MANAGEMENT DISCUSSION AND ANALYSIS

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COMPANY PROFILE

Quebecor Inc. ("Quebecor" or the "Company") is a holding company with a 54.7% interest in Quebecor Media Inc. ("Quebecor Media"), one of Canada's largest media groups. Quebecor Media's subsidiaries operate in the following business segments: Telecommunications, News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications.

Through its Quebecor Media subsidiary, Quebecor is a leading Canadian media company engaged in cable and mobile telecommunications; newspaper publishing; production and distribution of print media products; broadcasting; retailing, publishing and distribution of books, magazines, DVDs, Blu-ray discs and console games; recording, production and distribution of music; and new media services. Quebecor Media is a leader in developing, promoting and distributing news, entertainment and Internet services targeted at all demographics. Quebecor Media pursues a convergence strategy to capture synergies among all its media properties.

HIGHLIGHTS SINCE END OF 2009

- The Quebecor Media subsidiary's sales topped $4.00 billion for the first time in 2010, propelled by sustained growth in the Telecommunications segment.
- Quebecor's operating income increased by $52.3 million (4.1%) compared with 2009 to reach a total of $1.33 billion in 2010. Operating income continued to grow, despite the negative impact ($32.8 million) on the 2010/2009 comparison of the reversal in 2009 of the provision for Canadian Radio-television and Telecommunications Commission ("CRTC") Part II licence fees, and of costs related to several product launches.

Telecommunications

- The most noteworthy event of 2010 was unquestionably the launch of a new mobile services network ("3G+ network") by Videotron Ltd. ("Videotron") on September 9, 2010. As of December 31, 2010, there were 92,600 subscriber connections to the new network, including 36,800 migrations from the mobile virtual network operator ("MVNO") service. After Montréal, Québec City and municipalities along the Montréal-Québec corridor, Videotron announced the official launch of its 3G+ mobile communications service in the Mauricie, Sherbrooke, Salaberry-de-Valleyfield, Laurentians, Bois-Francs and Côte-de-Beaupré regions in the fourth quarter of 2010.
- Startup costs of Videotron's new 3G+ mobile services network affected the Telecommunications segment's fourth quarter 2010 results. In the first months following a product launch, it is common for the new revenues generated to be insufficient to cover the higher expenses, which in the case of the 3G+ network include customer acquisition costs per new connection and the amortization charge.
- On September 9, 2010, Videotron launched illico mobile, a service delivered over the 3G+ network that provides customers with mobile telephone access to television programs and series from 30 channels, to music from 45 Galaxie channels, and to the illico mobile store, which carries a varied catalogue of nearly 35,000 digital titles.
- On June 16, 2010, Videotron launched its illico web service (*illicoweb.tv*), an Internet television service that delivers a vast selection of content via the Web at no additional cost to subscribers to Videotron's Digital TV and Internet access services. Illico web provides Videotron customers with computer access to hundreds of French- and English-language titles from 33 television channels.
- In 2010, Videotron recorded combined customer growth for all its services for the seventh year in a row.

News Media

- The restructuring and cost-reduction initiatives introduced at the end of 2008 in the News Media segment generated additional savings of approximately $33.0 million in 2010, for total annualized savings of $99.0 million since the program began.
- During 2010, the Company continued developing its investment plan in the News Media segment in order to increase its revenue streams. Among other things, the QMI Agency pursued its development by setting up two newsrooms, in Montréal and Toronto, creating multiplatform teams for event coverage and centralizing photo coverage across Canada. Since July 1, 2010, the QMI Agency has been the main supplier of general news content to our media properties, following the termination of Quebecor Media's relationship with The Canadian Press. Meanwhile, Sun Media Corporation launched eight new community newspapers in 2010. The QMI National Sales Office in Toronto also reached national multiplatform advertising

agreements with new clients and the Quebecor Media Network continued development of its own distribution network, expanding its territory to four new regions in Québec.

- On February 26, 2011, the members of the Syndicat des travailleurs de l'information du Journal de Montréal (STIJM) voted 64.1% to accept the mediator's recommendation for a settlement to the labour dispute at *Le Journal de Montréal*. On January 24, 2009, in view of the union's refusal to recognize the urgency of the situation and the need for far-reaching changes to the *Journal de Montréal*'s business model, the employer had declared a lockout. Quebecor Media expressed satisfaction with the results of the vote by the STIJM membership and accepted the mediator's recommendation. The parties must now negotiate a back-to-work agreement to end the dispute.
- On February 3, 2011, Quebecor Media expanded its distribution network and its stable of community newspapers with the acquisition of Les Hebdos Montérégiens' 15 newspapers. Sun Media Corporation now has 71 community newspapers across Québec and Quebecor Media's distribution network has the capacity to reach more than 3.1 million Québec households (87% of the total).
- On December 16, 2010, the Société de transport de Montréal ("STM") announced an agreement with Quebecor Media for the publication and exclusive distribution of the free daily *24 heures*^MC in Montréal's Métro system. The renewable agreement, with a minimum term of five years, brought *24 heures*^MC into Métro stations as of January 3, 2011.

Other highlights

- In March 2011, Quebecor Media completed another step in its development plan by reaching an agreement with Québec City granting Quebecor Media management and naming rights for a 25-year period related to the arena to be built in Québec City. These rights are a major asset to Quebecor Media in its efforts to obtain a National Hockey League franchise for Québec City.
- On November 26, 2010, the CRTC granted the partnership formed by TVA Group Inc. ("TVA Group") and Sun Media Corporation a licence to operate a Category 2 specialty channel to be known as The Sun TV News Channel ("Sun News"). The new English-language news and opinion channel should launch during the spring of 2011. Sun News will offer comprehensive coverage of the events that impact Canadian society and the country's political and economic life.
- On November 10, 2010, Quebecor Media announced the creation of a new national sales office in Québec. Like the QMI National Sales Office in Toronto for the English-language market, this office will offer the French-language market the new integrated approach to marketing solutions. Quebecor Media is pooling the expertise of its various teams to provide a one-stop shop in Québec, where sales representatives will offer solutions that meet each customer's specific needs.
- On September 7, 2010, TVA Group signed a new collective agreement with its employees in Montréal, which was approved by the membership on July 7, 2010. The new collective agreement expires on December 31, 2012.

Financing

- On January 5, 2011, Quebecor Media completed an issuance of Senior Notes in the aggregate principal amount of $325.0 million, for net proceeds of $319.2 million (net of financing fees). The Notes bear interest at a rate of 7 3/8% and mature in January 2021. This transaction marks Quebecor Media's inaugural offering on the Canadian high-yield market, adding to its established presence in the U.S. high-yield market. Quebecor Media used the net proceeds from the placement to make a $288.0 million injection into Sun Media Corporation and for general corporate purposes. Sun Media Corporation used the Quebecor Media injection to finance the early repayment and withdrawal, on February 15, 2011, of all its outstanding 7 5/8% Senior Notes maturing on February 15, 2013, in the aggregate principal amount of $205.0 million, and to finance the settlement and cancellation of related hedges.
- In May 2010, Osprey Media Publishing Inc. ("Osprey Media") paid down the $114.8 million balance on its term credit facility. On June 30, 2010, all Osprey Media's credit facilities were cancelled.
- On January 14, 2010, Quebecor Media made a US$170.0 million early payment on drawings on its term loan "B" and settled a corresponding portion of its hedge agreements for $30.9 million, for a total cash disbursement of $206.7 million. On January 14, 2010, Quebecor Media also extended the maturity date of its $100.0 million revolving credit facility from January 2011 to January 2013, and obtained certain other advantageous amendments to the covenants attached to its credit facilities.
- On January 13, 2010, Videotron closed a placement of $300 million aggregate principal amount of its 7 1/8% Senior Notes maturing in 2020, for net proceeds of $293.9 million (net of financing fees). This transaction was Videotron's inaugural offering on the Canadian high-yield market.

- On February 18, Quebecor amended the indenture dated February 23, 2001 governing the bonds issued by the Company, which are exchangeable for Subordinate Voting Shares of Quebecor World Inc. As a result of the amendment, the applicable interest rate has been changed from 1.5% to 0.10% per year. All other terms of the indenture are unchanged.

NON-GAAP FINANCIAL MEASURES

The Company uses certain financial measures that are not calculated in accordance with Canadian generally accepted accounting principles ("GAAP") to assess its financial performance. The Company uses these non-GAAP financial measures, such as operating income, adjusted income from continuing operations, cash flows from segment operations, free cash flows from continuing operating activities of the Quebecor Media subsidiary, and average monthly revenue per user ("ARPU"), because the Company believes that they are meaningful measures of its performance. Its method of calculating these non-GAAP financial measures may differ from the methods used by other companies and, as a result, the non-GAAP financial measures presented in this document may not be comparable to other similarly titled measures disclosed by other companies.

Operating income

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

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

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

	Year ended December 31			Three months ended December 31	
	2010	2009	2008	**2010**	2009
Operating income (loss):					
Telecommunications	**$ 1,035.9**	$ 972.9	$ 797.9	**$ 259.6**	$ 280.9
News Media	**200.3**	199.5	227.1	**60.1**	69.3
Broadcasting	**76.2**	80.0	66.0	**29.9**	32.2
Leisure and Entertainment	**27.5**	25.9	20.2	**11.2**	8.4
Interactive Technologies and Communications	**6.0**	4.1	5.1	**2.5**	1.4
Head Office	**(16.9)**	(5.7)	4.8	**(6.9)**	(4.6)
	1,329.0	1,276.7	1,121.1	**356.4**	387.6
Amortization	**(402.2)**	(344.7)	(318.2)	**(122.2)**	(87.5)
Financial expenses	**(287.3)**	(259.0)	(299.1)	**(77.9)**	(70.2)
Gain (loss) on valuation and translation of financial instruments	**46.1**	59.7	17.8	**(23.6)**	2.4
Restructuring of operations, impairment of assets and other special items	**(50.3)**	(29.6)	(54.6)	**(24.3)**	(21.5)
Loss on debt refinancing	**(12.3)**	–	–	**–**	–
Impairment of goodwill and intangible assets	**–**	(13.6)	(671.2)	**–**	–
Income tax	**(156.4)**	(153.2)	(140.4)	**(15.5)**	(59.1)
Non-controlling interest	**(236.5)**	(260.2)	149.3	**(49.4)**	(77.9)
Income from discontinued operations	**–**	1.6	383.3	**–**	–
Net income	**$ 230.1**	$ 277.7	$ 188.0	**$ 43.5**	$ 73.8

Adjusted income from continuing operations

The Company defines adjusted income from continuing operations, as reconciled to net income under Canadian GAAP, as net income before gain (loss) on valuation and translation of financial instruments, charge for restructuring of operations, impairment of assets and other special items, loss on debt refinancing, impairment of goodwill and intangible assets, and the results of discontinued operations, net of income tax and non-controlling interest. Adjusted income from continuing operations as defined above is not a measure of results that is consistent with Canadian GAAP. It should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. Management believes that adjusted income from continuing operations is a meaningful measure that provides an indication of the long-term profitability of the Company's operating activities by eliminating the impact of unusual or one-time items. The Company's definition of adjusted income from continuing operations may not be identical to similarly titled measures reported by other companies.

Table 2 provides a reconciliation of adjusted income from continuing operations to the net income measure used in the consolidated financial statements.

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

	Years ended December 31			hree months ended December 31	
	2010	2009	2008	**2010**	2009
Adjusted income from continuing operations	**$ 230.7**	$ 236.3	$ 179.4	**$ 55.7**	$ 84.0
Gain (loss) on valuation and translation of financial Instruments	**46.1**	59.7	17.8	**(23.6)**	2.4
Restructuring of operations, impairment of assets and other special items	**(50.3)**	(29.6)	(54.6)	**(24.3)**	(21.5)
Loss on debt refinancing	**(12.3)**	–	–	**–**	–
Impairment of goodwill and intangible assets	**–**	(13.6)	(671.2)	**–**	–
Income tax related to adjustments[1]	**11.5**	38.9	3.8	**19.4**	3.7
Non-controlling interest related to adjustments	**4.4**	(15.6)	329.5	**16.3**	5.2
Income from discontinued operations	**–**	1.6	383.3	**–**	–
Net income	**$ 230.1**	$ 277.7	$ 188.0	**$ 43.5**	$ 73.8

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

Cash flows from segment operations

Cash flows from segment operations represents operating income, less additions to property, plant and equipment and acquisitions of intangible assets (excluding disbursements for licence acquisitions and renewals), plus proceeds from disposal of assets. The Company uses cash flows from segment operations as a measure of the liquidity generated by its segments. Cash flows from segment operations represents funds available for interest and income tax payments, expenditures related to restructuring programs, business acquisitions, the payment of dividends and the repayment of long-term debt. Cash flows from segment operations is not a measure of liquidity that is consistent with Canadian GAAP. It is not intended to be regarded as an alternative to other financial operating performance measures or to the statement of cash flows as a measure of liquidity. Cash flows from segment operations is considered to be an important indicator of the Company's liquidity and is used by its management and Board of Directors to evaluate cash flows generated by its segments' operations. When cash flows from segment operations is reported, a reconciliation to operating income is provided in the same section of the report.

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

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

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

Table 3
Reconciliation of free cash flows from continuing operating activities to cash flows provided by continuing operating activities of the Quebecor Media subsidiary
(in millions of Canadian dollars)

	2010	2009	2008
Free cash flows from continuing operating activities (Table 5)	**$ 103.6**	$ 350.5	$ 243.2
Additions to property, plant and equipment	**705.6**	491.1	465.6
Additions to intangible assets[1]	**113.9**	111.5	83.0
Proceeds from disposal of assets[2]	**(53.0)**	(3.6)	(5.7)
Cash flows provided by operating activities	**$ 870.1**	$ 949.5	$ 786.1

[1] Excluding initial disbursement in 2008 for acquisition of 3G+ network licences.

[2] 2010 figures include the sale of certain tangible assets in the News Media segment.

Average monthly revenue per user

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

INTEREST IN SUBSIDIARIES

Quebecor holds a 54.7% interest in Quebecor Media. Table 4 shows Quebecor Media's equity interest in its main subsidiaries as of December 31, 2010.

Table 4
Quebecor Media's interest (direct and indirect) in its main subsidiaries
December 31, 2010

	Percentage of equity	**Percentage of vote**
Videotron	100.0%	100.0%
Sun Media Corporation	100.0%	100.0%
Osprey Media	100.0%	100.0%
Canoe	100.0%	100.0%
TVA Group	51.4%	99.9%
Archambault Group	100.0%	100.0%
Sogides Group	100.0%	100.0%
CEC Publishing	100.0%	100.0%
Nurun	100.0%	100.0%

Quebecor Media's interest in its subsidiaries has not varied significantly over the past three years, with the exception of the acquisition of the outstanding Common Shares of Nurun Inc. ("Nurun") that were not already held for a total cash consideration of $75.2 million in 2008 and TVA Group's repurchase of 3,000,642 Class B shares for a cash consideration of $51.4 million in 2008. Over the past three years, Quebecor Media's equity interest in TVA Group has increased from 45.2% at January 1, 2008 to 51.4% as of December 31, 2010. During the same period, Quebecor Media's interest in Canoe Inc. ("Canoe") increased from 92.5% to 100.0%.

On January 1, 2011, Osprey Media was wound up and its operations integrated into Sun Media Corporation.

2010/2009 FINANCIAL YEAR COMPARISON

Analysis of Consolidated Results of Quebecor

Revenue: $4.00 billion, an increase of $193.7 million (5.1%).

- Revenues increased in Telecommunications ($207.8 million or 10.4% of segment revenues) mainly because of customer growth for all services, in Broadcasting ($9.2 million or 2.1%), and in Interactive Technologies and Communications ($7.0 million or 7.7%).
- Revenues decreased in News Media (by $20.1 million or -1.9%), mainly because of lower advertising revenues at the community newspapers and directories, as well as lower circulation revenues, and also in Leisure and Entertainment ($5.3 million or -1.7%).

Operating income: $1.33 billion, an increase of $52.3 million (4.1%).

- Operating income increased in Telecommunications ($63.0 million or 6.5% of segment operating income), in Interactive Technologies and Communications ($1.9 million or 46.3%), and in Leisure and Entertainment ($1.6 million or 6.2%).
- The News Media segment's operating income was flat.
- Operating income decreased in Broadcasting (by $3.8 million or -4.8%).
- The variance in operating income includes a $32.8 million unfavourable variance (including $25.6 million in the Telecommunications segment and $7.2 million in the Broadcasting segment) related to the adjustment to CRTC Part II licence fees in 2009 (for more details, see "Part II licence fees" under "2010/2009 Financial Year Comparison" in the discussion of the results of the Telecommunications and Broadcasting segments).
- A change in the fair value of Quebecor Media resulted in a $1.4 million unfavourable variance in the stock-based compensation charge in 2010 compared with 2009. The increase in Quebecor's stock price resulted in a $16.5 million unfavourable variance in the Company's stock-based compensation charge in 2010.
- Excluding the impact of the stock-based compensation charge, and if the figures for prior periods were restated to retroactively reflect the reversal of the accumulated CRTC Part II licence fee provision in the fourth quarter of 2009, the increase in operating income in 2010 would have been 8.2%, compared with 11.3% in 2009.

Net income: $230.1 million ($3.58 per basic share), compared with $277.7 million ($4.32 per basic share) in 2009, a decrease of $47.6 million ($0.74 per basic share) or -17.1%.

- The decrease was mainly due to:
  - $57.5 million increase in amortization charge;
  - $28.3 million increase in financial expenses;
  - $20.7 million increase in charge for restructuring of operations, impairment of assets and other special items;
  - $13.6 million unfavourable variance in gains on valuation and translation of financial instruments;
  - recognition in 2010 of losses on debt refinancing, totalling $12.3 million.

  Partially offset by:
  - $52.3 million increase in operating income;
  - favourable variance in 2010 related to recognition in 2009 of a $13.6 million non-cash charge for impairment of goodwill and intangible assets.

Adjusted income from continuing operations: $230.7 million in 2010 ($3.59 per basic share), compared with $236.3 million ($3.68 per basic share) in 2009, a decrease of $5.6 million ($0.09 per basic share) or -2.4%.

Amortization charge: $402.2 million, a $57.5 million increase due mainly to significant capital expenditures in 2009 and 2010 in the Telecommunications segment, including commencement of amortization of 3G+ network equipment and licences following the network launch on September 9, 2010.

Financial expenses: $287.3 million, an increase of $28.3 million.

- The increase was due mainly to:
  - $7.9 million unfavourable variance in exchange rates on operating items;
  - higher base interest rates;
  - $4.8 million decrease in interest capitalized to property, plant and equipment and intangible assets. This amount is the portion of interest no longer capitalized to investment in the development of the 3G+ network since the network launch on September 9, 2010.

Gain on valuation and translation of financial instruments: $46.1 million in 2010 compared with $59.7 million in 2009, an unfavourable variance of $13.6 million.

- The increase was mainly due to the unfavourable variance in gains and losses on the ineffective portion of fair value hedges resulting from interest rate fluctuations.

Charge for restructuring of operations, impairment of assets and other special items: $50.3 million compared with $29.6 million in 2009, an unfavourable variance of $20.7 million.

- In connection with the startup of its 3G+ network, Videotron recorded a $10.0 million charge for cancellation of its MVNO contract and a $13.9 million charge for migration costs.
- A $0.6 million charge for restructuring of operations ($0.3 million in 2009), a $0.2 million charge for impairment of assets ($0.2 million in 2009), and a $3.3 million gain on sale of assets ($0.8 million loss in 2009) were recorded in the Telecommunications segment in 2010.
- In 2010, a $17.8 million charge for restructuring of operations was recorded in the News Media segment in connection with new staff-reduction programs, compared with a $26.3 million charge in 2009. Some segment assets were also sold following these initiatives, resulting in a net gain of $2.5 million in 2010. In addition, a $3.5 million non-cash impairment charge on certain assets was recorded in 2010, compared with $0.4 million in 2009.
- In connection with the repositioning of the over-the-air television station Sun TV and with the creation of the new Sun News specialty channel, the Broadcasting segment recognized an $8.2 million asset impairment charge on equipment and broadcast rights in 2010.
- A $1.9 million charge for restructuring and other items was recorded in other segments in 2010, compared with $1.6 million in 2009.

Loss on debt refinancing: $12.3 million in 2010 compared with nil in 2009.

- On January 14, 2010, Quebecor Media made a US$170.0 million early payment on drawings on its term loan “B” and settled a corresponding portion of its hedge agreements in the amount of $30.9 million, for a total cash disbursement of $206.7 million. This transaction generated a $10.4 million loss on debt refinancing (excluding income tax and non-controlling interest), including the $6.5 million loss already reported in other comprehensive income and reclassified in the statement of income.
- In May 2010, Osprey Media paid down the balance of its term credit facility and settled related hedge agreements for a total cash consideration of $116.3 million. This transaction led to the reclassification to income of a $1.9 million loss (excluding income tax and non-controlling interest) previously recorded under other comprehensive income. Osprey Media’s credit facilities were cancelled on June 30, 2010.

Non-cash charge for impairment of goodwill and intangible assets: Nil in 2010 compared with $13.6 million in 2009.

- An additional non-cash goodwill impairment charge of $5.6 million, without any tax consequences, was recorded in 2009 as an adjustment to the non-cash goodwill impairment charge recorded in the fourth quarter of 2008.
- The Company recorded an $8.0 million charge in 2009 for impairment of mastheads of publications in the News Media segment, following its annual impairment test.

Income tax expense: $156.4 million (effective tax rate of 25.1%) in 2010, compared with $153.2 million (effective tax rate of 22.2%) in 2009.

- The $3.2 million unfavourable variance, the effective tax rates and the fluctuation in those rates in 2010 compared with 2009 were primarily due to:

- favourable impact in 2009 of lower tax rates on passive income introduced by the governments of Québec and Ontario;
- less favourable impact in 2010 of tax rate mix on the various components of the gains and losses on financial instruments and derivative financial instruments, and on translation of financial instruments.

Partially offset by:

- impact of decrease in income before income tax and non-controlling interest;
- reduction in future tax liabilities in 2010 in light of developments in tax audits, jurisprudence and tax legislation.

Free cash flows from continuing operating activities of Quebecor Media: $103.6 million in 2010, compared with $350.5 million in 2009 (Table 5).

- The $246.9 million decrease was essentially due to:
  - $214.5 million increase in additions to property, plant and equipment, mainly because of spending on the 3G+ network in the Telecommunications segment;
  - $72.3 million increase in use of funds for non-cash balances related to operations, mainly because of an increase in investments in the Telecommunications segment following the launch of the 3G+ network;
  - $26.8 million increase in current income taxes;
  - $24.9 million increase in cash interest expense;
  - $9.2 million increase in the cash portion of charge for restructuring of operations, impairment of assets and other special items.

  Partially offset by:

  - $63.1 million increase in operating income;
  - $49.4 million favourable variance in proceeds from disposal of assets, essentially due to the sale of certain tangible assets in the News Media segment.

Table 5: Quebecor Media
Free cash flows from continuing operating activities
(in millions of Canadian dollars)

	2010	2009	2008
Cash flows from segment operations:			
Telecommunications	**$ 285.1**	$ 451.0	$ 384.6
News Media	**221.3**	156.9	140.3
Broadcasting	**52.6**	56.9	44.2
Leisure and Entertainment	**17.9**	18.3	5.6
Interactive Technologies and Communications	**3.4**	0.7	1.5
Head Office and other	**1.0**	1.9	0.5
	581.3	685.7	576.7
Cash interest expense[1]	**(252.9)**	(228.0)	(266.7)
Cash portion of charge for restructuring of operations and other special items	**(38.4)**	(29.2)	(35.5)
Current income taxes	**(56.5)**	(29.7)	(12.7)
Other	**(4.7)**	4.6	(0.3)
Net change in non-cash balances related to operations	**(125.2)**	(52.9)	(18.3)
Free cash flows from continuing operating activities	**$ 103.6**	$ 350.5	$ 243.2

[1] Interest on long-term debt, foreign currency translation of short-term monetary items and other interest expenses, less interest capitalized to cost of property, plant and equipment, and intangible assets.

Table 6
Reconciliation of cash flows from segment operations of Quebecor Media to its operating income
(in millions of Canadian dollars)

	2010	2009	2008
Operating income	**$ 1,347.8**	$ 1,284.7	$ 1,119.6
Additions to property, plant and equipment	**(705.6)**	(491.1)	(465.6)
Acquisitions of intangible assets[1]	**(113.9)**	(111.5)	(83.0)
Proceeds from disposal of assets[2]	**53.0**	3.6	5.7
Cash flows from segment operations	**$ 581.3**	$ 685.7	$ 576.7

1 Excluding initial disbursement in 2008 for acquisition of 3G+ network licences.
2 2010 figures include the sale of certain tangible assets in the News Media segment.

Segmented Analysis

Telecommunications

In Quebecor Media's Telecommunications segment, Videotron is the largest cable operator in Québec and the third-largest in Canada by customer base. Its state-of-the-art network passes 2,612,400 homes and serves approximately 2,024,800 customers. At December 31, 2010, Videotron had 1,811,600 cable television customers, including 1,219,600 subscribers to its illico Digital TV service. Videotron is also an Internet Service Provider ("ISP") and telephone service provider, with 1,252,100 subscribers to its cable Internet access services and 1,114,300 subscribers to its cable telephone service. On September 9, 2010, Videotron launched a 3G+ network to deliver advanced mobile telephone services, including high-speed Internet access, mobile television and many other functionalities supported by smartphones. As of December 31, 2010, there were 136,100 subscriber connections to Videotron's mobile service, including 92,600 connections to its new 3G+ network. Videotron also includes Videotron Business Solutions, a full-service business telecommunications provider that offers telephone, high-speed data transmission, Internet access, hosting, and cable television services, and Le SuperClub Vidéotron ltée ("Le SuperClub Vidéotron") and its network of franchises, which sell and rent DVDs, Blu-ray discs and console games.

2010 operating results

Revenues: $2.21 billion in 2010, an increase of $207.8 million (10.4%).

- Combined revenues from all cable television services increased $75.0 million (8.6%) to $950.6 million, due primarily to customer base growth, increases in some rates (reflecting, in part, the passing on to customers of CRTC fees for the Local Programming Improvement Fund), the migration from analog to digital service, increased video on demand and pay TV orders, and the success of high definition ("HD") packages.
- Revenues from Internet access services increased $70.1 million (12.2%) to $644.3 million. The improvement was mainly due to customer growth, customer migration to more advanced services, increases in some rates, and overage fees.
- Revenues from cable telephone service increased $56.1 million (15.9%) to $409.9 million, almost entirely due to customer growth.
- Revenues from mobile telephone service increased $11.7 million (28.3%) to $53.2 million, essentially because of customer growth resulting largely from the launch of the 3G+ network on September 9, 2010.
- Revenues of Videotron Business Solutions increased $1.5 million (2.5%) to $59.8 million.
- Revenues of Le SuperClub Vidéotron decreased $8.3 million (-26.2%) to $23.3 million, mainly as a result of the franchising of stores since January 2009 and the closure of some corporate stores.
- Other revenues increased $1.7 million (2.6%) to $68.1 million due mainly to increased equipment sales to customers.

Monthly ARPU: $95.73 in 2010, compared with $88.21 in 2009, an increase of $7.52 (8.5%).

Customer statistics

Cable television – The combined customer base for all of Videotron's cable television services increased by 34,600 (1.9%) in 2010, compared with increases of 61,400 and 77,500 in 2009 and 2008 respectively (Table 7). As of December 31, 2010, Videotron had 1,811,600 customers for its cable television services, a household penetration rate of 69.3% (number of subscribers as a proportion of total homes passed by Videotron's network, i.e., 2,612,400 homes, as of the end of December 2010), compared with 69.0% a year earlier.

- The customer base for the Digital TV service stood at 1,219,600 at December 31, 2010, an increase of 135,500 (12.5%) during the year, compared with increases of 156,800 and 159,100 in 2009 and 2008 respectively. As of December 31, 2010, illico Digital TV had a household penetration rate of 46.7% versus 42.1% a year earlier.
- Migration from analog to digital service was the main reason for the 100,900 (-14.6%) decrease in the customer base for analog cable television services in 2010. By comparison, the number of subscribers to analog cable services decreased by 95,400 and 81,600 in 2009 and 2008 respectively.

Internet access – The number of subscribers to cable Internet access services stood at 1,252,100 at December 31, 2010, an increase of 81,500 (7.0%) from year-end 2009, compared with increases of 106,800 and 130,800 in 2009 and 2008 respectively (Table 7). At December 31, 2010, Videotron's cable Internet access services had a household penetration rate of 47.9%, compared with 45.5% a year earlier.

Cable telephone service – The number of subscribers to cable telephone service stood at 1,114,300 at the end of December 2010, an increase of 100,300 (9.9%) from year-end 2009, compared with increases of 162,000 in 2009 and 215,600 in 2008 (Table 7). At December 31, 2010, the IP telephone service had a household penetration rate of 42.7%, compared with 39.4% a year earlier.

Mobile telephone service – As of December 31, 2010, the number of subscriber connections to the mobile telephone service stood at 136,100, an increase of 53,300 (64.4%) from year-end 2009. (Since September 9, 2010, there have been 92,600 subscriber additions to the new network, including 36,800 migrations from the MVNO network.) Leading up to the launch of the 3G+ network on September 9, 2010, activations on the MVNO network were ended as of July 1, 2010 (Table 7). There were 19,400 subscriber additions to the MVNO service in 2009 and 18,300 in 2008.

Table 7
Telecommunications segment year-end customer numbers (2006-2010)
(in thousands of customers)

	2010	2009	2008	2007	2006
Cable television:					
Analog	**592.0**	692.9	788.3	869.9	948.8
Digital	**1,219.6**	1,084.1	927.3	768.2	623.6
Total cable television	**1,811.6**	1,777.0	1,715.6	1,638.1	1,572.4
Cable Internet	**1,252.1**	1,170.6	1,063.8	933.0	792.0
Cable telephone	**1,114.3**	1,014.0	852.0	636.4	397.8
Mobile telephone (thousands of connections)	**136.1**	82.8	63.4	45.1	11.8

Operating income: $1.04 billion, an increase of $63.0 million (6.5%).

- The increase was due primarily to:
  - customer growth for all services;
  - increases in some cable television and Internet access rates;
  - increases in Internet overage fees and in contribution to income from HD packages, video on demand and pay TV;
  - more favourable operating margins on digital set-top boxes.

  Partially offset by:
  - $25.6 million unfavourable variance resulting from the adjustment in 2009 to the provision for CRTC Part II licence fees (for details, see "Part II licence fees");
  - increases in some operating expenses, among them costs related to the roll-out of the 3G+ network, including acquisition costs of $471 per subscriber addition (direct costs, including selling, advertising and marketing expenses and equipment subsidies);
  - $7.4 million non-recurring reduction in operating expenses in 2009;
  - $2.8 million unfavourable variance in the stock-based compensation charge.
- Excluding the variance in the stock-based compensation charge, and if the figures for all prior periods were restated to reflect the CRTC Part II licence fee adjustment, segment operating income would have increased by 9.6% in 2010, compared with 16.6% in 2009.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 53.1% in 2010, compared with 51.4% in 2009.

- The increase was due primarily to:
  - higher operating costs related to the roll-out of the 3G+ network;
  - impact of the adjustment to the provision for CRTC Part II licence fees, which was favourable in 2009.

  Partially offset by:
  - marginal impact on costs of increases in some rates.

Cash flows from operations

Cash flows from segment operations: $285.1 million in 2010, compared with $451.0 million in 2009 (Table 8).

- The $165.9 million decrease was mainly due to a $233.9 million increase in additions to property, plant and equipment, essentially as a result of spending on the 3G+ network, partially offset by the $63.0 million increase in operating income.

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

	2010	2009	2008
Operating income	**$ 1,035.9**	$ 972.9	$ 797.9
Additions to property, plant and equipment	**(668.0)**	(434.1)	(356.7)
Acquisitions of intangible assets[1]	**(90.6)**	(89.9)	(60.1)
Proceeds from disposal of assets	**7.8**	2.1	3.5
Cash flows from segment operations	**$ 285.1**	$ 451.0	$ 384.6

[1] Excluding the initial disbursement in 2008 for acquisition of 3G+ network licences.

Part II licence fees

In 2003 and 2004, a number of companies, including Videotron, brought suit against the Crown before the Federal Court alleging that the Part II licence fees paid annually to the CRTC by broadcasters and broadcasting distribution undertakings constituted, in fact and in law, unlawful taxes under the *Broadcasting Act* (Canada). Following a Federal Court of Appeal judgement in 2008 overturning a Federal Court ruling in favour of the plaintiffs, leave to appeal to the Supreme Court of Canada was granted in 2008. In view of the unfavourable Court of Appeal judgement, the Company recognized a provision totalling $25.6 million for Part II licence fees in 2008, including a retroactive provision for Part II licence fees accumulated since September 1, 2006.

On October 7, 2009, the parties to the proceeding, including Videotron, agreed to 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 from September 1, 2006 through August 31, 2009. In view of this settlement, in the fourth quarter of 2009, the Company reversed a $33.8 million provision for unpaid Part II licence fees in the Telecommunications segment as of August 31, 2009. The CRTC amended its regulations to limit the amount of the Part II licence fees for periods subsequent to August 31, 2009. The Telecommunications segment's results for the period from September 1, 2009 to December 31, 2009 and for the year 2010 include provisions of $3.3 million and $10.0 million respectively.

News Media

Quebecor Media's News Media segment, which includes Sun Media Corporation and Osprey Media, is Canada's largest newspaper chain, counting both paid and free circulation, according to corporate figures. On January 1, 2011, Osprey Media's operations were integrated into those of Sun Media Corporation. As of December 31, 2010, the News Media segment was publishing 36 paid-circulation dailies and 6 free dailies, including newspapers in nine of the ten largest urban markets in the country. It also publishes 198 community weeklies, magazines, weekly buyers' guides, farm publications, and other specialty publications. According to corporate figures, the aggregate circulation of the News Media segment's paid and free newspapers was approximately 15.1 million copies per week as of December 31, 2010.

The News Media segment also includes Canoe, an integrated company offering e-commerce, information and communication services. Canoe operates the Internet portal network of the same name, which logs over 8.7 million unique visitors per month in Canada, including 4.1 million in Québec (according to comScore Media Metrix figures for December 2010). The network owns or operates a family of sites that includes *canoe.ca*, *canoe.qc.ca* and La Toile du Québec (*toile.com*). Canoe also operates a number of e-commerce sites: *jobboom.com* (employment), *micasa.ca* (real estate), *autonet.ca* (automobiles), *reseaucontact.com* (dating), *space.canoe.ca* and *espace.canoe.ca* (social networking), *classifieds.canoe.ca* and *classees.canoe.ca* (classified ads), and *canoeklix*.com (cost-per-click advertising solutions).

As well, the News Media segment is engaged in the distribution of newspapers, magazines, inserts and flyers through, among others, the Quebecor Media Network. The segment also includes the QMI Agency, a news agency that provides content to all Quebecor Media properties and outside customers. In addition, the News Media segment offers commercial printing and related services to other publishers through its national printing and production platform. Through Quebecor MediaPages™, it conducts a combination of print and online directory publishing operations.

2010 operating results

Revenues: $1.03 billion, a decrease of $20.1 million (-1.9%).

- Circulation revenues decreased 5.7% and advertising revenues 1.6%, mainly because of declines at the community newspapers and directories, while combined revenues from commercial printing and other sources increased 5.6%.
- Revenues increased 1.0% at the urban dailies and decreased 4.8% at the community newspapers.
- Revenues decreased 10.7% at the portals, essentially because of a 22.7% decline at the general-interest portals due to the distribution of some assets as part of a reorganization in June 2009 and the loss of a contract, partially offset by a 2.5% increase in revenues at the special-interest portals.

Operating income: Stable at $200.3 million.

- The following favourable factors:
  - impact of restructuring initiatives, which generated an additional $33.0 million in cost savings;
  - $5.0 million favourable variance in multimedia employment tax credits;
  - $1.2 million impact of decrease in newsprint prices;
  - synergies from operational integration of Canoe;

  were offset by:
  - impact of revenue decrease;
  - unfavourable variance related to reversal of provisions for bonuses in 2009;
  - increases in some operating expenses, including community newspaper startup costs in Québec and investments made to improve the quality of the free Toronto newspaper *24 Hours*™;
  - unfavourable variance related to Quebecor Media Network startup costs.
- Excluding the impact of the stock-based compensation charge and Quebecor Media Network startup costs, operating income would have increased by 4.1% in 2010, compared with a 7.3% decrease in 2009.

The restructuring measures introduced in late 2008 in the News Media segment included staff cuts, consolidation of prepress, shipping and press room operations, centralization of administrative processes, consolidation of distribution networks, and other resource centralization and optimization efforts across the segment's operations in all regions. While the restructuring proceeds, development continues on new revenue streams, such as revenues from the marketing of content produced by the QMI Agency and the development of integrated, convergent solutions for customers. These include marketing initiatives by the new QMI National Sales Office and Quebecor Media Network's integrated offerings of products and services.

Cost/revenue ratio: Operating costs for all News Media segment operations (expressed as a percentage of revenues) were 80.6% in 2010, compared with 81.1% in 2009. The decrease was mainly due to the restructuring initiatives and synergies, which yielded significant cost reductions, and higher employment tax credits, partially offset by the unfavourable impact of the fixed component of operating costs, which does not fluctuate in proportion to revenue decreases, the unfavourable variance related to the reversal of provisions for bonuses in 2009, and Quebecor Media Network startup costs.

Cash flows from segment operations: $221.3 million in 2010, compared with $156.9 million in 2009 (Table 9).

- The $64.4 million increase was due essentially to a $43.3 million favourable variance in proceeds from disposal of assets, resulting primarily from the sale of certain tangible assets in the second quarter of 2010, and the $22.0 million decrease in additions to property, plant and equipment.

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

	2010	2009	2008
Operating income	**$ 200.3**	$ 199.5	$ 227.1
Additions to property, plant and equipment	**(11.4)**	(33.4)	(77.1)
Acquisitions of intangible assets	**(12.0)**	(10.3)	(11.4)
Proceeds from disposal of assets	**44.4**	1.1	1.7
Cash flows from segment operations	**$ 221.3**	$ 156.9	$ 140.3

Other developments in 2010

On December 9, 2010, AbitibiBowater Canada Inc. ("AbitibiBowater") successfully completed a reorganization and emerged from creditor protection under the *Companies' Creditors Arrangement Act* in Canada and Chapter 11 of the *United States Bankruptcy Code*. AbitibiBowater is the main supplier of newsprint to the News Media segment.

Broadcasting

TVA Group is the largest private producer and broadcaster of French-language entertainment, information and public affairs programming in North America. It is the sole owner of 6 of the 10 television stations in the TVA Network, the English-language over-the-air station Sun TV, and the specialty channels LCN, AddikTV (formerly "Mystère"), Argent, Prise 2, YOOPA and CASA (formerly "Les idées de ma maison"). TVA Group also holds interests in two other TVA Network affiliates, the Canal Évasion specialty channel, and the English-language digital specialty channels The Cave and Mystery. As well, TVA Group holds a 51% interest in Sun News, the new English-language information and opinion specialty channel due to launch during the spring of 2011. TVA Group's TVA Boutiques inc. subsidiary is engaged in teleshopping and online shopping. Its TVA Films division distributes films and television programs. The TVA Publishing Inc. ("TVA Publishing") subsidiary operates more than 20 brands in the general-interest and entertainment categories. It is the largest publisher of French-language magazines in Québec, with over 70 magazines and 4 websites. Its TVA Studio division specializes in commercial production for the magazines.

2010 operating results

Revenues: $448.2 million, an increase of $9.2 million (2.1%).

- Revenues from television operations increased $9.0 million, mainly due to:
  - higher advertising and subscription revenues at the specialty channels;
  - an increase in the TVA Network's revenues from the Local Programming Improvement Fund;
  - higher revenues from commercial production and from TVA Films.

  Partially offset by:
  - unfavourable variance in revenues from Canal Indigo due to the sale of the entity to Videotron on December 1, 2009;
  - lower advertising revenues at the TVA Network, in part because of migration of advertising dollars to other networks during the 2010 hockey playoffs and the Vancouver Olympics.
- Total revenues from publishing operations increased by $1.0 million because of higher grant and advertising revenues, partially offset by lower revenues from newsstand sales.

Operating income: $76.2 million, a decrease of $3.8 million (-4.8%).

Operating income from television operations decreased $4.5 million, mainly due to:

- $7.2 million unfavourable variance resulting from the adjustment to the provision for CRTC Part II licence fees in 2009 (for details, see "Part II licence fees");
- higher content costs at the TVA Network and specialty channels as a result of programming strategy.

Partially offset by:

- impact of increased revenues at the specialty channels and TVA Films;
- favourable variance in 2010 related to recognition in 2009 of a $1.2 million allowance for bad debts in TVA Films due to one customer's precarious financial position.

- Operating income from publishing operations increased by $0.6 million, mainly as a result of the impact of the revenue increase.

Cost/revenue ratio: Operating costs for all Broadcasting segment operations (expressed as a percentage of revenues) were 83.0% in 2010, compared with 81.8% in 2009. The increase in costs as a proportion of revenues mainly reflects higher content costs at the TVA Network and specialty channels, as well as the impact of adjustments to CRTC Part II licence fees, which was favourable in 2009.

Cash flows from segment operations: $52.6 million in 2010, compared with $56.9 million in 2009, a decrease of $4.3 million (Table 10).

- The negative variance was mainly due to the $3.8 million decrease in operating income.

Table 10: Broadcasting
Cash flows from operations
(in millions of Canadian dollars)

	2010	2009	2008
Operating income	**$ 76.2**	$ 80.0	$ 66.0
Additions to property, plant and equipment	**(18.5)**	(16.5)	(17.8)
Acquisitions of intangible assets	**(5.9)**	(7.0)	(4.1)
Proceeds from disposal of assets	**0.8**	0.4	0.1
Cash flows from segment operations	**$ 52.6**	$ 56.9	$ 44.2

Other developments in 2010

On March 17, 2010, the Board of Directors of TVA Group authorized a normal course issuer bid for up to 972,545 Class B shares, or approximately 5% of the issued and outstanding Class B shares. The purchases will be made at prevailing market prices, on the open market through the facilities of the Toronto Stock Exchange ("TSX"), and in accordance with the requirements of the Exchange. No Class B shares were repurchased in 2010.

On October 13, 2010, the CRTC approved TVA Group's licence applications for two French-language Category 2 specialty channels. The first will carry programs about fashion, beauty and lifestyle, and is scheduled to launch in spring 2011. The second will carry programs about celebrity news, the entertainment industry and humour.

On February 26, 2010, the CRTC approved TVA Group's licence application for a Category 2 specialty channel devoted to all facets of sports, focusing on Canadian pro sports with mass appeal.

Part II licence fees

The facts noted in the discussion of the results of the Telecommunications segment above, under "Part II licence fees," also apply to the Broadcasting segment. In 2008, the Broadcasting segment recorded provisions for Part II licence fees totalling $7.2 million, including a retroactive provision for Part II licence fees accumulated since September 1, 2006. Further to the out-of-court settlement reached on October 7, 2009, in the fourth quarter of 2009, the Broadcasting segment reversed a $9.0 million provision for Part II licence fees accrued since September 1, 2006 and unpaid as of August 31, 2009. In view of the new method for assessing CRTC

Part II licence fees, the Broadcasting segment's results for the period from September 1, 2009 to December 31, 2009 and for the year 2010 include provisions of $0.8 million and $2.2 million respectively.

Leisure and Entertainment

The operations of the Leisure and Entertainment segment consist primarily of retail sales of CDs, books, DVDs, Blu-ray discs, musical instruments, games and toys, video games, gift ideas and magazines through the chain of stores operated by Archambault Group Inc. ("Archambault Group") and the *archambault.ca* e-commerce site; online sales of downloadable music and e-books through the *ZIK.ca* service and *jelis.ca*; distribution of CDs, DVDs and Blu-ray discs (Distribution Select); distribution of music to Internet download services (Select Digital); music recording and video production (Musicor); recording of live concerts, production of concert videos and television commercials (Les Productions Select TV), and concert production (Musicor Spectacles). With the production capabilities of Musicor Spectacles and Les Productions Select TV, Archambault Group is a fully integrated Canadian music company, a producer offering a complete range of media solutions and an increasingly active player in the concerts and cultural events industry.

The Leisure and Entertainment segment is also engaged in the book industry (Book Division) through academic publisher CEC Publishing Inc. ("CEC Publishing"), 13 general literature publishers under the Sogides Group Inc. ("Sogides Group") umbrella, and Messageries ADP inc. ("Messageries ADP"), the exclusive distributor for approximately 165 Québec and European French-language publishers.

2010 operating results

Revenues: $302.5 million, a decrease of $5.3 million (-1.7%).

- Archambault Group's revenues decreased 3.9%, mainly because of:
  - 4.6% drop in retail sales, due primarily to lower sales of CDs, videos and books at Archambault stores, partially offset by higher revenues from the *archambault.ca* site;
  - 1.6% decrease in the distribution division's revenues due to fewer hit CDs than in 2009;
  - 17.0% decrease in production sales as a result of an unfavourable variance in concert videos for pay TV.
- The Book Division's revenues increased by 1.9%, mainly because of increased sales of textbooks for Québec primary schools, high schools and community colleges in the academic segment, partially offset by fewer general literature titles distributed and published.

Operating income: $27.5 million in 2010, compared with $25.9 million in 2009. The $1.6 million (6.2%) increase was due primarily to the impact of increased operating income in the Book Division generated by higher revenues and profitability at CEC Publishing, which was partially offset by the impact of lower revenues at Archambault Group, combined with slimmer operating margins at Archambault stores.

Cash flows from segment operations: $17.9 million in 2010, compared with $18.3 million in 2009 (Table 11).

- The $0.4 million decrease was due to the $2.0 million increase in additions to property, plant and equipment and intangible assets, partially offset by the $1.6 million increase in operating income.

Table 11: Leisure and Entertainment
Cash flows from operations
(in millions of Canadian dollars)

	2010	2009	2008
Operating income	**$ 27.5**	$ 25.9	$ 20.2
Additions to property, plant and equipment	**(4.2)**	(3.6)	(8.9)
Acquisitions of intangible assets	**(5.4)**	(4.0)	(7.4)
Proceeds from disposal of assets	**–**	–	1.7
Cash flows from segment operations	**$ 17.9**	$ 18.3	$ 5.6

Interactive Technologies and Communications

The Interactive Technologies and Communications segment consists of Nurun, which is engaged in Web, intranet and extranet development, technological platforms for content management, e-commerce, interactive television, automated publishing solutions, and e-marketing and customer relationship management ("CRM") strategies.

2010 operating results

Revenues: $98.0 million, an increase of $7.0 million (7.7%).

- The increase was due primarily to increased volumes from customers in Europe, North America and Asia, partially offset by unfavourable variances in currency translation, mainly in Europe.

Operating income: $6.0 million, an increase of $1.9 million (46.3%).

- The increase was due mainly to:
  - impact of increased revenues;
  - impact of restructuring and profitability improvement initiatives introduced in North America in 2009.

  Partially offset by:
  - higher labour costs;
  - impact of decreased volumes and downward price pressure on business with government customers.

Cash flows from segment operations: $3.4 million in 2010, compared with $0.7 million in 2009 (Table 12).

- The $2.7 million increase was mainly due to the $1.9 million increase in operating income and the $0.8 million decrease in additions to property, plant and equipment and intangible assets.

Table 12: Interactive Technologies and Communications
Cash flows from operations
(in millions of Canadian dollars)

	2010	2009	2008
Operating income	**$ 6.0**	$ 4.1	$ 5.1
Additions to property, plant and equipment	**(2.6)**	(3.1)	(3.6)
Acquisitions of intangible assets	**–**	(0.3)	–
Cash flows from segment operations	**$ 3.4**	$ 0.7	$ 1.5

2010/2009 FOURTH QUARTER COMPARISON

Analysis of Consolidated Results of Quebecor

Revenues: $1.09 billion, an increase of $55.9 million (5.4%).

- Revenues increased in Telecommunications ($53.0 million or 9.9% of segment revenues), mainly due to customer growth for all services, in Broadcasting ($4.9 million or 3.8%), Interactive Technologies and Communications ($4.4 million or 18.7%) and in Leisure and Entertainment ($2.1 million or 2.2%).
- Revenues decreased in News Media (by $6.7 million or -2.4%), mainly because of lower advertising revenues at the community newspapers and directories, and lower circulation revenues.

Operating income: $356.4 million, a decrease of $31.2 million (-8.0%).

- Operating income decreased in Telecommunications (by $21.3 million or -7.6% of segment operating income) and in Broadcasting ($2.3 million or -7.1%). The decrease in operating income includes unfavourable variances of $33.8 million in the Telecommunications segment and $9.0 million in the Broadcasting segment related to the adjustment to the provision for CRTC Part II licence fees in 2009 (for more details, see "Part II licence fees" under "2010/2009 Financial Year Comparison" in the discussion of the results of the Telecommunications and Broadcasting segments). The Telecommunications segment's results were also affected by increases in some operating expenses, among them costs related to the roll-out of the 3G+ network, including acquisition costs of $471 per subscriber addition.
- Operating income decreased in News Media ($9.2 million or -13.3%).
- Operating income increased in Leisure and Entertainment (by $2.8 million or 33.3%) and in Interactive Technologies and Communications ($1.1 million or 78.6%).
- The change in the fair value of Quebecor Media resulted in a $5.7 million favourable variance in the stock-based compensation charge in the fourth quarter of 2010 compared with the same period of 2009. The fair value of Quebecor Media decreased during the fourth quarter of 2010, contrary to the increase in the same period of 2009. The increase in Quebecor's stock price resulted in a $7.2 million unfavourable variance in the Company stock-based compensation charge in the fourth quarter of 2010.
- Excluding the impact of the stock-based compensation charge, and if the figures for prior periods were restated to retroactively reflect the reversal in the fourth quarter of 2009 of the accumulated CRTC Part II licence fee provision, the increase in operating income in the fourth quarter of 2010 would have been 3.7%, compared with 15.9% in the same period of 2009.

Net income: $43.5 million ($0.68 per basic share) in the fourth quarter of 2010, compared with $73.8 million ($1.15 per basic share) in the same quarter of 2009.

- The $30.3 million ($0.47 per basic share) decrease was mainly due to:
    - $34.7 million increase in amortization charge;
    - $31.2 million decrease in operating income;
    - $26.0 million unfavourable variance in gain or loss on valuation and translation of financial instruments;
    - $7.7 million increase in financial expenses.

Adjusted income from continuing operations: $55.7 million in the fourth quarter of 2010 ($0.87 per basic share), compared with $84.0 million ($1.31 per basic share) in the same period of 2009, a decrease of $28.3 million ($0.44 per basic share).

Amortization charge: $122.2 million, an increase of $34.7 million.

- The increase was mainly due to significant capital expenditures in 2009 and 2010 in the Telecommunications segment, including commencement of amortization of 3G+ network equipment and licences following the network launch on September 9, 2010.

Financial expenses: $77.9 million, an increase of $7.7 million.

- The increase was mainly due to:
  - a $7.7 million decrease in interest capitalized to property, plant and equipment and intangible assets. This amount is the portion of interest no longer capitalized to investment in the development of the 3G+ network since the network launch on September 9, 2010;
  - higher base interest rates.

  Partially offset by:

  - $5.8 million favourable variance in exchange rates on operating items.

Loss on valuation and translation of financial instruments: $23.6 million in fourth quarter 2010, compared with a $2.4 million gain in the same quarter of 2009, a $26.0 million unfavourable variance.

- The variance was mainly due to an unfavourable change in the fair value of early settlement options because of interest rate fluctuations.

Charge for restructuring of operations, impairment of assets and other special items: $24.3 million in the fourth quarter of 2010, compared with $21.5 million in the same period of 2009.

- In connection with the startup of its 3G+ network, Videotron recorded a $9.0 million charge for migration costs.
- In the fourth quarter of 2010, a $13.2 million charge for restructuring of operations was recorded in the News Media segment in connection with new staff-reduction programs, compared with a $20.5 million charge in the same period of 2009.
- In connection with the repositioning of the over-the-air television station Sun TV and with the creation of the new Sun News specialty channel, the Broadcasting segment recognized a $0.6 million asset impairment charge on equipment and broadcast rights in the fourth quarter of 2010.
- In the fourth quarter of 2010, a $1.5 million charge for restructuring of operations and other items was recorded in other segments, compared with $1.0 million in the same period of 2009.

Income tax expense: $15.5 million (effective tax rate of 14.3%) in the fourth quarter of 2010, compared with $59.1 million (effective tax rate of 28.0%) in the same period of 2009.

- The $43.6 million favourable variance, the effective tax rates and the fluctuation in those rates in 2010 compared with the same period of 2009 were primarily due to:
  - decrease in income before income taxes and non-controlling interest;
  - impact of tax rate mix on the various components of gains and losses on financial instruments and derivative financial instruments, and on translation of financial instruments;
  - reduction in future tax liabilities in the fourth quarter of 2010 in light of developments in tax audits, jurisprudence and tax legislation.

Segmented Analysis

Telecommunications

Revenues: $585.9 million, an increase of $53.0 million (9.9%) compared with the fourth quarter of 2009, mainly due to the same factors as those noted under "2010/2009 Financial Year Comparison."

- Combined revenues from all cable television services increased $17.2 million (7.5%) to $245.9 million.
- Revenues from Internet access services increased $14.0 million (9.2%) to $166.3 million.
- Revenues from cable telephone service increased $12.6 million (13.4%) to $106.9 million.
- Revenues from mobile telephone service increased $5.6 million (49.6%) to $16.9 million.
- Revenues of Videotron Business Solutions increased $1.5 million (10.3%) to $16.1 million.
- Revenues of Le SuperClub Vidéotron decreased $0.6 million (-8.5%) to $6.5 million.
- Other revenues increased $2.7 million (10.9%) to $27.4 million.

Monthly ARPU: $98.85 in fourth quarter 2010, compared with $91.68 in the same period of 2009, an increase of $7.17 (7.8%).

Customer statistics

Cable television – The combined customer base for all of Videotron's cable television services increased by 9,600 (0.5%) in the fourth quarter of 2010 (compared with an increase of 17,300 in the same quarter of 2009).

- The number of subscribers to illico Digital TV increased by 37,300 (3.2%) in the fourth quarter of 2010, compared with 41,700 in the same period of 2009.
- The customer base for analog cable television services decreased by 27,700 (-4.5%), compared with a decrease of 24,400 in the same period of 2009.

Internet access – 18,300 (1.5%) customer base increase in the fourth quarter of 2010, compared with 25,200 in the fourth quarter of 2009.

Cable telephone – 16,200 (1.5%) customer base increase in the fourth quarter of 2010, compared with 34,900 in the same period of 2009.

Wireless telephone – 40,700 (42.7%) subscriber additions in the fourth quarter of 2010, compared with 3,000 in the same quarter of 2009. The increase was essentially due to the launch of the 3G+ network on September 9, 2010.

Operating income: $259.6 million in the fourth quarter of 2010, a decrease of $21.3 million (-7.6%).

- The decrease was due primarily to:
  - $33.8 million unfavourable variance resulting from the adjustment to the provision for CRTC Part II licence fees in 2009 (for details, see "Part II licence fees" under "2010/2009 Financial Year Comparison" in the discussion of the results of the Telecommunications segment);
  - increases in some operating expenses, among them costs related to the roll-out of the 3G+ network, including acquisition costs of $471 per subscriber addition.

  Partially offset by:

  - customer growth for all services;
  - increases in some cable television and Internet access rates;
  - increases in operating income from pay TV and HD packages;
  - reversal of certain provisions for regulatory fees;
  - $1.7 million favourable variance in the stock-based compensation charge.
- Excluding the variance in the stock-based compensation charge, and if the figures for prior periods were restated to retroactively reflect the reversal in the fourth quarter of 2009 of the accumulated CRTC Part II licence fee provision, the increase in operating income in the fourth quarter of 2010 would have been 4.3%, compared with 16.4% in the same period of 2009.

Cost/revenue ratio: operating costs for all Telecommunications segment operations (expressed as a percentage of revenues) were 55.7% in the fourth quarter of 2010, compared with 47.3% in the same quarter of 2009.

- Operating costs as a proportion of revenues increased for the following reasons:
  - higher operating costs due to the roll-out of the 3G+ network;
  - impact of the adjustment to the provision for CRTC Part II licence fees, which was favourable in the fourth quarter of 2009.

  Partially offset by:
  - Marginal impact of increases in some rates on costs.

News Media

Revenues: $272.3 million, a decrease of $6.7 million (-2.4%).

- Advertising revenues decreased 0.8%, circulation revenues decreased 5.9%, and combined revenues from commercial printing and other sources decreased 9.3%.
- Revenues increased 0.7% overall at the urban dailies and decreased 4.7% at the community newspapers in the fourth quarter of 2010.
- Portal revenues decreased by 12.3%. A 25.9% decline in revenues at the general-interest portals, due mainly to the distribution of some assets as part of a reorganization in June 2009 and the loss of a contract, was partially offset by a 5.8% increase in the revenues at the special-interest portals.

Operating income: $60.1 million, a decrease of $9.2 million (-13.3%).

- The decrease was due primarily to:
  - impact of revenue decrease;
  - $4.0 million impact of increase in newsprint prices;
  - increases in some operating expenses, including community newspaper startup costs in Québec and investments made to improve the quality of the free Toronto newspaper *24 Hours*™;
  - unfavourable variance related to Quebecor Media Network startup costs;

  Partially offset by:
  - impact of restructuring initiatives, which generated an additional $4.0 million in cost savings;
  - $1.5 million favourable variance related to the stock-based compensation charge.
- Excluding the impact of the stock-based compensation charge and Quebecor Media Network startup costs, operating income would have decreased by 12.6% in the fourth quarter of 2010, compared with a 37.2% increase in the same period of 2009.

Cost/revenue ratio: Operating costs for all News Media segment operations (expressed as a percentage of revenues) were 77.9% in the fourth quarter of 2010, compared with 75.2% in the same period of 2009. The increase was mainly due to the unfavourable impact of the fixed component of costs, which does not fluctuate in proportion to revenue decreases, higher newsprint prices and Quebecor Media Network startup costs, partially offset by additional cost reductions from restructuring initiatives.

Broadcasting

Revenues: $133.4 million, an increase of $4.9 million (3.8%).

- Revenues from television operations increased $4.2 million, mainly due to:
  - higher advertising and subscription revenues at the specialty channels;
  - increased revenues from commercial production;
  - higher sponsorship and video on demand revenues at TVA Productions.

Partially offset by:

- o lower advertising revenues at the over-the-air station Sun TV;
- o unfavourable variance in revenues from Canal Indigo due to the sale of the entity to Videotron on December 1, 2009.

- Publishing revenues increased by $1.1 million, mainly due to the same factors as those noted under “2010/2009 Financial Year Comparison.”

Operating income: $29.9 million, a decrease of $2.3 million (-7.1%).

- Operating income from television operations decreased $3.0 million, mainly due to:
  - o $9.0 million unfavourable variance resulting from the adjustment to the provision for CRTC Part II licence fees in 2009 (for details, see “Part II licence fees” under “2010/2009 Financial Year Comparison” in the discussion of the results of the Broadcasting segment);
  - o higher content costs at the specialty channels as a result of the programming strategy.

  Partially offset by:
  - o impact of increased revenues;
  - o increased profitability of TVA Films;
  - o decrease in content costs and in selling and administrative expenses at the TVA Network.
- Operating income from publishing operations increased by $0.6 million, mainly as a result of the impact of the revenue increase.

Cost/revenue ratio: operating costs for all Broadcasting segment operations (expressed as a percentage of revenues) were 77.6% in the fourth quarter of 2010, compared with 74.9% in the same period of 2009. The increase in costs as a proportion of revenues mainly reflects the impact of adjustments related to CRTC Part II licence fees in 2009 and higher content costs at the specialty channels, partially offset by the reduced proportion of fixed costs, given the growth of television revenues, as well as the decrease in the TVA Network’s selling and administrative expenses.

Leisure and Entertainment

Revenues: $97.6 million, an increase of $2.1 million (2.2%).

- The Book Division’s revenues increased by 13.8%, mainly because of an increase in the number of titles placed in big box stores and bookstores, and higher revenues from book publishing in the general literature segment, partially offset by decreased sales of textbooks for Québec primary schools in the academic segment.
- The revenues of Archambault Group decreased 2.1%, mainly due to:
  - o 2.5% drop in retail sales because of lower CD sales compared with the fourth quarter of 2009, when a large number of successful albums were released, and lower sales of DVDs and Blu-ray discs;
  - o 6.0% decrease in distribution sales, primarily as a result of lower volume than in the fourth quarter of 2009.

  Partially offset by:
  - o 74.3% increase in production sales, mainly because Musicor released more CDs than in the same period of 2009, including albums by Mario Pelchat, Florence K and Nicole Martin.

Operating income: $11.2 million in the fourth quarter of 2010, an increase of $2.8 million (33.3%) due primarily to increased operating income in the Book Division generated by higher revenues in the general literature segment and improved profitability at CEC Publishing, partially offset by the impact of lower revenues at Archambault Group.

Interactive Technologies and Communications

Revenues: $27.9 million, an increase of $4.4 million (18.7%).

- The increase was mainly due to:

- increased volumes from customers in North America, Europe and Asia.

  Partially offset by:

  - unfavourable variances in currency translation, mainly in Europe;
  - lower volumes from government customers.

Operating income: $2.5 million, an increase of $1.1 million (78.6%).

- The increase was essentially due to the same factors as those noted above under “2010/2009 Financial Year Comparison.”

2009/2008 FINANCIAL YEAR COMPARISON

Analysis of Consolidated Results of Quebecor

Revenues: $3.81 billion, an increase of $47.0 million (1.3%).

- Revenues increased in Telecommunications (by $197.0 million or 10.9% of segment revenues) mainly due to customer growth for all services, in Leisure and Entertainment ($5.9 million or 2.0%), Broadcasting ($2.3 million or 0.5%), and in Interactive Technologies and Communications ($1.4 million or 1.6%).
- Revenues decreased in News Media ($155.8 million or -12.9%) as a result of lower advertising revenues.

Operating income: $1.28 billion, an increase of $155.6 million (13.9%).

- Operating income increased in Telecommunications ($175.0 million or 21.9% of segment operating income), Broadcasting ($14.0 million or 21.2%) and in Leisure and Entertainment ($5.7 million or 28.2%).
- Operating income decreased in News Media ($27.6 million or -12.2%) and in Interactive Technologies and Communications ($1.0 million or -19.6%).
- The increase in operating income includes a $61.5 million favourable variance (including $47.9 million in the Telecommunications segment and $13.6 million in the Broadcasting segment) related to adjustments to the provision for CRTC Part II licence fees (for more details, see "Part II licence fees" under "2010/2009 Financial Year Comparison" in the discussion of the results of the Telecommunications and Broadcasting segments).
- The changes in the fair value of Quebecor Media resulted in an $18.4 million unfavourable variance in the consolidated stock-based compensation charge in 2009 compared with the same period of 2008. The fair value of Quebecor Media, based on market comparables, increased during 2009, compared with a decrease in 2008.
- Quebecor's corporate stock-based compensation charge increased by $19.9 million.
- Excluding the impact of the consolidated stock option charge and the operating income of Osprey Media, acquired in 2007, and if the figures for all prior periods were restated to retroactively reflect the CRTC Part II licence fee adjustments, the increase in operating income in 2009 would have been 12.3%, compared with 11.5% in 2008.

Net income: $277.7 million ($4.32 per basic share) in 2009, compared with $188.0 million ($2.92 per basic share) in 2008.

- The increase of $89.7 million ($1.40 per basic share) was mainly due to:
  - $155.6 million increase in operating income;
  - $41.9 million favourable variance in gain on valuation and translation of financial instruments;
  - $40.1 million decrease in financial expenses;
  - $25.0 million favourable variance in charge for restructuring of operations, impairment of assets and other special items.

  Partially offset by:
  - $26.5 million increase in amortization charge.
- A non-cash charge totalling $671.2 million, including $631.0 million without any tax consequences, was recorded in 2008 for impairment of goodwill and intangible assets, primarily in the News Media segment ($361.1 million net of income tax and non-controlling interest), compared with a $13.6 million charge in 2009. As well, income from discontinued operations in the amount of $383.3 million was recorded in 2008, compared with $1.6 million in 2009.

Adjusted income from continuing operations: $236.3 million in 2009 ($3.68 per basic share), compared with $179.4 million ($2.79 per basic share) in 2008, an increase of $56.9 million ($0.89 per basic share) or 31.7%.

Amortization charge: $344.7 million, a $26.5 million increase, due mainly to significant capital expenditures in 2008 and 2009 in the Telecommunications segment.

Financial expenses: $259.0 million, a decrease of $40.1 million.

- The decrease was mainly due to:
  - $27.3 million increase in interest capitalized to additions to property, plant and equipment;

- lower base interest rates;
- $9.6 million favourable variance in exchange rates on operating items.

Offset by:

- impact of higher indebtedness.

Gain on valuation and translation of financial instruments: $59.7 million in 2009, compared with $17.8 million in 2008.

- The $41.9 million increase was due to:
  - positive fluctuation in the fair value of early settlement options due to favourable interest rate movements.

  Offset by:

  - recognition of a $21.5 million unrealized gain on re-measurement of debentures and a portfolio investment in 2008, compared with a $1.8 million loss in 2009.

Charge for restructuring of operations, impairment of assets and other special items: $29.6 million in 2009, compared with $54.6 million in 2008, a favourable variance of $25.0 million

- In 2009, a $26.3 million charge for restructuring of operations was recorded in the News Media segment. Faced with dramatic newspaper-industry-wide changes in the past several years and the troubled economic environment, which were affecting its advertising revenues, the News Media segment implemented new restructuring and cost-reduction initiatives across Canada in 2009. A $2.0 million charge for restructuring of operations was also recorded in 2009 in other segments.
- In 2008, the News Media segment recognized a $33.3 million charge for restructuring of operations. In December 2008, the segment introduced a staff-reduction program as part of a major restructuring of its operations across Canada. Quebecor Media also recognized charges for restructuring totalling $2.3 million in other segments in 2008.
- Quebecor Media concluded that the restructuring initiatives and the loss of a major printing contract in 2008 were a triggering event for impairment tests and that write-downs of some long-lived assets would be necessary. As a result, a non-cash impairment charge totalling $19.1 million was recorded against buildings, machinery and equipment in 2008, compared with $0.4 million in 2009.
- In 2009, Quebecor Media recorded a $0.9 million charge for loss on sales of businesses and other special items ($0.1 million gain in 2008).

Non-cash charge for impairment of goodwill and intangible assets: Total of $13.6 million in 2009, compared with $671.2 million in 2008.

- In the fourth quarter of 2008, Quebecor Media determined that the adverse financial and economic environment was a triggering event for goodwill impairment tests in the News Media, Leisure and Entertainment and Interactive Technologies and Communications segments. As a result, Quebecor Media concluded that the goodwill of these segments was impaired. Based on preliminary results of this test, a $631.0 million non-cash charge for goodwill impairment, without any tax consequences ($345.3 million net of non-controlling interest), was recorded, including $595.0 million in the News Media segment, $10.0 million in the Leisure and Entertainment segment, and $26.0 million in the Interactive Technologies and Communications segment. In 2008, Quebecor Media also recorded a masthead impairment charge of $40.2 million ($15.8 million net of income tax and non-controlling interest).

  In the second quarter of 2009, Quebecor Media completed the goodwill impairment tests and an additional non-cash goodwill impairment charge of $5.6 million, without any tax consequences, was recorded as an adjustment to the non-cash goodwill impairment charge recorded in the fourth quarter of 2008, which included $1.7 million in the News Media segment, $1.2 million in the Leisure and Entertainment segment, and $2.7 million in the Interactive Technologies and Communications segment.
- In the second quarter of 2009, the Company also recorded an $8.0 million charge for impairment of mastheads of publications in the News Media segment following its annual impairment test.

Income tax expense: $153.2 million (effective rate of 22.2%) in 2009, compared with $140.4 million (effective rate of 32.9%, excluding the impact of the charge, without any tax consequences, for goodwill impairment) in 2008.

- The change in the effective tax rate in 2009 compared with 2008 was mainly due to:
  - impact of tax rate mix on the various components of gains and losses on financial instruments and derivative financial instruments, and on translation of financial instruments;

- favourable impact on future tax liabilities of lower tax rates introduced by the governments of Québec and Ontario;
- favourable changes in 2009 in the timing of future reversals of temporary differences.

Free cash flows from continuing operating activities of the Quebecor Media subsidiary: $350.5 million in 2009, compared with $243.2 million in 2008 (Table 5).

- The $107.3 million increase was mainly due to:
  - $165.1 million increase in operating income;
  - $38.7 million decrease in cash interest expense;
  - decrease in capital expenditures in the News Media segment due to implementation in 2008 of phase two of the project to acquire new presses.

  Partially offset by:
  - $34.6 million increase in the use of funds for non-cash balances related to operations, mainly because of current variances in activity, including a $31.2 million increase in accounts receivable in 2009 due to, among other things, higher revenues in the Telecommunications segment;
  - higher capital expenditures in the Telecommunications segment due primarily to the roll-out of the 3G+ network;
  - $17.0 million increase in current income taxes.

Segmented Analysis

Telecommunications

Revenues: $2.00 billion in 2009, an increase of $197.0 million (10.9%).

- Combined revenues from all cable television services increased $65.7 million (8.1%) to $875.6 million, due primarily to customer base growth, increases in some rates, migration from analog to digital service, increased video on demand and pay TV orders, and the success of HD packages.
- Revenues from Internet access services increased $74.6 million (14.9%) to $574.2 million. The improvement was mainly due to customer growth, increases in some rates, excess usage fees and customer migration to higher-speed services.
- Revenues from cable telephone service increased $67.7 million (23.7%) to $353.8 million, mainly due to customer growth. The increase would have been greater had there not been a decrease in average per-customer revenues due to fewer long-distance calls.
- Revenues from mobile telephone service increased $9.8 million (31.0%) to $41.4 million, essentially due to customer growth.
- Revenues of Videotron Business Solutions decreased $5.3 million (-8.3%) to $58.3 million, mainly because of the loss of a major contract and lower revenues from network solutions.
- Revenues of Le SuperClub Vidéotron decreased $25.5 million (-44.7%) to $31.5 million, primarily as a result of the franchising of 33 corporate-owned stores.

Monthly ARPU: $88.21 in 2009, compared with $81.17 in 2008, an increase of $7.04 (8.7%).

Customer statistics

Cable television – The combined customer base for all of Videotron's cable television services increased by 61,400 (3.6%) in 2009, compared with an increase of 77,500 in 2008.

- Increase of 156,800 customers (16.9%) for the illico Digital TV service in 2009, compared with 159,100 in the same period of 2008.
- The customer base for analog cable television services decreased by 95,400 (-12.1%) in 2009, compared with 81,600 in the same period of 2008, as a result of customer migration to the digital service.

Internet access – Increase of 106,800 customers (10.0%) for cable Internet access services in 2009, compared with 130,800 in 2008.

Cable telephone – Increase of 162,000 customers (19.0%) in 2009, compared with 215,600 in 2008.

Mobile telephone – 19,400 (30.6%) subscriber additions in 2009, compared with 18,300 in 2008.

Operating income: $972.9 million, an increase of $175.0 million (21.9%).

- The increase was mainly due to:
    - customer growth for all services;
    - increases in some rates, primarily for the cable television and Internet access services, and excess usage fees;
    - $47.9 million favourable variance related to adjustments to the provision for CRTC Part II licence fees (for details, see "Part II licence fees" under "2010/2009 Financial Year Comparison" in the discussion of the results of the Telecommunications segment).

  Offset by:
    - $12.3 million unfavourable variance related to the stock-based compensation charge;
    - increases in some regulatory fees.
- Excluding the variance in the stock-based compensation charge, and if the figures for all prior periods were restated to retroactively reflect CRTC Part II licence fee adjustments, operating income would have increased by 16.6% in 2009, compared with 21.3% in 2008.

Cost/revenue ratio: Operating costs for all Telecommunications segment operations, expressed as a percentage of revenues, were 51.4% in 2009, compared with 55.8% in 2008. The decrease was due primarily to:

- significant fixed component of costs, which does not fluctuate in proportion to revenue growth;
- marginal impact on costs of increases in some rates and in consumption;
- impact of adjustments to the provision for CRTC Part II licence fees, which was favourable in 2009 and unfavourable in 2008.

Cash flows from segment operations: $451.0 million in 2009, compared with $384.6 million in 2008.

- The $66.4 million increase was mainly due to:
    - $175.0 million increase in operating income.

  Offset by:
    - $77.4 million increase in additions to property, plant and equipment;
    - $29.8 million increase in acquisitions of intangible assets, due primarily to the roll-out of the 3G+ network.

News Media

Revenues: $1.05 billion, a decrease of $155.8 million (-12.9%).

- Advertising revenues decreased 16.8%, circulation revenues decreased 3.8%, and combined revenues from commercial printing and other sources increased 12.3%.
- Revenues of the urban dailies and community newspapers decreased by 11.8% and 18.0% respectively in 2009.
- Portal revenues were flat. The decrease in revenues at the special-interest portals was offset by revenue growth at the general-interest portals.

Operating income: $199.5 million, a decrease of $27.6 million (-12.2%).

- The decrease was due primarily to:
    - impact of the $155.8 million decrease in revenues;
    - $7.3 million unfavourable variance related to the stock-based compensation charge;
    - Quebecor Media Network startup costs.

  Partially offset by:

- $77.5 million decrease in operating costs due primarily to restructuring and other cost-reduction initiatives, as well as the impact of a $5.7 million reversal in 2009 of a reserve for bonuses recorded in 2008, and lower labour costs related to the labour dispute at *Le Journal de Montréal*;
- $5.7 million impact of decrease in newsprint prices.

- Excluding the impact of the stock-based compensation charge, the operating income of Osprey Media, acquired in 2007, and Quebecor Media Network startup costs, operating income decreased by 6.3% in 2009, compared with 19.6% in 2008.

Cost/revenue ratio: Operating costs for all News Media segment operations, expressed as a percentage of revenues, were 81.1% in 2009, compared with 81.2% in 2008. The segment's restructuring initiatives yielded significant cost reductions, offsetting the unfavourable impact of the fixed costs component, which does not decline in proportion with decreasing revenues.

Cash flows from segment operations: $156.9 million in 2009, compared with $140.3 million in 2008.

- The $43.7 million decrease in additions to property, plant and equipment, due essentially to the implementation in 2008 of phase two of the project to acquire new presses, outweighed the $27.6 million decrease in operating income.

Broadcasting

Revenues: $439.0 million, an increase of $2.3 million (0.5%).

- Revenues from television operations increased $14.2 million, mainly because of:
  - higher advertising and subscription revenues at the specialty channels;
  - higher advertising revenues at the TVA Network, partly as a result of the popular *Star Académie* program, combined with increases in other revenues;
  - increased revenues from Canal Indigo.

  Partially offset by:
  - decreased advertising revenues at Sun TV.
- Revenues from distribution operations decreased by $6.8 million, primarily as a result of lower volume sales of DVDs and Blu-ray discs, as well as decreased sales of television products.
- Publishing revenues decreased by $4.6 million, mainly as a result of decreases in advertising, newsstand and subscription revenues.

Operating income: $80.0 million, an increase of $14.0 million (21.2%).

- Operating income from television operations increased $19.6 million, mainly due to:
  - $13.6 million favourable variance related to adjustments to the provision for CRTC Part II licence fees (for more details, see "Part II licence fees" under "2010/2009 Financial Year Comparison" in the discussion of the results of the Broadcasting segment);
  - impact of revenue growth at the specialty channels and TVA Network, and the contribution of Canal Indigo;
  - decrease in the TVA Network's content costs.

  Partially offset by:
  - higher content costs at the specialty channels;
  - impact of lower revenues and higher content costs at Sun TV.
- Operating income from distribution operations showed an unfavourable variance of $6.6 million, mainly as a result of:
  - impact of revenue decrease;
  - recognition of a $1.2 million allowance for bad debts due to one customer's uncertain financial position.
- Operating income from publishing operations increased $2.5 million. The positive impact of lower printing, writing and computer graphics expenses more than offset the decrease in revenues.

Cost/revenue ratio: Operating costs for all Broadcasting segment operations (expressed as a percentage of revenues) were 81.8% in 2009, compared with 84.9% in 2008. The decrease in costs as a proportion of revenues was mainly due to:

- impact of adjustments to the provision for CRTC Part II licence fees, which was favourable in 2009 and unfavourable in 2008;
- reduced proportion of fixed costs, given the growth in broadcasting revenues;
- lower costs for publishing operations.

Cash flows from segment operations: $56.9 million in 2009, compared with $44.2 million in 2008, an increase of $12.7 million.

- The favourable variance was mainly due to the $14.0 million increase in operating income.

Leisure and Entertainment

Revenues: $307.8 million, an increase of $5.9 million (2.0%).

- The Book Division's revenues increased 6.8%, mainly because of significantly increased sales by CEC Publishing in the academic segment, resulting primarily from the billing of textbooks for Québec elementary schools. The increase was also due to a larger number of bestsellers distributed by Messageries ADP in 2009 than in 2008.
- Revenues of Archambault Group (excluding the impact of the transfer of video on demand operations to the Telecommunications segment on May 1, 2008) increased 2.2% due to:
  - 0.4% increase in retail sales, mainly because of higher sales of general merchandise and books;
  - 2.7% increase in distribution sales because of the popularity of new releases in 2009, including the *Star Académie* CD and albums from singers Ginette Reno, Marie-Mai, Maxime Landry and IMA;
  - 35.9% increase in production sales in 2009, mainly as a result of new releases by Musicor, including the *Star Académie* CD and an album from singer Marie-Mai, as well as increased activity at the Musicor Spectacles division, created in 2008.

Operating income: $25.9 million in 2009, compared with $20.2 million in 2008. The $5.7 million (28.2%) increase was mainly due to higher sales in the Book Division, increased margins in the academic segment, as well as higher revenues, on a comparable basis, and higher operating margins at Archambault Group.

Cash flows from segment operations: $18.3 million in 2009, compared with $5.6 million in 2008.

- The $12.7 million increase was mainly due to:
  - $5.7 million increase in operating income;
  - $5.3 million decrease in additions to property, plant and equipment, mainly because of higher capital expenditures in 2008 for the expansion and renovation of some Archambault stores.

Interactive Technologies and Communications

Revenues: $91.0 million, an increase of $1.4 million (1.6%).

- The increase was mainly due to:
  - impact of increased revenues from government customers;
  - increased volume in China.

  Partially offset by:
  - lower volume from customers in North America and Europe.

Operating income: $4.1 million, a decrease of $1.0 million (-19.6%).

- The decrease was mainly due to:
  - impact of lower revenues in Canada and Europe;

- unfavourable variance in currency translation.

Partially offset by:

- favourable impact of new tax credits for e-commerce business development;
- favourable variance due to one-time costs in the first quarter of 2008 related to taking Nurun private, including impact related to stock-based compensation charge.

Cash flows from segment operations: $0.7 million in 2009, compared with $1.5 million in 2008.

- The $0.8 million decrease was mainly due to the $1.0 million decline in operating income.

CASH FLOWS AND FINANCIAL POSITION

Operating activities

2010 financial year

Cash flows provided by operating activities: $845.2 million in 2010, compared with $925.3 million in 2009.

- The $80.1 million decrease was mainly due to:
  - $61.2 million increase in the use of funds for non-cash balances related to operations due primarily to an increase in investments in the Telecommunications segment following the launch of the 3G+ network;
  - $26.7 million increase in current income taxes;
  - $26.0 million increase in cash interest expense;
  - $9.2 million increase in the cash portion of charge for restructuring of operations, impairment of assets and other special items.

  Partially offset by:
  - $52.3 million increase in operating income.

2009 financial year

Cash flows provided by operating activities: $925.3 million in 2009, compared with $755.3 million in 2008.

- The $170.0 million increase was mainly due to:
  - $155.6 million increase in operating income;
  - $41.0 million decrease in cash interest expense (see discussion of financial expenses under "2009/2008 Financial Year Comparison");
  - decrease in the cash portion of charge for restructuring of operations.

  Partially offset by:
  - $20.8 million increase in use of funds for non-cash balances related to operations, mainly because of current variances in activity, including a $31.7 million increase in 2009 in accounts receivable due, among other things, to higher revenues in the Telecommunications segment;
  - $17.0 million increase in current income taxes.

Working capital of Quebecor: $12.2 million at December 31, 2010 compared with negative $2.2 million at December 31, 2009, a favourable variance of $14.4 million, mainly reflecting variances in non-cash balances related to operations due primarily to the launch of the 3G+ network in the Telecommunications segment, partially offset by an increase in liabilities related to stock-based compensation (Table 14).

Financing activities

2010 financial year

Consolidated debt of Quebecor (long-term debt plus bank borrowings): $258.5 million decrease in 2010; $77.8 million unfavourable net variance in assets and liabilities related to derivative financial instruments.

- Debt reductions during 2010:
  - payments on debt totalling $290.6 million, including a $175.8 million early payment by Quebecor Media on drawings on its term loan "B" on January 14, 2010, and the pay down by Osprey Media of its credit facility in the amount of $114.8 million in May 2010;
  - estimated $156.8 million favourable impact of exchange rate fluctuations. The decrease in this item is offset by an increase in the liability (or a decrease in the asset) related to cross-currency swap agreements entered under "Derivative financial instruments";
  - current payments totalling $67.7 million on Quebecor Media's credit facility and other debt;

  - $50.3 million decrease in debt due to favourable variance in fair value of embedded derivatives, resulting mainly from interest rate fluctuations;
  - $14.6 million decrease in Quebecor's debt.

  Summary of debt increases since the end of 2009:

  - issuance by Videotron on January 13, 2010 of $300 million aggregate principal amount of 7 1/8% Senior Notes maturing in 2020, for net proceeds of $293.9 million (net of financing fees);
  - $4.0 million net increase in drawings on TVA Group's revolving bank credit facilities and bank borrowings;
  - $10.0 million increase in debt due to changes in fair value related to hedged interest rate risk.

- Assets and liabilities related to derivative financial instruments totalled a net liability of $451.2 million at December 31, 2010, compared with $373.4 million at December 31, 2009. The $77.8 million unfavourable net variance mainly reflects:
  - unfavourable impact of exchange rate fluctuations on the value of derivative financial instruments.

  Partially offset by:

  - impact of interest rate trends in Canada, compared with the United States, on the fair value of derivative financial instruments;
  - settlement in January and May 2010 of portions of hedge agreements totalling $29.9 million.

- On January 14, 2010, Quebecor Media extended the maturity date of its $100.0 million revolving credit facility from January 2011 to January 2013 and obtained certain other advantageous amendments to the covenants attached to its credit facilities.
- In November 2010, Quebecor renewed its credit facility, now maturing in 2013, in the amount of $150.0 million in the first year, $137.5 million in the second year and $125.0 million in the final year. The credit facility is secured by a limited number of Quebecor Media shares.
- On January 5, 2011, Quebecor Media completed the issuance of Senior Notes in the aggregate principal amount of $325.0 million, for net proceeds of $319.2 million (net of financing fees). These notes bear interest at a rate of 7 3/8% and mature in January 2021. Quebecor Media used the net proceeds from the issuance of the Notes to make a $288.0 million injection into Sun Media Corporation and for general corporate purposes. Sun Media Corporation used the proceeds from the Quebecor Media injection to finance the early repayment and withdrawal on February 15, 2011 of all its outstanding 7 5/8% Senior Notes maturing on February 15, 2013, in the aggregate principal amount of US$205.0 million, and to finance the settlement and cancellation of related hedges.

2009 financial year

Consolidated debt of Quebecor's continuing operating activities: Reduced by $579.4 million in 2009; unfavourable $574.0 million net variance in assets and liabilities related to derivative financial instruments.

- The decrease in the consolidated debt was mainly due to:
  - estimated $551.6 million favourable impact of exchange rate fluctuations on long-term debt. The decrease in this item is offset by an increase in the liability (or a decrease in the asset) related to cross-currency swap agreements entered under "Derivative financial instruments";
  - net decrease in drawings on the revolving bank credit facilities and bank borrowings of Videotron, TVA Group, Sun Media Corporation, and Head Office in the amounts of $212.7 million, $78.1 million, $12.0 million and $6.5 million respectively;
  - $77.0 million decrease in debt related to hedged interest rate exposure and to embedded derivatives, due mainly to interest rate fluctuations;
  - debt repayments totalling $54.9 million, mainly by Quebecor Media and Osprey Media.

  Partially offset by:

  - issuance by Videotron on March 5, 2009 of US$260.0 million aggregate principal amount of Senior Notes for net proceeds of $332.4 million (including accrued interest and net of financing fees). The Senior Notes were sold at a price equivalent to 98.63% of face value, bear 9 1/8% interest (effective rate of 9.35%) and mature on April 15, 2018;

- closing on December 14, 2009 of the refinancing of TVA Group's bank debt with net proceeds of $75 million drawn on a new term loan bearing interest at 5.54% and coming due in 2014. As part of this refinancing, TVA Group also renewed its revolving credit facility for a maximum of $100 million, expiring in 2012;
- $5.7 million increase in Quebecor's debt.

- Assets and liabilities related to derivative financial instruments totalled a net liability of $373.4 million at December 31, 2009 (net of a $49.0 million asset at that date), compared with a net asset of $200.6 million at December 31, 2008 (net of a $117.3 million liability at that date). The $574.0 million net reduction was mainly due to the impact of exchange rate fluctuations on the value of derivative financial instruments.
- On November 13, 2009, Videotron amended its Senior Secured Credit Facility in order to create within it a $75.0 million secured term credit facility maturing in June 2018 ("Export Financing Facility"). Also on November 13, 2009, Videotron closed another credit agreement with a group of creditors and HSBC Bank plc, acting as agent for the creditors, for an unsecured term credit facility ("Facility B") of a maximum amount equal to the difference between US$100.0 million and the aggregate amount, in U.S. dollars, of drawings on the Export Financing Facility. Facility B matures in April 2016. The Export Financing Facility and Facility B may be used, among other things, to pay and/or reimburse payments for exports of equipment and local services related to the contract for mobile infrastructure equipment between Videotron and a subsidiary of Nokia Corporation.
- On November 20, 2009, Quebecor made an agreement amending its annual revolving short-term credit facility. Commitments under the facility were reduced from $191.3 million to $150.0 million and the maturity date was extended to November 2010.

Investing activities

2010 financial year

Additions to property, plant and equipment: $707.1 million, compared with $494.7 million in 2009. The increase was mainly due to spending on the 3G+ network in the Telecommunications segment, partially offset by a decrease in capital expenditures in the News Media segment.

Acquisitions of intangible assets: $113.9 million in 2010 compared with $111.5 million in 2009. The variance was due in part to expenditures related to the roll-out of the 3G+ network in the Telecommunications segment.

Business acquisitions (including buyouts of minority interests): $3.1 million in 2010 compared with $4.6 million in 2009.

- Minority shareholders in a subsidiary in the News Media segment were bought out in 2010 for a total cash consideration of $2.1 million.
- Contingent considerations of $1.0 million were paid in 2010 and 2009 in connection with the acquisition of ASL Ltd. ("ASL") in the News Media segment.
- A contingent consideration totalling $1.0 million was paid in 2009 in connection with the acquisition of China Interactive Limited ("China Interactive") in the Interactive Technologies and Communications segment.
- 253,300 TVA Group Class B Shares were repurchased in 2009 for a total cash consideration of $2.6 million.

Proceeds from disposal of assets: $53.0 million in 2010 compared with $3.6 million in 2009. The increase mainly reflects the disposal of certain tangible assets in the News Media segment in the second quarter of 2010.

2009 financial year

Additions to property, plant and equipment: $494.7 million in 2009 compared with $479.6 million in 2008.

- The increase due to Videotron's expenditures on its 3G+ network was partially offset by a decrease in the News Media segment related to investments made in 2008 on phase two of the project to acquire new presses.

Business acquisitions (including buyouts of minority interests): $4.6 million in 2009 compared with $146.7 million in 2008.

- Business acquisitions in 2009 were as follows:
  - 253,300 TVA Group Class B Shares were repurchased for a total cash consideration of $2.6 million;
  - contingent considerations totalling $2.0 million were paid in connection with the acquisition of ASL in the News Media segment, and of China Interactive in the Interactive Technologies and Communications segment.

- Business acquisitions in 2008 were as follows:
  - o all outstanding Common Shares of Nurun not already held acquired for a total cash consideration of $75.2 million;
  - o 3,000,642 TVA Group Class B Shares repurchased in the second quarter of 2008 for a total cash consideration of $51.4 million;
  - o certain businesses acquired, primarily in the News Media segment, for a total cash consideration of $15.1 million;
  - o $5.0 million contingent payment made in connection with the acquisition of Sogides in 2005.

Acquisitions of intangible assets: $111.5 million in 2009 compared with $637.6 million in 2008. The variance was mainly due to the acquisition in the third quarter of 2008 of 17 3G+ network operating licences for a consideration of $554.6 million.

Financial position at December 31, 2010

Net available liquidity: $1.05 billion for Quebecor Media and its wholly owned subsidiaries, consisting of $235.8 million in cash and $809.2 million in available unused lines of credit.

Net available liquidity: $79.5 million for Quebecor at the corporate level, consisting of a $0.8 million bank overdraft and $80.3 million in available unused lines of credit.

Consolidated debt: Totalled $3.62 billion at December 31, 2010, a decrease of $258.5 million (see "Financing activities" above).

- Consolidated debt essentially consisted of Videotron's $1.79 billion debt ($1.59 billion at December 31, 2009), Sun Media Corporation's $240.0 million debt ($248.9 million at December 31, 2009), TVA Group's $93.9 million debt ($89.6 million at December 31, 2009), Quebecor Media's $1.40 billion debt ($1.72 billion at December 31, 2009), and Quebecor's $105.5 million debt ($120.1 million at December 31, 2009). At December 31, 2009, consolidated debt also included Osprey Media's $114.2 million debt.

At December 31, 2010, minimum principal payments on long-term debt in the coming years were as follows:

Table 13
Minimum principal amount on Quebecor's long-term debt
12 months ending December 31
(in millions of Canadian dollars)

2011	$ 30.8
2012	102.1
2013	443.1
2014	736.4
2015	184.3
2016 and thereafter	2,204.3
Total	**$ 3,701.0**

The weighted average term of Quebecor's consolidated debt was approximately 4.9 years as of December 31, 2010 (5.2 years as of December 31, 2009). As of December 31 2010, the debt comprised approximately 74.1% fixed-rate debt (68.2% as of December 31, 2009) and 25.9% floating-rate debt (31.8% as of December 31, 2009).

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

Pursuant to their financing agreements, the Company and its subsidiaries are required to maintain certain financial ratios and financial covenants. The key indicators listed in these financing agreements include debt service coverage ratio and debt ratio

(long-term debt over operating income). At December 31, 2010, the Company and its subsidiaries were in compliance with all required financial ratios and restrictive covenants in their financing agreements.

Dividends declared by Board of Directors of Quebecor: On March 7, 2011, the Quebecor Board of Directors declared a quarterly dividend of $0.05 per share on Class A Multiple Voting Shares and Class B Subordinate Voting Shares, payable on April 19, 2011 to shareholders of record at the close of business on March 25, 2011.

Analysis of Consolidated Balance Sheet at December 31, 2009

Table 14
Consolidated balance sheet of Quebecor
Analysis of main variances between December 31, 2009 and December 31, 2010
(in millions of Canadian dollars)

	Dec. 31, 2010	Dec. 31, 2009	Difference	Main reason for difference
Assets				
Cash and cash equivalents, cash and cash equivalents (in trust), and temporary investments	**$ 248.0**	$ 335.3	$ (87.3)	Cash flows used for financing activities
Accounts receivable	**588.5**	519.8	68.7	Impact of launch of 3G+ network in Telecommunications segment and of current variances in activity
Inventory	**245.2**	176.1	69.1	Increase in cable television and mobile telephone equipment, the latter related to launch of 3G+ network in Telecommunications segment
Property, plant and equipment	**2,850.9**	2,498.6	352.3	Additions to property, plant and equipment (see "Investing activities" above), less amortization for the period
Liabilities				
Deferred revenues	**275.1**	234.7	40.4	Impact of launch of 3G+ network in Telecommunications segment
Long-term debt, including short-term portion and bank indebtedness	**3,623.8**	3,882.3	(258.5)	See "Financing activities"
Net derivative financial instruments[1]	**451.2**	373.4	77.8	See "Financing activities"
Net future tax liabilities[2]	**529.2**	423.6	105.6	Use of tax benefits and capital cost allowance in excess of book amortization

[1] Long-term liabilities, less long-term assets.
[2] Long-term liabilities, less current and long-term assets.

ADDITIONAL INFORMATION

Contractual obligations

At December 31, 2010, material contractual obligations of operating activities included: capital repayment and interest on long-term debt; operating lease arrangements; capital asset purchases and other commitments; and obligations related to derivative financial instruments, less estimated future receipts on derivative financial instruments. Table 15 below shows a summary of these contractual obligations.

Table 15
Contractual obligations of Quebecor as of December 31, 2010
(in millions of Canadian dollars)

	Total	Under 1 year	1-3 years	3-5 years	5 years or more
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
Operating leases	**258.7**	64.4	84.0	50.7	59.6
Additions to property, plant and equipment and other commitments	**129.5**	79.8	43.3	5.2	1.2
Derivative financial instruments[3]	**509.8**	0.5	130.3	213.9	165.1
Total contractual obligations	**$ 6,297.4**	**$ 449.8**	**$ 1,396.4**	**$ 1,658.4**	**$ 2,792.8**

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

2 Estimated interest payable on long-term debt, based on interest rates; hedging of interest rates and hedging of foreign exchange rates as of December 31, 2010.

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

Videotron leases sites for its 3G+ network and other equipment under operating lease arrangements and has contracted long-term commitments to acquire services and equipment for a total future consideration of $113.2 million. During the year ended December 31, 2010, Videotron renewed or extended several leases and signed new operating lease arrangements.

In the normal course of business, TVA Group contracts commitments regarding broadcast rights for television programs and films, and regarding distribution rights for audiovisual content. The outstanding balance of such commitments was $62.6 million at December 31, 2010.

Large quantities of newsprint, paper and ink are among the most important raw materials used by Quebecor Media. During 2010, the total newsprint consumption of its News Media segment's operations was approximately 144,000 metric tonnes. Newsprint represented approximately 9.8% ($81.4 million) of the News Media segment's operating costs for the year ended December 31, 2010. In order to obtain more favourable pricing, Quebecor Media sources substantially all of its newsprint from a single newsprint producer. Quebecor Media currently obtains newsprint from this supplier at a discount to market prices, and receives additional volume rebates for purchases above certain ceiling thresholds. However, there can be no assurance that this supplier will continue to supply newsprint to Quebecor Media on favourable terms or at all.

On March 1, 2011, Quebecor Media announced that it had 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.

Financial instruments

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

As at December 31, 2010, Quebecor Media was using derivative financial instruments to manage its exchange rate and interest rate exposure. It has entered into foreign exchange forward contracts and cross-currency interest rate swap agreements to hedge the foreign currency risk exposure on the entirety of its U.S.-dollar-denominated long-term debt. Quebecor Media also uses interest rate swaps in order to manage the impact of interest rate fluctuations on its long-term debt.

Quebecor Media has also entered into currency forward contracts in order to hedge, among other things, the planned purchase, in U.S. dollars, of digital set-top boxes, modems and other equipment in the Telecommunications segment, including equipment for the 3G+ network. As well, Quebecor Media has entered into currency forward contracts to hedge future contractual instalments payable in euros and Swiss francs.

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

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

The gain on valuation and translation of financial instruments for 2010, 2009 and 2008 are summarized in Table 16.

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

	2010	2009	2008
Gain on embedded derivatives and derivative financial instruments for which hedge accounting is not used	**$ (41.3)**	$ (13.9)	$ (47.2)
(Gain) loss on foreign currency translation of financial instruments for which hedge accounting is not used	**(6.9)**	(24.6)	34.3
Loss (gain) on ineffective portion of fair value hedges	**2.1**	(23.0)	16.6
Loss (gain) on re-measurement of exchangeable debentures and a portfolio Investment	**–**	1.8	(21.5)
	$ (46.1)	$ (59.7)	$ (17.8)

A $43.0 million gain was recorded under other comprehensive income in 2010 in relation to cash flow hedging relationships (losses of $8.2 million and $16.7 million in 2009 and 2008 respectively).

The fair value of long-term debt and derivative financial instruments is shown in Table 20.

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 Canoe subsidiary, 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.

During the second quarter of 2010, the Company announced the creation of Sun News, a new partnership in which TVA Group will hold a 51% interest and Sun Media Corporation a 49% interest. The partnership will launch an English-language news and opinion specialty channel in the spring of 2011. The Company has also decided to terminate the operations of its Sun TV conventional television station as soon as the new specialty channel is on air.

Following the creation of Sun News and the decision to terminate the operations of the Sun TV station, a corporate reorganization was carried out in December 2010. The related transactions were recognized at carrying value, leading to an adjustment of $0.5 million, which was recorded in contributed surplus.

Off-balance sheet arrangements

Guarantees

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

Operating lease arrangements

The Company has guaranteed a portion of the residual value 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 term) 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. In prior years, the Company has not made any payments relating to these guarantees.

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 its 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. In prior years, the Company has not made any payments relating to these guarantees.

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 financial statements with respect to these indemnifications. In prior years, the Company has not made any payments relating to these guarantees.

Capital stock

In accordance with Canadian financial reporting standards, Table 17 below presents information on the Company's capital stock as at February 15, 2011. In addition, 2,193,938 share options were outstanding as of February 15, 2011.

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

	February 15, 2011	
	Issued and outstanding	Book value
Class A (Multiple Voting Shares)	19,776,342	$ 8.8
Class B (Subordinate Voting Shares)	44,540,680	$ 337.8

Risk and uncertainties

Quebecor and its subsidiaries operate in the telecommunications and media industries, which entails a variety of risk factors and uncertainties. Quebecor's and its subsidiaries' operating environment and financial results may be materially affected by the risks and uncertainties discussed below. Unless the context otherwise requires, reference in this section to Quebecor Media is to Quebecor Media and its subsidiaries.

Competition in cable and telecommunications businesses

Quebecor Media competes against direct broadcast satellite providers (or “DBS”, which in Canada are also referred to as DTH, for “direct-to-home” satellite), multichannel multipoint distribution systems, satellite master antenna television systems and over-the-air television broadcasters. In addition, it competes against incumbent local exchange carriers (or “ILECs”), which have secured licences to launch video distribution services using video digital subscriber line (or “VDSL”) technology (also known as “IPTV”). The main ILEC in its market holds a regional licence to provide terrestrial broadcasting distribution in Montréal and several other communities in the Province of Québec. The same ILEC is also a cable operator in its main service area and recently launched its own IPTV service in Montréal, with a full rollout throughout the Province of Québec expected in the years to come. In addition, third-party internet providers (or “TPIA”) could launch IP video services in Quebecor Media’s footprint using ILEC digital subscriber line (or “DSL”) networks.

Quebecor Media also faces competition from illegal providers of cable television services and illegal access to non-Canadian DBS (also called grey market piracy), as well as from signal theft of DBS that enables customers to access programming services from U.S. and Canadian DBS without paying any fees (also called black market piracy). Competitors in the video business also include the video store industry (rental and sale) as well as other emerging content delivery platforms.

Due to ongoing technological developments, the distinction between traditional platforms (broadcasting, internet, and telecommunications) is fading rapidly. For instance, the Internet and mobile devices are increasingly becoming important broadcasting and distribution platforms. In addition, mobile operators, with the development of their respective 3G+ networks, are now offering mobile and fixed Internet services. In addition, VoIP telephony services also compete with Internet-based solutions.

In its Internet-access business, Quebecor Media competes against other Internet service providers (or “ISP”), and TPIA offering residential and commercial Internet-access services as well as open Wi-Fi networks in some cities. The CRTC also requires Quebecor Media to offer access to its high-speed Internet system to its ISP competitors, and to offer third-party ISPs to access its network for the purpose of providing telephony and networking applications, in addition to retail Internet access services.

Quebecor Media’s VoIP service has numerous competitors, including ILECs, competitive local exchange carriers (or “CLECs”), mobile telephony service operators and other providers of telephony, VoIP and internet communications, including competitors that are not facilities-based and therefore have a much lower infrastructure cost. Competition from ILECs has increased in recent years, particularly as a result of the Canadian government’s decision in 2007 to lift winback restrictions on ILECs and to change the criteria for forbearance from regulation of local exchange services. Since this decision, the CRTC has approved numerous applications for local forbearance submitted by ILECs, in both the residential and business local exchange markets. As a result, Quebecor Media’s incumbent local service competitors are free from regulation of local exchange services in the vast majority of residential markets in which Videotron competes, as well as in a large number of business markets, including all of the largest metropolitan markets in the Province of Québec. These rulings granting the ILECs’ forbearance applications enable ILECs to adjust their local exchange service prices for the approved exchanges without approval from the CRTC. Such flexibility to respond to intensifying competition for local exchange services could have an adverse effect on Quebecor Media’s ability to compete successfully with ILECs in the local telephony market. In addition, IP-based products and services are generally subject to downward pricing pressure, lower margins and technological evolution, all of which could have an adverse effect on Quebecor Media’s business, prospects and results of operation.

With its new 3G+ network, Quebecor Media competes against a mix of corporations, some of them active in some or all of its product offerings, while others offer only mobile telephony services in its market. In addition, users of mobile voice and data systems may find their communications needs satisfied by other current or developing adjunct technologies, such as Wi-Fi, WiMax, “hotspots” or trunk radio systems, which have the technical capability to handle mobile data communication and mobile telephone calls. There can be no assurance that current or future competitors will not provide network capacity and/or services comparable or superior to those Quebecor Media provides or may in the future provide, or at lower prices, or adapt more quickly to evolving industry trends or changing market requirements, or introduce competing services. For instance, since 2008, some corporations offering mobile telephony services (including most of the incumbent carriers as well as at least one other new entrant) have launched lower-cost mobile telephony services in order to acquire additional market share and increase their mobile telephony penetration rate in its market. Also, certain foreign operators recently started to deploy Long Term Evolution-Advanced (“LTE-Advanced 4G”) networks, and this technology could become an industry standard, if widely adopted. These LTE-Advanced 4G technologies are undergoing development to determine the additional network capacity that may be required to address the surging demand for mobile data, although such technologies remain largely at the stage of research and development, testing and interoperability efforts. The cost of implementing, modifying its existing network or competing against future technological innovations may be prohibitive to Quebecor Media, and it may lose customers if it fails to keep pace with these

changes or fails to keep pace with surging network capacity demand. Any of these factors could adversely affect Quebecor Media's ability to operate its 3G+ mobile business successfully and profitably.

Moreover, Quebecor Media may not be able to compete successfully in the future against existing or potential competitors, and increased competition could have a material adverse effect on its business, prospects, revenues, financial condition and results of operations.

Delays in completion of deployment of facilities-based mobile services

In July 2008, in the context of Canada's spectrum auction for third-generation ("3G") advanced mobile services, Quebecor Media acquired spectrum licences for 3G+ covering all regions of the Province of Québec and certain areas of Ontario. It was the successful bidder for 40 MHz spectrum licences in all parts of the Province of Québec, except the Outaouais region, where Quebecor Media obtained 20 MHz spectrum licences, and certain other regions of Québec where it obtained 50 MHz spectrum licences. Quebecor Media also acquired 20 MHz spectrum licences in Eastern Ontario and 10 MHz spectrum licences in the City of Toronto. The control of these licences, which were issued by Industry Canada in December 2008, was transferred from Quebecor Media to Videotron subsequent to the completion of the auction. Videotron launched its 3G+ offering on September 9, 2010 in the Greater Montréal Area, the Greater Québec City Area and in corridors in-between. Additional service coverage regions were rolled out in the fourth quarter of 2010. Quebecor Media plans to cover most of its potential customer base by the second quarter of 2011.

Under Industry Canada's policy concerning mandatory roaming and antenna site and tower sharing, parties are required to consider tower-sharing arrangements in respect of existing towers prior to proposing the construction of new antenna tower structures. Quebecor Media is therefore dependent on the participation of incumbent operators to satisfy this requirement for the limited number of sites remaining to be built. Although incumbent carriers are required to respond to tower-sharing requests, there can be no assurance that they will accede to such requests or otherwise negotiate tower-sharing rates and terms that are economically or technologically acceptable to Quebecor Media. Industry Canada has established an arbitration process to encourage commercially reasonable outcomes, but such a process may prove lengthy and burdensome. This process could delay the completion of the deployment and future expansion of Quebecor Media's advanced mobile services network, which could have an adverse effect on its business, prospects and financial conditions. In addition, even though Quebecor Media has entered into tower-sharing arrangements with certain incumbent operators, the installation and deployment of its related systems may be further delayed by negotiations with these incumbent operators.

Industry Canada's policy concerning antenna site and tower sharing includes requirements with respect to land-use authority and public consultation regarding proposed tower installations or modifications. Quebecor Media must therefore undertake public notification and address local and neighbourhood concerns before building a new tower structure. In some instances, Quebecor Media may be required to come to a tower-sharing agreement with an existing operator, move existing towers or build additional sites to reach the desired coverage. This process could lead to delays in acquiring and developing new sites for cellular towers and could increase the cost and expense of the completion and maintenance of its 3G+ network, which could have an adverse effect on Quebecor Media's business, prospects and financial conditions.

In order to complete the deployment of its mobile services facilities in a timely manner, Quebecor Media has entered into commercial agreements with certain key suppliers. The inability of key suppliers to meet Quebecor Media's procurement and timing requirements could result in delays in completing the deployment of its mobile network and in additional expenses, which could adversely affect its ability to deploy and operate its mobile business successfully and profitably.

Roaming agreements

To date, Quebecor Media has entered into roaming agreements with multiple carriers around the world (including in Canada, the United States and Europe), and has established worldwide coverage. Its inability to renew these agreements at their respective terms and on acceptable terms may place Quebecor Media at a competitive disadvantage, which could adversely affect its ability to operate its mobile business successfully and profitably.

In addition, various aspects of mobile communications operations, including the ability of mobile providers to enter into interconnection agreements with traditional wireline telephone companies and the ability of mobile providers to manage data traffic on their networks, are subject to regulation by the CRTC. Government agencies having jurisdiction over any mobile business that Quebecor Media may develop could adopt regulations or take other actions that could adversely affect its mobile business and operations, including actions that could increase competition or increase its costs.

New mobile technology

Advanced mobile services in the 2 GHz range is a spectrum that has not been broadly used for mobile telephony until recently. While certain mobile-device suppliers offer hardware for 3G+ service technology, there are currently only a limited number of 3G+ handsets on the market. As a result, the handset portfolio for 3G+ services that Quebecor Media is currently offering does not include certain more popular devices and is not as broad as those of certain other providers. Moreover, most handset manufacturers have reduced the number of stock keeping units (or “SKUs”) in their portfolio. If they continue to offer exclusivity on future products in Canada, this could potentially reduce the number of handsets available to Quebecor Media in the 3G+ services band. Quebecor Media could potentially incur higher costs of customer acquisition due to a smaller market for this type of technology and could potentially have a reduced number of handsets to offer its customers, which could slow the growth of its customer base and adversely affect its ability to operate its mobile business successfully and competitively.

Capital expenditures

Quebecor Media’s strategy of maintaining a leadership position in the suite of products and services it offers and launching new products and services requires capital investments in its network and infrastructure to support growth in its customer base and in demands for increased bandwidth capacity and other services. In this regard, Quebecor Media has in the past required substantial capital for the upgrade, expansion and maintenance of its network and the launch and expansion of new or additional services. Quebecor Media expects that additional capital expenditures will be required in the short and medium term in order to expand and maintain its systems and services, including expenditures relating to advancements in Internet access and high-definition television (“HDTV”), as well as the cost of deploying its mobile services infrastructure.

The demand for mobile data services has been growing at unprecedented rates and it is projected that this demand will further accelerate, driven by the increasing levels of broadband penetration, increasing need for personal connectivity and networking, increasing affordability of smartphones and Internet-only devices (e.g., high-usage data devices such as mobile Internet keys, tablets and electronic book readers), increasingly multimedia-rich services and applications, increasing mobile competition, and, possibly, unlimited data plans. The anticipated levels of data traffic will represent a growing challenge to the current mobile network’s ability to serve this traffic. Quebecor Media may have to acquire additional spectrum in order to address this increased demand. The ability to acquire additional spectrum (if needed) is dependent on the timing and the rules established by Industry Canada.

There can be no assurance that Quebecor Media will be able to obtain the funds necessary to finance its capital improvement programs, new strategies and services or other capital expenditure requirements, in addition to completing the deployment of its mobile services infrastructure, whether through internally generated funds, additional borrowings, or other sources. If Quebecor Media is unable to generate sufficient funds or obtain additional financing on acceptable terms, it may not be able to implement its business strategies or proceed with the capital expenditures and investments required to maintain its leadership position, and its business, financial condition, results of operations, reputation and prospects could be materially adversely affected. Even if Quebecor Media were able to obtain adequate funding, the period of time required to upgrade its network could have a material adverse effect on its ability to successfully compete in the future.

Consumer switch from landline telephony to mobile telephony

The recent trend for mobile substitution or “Cord-Cutting” (subscribers ending their landline telephony services and opting for mobile telephony services only), as a result of the increasing mobile penetration rate in Canada and the various unlimited offers launched by mobile operators, could affect the demand for cable telephony services. Quebecor Media may not be successful in converting its existing cable telephony subscriber base to its mobile telephony services, which could have a material adverse effect on its business, financial conditions or results of operations.

Competition from alternative technologies

The media industry is experiencing rapid and significant technological change, which has resulted in alternative means of program and content transmission. The continued growth of the Internet has presented alternative content distribution options that compete with traditional media. Furthermore, in each of Quebecor Media’s broadcasting markets, industry regulators have already authorized DTH, microwave services and VDSL services, and may authorize other alternative methods of transmitting television and other content with improved speed and quality. Quebecor Media may not be able to successfully compete with existing or newly developed alternative technologies, such as IPTV, or it may be required to acquire, develop or integrate new technologies. The cost of the acquisition, development or implementation of new technologies could be significant and Quebecor Media’s ability to fund such implementation may be limited, which could have a material adverse effect on its ability to successfully compete in the

future. Any such difficulty or inability to compete could have a material adverse effect on its business, reputation, prospects, financial condition, or results of operations.

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

Successful implementation of business and operating strategies

Quebecor Media's business strategies are based on leveraging an integrated platform of media assets. Its strategies include offering multi-platform advertising solutions, launching and deploying additional value-added products and services such as 3G+ services, pursuing cross-promotional opportunities, maintaining its advanced broadband network, pursuing enhanced content development to reduce costs, further integrating the operations of its subsidiaries, leveraging geographic clustering, and maximizing customer satisfaction. Quebecor Media may not be able to implement these strategies fully or realize their anticipated results without incurring significant costs, or at all. In addition, its ability to successfully implement these strategies could be adversely affected by a number of factors beyond its control, including operating difficulties, increased ongoing operating costs, regulatory developments, general or local economic conditions, increased competition, technological change, and/or other factors described here. Quebecor Media may also be required to make capital expenditures or other investments which may affect its ability to implement its business strategies to the extent it is unable to secure additional financing on acceptable terms or generate sufficient funds internally to cover these requirements. Any material failure to implement its strategies could have a material adverse effect on its reputation, business, financial condition, prospects, or results of operations, and on its ability to meet its obligations, including its ability to service its indebtedness.

Rapid growth

Quebecor Media has grown its business and has significantly expanded its operations in recent years. Quebecor Media has sought in the past, and may in the future, seek to make opportunistic or strategic acquisitions and further expand, under appropriate conditions, the types of businesses in which it participates, as was the case for its expansion into facilities-based mobile telephony operations. This growth has placed, and will continue to place, significant demands on Quebecor Media's management. Quebecor Media can provide no assurance that it will be successful in either developing or fulfilling the objectives of any such acquisition or business expansion.

In addition, Quebecor Media's expansion and acquisitions may require it to incur significant costs or divert significant resources, and may limit its ability to pursue other strategic and business initiatives, which could have an adverse effect on Quebecor Media's business, financial condition, prospects, or results of operations. Furthermore, if Quebecor Media is not successful in managing and integrating any acquired businesses, or if it is required to incur significant or unforeseen costs, its business, results of operations and financial condition could be adversely affected.

Key personnel

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

Competition for advertising

Advertising revenue is the primary source of revenue for Quebecor Media's news media and broadcasting businesses. Quebecor Media's revenues and operating results in these businesses depend on the relative strength of the economy in its principal news media and television markets, as well as the strength or weakness of local, regional and national economic factors. These economic factors affect the levels of retail, national and classified news media advertising revenue, as well as television advertising revenue. Since a significant portion of Quebecor Media's advertising revenue is derived from retail and automotive sector advertisers, weakness in these sectors and in the real estate industry has had, and may continue to have, an adverse impact on the revenues and results of operations of its news media and broadcasting businesses. Continuing or deepening softness in the Canadian or U.S. economy could further adversely affect key national advertising revenue.

In addition to the impact of economic cycles, the newspaper industry is experiencing structural changes, including the growing availability of free access to media, shifting readership habits, digital transferability, the advent of real-time information, and secular changes in the advertising industry. As a result, competition for advertising spend comes not only from other newspapers (including other national, metropolitan (paid and free) and suburban newspapers), magazines, and more traditional media platforms such as broadcasters, cable systems and networks, satellite television and radio, direct marketing and solo and shared mail programs, but also from digital media technologies, which have introduced a wide variety of media distribution platforms (including, most significantly, the Internet and distribution over mobile devices) to consumers and advertisers. While Quebecor Media continues to pursue initiatives to offer value-added advertising solutions to its advertisers, such as the publication of e-editions of a number of its newspapers, it may not be successful in retaining its historical share of advertising revenues. The ability of the news media business to grow and succeed over the long term depends on various factors, including its ability to attract advertisers to its online sites, which depends partly on its ability to generate online traffic and partly on the rate at which users click through online advertisements. Quebecor Media may be adversely affected by the development of new technologies to block the display of its advertisements and there can be no assurance that Quebecor Media will be successful in attracting online traffic or advertisers to its Internet sites.

In broadcasting, the proliferation of cable and satellite channels, advances in mobile technology, the migration of television audiences to the Internet and the viewing public's increased control over the manner, content and timing of their media consumption through personal video recording devices, have all contributed to the fragmentation of the television viewing audience, and created a more challenging advertising sales environment.

These factors could have a material adverse effect on Quebecor Media's revenues, results of operations, financial condition, business and prospects.

Competition for readership and audience share

Revenue generation in the newspaper business depends in large part on advertising revenues, which in turn are driven by readership and circulation levels, as well as by market demographics, price, service, and advertiser results. Readership and circulation levels tend to be based on the content of the newspaper, service, availability and price. For several years, Quebecor Media, along with the newspaper industry as a whole, has experienced challenges in maintaining circulation volume and revenues because, among other things, of competition from other newspapers and other media platforms (often free to the user), such as the Internet and mobile devices, as well as the declining frequency of regular newspaper-buying, particularly among young people, who increasingly rely on non-traditional media as a source for news. A prolonged decline in readership and circulation levels in Quebecor Media's newspapers business would have a material effect on the rate and volume of its newspaper advertising revenues (as rates reflect circulation and readership, among other factors), and it could also affect its ability to institute circulation price increases for its print products, all of which could have a material adverse effect on its results of operations, financial condition, business and prospects. To maintain its circulation base and online traffic, Quebecor Media may incur additional costs, and it can provide no assurance that it will be able to recover those costs through increased circulation and advertising revenues.

In the Broadcasting segment, audience share and ratings information, as well as audience demographics and price, are the principal drivers in the competition for television advertising. As with the newspaper industry, the conventional television audience has grown increasingly fragmented, due in large part to the proliferation and growth in popularity of cable and satellite channels, and the migration to alternative content-delivery sources, such as the Internet and mobile devices, which are increasingly being used for distribution of (and access to) news, entertainment and other content. If the broadcasting market continues to fragment, Quebecor Media's audience share levels and its advertising revenues, results of operations, financial condition, business and prospects could be materially adversely affected.

Distribution of a wide range of television programming

The financial performance of its cable and mobile services businesses depends in large part on Quebecor Media's ability to distribute a wide range of appealing, conveniently scheduled television programming at reasonable rates. Quebecor Media obtains television programming from suppliers, pursuant to programming contracts. The quality and amount of television programming offered by Quebecor Media affect the attractiveness of its services to customers and, accordingly, the rates Quebecor Media can charge for those services. Quebecor Media may be unable to maintain key programming contracts at commercially reasonable rates for television programming. Loss of programming contracts, Quebecor Media's inability to obtain programming at reasonable rates, or its inability to pass on rate increases to its customers could have a material adverse effect on its business, financial condition, results of operations, and prospects.

In addition, Quebecor Media's ability to attract and retain cable customers depends, to a certain extent, upon its capacity to offer quality content and an appealing variety of programming choices and packages. If the number of specialty channels being offered decreases significantly, or if the content offered on such channels does not receive audience acceptance, it may have a significant negative impact on revenues from Quebecor Media's cable operations.

Costs, quality and variety of television programming

The most significant cost in Quebecor Media's broadcasting business is television programming. Quebecor Media's broadcasting operations may be exposed to volatile or increased television programming costs that may adversely affect its operating results. To that end, for instance, Quebecor Media had earlier requested that its regulator lift certain obligations imposed on TVA Group to buy an earmarked percentage of programs from independent producers that are all members of a single union. That request was denied.

Developments in cable, satellite, Internet, mobile and other forms of content distribution could also affect both the availability and the cost of programming and increase competition for advertising revenue. The production and distribution costs of television and other forms of entertainment may also increase in the future. Moreover, programs may be purchased for broadcasting two to three years in advance, making it difficult to predict how such programs will perform. In some instances, programs must be replaced before their costs have been fully amortized, resulting in accounting adjustments that accelerate the recognition of expenses.

Cost of newsprint

Newsprint, which is the basic raw material used to publish newspapers, has historically been and may continue to be subject to significant price volatility. In 2010, the total newsprint consumption of Quebecor Media's newspaper operations was approximately 144,000 metric tonnes. Newsprint represents its single largest raw material expense and one of its most significant operating costs. Newsprint expense represented approximately 9.8% ($81.4 million) of its News Media segment's operating expenses for the year ended December 31, 2010. Changes in the price of newsprint could significantly affect Quebecor Media's income, and volatile or increased newsprint costs have had, and may in the future have, a material adverse effect on its results of operations.

In order to obtain more favourable pricing, Quebecor Media sources substantially all of its newsprint from a single newsprint producer (the "Newsprint Supplier"). Pursuant to the terms of its agreement with its Newsprint Supplier, Quebecor Media obtains newsprint at a discount to market prices, receives additional volume rebates for purchases above certain thresholds and benefits from a ceiling on the unit cost of newsprint. Quebecor Media's agreement with its Newsprint Supplier is a short-term agreement and there can be no assurance that it will be able to renew this agreement or that its Newsprint Supplier will continue to supply newsprint to Quebecor Media on favourable terms or at all after the expiry of its agreement. If Quebecor Media is unable to continue to source newsprint from its Newsprint Supplier on favourable terms, or if Quebecor Media is unable to otherwise source sufficient newsprint on terms acceptable to the company, its costs could increase significantly, which could materially adversely affect the profitability of its newspaper business and its results of operations. Quebecor Media also relies on its Newsprint Supplier for deliveries of newsprint. The availability of its newsprint supply, and therefore its operations, may be adversely affected by various factors, including labour disruptions affecting its Newsprint Supplier or its Newsprint Supplier ceasing operations.

In addition, since newspaper publishing is labour intensive and Quebecor Media's operations are located across Canada, its newspaper business has a relatively high fixed-cost structure. During periods of economic contraction, its revenue may decrease while certain costs remain fixed, resulting in reduced earnings.

Single clustered network

Quebecor Media provides its digital television, Internet access and telephony services through a primary headend and its analog television services through twelve additional regional headends in a single clustered network. Despite available emergency backup or replacement sites, a failure in Quebecor Media's primary headend could prevent it from delivering some of its products and services throughout its network until Quebecor Media has resolved the failure, which may result in significant customer dissatisfaction and potential civil litigation.

Third-party suppliers and providers

Quebecor Media depends on third-party suppliers and providers for certain services, hardware and equipment that are critical to its operations. These materials and services include set-top boxes, cable and telephony modems, servers and routers, fibre-optic cable, telephony switches, inter-city links, support structures, software, the "backbone" telecommunications network for its Internet access and telephony service, and construction services for expansion and upgrades of its cable and mobile networks. These services and equipment are available from a limited number of suppliers. If no supplier can provide Quebecor Media with the equipment or services that it requires or that comply with evolving Internet and telecommunications standards or that are compatible with its other equipment and software, its business, financial condition and results of operations could be materially adversely affected. In addition, if Quebecor Media is unable to obtain critical equipment, software, services or other items on a timely basis and at an acceptable cost, its ability to offer its products and services and roll out its advanced services may be delayed, and its business, financial condition and results of operations could be materially adversely affected. In addition, Quebecor Media obtains significant information through licensing arrangements with content providers. Some providers may seek to increase

fees for providing their proprietary content. If Quebecor Media is unable to renegotiate commercially acceptable arrangements with these content providers or to find alternative sources of equivalent content, its News Media operations may be adversely affected.

Strikes and other labour protests

At December 31, 2010, approximately 42% of Quebecor Media's employees were represented by collective bargaining agreements. Quebecor Media is currently party to 102 collective bargaining agreements:

- Videotron is party to five collective bargaining agreements representing approximately 3,340 unionized employees. The two most important agreements, covering unionized employees in the Montréal and Québec City regions, have terms extending to December 31, 2013. There are also two collective bargaining agreements covering unionized employees in the Chicoutimi and Gatineau regions, with terms running through December 31, 2014 and August 31, 2015, respectively, and one other agreement, covering approximately 50 employees of its SETTE inc. subsidiary, which will expire on December 31, 2012.

- Sun Media (including Osprey Media) is party to 74 collective bargaining agreements, representing approximately 1,760 unionized employees. Of these, 21 agreements have expired, representing approximately 920 unionized employees, or 52% of its unionized workforce. Negotiations regarding these agreements are either in progress or will be undertaken in 2011. The other collective bargaining agreements are scheduled to expire on various dates through December 2013.

- TVA Group is party to 13 collective bargaining agreements, representing approximately 1,160 unionized employees. Of this number, two agreements, representing approximately 20 unionized employees or 1.7% of its unionized workforce, have expired. Negotiations regarding these agreements are in progress. The other collective bargaining agreements will expire between April 30, 2011 and December 31, 2013.

- Of the other 10 collective bargaining agreements, representing approximately 530 unionized employees, one agreement representing approximately 40 unionized employees or 7% of its unionized workforce has expired. The other collective bargaining agreements will expire between May 2011 and December 2017.

Quebecor Media has, in the past, experienced labour disputes that have disrupted its operations, resulted in damage to its network or equipment and impaired its growth and operating results.

On February 26, 2011, the members of the Syndicat des travailleurs de l'information du Journal de Montréal (STIJM) voted 64.1% to accept the mediator's recommendation for a settlement to the labour dispute at *Le Journal de Montréal*. On January 24, 2009, in view of the union's refusal to recognize the urgency of the situation and the need for far-reaching changes to the *Journal de Montréal*'s business model, the employer had declared a lockout. Quebecor Media expressed satisfaction with the results of the vote by the STIJM membership and accepted the mediator's recommendation. The parties must now negotiate a back-to-work agreement to end the dispute.

Quebecor Media cannot predict the outcome of current or future negotiations relating to labour disputes, union representation or renewal of collective bargaining agreements, nor guarantee that it will not experience further work stoppages, strikes or other forms of labour protests pending the outcome of any current or future negotiations. If its unionized workers engage in a strike or any other form of work stoppage, it could experience a significant disruption to its operations, damage to its property and/or interruption to its services, which could adversely affect its business, assets, financial position, results of operations and reputation. Even if Quebecor Media does not experience strikes or other forms of labour protests, the outcome of labour negotiations could adversely affect its business and results of operations. Such could be the case if current or future labour negotiations or contracts were to further restrict its ability to maximize the efficiency of its operations. In addition, its ability to make short-term adjustments to control compensation and benefit costs is limited by the terms of its collective bargaining agreements.

Environmental laws and regulations

Quebecor Media is subject to a variety of environmental laws and regulations. Some Quebecor Media facilities are subject to federal, provincial, state and municipal laws and regulations concerning, among other things, emissions to the air, water and sewer discharge, the handling and disposal of hazardous materials and waste, recycling, the soil remediation of contaminated sites, or otherwise relating to protection of the environment. In addition, laws and regulations relating to workplace safety and worker health, which, among other things, regulate employee exposure to hazardous substances in the workplace, also govern Quebecor Media's operations. Failure to comply with present or future laws or regulations could result in substantial liability to Quebecor Media. Environmental laws and regulations and their interpretation have changed rapidly in recent years and may continue to do so in the future. Quebecor Media's properties, as well as areas surrounding those properties, particularly those located in areas of long-term

industrial use, may have had historic uses, or may have current uses, especially in the case of surrounding properties, that may affect its properties and require further study or remedial measures. Quebecor Media is not currently conducting or planning any material study or remedial measure, and none has been required by regulatory authorities. However, it can provide no assurance that all environmental liabilities have been determined, that any prior owner of its properties did not create a material environmental condition not known to Quebecor Media, that a material environmental condition does not otherwise exist regarding any such property, or that expenditures will not be required to deal with known or unknown contamination.

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

Some studies have alleged links between radiofrequency emissions from certain wireless devices and cell sites and various health problems or possible interference with electronic medical devices, including hearing aids and pacemakers. All our cell sites comply with applicable laws and we rely on our suppliers to ensure that the network equipment and customer equipment supplied to us meets all applicable safety requirements. While there is no definitive evidence of harmful effects from exposure to radiofrequency emissions when the limits imposed by applicable laws and regulations are complied with, additional studies of radiofrequency emissions are ongoing and we cannot be sure that the results of any such future studies will not demonstrate a link between radiofrequency emissions and health problems.

The current concerns over radiofrequency emissions or perceived health risks of exposure to radiofrequency emissions could lead to additional governmental regulation, diminished use of wireless services, including Videotron's, or expose us to potential litigation. Any of these could have a material adverse effect on our business, prospects, revenues, financial condition and results of operations.

Legal disputes

In the normal course of business, Quebecor and its subsidiaries are involved in various legal proceedings and other claims relating to the conduct of their business.

A number of legal proceedings against Quebecor and its subsidiaries are still outstanding. Although, in the opinion of management, the outcome of these proceedings is not expected to have a material adverse effect on the results of Quebecor and its subsidiaries' liquidity or financial position, a negative outcome could have such an adverse effect. Moreover, the cost of defending against lawsuits and the diversion of management's attention could be significant.

Government acts and regulations – risks

Quebecor Media's operations are subject to extensive government regulation in Canada. Laws and regulations govern the issuance, amendment, renewal, transfer, suspension, revocation and ownership of broadcast programming and distribution licences. With respect to distribution, regulations govern, among other things, the distribution of Canadian and non-Canadian programming services and the maximum fees to be charged to the public in certain circumstances. For the time being, there are significant restrictions on the ability of non-Canadian entities to own or control broadcasting licences and telecommunications carriers in Canada, although the federal government is currently reviewing whether to relax the foreign ownership restrictions. Quebecor Media's broadcasting distribution and telecommunications operations (including Internet access service) are regulated, respectively, by the *Broadcasting Act* (Canada) and the *Telecommunications Act* (Canada) and regulations. The CRTC, which administers the *Broadcasting Act* and the *Telecommunications Act*, has the power to grant, amend, suspend, revoke and renew broadcasting licences, approve certain changes in corporate ownership and control, and make regulations and policies in accordance with the *Broadcasting Act* and the *Telecommunications Act*, subject to certain directions from the federal cabinet. Quebecor Media's mobile and cable operations are also subject to technical requirements, licence conditions and performance standards under the *Radiocommunication Act* (Canada), which is administered by Industry Canada.

In addition, laws relating to communications, data protection, e-commerce, direct marketing and digital advertising and the use of public records have become more prevalent in recent years. Existing and proposed legislation and regulations, including changes in the manner in which such legislation and regulations are interpreted by courts in Canada, the United States and other jurisdictions, may impose limits on the collection and use of certain kinds of information.

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

Renewal or grant of licences

Quebecor Media's CRTC broadcasting and distribution licences must be renewed from time to time, typically every seven years, and cannot be transferred without regulatory approval. While CRTC regulations and policies do not require CRTC approval before a broadcaster purchases an unregulated media entity, such as a newspaper, the CRTC may consider the issue of Quebecor Media's cross-media ownership at licence-renewal proceedings, and may also consider this issue in deciding whether to grant new licences to Quebecor Media. The CRTC further has the power to prevent or address the emergence of undue competitive advantage on behalf of one licencee where it is found to exist.

The CRTC may require Quebecor Media to take measures that could have a material adverse effect on the integration of its assets, its employees, and its ability to realize certain of the anticipated benefits of its acquisitions. Its inability to renew any of its licences or acquire new interests or licences on acceptable terms, or at all, could have a material adverse effect on its business, financial condition or results of operations.

Videotron's advanced mobile services licences were issued in December, 2008, for a term of 10 years. At least two years before the end of this term, and any subsequent term, Videotron may apply for a renewed licence for a term of up to 10 years. Mobile services licence renewal, including whether licence fees should apply for a subsequent licence term, will be subject to a public consultation process initiated in year eight of the licence.

Access to support structures

Quebecor Media requires access to the support structures of hydroelectric and telephone utilities and to municipal rights of way to deploy its cable network. Where access to the structures of telephone utilities cannot be secured, Quebecor Media may apply to the CRTC to obtain a right of access under the *Telecommunications Act* (Canada).

Quebecor Media has entered into comprehensive support structure access agreements with all of the major hydroelectric companies and all of the major telecommunications companies in its service territory. Quebecor Media's agreement with Hydro-Québec, by far the largest of the hydroelectric companies, expires in December 2011. Rates are currently adjusted annually based on the Consumer Price Index (CPI). An increase in rates charged by Hydro-Québec could have a significant impact on Videotron's cost structure.

Indebtedness

Quebecor and its subsidiaries currently have a substantial amount of debt and significant interest payment requirements. As at December 31, 2010, Quebecor and its subsidiaries had a consolidated long-term debt of $3.62 billion. Quebecor's and its subsidiaries' indebtedness could have significant consequences, including the following:

- increase their vulnerability to general adverse economic and industry conditions;
- require them to dedicate a substantial portion of their cash flow from operations to making interest and principal payments on their indebtedness, thereby reducing the availability of their cash flow to fund capital expenditures, working capital and other general corporate purposes;
- limit their flexibility in planning for, or reacting to, changes in their businesses and the industries in which Quebecor and its subsidiaries operate;
- place them at a competitive disadvantage compared to competitors that have less debt or greater financial resources; and
- limit, along with the financial and other restrictive covenants in their indebtedness, their ability, among other things, to borrow additional funds on commercially reasonable terms, if at all.

Although Quebecor and its subsidiaries are leveraged, their respective debt instruments permit Quebecor and its subsidiaries to incur additional substantial indebtedness in the future.

Restrictive covenants

Quebecor's and its subsidiaries' debt instruments contain a number of operating and financial covenants restricting their ability to, among other things:

- borrow money or sell preferred stock;
- issue guarantees of debt;
- make certain types of investments;
- pay dividends and make other restricted payments;
- create or permit certain liens;

- use the proceeds from sales of assets and subsidiary stock;
- enter into asset sales;
- create or permit restrictions on the ability of restricted subsidiaries, if any, to pay dividends or make other distributions;
- engage in certain transactions with affiliates; and
- enter into mergers, consolidations and transfers of all or substantially all of their assets.

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

Holding company

Quebecor is a holding company and a substantial portion of its assets is the capital stock of its subsidiaries. As a holding company, Quebecor conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, Quebecor's cash flow and ability to service its debt obligations are dependent on the earnings of its subsidiaries and the distribution of those earnings to Quebecor or on loans, advances or other payments made by these entities to the Company. The ability of these entities to pay dividends or make other loans, advances or payments will depend on their operating results and will be subject to applicable laws and contractual restrictions contained in the instruments governing their debt.

Ability to refinance

Quebecor and its subsidiaries may need to refinance certain of their existing debt instruments at or prior to their maturity. Quebecor and its subsidiaries' ability to obtain additional financing to repay such existing debt at maturity will depend upon a number of factors, including prevailing market conditions and their operating performance. The tightening of credit availability and the challenges affecting global capital markets could also limit their ability to refinance existing maturities. There can be no assurance that any such financing will be available to Quebecor and its subsidiaries on favourable terms or at all.

Volatility and disruptions in capital and credit markets

The capital and credit markets have experienced significant volatility and disruption over the last several years, resulting in periods of extreme upward pressure on the cost of new debt capital and severe restrictions on credit availability for many companies.

The disruptions in the capital and credit markets have also resulted in higher interest rates or greater credit spreads on issuance of debt securities and increased costs under credit facilities. Continuation of these disruptions could increase Quebecor's and its subsidiaries' interest expense, adversely affecting their results of operations and financial position.

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

Longer-term volatility and continued disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation of financial institutions, reduced alternatives, or failures of significant financial institutions could adversely affect Quebecor's and its subsidiaries' access to the liquidity needed for their businesses in the longer term. Such disruptions could require Quebecor and its subsidiaries to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for their business needs can be arranged.

Continued market disruptions and broader economic challenges may lead to lower demand for certain of Quebecor's and its subsidiaries' products and increased incidences of customers' inability to pay or to timely pay for the services or products they have provided. Such eventualities could adversely impact Quebecor's and its subsidiaries' results of operations, cash flows and financial position.

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 their 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 it 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 as cash flow hedges when they qualify for hedge accounting.

Description of derivative financial instruments

Table 18
Foreign exchange forward contracts
At December 31, 2010
(in millions of dollars)

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

Table 19
Cross-currency interest rate swaps
as at December 31, 2010
(in millions of dollars)

	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
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.

Table 20
Interest rate swaps at December 31, 2010
(in millions of dollars)

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

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 based on discounted cash flows using year-end market yields or the market value of similar instruments with the same maturity.

The fair value of cash equivalents, cash equivalents in trust, temporary investments and bank indebtedness, classified as held-for-trading and accounted for at their fair value on the balance sheet, is determined using inputs other than quoted prices in active markets for identical assets or liabilities either directly (i.e., as prices) or indirectly (i.e., derived from prices).

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

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

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

Table 21
Fair value of long-term debt and derivative financial instruments
(in millions of Canadian dollars)

	December 31, 2010		December 31, 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 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)**

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

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.

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).

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.

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 one CAD dollar per one U.S. dollar at December 31, 2010:

Increase (decrease)		**Income**		**Other comprehensive income**
Increase of $0.10				
U.S. dollar-denominated accounts payable	**$**	**(1.0)**	**$**	**—**
(Gain) loss 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**		**—**
Loss (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) London Interbank Offered Rate (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, compared with 68.2% at December 31, 2009, and 25.9% floating-rate debt, compared with 31.8% at December 31, 2009.

The estimated sensitivity on financial expense of floating-rate debt, before income tax and non-controlling interest, of a 100 basis-point variance in the year-end Canadian Bankers' 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)

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, interest and temporary investments. The capital structure is as follows:

Table 22
Capital structure of Quebecor at December 31, 2010
(in millions of dollars)

	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 that relate to permitted investments, inter-company transactions, the declaration and payment of dividends or other distributions.

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.

Critical accounting policies and estimates

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 revenue” 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 during which 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 also recognized when the publication is delivered. Website advertising is recognized when the advertisements are placed on the 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.

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 theatres, 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.

Goodwill

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 fair value of a reporting unit is compared with its carrying amount. To determine the fair value of the reporting unit, the Company uses the discounted future cash flows valuation method and validates the results by comparing with values calculated using other methods, such as operating income multiples or market price.

The discounted cash flows method involves the use of estimates such as the amount and timing of the cash flows, expected variations in the amount or timing of those cash flows, the time value of money as represented by a risk-free interest rate, and the risk premium associated with the asset or liability.

Determining the fair value of a reporting unit, therefore, is based on management's judgment and is reliant on estimates and assumptions.

When the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is carried out. The fair value of the reporting unit's goodwill is compared with its carrying amount in order to measure the amount of the impairment loss, if any.

The fair value of goodwill is determined in the same manner as for a business combination. The Company allocates the fair value of a reporting unit to all of the identifiable assets and liabilities of the unit, whether or not recognized separately, and the excess of the fair value over the amounts assigned to the reporting unit's identifiable assets and liabilities is the fair value of goodwill.

The judgment used in determining the fair value of the reporting unit and in allocating this fair value to the assets and liabilities of the reporting unit may affect the value of the goodwill impairment to be recorded.

In the fourth quarter of 2008, the adverse financial and economic environment currently affecting industries of some of the Company's segments triggered a goodwill impairment test related to reporting units of the News Media, Leisure and Entertainment, and Interactive Technologies and Communications segments. As a result, the Company concluded that these segments' goodwill was impaired. A total preliminary estimated non-cash goodwill impairment loss of $631.0 million, without any tax consequences, was recorded: $595.0 million in the News Media segment, $10.0 million in the Leisure and Entertainment segment, and $26.0 million in the Interactive Technologies and Communications segment. 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 of the preliminary goodwill impairment loss in the fourth quarter of 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.

Based on the data and assumptions used in its last goodwill impairment test, the Company believes that at this time there are no material amounts for goodwill on its books that present a significant risk of impairment in the near future.

The net book value of goodwill as at December 31, 2010 was $3.51 billion.

Intangible assets with indefinite useful life

Intangible assets such as mastheads and broadcasting licences, which have an indefinite useful life, are 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.

To determine the market value of its mastheads, the Company uses a method based on discounted future cash flows, in which future cash flows related to the masthead are valued on the basis of potential royalties.

To determine the fair value of its broadcasting licences, the Company uses the "Greenfield" approach, based on a discounted future cash flows valuation method.

These methods involve the use of estimates such as the amount and timing of the cash flows, expected variations in the amount or timing of those cash flows, the time value of money as represented by a risk-free interest rate, and the risk premium associated with the asset or liability.

The judgment used in determining the fair value of the intangible assets with indefinite useful life may affect the value of the impairment to be recorded.

In the second quarter of 2009, the Company recorded an impairment loss of $8.0 million on mastheads in the News Media segment as a result of the completion of its 2009 annual impairment test. In the fourth quarter of 2008, the adverse financial and economic environment affecting industries of some of the Company's segments triggered a mastheads impairment test related to the News Media reporting unit. As a result, the Company concluded that this segment's mastheads were impaired and a non-cash impairment loss of $40.2 million was recorded.

Based on the data and assumptions used in its last broadcasting licence impairment test, the Company believes that at this time there are no material amounts for broadcasting licences on its books that present a significant risk of impairment in the near future.

Any decrease in the fair value of mastheads, calculated according to the applicable valuation model, has a direct impact on the statement of income. However, based on the data and assumptions used in its last masthead impairment test, the Company believes that at this time there are no material amounts for mastheads on its books that present a significant risk of impairment in the near future.

The net book value of intangible assets with indefinite useful life as at December 31, 2010, was $142.7 million.

Impairment of long-lived assets

The Company reviews the carrying amounts of its long-lived assets with definite useful life by comparing the carrying amount of the asset or group of assets with the projected undiscounted future cash flows associated with the asset or group of assets when events indicate that the carrying amount may not be recoverable. Such assets include property, plant and equipment, customer relationships and non-competition agreements. Examples of such events and changes include a significant decrease in the market price of an asset, the decommissioning of an asset, assets rendered idle after a plant shutdown, costs that significantly exceed the amount initially estimated for the acquisition or construction of an asset, and operating or cash flow losses associated with the use of an asset. In accordance with Section 3063 of the *CICA Handbook*, *Impairment of Long-Lived Assets*, an impairment test is carried out when the carrying amount of an asset or group of assets held for use exceeds the sum of the undiscounted future cash flows expected from its use or disposal. The amount by which the asset's or group of asset's carrying amount exceeds its fair value is recognized as an impairment loss. The Company estimates future cash flows based on historical performance as well as on assumptions as to the future economic environment, pricing and volume. Quoted market prices are used as the basis for fair value measurement.

In 2010, an impairment charge of $3.5 million related to certain assets was recorded in the News Media segment and an $8.2 million impairment charge for certain equipment and broadcast rights was recorded in the Broadcasting segment.

In 2009, an impairment charge of $0.4 million related to certain buildings, equipment and machinery was recorded in the News Media segment. In the fourth quarter of 2008, the Company concluded that impairment tests were triggered by the restructuring initiatives of December 2008 and the loss of an important printing contract and that certain long-lived assets were impaired. As a result, an impairment charge of $19.1 million related to certain buildings, equipment and machinery was recorded.

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.

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.

The judgment used in determining the fair value of derivative financial instruments and the non-performance risk, using valuation models, may affect the value of the gain or loss on valuation and translation of financial instruments reported in the statements of income, and the value of the gain or loss on derivative financial instruments reported in the statements of comprehensive income.

Pension plans and postretirement benefits

The Company offers defined benefit pension plans and defined contribution pension plans to some of its employees. The Company 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 different dates in the last three years and the next required valuations will be performed at various dates over the next three years. Pension plan assets are measured at fair value and consist of equities and corporate and government fixed-income securities.

The Company's obligations with respect to pension plans and postretirement benefits are assessed on the basis of a number of economic and demographic assumptions, which are established with the assistance of The Company's actuaries. Key assumptions relate to the discount rate, the expected return on the plan's assets, the rate of increase in compensation, and healthcare costs.

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

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts to cover anticipated losses from customers who are unable to pay their debts. The allowance is reviewed periodically and is based on an analysis of specific significant accounts outstanding, the age of the receivable, customer creditworthiness, and historical collection experience.

Business combinations

Business acquisitions are accounted for by the purchase method. Under this accounting method, the purchase price is allocated to the acquired assets and assumed liabilities based on their estimated fair value at the date of acquisition. The excess of the purchase price over the sum of the values ascribed to the acquired assets and assumed liabilities is recorded as goodwill. The judgments made in determining the estimated fair value and the expected useful life of each acquired asset, and the estimated fair value of each assumed liability, can significantly impact net income, because, among other things, of the impact of the useful lives of the acquired assets, which may vary from projections. Also, future income taxes on temporary differences between the book and tax value of most of the assets are recorded in the purchase price equation, while no future income taxes are recorded on the difference between the book value and the tax value of goodwill. Consequently, to the extent that greater value is ascribed to long-lived than to shorter-lived assets under the purchase method, less amortization may be recorded in a given period.

Determining the fair value of certain acquired assets and assumed liabilities requires judgment and involves complete reliance on estimates and assumptions. The Company primarily uses the discounted future cash flows approach to estimate the value of acquired intangible assets.

The estimates and assumptions used in the allocation of the purchase price at the date of acquisition may also have an impact on the amount of goodwill and intangible assets impairment to be recognized, if any, after the date of acquisition, as discussed above under “Goodwill” and “Intangible assets with indefinite useful life.”

Future income taxes

The Company is required to assess the ultimate realization of future income tax assets generated from temporary differences between the book basis and tax basis of assets and liabilities and losses carried forward into the future. This assessment is judgmental in nature and is dependent on assumptions and estimates as to the availability and character of future taxable income. The ultimate amount of future income tax assets realized could be slightly different from that recorded, since it is influenced by the Company’s future operating results.

The Company is at all times under audit by various tax authorities in each of the jurisdictions in which it operates. A number of years may elapse before a particular matter for which management has established a reserve is audited and resolved. The number of years between each tax audit varies depending on the tax jurisdiction. Management believes that its estimates are reasonable and reflect the probable outcome of known tax contingencies, although the final outcome is difficult to predict.

Recent accounting developments in Canada

Beginning on January 1, 2011, Canadian GAAP, as used by publicly accountable enterprises, will be fully converged to the International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). For its 2011 interim and annual financial statements, the Company will be required to report under IFRS and to provide IFRS comparative information for the 2010 financial year.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. As part of the IFRS conversion project, the Company has designated an implementation team that includes a project manager, senior levels of management from all relevant departments and subsidiaries, and a steering committee to oversee the project. An external expert advisor has also been hired to assist.

Regular progress reporting to senior management and to the Audit Committee on the status of the IFRS conversion project has been established.

The conversion project consists of four phases.

“Diagnostic” Phase – This phase involved a detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS, a preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters, and a high-level assessment of potential consequences on financial reporting, business processes, internal controls, and information systems.

“Design and Solutions Development” Phase – This phase involved prioritizing accounting treatment issues and preparing a conversion plan, quantifying the impact of converting to IFRS, reviewing and approving accounting policy choices, performing a detailed impact assessment and designing changes to systems and business processes, developing IFRS training material, and drafting IFRS financial statement content.

“Implementation” Phase – This phase involved embedding changes to systems, business processes and internal controls, determining the opening IFRS transition balance sheet and tax impacts, parallel accounting in 2010 under Canadian GAAP and IFRS, and preparing detailed reconciliations of Canadian GAAP to IFRS of the 2010 comparatives figures in the 2011 financial statements.

“Post-Implementation” Phase – This phase involves conversion assessment, evaluating improvements for a sustainable operational IFRS model, and testing the internal controls environment.

The Company has completed the implementation phase. Comprehensive training has been given to key employees throughout the organization who will be affected by the changeover to IFRS, and the progress of the Company’s changeover plan continues to be communicated to internal and external stakeholders.

Management has assessed the exemptions from full retrospective application available under IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, and their potential impacts on the Company’s financial position.

The significant transitional exemptions that the Company will elect and their related impacts in the opening balance sheet are as follows:

Exemption	Application of exemption
Business combinations	The Company will elect not to restate any business combinations that occurred prior to January 1, 2010. No impact is expected in the transitional balance sheet.
Employee benefits	On transition, the Company will elect to recognize immediately cumulative actuarial gains and losses arising from all of its defined benefit plans as at the transition date in opening retained earnings, with a corresponding increase in pension liabilities.
Borrowing costs	On transition, the Company will elect to capitalize borrowing costs as calculated under IFRS on qualifying assets prospectively, beginning on the transition date. As a result, certain long-term asset balances and opening retained earnings will decrease in the transitional balance sheet.

In addition to the elective exemptions described above, IFRS does not permit the retrospective application of IFRS in the determination of prior period estimates and the designation of hedging arrangements. As such, assumptions used to calculate estimates under Canadian GAAP will be used for the purpose of preparing the IFRS transitional balance sheet. In addition, hedge accounting will only be applied on transition to previously designated hedging relationships.

Management has completed the preliminary measurement of material differences expected between IFRS and current accounting under Canadian GAAP. The preliminary accounting impacts of these material differences on equity of the Company as at January 1, 2010 and as at December 31, 2010 are presented in Table 23 below, along with the related preliminary impacts to net income and comprehensive income for the year ended December 31, 2010, in Tables 24-25.

Table 23
Reconciliation of equity
(in millions of Canadian dollars)

	Difference	December 31, 2010	January 1, 2010
Shareholders' equity under Canadian GAAP		**$ 1,411.8**	$ 1,170.4
IFRS adjustments:			
Defined benefit plans	(i)	**(175.5)**	(111.5)
Share-based compensation	(ii)	**(21.2)**	(24.4)
Borrowing costs	(iii)	**(98.3)**	(65.5)
Capitalized pre-operating losses	(iv)	**(9.1)**	(9.6)
Provisions	(v)	**(1.0)**	(11.0)
Intangible assets with indefinite useful lives	(vi)	**15.5**	15.5
Income taxes	(vii)	**99.0**	77.1
Other		**0.2**	—
Sub-total		**(190.4)**	(129.4)
Non-controlling interest	(viii)	**1,430.3**	1,216.8
Equity under IFRS		**$ 2,651.7**	$ 2,257.8
Equity attributable to:			
Equity shareholders		**$ 1,304.8**	$ 1,095.2
Non-controlling interest	(viii)	**1,346.9**	1,162.6

Table 24
Reconciliation of statement of income
(in millions of Canadian dollars)

	Difference	Year ended December 31, 2010		
		Canadian GAAP	IFRS adjustments	IFRS
Revenues		$ 4,000.1	$ —	**$ 4,000.1**
Cost of sales, selling and administrative expenses	(i), (ii)	2,671.1	(4.4)	**2,666.7**
Amortization	(iii), (iv)	402.2	(3.0)	**399.2**
Financial expenses	(iii)	287.3	35.3	**322.6**
Gain on valuation and translation of financial instruments	(xi)	(46.1)	—	**(46.1)**
Restructuring of operations, impairment of assets and other special items	(v)	50.3	(13.2)	**37.1**
Loss on debt refinancing		12.3	—	**12.3**
Income before income taxes and non-controlling Interest		623.0	(14.7)	**608.3**
Income taxes	(vii)	156.4	(4.7)	**151.7**
Non-controlling interest	(viii)	(236.5)	236.5	—
Net income		$ 230.1	$ 226.5	**$ 456.6**
Net income attributable to:				
Equity shareholders		230.1	(4.8)	**$ 225.3**
Non-controlling interest			231.3	**231.3**
Income per share attributable to equity shareholders:				
Basic		$ 3.58	$ (0.08)	**$ 3.50**
Diluted		3.52	(0.08)	**3.44**

Table 25
Reconciliation of statement of comprehensive income
(in millions of Canadian dollars)

	Differences	Year ended December 31, 2010		
		Canadian GAAP	**IFRS adjustments**	**IFRS**
Net income		$ 230.1	$ 226.5	**$ 456.6**
Other comprehensive income (loss) :				
Translation on net investments in foreign operations		(2.9)	—	**(2.9)**
Derivative financial instruments	(xi)	51.4	—	**51.4**
Defined benefit plans	(i)	—	(65.3)	**(65.3)**
Income taxes	(vii)	(5.2)	17.2	**12.1**
Non-controlling interest	(viii)	(19.6)	19.6	**—**
Comprehensive income		$ 253.8	$ 198.0	**$ 451.8**
Comprehensive income attributable to:				
Equity shareholders		$ 253.8	$ (30.2)	**$ 223.6**
Non-controlling interest	(viii)		228.2	**228.2**

Differences in accounting policies adopted on and after transition to IFRS with respect to the recognition, measurement, presentation and disclosure of financial information, along with the related financial statement impacts, are in the following key accounting areas:

Key accounting area	Differences with preliminary impacts on the Company's financial statements
(i) Employee benefits (IAS 19)	• As at the date of transition to IFRS, all unamortized actuarial gains and losses as mentioned above, and vested past service costs related to defined benefit pension and post-retirement benefit plans, are recognized immediately in opening retained earnings, giving rise to a corresponding increase in pension liabilities. • Subsequent to the transition date, vested past service costs will be recognized in income. In accordance with Canadian GAAP, vested or unvested past service costs were recognized linearly over the estimated average remaining service lifetime of participating employees, or recognized immediately in income as they were incurred in some cases. • Subsequent to the transition date, the Company has elected to recognize actuarial gains and losses in other comprehensive income as they occur, without impact on income. Previously, under Canadian GAAP, actuarial gains and losses were amortized to income using the corridor method. • This change in accounting policy results in the recognition of pension and postretirement benefit costs that will be different than those otherwise recognized under Canadian GAAP. • The limit to which a net benefit asset can be recognized under certain circumstances ("asset ceiling") under IFRS is calculated differently, which results in the recognition of additional liabilities and in a decrease in opening retained earnings on transition as well as in Other Comprehensive Income in future reporting periods.
(ii) Share-based payment (IFRS 2)	• Liabilities related to share-based payments made to employees that call for settlement in cash or other assets are recognized at fair value at the initial grant date and re-measured at fair value at the end of each subsequent reporting period, as opposed to at intrinsic value under Canadian GAAP. Under graded vesting conditions, each instalment is accounted for as a separate arrangement. • This difference is expected to increase other liabilities and compensation costs related to share-based payments on transition and in subsequent reporting periods.

Key accounting area	Differences with preliminary impacts on the Company's financial statements
(iii) Borrowing costs (IAS 23)	• As mentioned above, the Company has elected to capitalize borrowing costs to eligible assets for which construction or development commenced after January 1, 2010. Consequently, the carrying amounts of certain property, plant and equipment and intangible assets decreased on transition, and interest capitalized in 2010 in accordance with Canadian GAAP are expensed under IFRS.
(iv) Property, plant and equipment (PPE) (IAS 16)	• Pre-operating losses incurred on certain built-to-suit assets prior to substantial completion are not capitalized under IFRS. • As a result, PPE balances and opening retained earnings are reduced by pre-operating losses previously capitalized under Canadian GAAP. Depreciation expense is also different under IFRS.
(v) Provisions and contingencies (IAS 37)	• A different threshold is used for the recognition of contingent liabilities, which could affect the timing of when a provision may be recorded. On transition, liabilities for contract termination penalties are adjusted, with a corresponding effect on opening retained earnings.
(vi) Intangible assets (IAS 38)	• Accumulated amortization recorded on intangible assets with indefinite useful lives prior to 2002 under Canadian GAAP is reversed on the retrospective application of IAS 38, which does not permit such amortization. • On transition, the Company reversed accumulated amortization on its broadcasting licences to opening retained earnings.
(vii) Income taxes (IAS 12)	• The manner of recovery related to the value of assets with indefinite useful lives used in the determination of deferred taxes is different under IFRS. As a result, deferred tax liabilities are reduced on transition. • The opening balance sheet will also be adjusted for deferred tax consequences on IFRS differences arising from the conversion of other accounting standards. • Subsequent changes to deferred income taxes in the balance sheet related to transactions previously recorded in equity or Other Comprehensive Income ("OCI") are also recorded directly in equity or OCI under IFRS as compared to through earnings under Canadian GAAP.
(viii) Business combinations and minority interests (IFRS 3R)	• Non-controlling interests are recorded at fair value at the date of acquisition and are presented as a separate component of shareholders' equity. • Acquisition-related and restructuring costs are expensed as incurred and a contingent consideration is recorded at fair value on acquisition date. Subsequent changes in the fair value of a contingent consideration recognized as a liability are recognized in income. • Changes in ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. • These differences may result in prospective impacts on financial statements after transition on the occurrence of a future business acquisition.
(ix) Related party transactions	• Recognition and measurement criteria for related party transactions are different under IFRS. • These differences result in reclassifications within equity accounts in the opening balance sheet.
(x) Impairment of assets (IAS 36)	• Under IFRS, assets are grouped in cash generating units (CGUs) on the basis of independent cash inflows for impairment testing purposes, using a discounted cash flow valuation method in a single-step approach. • Goodwill is allocated to, and tested in conjunction with its related CGU or group of CGUs that benefit from collective synergies. • Under certain circumstances, impairment previously taken (other than related to goodwill) is required to be reversed. • No additional impairment is recorded at the transition date or in 2010. • The change in methodology may, however, result in additional asset impairment being recognized in the future under IFRS than that otherwise recognized under Canadian GAAP.
(xi) Hedge accounting (IAS 39)	• The criteria used under IFRS in the assessment of hedge effectiveness are generally consistent with those under Canadian GAAP, except for certain differences in specific cases,

Key accounting area	Differences with preliminary impacts on the Company's financial statements
	including the consideration of non-performance risk in hedge effectiveness testing. • On transition, the Company will continue to apply hedge accounting to all of its hedging arrangements.
(xii) Presentation of financial statements (IAS 1)	• Format variations and additional disclosures in the notes to financial statements are required under IFRS.

Management has implemented a system to accommodate parallel recording of financial information in accordance with IFRS as at the transition date and for each of the 2010 financial periods to be presented as comparative figures in its 2011 IFRS financial statements. Accounting and budget processes have been adapted accordingly to embed conversion solutions in the financial reporting system in anticipation of the changeover date.

The effects on information technology, data systems, and internal controls have also been assessed, and the Company has determined that no significant modifications will be necessary on conversion. The Company has also analyzed the contractual and business implications of new policy choices on financing arrangements and similar obligations and under current circumstances has not identified any contentious issues arising from the adoption of IFRS.

Additionally, the Company has finalized its IFRS financial statement format in accordance with IAS 1, *Presentation of Financial Statements*.

The Company could alter its intentions or modify preliminary impacts determined as a consequence of potential changes to international standards currently in development, or in light of other external factors that could arise between now and the date on which the first IFRS financial statements will be issued.

Controls and procedures

In accordance with Regulation 52-109 on Certification of Disclosure in Issuers' Annual and Interim Filings, the effectiveness of the Company's disclosure controls and procedures ("DCP") and "Internal control over financial reporting" ("ICFR") has been evaluated. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that DCP and ICFR were effective as of the end of the financial year ended December 31, 2010. The design of DCP therefore provides reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company in its annual, interim and other reports, which it files or releases in accordance with securities laws, is recorded, processed, summarized and reported within the time periods specified under those laws. Moreover, the design of ICFR provides reasonable assurance of the reliability of the Company's financial reporting and of the preparation of its financial statements, for the purpose of financial reporting, in accordance with GAAP.

Finally, no change to ICFR that has had or is liable to have a material effect was identified by management during the financial period beginning October 1, 2010 and ending December 31, 2010.

Additional information

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

Forward-looking statements

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

- Quebecor Media's ability to build and roll out its new 3G+ network on schedule;
- general economic, financial or market conditions and variations in the businesses of advertisers in Quebecor Media's local, regional or national newspapers and broadcasting outlets;
- the intensity of competitive activity in the industries in which Quebecor operates, including competition from other communications and advertising media and platforms;
- fragmentation of the media landscape;
- new technologies that affect consumer behaviour with respect to our products;
- unanticipated higher capital spending required to address continued development of competitive alternative technologies or the inability to obtain additional capital to continue the development of Quebecor's business;
- Quebecor's ability to implement its business and operating strategies successfully and to manage its growth and expansion;
- Quebecor Media's ability to successfully restructure its newspaper operations to optimize their efficiency in the context of the changing newspaper industry;
- disruptions to the network through which Quebecor Media provides its television, Internet access and telephony services, and its ability to protect such services from piracy;
- labour disputes or strikes;
- changes in Quebecor Media's ability to obtain services and equipment critical to its operations;
- changes in laws and regulations, or in their interpretation, which could result, among other things, in the loss (or reduction in value) of Quebecor Media's licences or markets or in an increase in competition, compliance costs or capital expenditures;
- Quebecor's substantial indebtedness, the tightening of credit markets, and the restrictions on its business imposed by the terms of its debt; and
- interest rate fluctuations that affect a portion of Quebecor's interest payment requirements on long-term debt.

The forward-looking statements in this document are intended to provide investors and the public with a better understanding of the Company's circumstances and are based on assumptions it believes to be reasonable as of the day on which they are made. Investors and others are cautioned that the foregoing list of factors that may affect future results is not exhaustive and that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please refer to the Company's public filings available at <www.sedar.com> and <www.quebecor.com> including, in particular, the "Risks and Uncertainties" section of the Company's Management Discussion and Analysis for the year ended December 31, 2009.

The forward-looking statements in this Management Discussion and Analysis reflect the Company's expectations as of March 8, 2011 and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

Montréal, Québec

March 8, 2011

QUEBECOR INC. AND ITS SUBSIDIARIES
SELECTED FINANCIAL DATA

Years ended December 31, 2010, 2009 and 2008
(in millions of Canadian dollars, except per share data)

	2010	2009	2008
Operations			
Revenues	**$ 4,000.1**	$ 3,806.4	$ 3,759.4
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	**1,329.0**	1,276.7	1,121.1
Contribution to net income :			
Continuing operations	**230.7**	236.3	179.4
Gain on valuation and translation of financial instruments	**20.8**	45.9	2.5
Unusual items and impairment of goodwill and intangible assets	**(21.4)**	(6.1)	(377.2)
Discontinued operations	**-**	1.6	383.3
Net income	**230.1**	277.7	188.0
Cash flows provided by continuing operations	**845.2**	925.3	755.3
Basic per share data			
Contribution to net income :			
Continuing operations	**$ 3.59**	$ 3.68	$ 2.79
Gain on valuation and translation of financial instruments	**0.32**	0.72	0.04
Unusual items and impairment of goodwill and intangible assets	**(0.33)**	(0.10)	(5.87)
Discontinued operations	**-**	0.02	5.96
Net income	**3.58**	4.32	2.92
Dividends	**0.20**	0.20	0.20
Shareholders' equity	**21.96**	18.20	13.75
Weighted average number of shares outstanding (in millions)	**64.3**	64.3	64.3
Diluted per share data			
Contribution to net income (loss) :			
Continuing operations	**$ 3.53**	$ 3.64	$ 2.79
Gain on valuation and translation of financial instruments	**0.32**	0.72	0.04
Unusual items and impairment of goodwill and intangible assets	**(0.33)**	(0.10)	(5.87)
Discontinued operations	**-**	0.02	5.96
Net income	**3.52**	4.28	2.92
Diluted weighted average number of shares (in millions)	**65.0**	64.7	64.4
Financial position			
Working capital[1]	**$ 12.2**	$ (2.2)	$ (227.5)
Long-term debt[1]	**3,587.3**	3,811.9	4,407.1
Shareholders' equity	**1,411.8**	1,170.4	884.4
Capitalization[2]	**2,842.1**	2,387.2	1,869.4
Total assets	**8,793.0**	8,352.8	8,056.9

[1] Related to continuing operations.
[2] Included in the capitalization are shareholders' equity and non-controlling interest

QUEBECOR INC. AND ITS SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL DATA

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

	2010				2009			
	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
Operations								
Revenues	**$ 1,088.1**	$ 969.9	$ 994.0	$ 948.1	$ 1,032.2	$ 924.4	$ 946.4	$ 903.4
Income from continuing operations before amortization, financial expenses, gain (loss) on valuation and translation of financial instruments, restructuring of operations, impairment of assets and other special items, impairment of goodwill and intangible assets, loss on debt refinancing, income taxes and non-controlling interest	**356.4**	329.9	354.2	288.5	387.6	301.0	315.9	272.2
Contribution to net income:								
Continuing operations	**55.7**	59.7	68.5	46.8	84.0	52.9	56.3	43.1
Gain (loss) on valuation and translation of financial instruments	**(10.0)**	32.1	(1.5)	0.2	2.0	16.2	11.3	16.4
Unusual items and impairment of goodwill and intangible assets	**(2.2)**	(9.0)	(1.5)	(8.7)	(12.2)	(1.3)	9.2	(1.8)
Discontinued operations	**-**	-	-	-	-	1.6	-	-
Net income	**43.5**	82.8	65.5	38.3	73.8	69.4	76.8	57.7
Basic per share data								
Contribution to net income:								
Continuing operations	**0.87 $**	0.93 $	1.06 $	0.73 $	1.31 $	0.82 $	0.88 $	0.67 $
Gain (loss) on valuation and translation of financial instruments	**(0.16)**	0.50	(0.02)	-	0.03	0.26	0.17	0.26
Unusual items and impairment of goodwill and intangible assets	**(0.03)**	(0.15)	(0.02)	(0.13)	(0.19)	(0.02)	0.14	(0.03)
Discontinued operations	**-**	-	-	-	-	0.02	-	-
Net income	**0.68**	1.28	1.02	0.60	1.15	1.08	1.19	0.90
Weighted average number of shares outstanding (in millions)	**64.3**	64.3	64.3	64.3	64.3	64.3	64.3	64.3
Diluted per share data								
Contribution to net income:								
Continuing operations	**0.85 $**	0.92 $	1.04 $	0.72 $	1.28 $	0.81 $	0.88 $	0.67 $
Gain (loss) on valuation and translation of financial instruments	**(0.16)**	0.50	(0.02)	-	0.03	0.26	0.17	0.26
Unusual items and impairment of goodwill and intangible assets	**(0.03)**	(0.15)	(0.02)	(0.13)	(0.19)	(0.02)	0.14	(0.03)
Discontinued operations	**-**	-	-	-	-	0.02	-	-
Net income	**0.66**	1.27	1.00	0.59	1.12	1.07	1.19	0.90
Weighted average number of diluted shares outstanding (in millions)	**65.0**	65.0	64.9	64.8	64.7	64,6	64.3	64.3