating lease expenses amounted to $72.5 million in 2012 ($64.9 million in 2011).

27. GUARANTEES

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

Operating leases

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

Business and asset disposals

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

Outsourcing companies and suppliers

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

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

In order to manage its foreign exchange and interest rate risks, the Corporation and its subsidiaries use derivative financial instruments (i) to set in CAN dollars all future payments on debts denominated in U.S. dollars (interest and principal) and certain purchases of inventories and other capital expenditures denominated in a foreign currency, (ii) to achieve a targeted balance of fixed- and floating-rate debts, and (iii) to reverse existing hedging positions through offsetting transactions. The Corporation and its subsidiaries do not intend to settle their derivative financial instruments prior to their maturity as none of these instruments is held or issued for speculative purposes. The Corporation and its subsidiaries designate their derivative financial instruments either as fair value hedges or cash flow hedges when they qualify for hedge accounting.

(a) Description of derivative financial instruments

(i) Foreign exchange forward contracts

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

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Description of derivative financial instruments (continued)

(ii) Cross-currency interest rate swaps

Hedged item	Hedging instrument			
	Period covered	Notional amount	Annual interest rate on notional amount in CAN dollars	CAN dollar exchange rate on interest and capital payments per one U.S. dollar
Quebecor Media				
7.750% Senior Notes due 2016	2007 to 2016	US$ 380.0	7.69%	1.0001
5.750% Senior Notes due 2023[2]	2007 to 2016	US$ 320.0	7.69%	0.9977
7.750% Senior Notes due 2016	2006 to 2016	US$ 265.0	7.39%	1.1597
5.750% Senior Notes due 2023	2016 to 2023	US$ 431.3	7.27%	0.9792
5.750% Senior Notes due 2023	2012 to 2023	US$ 418.7	6.85%	0.9759
No hedged item[1]	2009 to 2013	US$ 109.8	Bankers' acceptances 3 months + 2.22%	1.1625
No hedged item[1]	2006 to 2013	US$ 46.6	6.45%	1.1625

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Description of derivative financial instruments (continued)

(ii) Cross-currency interest rate swaps (continued)

Hedged item	Hedging instrument			
	Period covered	Notional amount	Annual interest rate on notional amount in CAN dollars	CAN dollar exchange rate on interest and capital payments per one U.S. dollar
Videotron				
5.000% Senior Notes due 2022[3]	2003 to 2014	US$ 200.0	Bankers' acceptances 3 months + 2.73%	1.3425
5.000% Senior Notes due 2022[3]	2004 to 2014	US$ 60.0	Bankers' acceptances 3 months + 2.80%	1.2000
5.000% Senior Notes due 2022[3]	2003 to 2014	US$ 135.0	7.66%	1.3425
6.375% Senior Notes due 2015	2005 to 2015	US$ 175.0	5.98%	1.1781
9.125% Senior Notes due 2018	2008 to 2018	US$ 455.0	9.65%	1.0210
9.125% Senior Notes due 2018	2009 to 2018	US$ 260.0	9.12%	1.2965
5.000% Senior Notes due 2022	2014 to 2022	US$ 543.1	6.01%	0.9983
5.000% Senior Notes due 2022	2012 to 2022	US$ 256.9	5.81%	1.0016

1 These cross-currency interest rate swaps, maturing in January 2013, were used by Quebecor Media to hedge the foreign currency exposure under its term loan "B" credit facility that was prepaid in full in December 2012 (note 8). In conjunction with the prepayment of the term loan "B" and pending the maturity of these swaps in January 2013, Quebecor Media has entered into US$157.3 million offsetting foreign exchange forward contracts to reverse its hedging position related to the January 17, 2013 notional exchange.

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

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

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

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value of financial instruments

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

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

In accordance with IFRS 7, *Financial Instruments: Disclosures*, the Corporation has considered the following fair value hierarchy that reflects the significance of the inputs used in measuring its other financial instruments accounted for at fair value in the consolidated balance sheets:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs that are not based on observable market data (unobservable inputs).

The fair value of cash equivalents and bank indebtedness, classified as held for trading and accounted for at their fair value on the consolidated balance sheets, is determined using Level 2 inputs.

The fair value of derivative financial instruments recognized on the consolidated balance sheets is estimated as per the Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative instrument and factors observable in external markets data, such as period-end swap rates and foreign exchange rates (Level 2 inputs). An adjustment is also included to reflect non-performance risk impacted by the financial and economic environment prevailing at the date of the valuation in the recognized measure of the fair value of the derivative instruments by applying a credit default premium estimated using a combination of observable and unobservable inputs in the market (Level 3 inputs) to the net exposure of the counterparty or the Corporation. Accordingly, financial derivative instruments are classified as Level 3 under the fair value hierarchy.

The fair value of early settlement options recognized as embedded derivatives and derivative component of convertible debentures is determined by option pricing models using Level 2 market inputs, including volatility and discount factors.

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value of financial instruments (continued)

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

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

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

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

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

The following table shows changes to the carrying value and fair value of derivative financial instruments (Level 3) in 2012 and 2011:

	2012	2011
Asset (liability)		
Balance as of beginning of year	**$ (280.5)**	$ (451.2)
Loss recognized in the consolidated statement of income[1, 2]	**(10.0)**	(4.2)
(Loss) gain recognized in other comprehensive income[3]	**(10.2)**	22.7
Settlements	**37.8**	152.2
Balance as of end of year	**$ (262.9)**	$ (280.5)

1 Losses were largely related to derivative instruments held as of December 31, 2012 and December 31, 2011.

2 The loss is offset by a gain on valuation and translation of long-term debt of $9.4 million in 2012 ($3.6 million in 2011).

3 The loss is offset by a gain on translation of long-term debt of $43.3 million in 2012 (gain offset by a loss of $32.2 million in 2011).

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value of financial instruments (continued)

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

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

(c) Credit risk management

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

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

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

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

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

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

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk management

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

The Corporation's management believes that cash flows and available sources of financing should be sufficient to cover committed cash requirements for capital investments, working capital, interest payments, debt repayments, pension plan contributions, share repurchases and dividends in the future. The Corporation has access to cash flows generated by its subsidiaries through dividends paid by Quebecor Media.

As of December 31, 2012, material contractual obligations related to financial instruments included capital repayment and interest on long-term debt, coupons payments on convertible debentures, and obligations related to derivative instruments, less estimated future receipts on derivative instruments. These obligations and their maturities are as follows:

	Total	Less than 1 year	1-3 years	3-5 years	5 years or more
Bank indebtedness	$ **1.3**	$ 1.3	$ –	$ –	$ –
Accounts payable and accrued charges	**804.5**	804.5	–	–	–
Long-term debt[1]	**4,845.1**	22.2	360.3	685.0	3,777.6
Interest payments[2]	**2,525.6**	318.1	707.6	578.4	921.5
Derivative instruments[3]	**294.4**	24.7	143.1	40.9	85.7
Coupon payments on convertible debentures	**124.0**	20.8	41.3	41.3	20.6
Total	**$ 8,594.9**	**$ 1,191.6**	**$ 1,252.3**	**$ 1,345.6**	**$ 4,805.4**

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

[2] Estimate of interest to be paid on long-term debt is based on hedged and unhedged interest rates and hedged foreign exchange rates as of December 31, 2012.

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

(e) Market risk

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

Foreign currency risk

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

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(e) Market risk (continued)

Foreign currency risk (continued)

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

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

Interest rate risk

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

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

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

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

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management

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

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

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

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

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

29. RELATED PARTY TRANSACTIONS

Key management personnel compensation

Key management personnel comprise members of the Board of Directors and key senior management of the Corporation and its main subsidiaries. Their compensation is as follows:

		2012		2011
Salaries and short-term benefits	**$**	**8.6**	$	8.8
Post-employment benefits		**0.7**		0.7
Share-based compensation		**7.3**		(6.0)
Other long-term benefits		**2.6**		1.6
	$	**19.2**	$	5.1

29. RELATED PARTY TRANSACTIONS (continued)

Operating transactions

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

30. PENSION PLANS AND POSTRETIREMENT BENEFITS

The Corporation maintains various flat-benefit plans, various final-pay plans with indexation features from zero to 2%, and defined contribution plans. The Corporation's policy is to maintain its contribution at a level sufficient to cover benefits. The Corporation provides postretirement benefits to eligible retired employees. The costs of these benefits, principally health care, are accounted for during the employee's active service period.

The following tables show a reconciliation of the changes in the plans' benefit obligations and the fair value of plan assets for the years ended December 31, 2012 and 2011:

	Pension benefits		Postretirement benefits	
	2012	2011	**2012**	2011
Change in benefit obligations				
Benefit obligations at beginning of year	**$ 918.6**	$ 836.7	**$ 54.7**	$ 47.6
Service costs	**35.1**	26.5	**1.2**	0.8
Interest costs	**44.5**	44.4	**2.6**	2.1
Plan participants' contributions	**15.9**	16.1	**–**	–
Actuarial loss	**51.2**	38.7	**3.4**	11.6
Benefits and settlements paid	**(47.5)**	(44.4)	**(1.3)**	(1.0)
Curtailment gain	**–**	–	**–**	(6.4)
Plan amendments and other	**1.2**	0.6	**–**	–
Benefit obligations at end of year	**$ 1,019.0**	$ 918.6	**$ 60.6**	$ 54.7
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 720.1**	$ 689.9	**$ –**	$ –
Actual return on plan assets	**68.1**	8.0	**–**	–
Employer contributions	**59.0**	50.5	**1.3**	1.0
Plan participants' contributions	**15.9**	16.1	**–**	–
Benefits and settlements paid	**(47.5)**	(44.4)	**(1.3)**	(1.0)
Fair value of plan assets at end of year	**$ 815.6**	$ 720.1	**$ –**	$ –

30. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Plan assets are comprised of:

	2012	2011
Equity securities	**56.7 %**	55.9 %
Debt securities	**39.8**	41.9
Other	**3.5**	2.2
	100.0 %	100.0 %

As of December 31, 2012, plan assets included shares of the Corporation in the amount of $0.6 million ($0.7 million as of December 31, 2011).

The reconciliation of funded status to the net amount recognized in the consolidated balance sheets is as follows:

	Pension benefits		Postretirement benefits	
	2012	2011	**2012**	2011
Reconciliation of funded status				
Unfunded benefit obligations	**$ (49.0)**	$ (47.5)	**$ (60.6)**	$ (54.7)
Funded benefit obligations	**(970.0)**	(871.1)	**–**	–
Fair value of plan assets	**815.6**	720.1	**–**	–
Plan deficit	**(203.4)**	(198.5)	**(60.6)**	(54.7)
Past service costs – unvested portion	**2.1**	3.6	**–**	–
Net amount recognized	**$ (201.3)**	$ (194.9)	**$ (60.6)**	$ (54.7)

Components of actuarial gain or loss are as follows:

	Pension benefits		Postretirement benefits	
	2012	2011	**2012**	2011
Difference between expected and actual return on plan assets:				
Gain (loss)	**$ 17.8**	$ (41.5)	**$ –**	$ –
As a proportion of plan assets	**2.2%**	5.8%	**–**	–
Experience losses and changes in assumptions on benefit obligations:				
Loss	**$ (51.2)**	$ (38.7)	**$ (3.4)**	$ (11.6)
As a proportion of benefit obligations	**5.0%**	4.2%	**5.6%**	21.2%

30. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Components of the net benefit costs are as follows:

	Pension benefits		Postretirement benefits	
	2012	2011	**2012**	2011
Service costs	**$ 35.1**	$ 26.5	**$ 1.2**	$ 0.8
Interest costs	**44.5**	44.4	**2.6**	2.1
Expected return on plan assets	**(50.3)**	(49.5)	**–**	–
Net prior service costs	**3.1**	1.8	**–**	–
Special termination benefits, curtailment loss (gain) and other	**–**	1.4	**(0.2)**	(6.4)
Net benefit costs	**$ 32.4**	$ 24.6	**$ 3.6**	$ (3.5)

The expense related to defined contribution pension plans amounted to $14.1 million in 2012 ($13.2 million in 2011).

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

Assumptions

The expected long-term rate-of-return-on-assets assumption is selected by first identifying the expected range of long-term rates of return for each major asset class. The Corporation’s investment strategy for plan assets takes into account a number of factors, including the time horizon of the pension plans’ obligations and the investment risk. For each of the plans, an allocation range by asset class is developed whereby a mix of equities and fixed-income investments is used to maximize the long-term return of plan assets. Expected long-term rates of return are developed based on long-term historical averages and current expectations of future returns. In addition, consideration is given to the extent active management is employed in each class and to inflation rates. A single expected long-term rate of return on plan assets is then calculated using the weighted average return of each asset class.

The Corporation determines its assumption for the discount rate to be used for purposes of computing annual service and interest costs based on an index of high-quality corporate bond-yield and matched-funding yield curve analysis as of the measurement date.

30. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Assumptions (continued)

The actuarial assumptions used in measuring the Corporation's benefit obligations as of December 31, 2012 and 2011 and current periodic benefit costs are as follows:

	Pension benefits		Postretirement benefits	
	2012	2011	**2012**	2011
Benefit obligations				
Rates as of year-end:				
Discount rate	**4.40 %**	4.75 %	**4.40 %**	4.75 %
Rate of compensation increase	**3.25**	3.25	**3.25**	3.25
Current periodic costs				
Rates as of preceding year-end:				
Discount rate	**4.75 %**	5.25 %	**4.75 %**	5.25 %
Expected return on plan assets	**7.00**	7.00	**–**	–
Rate of compensation increase	**3.25**	3.25	**3.25**	3.25

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 7.8% at the end of 2012. These costs, as per the estimate, are expected to decrease gradually over the next 14 years to 5.0% and to remain at that level thereafter.

Sensitivity analysis

A decrease of 25 basis point in the discount rate (at the beginning of the year having an impact on income and at the end of the year having an impact on comprehensive income) and in the expected return on plan assets would have had the following impacts, before income tax, for the year ended December 31, 2012:

	Pension benefits			**Postretirement benefits**		
Increase (decrease)	**Obligation in balance sheet**	**Income**	**Other comprehensive income**	**Obligation in balance sheet**	**Income**	**Other comprehensive income**
Discount rate	$ 42.0	$ (2.1)	$ (42.0)	$ 2.5	$ (0.1)	$ (2.5)
Expected return on plan assets	–	(1.8)	1.8	–	–	–