Consolidated financial statements of

QUEBECOR INC. AND ITS SUBSIDIARIES

Years ended December 31, 2010 and 2009

QUEBECOR INC. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009

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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 Canadian Generally Accepted Accounting Principles and include amounts that are based on best estimates and judgments.

The management of the Company 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 is consistent with the consolidated financial statements.

The Board of Directors fulfills its responsibility for the financial statements principally through its Audit Committee, consisting solely of outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee meets with the Company'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, Ernst & Young LLP, 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 7, 2011

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, 2010 and 2009, and the consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, 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 Canadian Generally Accepted Accounting Principles, 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.

Auditor's 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Ernst & Young LLP
Chartered Accountants

Montréal, Canada
March 7, 2011

(1) CA auditor permit no. 9298

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2010 and 2009
(in millions of Canadian dollars, except earnings per share data)

	Note	2010	2009
Revenues		**$ 4,000.1**	$ 3,806.4
Cost of sales, selling and administrative expenses		**2,671.1**	2,529.7
Amortization		**402.2**	344.7
Financial expenses	2	**287.3**	259.0
Gain on valuation and translation of financial instruments	3	**(46.1)**	(59.7)
Restructuring of operations, impairment of assets and other special items	4	**50.3**	29.6
Loss on debt refinancing	5	**12.3**	–
Impairment of goodwill and intangible assets	6	**–**	13.6
Income before income taxes and non-controlling interest		**623.0**	689.5
Income taxes	8	**156.4**	153.2
Income before non-controlling interest		**466.6**	536.3
Non-controlling interest	18	**(236.5)**	(260.2)
Income from continuing operations		**230.1**	276.1
Income from discontinued operations		**–**	1.6
Net income		**$ 230.1**	$ 277.7
Earnings per share attributable to equity shareholders	9		
Basic			
From continuing operations		**$ 3.58**	$ 4.30
From discontinued operations		**–**	0.02
Net income		**3.58**	4.32
Diluted			
From continuing operations		**$ 3.52**	$ 4.26
From discontinued operations		**–**	0.02
Net income		**3.52**	4.28
Weighted average number of shares outstanding (in millions)		**64.3**	64.3
Weighted average number of diluted shares (in millions)		**65.0**	64.7

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2010 and 2009
(in millions of Canadian dollars)

	Note	2010	2009
Net income		**$ 230.1**	$ 277.7
Other comprehensive income:			
Unrealized loss on translation of net investments in foreign operations		**(2.9)**	(3.3)
Gain (loss) on valuation of derivative financial instruments		**43.0**	(8.2)
Income taxes related to derivative financial instruments		**(2.7)**	41.6
Non-controlling interest		**(16.9)**	(13.6)
Reclassification to income of other comprehensive loss related to derivative financial instruments, net of income taxes of $2.5 million and of non-controlling interest of $2.7 million	5	**3.2**	–
		23.7	16.5
Comprehensive income		**$ 253.8**	$ 294.2

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2010 and 2009
(in millions of Canadian dollars)

	Note	Capital stock (note 19)	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) (note 21)	Total shareholders' equity
Balance as of December 31, 2008		$ 346.6	$ –	$ 565.3	$ (27.5)	$ 884.4
Net income		–	–	277.7	–	277.7
Other comprehensive income		–	–	–	16.5	16.5
Dividends		–	–	(12.9)	–	(12.9)
Related party transactions	25	–	4.7	–	–	4.7
Balance as of December 31, 2009		346.6	4.7	830.1	(11.0)	1,170.4
Net income		–	–	230.1	–	230.1
Other comprehensive income		–	–	–	23.7	23.7
Dividends		–	–	(12.9)	–	(12.9)
Related party transactions	25	–	0.5	–	–	0.5
Balance as of December 31, 2010		**$ 346.6**	**$ 5.2**	**$ 1,047.3**	**$ 12.7**	**$ 1,411.8**

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009
(in millions of Canadian dollars)

	Note	2010	2009
Cash flows related to operating activities			
Income from continuing operations		**$ 230.1**	$ 276.1
Adjustments for:			
Amortization of property, plant and equipment		**325.9**	295.8
Amortization of intangible assets and other assets		**76.3**	48.9
Gain on valuation and translation of financial instruments	3	**(46.1)**	(59.7)
Amortization of financing costs and long-term debt discount	2	**12.5**	10.2
Loss on debt refinancing	5	**12.3**	–
Impairment of property, plant and equipment and other assets	4	**11.9**	0.4
Impairment of goodwill and intangible assets	6	**–**	13.6
Future income taxes	8	**100.0**	123.5
Non-controlling interest		**236.5**	260.2
Other		**(4.7)**	4.6
		954.7	973.6
Net change in non-cash balances related to operating activities		**(109.5)**	(48.3)
Cash flows provided by operating activities		**845.2**	925.3
Cash flows related to investing activities			
Business acquisitions, net of cash and cash equivalents	7	**(3.1)**	(4.6)
Business disposals, net of cash and cash equivalents		**2.1**	14.6
Additions to property, plant and equipment		**(707.1)**	(494.7)
Additions to intangible assets		**(113.9)**	(111.5)
Net change in temporary investments		**30.0**	(29.8)
Proceeds from disposal of assets		**53.0**	3.6
Other		**(0.4)**	0.2
Cash flows used in investing activities		**(739.4)**	(622.2)
Cash flows related to financing activities			
Net change in bank indebtedness		**3.9**	(10.5)
Issuance of long-term debt, net of financing fees		**292.7**	399.1
Net change under revolving and bridge bank facilities		**(11.9)**	(294.1)
Repayment of long-term debt	5	**(359.5)**	(54.9)
Settlement of hedging contracts	5	**(32.4)**	–
Dividends		**(12.9)**	(12.9)
Dividends paid to non-controlling shareholders		**(42.0)**	(36.5)
Other		**–**	(2.7)
Cash flows used in financing activities		**(162.1)**	(12.5)
Net change in cash and cash equivalents, carried forward		**$ (56.3)**	$ 290.6

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended December 31, 2010 and 2009
(in millions of Canadian dollars)

	Note	2010	2009
Net change in cash and cash equivalents, brought forward		$ (56.3)	$ 290.6
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(1.0)	(0.6)
Cash and cash equivalents at beginning of year		300.0	10.0
Cash and cash equivalents at end of year		**$ 242.7**	$ 300.0
Cash and cash equivalents consist of			
Cash		$ 122.1	$ 26.0
Cash equivalents		120.6	274.0
		$ 242.7	$ 300.0
Additional information on the consolidated statements of cash flows			
Changes in non-cash balances related to operations (net of effect of business acquisitions and disposals):			
Accounts receivable		$ (72.5)	$ (31.7)
Inventories		(69.6)	16.4
Accounts payable and accrued charges		(24.0)	(44.7)
Stock-based compensation		29.3	12.8
Deferred revenues		46.5	18.9
Other		(19.2)	(20.0)
		$ (109.5)	$ (48.3)
Non-cash investing activities			
Net change in additions to property, plant and equipment and intangible assets financed with accounts payable		$ (16.4)	$ (52.0)
Cash interest payments		$ 306.0	$ 295.0
Cash income taxes payments (net of refunds)		37.0	17.0

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009
(in millions of Canadian dollars)

	Note	**2010**	2009
Assets			
Current assets			
Cash and cash equivalents		**$ 242.7**	$ 300.0
Cash and cash equivalents in trust	17	**5.3**	5.3
Temporary investments		**–**	30.0
Accounts receivable	10	**588.5**	519.8
Income taxes		**6.4**	1.3
Inventories	11	**245.2**	176.1
Prepaid expenses		**38.0**	29.1
Future income taxes	8	**44.3**	49.8
		1,170.4	1,111.4
Non-current assets			
Property, plant and equipment	12	**2,850.9**	2,498.6
Intangible assets	13	**1,081.3**	1,052.7
Derivative financial instruments	24	**28.7**	49.0
Other assets	14	**144.5**	122.5
Future income taxes	8	**9.0**	12.5
Goodwill	15	**3,508.2**	3,506.1
		7,622.6	7,241.4
Total assets		**$ 8,793.0**	$ 8,352.8

QUEBECOR INC. AND ITS SUBSIDIARIES

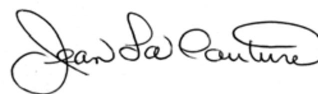
CONSOLIDATED BALANCE SHEETS (continued)

December 31, 2010 and 2009
(in millions of Canadian dollars)

	Note	2010	2009
Liabilities and shareholders' equity			
Current liabilities			
Bank indebtedness		**$ 5.7**	$ 1.8
Accounts payable and accrued charges		**813.0**	792.2
Deferred revenue		**275.1**	234.7
Income taxes		**33.6**	16.3
Current portion of long-term debt	16	**30.8**	68.6
		1,158.2	1,113.6
Non-current liabilities			
Long-term debt	16	**3,587.3**	3,811.9
Derivative financial instruments	24	**479.9**	422.4
Other liabilities	17	**143.0**	131.8
Future income taxes	8	**582.5**	485.9
Non-controlling interest	18	**1,430.3**	1,216.8
		6,223.0	6,068.8
Shareholders' equity			
Capital stock	19	**346.6**	346.6
Contributed surplus	25	**5.2**	4.7
Retained earnings		**1,047.3**	830.1
Accumulated other comprehensive income (loss)	21	**12.7**	(11.0)
		1,411.8	1,170.4
Commitments and contingencies	22		
Guarantees	23		
Subsequent events	27		
Total liabilities and shareholders' equity		**$ 8,793.0**	$ 8,352.8

See accompanying notes to consolidated financial statements.

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, 2010 and 2009
(in millions of Canadian dollars)

Quebecor Inc. ("Quebecor" or the "Company") is a holding company with a 54.7% interest in Quebecor Media Inc. ("Quebecor Media"), which 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 and operates in the rental of movies and televisual products through its video-on-demand service or its distribution and rental stores. 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, directories and commercial inserts in Canada, and the operation of Internet sites in Canada, including French- and English-language portals and specialized sites. 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 music production and distribution in Canada. 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 Company assesses the performance of each segment based on income from continuing operations before amortization, financial expenses, gain on valuation and translation of financial instruments, restructuring of operations, impairment of assets and other special items, loss on debt refinancing, impairment of goodwill and intangible assets, income taxes and non-controlling interest.

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, 2010 and 2009
(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
							2010
Revenues	**$ 2,209.0**	**$ 1,034.8**	**$ 448.2**	**$ 302.5**	**$ 98.0**	**$ (92.4)**	**$ 4,000.1**
Income from continuing operations before (i)	**1,035.9**	**200.3**	**76.2**	**27.5**	**6.0**	**(16.9)**	**1,329.0**
Amortization	**307.5**	**61.9**	**15.5**	**9.8**	**3.9**	**3.6**	**402.2**
Additions to property, plant and equipment	**668.0**	**11.4**	**18.5**	**4.2**	**2.6**	**2.4**	**707.1**
Additions to intangible assets	**90.6**	**12.0**	**5.9**	**5.4**	**–**	**–**	**113.9**
Total assets	**6,146.9**	**1,780.8**	**494.9**	**173.2**	**89.3**	**107.9**	**8,793.0**
							2009
Revenues	$ 2,001.2	$ 1,054.9	$ 439.0	$ 307.8	$ 91.0	$ (87.5)	$ 3,806.4
Income from continuing operations before (i)	972.9	199.5	80.0	25.9	4.1	(5.7)	1,276.7
Amortization	254.4	57.3	14.8	9.9	4.0	4.3	344.7
Additions to property, plant and equipment	434.1	33.4	16.5	3.6	3.1	4.0	494.7
Additions to intangible assets	89.9	10.3	7.0	4.0	0.3	–	111.5
Total assets	5,631.1	1,839.2	468.3	175.4	88.4	150.4	8,352.8

(i) Amortization, financial expenses, gain on valuation and translation of financial instruments, restructuring of operations, impairment of assets and other special items, loss on debt refinancing, impairment of goodwill and intangible assets, income taxes and non-controlling interest.

Quebecor is incorporated under the laws of Québec.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Quebecor and its subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

Certain comparative figures for the year ended December 31, 2009, have been reclassified to conform to the presentation adopted for the year ended December 31, 2010.

(b) Foreign currency translation

Financial statements of self-sustaining foreign operations are translated using the rate in effect at the balance sheet date for asset and liability items, and using the average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in other comprehensive income and are reclassified in income only when a reduction in the investment in these foreign operations is realized.

Foreign currency transactions are translated using the temporal method. Translation gains and losses on financial instruments are included in financial expenses or in gain or loss on valuation and translation of financial instruments, unless hedge accounting is used.

(c) Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions 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 knowledge of the amount, event or actions, actual results could differ from these estimates. The following significant areas require management to use assumptions and make estimates:

- revenue recognition;
- impairment testing of goodwill, intangible assets and property, plant and equipment;
- business purchase price allocation;
- fair value of financial instruments;
- cost and liabilities related to pension and postretirement benefit plans;
- allowance for doubtful accounts, provision for obsolescence and allowance for sales returns;
- net realizable value of inventories;
- provisions such as legal contingencies and restructuring of operations;
- residual value and useful life of assets subject to amortization;
- future income taxes;
- government assistance and income tax credits;
- stock-based compensation.

(d) Impairment of long-lived assets

The Company reviews its long-lived assets with definite useful lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment test is done when the carrying amount of an asset or a group of assets held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. Measurement of an impairment loss is based on the amount by which the carrying amount of a group of assets exceeds its fair value. Fair value is determined using quoted market prices, when available, or using accepted valuation techniques such as the discounted future cash flows method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

The Company recognizes its operating revenues when the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the seller's price to the buyer is fixed or determinable; and
- the collection of the sale is reasonably assured.

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

Revenue recognition policies for each of the Company’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 connecting costs) and 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.

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 these 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. Revenues from equipment sales to subscribers and their costs are recognized in income when the equipment is delivered and, in the case of mobile devices, revenues from equipment sales are recognized in income when the mobile device is delivered and activated. Revenues from DVD and Blu-ray rentals are recorded as revenue when services are provided. Promotional offers related to subscriber services are accounted for as a reduction in the related service revenue over the period of performance of the service contract. Promotional offers related to equipment, including mobile devices, are accounted for as a reduction in the related equipment sales when the equipment is delivered. 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 of the News Media segment 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 recognized also when the publication is delivered. Website advertising is recognized when advertisements are placed on websites. Revenues from the distribution of publications and products are recognized upon delivery, net of provisions for estimated returns.

Broadcasting

Revenues of the Broadcasting segment 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. Revenues derived from circulation 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition (continued)

Broadcasting (continued)

Revenues derived from the distribution of televisual products and movies and from television program rights are recognized over the period of broadcasting or the period that movies are presented in theatre, when exploitation, exhibition or sale can begin and the licence period of the arrangement has begun.

Theatrical revenues are recognized over the period of presentation and are based on a percentage of revenues generated by movie theatres. 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 retail stores, 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) Barter transactions

In the normal course of operations, the News Media and the Broadcasting segments 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 obtained.

For the year ended December 31, 2010, the Company recorded $15.7 million of barter advertising ($19.8 million in 2009).

(g) Financial instruments

Classification, recognition and measurement

Financial instruments are classified as held for trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities, and measurement in subsequent periods depends on their classification. The Company 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 • Cash and cash equivalents in trust • Temporary investments • Portfolio investment in AbitibiBowater • Bank indebtedness • Exchangeable debentures	• Accounts receivable • Loans and other long-term receivable included in "Other assets"	• Other portfolio investments included in "Other assets"	• Accounts payable and accrued charges • Long-term debt • Other long-term financial liabilities included in "Other liabilities"

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Classification, recognition and measurement (continued)

Financial instruments held for trading are measured at fair value with changes recognized in income as 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 if applicable, 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 measured at amortized cost, using the effective interest rate method of amortization.

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

Derivative financial instruments and hedge accounting

The Company uses various derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. The Company does not hold or use any derivative financial instruments for speculative purposes. Under hedge accounting, the Company 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. The Company assesses the effectiveness of derivative financial instruments when the hedge is put in place and on an ongoing basis.

The Company enters into the following types of derivative financial instruments:

- The Company uses foreign exchange forward contracts to hedge the foreign currency rate exposure on (i) anticipated equipment or inventory purchases in a foreign currency and (ii) principal payments on long-term debt in a foreign currency. These foreign exchange forward contracts are designated as cash flow hedges.
- The Company uses cross-currency interest rate swaps to hedge (i) the foreign currency rate exposure on interest and principal payments on foreign currency denominated debt and/or (ii) the 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 CAD dollars are designated as cash flow hedges. The Company's cross-currency interest rate swaps that set all future interest and principal payments on U.S.-denominated debt in fixed CAD 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 Company uses interest rate swaps to manage the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

Under hedge accounting, the Company 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 are ineffective or that are not designated as hedges, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, are reported on a mark-to-market basis in the consolidated balance sheets. Any change in the fair value of these derivative financial instruments is recorded in income as gain or loss on valuation and translation of financial instruments.

(h) Cash and cash equivalents and temporary investments

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are recorded at fair value. As of December 31, 2010, these highly liquid investments consisted of Bankers' acceptances and term deposits.

Temporary investments consisted of high-quality money market instruments as of December 31, 2009. These temporary investments, classified as held-for-trading, are recorded at fair value.

(i) Tax credits and government assistance

The Company 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 Company 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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 pro-rata billing value of the work completed.

In particular, the Broadcasting segment inventories, which are primarily comprised of programs, 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 licence 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 licence 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.

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 licence.

(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 licence agreement when (a) the cost of the licence is known or can be reasonably estimated, (b) the televisual product and movie has been accepted in accordance with the conditions of the licence 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future 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 financial statements and their respective tax bases. Future income tax assets and liabilities are measured using 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 future income tax assets and liabilities is recognized in income in the period that includes the substantive enactment date. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

In the course of the Company'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 Company 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.

(l) Long-term investments

Investments in companies subject to significant influence are accounted for by the equity method. Carrying values of investments are reduced to estimated fair values if there is other than a temporary decline in the value of the investment.

(m) Property, plant and equipment

Property, plant and equipment are stated at cost. Cost represents acquisition costs, net of government grants and investment tax credits, or construction costs, including preparation, installation and testing costs and interest incurred with respect to the property, plant and equipment until they are ready for commercial production. 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. Expenditures for additions, improvements and replacements are capitalized, whereas maintenance and repair expenditures are expensed as incurred.

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

Assets	Estimated useful life
Buildings	25 to 40 years
Machinery and equipment	3 to 20 years
Receiving, distribution and telecommunication networks	3 to 20 years

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

The Company does not record an asset retirement obligation in connection with its cable distribution networks. The Company expects to renew all of its agreements with utility companies to access their support structures in the future, making the retirement date for these assets undeterminable. An asset retirement obligation related to its advanced mobile network is however recorded for the rental of sites.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Goodwill and other intangible assets

Goodwill and intangible assets with indefinite useful lives are not amortized.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then the goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared to its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

Intangible assets acquired, such as broadcasting licences and mastheads that have an indefinite useful life, are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset to its fair value, and an impairment loss is recognized in the consolidated statements of income for the excess, if any.

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

Assets	Estimated useful life
Advanced mobile services spectrum licences[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 licences issued by Industry Canada.

The cost of the spectrum licences for advanced mobile services includes acquisition costs and interest incurred during the development period of the mobile network project until the network is ready for commercial service.

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 this stage are recognized as expenses.

(o) Stock-based compensation

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Pension plans and postretirement benefits

The Company 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 Company pays fixed contributions to participating employee's pension plans and 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 and postretirement plans

Defined benefit pension plan costs are determined using actuarial methods and are funded through contributions determined in accordance with the projected benefit method pro rated on service, which incorporates management's best estimate 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 include the following:

- Cost of pension plan benefits provided in exchange for employee services rendered during the year.
- Amortization of the initial net transition asset, prior service costs (except in certain pension plans for which past service costs are recognized immediately in income as they are incurred) and amendments on a straight-line basis over the expected average remaining service period of the active employee group covered by the plans.
- Interest cost of pension plan obligations, expected return on pension fund assets, and amortization of cumulative unrecognized net actuarial gains and losses, in excess of 10.0% of the greater of the accrued benefit obligation and the fair value of plan assets, over the expected average remaining service period of 13 years of the active employee group covered by the plans.

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 arise from the difference between the actual rate of return on plan assets for a period and the expected rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation.

The Company uses the fair value of plan assets as of the end of the year to evaluate plan assets for the purpose of calculating the expected return on plan assets.

The Company 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 related benefits of these plans are funded by the Company as they become due.

(q) Rates subject to CRTC regulations

The Telecommunications segment's operations are subject to rate regulations on certain services based on geographical regions, mainly by the *Broadcasting Act* (Canada) and the *Telecommunications Act* (Canada), both managed by the Canadian Radio-television and Telecommunication Commission ("CRTC"). Accordingly, the Telecommunications segment's operating revenues could be affected by changes in regulations or decisions made by this regulating body. The Company does not select accounting policies that differ from Canadian GAAP, even though the Company is subject to these regulations.

2. FINANCIAL EXPENSES

	2010	2009
Interest on long-term debt and exchangeable debentures	**$ 305.5**	$ 292.4
Amortization of financing costs and long-term debt discount	**12.5**	10.2
Loss (gain) on foreign currency translation on short-term monetary items	**3.2**	(4.7)
Other	**1.4**	1.2
	322.6	299.1
Interest capitalized to the cost of:		
Property, plant and equipment	**(9.7)**	(6.7)
Intangible assets	**(25.6)**	(33.4)
	(35.3)	(40.1)
	$ 287.3	$ 259.0

3. GAIN ON VALUATION AND TRANSLATION OF FINANCIAL INSTRUMENTS

	2010	2009
Gain on embedded derivatives and derivative financial instruments for which hedge accounting is not used	**$ (41.3)**	$ (13.9)
Gain on foreign currency translation of financial instruments for which hedge accounting is not used	**(6.9)**	(24.6)
Loss (gain) on the ineffective portion of fair value hedges	**2.1**	(23.0)
Loss on valuation of a portfolio investment	**–**	1.8
	$ (46.1)	$ (59.7)

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

	2010	2009
Restructuring of operations	**$ 44.7**	$ 28.3
Impairment of assets	**11.9**	0.4
Other special items	**(6.3)**	0.9
	$ 50.3	$ 29.6

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

(a) Telecommunications

During the third quarter of 2010, Videotron Ltd. ("Videotron") launched its new advanced mobile network. As a result, Videotron recorded in 2010 a charge of $10.0 million, payable in March 2011, for the termination of its Mobile Virtual Network Operator ("MVNO") agreement and a charge of $13.9 million for the migration costs of its existing MVNO subscribers to its new mobile network. Videotron expects to incur migration costs as long as the conversion process is not completed.

Other restructuring charges of $0.6 million ($0.3 million in 2009), impairment of assets of $0.2 million ($0.2 million in 2009), and a gain of $3.3 million (loss of $0.8 million in 2009) related to the sale of assets were also recorded in 2010.

(b) News Media

The Company has implemented various restructuring initiatives to reduce the News Media segment's operating costs. As a result of these initiatives, the News Media segment recorded restructuring costs of $17.8 million in 2010 ($26.3 million in 2009), mainly related to the elimination of positions at several publications.

Continuity of restructuring costs payable

		2010		2009
Balance at beginning of year	**$**	**32.0**	$	29.7
Workforce-reduction initiatives		**17.8**		26.3
Payments		**(14.4)**		(24.0)
Balance at end of year	**$**	**35.4**	$	32.0

As part of the restructuring initiatives, certain assets were also sold in the second quarter of 2010, resulting in a net gain of $2.5 million (none in 2009) and an impairment charge of $3.5 million related to certain assets was recorded in 2010 ($0.4 million in 2009).

(c) Broadcasting

In the second quarter of 2010, the Company announced the creation of The Sun TV News Channel ("Sun News"), a new partnership in which TVA Group Inc. ("TVA Group") holds a 51% interest and Sun Media Corporation a 49% interest. This new partnership will launch an English-language news and opinion specialty channel in the first semester of 2011. The Company also decided to terminate the operations of its general-interest television station, Sun TV, as soon as the new specialty channel is on the air. As a result of this repositioning, the Broadcasting segment recorded an impairment charge of $8.2 million on certain equipment and broadcasting rights.

Restructuring charges of $1.4 million (a reversal of $0.8 million in 2009) primarily related to the elimination of positions and a gain on disposal of assets of $0.5 million (none in 2009) were also recorded in 2010.

(d) Other segments

In 2010, other segments recorded restructuring costs and other special items of $1.0 million ($2.4 million in 2009).

5. LOSS ON DEBT REFINANCING

On January 14, 2010, Quebecor Media prepaid drawings under its term loan "B" credit facility (note 16(iv)) in an aggregate amount of US$170.0 million and settled a corresponding portion of its hedging contracts for an amount of $30.9 million, representing a total cash consideration of $206.7 million. This transaction resulted in a total loss of $10.4 million (before income taxes and non-controlling interest), including a loss of $6.5 million previously recorded in accumulated other comprehensive loss.

In May 2010, Osprey Media Publishing Inc. ("Osprey Media") paid the balance on its term credit facility and settled the related hedging contracts for a total cash consideration of $116.3 million, resulting in a reclassification to income of a $1.9 million loss (before income taxes and non-controlling interest), previously recorded in accumulated other comprehensive loss. On June 30, 2010, Osprey Media's credit facilities were terminated.

6. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

In the fourth quarter of 2008, the Company determined that the adverse financial and economic environment prevailing at that time triggered a goodwill impairment test in reporting units of the News Media, Leisure and Entertainment, and Interactive Technologies and Communications segments. As a result, the Company concluded that these reporting units' goodwill was impaired and performed an initial impairment test. In the second quarter of 2009, the Company completed the goodwill impairment test and an additional impairment loss of $5.6 million was recorded as an adjustment to the initial impairment recorded in 2008. The additional charge was allocated as follows: $1.7 million to the News Media segment, $1.2 million to the Leisure and Entertainment segment, and $2.7 million to the Interactive Technologies and Communications segment.

In the second quarter of 2009, the Company also recorded an impairment loss of $8.0 million on its mastheads as a result of the completion of its 2009 annual impairment test.

7. BUSINESS ACQUISITIONS

During the years ended December 31, 2010 and 2009, the Company acquired or increased its interest in several businesses and has accounted for these by the purchase method. The results of operations of these businesses have been included in the Company's consolidated financial statements from their respective acquisition date.

<u>2010</u>

- The Company increased its interest in the News Media segment's distribution network for a total cash consideration of $2.1 million, resulting in goodwill of an equivalent amount. The Company also recorded a contingent consideration payable of $1.0 million as of December 31, 2010.

<u>2009</u>

- Quebecor Media increased its equity interest in TVA Group, Broadcasting segment, from 50.90% to 51.44% when TVA Group repurchased 253,300 Class B shares for a total cash consideration of $2.6 million, resulting in goodwill of $0.2 million.
- Quebecor Media made additional contingent payments of $2.0 million resulting in goodwill of an equivalent amount.

8. INCOME TAXES

Income taxes on continuing operations are as follows:

	2010	2009
Current	**$ 56.4**	$ 29.7
Future	**100.0**	123.5
	$ 156.4	$ 153.2

The following table reconciles income taxes at the Company's domestic statutory tax rate of 29.9% in 2010 (30.9 % in 2009) and income taxes in the consolidated statements of income:

	2010	2009
Income taxes at domestic statutory tax rate	**$ 186.3**	$ 213.1
Increase (reduction) resulting from:		
Effect of provincial tax rate differences	**(1.0)**	(0.4)
Effect of non-deductible charges, non-taxable income and differences between current and future tax rates	**(7.9)**	(23.7)
Change in valuation allowance	**(8.3)**	(21.4)
Change in future income tax balances due to a change in substantively enacted tax rates	**–**	(15.2)
Impairment of goodwill	**–**	1.7
Other	**(12.7)**	(0.9)
Income taxes	**$ 156.4**	$ 153.2

The tax effects of significant items comprising the Company's net future income tax positions are as follows:

	2010	2009
Losses carryforwards	**$ 184.3**	$ 166.1
Accounts payable, accrued charges and deferred revenues	**28.3**	21.3
Long-term investments	**–**	13.0
Property, plant and equipment	**(347.7)**	(293.4)
Goodwill, intangible assets and other assets	**(139.2)**	(107.5)
Long-term debt, derivative financial instruments and exchangeable debentures	**(157.7)**	(143.1)
Other	**1.6**	13.7
	(430.4)	(329.9)
Valuation allowance	**(98.8)**	(93.7)
Net future income tax liabilities	**$ (529.2)**	$ (423.6)

8. INCOME TAXES (continued)

The current and long-term future income tax assets and liabilities are as follows:

	2010	2009
Future income tax assets:		
Current	**$ 44.3**	$ 49.8
Long-term	**9.0**	12.5
	53.3	62.3
Future income tax liabilities:		
Long-term	**(582.5)**	(485.9)
Net future income tax liabilities	**$ (529.2)**	$ (423.6)

As of December 31, 2010, the Company had operating loss carryforwards for income tax purposes of $79.6 million available to reduce future taxable income, including $55.9 million that will expire between 2026 and 2030 and $23.7 million that can be carried forward indefinitely. The Company also had capital losses of $1,180.9 million that can be carried forward indefinitely and applied only against future capital gains.

The Company has not recognized a future income tax liability for the undistributed earnings of its subsidiaries in the current or prior years since the Company does not expect to sell or repatriate funds from those investments, in which case the undistributed earnings might become taxable. Any such liability cannot reasonably be determined at the present time.

9. EARNINGS PER SHARE

Earnings per share are calculated by dividing net income 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 certain stock options of the Company and its subsidiaries.

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

	2010	2009
Income from continuing operations	**$ 230.1**	$ 276.1
Impact of assumed conversion of stock options of subsidiaries	**(1.0)**	(1.0)
Income from continuing operations, adjusted for dilution effect	**$ 229.1**	$ 275.1
Net income	**$ 230.1**	$ 277.7
Impact of assumed conversion of stock options of subsidiaries	**(1.0)**	(1.0)
Net income, adjusted for dilution effect	**$ 229.1**	$ 276.7
Weighted average number of shares outstanding (in millions)	**64.3**	64.3
Effect of dilutive stock options of the Company (in millions)	**0.7**	0.4
Weighted average number of diluted shares outstanding (in millions)	**65.0**	64.7

9. EARNINGS PER SHARE (continued)

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of certain stock options of the Company and its subsidiaries, since their impact is anti-dilutive. During the year ended December 31, 2010, 192,590 options of the Company's plan (669,148 in 2009), 8,000 options of Quebecor Media's plan (269,610 in 2009) and 761,493 options of TVA Group's plan (975,155 in 2009) were excluded from the diluted earnings per share calculation.

10. ACCOUNTS RECEIVABLE

	2010	2009
Trade	**$ 529.4**	$ 463.1
Other	**59.1**	56.7
	$ 588.5	$ 519.8

11. INVENTORIES

	2010	2009
Raw materials and supplies	**$ 32.6**	$ 27.3
Work in progress	**19.2**	14.3
Finished goods	**136.7**	83.4
Programs, broadcast and distribution rights	**56.7**	51.1
	$ 245.2	$ 176.1

Cost of inventories included in cost of sales amounted to $795.4 million in 2010 ($783.9 million in 2009). Write-downs of inventories totalling $3.3 million were recognized in cost of sales in 2010 ($5.8 million in 2009).

12. PROPERTY, PLANT AND EQUIPMENT

			2010
	Cost	**Accumulated amortization**	**Net amount**
Land	**$ 33.9**	**$ –**	**$ 33.9**
Buildings and leasehold improvements	**455.2**	**155.5**	**299.7**
Machinery and equipment	**976.5**	**421.3**	**555.2**
Receiving, distribution and telecommunication networks	**3,403.0**	**1,563.7**	**1,839.3**
Projects under development	**122.8**	**–**	**122.8**
	$ 4,991.4	**$ 2,140.5**	**$ 2,850.9**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

			2009
	Cost	Accumulated amortization	Net amount
Land	$ 43.2	$ –	$ 43.2
Buildings and leasehold improvements	467.4	149.0	318.4
Machinery and equipment	847.4	352.1	495.3
Receiving, distribution and telecommunication networks	2,840.7	1,363.9	1,476.8
Projects under development	164.9	–	164.9
	$ 4,363.6	$ 1,865.0	$ 2,498.6

13. INTANGIBLE ASSETS

			2010
	Cost	**Accumulated amortization**	**Net amount**
Advanced mobile services spectrum licences[1]	**$ 527.4**	**$ 16.6**	**$ 510.8**
Software	**360.0**	**157.4**	**202.6**
Customer relationships and other	**203.5**	**86.5**	**117.0**
Broadcasting licences[2]	**85.3**	**–**	**85.3**
Mastheads[2]	**57.4**	**–**	**57.4**
Projects under development	**108.2**	**–**	**108.2**
	$ 1,341.8	**$ 260.5**	**$ 1,081.3**

13. INTANGIBLE ASSETS (continued)

				2009
		Cost	Accumulated amortization	Net amount
Advanced mobile services spectrum licences[1]	$	503.6	$ –	$ 503.6
Software		259.6	127.8	131.8
Customer relationships and other		200.8	68.9	131.9
Broadcasting licences[2]		87.0	–	87.0
Mastheads[2]		57.4	–	57.4
Projects under development		141.0	–	141.0
	$	1,249.4	$ 196.7	$ 1,052.7

[1] Interest costs of $23.8 million were capitalized to the cost of these licences in 2010 ($32.5 million in 2009). The spectrum licences were issued by Industry Canada on December 23, 2008 for an initial term of 10 years.

[2] Intangible assets with indefinite useful lives are not subject to amortization.

For the year ended December 31, 2010, the Company recorded additions of $53.0 million ($42.0 million in 2009) to internally generated intangible assets subject to amortization and of $60.9 million ($69.5 million in 2009) to externally acquired intangible assets subject to amortization.

14. OTHER ASSETS

	Note	**2010**	2009
Programs, broadcast and distribution rights		**$ 34.0**	$ 39.0
Deferred pension charge	26	**50.7**	28.8
Deferred connection costs		**35.3**	28.6
Other		**24.5**	26.1
		$ 144.5	$ 122.5

15. GOODWILL

For the years ended December 31, 2010 and 2009, the changes in the carrying amounts of goodwill were as follows:

				2010
	Balance as at December 31, 2009	**Business acquisitions**	**Adjustment of purchase price allocation and other**	**Balance as at December 31, 2010**
Telecommunications	**$ 2,570.1**	**$ –**	**$ –**	**$ 2,570.1**
News Media	**817.5**	**3.1**	**–**	**820.6**
Broadcasting	**54.9**	**–**	**–**	**54.9**
Leisure and Entertainment	**37.2**	**–**	**–**	**37.2**
Interactive Technologies and Communications	**26.4**	**–**	**(1.0)**	**25.4**
Total	**$ 3,506.1**	**$ 3.1**	**$ (1.0)**	**$ 3,508.2**

					2009
	Balance as at December 31, 2008	Business acquisitions (disposals)	Impairment (note 6)	Adjustment of purchase price allocation and other	Balance as at December 31, 2009
Telecommunications	$ 2,575.0	$ (4.9)	$ –	$ –	$ 2,570.1
News Media	818.9	1.0	(1.7)	(0.7)	817.5
Broadcasting	54.7	0.2	–	–	54.9
Leisure and Entertainment	38.4	–	(1.2)	–	37.2
Interactive Technologies and Communications	29.7	1.0	(2.7)	(1.6)	26.4
Total	$ 3,516.7	$ (2.7)	$ (5.6)	$ (2.3)	$ 3,506.1

16. LONG-TERM DEBT

	Effective interest rate as of December 31, 2010	Year of maturity	2010	2009
Quebecor				
Bank credit facilities (i)	5.20%	2013	**$ 69.7**	$ 83.6
Other loan (ii)	3.89%	2012	**35.0**	35.7
			104.7	119.3
Quebecor Media (iii)				
Bank credit facilities (iv)	2.34%	2011-2013	**179.9**	422.4
Other credit facility (v)	1.55%	2015	**53.1**	63.8
Senior Notes (vi)	7.75%	2016	**528.4**	551.2
Senior Notes (vii)	8.81%	2016	**673.7**	698.1
			1,435.1	1,735.5
Videotron and its subsidiaries (iii)				
Bank credit facilities (viii)	–%	2012-2018	**–**	–
Senior Notes (ix)	6.59%	2014	**650.8**	689.2
Senior Notes (x)	6.44%	2015	**173.7**	183.4
Senior Notes (xi)	9.37%	2018	**702.3**	741.2
Senior Notes (xii)	7.13%	2020	**300.0**	–
			1,826.8	1,613.8
Sun Media Corporation and its subsidiaries (iii)				
Bank credit facilities (xiii)	2.78%	2012	**37.8**	38.3
Senior Notes (xiv)	7.88%	2013	**205.3**	213.8
			243.1	252.1
Osprey Media (iii)				
Bank credit facilities (note 5)			**–**	114.2
TVA Group and its subsidiaries (iii)				
Bank credit facilities (xv)	5.28%	2012-2014	**91.3**	89.9
Total long-term debt			**3,701.0**	3,924.8
Change in fair value related to hedged interest rate risk			**26.8**	16.8
Adjustments related to embedded derivatives			**(67.5)**	(17.1)
Financing fees, net of amortization			**(42.2)**	(44.0)
			(82.9)	(44.3)
			3,618.1	3,880.5
Less current portion			**30.8**	68.6
			$ 3,587.3	$ 3,811.9

16. LONG-TERM DEBT (continued)

(i) The credit facility of Quebecor, renewed in November 2010, is a revolving credit facility maturing in 2013 of an amount of $150.0 million during the first year, $137.5 million during the second year and $125.0 million during the last year. The availability under this facility is dependent on the market value of a portion of the Company's interest in Quebecor Media. The credit agreement governing this credit facility contains covenants limiting its ability to incur additional indebtedness. The borrowed amounts bear interest at floating rates based on Bankers' acceptance rate, London Interbanking Offered Rate ("LIBOR") rate or Canadian prime rate, plus a premium. The credit facility is secured by a limited number of shares owned in Quebecor Media.

(ii) This loan bears interest at a fixed rate, payable every month, and matures in August 2012. The Company 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 (i) a $125.0 million term loan "A" credit facility, bearing interest at Bankers' acceptance rate, LIBOR or Canadian prime rate, plus a premium determined by a leverage ratio, and maturing in January 2011, (ii) a US$350.0 million term loan "B" credit facility, bearing interest at U.S. prime rate, plus a premium of 1.0%, or at LIBOR, plus a premium of 2.0%, and maturing in January 2013, and (iii) a $100.0 million revolving credit facility, bearing interest at Bankers' acceptance rate, LIBOR or Canadian prime rate, plus a premium determined by a leverage ratio, and maturing in January 2013. These credit facilities contain covenants concerning certain financial ratios and restricting the declaration and 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, 2010, the credit facilities of Quebecor Media were secured by assets with a carrying value of $4,206.7 million ($4,116.0 million in 2009). Quebecor Media shall repay the term loan "A" in quarterly repayments equal to 2.5% of the principal amount during the first three years of the term, 5.0% in the fourth year and 12.5% in the fifth year of the term. It shall repay the principal amount of its term loan "B" in quarterly repayments of 0.25% of the principal amount and the balance at the end of the term. As of December 31, 2010 and 2009, no amount was drawn on the revolving credit facility, while the balance of the term "A" and "B" credit facilities were $15.5 million ($68.7 million in 2009) and $164.4 million ($353.7 million in 2009), respectively.

(v) The long-term credit facility with Société Générale (Canada) for the CAD 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).

(vi) In January 2006, Quebecor Media issued Senior Notes of US$525.0 million in aggregate principal amount for net proceeds of $609.0 million, before issuance fees of $9.0 million. The notes bear interest at 7.75%, payable every six months on June 15 and December 15, and mature in March 2016. These notes contain certain restrictions on Quebecor Media, including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions. The notes are unsecured and are redeemable at the option of Quebecor Media at a decreasing premium, commencing on March 15, 2011.

(vii) In October 2007, Quebecor Media issued Senior Notes of US$700.0 million in aggregate principal amount at a discount price of 93.75% for net proceeds of $672.2 million, including accrued interest of $16.6 million and before financing fees of $9.8 million. The Senior Notes bear interest at 7.75% for an effective interest rate of 8.81%, payable every six months on June 15 and December 15, and mature in March 2016. These notes contain certain restrictions on Quebecor Media, including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions. The notes are unsecured and are redeemable at the option of Quebecor Media at a decreasing premium, commencing on March 15, 2011.

16. LONG-TERM DEBT (continued)

(viii) The senior secured credit facilities provide for a $575.0 million secured revolving credit facility that matures in April 2012 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 or Canadian prime rates, plus a margin, depending on Videotron's leverage ratio. Advances under the secured export financing facility bear interest at Bankers' acceptance rate plus a margin. The senior secured 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 subsidiaries. As of December 31, 2010, the senior secured bank credit facilities of Videotron were secured by assets with a carrying value of $5,585.6 million ($4,690.6 million in 2009). The senior secured bank credit facilities contain covenants such as maintaining certain financial ratios and some restrictions on the payment of dividends and asset acquisitions and dispositions. As of December 31, 2010 and 2009, no amount was drawn on these facilities.

In November 2009, Videotron entered into the facility "B" credit agreement providing for an unsecured term credit facility in a maximum amount equal to the difference between US$100.0 million and the aggregate of the U.S. dollar equivalent of each drawing on the Company's secured export financing facility. This facility matures in April 2016 and is bearing interest at the Bankers' acceptance rate plus a margin. As of December 31, 2010 and 2009, no amount was drawn on this facility.

(ix) In October 2003, a first series of US$335.0 million in aggregate principal amount of Senior Notes was issued at a discount price of 99.08% for net proceeds of $445.6 million, before issuance fees of $7.6 million. In November 2004, a second series of US$315.0 million in aggregate principal amount of Senior Notes was issued at a premium price of 105.0% for net proceeds of $405.1 million, including accrued interest of $8.9 million and before issuance fees of $7.4 million. These notes bear interest at a rate of 6.875%, for an average effective interest rate of 6.59%, payable every six months on January 15 and July 15, and mature on January 15, 2014. The notes contain certain restrictions on Videotron, including limitations on its ability to incur additional indebtedness, and are unsecured. The Senior Notes are guaranteed by specific subsidiaries of Videotron. The notes became redeemable at the option of Videotron, in whole or in part, at any time on or after January 15, 2009, at a decreasing premium.

(x) On September 16, 2005, US$175.0 million in aggregate principal amount of Senior Notes was issued at a discount price of 99.5% for net proceeds of $205.2 million, before issuance fees of $3.8 million. These notes bear interest at a rate of 6.375%, for an effective interest rate of 6.44%, payable every six months on December 15 and June 15, and mature on December 15, 2015. The notes contain certain restrictions on Videotron, including limitations on its ability to incur additional indebtedness, and are unsecured. The Senior Notes are guaranteed by specific subsidiaries of Videotron. The notes became redeemable at the option of Videotron, in whole or in part, at any time on or after December 15, 2010, at a decreasing premium.

(xi) In April 2008, a first series of US$455.0 million in aggregate principal amount of Senior Notes was issued at a discount price of 98.43% for net proceeds of $457.3 million, before financing fees of $9.5 million. In March 2009, a second series of US$260.0 million in aggregate principal amount of Senior Notes was issued at a discount price of 98.625% for net proceeds of $332.4 million, including accrued interest of $6.9 million and net of financing fees of $6.9 million. The Senior Notes bear interest at 9.125% for an average effective interest rate of 9.37%, payable every six months on June 15 and December 15, and mature on April 15, 2018. The notes contain certain restrictions on Videotron, including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions, and are unsecured. The Senior Notes are guaranteed by specific subsidiaries of Videotron. The notes are redeemable at the option of Videotron, in whole or in part, at any time, on or after April 15, 2013, at a decreasing premium.

16. LONG-TERM DEBT (continued)

(xii) In January 2010, $300.0 million in aggregate principal amount of Senior Notes were issued for net proceeds of $293.9 million, net of financing fees of $6.1 million. The Senior Notes bear interest at 7.125%, payable every six months on June 15 and December 15, and mature on January 15, 2020. These notes contain certain restrictions on Videotron, including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions, and are unsecured. The Senior Notes are guaranteed by specific subsidiaries of Videotron. The notes are redeemable at the option of Videotron, in whole or in part, at any time prior to January 15, 2015 at a price based on a make-whole formula and at a decreasing premium from January 15, 2015 and thereon.

(xiii) The bank credit facilities of Sun Media Corporation are comprised of (i) a revolving credit facility amounting to $70.0 million, maturing in October 2012, and (ii) a term loan “C” credit facility amounting to $40.0 million, also maturing in October 2012. The credit facilities are collateralized by liens on all of the property and assets of Sun Media Corporation and its operating subsidiaries, now owned or hereafter acquired. The bank credit facilities contain covenants concerning certain financial ratios and restrictions on the declaration and payment of dividends or other distributions. As of December 31, 2010, the bank credit facilities were secured by assets with a carrying value of $1,191.0 million ($1,206.2 million in 2009). Any amount borrowed under the revolving credit facility bears interest at Canadian Bankers’ acceptance and/or Canadian prime rate, plus an applicable margin determined by financial ratios. Advances under the term “C” credit facility bear interest at Canadian Bankers’ acceptance rate, plus a margin of 1.50% per annum, or Canadian prime rate, plus a margin of 0.50% per annum. As of December 31, 2010 and 2009, no amount was drawn on the revolving credit facility, while $37.8 million ($38.3 million in 2009) was drawn down on the term loan “C” credit facilities.

(xiv) In February 2003, Sun Media Corporation issued US$205.0 million in aggregate principal amount of Senior Notes at a discount price of 98.29% for net proceeds of $306.8 million, before issuance fees of $8.4 million. These notes bear interest at a rate of 7.625%, for an effective interest rate of 7.88%, payable every six months on February 15 and August 15, and mature in February 2013. The notes contain certain restrictions on Sun Media Corporation, including limitations on its ability to incur additional indebtedness or make other distributions, and are unsecured. The notes became redeemable, in whole or in part, at the option of Sun Media Corporation any time after February 15, 2008, at a decreasing premium.

(xv) The credit facilities of TVA Group are comprised of a revolving credit facility in the amount of $100.0 million, maturing in December 2012, and a term credit facility in the amount of $75.0 million, maturing in December 2014. TVA Group’s revolving credit facility bears interest at a Canadian chartered bank’s prime rate or Bankers’ acceptance rate, plus a variable margin determined by certain financial ratios, while the term loan bears interest at a rate of 5.54%, payable every six months on June 15 and December 15. The credit facilities contain certain restrictions, including the obligation to maintain certain financial ratios. As of December 31, 2010, $16.3 million ($14.9 million in 2009) was drawn on the revolving credit facility and $75.0 million ($75.0 million in 2009) was drawn on the term credit facility.

On December 31, 2010, the Company and its subsidiaries were in compliance with all debt covenants.

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

2011	$	30.8
2012		102.1
2013		443.1
2014		736.4
2015		184.3
2016 and thereafter		2,204.3

17. OTHER LIABILITIES

	Note	**2010**	2009
Accrued pension and postretirement benefits liability	26	**$ 66.1**	$ 62.6
Deferred revenue		**51.4**	43.4
Stock-based compensation[1]		**12.2**	14.3
Exchangeable debentures and other		**13.3**	11.5
		$ 143.0	$ 131.8

[1] The current portion of stock-based compensation in the amount of $39.5 million is included in accounts payable and accrued charges ($8.1 million in December 2009).

Principal conditions relating to the exchangeable debentures are as follows:

Exchangeable debentures, Series 2001

Since World Color Press, Inc.'s ("WCP", formerly "Quebecor World Inc.") plan of reorganization in July 2009, the Company's exchangeable debentures, Series 2001 can no longer be exchanged for underlying shares of WCP but rather for a consideration equivalent to that received for WCP shares under WCP's plan of reorganization. Other related conditions to the exchangeable debentures, Series 2001, have not changed and remain applicable. Accordingly, the debentures will mature in 2026 and while the total principal nominal amount outstanding is $425.0 million, upon an exchange or redemption of the debentures prior to maturity, the Company may, at its option, satisfy its obligation by payment of a cash amount equal to the value of the consideration received in exchange for its shares of WCP under WCP's plan of reorganization (being a nil value). However, redemption of the debentures in the first 10 years from the date of issuance may trigger a penalty for the initiator. These debentures bear interest, payable semi-annually, at a rate of 1.5%. Cash and cash equivalents in trust as of December 31, 2010 and 2009 included an amount of $3.2 million related to the interest payment on this debenture.

Exchangeable debentures, Series Abitibi

Since AbitibiBowater Canada Inc.'s ("AbitibiBowater") plan of reorganization in December 2009, the Company's exchangeable debentures, Series Abitibi can no longer be exchanged for underlying shares of AbitibiBowater but rather for a consideration equivalent to that received for AbitibiBowater shares under AbitibiBowater's plan of reorganization. Other related conditions to the exchangeable debentures, Series Abitibi, have not changed and remain applicable. Accordingly, the debentures will mature in 2026 and while the total principal nominal amount of debentures outstanding is $554.9 million, upon an exchange or redemption of the debentures prior to maturity, the Company may, at its option, satisfy its obligation by payment of a cash amount equal to the value of the consideration received in exchange for its shares of AbitibiBowater under AbitibiBowater's plan of reorganization (being a nil value). However, redemption of the debentures in the first 10 years from the date of issuance may trigger a penalty for the initiator. These debentures bear interest, payable quarterly, at a rate of 1.5%, plus a floating percentage based on the dividend yield on the underlying shares. Cash and cash equivalents in trust, as of December 31, 2010 and 2009, included an amount of $2.1 million related to the interest payment on this debenture.

18. NON-CONTROLLING INTEREST

Non-controlling interest represents the interest of non-controlling shareholders in the participating shares of Quebecor's subsidiaries. As of December 31, 2010 and 2009, the most significant non-controlling interests were as follows:

	Non-controlling interest	
Subsidiary	% voting	% equity
Quebecor Media	45.28 %	45.28 %
TVA Group[1]	0.05 %	48.56 %

[1] TVA Group is a subsidiary of Quebecor Media. The non-controlling interest percentage represents the interests of non-controlling shareholders in the participating shares of TVA Group.

19. CAPITAL STOCK

(a) Authorized capital stock

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

An unlimited number of Class B Voting Shares ("B shares") convertible into A shares on a one-for-one basis, only if a takeover bid for A shares is made to holders of A shares without being made concurrently and under the same terms to holders of B shares, for the sole purpose of allowing the holders of 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 B shares are entitled to elect 25% of the Board of Directors of Quebecor. Holders of A shares may elect the other members of the Board of Directors.

(b) Issued and outstanding capital stock

	A shares		B shares	
	Number	Amount	Number	Amount
Balance as of December 31, 2009	20,115,731	$ 8.9	44,201,291	$ 337.7
A shares converted into B shares	(289,389)	(0.1)	289,389	0.1
Balance as of December 31, 2010	**19,826,342**	**$ 8.8**	**44,490,680**	**$ 337.8**

20. STOCK-BASED COMPENSATION PLANS

(a) Quebecor plans

(i) Stock option plan

Under a stock option plan established by the Company, 6,500,000 Class B shares have been set aside for directors, officers, senior employees, and other key employees of the Company and its subsidiaries. The exercise price of each option is equal to the weighted average trading price of the Company'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 Company 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, 2010 and 2009:

		2010		2009
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance at beginning of year	**2,586,496**	**$ 25.15**	2,318,130	$ 30.24
Granted	**78,442**	**34.72**	930,715	19.16
Exercised	**(350,000)**	**31.79**	(10,000)	16.86
Cancelled	**–**	**–**	(652,349)	34.82
Balance at end of year	**2,314,938**	**$ 24.47**	2,586,496	$ 25.15
Vested options at end of year	**1,454,998**	**$ 25.93**	1,295,688	$ 28.59

During the year ended December 31, 2010, 350,000 of the Company's stock options were exercised for a cash consideration of $1.7 million (10,000 stock options for a minimal cash consideration in 2009).

The following table gives summary information on outstanding options as of December 31, 2010:

			Outstanding options		Vested options
Range of exercise price	Number	Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
$18.38 to 24.24	1,313,283	7.05	$ 20.25	692,806	$ 21.24
25.87 to 27.11	604,065	6.08	26.60	443,043	26.54
32.26 to 40.66	397,590	6.04	35.15	319,149	35.26
$18.38 to 40.66	**2,314,938**	**6.62**	**$ 24.47**	**1,454,998**	**$ 25.93**

20. STOCK-BASED COMPENSATION PLANS (continued)

(a) Quebecor plans (continued)

(ii) Mid-term stock-based compensation plan

In 2010, the Company finalized the implementation of a new mid-term stock-based compensation plan for management. Under this new plan, at the end of a three-year period, participants will be entitled to receive a cash payment based on the appreciation of the Quebecor Class B share price, subject to the achievement of certain non-market performance criteria. As of December 31, 2010, 337,224 units were outstanding at an average exercise price of $26.92.

(iii) Deferred stock unit plan

The Quebecor deferred stock unit ("DSU") plan is for the benefit of the Company'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 Company's 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 Company's B shares. Subject to certain limitations, the DSUs will be redeemed by the Company when the director ceases to serve as a director of the Company. For the purpose of redeeming units, the value of a DSU shall correspond to the fair market value of the Company's B shares on the date of redemption. As of December 31, 2010 and 2009, the total number of DSUs outstanding under this plan was 100,253 and 107,855, 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 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 400,000 options is also subject to market-related performance criteria as the achievement of specific targets in regards to the fair value of the Company's shares in the future.

20. STOCK-BASED COMPENSATION PLANS (continued)

(b) Quebecor Media stock option plan (continued)

The following table gives details on changes to outstanding options for the years ended December 31, 2010 and 2009:

	2010		2009	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance at beginning of year	**3,326,069**	**$ 40.96**	3,843,297	$ 41.05
Granted	**1,096,500**	**46.50**	671,000	37.19
Exercised	**(503,830)**	**38.17**	(304,422)	25.66
Cancelled	**(403,071)**	**44.38**	(883,806)	43.76
Balance at end of year	**3,515,668**	**$ 42.69**	3,326,069	$ 40.96
Vested options at end of year	**793,098**	**$ 41.80**	564,636	$ 39.74

During the year ended December 31, 2010, 503,830 of Quebecor Media's stock options were exercised for a cash consideration of $5.6 million (304,422 stock options for $4.5 million in 2009).

The following table gives summary information on outstanding options as of December 31, 2010:

	Outstanding options			Vested options	
Range of exercise price	Number	Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
$21.75 to 33.41	316,779	5.25	$ 31.52	180,702	$ 31.34
35.90 to 50.51	3,198,889	8.72	43.80	612,396	44.89
$21.75 to 50.51	**3,515,668**	**8.40**	**$ 42.69**	**793,098**	**$ 41.80**

Had the vested options to purchase Quebecor Media Common Shares been exercised as of December 31, 2010 and the holder chosen to purchase Common Shares, the Company's interest in Quebecor Media would have decreased from 54.72% to 54.37% (54.72% to 54.47% as of December 31, 2009).

20. STOCK-BASED COMPENSATION PLANS (continued)

(c) TVA Group plans

(i) Stock option plan for senior executives and directors

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 the 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 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, 2010 and 2009:

		2010		2009
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance at beginning of year	**975,155**	**$ 16.16**	975,155	$ 16.16
Cancelled	**(141,545)**	**15.04**	–	–
Balance at end of year	**833,610**	**$ 16.35**	975,155	$ 16.16
Vested options at end of year	**560,952**	**$ 17.05**	428,383	$ 17.47

The following table gives summary information on outstanding options as of December 31, 2010:

	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	639,479	6.40	$ 14.97	366,821	$ 15.01
20.50 to 21.38	194,131	3.86	20.90	194,131	20.90
$14.50 to 21.38	**833,610**	**5.81**	**$ 16.35**	**560,952**	**$ 17.05**

20. STOCK-BASED COMPENSATION PLANS (continued)

(c) TVA Group plans (continued)

(i) Stock option plan for senior executives and directors (continued)

Had the vested options to purchase TVA Group Class B shares been exercised as of December 31, 2010 and the holder chosen to purchase Class B shares, Quebecor Media's interest in TVA Group would have decreased from 51.44% to 50.25% (51.44% to 50.53% as of December 31, 2009).

(ii) Share purchase plans for executives and employees

In 1998, TVA Group introduced a share purchase plan relating to 375,000 TVA Group Class B shares for its executives and a share purchase plan relating to 375,000 TVA Group Class B shares for its employees. Under the plans, participants can acquire shares in accordance with terms and conditions related to their level of remuneration. The shares can be acquired at a price equal to 90% of the average closing market price of TVA Group Class B shares on the Toronto Stock Exchange in the five trading days immediately preceding the first day of the annual subscription period under the plans. The plans also provide financing terms free of interest. No Class B shares have been issued under the plans in the last three years. As of December 31, 2010 and 2009, the remaining balance of TVA Group Class B shares that may be issued is 332,643 under the share purchase plan for executives and 229,753 under the share purchase plan for employees.

(d) All stock-based plans

For the year ended December 31, 2010, a net consolidated compensation charge related to all stock-based compensation plans was recorded in the amount of $36.8 million ($18.9 million in 2009).

21. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Translation of net investments in foreign operations	Cash flow hedges	Total
Balance as of December 31, 2008	$ 1.0	$ (28.5)	$ (27.5)
Other comprehensive (loss) income	(1.8)	18.3	16.5
Balance as of December 31, 2009	(0.8)	(10.2)	(11.0)
Other comprehensive income	(1.6)	25.3	23.7
Balance as of December 31, 2010	**$ (2.4)**	**$ 15.1**	**$ 12.7**

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 7 year period.

22. COMMITMENTS AND CONTINGENCIES

(a) Leases and purchasing agreements

The Company rents premises and equipment under operating leases and has entered into long-term commitments to purchase services, capital equipment, and distribution and broadcasting rights that call for total future payments of $388.2 million. The minimum payments for the coming years are as follows:

	Leases	Other commitments
2011	$ 64.4	$ 79.8
2012	45.9	37.4
2013	38.1	5.9
2014	29.9	3.6
2015	20.8	1.6
2016 and thereafter	59.6	1.2

The Company and its subsidiaries' operating lease expenses amounted to $59.1 million in 2010 ($45.5 million in 2009).

(b) Contingencies

Legal proceedings against certain of the Company's subsidiaries were initiated by another company in relation to printing contracts, including the resiliation of printing contracts. As with any litigation subject to a judicial process, the outcome of such proceedings is impossible to determine with certainty. However, management believes that the suits are without merit and intends to vigorously defend its position.

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

(c) Settlement of litigations

In 2003 and 2004, a number of companies, including Videotron and TVA Group, brought suit against the Crown before the Federal Court alleging that the Part II licence fees to be paid annually to the CRTC by broadcasters and broadcasting distribution undertakings constituted, in fact and in law, unlawful taxes under the Broadcasting Act (Canada). On October 7, 2009, the parties in this case, including Videotron and TVA Group, agreed on an out-of-court settlement whereby the plaintiff companies withdrew their legal challenge and monetary claims and the government agreed not to claim the unpaid Part II licence fees for the period of September 1, 2006 through August 31, 2009. In view of this settlement, in the fourth quarter of 2009, the Company reversed a $42.8 million provision for unpaid Part II licence fees as of August 31, 2009. The CRTC amended its regulations to limit the amount of the Part II licence fees for the period subsequent to August 31, 2009.

23. GUARANTEES

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

Operating leases

The Company has guaranteed a portion of the residual values of certain assets under operating leases for the benefit of the lessor. Should the Company terminate these leases prior to term (or at the end of these lease terms) and should the fair value of the assets be less than the guaranteed residual value, then the Company must, under certain conditions, compensate the lessor for a portion of the shortfall. In addition, the Company has provided guarantees to the lessor of certain premises leases, with expiry dates through 2015. Should the lessee default under the agreement, the Company must, under certain conditions, compensate the lessor. As of December 31, 2010, the maximum exposure with respect to these guarantees was $18.9 million and no liability has been recorded in the consolidated balance sheet. The Company 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 Company 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 Company from estimating the maximum potential liability it could be required to pay to guaranteed parties. The Company has not accrued any amount in respect of these items in the consolidated balance sheet. The Company has not made any payments relating to these guarantees in prior years.

Outsourcing companies and suppliers

In the normal course of its operations, the Company enters into contractual agreements with outsourcing companies and suppliers. In some cases, the Company agrees to provide indemnifications in the event of legal procedures initiated against them. In other cases, the Company provides indemnification to counterparties for damages resulting from the outsourcing companies and suppliers. The nature of the indemnification agreements prevents the Company 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 Company has not made any payments relating to these guarantees in prior years.

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial risk management policies have been established in order to identify and analyze the risks faced by the Company, 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 Company's activities.

As a result of their use of financial instruments, the Company and its subsidiaries are exposed to credit risk, liquidity risk and market risks relating to foreign exchange fluctuations, interest rate fluctuations and equity prices. In order to manage its foreign exchange and interest rate risks, the Company and its subsidiaries use derivative financial instruments (i) to set in CAD 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 and (ii) to achieve a targeted balance of fixed and variable rate debts. The Company 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 Company 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

Currencies (sold/bought)	Maturing	Average exchange rate	Notional amount
Sun Media Corporation			
$/US$	February 15, 2013	1.5227	312.2
Videotron			
$/US$	Less than 1 year	1.0168	139.5

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Description of derivative financial instruments (continued)

(ii) Cross-currency interest rate swaps

	Period covered		Notional amount	Annual effective interest rate using hedged rate	Annual nominal interest rate of debt	CAD dollar exchange rate on interest and capital payments per one U.S. dollar
Quebecor Media						
Senior Notes	2007 to 2016	US$	700.0	7.69%	7.75%	0.9990
Senior Notes	2006 to 2016	US$	525.0	7.39%	7.75%	1.1600
Term loan "B" credit facilities	2009 to 2013	US$	113.8	Bankers' acceptances 3 months + 2.22%	LIBOR + 2.00%	1.1625
Term loan "B" credit facilities	2006 to 2013	US$	49.6	6.44%	LIBOR + 2.00%	1.1625
Videotron						
Senior Notes	2004 to 2014	US$	190.0	Bankers' acceptances 3 months + 2.80%	6.875%	1.2000
Senior Notes	2004 to 2014	US$	125.0	7.45%	6.875%	1.1950
Senior Notes	2003 to 2014	US$	200.0	Bankers' acceptances 3 months + 2.73%	6.875%	1.3425
Senior Notes	2003 to 2014	US$	135.0	7.66%	6.875%	1.3425
Senior Notes	2005 to 2015	US$	175.0	5.98%	6.375%	1.1781
Senior Notes	2008 to 2018	US$	455.0	9.65%	9.125%	1.0210
Senior Notes	2009 to 2018	US$	260.0	9.12%	9.125%	1.2965

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(a) Description of derivative financial instruments (continued)

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

	Period covered	Notional amount	Annual effective interest rate using hedged rate	Annual nominal interest rate of debt	CAD dollar exchange rate on interest and capital payments per one U.S. dollar
Sun Media Corporation					
Senior Notes	2008 to 2013	US$ 155.0	Bankers' acceptances 3 months + 3.70%	7.625%	1.5227
Senior Notes	2003 to 2013	US$ 50.0	Bankers' acceptances 3 months + 3.70%	7.625%	1.5227

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

(iii) Interest rate swaps

Maturity	Notional amount	Pay/ receive	Fixed rate	Floating rate
Sun Media Corporation				
October 2012	$ 38.1	Pay fixed/ Receive floating	3.75%	Bankers' acceptances 3 months

24. 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 and accrued charges (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 is estimated based on quoted market prices when available or on valuation models. When the Company 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 Canadian Institute of Chartered Accountants Section 3862, *Financial Instruments – Disclosures*, the Company has considered the following fair value hierarchy that reflects the significance of the inputs used in measuring its 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, cash equivalents in trust, temporary investments 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 Company'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 Company. 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 is determined by option pricing models using Level 2 market inputs, including volatility and discount factors.

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value of financial instruments (continued)

The carrying value and fair value of long-term debt and derivative financial instruments as of December 31, 2010 and 2009 are as follows:

	2010		2009	
	Carrying value	**Fair value**	Carrying value	Fair value
Long-term debt[1]	**$ (3,701.0)**	**$ (3,877.8)**	$ (3,924.8)	$ (3,988.5)
Derivative financial instruments				
Early settlement options	**88.8**	**88.8**	41.1	41.1
Interest rate swaps	**(1.3)**	**(1.3)**	(4.3)	(4.3)
Foreign exchange forward contracts	**(2.4)**	**(2.4)**	(5.8)	(5.8)
Cross-currency interest rate swaps	**(447.5)**	**(447.5)**	(363.3)	(363.3)

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

The following table shows changes to the carrying value or fair value of derivative financial instruments (Level 3) in 2010 and 2009:

	2010	2009
Asset (liability)		
Balance as of beginning of year	**$ (373.4)**	$ 200.6
Loss recognized in the consolidated statement of income[1, 2]	**(31.0)**	(143.3)
Loss recognized in other comprehensive income[3]	**(76.7)**	(431.0)
Settlements	**29.9**	0.3
Balance as of end of year	**$ (451.2)**	$ (373.4)

[1] Substantially all gains or losses were related to derivative instruments held as of December 31, 2010 and December 31, 2009.
[2] The loss is offset by a gain on valuation and translation of long-term debt of $28.1 million in 2010 ($163.9 million in 2009).
[3] The loss is offset by a gain on translation of long-term debt of $119.7 million in 2010 ($422.8 million in 2009).

24. 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 and non-controlling interest, 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, 2010, as per the Company's valuation models, is as follows:

Increase (decrease)	Income	Other comprehensive income
Increase of 100 basis points	$ **6.2**	$ **10.7**
Decrease of 100 basis points	**(6.2)**	**(10.7)**

(c) Credit risk management

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

In the normal course of business, the Company continuously monitors the financial condition of its customers and reviews the credit history of each new customer. As of December 31, 2010, no customer balance represented a significant portion of the Company's consolidated trade receivables. The Company 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 $39.1 million as of December 31, 2010 ($40.3 million as of December 31, 2009). As of December 31, 2010, 10.5% of trade receivables were 90 days past their billing date (9.8% as of December 31, 2009).

The following table shows changes to the allowance for doubtful accounts for the years ended December 31, 2010 and 2009:

	2010	2009
Balance as of beginning of year	$ **40.3**	$ 47.6
Charged to net income	**27.8**	23.5
Utilization	**(29.0)**	(30.8)
Balance as of end of year	$ **39.1**	$ 40.3

The Company believes that its product lines and the diversity of its customer base are instrumental in reducing its credit risk, as well as the impact of fluctuations in product-line demand. The Company 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 Company and its subsidiaries are exposed to the risk of non-performance by a third-party. When the Company and its subsidiaries enter into derivative contracts, the counterparties (either foreign or Canadian) must have credit ratings at least in accordance with the Company's risk management policy and are subject to concentration limits.

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk management

Liquidity risk is the risk that the Company and its subsidiaries will not be able to meet their financial obligations as they fall due or the risk that those financial obligations have to be met at excessive cost. The Company and its subsidiaries manage this exposure through staggered debt maturities. The weighted average term of the Company's consolidated debt was approximately 4.9 years as of December 31, 2010 (5.2 years as of December 31, 2009).

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

As of December 31, 2010, material contractual obligations related to financial instruments included capital repayment and interest on long-term debt and obligations related to derivative instruments, less estimated future receipts on derivative instruments. These obligations and their maturities are as follows:

	Total	Less than 1 year	1-3 years	3-5 years	5 years or more
Bank indebtedness	$ 5.7	$ 5.7	$ –	$ –	$ –
Accounts payable and accrued charges	792.7	792.7	–	–	–
Long-term debt[1]	3,701.0	30.8	545.2	920.7	2,204.3
Interest payments[2]	1,698.4	274.3	593.6	467.9	362.6
Derivative instruments[3]	509.8	0.5	130.3	213.9	165.1
Total	**$ 6,707.6**	**$ 1,104.0**	**$ 1,269.1**	**$ 1,602.5**	**$ 2,732.0**

[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, 2010.

[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 Company'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 Company'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 CAD dollars. A large portion of the interest, principal and premium, if any, payable on its debt is payable in U.S. dollars. The Company 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, 2010 and to hedge their exposure on certain purchases of set-top boxes, handsets, cable modems and capital expenditures. Accordingly, the Company's sensitivity to variations in foreign exchange rates is economically limited.

24. 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 and non-controlling interest, of a variance of $0.10 in the year-end exchange rate of a CAD dollar per one U.S. dollar as of December 31, 2010:

Increase (decrease)	Income	Other comprehensive income
Increase of $0.10		
U.S. dollar-denominated accounts payable	$ **(1.0)**	$ **–**
Gain on valuation and translation of financial instruments and derivative financial instruments	**(0.4)**	**66.1**
Decrease of $0.10		
U.S. dollar-denominated accounts payable	**1.0**	**–**
Gain on valuation and translation of financial instruments and derivative financial instruments	**0.4**	**(66.1)**

Interest rate risk

Some of the Company's and its subsidiaries' revolving and bank credit facilities bear interest at floating rates based on the following reference rates: (i) Bankers' acceptance rate (BA), (ii) LIBOR and (iii) Canadian prime rate. The Senior Notes issued by the Company and its subsidiaries bear interest at fixed rates. The Company 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, 2010, after taking into account the hedging instruments, long-term debt was comprised of 74.1% fixed rate debt (68.2% in 2009) and 25.9% floating rate debt (31.8% in 2009).

The estimated sensitivity on financial expense for floating rate debt, before income tax and non-controlling interest, of a 100 basis-point variance in the year-end Canadian Banker's acceptance rate as of December 31, 2010 is $11.0 million.

The estimated sensitivity on income and other comprehensive income, before income tax and non-controlling interest, of a 100 basis-point variance in the discount rate used to calculate the fair value of financial instruments as of December 31, 2010, as per the Company's valuation model, is as follows:

Increase (decrease)	Income	Other comprehensive income
Increase of 100 basis points	$ **(1.7)**	$ **10.1**
Decrease of 100 basis points	**1.7**	**(10.1)**

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management

The Company'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 Company 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 generated by operations, and the level of distributions to shareholders. The Company has not significantly changed its strategy regarding the management of its capital structure since the last financial year.

The Company's capital structure is composed of shareholders' equity, bank indebtedness, long-term debt, net assets and liabilities related to derivative financial instruments, and non-controlling interest, less cash and cash equivalents, cash and cash equivalents in trust and temporary investments. The capital structure is as follows:

	2010	2009
Bank indebtedness	**$ 5.7**	$ 1.8
Long-term debt	**3,618.1**	3,880.5
Net liabilities related to derivative financial instruments	**451.2**	373.4
Non-controlling interest	**1,430.3**	1,216.8
Cash and cash equivalents	**(242.7)**	(300.0)
Cash and cash equivalents in trust	**(5.3)**	(5.3)
Temporary investments	**–**	(30.0)
Net liabilities	**5,257.3**	5,137.2
Shareholders' equity	**$ 1,411.8**	$ 1,170.4

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

25. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company and its subsidiaries made purchases and incurred rent charges with affiliated companies in the amount of $7.4 million ($10.9 million in 2009), which are included in operating expenses. The Company and its subsidiaries made sales to affiliated companies in the amount of $3.6 million ($2.8 million in 2009). These transactions were concluded and accounted for at the exchange amount.

In June 2009, as part of a corporate reorganization, the subsidiary Canoe Inc., in which Quebecor Media held an 86.2% interest and TVA Group a 13.8% interest, was wound up and its assets distributed to the shareholders. The transactions arising from this reorganization were recorded at the carrying value of the assets transferred and an adjustment of $4.7 million, net of non-controlling interest, was recorded in contributed surplus.

Following the creation of Sun News and the decision to terminate the operations of the television station Sun TV (note 4(c)), a corporate reorganization occurred in December 2010. The related transactions were recorded at carrying amounts and a resulting adjustment of $0.5 million was recorded in contributed surplus.

26. PENSION PLANS AND POSTRETIREMENT BENEFITS

The Company maintains various flat-benefit plans, various final-pay plans with indexation features from zero to 2%, and defined contribution plans. The Company's policy is to maintain its contribution at a level sufficient to cover benefits. Actuarial valuations of the Company's numerous pension plans have been performed at least once in the last three years and the next required valuations will be performed within the next three years.

The Company 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, 2010 and 2009, along with a statement of the funded status as of those dates:

	Pension benefits		Postretirement benefits	
	2010	2009	**2010**	2009
Change in benefit obligations				
Benefit obligations at beginning of year	**$ 678.8**	$ 538.1	**$ 41.9**	$ 35.5
Service costs	**16.9**	9.5	**1.0**	1.0
Interest costs	**42.5**	40.9	**2.4**	2.6
Plan participants' contributions	**14.6**	12.8	**–**	–
Actuarial loss	**124.5**	101.4	**3.8**	7.6
Benefits and settlements paid	**(41.3)**	(32.3)	**(0.9)**	(0.8)
Curtailment loss (gain)	**–**	7.5	**(0.6)**	(4.0)
Plan amendments and other	**0.7**	0.9	**–**	–
Benefit obligations at end of year	**$ 836.7**	$ 678.8	**$ 47.6**	$ 41.9

	Pension benefits		Postretirement benefits	
	2010	2009	**2010**	2009
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 623.2**	$ 529.6	**$ –**	$ –
Actual return on plan assets	**53.3**	86.6	**–**	–
Employer contributions	**40.1**	26.5	**0.9**	0.8
Plan participants' contributions	**14.6**	12.8	**–**	–
Benefits and settlements paid	**(41.3)**	(32.3)	**(0.9)**	(0.8)
Fair value of plan assets at end of year	**$ 689.9**	$ 623.2	**$ –**	$ –

26. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

The plan assets are comprised of:

	2010	2009
Equity securities	**59.5 %**	58.8 %
Debt securities	**38.1**	38.2
Other	**2.4**	3.0
	100.0 %	100.0 %

As of December 31, 2010, plan assets included shares of the Company in an amount of $0.9 million ($1.6 million as of December 31, 2009).

	Pension benefits		Postretirement benefits	
	2010	2009	**2010**	2009
Reconciliation of funded status				
Plan deficit	**$ (146.8)**	$ (55.6)	**$ (47.6)**	$ (41.9)
Unrecognized actuarial loss	**171.7**	58.8	**8.2**	4.4
Unrecognized net transition (asset) obligation	**(3.1)**	(3.6)	**0.2**	0.3
Unrecognized prior service cost (benefit)	**8.9**	11.1	**(3.0)**	(3.4)
Valuation allowance	**(3.9)**	(3.9)	**–**	–
Net amount recognized	**$ 26.8**	$ 6.8	**$ (42.2)**	$ (40.6)

Included in the above benefit obligations and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Pension benefits		Postretirement benefits	
	2010	2009	**2010**	2009
Benefit obligations	**$ (824.0)**	$ (527.6)	**$ (47.6)**	$ (41.9)
Fair value of plan assets	**676.8**	466.5	**–**	–
Funded status – Plan deficit	**$ (147.2)**	$ (61.1)	**$ (47.6)**	$ (41.9)

26. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Amounts recognized in the consolidated balance sheets are as follows:

	Pension benefits		Postretirement benefits	
	2010	2009	**2010**	2009
Deferred pension charge	**$ 50.7**	$ 28.8	**$ –**	$ –
Accrued benefit liability	**(23.9)**	(22.0)	**(42.2)**	(40.6)
Net amount recognized	**$ 26.8**	$ 6.8	**$ (42.2)**	$ (40.6)

Components of the net benefit costs are as follows:

	Pension benefits		Postretirement benefits	
	2010	2009	**2010**	2009
Service costs	**$ 16.9**	$ 9.5	**$ 1.0**	$ 1.0
Interest costs	**42.5**	40.9	**2.4**	2.6
Actual return on plan assets	**(53.3)**	(86.6)	–	–
Current actuarial loss	**124.5**	101.4	**3.8**	7.6
Current prior service costs	**–**	0.2	**–**	–
Special termination benefits, curtailment loss (gain) and other	**1.0**	7.7	**(0.6)**	(2.2)
Elements of net benefit costs before adjustments to recognize the long-term nature and valuation allowance	**131.6**	73.1	**6.6**	9.0
Difference between actual and expected return on plan assets	**9.0**	48.8	**–**	–
Deferral of amounts arising during the year:				
Actuarial loss	**(124.5)**	(101.4)	**(3.8)**	(7.6)
Prior service costs	**–**	(0.2)	**–**	–
Amortization of previously deferred amounts:				
Actuarial loss (gain)	**1.5**	(0.2)	**–**	(0.1)
Prior service costs (benefits)	**2.2**	0.8	**(0.4)**	(0.4)
Transitional obligations	**(0.5)**	(0.5)	**0.1**	–
Total adjustments to recognize the long-term nature of benefit costs	**(112.3)**	(52.7)	**(4.1)**	(8.1)
Valuation allowance	**–**	(4.7)	**–**	–
Net benefit costs	**$ 19.3**	$ 15.7	**$ 2.5**	$ 0.9

26. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

The expense related to defined contribution pension plans amounted to $11.7 million in 2010 ($10.6 million in 2009).

The total cash amount paid or payable for employee future benefits for all plans, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, totalled $52.7 million for the year ended December 31, 2010 ($37.9 million in 2009).

The weighted average rates used in measuring the Company's benefit obligations as of December 31, 2010 and 2009 and current periodic benefit costs are as follows:

	Pension benefits		Postretirement benefits	
	2010	2009	**2010**	2009
Benefit obligations				
Rates as of year-end:				
Discount rate	**5.25 %**	6.25 %	**5.25 %**	6.25 %
Rate of compensation increase	**3.25**	3.50	**3.25**	3.50
Current periodic costs				
Rates as of preceding year-end:				
Discount rate	**6.25 %**	7.50 %	**6.25 %**	7.50 %
Expected return on plan assets[1]	**7.00**	7.00	**–**	–
Rate of compensation increase	**3.50**	3.50	**3.50**	3.50

[1] After management and professional fees.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 8.2% at the end of 2010. The costs, as per the estimate, are expected to decrease gradually over the next eight years to 5.0% and to remain at that level thereafter. A one percentage-point change in the assumed health care cost trend would have the following effects:

	Postretirement benefits	
Sensitivity analysis	1% increase	1% decrease
Effect on benefit cost	**$ 0.6**	**$ (0.4)**
Effect on benefit obligations	**6.9**	**(5.3)**

27. SUBSEQUENT EVENTS

On January 5, 2011, Quebecor Media issued $325.0 million in aggregate principal amount of Senior Notes for net proceeds of $319.2 million, net of financing fees of $5.8 million. The Senior Notes bear interest at 7.375%, payable every six months on June 15 and December 15, and will mature on January 15, 2021. These notes contain certain restrictions on Quebecor Media, including limitations on its ability to incur additional indebtedness, pay dividends or make other distributions and are unsecured. These notes are redeemable at the option of Quebecor Media, in whole or in part, at any time prior to January 15, 2016 at a price based on a make-whole formula and at a decreasing premium from January 15, 2016 and thereon.

On February 15, 2011, Sun Media Corporation paid an amount of $202.8 million for the redemption and retirement of all of its 7.625% Senior Notes of an aggregate principal amount of US$205.0 million and settled its related hedging contracts for an amount of $105.4 million, representing a total cash consideration of $308.2 million. This transaction resulted in a total loss of $9.4 million (before income taxes and non-controlling interest).

On March 1, 2011, Quebecor Media announced that it has entered into an agreement with Québec City under which it obtained the management and naming rights for a 25-year period related to the arena to be constructed in Québec City. The agreement includes, among other terms, a commitment from Quebecor Media to pay $33.0 million in 2015 for the naming rights to the site of the future facility, a lease for an initial period of 25 years with annual rental payments of approximately $3.0 million, as well as other conditions. The financial commitment from Quebecor Media could potentially increase in the event that an agreement to operate a National Hockey League franchise occurs in the future.