QUEBECOR INC.

ANNUAL REPORT

2005

INITIATE
INNOVATE
INVEST

high-speed multimedia

Videotron ■ Sun Media Corporation ■ TVA Group ■ Archambault Group ■ Canoe ■ Nurun ■ Le SuperClub Vidéotron ■ Quebecor World

2005 IN BRIEF

January

- Videotron becomes the first major cable provider in Canada to offer residential telephone service via cable

February

- Archambault opens a new 15,000 square-foot store in Gatineau, Québec
- TVA Group launches ARGENT, the first French-language, all-business specialty channel in North America

March

- Quebecor World renews a multi-year contract with Dex Media to print more than 200 telephone directories in 14 U.S. states
- Sun Media Corporation launches its third free commuter daily, *Vancouver 24 Hours*™, in Vancouver
- Videotron rolls out its cable telephone service in Laval

April

- Videotron and Reeves Interactive launch Microplay Online™, a networked gaming service

May

- Videotron rolls out its cable telephone service in Montréal West Island

June

- Videotron extends its collective agreements with its employees in the Montréal, Québec City, Saguenay–Lac-Saint-Jean and Gatineau regions

VANCOUVER
24 hours
Lose 7lbs in 7days
Murder mystery solved?
Full story, P. 3
South side target
Build your career with us.

July

- Videotron rolls out its cable telephone service in Québec City and announces investments of $29.0 million in the region
- Quebecor Media makes initial partial repurchase of Senior Notes as part of the refinancing of its long-term debt

August

- Plans to build a new $110.0 million printing plant for *Le Journal de Montréal* in Saint-Janvier-de-Mirabel are announced
- Plans to build a new printing plant in Islington, Ontario, to be operated jointly by Quebecor Media and Quebecor World, are announced
- Quebecor World signs a US$900.0 million multi-year contract with Yellow Book USA
- Videotron rolls out its cable telephone service on the rest of the Island of Montréal
- *illico Digital TV* breaks through the 400,000 customer mark

September

- Videotron signs a strategic agreement with Rogers Wireless to introduce a wireless telephone service in the second half of 2006
- *micasa.ca* is officially launched and quickly becomes a leading real estate site in Québec

October

- Quebecor World signs a US$500.0 million multi-year agreement with Time to print 15 magazines
- Archambault opens a new 18,000 square-foot store in Boucherville, Québec

November

- Videotron rolls out its residential cable telephone service on Montréal's North Shore

December

- Quebecor Media closes the acquisition of Sogides, adding seven publishing houses and a distributor, Messageries A.D.P., to its family of companies
- Quebecor World renews and extends its US$1.0 billion credit facility

- Videotron's immensely successful new cable telephone service closes the year with 163,000 customers
- Archambault opens store in Les Galeries de la Capitale in Québec City

January 2006

- Quebecor Media refinances its long-term debt and reduces its annual financing costs by $80.0 million
- Nurun closes the acquisition of China Interactive, an Asian interactive marketing firm
- Quebecor World announces US$250.0 million retooling program for its European manufacturing platform

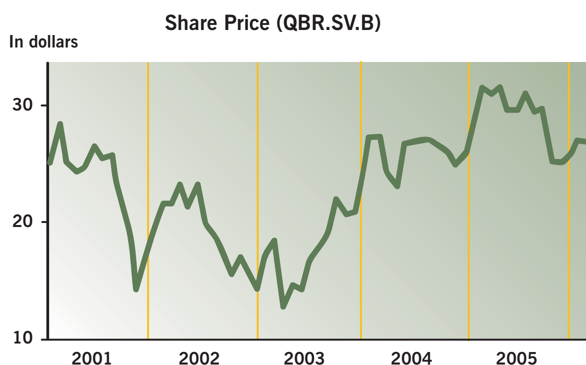
HIGHLIGHTS

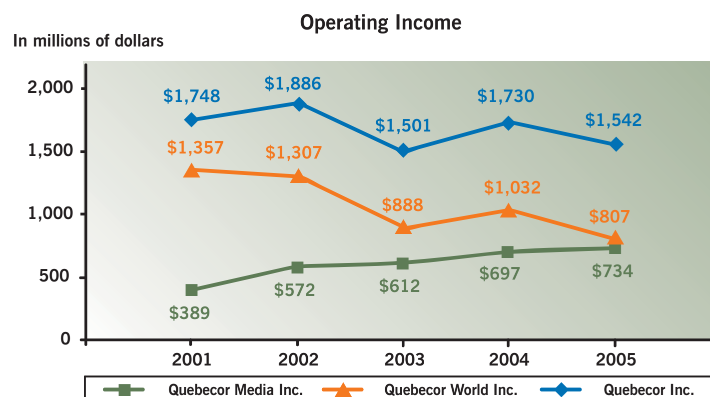
Fiscal years ended December 31, 2005, 2004, and 2003
(in millions of Canadian dollars, except per share data)

	2005	2004[1]	2003[1]
Operations			
Revenues	**$ 10,208.5**	$ 10,613.4	$ 10,718.6
Operating income[2]	**1,542.1**	1,729.9	1,501.1
Contribution to net income:			
Continuing operations	**102.1**	114.1	26.9
Gain on re-measurement of exchangeable debentures	**101.8**	36.4	–
Unusual items and write-down of goodwill	**(127.3)**	(39.4)	38.6
Discontinued operations	**(6.9)**	1.1	0.9
Net income	**69.7**	112.2	66.4
Cash flows provided by continuing operations	**973.5**	995.1	899.2
Basic per share data			
Contribution to net income:			
Continuing operations	**$ 1.58**	$ 1.76	$ 0.42
Gain on re-measurement of exchangeable debentures	**1.58**	0.57	–
Unusual items and write-down of goodwill	**(1.97)**	(0.61)	0.60
Discontinued operations	**(0.11)**	0.02	0.01
Net income	**1.08**	1.74	1.03
Dividends	**0.19**	0.08	–
Shareholders' equity	**22.51**	22.35	21.44
Weighted average number of shares outstanding (in millions)	**64.5**	64.6	64.6
Financal position			
Working capital	**$ 4,687.7**	$ 4,888.2	$ 5,286.4
Shareholders' equity	**1,451.7**	1,443.6	1,384.9
Total assets	**13,677.0**	14,438.7	15,180.2
Employees	**46,000**	47,000	49,000

1 The comparative figures for the years 2004 and 2003 have been reclassified to conform with the definition adopted for the year ended December 31, 2005.

2 Operating income is not a measure of results that is consistent with generally accepted accounting principles in Canada. This measure is defined in the Management Discussion and Analysis (Financial Section) on page 45 of this Annual Report.



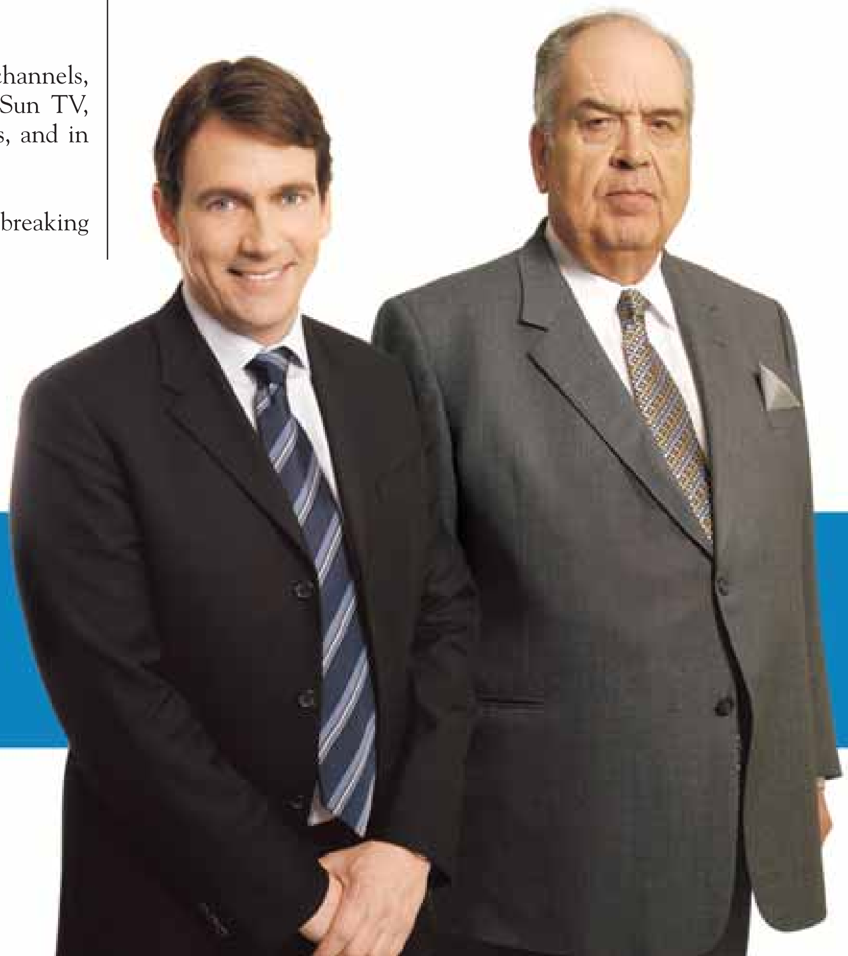


Initiate, Innovate, Invest

The three words above aptly sum up the year past at Quebecor. The Company forged ahead with the hard but necessary changes it needs to make in order to remain a world leader in commercial print media. It continued to innovate with new product launches. It made significant investments in order to improve the effectiveness and efficiency of all its operations. More specifically, our three keywords translated into the following initiatives:

- Quebecor World launched a retooling program worth more than US$580.0 million to modernize its manufacturing platform in North America and Europe.
- Quebecor Media announced $220.0 million in investments to relocate and modernize printing plants in Québec and Ontario.
- Videotron realigned the telecommunications marketplace in Québec by launching an IP-based residential telephone service, the success of which has surpassed all expectations.
- TVA Group continued investing in its specialty channels, in incorporating the analog television station Sun TV, acquired at the end of 2004, into its operations, and in new magazine launches.
- Nurun acquired an interactive agency in China, breaking into the high-potential Asian market.
- The Books segment doubled its publishing houses from 7 to 14 when it acquired Sogides. The transaction also included Messageries A.D.P., strengthening Quebecor's position in book distribution.

On the financial front, Quebecor posted net income of $69.7 million ($1.08 per basic share) in 2005, compared with $112.2 million ($1.74 per basic share) in 2004. Quebecor's revenues were $10.21 billion and operating income was $1.54 billion.



PIERRE KARL PÉLADEAU
President and Chief Executive Officer

JEAN NEVEU
Chairman of the Board

Videotron still in growth mode

Videotron was a formidable growth driver for Quebecor again in 2005. In recent years, Videotron has withstood the assault from satellite television services while providing an Internet access service of superior quality and competing head-on with the big phone companies in residential telephone service, a field in which they have had a monopoly for more than 100 years. At the beginning of 2005, Videotron became the first major cable provider in Canada to offer its customers high-quality IP-based telephone service, and it did so at prices that defy competition.

Videotron took advantage of the introduction of its IP telephone service to launch a large-scale campaign to promote its bundled services, which proved immensely successful. In addition to signing up no less than 163,000 customers for its new IP telephone service, Videotron logged record annual customer growth figures for its cable Internet access and *illico Digital TV* services. At the end of 2005, *illico Digital TV* had 474,600 customers, a one-year increase of 140,900 (42.2%), and the cable Internet access service had 638,000 customers, an increase of 135,400 (26.9%) from 2004.

With the addition of telephone service, Videotron now provides genuine one-stop shopping for telecommunications and entertainment solutions

With the addition of telephone service, Videotron now provides genuine one-stop shopping for telecommunications and entertainment solutions. Growing numbers of customers are taking two or three of our featured products, boosting Videotron's net monthly average revenue per user (ARPU) from $43.68 in 2003 to $46.50 in 2004 and $51.86 in 2005, an increase of $8.18 (18.7%) in two years.

On January 1, 2006, Videotron Telecom was folded into the Cable segment and a new unit, Videotron Business Solutions was created. It is a full-service business telecommunications provider.

Continuous improvement in Quebecor Media's results

Quebecor Media registered a solid financial performance in 2005, highlighted by 9.8% revenue growth and a 5.2% increase in operating income. Our business model is based on integrating our media and telecom properties in order to create value-added cross-selling opportunities. We intend to continue along the same path, which is generating increasingly attractive financial benefits as we achieve the optimal fit among our media properties.

As noted above, Videotron again posted a stand-out performance, reporting a sustained increase in revenues and operating income. The Cable segment's revenues broke through the $1.0 billion mark for the first time in 2005, a 15.0% increase over 2004.

In the Newspapers segment, Sun Media Corporation remains, year after year, one of Canada's most profitable newspaper chains. In 2005, Sun Media Corporation announced two major capital projects worth $110.0 million each. The first involves modernizing the *Journal de Montréal* printing plant and relocating it to a cutting-edge facility in Saint-Janvier-de-Mirabel, north of Montréal. The second involves the construction of a new printing plant in Islington, in the Toronto area, to be operated jointly by Quebecor Media and Quebecor World. Quebecor Media plans to apply the business model that has worked so well in Québec and unite its media properties in the Ontario market into a strong, consistent, convergent voice, for the benefit of customers and advertisers.

Sun Media Corporation remains, year after year, one of Canada's most profitable newspaper chains

In the Broadcasting segment, TVA Group maintained its market dominance in 2005. During the fall 2005 season, the TVA Network, propelled by the repeated phenomenal success of the reality talent show *Star Académie*, had 19 of the 20 most popular television programs in Québec and a total audience share of 31%, more than its two main rivals, Radio-Canada (15%) and TQS (13%), combined. TVA Films had a successful year, largely because of the stellar performance of the films *C.R.A.Z.Y.* and *White Noise*, combined with excellent numbers for DVD releases of humour shows and television programs.

Archambault Group and Quebecor Media's Books segment continued registering impressive results. Fuelled by the success of "Montréal, World Book Capital," an event of which Quebecor was the major sponsor, Quebecor Media's publishing houses released a large number of best-selling titles in 2005. With the acquisition of Sogides, a book publishing and distribution institution in Québec, the Books segment will be still better positioned to support authors and promote the distribution of their works throughout the French-speaking world.

Meanwhile, our Nurun and Canoe subsidiaries reported their best results yet. Nurun landed a number of new accounts and made a promising foray into China with the acquisition of an interactive agency in Shanghai. Canoe creatively performed its role as the virtual vehicle among Quebecor Media's properties, while developing new Web sites and value-added online services.

With respect to our financial structure, Quebecor Media refinanced almost the entirety of its Notes in January 2006. The refinancing will reduce Quebecor Media's annual interest expense by approximately $80.0 million and increase its financial flexibility. It is an important step towards optimizing Quebecor Media's capital structure by rescheduling Quebecor Media's long-term debt and rebalancing its capital structure at more attractive interest rates.

Investing in the future at Quebecor World

In 2005, the print media industry continued to suffer from overcapacity, causing downward pressure on prices. It was also affected by rising energy costs, which further eroded operating margins. In this difficult business environment, which has now persisted for several years, Quebecor World redoubled its efforts to introduce productivity enhancement initiatives.

In North America, Quebecor World moved swiftly to implement an investment program of more than US$330.0 million with the installation of a first group of five more efficient presses. Plans call for 10 more presses to be installed under this program in 2006.

Quebecor World announced a US$250.0 million investment program to improve the competitive position of its European manufacturing platform. So far, money has been spent on new state-of the-art equipment for our plants in Belgium, Spain and Austria. In February 2006, Quebecor World announced a major investment to acquire two ultra-modern presses for its plant in Corby, England. Other investments may be announced in France.

In the long term, this investment program, one of the largest ever undertaken in the printing industry, will increase the efficiency of our manufacturing platform and improve our operating margins. Of course, a change of this magnitude requires a transition period. It inevitably entails certain operational inefficiencies, which we are working to limit and control. It will take time to achieve the desired results but the effort and money being invested now will pay dividends in the future.

This investment program will increase the efficiency of our manufacturing platforms and improve operating margins

In addition to the investments in production equipment in 2005, Quebecor World continued the restructuring measures it initiated in 2003 in order to improve the efficiency of its operations and eliminate inefficient equipment. The restructuring efforts of the past three years have eliminated or will eliminate 5,495 positions.

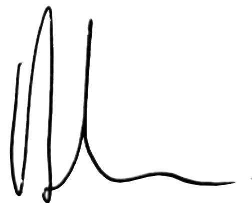
Finally, Quebecor World carried out several transactions in 2005 which resulted in the disposal of the North American plants of its non-core commercial group. Quebecor World will now be able to focus on its core business of printing magazines, catalogs, retail inserts, books, directories and direct mail products.

2005 was a year in which Quebecor made important investments in the future, particularly in the field of print media, newspapers and cable, expanded its product offerings, and made targeted strategic acquisitions

Building the future

In conclusion, 2005 was a year in which Quebecor made important investments in the future, particularly in the field of print media, newspapers and cable, expanded its product offerings, and made targeted strategic acquisitions. All these actions will have the effect of strengthening the Company's position in its various markets.

In introducing and implementing these strategies, we had the support of our dedicated, committed management teams. We thank them for their excellent work. We would also like to thank all the employees and directors of Quebecor, Quebecor World and Quebecor Media for putting their shoulders to the wheel and working tirelessly on these ambitious plans to equip our Company to meet the legitimate expectations of its customers, business partners and shareholders.



Pierre Karl Péladeau
President and
Chief Executive Officer

Jean Neveu
Chairman of the Board

MANAGEMENT TEAM

Serge Gouin

Chairman of the Board,
Quebecor Media Inc.

Pierre Karl Péladeau

President and
Chief Executive Officer,
Quebecor Inc. and
Quebecor World Inc.

Érik Péladeau

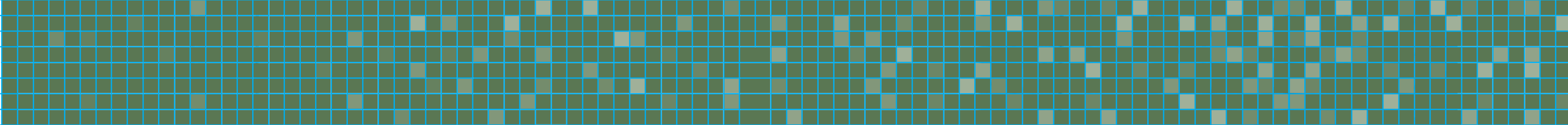
Vice Chairman of the Board and
Executive Vice President,
Quebecor Inc., and
Vice Chairman of the Board,
Quebecor Media Inc. and
Quebecor World Inc.

Richard Soly

President,
Le SuperClub Vidéotron ltée, and
President, Music and Retail Group,
Quebecor Media Inc.

Robert Dépatie

President and
Chief Executive Officer,
Videotron Ltd.



Bruno Leclaire

President and
Chief Executive Officer,
Canoe Inc.

Natalie Larivière

President and
General Manager,
Archambault Group Inc.

Jacques-Hervé Roubert

President and
Chief Executive Officer,
Nurun Inc.

Pierre Dion

President and
Chief Executive Officer,
TVA Group Inc.

Pierre Francœur

President and
Chief Operating Officer,
Quebecor Media Inc., and
President and
Chief Executive Officer,
Sun Media Corporation

Providing customers with the best possible user experience

In 2005, the Cable segment, which includes Videotron Ltd. and Le SuperClub Vidéotron ltée, increased revenues by 15% over 2004, breaking through the $1.0 billion mark for the very first time. Operating income also jumped, rising 12% to $382.0 million.

Record customer growth

Videotron registered impressive increases in customers for its cable television, Internet access and residential telephone services.

Cable television: the best performance in six years

At the end of December 2005, Videotron had more than 1.5 million cable television customers, a one-year increase of 53,500, the largest net annual increase for all cable television services combined since 1999.

At the end of 2005, *illico Digital TV* had 474,600 customers, a record annual increase of 140,900. Customer growth has been exponential since 1999. In the fourth quarter of 2005 alone, *illico Digital TV* recruited 50,000 customers, the largest quarterly increase, in absolute terms, since the service was launched in 1998.

These successes were due to the popularity of bundled packages (combined cable television, Internet access and telephone services) and to customers migrating from analog to digital television.

Video on Demand soaring in popularity

The Video on Demand (VoD) service, exclusively offered by Videotron and Archambault Group to all *illico Digital TV* subscribers, was a major factor in the success of Videotron's digital cable service, logging more than 10 million paid and free orders.

Videotron remains the only Video on Demand provider in its service area, with a VoD catalogue of over 1,000 films, television programs and documentaries. It is the first major company in Canada to offer its customers a preview of a popular television series on VoD, namely season 2 of *Nos Étés*, which will air in fall 2006 on the TVA Network.

Videotron was also the first major cable company in Canada to carry films from the prestigious U.S. studio, Warner Bros. Entertainment, on its VoD service.

Internet access services continue to surge

Videotron's Internet access services continued to grow in 2005. The number of customers for cable Internet access services stood at 638,000 at the end of 2005, a record annual increase of 135,400.

Faster and faster

Videotron again increased the speed of its Internet access services at the beginning of 2006. The Basic Internet service will double upload and download speeds from 300 kbps to 600 kbps between January 16 and the end of March 2006. The Extreme High-Speed service will increase download speeds from 6.5 mbps to 10 mbps.

Firsts on the High-Speed Zone

With interactive games continuing to gain in popularity, Vidéotron and Reeves Interactive announced in May 2005 the launch of Microplay Online™, Québec's first French-language networked multiplayer gaming service.

In June 2005, for the first time in Québec, a headliner boxing match was webcast live exclusively on Videotron's High-Speed Zone.

Finally, in 2005, Videotron served up a variety of "exclusives" for its customers on the High-Speed Zone, featuring performances by top recording artists: Céline Dion, Isabelle Boulay, Ariane Moffatt, Les Trois Accords, Simple Plan, and Loco Locass, as well as the contestants from *Star Académie 2005*.

Breakthroughs in residential telephone services

Videotron heads the pack of Canadian telecommunications companies with its Internet Protocol (IP) telephone service.

The enthusiastic reception of Videotron's new cable telephone service, launched early in 2005, demonstrated that consumers had been waiting for the arrival of a new player in the marketplace to take advantage of affordable, reliable IP-based telephone service. Moreover, customers can now turn directly to Videotron for all their telephone, Internet access and cable television services.

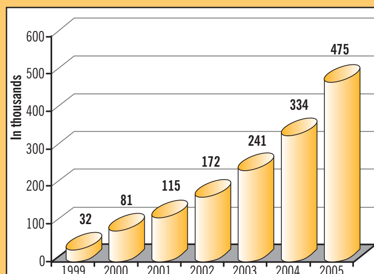
In under 12 months, Videotron signed up 163,000 customers to its cable telephone service. As of December 31, 2005, this service was available to more than 65% of Videotron's cabled households, representing over 1.64 million potential customers.

Videotron also reached an agreement in September 2005 with Rogers Wireless, a subsidiary of Rogers Communications, which will enable Videotron to offer its customers Videotron-branded wireless telephone service in the second half of 2006. The launch of Videotron's own wireless service will meet consumer demand for one-stop shopping for all telecommunications and entertainment services, including telephone (land line and wireless), cable television and Internet access.

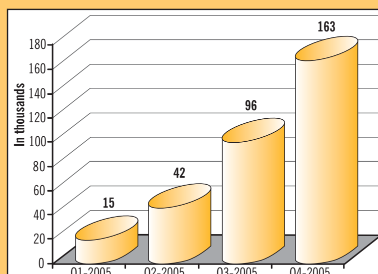
January 2006: Videotron Telecom incorporated into Videotron

The operations of Videotron Telecom were folded into the Cable segment on January 1, 2006 to create a new division, Videotron Business Solutions. A full-service provider, Videotron Business Solutions supplies businesses, public agencies, and providers of telecommunications services in Canada with telephone, high-speed data transmission, Internet access, hosting and cable television services.

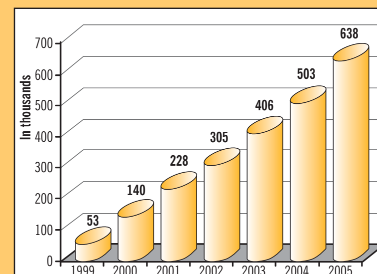
Videotron has invested heavily over the years to enhance the reliability and efficiency of its network and it remains the only company in its service area to offer all wired telecommunications services via its broadband network.



Customer base for *illico Digital TV*

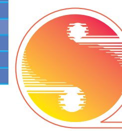


Customer base for cable telephone service



Customer base for cable Internet access

Canada's largest **national chain** of tabloids and community newspapers



Despite stiff competition, Sun Media Corporation increased revenues by 3.1% in 2005. Advertising revenues were up 4.5%, propelled by increased volumes. Once again, Sun Media Corporation ranked among the most profitable companies in the Canadian newspaper business.

Five million urban readers each week

Sun Media Corporation, the country's only major English/French press group, publishes daily newspapers in 9 of the country's 10 largest markets. Its urban dailies are read by close to five million Canadians each week.

- 54% of the readers of Sun Media Corporation's urban dailies do not read any other newspaper. They are exclusive readers other print media do not reach.
- 68% of weekday readers are under 50.
- 52% have a family income above $60,000.

(Source: NADbank® 2004, adults 18 and over)

Free daily launched in Vancouver

In March 2005, Sun Media Corporation launched *Vancouver 24 Hours*™ in Vancouver, in partnership with Great Pacific Capital Partnership, owned by The Jim Pattison Group. Six months later, the new daily had already outpaced its nearest rival. Sun Media Corporation's three commuter dailies, published in Montréal (*24 heures Montréal Métropolitain*MC), Toronto (*24 Hours*™) and Vancouver (*Vancouver 24 Hours*™), afford advertisers national visibility.

Investing in the future

Two major capital projects were announced in 2005:

- $110.0 million to relocate and modernize the *Journal de Montréal* printing plant. Construction of the 200,000 square-foot plant in Saint-Janvier-de-Mirabel, north of Montréal, should be completed by spring 2007.
- $110.0 million to build a new printing plant in Islington in the Greater Toronto Area, to be operated jointly by Quebecor Media and Quebecor World. The investment will unite Quebecor Media's Ontario media properties into a powerful convergent voice.

A major national brand

In all, Sun Media Corporation publishes 22 dailies and 184 community weeklies and specialty publications across Canada. Each week, Sun Media Corporation sells or distributes more than 10 million newspapers from British Columbia to the Gaspé Peninsula in Québec.

Uniquely positioned in North American broadcasting

TVA Group held its position as Québec's top broadcaster in 2005.

For the third year in a row, the reality talent show, *Star Académie*, produced stellar ratings and served as a focal point for convergence within Quebecor Media. Thanks to the consistent excellence of its product, TVA Group was able to lengthen its lead in news programming, once the preserve of public broadcasting in Québec. During the last federal election in January 2006, TVA Group's election night coverage drew almost twice as many viewers as the public broadcaster.

Expanding beyond Québec

TVA Group made a number of investments in 2005 to buttress its dominant position and secure its future growth, most notably in: programming, the launch of new specialty channels and equipment digitization.

More specifically, TVA Group integrated the English-language analog television station, Sun TV, into its operations. Sun TV, located in Toronto, North America's fifth largest advertising market, was acquired at the end of 2004 and holds strong developmental potential for the TVA Group. The numerous opportunities for convergence between Sun TV and Quebecor Media's other properties in the Toronto market, namely: the daily newspaper *The Toronto Sun*, the portal *canoe.ca* and the free daily *24 Hours*™, will all be leveraged.

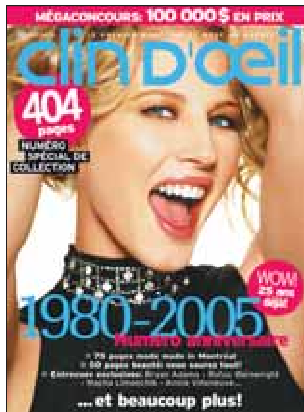
New specialty channels

TVA Group strengthened its position in specialty services during the year by adding two new specialty channels, Mystère and ARGENT, to its media family. The two new services were distributed free of charge until February 2005 but are now generating subscription revenues. Enhancements have also been made to LCN's programming which features experienced journalists and public personalities. LCN recorded another significant improvement in ratings, increasing its audience to more than 3.4 million viewers per week compared with 2.7 million in 2004.

At the same time, TVA Group set its sights on new services. In October 2005, the Canadian Radio-television and Telecommunications Commission (CRTC) approved applications from the TVA Group for four new digital channels: Prise 2, Télé-Service, Humour and Tapis Rouge. Subsequently, in February 2006, TVA Group launched Prise 2, which carries television shows, series and film classics from the 1970s and 1980s. The new channel's instant popular and critical success surpassed all expectations.

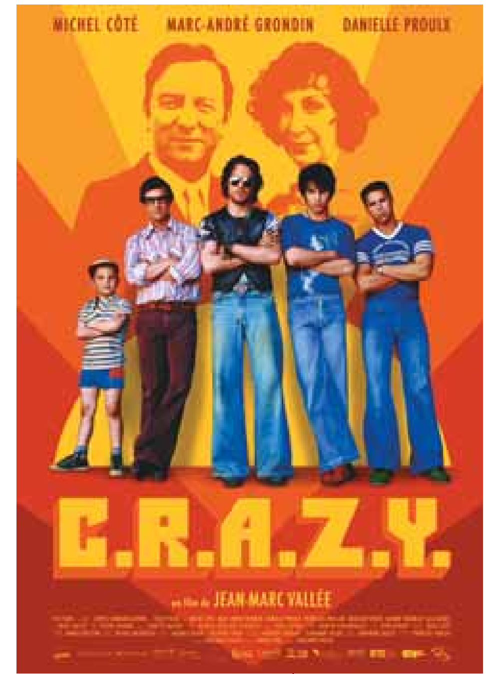
Still number 1 in publishing

TVA Publishing is the leading publisher of magazines in Québec with 43 magazines, including such flagship titles as *7 Jours*, *Star Système*, *Clin d'œil* – which marked its 25th anniversary in 2005 – and *Les idées de ma maison*.



A new competitor appeared in the celebrity weeklies market in 2005 and TVA Publishing made significant investments to preserve its niche position, including a major revamp of all products and their contents, new formats for some titles, and added value to the consumer. A bold pricing strategy was also adopted in order to maintain and increase sales. At the same time, TVA Publishing launched three new titles: *Sensass*, a lifestyle magazine for women; *Shopping Déco*, a fashion and decor shopping guide, and the teen mag *Cool extrême*.

TVA Publishing continued its convergence-based initiatives to tie in with the TVA Network's television programs. Examples include the magazine *Star Système*, which ties in with the television program of the same name seen by 800,000 viewers every week. Similarly, the magazine, *Tout simplement Clodine*, complements a daily TVA Network program of the same name.



In March 2006, *C.R.A.Z.Y.* won 10 Genie awards (Canada's equivalent of the Oscars), and the Golden Reel Award for Canada's largest grossing film

Giant strides in distribution

Capitalizing on the success of the Québec feature film, *C.R.A.Z.Y.* and the film, *White Noise*, TVA Films has grown its business substantially and is already positioned as a major player in the distribution of films and video products in Québec.

TVA Films has also been very active in the video/DVD sales and rentals market, releasing some 20 titles, more than twice as many as the previous year. Its video/DVD releases include the popular television series, *Le cœur a ses raisons*, comedy shows, and other television productions.

In 2005, TVA Films signed agreements with Archambault' Select division in Québec and with Sony Pictures Home Entertainment in English Canada for the distribution of new releases, positioning itself to increase revenues in the high-potential video/DVD growth industry.

In the business of spreading art and culture

With its bricks-and-mortar stores, e-commerce operation, distribution subsidiary and production house, Archambault Group Inc. is a major provider of artistic and cultural products and a business hub for entertainment content in Québec:

- The Archambault chain of superstores, the largest of its type in Québec, boasts 15 locations selling CDs, books, videos, musical instruments, gift ideas and cultural products;
- Select is the largest independent, Québec-owned distributor in Québec;
- In the space of a few years, Musicor has become the largest French-language record label in Québec;
- Archambault Group is also a leader in e-commerce with its *archambault.ca* site, which retails cultural products, and its *ZIK.ca* French-language music download site, which carries a catalogue of more than 500,000 tracks.

Three new stores in Québec

To strengthen its retail positioning, Archambault Group opened three new superstores in 2005. In February, Archambault Group opened its first location in the Ottawa Valley, a 15,000 square-foot store in Gatineau, Québec. Then, in October, an 18,000 square-foot facility was opened in Boucherville, on the South Shore of Montréal. Finally, on December 14, the third new store was opened in the Galeries de la Capitale in Québec City. Also in 2005, Archambault Group enlarged and completely renovated its store in Laval, which now covers an area of 26,500 square feet.

Distributor of the stars of Québec music

Select held its leading position in the marketplace in 2005 thanks to its exclusive catalogue of diverse, high-calibre titles, which include the majority of Québec-produced hits. According to the Nielsen Soundscan French-language charts, Select distributed 26 of the 40 top-selling French-language albums of 2005 and 2004. The big hits of 2005

Starting young: Archambault is big on children's literature

included CDs released by established stars and up-and-coming artists such as Annie Villeneuve, Les Cowboys Fringants, Jean Leloup, Claude Léveillée, Ariane Moffat, Pierre Lapointe, as well as the *Star Académie 2005* album. Best-selling videos included the film *C.R.A.Z.Y.* and a release by comic Lise Dion. Select has won the Québec music industry association's Félix award for distributor of the year 16 times in the last 21 years.

Musicor: Leading producer of Québec music

Since its creation, Musicor has produced and released 15 CDs related to the popular TVA television program *Star Académie*: the anthologies for the 2003, 2004 and 2005 seasons, a compilation, and solo albums by 11 contestants. Musicor has also marketed 24 CDs and videos, including albums by O-Zone, Alys Robi (the soundtrack from *Ma vie en cinémascope*), Lara Fabian and Louise Attaque. In little more than two years of existence, Musicor has become Québec's leading French-language record label.

Groupe Archambault France

Groupe Archambault France S.A.S. was founded in 2004 as a producer, publisher and distributor of cultural content in Europe. The purpose was to create a gateway between Europe and Québec, particularly for music, and to promote Musicor's recording artists in French-speaking Europe.

In its first year of operation, Groupe Archambault France marketed 12 products, all under licence, including 5 European artists and two videos. Groupe Archambault France also promoted albums by Les Cowboys Fringants, Marie-Mai and Dumas in Europe, all distributed by Select in Québec.

Books Segment

Creation of Canada's largest family of French-language publishing houses

The acquisition of Sogides, finalized at the end of 2005, doubled the number of publishing houses in the Éditions Quebecor Média family from 7 to 14.

Éditions Quebecor Média includes general literature publishers Éditions Libre Expression, Éditions Internationales Alain Stanké, Éditions Logiques, Éditions du Trécarré, Éditions Quebecor and Publistar, as well as CEC Publishing, a leading Québec textbook publisher. In 2005, Quebecor Media acquired Sogides, an institution in Québec publishing for nearly 40 years. Sogides owns seven publishing houses: **Les Éditions de l'Homme, Le Jour, éditeur, Les éditions Utilis, Les Presses Libres, l'Hexagone, VLB Éditeur, Typo.**

Sogides also owns Messageries A.D.P., which distributes 127 Québec and foreign publishers. The takeover therefore strengthens Quebecor Media's strategic position in distribution, a key segment of the publishing business, in which Quebecor was already involved through Québec-Livres.

The acquisition gives Éditions Quebecor Media greater critical mass to develop the publishing industry and support the marketing of books in Québec, while helping Québec authors win larger audiences abroad through the extensive network that Sogides has developed in Europe since it was established in 1967.

Four bestsellers sold in more than 100,000 copies

The bestsellers released by Éditions Quebecor Média publishing houses in 2005 included the following five titles, four of which were sold in more than 100,000 copies, a major feat in Québec market:

Title	Author	Publisher	Copies sold (as of Dec. 31, 2005)
Briser le silence (Biography of Nathalie Simard)	Michel Vastel	Éditions Libre Expression	221,000
Les aliments contre le cancer	Richard Béliveau	Éditions du Trécarré	141,000
Les recettes de Janette (Recipes)	Janette Bertrand	Éditions Libre Expression	125,000
Le Guide de l'auto 2006 (Car guide)		Éditions du Trécarré	123,000
En toutes lettres (Biography of Jacques Demers)	Mario Leclerc	Éditions internationales Alain Stanké	68,000

Quebecor Media's virtual showcase

Canoe played its role as the virtual hub among Quebecor's media properties more effectively than ever before, making progress on several fronts. In 2005, Canoe:

- overhauled the home page of its French-language general-interest portal *canoe.qc.ca* in order to integrate it more closely with Videotron's service offerings;
- redesigned its Webfin Argent site in collaboration with TVA Group's ARGENT digital specialty channel;
- revamped its *Art de vivre* section and added a new *Canoë Santé* section;
- developed and launched the site for the TVA Network's hit show, *Star Académie 2005*, broadcast in spring 2005, and the *Défi santé* site, again in collaboration with the TVA Group;
- redesigned the sites of Sun Media Corporation's six English-language urban dailies (the Sun tabloids) and launched Internet sites for the three free commuter dailies;
- introduced paid submissions on the La Toile du Québec (*toile.com*) search engine;
- added an innovative Video Chat feature on *reseaucontact.com*.

canoe inc.
QUEBECOR MEDIA

Canoe maintains its pre-eminent positioning

All of Canoe's properties maintained their dominant position in 2005:

- Number 1 information site in Québec – *canoe.qc.ca*
- Number 1 jobs and careers site in Québec – *jobboom.com*
- Number 1 dating and friendship site in Québec – *reseaucontact.com*
- Number 1 search engine in Québec – La Toile du Québec (*toile.com*)
- Number 1 private television site in Québec – *tva.canoe.com*
- Number 1 business site in Québec – Webfin Argent (*argent.canoe.com*)
- Leading real estate site in Québec – *micasa.ca*
- Number 2 portal in Canada – *canoe.ca*
- Leading careers publisher in Canada – Jobboom Publishing

Meanwhile, Jobboom continued to dominate the market for French-language jobs and careers sites. An English-Canadian version of the site was launched in 2005.

Strong financial results

Canoe Inc. had a very successful financial year in 2005. Revenues were up 44.9% from 2004, reaching $50.0 million for the first time. Operating income more than doubled to $10.5 million, a $6.0 million (133.3%) increase in comparison with 2004.

Traffic

Traffic on Canoe sites continued to build in 2005 as the sites held their very significant market shares. Average monthly page views on the Canoe network exceeded 308 million and the number of unique visitors peaked at 6.1 million in October 2005, placing Canoe among the 10 most-visited Internet properties in Canada. In French Canada, the Canoe network is visited by 70% of French-speaking Internet users (source: comScore Media Metrix).

Innovative addition to the Canoe network

Canoe expanded its family of portals in 2005 with the addition of *micasa.ca*, a specialty site for buying and selling real estate. Since its official launch in September 2005, *micasa.ca* has become the top real estate site in Québec, with 536,000 unique visitors (source: comScore Media Metrix, "All locations," Québec region, September 2005) and more than 2.0 million page views per week. The site features approximately 18,000 property listings. More than 4,800 real estate agents and brokers have registered.

nurun
QUEBECOR MEDIA

Integrated interactive marketing services

NURUN

Nurun posted excellent results in the 2005 fiscal year with a 25.4% increase in revenues and a 69.6% surge in operating income.

In 2005, Nurun capitalized on its broadened and strengthened service offerings in the fields of interactive marketing and online media placement as teams in North America and Europe developed and implemented advertising campaigns and media placements for existing customers such as Equifax, AutoTrader.com and Pleasant Holidays, and new customers such as Heidelberg and Medpointe Pharmaceuticals. More recently, Nurun has signed contracts with customers in the financial industry, including TD Meloche Monnex and TD Insurance. The gains testify to Nurun's recognized expertise in interactive advertising campaigns and online media placement plans.

Nurun has also developed interactive advertising and communication campaigns for customers like Samsung Electronics and MTV in Italy, and some Canal + specialty channels in France.

Nurun's offices around the world continue to manage interactive programs to support promotions, events and product launches of high-profile L'Oréal group brands such as L'Oréal Paris, Helena Rubinstein and Kérastase.

Nurun's partnership with Quebecor World has spurred business development and helped bring in new accounts, including an important contract with Home Depot Canada.

Preferred choice of major international brands

For more than 10 years, Nurun has been a preferred partner of leading brands and major institutions wanting to develop interactive communications strategies. In 2005, Nurun's European offices launched the third version of the L'Oréal group's international site. In the industrial segment, Nurun redefined the Internet strategy of the Thalès group and is now redesigning the graphics and user experience for Thalès' nearly 80 international sites. Nurun also landed contracts with new customers such as Alcan Packaging and Renault, and is currently revamping Renault's international virtual showcase.

Nurun's teams worked on a number of large-scale assignments in the travel and leisure segment as well, including a bilingual site for Club Med (Americas) aimed at American and Canadian consumers. Finally, Nurun is working with luxury brand, Louis Vuitton, on their traditional direct marketing and interactive marketing efforts, and has designed an e-commerce site for the company.

Other value-added services

Nurun's areas of expertise also include online customer relationship management (e-CRM) programs. Nurun's customers for these services include Europcar, SkyTeam and Blédina in Europe, plus Cingular Wireless, Home Depot Canada, Pleasant Holidays and Aer Lingus in North America.

Nurun continued to provide value-added services to a long list of Québec and federal government agencies and parapublic organizations, as well as to the U.S. states of Oklahoma and Georgia.

Asian expansion

On January 23, 2006, Nurun announced the closing of the acquisition of China Interactive Limited, a Chinese interactive marketing firm. Since 2000, China Interactive has worked with many international companies and brands such as Pepsi, L'Oréal, FAW-VW Audi, FAW-VW Volkswagen, Chivas Regal, Malibu, JCDecaux and Philips Electronics (Shanghai) Co., Ltd. The acquisition will further increase Nurun's ability to deliver all of its services to customers the world over, including the high-potential Asian market.

LE SUPERCLUB VIDÉOTRON

One of the largest entertainment chains in Canada

Le SuperClub Vidéotron ltée operates a chain of 278 stores in 9 of Canada's 10 provinces under the names Le SuperClub Vidéotron, Jumbo Video™; Microplay™, and Starstruck Entertainment™.

Despite a fiercely competitive environment and good summertime weather, which was not conducive to film rentals, Le SuperClub Vidéotron boosted its revenues by 14.6% in 2005, mainly because of the takeover of Jumbo Entertainment Inc. in 2004, increased retail sales, the addition of two new locations, and an increase in the number of franchises. Operating income was up 9.8% on a year-over-year basis.

The market for film rentals and sales in Québec was buoyed in 2005 by video releases of a number of successful Québec films, including *C.R.A.Z.Y.*, *Camping sauvage*, *Elles étaient cinq*, *Maman last call*, *Horloge biologique*, *Les aimants*, *Mémoires affectives*, *Ma vie en cinémascope*, *Le survenant* and *Aurore*.

Microplay™

Video games are growing in popularity among all age groups. The boom is being fuelled by the introduction of new, more powerful game consoles, with even more expected on the market soon. Microplay™ now operates video game sections in over 40% of Le SuperClub Vidéotron locations, giving it a competitive advantage in the marketplace. As of December 31, 2005, there were 122 Microplay™ video games sections across Canada, including 86 in Québec.

Long-term rentals

In 2005, Le SuperClub Vidéotron introduced a long-term (7-day) rental option for films and games to meet consumer demand for more flexibility in watching and returning rented films and games. Customer response has been highly positive.

A new way to sell films

Le SuperClub Vidéotron was one of the first video chains in Canada to introduce the U.S. studio MGM's pay-on-scan system at all its locations. The program, which lets video clubs carry MGM's full catalogue of titles on consignment, has been an important factor in the increase in Le SuperClub Vidéotron retail sales.

Le SuperClub Vidéotron now offers 7-day rentals on films and games

Innovating and investing in excellence

Quebecor World

Over the years, Quebecor World has built a global printing platform that allows publishers and retailers to print in multiple plants around the world, reducing lead time and distribution costs.

Year of transition

In 2005, Quebecor World implemented a number of key initiatives as part of a capital investment plan designed to enhance efficiency, improve customer service and increase productivity.

Management responded to difficult market conditions and rising energy costs with strategies to improve the competitiveness and performance of Quebecor World's production facilities and cut operating costs.

Major investments in North America and Europe

In 2005, Quebecor World began implementing the retooling plan announced in 2004, involving investment of more than US$330,0 million. A first group of five more efficient presses was installed in North America in 2005 and plans call for 10 new presses to be installed in 2006 under this program.

In Europe, Quebecor World announced a capital investment program of approximately US$250.0 million that will improve the platform's competitive position, lower its cost base and provide better service to customers.

The program involves the purchase of new state-of-the-art technology for Quebecor World's facilities in Belgium, Spain, Austria and United Kingdom, as well as additional potential investments in France.

Restructuring continues

Quebecor World carried out a number of restructuring initiatives in 2005 to improve the efficiency of its operations and eliminate inefficient and idle equipment, including a thorough review of the operations of the Corby plant in England, the closing of a plant in Canada, downsizing at the Helio Corbeil plant in France, and other headcount reductions across the platform.

The restructuring initiatives introduced over the last three years have resulted or will result in the elimination of 5,495 positions.

Disposal of non-core assets

Since Quebecor World grew by acquisitions (more than 85 in the company's history), it obtained some facilities as part of those transactions that did not fit into its core printing activities.

In 2005, Quebecor World carried out its action plan to dispose of the North American plants of the non-core Commercial group. Quebecor World is focusing on its core business of printing magazines, catalogs, retail inserts, books, directories and direct mail products.

Contract renewals

Quebecor World's North American business groups continued to be very active, negotiating new long-term agreements with blue-chip customers.

The Magazine group signed new long-term agreements in 2005 with major publishers such as Time Inc., Primedia, Wenner Media, Morris Communications, and Ascend Media.

The Book & Directory group strengthened its competitive positioning by landing two long-term contracts with Yellow Book USA and Dex Media, which will have a significant impact on Quebecor World's share of the directories market as of 2007.

The Retail group signed contracts with existing and new customers including School Specialty, Walgreen's, Dumoulin and Staples Canada.

Volume grew in Latin America, reflecting strong local economies and successful cross-selling efforts with Quebecor World's business groups in North America and Europe.

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COMPANY PROFILE

Quebecor Inc. ("Quebecor" or the "Company") is a communications company with operations in North America, Europe, Latin America and Asia. It has two operating subsidiaries:

- Quebecor World Inc. ("Quebecor World"), one of the world's largest commercial print media services companies;
- Quebecor Media Inc. ("Quebecor Media"), one of Canada's largest media companies, engaged in the following lines of business: Cable, Newspapers, Broadcasting, Leisure and Entertainment, Business Telecommunications, Interactive Technologies and Communications, and Internet/Portals.

Printing segment

Quebecor World operates in the commercial print media services segment of the printing industry. Its business units are located in three regions: North America (which historically has accounted for approximately 80% of Quebecor World's revenues), Europe and Latin America. Quebecor World offers its customers a broad range of print services and related communications services such as magazines, retail inserts, catalogs, direct mail, books, directories, logistics, premedia and other value-added services.

Quebecor World is a market leader in the product categories and geographies it serves. This market-leading position has been built through a combination of integrating acquisitions, investments in key strategic technologies, and a commitment to building long-term partnerships with the world's leading print media customers. Quebecor World has facilities in the United States, Canada, Argentina, Austria, Belgium, Brazil, Chile, Colombia, Finland, France, India, Mexico, Peru, Spain, Sweden, Switzerland, and the United Kingdom.

Cable segment

Videotron Ltd. ("Videotron") is the largest distributor of pay television services in the Province of Québec and the third-largest cable operator in Canada, based on the number of cable customers. Its state-of-the-art network passes 2.4 million homes and serves approximately 1.6 million customers. At December 31, 2005, Videotron had approximately 1.5 million cable customers, including approximately 474,600 subscribers to its *illico Digital TV* service. Videotron is also involved in interactive multimedia development and Internet Service Provider ("ISP") services, with 656,000 subscribers to its cable modem and dial-up Internet access services and 163,000 subscribers to its IP telephone service. Its Le SuperClub Vidéotron ltée ("Le SuperClub Vidéotron") stores are engaged in sales and rentals of DVDs, videocassettes and video games.

Newspapers segment

Sun Media Corporation is Canada's largest national chain of tabloids and community newspapers. It publishes paid daily newspapers in eight of the ten largest markets in the country. In all, Sun Media Corporation publishes 22 dailies, including three free dailies in Toronto, Montréal and Vancouver, and 185 community weeklies and specialty publications across Canada. Sun Media Corporation is also engaged in the distribution of newspapers and magazines. In addition, it offers commercial printing and related services to other publishers through its national printing and production platform. Sun Media Corporation holds a 25% interest in the Sun TV television station in Toronto, Ontario, acquired in partnership with TVA Group at the end of 2004.

Broadcasting segment

TVA Group Inc. ("TVA Group") is the largest private-sector producer and broadcaster of French-language entertainment, information and public affairs programming in North America and one of the largest private-sector producers of French-language programming in Québec. It is the sole owner of 6 of the 10 television stations in the TVA Network, of the analog specialty channel Le Canal Nouvelles TVA ("LCN"), and the digital specialty channels Mystère and ARGENT. It holds a 75% interest in the English-language analog station Sun TV in Toronto. TVA Group also holds interests in two other TVA Group affiliates, in the Canal Évasion specialty channel, the Indigo pay-per-view service, and the English-language digital specialty channels MenTV and Mystery. In addition, TVA Group is engaged in teleshopping services. Its TVA Publishing subsidiary, the largest publisher of French-language magazines in Québec, publishes general-interest and entertainment weeklies and monthlies. Its TVA Films subsidiary distributes films and television products in Canada's English- and French-language markets.

Leisure and Entertainment segment

The operations in the Leisure and Entertainment segment consist primarily of retailing CDs , books, videos, musical instruments and magazines through the Archambault chain of stores and the *archambault.ca* e-commerce site; online sales of downloadable music through the *ZIK.ca* service; distribution of CDs and videos (through Select, a division of Archambault Group); music recording and video production in Québec and Europe (through Musicor, a division of Archambault Group, and Groupe Archambault France S.A.S., a subsidiary of Archambault Group); and book publishing in the academic, literary and general literature categories through 14 publishing houses, including 7 acquired with the acquisition of Sogides ltée ("Sogides") in 2005. The acquisition of Sogides, one of the largest book publishing and distribution groups in Québec, adds significantly to Quebecor Media's book publishing and distribution assets, notably with the acquisition of distributor Messageries A.D.P. inc. ("Messageries A.D.P.").

Business Telecommunications segment

Videotron Telecom Ltd. ("Videotron Telcom") is a business telecommunications provider offering a wide range of network solutions, Internet services, application/server hosting, local and long-distance telephone service, and studio-quality audio-video services

to Canadian large and medium-sized businesses, ISPs, application service providers ("ASPs"), broadcasters and carriers. Its 11,000 km fibre-optic network is available to most large and medium-sized users of telecom services in metropolitan areas in Québec and Ontario.

Interactive Technologies and Communications segment

The Interactive Technologies and Communications segment consists of Nurun Inc. ("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.

Internet/Portals segment

Canoe Inc. ("Canoe") is an integrated company offering e-commerce, information and communication services and information technology consulting. Canoe operates the Internet portal network of the same name which serves over 6.2 million Internet users per month and includes *canoe.ca*, *canoe.qc.ca*, La Toile du Québec (*toile.com*) and *money.canoe.ca* (*argent.canoe.com* in French). Canoe also operates a number of e-commerce sites: *jobboom.com* (employment), *autonet.ca* (automobiles), *flirt.canoe.ca* and *reseaucontact.com* (dating), *micasa.ca* (real estate), *classifiedextra.ca* and *classeesextra.ca* (classifieds). In addition, Canoe operates the *tva.canoe.com* and *lcn.canoe.com* sites, as well as two sites for popular TVA Group programs, *occupationdouble.com* and *staracademie.ca*. Canoe's subsidiary Progisia Informatique offers information technology consulting services that include e-commerce, outsourcing, integration and secure transaction environments. The Jobboom publishing division produces various print publications, including the magazine *Jobboom*, which has a print run of 100,000 copies and is distributed free 10 times a year, and career guides such as the bestseller *Carrières d'avenir*, which is sold in bookstores.

2005 OVERVIEW

Quebecor Media reported steady growth in operating results in 2005. However, Quebecor's revenues and operating income were negatively impacted by challenging conditions in the print media markets in which Quebecor World operates. The impact was accentuated by the unfavourable effect of the conversion of Quebecor World's results into Canadian dollars.

Quebecor Media Inc.

Quebecor Media developed its business and introduced successful new products and services in 2005. Customer growth and product line expansion in the Cable, Business Telecommunications, Interactive Technologies and Communications, and Internet/Portals segments helped increase Quebecor Media's revenues and profitability. The Cable segment's revenues broke through the $1.0 billion mark for the first time in 2005. Videotron also registered record customer growth for its digital cable television and Internet access services in 2005, as well as strong consumer response to the roll-out of its cable telephone service.

Also in 2005, Quebecor Media announced major investments in its Newspapers segment and strategic acquisitions in its Interactive Technologies and Communications and its Leisure and Entertainment segments. Investments in new product launches and in product development by the Broadcasting and Newspapers segments impacted the results and cut into the growth recorded by the other segments.

Significant developments since the end of 2004 include:

In January 2006, Quebecor Media refinanced almost the totality of its Notes. The Senior Notes and Senior Discount Notes that were refinanced were repurchased in two stages, the first block on July 19, 2005, and the second block on January 17, 2006. The refinancing will reduce Quebecor Media's annual interest expense by approximately $80.0 million. On July 15, 2005, Videotron also repurchased Senior Notes of its CF Cable TV Inc. subsidiary ("CF Cable TV"). These refinancing transactions were carried out in the following stages:

- On January 17, 2006, Quebecor Media issued US$525.0 million aggregate principal amount of 7 3/4% Senior Notes due March 2016. The subsidiary also established new credit facilities consisting of a term loan "A" credit facility in the amount of $125.0 million, maturing in 2011, a term loan "B" credit facility in the amount of US$350.0 million, maturing in 2013, and a five-year revolving credit facility in the amount of $100.0 million, expiring in 2013.
- Quebecor Media used the proceeds from its new Senior Notes, the full amount of its new term loans "A" and "B", and amounts received from its subsidiaries ($251.7 million from Videotron, drawn on its existing revolving credit facilities and its cash and cash equivalents, and $40.0 million from Sun Media Corporation, drawn on a new credit facility), to finance the repurchase on January 17, 2006, of US$561.6 million aggregate principal amount of its 11 1/8% Senior Notes and US$275.6 million aggregate principal amount of its 13 3/4% Senior Discount Notes, or 95.7% and 97.4% respectively of the Notes issued and outstanding at that date. Quebecor Media paid a total cash consideration of $1.3 billion to purchase the Notes, including the premium and the cost of settlement of cross-currency swap agreements. In respect of these repurchases, Quebecor Media will recognize a loss on settlement of debt estimated at $206.0 million, net of income tax, including the amount by which the disbursements exceeded the book value of the repurchased Notes and the related cross-currency swap agreements, as well as the write-down of deferred financial expenses. Dividends totalling $55.0 million were paid in January 2006 from funds received under these transactions.

- On September 16, 2005, Videotron successfully closed a private offering of US$175.0 million aggregate principal amount of 6 3/8% Senior Notes due December 15, 2015. The total net proceeds of $205.1 million from the sale of Senior Notes and the Company's cash assets were used to finance the repurchase of Senior Notes of Videotron's CF Cable TV subsidiary for a cash consideration of $99.3 million, and the repurchase by Quebecor Media on July 19, 2005, of US$128.2 million aggregate principal amount of its 11 1/8% Senior Notes and US$12.1 million aggregate principal amount of its 13 3/4% Senior Discount Notes. Quebecor Media paid a total cash consideration of $215.3 million to purchase the Notes, including the premium and the cost of settlement of cross-currency swap agreements. Consequently, Quebecor Media recognized a loss on settlement of debt of $41.0 million, net of income tax, in the third quarter of 2005.

During 2005, Videotron phased in a cable telephone service for residential customers. The popularity of its IP telephone service exceeded all expectations. Following the launch and the accompanying marketing campaign, Videotron recruited 163,000 customers for its new cable telephone service, 135,400 new customers for its cable Internet access service, an annual growth record, 140,900 new customers for *illico Digital TV*, also an annual growth record, and recorded a net increase of 53,500 customers for all cable television services combined, the best performance since 1999.

On August 24, 2005, Quebecor Media announced an investment of more than $110.0 million to relocate and modernize the *Journal de Montréal* printing plant. Construction of the new printing plant in Saint-Janvier-de-Mirabel, north of Montréal, began on September 9, 2005, and should be completed by spring 2007.

On August 29, 2005, Quebecor Media and Quebecor World announced the creation of a partnership to operate a new printing plant in Islington, in the Greater Toronto Area. The $110.0 million plant will facilitate consolidating some of Quebecor World's printing operations in Ontario and strengthen convergence between Quebecor Media's Toronto media properties. The new plant should be fully operational by 2007.

On December 13, 2005, Quebecor Media closed the acquisition of Sogides, a major Québec book publishing and distribution group, for a cash consideration of $24.0 million.

On January 23, 2006, Nurun announced the closing of the acquisition of China Interactive Limited ("China Interactive"), a Chinese interactive marketing firm.

Quebecor World Inc.

Consolidation in the printing industry because of global overcapacity continued to exert negative pricing pressures in 2005. As smaller plants disappear, larger plants continue to grow and deploy more efficient equipment.

In response to difficult market conditions, Quebecor World management continued developing strategies to improve the competitiveness and performance of its production facilities and reduce operating costs.

In 2005, Quebecor World began implementing the retooling plan announced in 2004, which entails investments of more than US$330.0 million. In 2005, a first group of five more efficient presses was installed in North America. US$190.7 million was disbursed during 2005 in connection with this project. Plans call for the installation of 10 additional presses in 2006. The deployment of such an extensive plan cannot be accomplished without experiencing certain temporary inefficiencies, which had a negative impact on Quebecor World's operating income in the fourth quarter of 2005. Quebecor World has set up a dedicated task force whose primary objective is to mitigate future costs related to the startup.

Following a strategic review of its operations in Europe, Quebecor World also announced a capital investment program of approximately US$250.0 million (of which US$87.0 million was disbursed in 2005) that will improve the platform's competitive position, lower its cost base and provide better service to customers. The program involves the purchase of new state-of-the-art technology to be installed in Quebecor World's facilities in Belgium, Spain and Austria, as well as additional potential investments in the United Kingdom and France. Quebecor World also successfully completed labour negotiations in February 2006 with its employee representatives in the United Kingdom that will quickly bring the facility in line with the market. Similar negotiations are progressing more slowly in France, and this could be a lengthy process that might negatively impact the performance of Quebecor World.

Quebecor World carried out a number of restructuring initiatives in 2005 to improve the efficiency of its operations and eliminate inefficient and idle equipment. These included a thorough review of the operations of the Corby (England) plant, the closing of a plant in Canada, downsizing at its Helio Corbeil plant in France and other headcount reductions across the platform.

Quebecor World recognized a reserve for restructuring, impairment of assets and other special charges of US$94.2 million in 2005. The restructuring initiatives introduced in 2005 have resulted, or will result in the elimination of 1,131 positions (of which 951 were eliminated in 2005) and in the creation of 83 new positions. The restructuring initiatives introduced over the last three years have resulted, or will result in the elimination of 5,495 positions.

Also in 2005, Quebecor World carried out its action plan to dispose of the North American plants in its non-core Commercial group, which provides specialty printing services for general, financial and commercial products. The transactions under this plan during the year generated proceeds on disposal totalling $137.0 million, including $103.7 million in cash, of which $19.8 million is receivable after December 31, 2005, for a total net loss on disposal of $6.1 million (net of non-controlling interest and income tax).

After completing its annual goodwill impairment test, Quebecor World recognized a non-cash charge of US$243.0 million (US$232.1 million after income tax) in respect of goodwill impairment at its European business group. Quebecor World's European operations underperformed in 2005 and reported significantly weaker results than in 2004, particularly in France and the United Kingdom. As reported above, Quebecor World has launched a major retooling plan in response to the difficult business environment.

Quebecor Inc.

In 2005, the Company recorded a $126.0 million unrealized gain on re-measurement of exchangeable debentures, in accordance with the consensus in Abstract EIC-56 of the *Canadian Institute of Chartered Accountants Handbook* ("*CICA Handbook*"). Under this standard, the corresponding unrealized loss on the value of Quebecor World shares underlying the exchangeable debentures is not recorded in the books. A $45.0 million gain was recorded for this item in 2004.

Financial data

The financial data have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). However, certain measures used in this Management Discussion and Analysis do not have any standardized meaning under Canadian GAAP. They are defined under "Non-GAAP Measures" below.

CHANGES IN CORPORATE STRUCTURE

The main changes in the corporate structure over the past three years are summarized below.

In December 2005, Quebecor Media closed the acquisition of Sogides for a cash consideration of $24.0 million. Sogides is a major Québec book publishing and distribution group which owns the publishing houses Les Éditions de l'Homme, Le Jour, éditeur, Les éditions Utilis, Les Presses Libres and Le Groupe Ville-Marie Littérature (which includes l'Hexagone, VLB Éditeur and Typo), and the distributor Messageries A.D.P., which distributes for more than 120 Québec and foreign publishing houses.

In May 2005, Quebecor World announced plans to dispose of its non-core North American Commercial group in order to focus on its core printing business. The process, which generated total proceeds from disposal in the amount of $137.0 million, was carried out in five distinct transactions.

- In June and July 2005, Quebecor World completed the sale of assets of its Los Angeles (California) facility, a business unit in the non-core Commercial group.
- In August 2005, Quebecor World closed the sale of its Westwood (Massachusetts) facility.
- In November 2005, Quebecor World sold all the other U.S. assets in its non-core Commercial group, namely the facilities in Wilmington (Massachusetts), Orlando (Florida), Pawtucket (Rhode Island), St. Louis (Missouri) and in Detroit (Michigan).
- In November 2005, Quebecor World closed the sale of the Canadian assets in its non-core Commercial group, namely the Mil, Graphica, Printpak, Calgary and Jasper (Alberta) facilities.
- In December 2005, Quebecor World sold its interest in its last non-core property in Canada, the Quebecor Merrill Canada plant.

The operating results and cash flows of the sold plants are presented as separate line items for discontinued operations in the Company's consolidated financial statements, in accordance with the recommendations in Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, of the *CICA Handbook*, and comparative figures have been restated to conform to the presentation adopted for 2005.

In March 2005, Nurun sold its remaining 9.6% interest in Mindready Solutions Inc. ("Mindready Solutions") for a cash consideration of $0.4 million. The purchaser held an option, which expired June 27, 2005, to buy the 1.2 million shares Nurun still held in Mindready Solutions for $1.165 per share, less the special cash distribution of $1.1 million paid to Nurun on August 18, 2004. On May 27, 2004, in response to a partial takeover bid for Mindready Solutions' shares, a total of 6.75 million Common Shares of Mindready Solutions held by Nurun were sold for a cash consideration of $7.8 million, of which $4.4 million was received on the closing date of the bid and the balance in February 2005.

On December 2, 2004, TVA Group and Sun Media Corporation closed the acquisition of television station Toronto 1 (now Sun TV) for $43.2 million, following approval by the Canadian Radio-television and Telecommunications Commission ("CRTC"). The transaction included a total cash consideration of $35.2 million and the transfer of Sun Media Corporation's 29.9% interest in CablePulse24 ("CP24"), a Toronto all-news station.

In November 2004, Quebecor World acquired the 50% interest it did not already hold in Helio Charleroi of Belgium, formerly a subsidiary of European Graphic Group S.A., for a cash consideration of $53.8 million.

On July 9, 2004, Le SuperClub Vidéotron closed the acquisition of virtually all the assets of Jumbo Entertainment Inc. ("Jumbo Entertainment") for a cash consideration of $7.2 million. At the time of the acquisition, Jumbo Entertainment operated a national Canadian chain of 105 video and games rental and retail stores.

On April 28, 2004, Nurun closed the acquisition of Ant Farm Interactive LCC ("Ant Farm Interactive"), an interactive marketing agency located in Atlanta (Georgia) for a cash consideration of $5.4 million, plus additional payments contingent on the achievement of performance targets in the next three years and, subject to certain conditions, the issuance of Nurun Common Shares in 2007 or an equivalent cash consideration, at Nurun's option.

On December 22, 2003, Quebecor Media closed an agreement to acquire the Preferred Shares held by The Carlyle Group in 3662527 Canada Inc. (the parent company of Videotron Telecom) for a consideration with an estimated value of $125.0 million.

On November 3, 2003, Sun Media Corporation closed the acquisition of the press assets of Annex Publishing & Printing Inc. ("Annex Publishing & Printing") for a cash consideration of $34.2 million.

On October 15, 2003, Quebecor Media closed the acquisition of the 50% equity interest in CEC Publishing Inc. ("CEC Publishing") held by Hachette S.A., for a cash consideration of $15.0 million.

In May 2003, Sun Media Corporation closed the sale of its interests in businesses it operated in Florida (United States) and British Columbia for a cash consideration of $22.4 million.

Following business sales made by the Newspapers and Interactive Technologies and Communications segments in 2003 and 2004, the operating results and cash flows of Mindready Solutions, Sun Media Corporation's business operations in Florida and British Columbia, and Nurun Technologie S.A. are presented as separate line items for discontinued operations in the Company's consolidated financial statements, and comparative figures for prior periods have been restated.

Quebecor's share of the earnings of some subsidiaries has varied over the past three years.

Quebecor's share of the earnings of Quebecor World was 33.24% at January 1, 2003. At the end of 2003, Quebecor's share in Quebecor World had increased to 35.55%, mainly as a result of the repurchase for cancellation of 10.0 million Subordinate Voting Shares by Quebecor World in June 2003. As of December 31, 2004, its interest stood at 35.38%. On May 10, 2005, Quebecor World announced a normal course issuer bid for a maximum of 7.3 million Subordinate Voting Shares, representing approximately 9.95% of the public float of the Subordinate Shares. During the year ended December 31, 2005, a total of 2,438,500 Subordinate Shares of Quebecor World were repurchased under the bid for a cash consideration of $58.2 million. Consequently, as of December 31, 2005, Quebecor's interest in Quebecor World stood at 35.82%. Quebecor World does not intend to make further share repurchases in upcoming months.

Quebecor's share of the earnings of Quebecor Media has not varied over the past three years and stood at 54.72% as of December 31, 2005.

During the fiscal years ended December 31, 2004, 2003 and 2002, Quebecor Media's interest in TVA Group increased as a result of the Substantial Issuer Bid, dated May 19, 2005, and various Normal Course Issuer Bids. In 2005, 3,739,599 Class B Non-Voting Shares of TVA Group were repurchased under these bids for a cash consideration of $81.9 million. In 2004 and 2003, 1,892,500 and 1,452,200 Class B Shares were repurchased under Normal Course Issuer Bids for cash considerations of $41.0 million and $25.8 million respectively. As a result of these repurchases, Quebecor Media's interest in TVA Group increased by 9.2 percentage points, from 36.0% on January 1, 2003 to 45.2% as of December 31, 2005.

Quebecor Media's share, through its subsidiaries, of the earnings of Canoe, which stood at 75.3% following the swap of Canoe's assets in exchange for Netgraphe Inc. ("Netgraphe") stock in March 2001, has been 91.7% since the subsidiary was taken private in September 2004. Since January 1, 2005, the subsidiary has been operating under the name Canoe.

Quebecor exercises direct and indirect controlling interests in three public companies. As of December 31, 2005, Quebecor held, directly or indirectly, 84.70%, 59.42% and 99.92% of the voting rights of Quebecor World, Nurun and TVA Group respectively.

2005/2004 FISCAL YEAR COMPARISON

Quebecor's revenues totalled $10.21 billion in 2005, compared with $10.61 billion in 2004, a decrease of $404.9 million (-3.8%). A $240.5 million increase in the revenues of Quebecor Media was more than offset by a $625.0 million decrease in the revenues of Quebecor World, due primarily to the impact of conversion into Canadian dollars. The average exchange rate used for the translation of Quebecor World's results into Canadian dollars was US$1.00 = $1.21 for 2005, compared with US$1.00 = $1.30 for 2004, producing an unfavourable foreign exchange variance estimated at $552.0 million in 2005. Stated in U.S. dollars, Quebecor World's revenues declined by US$56.2 million in 2005.

Operating income decreased by $187.8 million (-10.9%) from $1.73 billion in 2004 to $1.54 billion in 2005. A $36.4 million increase in Quebecor Media's operating income did not entirely offset a $225.0 million (US$129.8 million) decrease at Quebecor World.

Quebecor generated net income of $69.7 million ($1.08 per basic share) compared with $112.2 million ($1.74 per basic share) in 2004, a $42.5 million decrease. The recording of a $126.0 million unrealized gain on re-measurement of exchangeable debentures ($45.0 million unrealized gain in 2004) and decreases of $48.4 million in the amortization charge, $57.4 million in financial expenses and $38.1 million in reserves for restructuring did not entirely offset the negative impact of recording a write-down of goodwill of $287.1 million in respect of Quebecor World's European operations and the recording by Quebecor Media of a loss on debt refinancing of $60.0 million, combined with the $187.8 million decrease in operating income. There was, however, a favourable variance of $244.7 million in non-controlling interest, due primarily to the decrease in Quebecor World's net income.

Excluding unusual items, which include the reserve for restructuring, impairment of assets and other special charges, the unrealized gain on re-measurement of exchangeable debentures, the loss on debt refinancing and write-down of goodwill, all net of income tax and non-controlling interest, net income was

$102.1 million in 2005 ($1.58 per basic share), compared with $114.1 million ($1.76 per basic share) in 2004, a decrease of $12.0 million ($0.18 per basic share).

In 2005, Quebecor recorded a $126.0 million unrealized gain on re-measurement of the floating rate debentures Series 2001, following the adoption on July 1, 2004 of the new consensus in Abstract EIC-56, which rescinds the ability to use hedge accounting for exchangeable debentures when the issuer's investment in the underlying shares is consolidated or accounted for by the equity method. Since every $1.00 decrease in Quebecor World's stock price results in a $12.5 million unrealized gain, the $10.08 per share decrease in the stock price between January 1, 2005 and December 31, 2005 generated an unrealized gain of $126.0 million on re-measurement of exchangeable debentures. The corresponding unrealized loss on the value of Quebecor World shares underlying the exchangeable debentures is not recorded in the books. An unrealized gain of $45.0 million was recorded for this item in 2004.

The amortization charge decreased by $48.4 million from $649.2 million to $600.8 million between 2004 and 2005, mainly because of the favourable impact of currency translation on Quebecor World's amortization charges, combined with a decrease in the amount of the amortization charges recorded by Quebecor World due to impairments of assets recognized during the past 12 months.

Financial expenses decreased by $57.4 million in 2005, from $520.7 million to $463.3 million. Quebecor World's financial expenses decreased by $25.9 million, mainly because of the favourable impact of currency translation, lower average debt levels, and increased capitalization of interest on retooling projects. The financial expenses of Quebecor Media decreased by $29.3 million in 2005, primarily because of the impact of refinancing a portion of the Notes issued by Quebecor Media (including a repayment from the cash and cash equivalents held by the Company) and all the Notes issued by CF Cable TV, a subsidiary of Videotron, as well as the impact of prepayments resulting from an increase in the negative fair value of certain cross-currency swap agreements, and a decrease in the loss on re-measurement of the additional amount payable.

The reserve for restructuring, impairment of assets and other special charges totalled $113.6 million in 2005, compared with $151.7 million in 2004, a decrease of $38.1 million. Total net reserves for restructuring recognized by Quebecor World, including non-cash items of $65.4 million and cash items of $48.4 million, accounted for $113.8 million of the 2005 figure. In 2004, Quebecor World recorded a reserve for restructuring of $148.9 million. The restructuring initiatives carried out in 2005 and 2004 are described in detail in the discussion of the Printing segment for the years 2005 and 2004.

In 2005, Quebecor recognized a loss on settlement of debt of $60.0 million, compared with $7.4 million in 2004. The loss on settlement of debt in 2005 derived primarily from the repurchase by Quebecor Media on July 19, 2005 of US$128.2 million principal amount of its 11 1/8% Senior Notes and US$12.1 million principal amount at maturity of its 13 3/4% Senior Discount Notes. The subsidiary paid a cash consideration of $215.3 million to purchase the Notes, including the redemption premium and the cost of settlement of the cross-currency swap agreements. The loss includes the amount by which the disbursements exceeded the book value of the repurchased Notes and the related cross-currency swap agreements, as well as the write-down of deferred financial expenses. The refinancing enables Quebecor Media and its subsidiaries to take advantage of more advantageous interest rates.

On January 18, 2006, Quebecor World announced that it had completed its annual goodwill impairment test for its operations in North America, Europe and Latin America. Based on the results of this test, a non-cash charge of $287.1 million ($274.2 million after income tax) was recognized in respect of goodwill impairment related to the European business group. Quebecor World's European operations underperformed in 2005 and reported significantly weaker results than in 2004, particularly in France and the United Kingdom, due to continuing pricing pressures, lower volumes, operational inefficiencies and the loss of a major customer. In response to the challenging situation, Quebecor World launched a major investment plan, which is discussed in greater detail in the analysis of the Printing segment for 2005.

The income tax expense totalled $92.7 million in 2005, compared with $130.4 million in 2004. The effective tax rate is 67.1% in 2005, compared with 28.6% in 2004. It should be noted that the bulk of the goodwill impairment charge, for the most part, is not deductible for tax purposes. Quebecor World also recorded a valuation allowance in respect of tax assets resulting from impairment of assets, restructuring and operating losses recognized during 2005. As well, Quebecor's unrealized gain on re-measurement of exchangeable debentures and Quebecor Media's loss on settlement of debt include capital gains or losses subject to a lower effective tax rate than the corporate income tax rate due to a different inclusion rate. Excluding the reserve for restructuring, impairment of assets and other special charges, the gain on re-measurement of the exchangeable debentures, the loss on settlement of debt and the write-down of goodwill, the income tax expense was $110.6 million in 2005, for an effective rate of 23.1%, compared with $157.9 million in 2004, an effective rate of 28.2%. The decline in the effective rate was mainly due to a decrease in Quebecor World's pre-tax profits in jurisdictions with higher tax rates, the recognition of tax benefits related to the winding up of a subsidiary, a reduction in future tax liability on the Quebecor World shares underlying the exchangeable debentures, and lower non-deductible charges at Quebecor Media, including some financial charges, partially offset by the recording of the impact of higher tax rates in the Province of Québec in the fourth quarter of 2005.

2005/2004 FOURTH QUARTER COMPARISON

In the fourth quarter of 2005, Quebecor's revenues totalled $2.68 billion, compared with $2.90 billion in the same period of 2004. The $218.0 million (-7.5%) decrease was due primarily to

the unfavourable impact of the US$158.7 million (-8.7%) decline in Quebecor World's revenues, which was not entirely offset by a $60.6 million (8.7%) increase in the revenues of Quebecor Media.

Operating income decreased by $94.3 million (-18.7%) from $503.6 million in the fourth quarter of 2004 to $409.3 million in the fourth quarter of 2005. A US$79.8 million decrease in Quebecor World's operating income, which was accentuated by the impact of conversion into Canadian dollars, was only partially offset by a $9.2 million (4.3%) increase in operating income at Quebecor Media.

Quebecor recorded net income of $14.5 million ($0.23 per basic share), compared with $59.4 million ($0.92 per basic share) in the same period of 2004, a decrease of $44.9 million ($0.69 per basic share). Decreases of $24.0 million in financial expenses, $14.6 million in the amortization charge and $45.5 million in the reserve for restructuring, as well as a $46.0 million increase in the unrealized gain on re-measurement of exchangeable debentures, were more than offset by the decrease in operating income and the recognition of a $287.1 million write-down of goodwill in respect to Quebecor World's operations in Europe. There was, however, a favourable variance of $189.0 million in non-controlling interest, due primarily to the decrease in Quebecor World's net income.

Excluding unusual items, which include the reserve for restructuring, impairment of assets and other special charges, the unrealized gain on re-measurement of debentures, the loss on debt refinancing and the write-down of goodwill, all net of income tax and non-controlling interest, net income from continuing operations was $28.9 million in the fourth quarter of 2005 ($0.45 per basic share), compared with $52.4 million ($0.81 per basic share) in the same period of 2004, a decrease of $23.5 million ($0.36 per basic share).

SEGMENTED ANALYSIS

PRINTING SEGMENT

In 2005, Quebecor World entered the transitional period needed to achieve its goals. It formulated several initiatives it believes are crucial as it implements its retooling strategy to further improve efficiency, customer service and productivity.

Consolidation of the printing industry continued in 2005 because of global overcapacity, which has led to negative pricing pressures. As smaller plants disappear, larger plants continue to grow and deploy more efficient equipment. Global capacity is also affected by the emergence of Asian competitors, in particular in the Book segment, where the timing of deliveries is less critical. Overall, global overcapacity will remain an issue and will likely continue to impact prices in most segments.

The primary drivers affecting Quebecor World are consumer confidence and economic growth rates. Quebecor World uses magazine advertising pages, as measured monthly in the United States by the Publishers Information Bureau, as an important indicator of demand for printing products and services. While the monthly growth rates in page numbers showed some positive signs throughout 2004, they were more volatile in the first nine months of 2005, ranging between -3% and +8% versus 2004.

Strategy

Quebecor World's objective is to be the preferred low-cost provider of print services. As part of this goal, Quebecor World has adopted the following related strategies.

Quebecor World intends to reduce its fixed-cost base and increase its efficiency by consolidating smaller facilities into larger operations, grouping similar types of assets in larger facilities using all available space and optimizing all aspects of pressroom efficiencies. As is the case with other manufacturing industries, technology in the printing industry is constantly evolving and it will continue to play an important role in improving Quebecor World's manufacturing platform. Quebecor World focused on improving speeds, reducing staffing, lowering downtime and paper waste and reducing make-ready times. It will also develop projects to help reduce energy consumption.

In recent years, Quebecor World has undertaken restructuring initiatives that have resulted in downsizing across the platform and in several plant closures and consolidations. These initiatives continued in 2005 and will carry on in 2006.

In 2005, Quebecor World also decided to dispose of operations that did not fit with its core business, which is the printing of magazines, catalogs, retail inserts, books, directories, and direct mail products. Over the years, Quebecor World has strived to build a global printing platform that allows publishers and retailers to print in multiple plants, in various countries, reducing lead-time and distribution costs.

As Quebecor World grew by acquisitions, certain facilities were included in those transactions that do not concentrate on Quebecor World's core printing activities. Quebecor World therefore decided in 2005 to dispose of a dozen North American facilities whose primary activities are non-core general commercial printing. These activities consist primarily of short-run work such as annual reports, marketing materials, brochures and packaging. This market is highly competitive and fragmented with many small local and regional players. These operations, by their nature, cannot benefit from the advantages and synergies of Quebecor World's global platform.

Finally, in response to emerging Asian competition in the book printing segment, Quebecor World is offering its clients the Latin American platform as a low-cost alternative.

Implementation of Quebecor World's strategy is a long-term process which will yield benefits over time.

2005 Highlights

As part of its strategy, in 2004, Quebecor World announced a plan that calls for over US$330.0 million in investments in its North American manufacturing platform, primarily for new, wider, more efficient presses. The implementation of this plan began in

the second half of 2005 with the installation of the first group of five presses. In 2005, US$190.7 million was invested under this program. Plans call for the installation of 10 additional presses in 2006. The deployment of such an extensive plan cannot be accomplished without experiencing certain temporary inefficiencies. Some of these inefficiencies, primarily related to the startup of new presses and the decommissioning of less-productive presses, were encountered in the fourth quarter of 2005, negatively affecting operating income. Quebecor World anticipates that it will continue to experience certain inefficiencies in upcoming quarters as more and more presses come online. It has set up a dedicated task force whose primary objective is to mitigate future costs related to the plan.

Following a strategic review of its operations in Europe, on January 18, 2006, Quebecor World announced a capital investment program that will improve the platform's competitive position, lower its cost base and provide better service to customers. Quebecor World's European program provides for investments of approximately US$250.0 million, of which US$87.0 million was disbursed in 2005, and involves the purchase of new state-of-the-art technology to be installed in facilities in Belgium, Spain and Austria, as well as additional potential investments in the United Kingdom and France. Quebecor World also successfully completed labour negotiations in February 2006 with its employee representatives in the United Kingdom that will quickly bring the facility in line with the market. Similar negotiations are progressing more slowly in France, and this could be a lengthy process that might negatively impact the performance of Quebecor World.

Quebecor World carried out a number of restructuring initiatives in 2005 to improve the efficiency of its operations and eliminate inefficient and idle equipment. These included a thorough review of the operations of the Corby (England) plant, which led to changes in the strategic plan for this facility and implementation of the first two phases of a work-force reduction plan. Quebecor World also closed a plant in Canada and continued its restructuring initiatives with the approval of downsizing at its Helio Corbeil plant in France and other headcount reductions across the platform. The positive effects of the current restructuring initiatives are not evident in Quebecor World's operating income for 2005 because of continuing price reductions, operational inefficiencies related to the commissioning of new presses, increased energy costs and the poor performance of the French and British operations. Quebecor World recognized a reserve for restructuring, impairment of assets and other special charges of US$94.2 million in 2005.

Quebecor World estimates that further charges totalling US$8.7 million will have been recorded in respect of restructuring initiatives announced and approved prior to December 31, 2005. A total of 951 jobs were eliminated in 2005, with a further 180 to be cut by the end of the year under restructuring initiatives introduced in 2005 and in prior periods.

In the second half of 2005, Quebecor World completed the sale of all the business units in its non-core Commercial group in order to focus on its core printing business. The process, which generated total proceeds from disposal in the amount of $137.0 million, was carried out in five distinct transactions.

- In June and July 2005, Quebecor World completed the sale of assets of its Los Angeles (California) facility, a business unit in the non-core Commercial group.
- In August 2005, Quebecor World closed the sale of its Westwood (Massachusetts) facility.
- In November 2005, Quebecor World sold all the other U.S. assets in its non-core Commercial group, namely the facilities in Wilmington (Massachusetts), Orlando (Florida), Pawtucket (Rhode Island), St. Louis (Missouri) and in Detroit (Michigan).
- In November 2005, Quebecor World closed the sale of the Canadian assets in its non-core Commercial group, namely the Mil, Graphica, Printpak, Calgary and Jasper (Alberta) facilities.
- In December 2005, Quebecor World sold its interest in its last non-core property in Canada, the Quebecor Merrill Canada plant.

The 2005 results of the non-core group have been significantly impacted by a loss on disposal of these facilities totalling US$12.0 million, net of income tax, as well as by the recognition of specific charges related to these facilities and pension-curtailment costs. The operating results and cash flows of the sold plants are presented as separate line items for discontinued operations in the Company's consolidated financial statements and comparative figures have been restated to conform to the presentation adopted for 2005.

On October 21, 2005, Quebecor World released an outlook for 2005. Management estimated at that time that earnings per share for the third and fourth quarters of 2005 would be lower than 2004 and below market expectations. As expected, the actual results for the second half of 2005 are below those for the corresponding period of 2004.

Analysis of 2005 results of operations

Only continuing operations are included in the following discussion of results of operations.

Quebecor World reported revenues of US$6.28 billion in 2005, a decrease of US$56.2 million (-0.9%) from 2004. Excluding the favourable impact of the fluctuation of currencies other than the U.S. dollar (US$78.8 million), revenues decreased 2.1% in 2005. The decline was mainly due to lower volumes and continuing pricing pressures in North America and Europe.

Excluding the impact of currency fluctuations, paper sales increased by 4.7% in 2005 compared with 2004 as a result of larger volumes of paper sales to customers and higher paper prices. Although the increase in paper sales has a positive impact on revenues, it has little or no impact on operating income because the cost is generally passed on to the customer. However, an increase in paper sales that do not contribute to operating margin leads to a decrease in operating margin, stated as a percentage.

Operating income was US$666.2 million in 2005, compared with US$796.0 million in 2004. The US$129.8 million (-16.3%) decrease was essentially due to sustained pricing pressures, lower volumes in some business groups, operational inefficiencies related to the commissioning of new presses, and higher energy costs. The impact of these unfavourable factors was partially offset by savings from cost-containment measures and headcount reductions.

The cost of goods sold rose 2.1% in 2005 compared with 2004, primarily as a result of increased paper sales, as described above, and higher expenses related to energy costs, which were not entirely offset by a US$102.0 million reduction in labour costs compared with 2004. Gross operating margins decreased from 19.6% in 2004 to 17.2% in 2005, partly as a result of the negative impact on margins of increased revenues from paper sales.

Selling, general and administrative expenses and securitization fees totalled US$420.6 million in 2005, compared with US$446.0 million in 2004, a decrease of US$25.4 million (5.7%). The decrease was mainly because of headcount reductions and lower travel and entertainment expenses. These factors outweighed the unfavourable impact of currency fluctuations on selling, general and administrative expenses, which amounted to US$7.4 million, and an unfavourable variance of US$9.3 million due to increased securitization fees.

Stated in Canadian dollars, Quebecor World's revenues decreased by $625.0 million (-7.6%) to $7.60 billion in 2005. Operating income totalled $806.5 million, a $225.0 million (-21.8%) decrease compared with 2004. The decrease in revenues and operating income stated in U.S. dollars was amplified by the effect of currency translation into Canadian dollars.

North America

North American revenues increased by US$30.8 million (0.6%) to US$4.88 billion in 2005. Excluding the impact of the translation of currencies other than the U.S. dollar and of higher paper sales, revenues decreased by 2.3% from 2004, mainly because of downward pressure on prices and lower volumes.

Revenues rose in some business groups, including Retail (4.6%) and Canada (7.1%), mainly as a result of increased paper sales and the effect of currency translation. Logistics also recorded higher revenues (3.9%), due primarily to increased shipments of retail goods. Revenues decreased at other business groups, including Magazine & Direct (1.7%), Catalog (-0.9%), Book & Directory (-4.6%) and Premedia (-11.1%). Excluding the favourable impact on revenues of the additional paper sales, revenues decreased by 3.2% in Magazine & Direct, 0.2% in Retail and 2.8% in Catalog. Excluding the impact of currency translation and additional paper sales, revenues decreased by 1.3% in Canada.

The Magazine group signed new long-term agreements in 2005 with major publishers such as Time Inc., Primedia, Wenner Media, Morris Communications and Ascend Media. The Book & Directory group strengthened its competitive positioning by obtaining two long-term 10-year contracts with Yellow Book USA and Dex Media. The two contracts will have a significant impact on Quebecor World's share of the directories market as of 2007.

Volume increased in Retail (4.6%) as a result of new contracts with existing and new customers, including School Speciality, Walgreen's, Dumoulin and Staples Canada, as well as the addition of a facility in Pittsburg (California). These factors were offset by the impact of price reductions. However, volumes declined in Magazine (-5.3%), Catalog (-1.1%), Book (-2.5%), Directory (-6.6%), Canada (-1.3%) and Premedia (-6.5%). Volumes also decreased in Direct (-1.4%), primarily as a result of mergers in the banking and telecommunications industries.

Operating margins rose in Retail due mainly to the increase in volume and the addition of the Pittsburg plant. However, operating margins decreased in Magazine, Direct, Catalog, Book & Directory and Canada, mainly because of price erosion, lower volumes, higher expenses related to energy costs, and costs related to the commissioning of new presses in the fourth quarter of 2005 in the Magazine, Catalog and Book groups. Margins were also reduced in Premedia, mainly because of the lower volumes, and in Logistics, due primarily to increases in operating costs resulting from the hurricanes in the southern United States in 2005 and higher gasoline prices.

North American headcount was reduced by 484, or approximately 2% of the total work force, between 2004 and 2005.

Europe

In Europe, revenues totalled US$1.16 billion in 2005, a decrease of US$134.5 million or 10.4%. Excluding the impact of currency fluctuations, revenues decreased by 10.5% in 2005 compared with 2004. Revenues were affected by the negative impact of price reductions and a total decrease in volumes of 12.5%. The decline in volume was sharpest in the Magazine and Retail groups in France, due in part to the disposal of underperforming facilities, and at the Corby (England) plant, due primarily to the termination of a major printing contract.

Operating margins were negative in Europe in 2005, a significant reduction compared with the same quarter of 2004. The weaker results were caused primarily by the loss of a contract at the Corby plant. Volumes under that contract, which terminated at the end of May 2005, began falling off in the first half of 2005. The facility was able to replace some of the lost volume, but at a lower margin. The operating results of the French operations were also weaker in 2005. They were affected by the lower volumes, coupled with operating inefficiencies and pricing pressures. The poor productivity of assets, primarily in France, also contributed to the decrease in results. However, operating margins increased in Spain and Austria in 2005.

European headcount was reduced by 790, or approximately 14% of the total European work force, between 2004 and 2005.

Latin America

Latin American revenues totalled US$241.7 million in 2005, an increase of US$49.3 million (25.6%) from the previous year. The revenue growth was mainly due to the favourable impact of currency translation, as well as increased paper sales. Management

continued an initiative to more closely link book and directory printing operations in Latin America and North America in order to expand capacity and capabilities for the overall customer base. Prices, expressed in local currency, were generally stable in all regions except Argentina, where prices increased. Volume grew 4.7% in 2005, reflecting strong local economies in Latin America and successful cross-selling efforts with Quebecor World's business groups in North America and Europe. Operating margins rose as a result of higher volumes and savings produced by improved efficiencies and cost containment.

Free cash flows from operations amounted to US$119.2 million in 2005, compared with US$319.4 million in 2004 (*see Table 1*). The negative variance of US$200.2 million is due primarily to the US$129.8 million decrease in operating income and the US$261.4 million increase in additions to property, plant and equipment, which resulted from equipment acquisition and relocation to increase production capacity and improve efficiency. This trend is expected to continue in 2006 in view of Quebecor World's retooling program. The net change in non-cash balances related to operations generated funds in the amount of US$10.1 million in 2005, whereas it used funds in the amount of US$159.3 million in 2004, a US$169.4 million improvement. Disposal of businesses contributed US$66.9 million to free cash flows from operations in 2005.

In the fourth quarter of 2005, Quebecor World's revenues amounted to US$1.66 billion, a decrease of US$158.7 million (-8.7%) compared with the same quarter of the previous year. Excluding the unfavourable impact of the fluctuation of currencies other than the U.S. dollar (US$10.8 million), revenues decreased by 8.1% in the fourth quarter 2005 due to decreased volumes, continuing pricing pressures in North America and Europe, and a 3.2% decrease in paper sales. It should be noted, however, that Quebecor World's fourth quarter had 13 weeks in 2005 but 14 weeks in 2004, which accounts, among other things, for the lower volumes in North America. Excluding the impact of the extra week in 2004, volumes increased in North America. Operating income decreased by US$79.8 million (-32.6%) from US$244.8 million in the fourth quarter of 2004 to US$165.0 million in the fourth quarter of 2005, essentially as a result of continued pricing pressures, operational inefficiencies related to the commissioning of new presses in North America, and higher energy costs. Gross operating margins were 16.3% in the fourth quarter of 2005, compared with 20.0% in the same quarter of 2004. The decrease in operating income resulting from the above-mentioned factors was partially offset by a decrease in the cost of goods sold and in selling, general and administrative expenses because of lower labour costs resulting from headcount reductions and lower costs related to bonuses and stock options.

Stated in Canadian dollars, Quebecor World's revenues for the fourth quarter of 2005 were $1.95 billion, a $272.5 million (-12.2%) decrease. Operating income totalled $193.9 million, a $105.0 million (-35.1%) decrease from the same period in 2004. The decrease in revenues and operating income stated in U.S. dollars was amplified by the effect of currency translation into Canadian dollars.

On May 10, 2005, Quebecor World announced a normal course issuer bid for a maximum of 7.3 million Subordinate Voting Shares, representing approximately 9.95% of the public float of the Subordinate Shares. During the 12-month period ended December 31, 2005, a total of 2,438,500 Subordinate Shares of Quebecor World were repurchased for a cash consideration of $58.2 million. Quebecor World has not repurchased any Subordinate Voting Shares since August 12, 2005, and does not intend to do so in the coming months.

The average exchange rate used for the translation of Quebecor World's results was US$1.00 = $1.16 for the fourth quarter of 2005 (US$1.00 = $1.22 in 2004) and US$1.00 = $1.21 for the 2005 fiscal year (US$1.00 = $1.30 in 2004).

Outlook 2006

In 2006, Quebecor World anticipates its operations will continue to be affected by negative pricing pressures and previously announced volume reductions. While Quebecor World has made significant progress in replacing this volume, many of these new agreements only come into force in the later half of 2006 and in 2007.

Table 1: Printing segment
Free cash flows from operations
(in millions of U.S. dollars)

	2005	2004	2003
Cash flows from continuing operating activities before undernoted item	**$ 459.4**	$ 647.1	$ 449.7
Net change in non-cash balances related to operations	**10,1**	(159.3)	11.6
Cash flows from continuing operating activities	**469.5**	487.8	461.3
Dividends on preferred shares	**(39.6)**	(38.8)	(37.7)
Additions to property, plant and equipment	**(394.0)**	(132.6)	(243.1)
Proceeds from disposal of assets	**16.4**	3.0	2.8
Proceeds from disposal of businesses	**66.9**	–	–
Free cash flows from operations	**$ 119.2**	$ 319.4	$ 183.3

Quebecor World intends to address these challenges by continuing to implement cost-containment measures. These measures include retooling plans for North America and Europe, additional restructuring initiatives and the decommissioning of older presses, resulting in a more efficient manufacturing platform. Quebecor World will also develop projects to help reduce energy consumption. And it will use its distinct competitive advantages to seek higher-margin business. However, as this is a long-term process and as Quebecor World anticipates additional startup-related inefficiencies in future quarters, the full effect of these efforts will only be realized over time.

CABLE SEGMENT

In 2005, the Cable segment generated revenues of $1.0 billion, compared with $871.6 million in 2004, an increase of $130.4 million (15.0%).

The revenues of Videotron's *illico Digital TV* service, excluding related services, rose $54.8 million (39.5%) to $193.5 million in 2005. The strong performance of *illico Digital TV* in 2005 more than compensated for decreased revenues from analog cable television services. Combined revenues from all cable television services increased by $41.5 million (7.2%) to $618.3 million due to the impact of customer base growth, higher rates, sales of more lucrative packages, the favourable impact of the introduction of the *illico on Demand* service, and increased pay-per-view revenues. These favourable factors were partially offset by decreased revenues from equipment rentals and other sources.

At the end of 2005, *illico Digital TV* had a customer base of 474,600, compared with 333,700 at the end of 2004 (*see Table 2*). The 140,900 (42.2%) increase is the largest annual customer base growth, in absolute terms, since the launch of the service at the beginning of 1999. By comparison, *illico Digital TV* recruited 92,800 and 69,200 new customers in 2004 and 2003 respectively. In the fourth quarter of 2005 alone, *illico Digital TV* recruited 50,000 customers, the largest quarterly increase, in absolute terms, since 1999. As of December 31, 2005, *illico Digital TV* had a penetration rate (number of subscribers as a proportion of total subscribers to all cable television services) of 31.5%, compared with 23.0% one year earlier.

Videotron's analog cable television services lost 87,400 customers in 2005, compared with decreases of 64,400 and 76,100 in 2004 and 2003 respectively (*see Table 2*). The combined customer base for all of Videotron's cable television services increased by 53,500 in 2005, compared with 28,400 in 2004 and a decrease of 6,900 in 2003 (*see Table 2*). In the fourth quarter of 2005, analog cable television services lost 15,500 customers. The combined customer base for all cable television services thus increased by 34,500 in the fourth quarter of 2005. The increases of 53,500 customers in 2005 and 34,500 in the fourth quarter of 2005 are the largest annual and quarterly net growth numbers for cable television services since 1999.

Videotron's Internet access services registered continued growth in 2005, posting revenues of $270.8 million, a $48.3 million (21.7%) increase over 2004. The improvement was mainly due to customer growth. The number of customers for cable Internet access services stood at 638,000 at the end of 2005, an increase of 135,400 (26.9%) from the end of 2004 (*see Table 3*). By comparison, the number of customers for the service increased by 96,300 in 2004 and 101,200 in 2003. In the fourth quarter of 2005, the number of customers for cable Internet services increased by 50,300 or 8.5%. The increases of 135,400 customers in 2005 and 50,300 customers in the fourth quarter of 2005 are the largest annual and quarterly growth numbers, in absolute terms, since the service was launched in 1998.

Videotron's Internet telephone service was officially launched at the beginning of 2005. The number of customers grew substantially during each quarter of 2005 and stood at 163,000 at the end of 2005. In the fourth quarter of 2005, 67,000 new customers subscribed to the service, a 69.8% increase (*see Table 4*). The Internet telephone service generated total revenues of $21.1 million in 2005.

Table 2
Customer base for cable television services

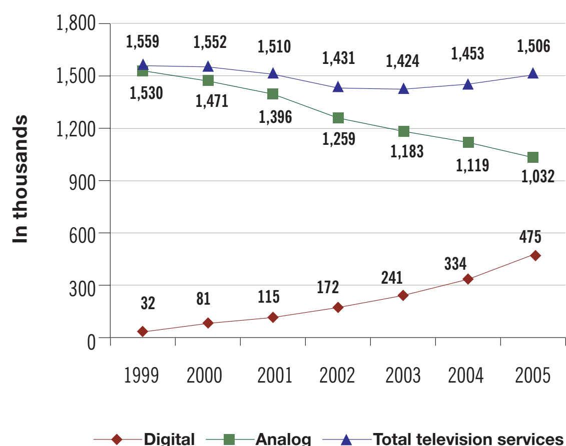
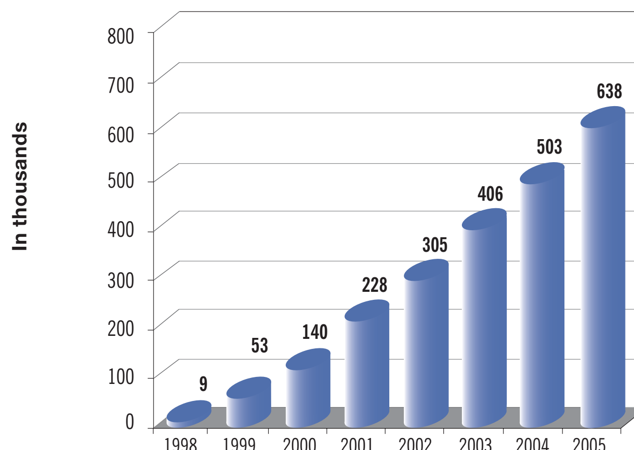


Table 3
Customer base for cable Internet access services



Videotron's net monthly ARPU (average revenue per user) increased by $5.36 (11.5%) to $51.86 in 2005, compared with $46.50 in 2004. By comparison, ARPU increased by $2.82 (6.5%) in 2004.

Le SuperClub Vidéotron registered revenues of $55.4 million in 2005. The $7.1 million (14.6%) increase mainly reflects the impact of the acquisition of Jumbo Entertainment in July 2004, as well as higher retail sales, the opening of two new stores, and an increase in the number of franchises. These factors were partially offset by a decrease in rental revenues.

The Cable segment generated total operating income of $382.0 million in 2005, compared with $341.2 million in 2004. The $40.8 million (12.0%) rise was due primarily to customer growth and the improved profitability of Videotron's services as a result of increases in some rates. These favourable factors offset the negative impact on profitability of increases in some operating expenses, including labour, advertising and promotion costs, some royalty expenses and statutory contributions. The new Internet telephone service launched at the beginning of 2005 accounted for a large portion of the increase in operating costs.

The operating income of Le SuperClub Vidéotron increased by $1.3 million (9.8%) to $14.5 million, mainly because of the impact of the acquisition of Jumbo Entertainment, as well as the favourable effect of the increase in revenues.

The Cable segment's operating margin for all operations, i.e., operating income as a percentage of revenues, was 38.1% in 2005, compared with 39.1% in 2004.

Under the Company's accounting policies, revenues and costs related to equipment sales to customers are entered in full in the results as the transactions are made. It is a common industry practice to sell equipment at less than cost, often as part of promotions aimed at increasing customer recruitment and generating recurring revenues over an extended period. Table 5 below shows operating income before the cost of subsidies granted customers on equipment sales and their impact on the segment's results.

Free cash flows from operations amounted to $163.9 million in 2005, compared with $189.0 million in 2004, a $25.1 million decrease (*see Table 6*). A $43.7 million increase in cash flows from continuing operating activities, including the favourableimpact of the increase in operating income, and a $13.6 million improvement in the net change in non-cash balances related to operations, were offset by a $68.7 million increase in

Table 4
Customer base for cable telephone service

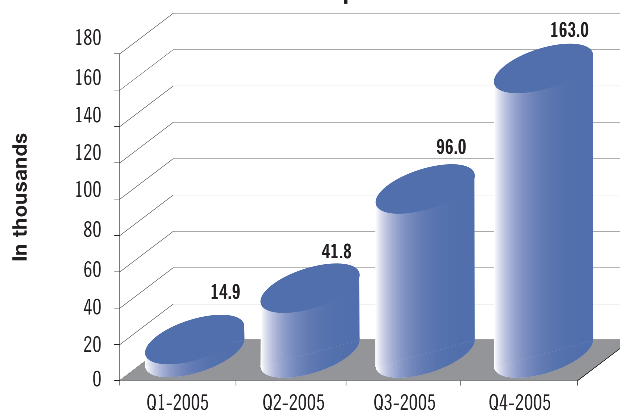


Table 5: Cable segment
Operating income
(in millions of Canadian dollars)

	2005	2004	2003
Operating income before cost of equipment subsidies to customers	$ 418.7	$ 377.9	$ 310.9
Cost of equipment subsidies to customers	(36.7)	(36.7)	(35.6)
Operating income	$ 382.0	$ 341.2	$ 275.3

Table 6: Cable segment
Free cash flows from operations
(in millions of Canadian dollars)

	2005	2004	2003
Cash flows from operating activities before undernoted item	$ 321.8	$ 291.7	$ 220.4
Net change in non-cash balances related to operations	32.6	19.0	(45.2)
Cash flows from operating activities	354.4	310.7	175.2
Additions to property, plant and equipment	(191.8)	(123.1)	(90.3)
Proceeds from disposal of assets	1.3	1.4	3.8
Free cash flows from operations	$ 163.9	$ 189.0	$ 88.7

additions to property, plant and equipment as a result of investment in the network, including investments made in connection with the cable telephony project.

In the fourth quarter of 2005, the Cable segment recorded revenues of $278.0 million, compared with $231.2 million in the same period of the previous year, an increase of $46.8 million (20.2%). The segment's operating income grew by $12.2 million (13.9%) to $99.9 million. The higher quarterly revenues and operating income were essentially due to the factors noted above in the discussion of annual results. ARPU was $55.09 in the fourth quarter of 2005, an increase of $7.16 (14.9%) from $47.93 in the same period of 2004. Le SuperClub Vidéotron's revenues increased by $2.4 million (15.7%) to $17.4 million and its operating income by $0.7 million (17.4%) to $4.8 million in the fourth quarter of 2005. The Cable segment's average operating margin for all operations was 35.9% in the fourth quarter of 2005, compared with 37.9% in the same period in 2004.

The operations of Videotron Telecom (Business Telecommunications segment) have been incorporated into the Cable segment since January 1, 2006. The Cable segment now includes a new division called Videotron Business Solutions, a full-service business telecommunications provider offering telephone, high-speed data transmission, Internet access, hosting and cable television services.

On September 20, 2005, Videotron announced a strategic agreement with Rogers Wireless, a subsidiary of Rogers Communications Inc., which should enable Videotron to offer its customers wireless telephone service in the second half of 2006. The launch of Videotron's own wireless service will meet consumer demand for one-stop shopping for telephone (land line and wireless), cable television and Internet access services.

With respect to labour relations, Videotron signed agreements with its employees on June 14, 2005, extending its collective agreements until 2009 in the Montréal and Québec City areas, until 2010 in Saguenay–Lac-Saint-Jean, and until 2011 in Gatineau. The agreements enhance Videotron's competitive position by giving it the increased operational flexibility it needs to invest in network modernization and new product launches.

Videotron twice increased download speeds on its basic cable Internet access service, first from 128 kbps to 300 kbps on March 7, 2005, and then from 300 kbps to 600 kbps on January 16, 2006. On the Extreme High-Speed service, download speeds were increased from 6.5 mbps to 10 mbps on January 16, 2006.

In March 2005, *illico Digital TV* announced the introduction of the new "Hispano" package, which includes five major international Spanish-language services and the popular Italian channel Telelatino.

On January 24, 2005, Videotron and Videotron Telecom launched an IP-based telephone service on Montréal's South Shore. Videotron became the first major cable company in Canada to offer consumers residential telephone service over cable. Following strong consumer acceptance of the new product on the South Shore, Videotron rolled out the service in Laval (March 29), Montréal West Island (May 25), the Québec City area (July 11), the rest of the Island of Montréal (August 17) and Montréal's North Shore (November 24). As of December 31, 2005, Videotron had 163,000 customers for its residential telephone service in the Montréal, Laval and Québec City areas. When announcing the Québec City roll-out, Videotron also unveiled plans to invest $29.0 million by the end of 2006 to upgrade its network and add bandwidth in the Québec City area.

NEWSPAPERS SEGMENT

The revenues of the Newspapers segment increased by $27.5 million (3.1%) to $915.6 million in 2005, compared with $888.1 million in 2004. Advertising revenues grew by 4.5%, primarily as a result of higher total volumes. Distribution revenues also rose, while revenues from circulation and commercial printing decreased by 3.5% and 2.9% respectively. The revenues of the urban dailies grew by $14.5 million (2.2%) in 2005. The free dailies *24 heures Montréal Métropolitain*MC in Montréal, *24 Hours*™ in Toronto and *Vancouver 24 Hours*™ in Vancouver accounted for $8.6 million of the increase. At the community newspapers, revenues rose by $19.5 million (7.2%).

Operating income decreased $5.6 million (-2.5%) from $227.8 million in 2004 to $222.2 million in 2005. At the urban dailies (excluding the free dailies), operating income decreased by $12.5 million (-6.6%). The revenue growth did not entirely offset increases in operating costs, including labour, distribution, promotion and marketing costs. The operating losses of the free dailies rose by $1.8 million from $12.2 million in 2004 to $14.0 million in 2005. The increase in the operating loss attributable to the launch of *Vancouver 24 Hours*™ in 2005 outweighed the decrease in the operating losses of the other free dailies. At the community newspapers, operating income increased by $9.0 million (14.3%), mainly because of the higher revenues, which were partially offset by higher operating and circulation costs.

The Newspapers segment generated free cash flows from operations of $107.9 million in 2005, compared with $159.2 million in 2004, a decrease of $51.3 million (*see Table 7*). The decrease was essentially caused by an increase in additions to property, plant and equipment due to progress payments made to acquire six new presses to print products including *Le Journal de Montréal*, *The Toronto Sun* and *The London Free Press*.

In the fourth quarter of 2005, the revenues of the Newspapers segment amounted to $242.8 million, compared with $247.2 million in the same period of 2004. The $4.4 million (-1.8%) decline was caused primarily by decreases of 9.0% and 0.7% in circulation and advertising revenues respectively, due in large part to the impact on operating results of an extra week in the fourth quarter of 2004. Operating income totalled $69.3 million, compared with $72.2 million in the same period of 2004, a $2.9 million (-4.0%) decrease attributable to the

lower revenues and increases in some operating expenses. The free dailies increased their revenues by $0.7 million and reduced their operating losses by $1.7 million in the fourth quarter of 2005 in comparison with the third quarter.

In the third quarter of 2005, Quebecor Media announced an investment of more than $110.0 million to relocate and modernize the *Journal de Montréal* printing plant. The project involves construction of a printing plant with a total floor area of more than 200,000 square feet in Saint-Janvier-de-Mirabel, north of Montréal, and the acquisition of three new printing presses and new shipping and inserting equipment. Construction began on September 9, 2005, and should be completed by the spring of 2007.

Another major investment was also announced for construction of a new printing plant in Islington in the Greater Toronto area at a cost of $110.0 million. The new facility, to be operated by Quebecor Media and Quebecor World, will make it possible to consolidate some of Quebecor World's printing operations in Ontario and to strengthen Quebecor Media's Toronto properties. Quebecor Media is applying the convergence model it developed successfully in Québec in order to unite its Ontario media properties into a powerful convergent voice.

The two new printing plants should be fully operational by 2007. Management has not yet completed its analysis of the impact of the two projects on work-force reduction costs or adopted a plan in this regard.

Sun Media Corporation acquired the assets of five community newspapers in 2005: the *Morinville Mirror* and *Redwater Tribune* in Alberta, as well as *The Weekender*, *L'Horizon* and *The Londoner* in Ontario. The total value of the above transactions was $1.8 million. Sun Media Corporation also acquired the *Journal La Vallée* in exchange for the *Beauport Express* and a cash consideration of $0.3 million. This transaction was recognized at the book value of the transferred net assets.

In March 2005, Sun Media Corporation launched *Vancouver 24 Hours*™ in partnership with Great Pacific Capital Partnership, owned by The Jim Pattison Group. Sun Media Corporation's third free daily, after the newspapers in Montréal and Toronto, is a new advertising product that offers national advertisers a more attractive vehicle.

BROADCASTING SEGMENT

The Broadcasting segment reported revenues of $401.4 million in 2005, compared with $358.0 million in 2004, a $43.4 million (12.1%) increase. Revenues from broadcasting operations rose by $35.6 million (13.1%) due to higher advertising revenues, including revenues from the Sun TV television station, the LCN channel, and the new Mystère and ARGENT channels, as well as higher commercial production revenues. Distribution revenues rose by $8.5 million, primarily because of revenues generated by the video release of *White Noise*, the success of the theatrical release of the Québec feature *C.R.A.Z.Y.*, the DVD released by comic Lise Dion and the DVD of the television series *Le cœur a ses raisons*. Publishing revenues increased by $0.9 million in 2005.

Operating income totalled $53.0 million in 2005, compared with $80.5 million in 2004, a decrease of $27.5 million (-34.2%). Operating income from broadcasting operations declined by $12.9 million in 2005, mainly as a result of the operating losses at Sun TV and the newly launched specialty channels Mystère and ARGENT. The increase in revenues from comparable operations was partially offset by an increase in operating costs, including programming. Distribution operations generated $0.3 million in operating income in 2005, compared with a $1.8 million operating loss in 2004. The $2.1 million improvement was mainly due to the success of the films *White Noise* and *C.R.A.Z.Y.* Operating income from publishing operations declined by $15.4 million in 2005, primarily as a result of increased investment in content, advertising and marketing at the weekly magazines in response to increased competition.

In the fourth quarter of 2005, the Broadcasting segment's revenues were $119.6 million, a $13.2 million (12.4%) increase. Operating income decreased by $8.7 million (-34.1%) to $16.8 million. The increase in quarterly revenues and the decrease in operating income were due to essentially the same factors as those noted above in the discussion of the annual results.

In 2005, TVA Group changed the name of its general-interest television station in Toronto, acquired in December 2004, from

Table 7: Newspapers segment
Free cash flows from operations
(in millions of Canadian dollars)

	2005	2004	2003
Cash flows from continuing operating activities before undernoted item	**$ 184.6**	$ 187.1	$ 199.8
Net change in non-cash balances related to operations	**(3.2)**	(9.7)	25.2
Cash flows from continuing operating activities	**181.4**	177.4	225.0
Additions to property, plant and equipment	**(74.0)**	(18.8)	(14.3)
Proceeds from disposal of assets	**0.5**	0.6	0.3
Free cash flows from operations	**$ 107.9**	$ 159.2	$ 211.0

Toronto 1 to Sun TV. The new name reflects the closer ties that will be established between Sun TV and Quebecor Media's properties in the Toronto market, particularly the daily *The Toronto Sun*, the free daily *24 Hours*™, and the Internet portal *canoe.ca*.

During the fall season, from September 5 to December 18, 2005, the TVA Network had 19 of the 20 top-rated shows in Québec. The *Star Académie 2005* Sunday-evening galas attracted an average of 2,377,500 viewers. According to BBM People Meter survey results, the TVA Network had an audience share of 31% during the period; its audience share again exceeded that of its two main rivals, Radio-Canada (15%) and TQS (13%), combined.

On July 6, 2005, TVA Group repurchased 3,449,199 Class B Non Voting Shares for a cash consideration of $76.0 million under its substantial issuer bid ("SIB") dated May 19, 2005. The share repurchase was financed using TVA Group's revolving credit facility, which was increased from $65.0 million to $160.0 million during the second quarter of 2005 pursuant to an amendment to the credit agreement. During the 12-month period ended December 31, 2005, a total of 3,739,599 Class B Non-Voting Shares were repurchased under TVA Group's share repurchase and cancellation program and under its SIB As a result of these repurchases, Quebecor Media's interest in TVA Group increased by 5.5 percentage points, from 39.7% on January 1, 2005 to 45.2% as of December 31, 2005.

On May 12, 2005, the TVA Network signed a new five-year agreement with the Just for Laughs Group granting TVA Group exclusive broadcasting rights to content from the humour production company until 2010.

On February 21, 2005, TVA Group launched ARGENT, the first French-language all-business channel in North America. The service carries business, financial, economic and market news.

LEISURE AND ENTERTAINMENT SEGMENT

In 2005, the Leisure and Entertainment segment's revenues totalled $255.4 million, a $13.7 million (5.7%) increase from $241.7 million in 2004. The Books division's revenues increased by 17.6% due to the strong performance of all the publishing houses in the Éditions Quebecor Média family, which released a number of best-selling titles in 2005, and the strong results of academic publisher CEC Publishing. Archambault Group's revenues rose 3.3% in comparison with the previous year. Retail sales grew by 9.3% as a result of improved sales of books and videos, combined with the impact of the addition of three new stores in Gatineau, Boucherville and Québec City in 2005. This increase was partially offset by a decrease in distribution revenues as a result of delays in the marketing and sales of CDs by some artists.

The segment's operating income was $27.0 million in 2005, compared with $22.7 million in 2004. The $4.3 million (18.9%) increase was mainly attributable to the Books segment and was due primarily to the increase in the segment's revenues. The positive impact on operating income of strong retail sales at Archambault Group was more than offset by the negative impact of delays in realizing distribution revenues.

In the fourth quarter of 2005, the revenues of the Leisure and Entertainment segment totalled $87.7 million, compared with $81.0 million in the same period of 2004, an increase of $6.7 million (8.3%). Archambault Group's revenues grew by 5.8%, mainly because of the addition of the three new stores, while the Books segment's revenues increased by 28.9%, primarily as a result of sales of bestsellers. The segment's operating income increased by $3.5 million (43.2%) to $11.6 million, primarily as a result of the higher revenues.

In December 2005, Quebecor Media closed the acquisition of Sogides, for a cash consideration of $24.0 million. Sogides is a major Québec book publishing and distribution group which owns the publishing houses Les Éditions de l'Homme, Le Jour, éditeur, Les éditions Utilis, Les Presses Libres and Le Groupe Ville-Marie Littérature (which includes l'Hexagone, VLB Éditeur and Typo), and the distributor Messageries A.D.P., which distributes more than 120 Québec and foreign publishing houses. With this acquisition, Quebecor Media will be able to offer a more complete selection of Québec books and promote Québec writers in Europe through the Sogides network on that continent.

Archambault Group opened three retail locations selling cultural and entertainment products during 2005: one store was opened in Gatineau in February, another in Boucherville, on Montréal's South Shore, in October, and the third in the Galeries de la Capitale in Québec City in December. The addition of the three outlets brings the total number of stores in the Archambault chain to 15.

The Books segment benefited from strong bookstore sales by a number of best-selling titles in 2005, including *Briser le silence*, a biography of Nathalie Simard by Michel Vastel, published by Les Éditions Libre Expression (221,000 copies sold); *Les aliments contre le cancer* by Dr. Richard Béliveau, published by Les Éditions du Trécarré (141,000 copies); *Les recettes de Janette* by Janette Bertrand, published by Les Éditions Libre Expression (125,000 copies); *Le Guide de l'auto 2006*, published by Les Éditions du Trécarré (123,000 copies); and *En toutes lettres*, a biography of Jacques Demers by Mario Leclerc, published by Les Éditions Internationales Alain Stanké (68,000 copies).

BUSINESS TELECOMMUNICATIONS SEGMENT

In 2005, Videotron Telecom reported revenues of $102.1 million, compared with $78.6 million in 2004, a $23.5 million (29.9%) increase due mainly to a $10.7 million increase in revenues from telephone services, generated primarily by the IP-based telephone service Videotron has been offering since January 2005, a $6.2 million increase in server hosting and management revenues under the outsourcing contract with Quebecor World, a $4.2 million increase in revenues from network solutions, and a $1.5 million increase in Internet revenues.

Operating income increased by $8.7 million (38.5%) to

$31.3 million in 2005, compared with $22.6 million in 2004. The additional revenues generated by the residential telephone service and the outsourcing contract signed with Quebecor World in July 2004 had a positive impact on operating income.

In the fourth quarter of 2005, Videotron Telecom's revenues grew by $6.9 million (30.7%) to $29.4 million, mainly because of a $4.2 million increase in revenues from telephone services and a $2.0 million increase in revenues from network solutions. Operating income decreased by $0.7 million (-6.2%) from $11.3 million in the fourth quarter of 2004 to $10.6 million in the same period of 2005, mainly because of the impact of the reversal of certain reserves in 2004.

INTERACTIVE TECHNOLOGIES AND COMMUNICATIONS SEGMENT

In 2005, the revenues of the Interactive Technologies and Communications segment amounted to $65.1 million, compared with $51.9 million in 2004. The $13.2 million (25.4%) increase was due to the recruitment of new customers in the government market, as well as in North America and Europe, increased sales to existing customers, and the contribution of Atlanta-based Ant Farm Interactive, acquired in April 2004.

The segment's operating income increased by $1.6 million (69.6%) from $2.3 million in 2004 to $3.9 million in 2005 mainly because of revenue growth resulting from business development and the acquisition of Ant Farm Interactive, which more than offset increases in some operating costs.

In the fourth quarter of 2005, the Interactive Technologies and Communications segment's revenues were $16.2 million, a $1.5 million (10.2%) increase from $14.7 million in the same period of 2004. The improvement was due mainly to customer acquisitions in government markets and in Europe. The segment's operating income was substantially unchanged at $0.8 million.

On September 28, 2005, Nurun signed a letter of intent to acquire China Interactive, a Chinese interactive marketing firm. The closing of the transaction was announced on January 23, 2006. The acquisition will further expand Nurun's ability to deliver all its services to customers the world over, including the high-potential Asian market. With an experienced executive team of local Chinese marketing and design professionals, China Interactive fulfills a need in a high-growth and value-added sector. Since 2000, China Interactive has worked with many prestigious companies and organizations such as Pepsi, L'Oréal, FAW-VW Audi, FAW-VW Volkswagen, Chivas Regal, Malibu, JCDecaux and Philips.

In May 2005, Nurun made a $1.3 million payment in connection with the acquisition of Ant Farm Interactive in 2004. The payment was in consideration of the achievement of performance targets.

On February 24, 2005, Nurun announced a normal course issuer bid in order to repurchase on the open market up to 1,665,883 Common Shares for cancellation (or approximately 5% of Nurun's issued and outstanding Common Shares) between March 1, 2005 and February 28, 2006. During the 12-month period ended December 31, 2005, a total of 377,600 Common Shares were repurchased for a cash consideration of $0.8 million. The repurchases increased Quebecor Media's interest in Nurun by 0.6 percentage points, from 57.3% as of January 1, 2005 to 57.9% as of December 31, 2005.

In March 2005, Nurun sold its remaining 9.6% interest in Mindready Solutions for a cash consideration of $0.4 million. The purchaser held an option, that expired June 27, 2005, to buy the 1.2 million shares Nurun still held in Mindready Solutions for $1.165 per share, less the special cash distribution of $1.1 million paid to Nurun on August 18, 2004. Nurun also received $3.4 million in final payment of the 6.75 million Common Shares of Mindready Solutions sold by Nurun under the partial takeover bid that closed on May 27, 2004.

INTERNET/PORTALS SEGMENT

The revenues of the Internet/Portals segment totalled $50.0 million in 2005, a $15.5 million (44.9%) increase from $34.5 million in 2004. The revenues of the Progisia Informatique consulting division increased by 83.5% in 2005, largely because of work done for subsidiaries of Quebecor Media. At the general-interest portals, revenues grew by 53.1%, primarily as a result of strong revenues from advertising sales and other sources, including site creation, keyword sales and e-commerce services. Revenues increased by 18.3% at the special-interest portals, due primarily to revenue growth at *jobboom.com*.

Operating income more than doubled from $4.5 million in 2004 to $10.5 million in 2005. The $6.0 million (133.3%) increase was due primarily to the increase in revenues.

In the fourth quarter of 2005, Canoe's revenues totalled $14.4 million, compared with $10.4 million in the same period of 2004. The performance of the Progisia Informatique subsidiary and of the general-interest portals accounted for most of the $4.0 million (38.5%) increase. Operating income more than tripled to $3.8 million in the fourth quarter of 2005, compared with $1.2 million in the same period of 2004, mainly because of the increase in revenues.

In 2005, Canoe expanded its family of portals with the launch of *micasa.ca*, a site for buying and selling real estate. After its official launch in September 2005, *micasa.ca* quickly became the most popular real estate site in Québec with 536,000 unique visitors (source: comScore MediaMetrix, "All locations," September 2005). The *micasa.ca* site is Québec's only complete real estate site intended for both agents and the public.

During 2005, Canoe launched a new version of its La Toile du Québec (*toile.com*) site, a new Webfin Argent site, in collaboration with TVA Group's ARGENT digital specialty channel, the *Défi Santé* site, and the French-language *Canoë Santé* site. Canoe also launched Web sites for Sun Media Corporation's three free dailies, *24 heures Montréal Métropolitain*MC in Montréal, *24 Hours*TM in Toronto and *Vancouver 24 Hours*TM in Vancouver, and created six new sites for the English-language urban dailies published by Sun Media Corporation. Canoe also developed and launched the site for the third season of the TVA Network's *Star Académie* series. Finally, Canoe launched other value-added services and enriched the content of both its general-interest and special-interest portals.

2004/2003 FISCAL YEAR COMPARISON

OPERATING RESULTS

In 2004, the revenues of Quebecor totalled $10.61 billion, a $105.2 million (1.0%) decrease from 2003. A $164.3 million increase in Quebecor Media's revenues only partially offset a $253.7 million decrease in the revenues of Quebecor World, essentially due to the unfavourable impact of translation into Canadian dollars.

The Company generated operating income in the amount of $1.73 billion in 2004, an increase of $228.8 million (15.2%) from $1.50 billion in 2003. Quebecor World's operating income increased by $143.2 million (16.1%) due to the success of restructuring initiatives, work-force reductions and cost-containment measures, as well as higher volumes and an $84.6 million decrease in specific charges compared with 2003. Quebecor Media's operating income grew $85.4 million (14.0%) from $611.8 million to $697.2 million, mainly because of a significant $65.9 million (23.9%) increase in operating income in the Cable segment due primarily to the increased profitability of the Internet access and *illico Digital TV* services.

Quebecor generated net income of $112.2 million ($1.74 per basic share) in 2004 compared with $66.4 million ($1.03 per basic share) in 2003. The improvement was mainly due to higher operating income, a $60.9 million decrease in financial expenses and a $45.0 million gain on re-measurement of exchangeable debentures. These factors combined offset the unfavourable variance due to the recording in 2003 of a $104.4 million net gain on debt refinancing and on repurchase of Preferred Shares of a subsidiary.

Excluding unusual items, including the reserve for restructuring, impairment of assets and other special charges, the gain on re-measurement of exchangeable debentures, and the net gain (loss) on debt refinancing and on repurchase of Preferred Shares of a subsidiary, net of income tax and non controlling interest, net income would have been $114.1 million in 2004 ($1.76 per basic share) compared with $26.9 million ($0.42 per basic share) in 2003.

The amortization charge decreased by $33.4 million from $682.6 million in 2003 to $649.2 million in 2004, mainly because of the favourable impact of currency translation on the amortization charges recorded by Quebecor World.

Financial expenses decreased by $60.9 million from $581.6 million in 2003 to $520.7 million in 2004. Quebecor World's financial expenses declined by $69.3 million, primarily because of the impact of currency translation, the impact of the refinancing of its Senior Notes in 2003 and 2004, combined with lower average long-term debt, the favourable impact of the currency mix in the debt portfolio, and lower foreign exchange losses. The decrease was partially offset by a $14.5 million increase in financial expenses at Quebecor Media, where reduced financial expenses due to lower debt levels and other factors were outweighed by a loss on the value of a financial instrument which ceased to be effective, according to accounting policies, and a $23.2 million unfavourable variance in the foreign-exchange loss.

Quebecor recorded a net reserve for restructuring, impairment of assets and other special charges of $151.7 million (including $148.9 million in the Printing segment) in 2004, compared with $128.8 million (including $127.0 million in the Printing segment) in 2003. Restructuring initiatives taken in 2004 entailed the closing of some facilities in the Printing segment, including the Effingham (Illinois) plant in the Magazine group and the Stockholm plant in Sweden, the consolidation of six smaller plants in North America and Europe, and a significant downsizing of the book printing plant in Kingsport (Tennessee). Quebecor World continued reducing its work-force across its platform throughout the 2004 fiscal year. As a result of those measures, 2,228 positions were eliminated; however, 567 new positions were created at other plants.

In 2004, Quebecor recorded a gain on disposal of businesses and other assets of $9.3 million, resulting mainly from a gain on the transfer of Sun Media Corporation's 29.9% interest in CP24 as a consideration in respect of the acquisition of Sun TV.

In 2004, Quebecor recorded a $45.0 million gain on the re-measurement of the floating rate debentures Series 2001.

In 2004, the Company recorded a $7.4 million loss on debt refinancing and on repurchase of Preferred Shares of a subsidiary. In 2003, the Company recorded a net gain of $104.4 million on debt refinancing and on repurchase of Preferred Shares of a subsidiary, including a net gain of $144.1 million recorded by Quebecor Media, which was partially offset by a $39.7 million loss at Quebecor World. Quebecor Media's net gain included a gain of $153.7 million, without any tax consequences, realized on the repurchase of the Preferred Shares held by The Carlyle Group in Videotron Telecom.

Income tax expense amounted to $130.4 million in 2004, a difference of $111.9 million compared with 2003. Excluding the reserve for restructuring, impairment of assets and other special charges, the gain on re-measurement of the exchangeable debentures and the net gain (loss) on debt refinancing and on repurchase of Preferred Shares of a subsidiary, the income tax expense would have been $157.9 million in 2004, for an effective rate of 28.2%, compared with $74.0 million and an effective rate of 31.2% in 2003.

In 2003, Quebecor World's consolidated income tax expense included a charge related to an adjustment of the average tax rate applied on cumulative temporary differences in various States in the United States in the amount of $36.8 million, and an additional charge of $32.9 million reflecting a revised expectation of tax asset recovery and liabilities from prior years.

These unfavourable adjustments recorded by Quebecor World in 2003 were offset by the recognition by Quebecor Media and Quebecor of tax benefits related to previously unrecorded operating losses in the amounts of $45.0 million and $18.2 million respectively. Quebecor Media also recognized previously unrecorded tax benefits in the amount of $23.7 million in 2004.

SEGMENTED ANALYSIS

Printing segment

In 2004, volumes increased in most of Quebecor World's business groups. Stated in U.S. dollars, Quebecor World's revenues, operating income and operating margins increased in comparison with 2003. North American operations made the largest contribution to the improvements. However, downward pressure on prices caused by global overcapacity continued to impact revenues, cancelling the gains generated by the higher volumes. Despite pricing pressures, Quebecor World maintained its revenue levels in 2004. Demand firmed up gradually in the first nine months of the year and the trend accelerated in the fourth quarter.

In 2004, Quebecor World's revenues were US$6.34 billion, an increase of US$291.4 million (4.8%) from 2003. Excluding the favourable impact of the fluctuation of currencies other than the U.S. dollar (US$183.4 million), and the effect of the extra week in the 2004 fiscal year (US$88.3 million), revenues increased 0.3% in 2004.

Quebecor World's operating income was US$796.0 million, an increase of US$164.7 million (26.1%) compared with 2003 mainly because of higher volumes, cost-containment measures and work-force reductions, as well as lower specific charges. Excluding the impact of specific charges, operating income increased by US$149.2 million (18.8%).

In 2004, Quebecor World recorded specific charges of US$14.8 million compared with US$74.1 million in 2003. The 2004 figure includes provisions for leases, favourable settlement of legal claims and compensation for employees following plant closures, particularly in North America. The specific charges recorded in 2003 included a US$14.9 million adjustment related to rapid growth and systems issues in the Logistics business, a US$20.6 million allowance for doubtful accounts, and a US$9.3 million provision for operating leases.

The cost of goods sold increased 4.5% in 2004 compared with 2003, mainly because of the 53rd week. Gross operating margins rose to 19.6% in 2004 compared with 18.8% in the previous year because of a US$30.7 million decrease in specific charges, a US$6.1 million decrease in labour costs, despite the increased volumes, and a US$47.6 million improvement in gains on other materials and revenues from scrap paper.

Selling, general and administrative expenses decreased by US$62.4 million (12.6%) in 2004 due to a US$29.1 million decrease in specific charges, headcount reductions and lower travel and entertainment expenses.

Stated in Canadian dollars, the Printing segment's revenues were $8.23 billion in 2004, a $253.7 million (-3.0%) decrease from 2003 essentially due to the impact of the conversion of the subsidiary's results into Canadian dollars. Operating income totalled $1.03 billion, an increase of $143.2 million (16.1%) from 2003. Conversion into Canadian dollars had the effect of reducing the increase in operating income.

Cable segment

The Cable segment recorded revenues of $871.6 million in 2004, a $66.6 million (8.3%) increase. Internet access services and the *illico Digital TV* service, excluding related services, realized revenue increases of $39.2 million and $52.5 million for growth rates of 21.4% and 60.9% respectively, more than compensating for lower revenues from analog cable television and other services. The combined revenues of all cable television services increased by $17.9 million (3.2%).

The customer base for Videotron's cable Internet access and *illico Digital TV* services grew by 96,300 (23.7%) and 92,800 (38.5%) respectively in 2004 to 502,600 and 333,700. Videotron recorded a net gain of 28,400 customers for all its cable television services combined in 2004, after posting a net loss of 7,000 customers in 2003. Videotron's net monthly ARPU rose 6.5% to $46.50 in 2004 compared with $43.68 in 2003.

The Cable segment generated total operating income of $341.2 million. The $65.9 million (23.9%) increase was due primarily to the increase in the customer base, higher rates, lower operating costs, lower bandwidth costs because of the renegotiation of the service agreement with Videotron Telecom, and the reversal of reserves for legal disputes concerning copyrights and royalties. These favourable factors more than offset the impact on profitability of decreases in other revenues and increases in some operating expenses, including advertising and promotion costs. The segment's operating margin, stated as a percentage, increased to 39.1% in 2004 compared with 34.2% in the previous year.

Le SuperClub Vidéotron registered revenues of $48.3 million. The $8.0 million (19.8%) increase was mainly due to the favourable impact of the acquisition of Jumbo Entertainment. Higher royalties and annual fees, strong results at the Microplay™ video game stores, and higher retail revenues were also factors. Le SuperClub Vidéotron generated operating income of $13.2 million in 2004. The $3.9 million (41.9%) increase was mainly due to the recognition in 2003 of a charge related to the shortening of the amortization period for videocassettes, as well as the impact of the acquisition of Jumbo Entertainment and the higher revenues.

The Cable segment generated free cash flows from operations of $189.0 million in 2004 compared with $88.7 million in 2003, a $100.3 million increase. The additional $135.0 million contribution from operating activities (including $65.9 million from higher operating income and $64.2 million from decreased use of funds for non-cash balances related to operations) more than offset the $32.8 million increase in additions to property, plant and equipment related to network expansion and upgrading programs, and the development of new services.

In 2004, Videotron twice upgraded file transfer speeds on its High-Speed and Extreme High-Speed Internet services. These services now support download speeds of 5.1 mbps and 6.5 mbps respectively, faster by 65% and 63% than the previous speeds of 3.1 mbps and 4.0 mbps.

Newspapers segment

The Newspapers segment's revenues increased by $42.2 million (5.0%) to $888.1 million in 2004, primarily as a result of increases of

5.5% in advertising revenues, 3.0% in circulation revenues and 7.7% in distribution revenues. The favourable impact of the acquisition of the assets of Annex Publishing & Printing, which closed in November 2003, accounted for $13.0 million of the increase in revenues in 2004. Operating income rose $3.0 million (1.3%) to $227.8 million in 2004. The performance of the urban dailies and community newspapers, combined with the acquisition of Annex Publishing & Printing, more than offset the $7.1 million increase in the operating losses of the free dailies *24 heures Montréal Métropolitain*MC in Montréal and *24 Hours*TM in Toronto. The launch of the Toronto paper in 2003 and the introduction of a new concept for the Montréal paper accounted for the larger losses.

In 2004, Sun Media Corporation generated $159.2 million in free cash flows from operations, compared with $211.0 million in 2003, a $51.8 million decrease. The change in non-cash balances related to operations translated into a $9.7 million injection in 2004, whereas it generated $25.2 million in 2003, a negative variation of $34.9 million. The decline in free cash flows from operations was also due to current income tax credits received in 2003.

Broadcasting segment

The Broadcasting segment generated revenues of $358.0 million in 2004, a $17.1 million (5.0%) increase. Revenues from broadcasting operations grew by $25.6 million, primarily as a result of higher advertising revenues, which more than offset a decrease in revenues from distribution and publishing operations. Operating income was $80.5 million compared with $81.5 million in the 2003 fiscal year. The impact of the increase in revenues was more than offset by higher operating costs and the investments made in the Toronto 1 television station, the launch of the Mystère digital specialty channel in October 2004, and two new magazines. On December 2, 2004, TVA Group and Sun Media Corporation closed the acquisition of the analog television station Toronto 1 (now Sun TV) to position Quebecor Media strategically in the Toronto market, the largest television market in Canada and one of the largest advertising markets in North America.

Leisure and Entertainment segment

The Leisure and Entertainment segment recorded total revenues of $241.7 million in 2004, an increase of $36.7 million (17.9%). The revenues of Archambault Group rose 14.3% on the strength of a 25.6% increase in revenues from distribution and recording operations and an 8.9% increase in retail sales. The higher figures recorded for CEC Publishing due to the increase in the Company's interest in the business, from 50% to 100%, and the favourable impact of the education reform in Québec on book sales, also factored in the higher revenues. The Leisure and Entertainment segment generated total operating income of $22.7 million in 2004, an increase of $8.0 million (54.4%) resulting from the increased interest in CEC Publishing and the improved profitability of Archambault Group. In November 2004, Archambault Group announced a partnership with Warner Music France to launch Groupe Archambault France S.A.S., a new producer, publisher and distributor of cultural content in Europe.

Business Telecommunications segment

The Business Telecommunications segment increased its revenues by $0.9 million (1.2%) to $78.6 million in 2004. A decrease in revenues from traditional services was offset by an outsourcing breakthrough with the signing of a major contract with Quebecor World to host and manage servers and communications software for North America and to provide other services. The contract generated $9.2 million in revenues in the second half of 2004, which more than made up for the decrease in revenues caused by the renegotiation of the service agreement with Videotron and other factors. Operating income increased $8.2 million (56.9%) to $22.6 million in 2004. The impact of the outsourcing contract with Quebecor World on operating profits more than offset decreases in other services. For the year as a whole, Videotron Telecom recorded higher gross margins, realized economies through work-force reductions, and achieved a favourable settlement of a dispute over access rights to office buildings in Ontario, thus reversing a reserve held for that purpose. In 2003, operating income was affected by the recognition of dispute settlement costs.

Interactive Technologies and Communications segment

The revenues of the Interactive Technologies and Communications segment increased by $7.1 million (15.8%) to $51.9 million in 2004, mainly as a result of the impact of the acquisition of Ant Farm Interactive in April 2004 and higher revenues at most offices because of new contracts. The segment's operating income more than doubled from $1.1 million in 2003 to $2.3 million in 2004 due to the increase in revenues and better cost control. In May 2004, in response to a partial takeover bid for Mindready Solutions, Nurun sold its interest in the subsidiary. In April 2004, Nurun closed the acquisition of Ant Farm Interactive, an interactive marketing agency located in Atlanta (Georgia).

Internet/Portals segment

In 2004, the revenues of the Internet/Portals segment totalled $34.5 million, a $6.3 million (22.3%) increase. Revenues from the special-interest portals, Progisia Informatique and the general-interest portals grew by $3.5 million, $1.5 million and $1.2 million respectively. Canoe's operating income rose by $1.4 million (45.2%) to $4.5 million in 2004, largely as a result of the strong performance of its general- and special-interest portals, particularly *jobboom.com.* In 2004, Quebecor Media acquired all of the outstanding Multiple Voting Shares and Subordinate Voting Shares of Netgraphe through a wholly owned subsidiary. Netgraphe was subsequently delisted from the Toronto Stock Exchange.

NON-GAAP FINANCIAL MEASURES

The Company uses certain financial measures to assess its financial performance that are not calculated in accordance with Canadian GAAP. The Company uses these non-GAAP financial measures, such as operating income, free cash flows from operations and

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 (loss) before amortization, financial expenses, reserve for restructuring of operations, impairment of assets and other special charges, gain on re-measurement of exchangeable debentures, gain (loss) on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary, write-down of goodwill, gain (loss) on sales of businesses, shares of a subsidiary and other assets, income taxes, non-controlling interest and the results of 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 is not intended to represent funds available for debt service, dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. The management of the Company believes that operating income is a meaningful measure of performance. The Company considers the media and printing segments as a whole and uses operating income in order to assess the performance of its investment in Quebecor World and Quebecor Media. The management and Board of Directors of the Company use this measure in evaluating the Company's consolidated results as well as the results of the Company's operating segments. As such, this measure eliminates a significant level of non-cash depreciation of tangible assets and amortization of certain intangible assets, and it 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 capitalized tangible and intangible assets used in generating revenues in the Company's segments. Management evaluates the costs of such tangible and intangible assets through other financial measures, such as capital expenditures 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 Compagny is engaged. The definition of operating income of the Company may not be the same as similarly titled measures reported by other companies. Table 8 below provides a reconciliation of operating income with net income, as disclosed in the Company's financial statements.

Table 8
Reconciliation between net income and the operating income measure used in this report
(in millions of Canadian dollars)

	Three months ended December 31		Fiscal years ended December 31		
	2005	2004	**2005**	2004	2003
Net income	**$ 14.5**	$ 59.4	**$ 69.7**	$ 112.2	$ 66.4
Amortization	**150.2**	164.8	**600.8**	649.2	682.6
Financial expenses	**110.5**	134.5	**463.3**	520.7	581.6
Reserve for restructuring of operations, impairment of assets, and other special charges	**13.6**	59.1	**113.6**	151.7	128.8
Gain on re-measurement of the fair value of exchangeable debentures	**(76.0)**	(30.0)	**(126.0)**	(45.0)	–
Loss (gain) on debt refinancing and repurchase of preferred shares of a subsidiary	**–**	4.8	**60.0**	7.4	(104.4)
Loss (gain) on sales of businesses of shares of a subsidiary and other assets	**5.2**	(8.0)	**5.1**	(9.3)	1.1
Write-down of goodwill	**287.1**	–	**287.1**	–	0.5
Income tax	**16.9**	44.3	**92.7**	130.4	18.5
Dividends on preferred shares of a subsidiary, net of income tax	**12.1**	12.9	**48.6**	48.7	44.4
Non-controlling interest	**(128.1)**	60.9	**(79.7)**	165.0	82.5
Loss (income) from discontinued operations	**3.3**	0.9	**6.9**	(1.1)	(0.9)
Operating income	**$ 409.3**	$ 503.6	**$ 1,542.1**	$ 1,729.9	$ 1,501.1

Free cash flows from operations

The Company uses free cash flows from operations as a measure of liquidity. Free cash flows from operations represents funds available for business acquisitions, the payment of dividends on equity shares and the repayment of long-term debt. However, free cash flows from 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. Free cash flows from operations is considered to be an important indicator of the liquidity of the Company and is used by its management and Board of Directors to evaluate cash flows generated by its segments' operations. This measure is unaffected by the capital structure of its segments. The definition of free cash flows from operations of the Company may not be identical to similarly titled measures reported by other companies. When the Company discusses free cash flows from operations, it provides a reconciliation with the most directly comparable GAAP financial measure in the same section.

ARPU

Average monthly revenue per user, or ARPU, is an industry metric that the Company uses to measure its average cable, Internet and telephony revenues per month per basic cable customer. ARPU is not a measurement under 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 and telephony revenues by the average number of its basic cable customers during the applicable period, and then dividing the resulting amount by the number of months in the applicable period.

CASH FLOWS AND FINANCIAL POSITION

OPERATING ACTIVITIES

Cash flows from continuing operating activities amounted to $973.5 million in 2005, compared with $995.1 million in 2004. The $21.6 million decrease was mainly due to the impact of the $187.8 million decline in the Company's operating income, which was partially offset by a favourable variance of $170.7 million in non-cash balances related to operations, essentially attributable to Quebecor World.

At the end of 2005, working capital was negative $187.9 million, compared with negative $95.4 million at the end of 2004, an unfavourable variance of $92.5 million resulting mainly from the use of temporary investments for investing and financing activities at Quebecor Media and the recognition of dividends payable to minority shareholders of Quebecor Media. Variances in other operating working capital items in the normal course of business essentially balanced out in 2005.

In 2004, cash flows provided by continuing operating activities totalled $995.1 million. The increase of $95.9 million from $899.2 million in 2003 derived primarily from the higher operating income, which was offset by an unfavourable variance in non-cash balances related to operations, primarily at Quebecor World.

At the end of 2004, working capital was negative $95.4 million, compared with negative $214.2 million at the end of the 2003 fiscal year. The increased investment in non-cash balances related to operations at Quebecor World was partially offset by the use of funds for repayment of long-term debt and prepayments on cross-currency swap agreements at Quebecor Media.

FINANCING ACTIVITIES

2005 Fiscal year

During the 2005 fiscal year, Quebecor's consolidated debt, excluding the additional amount payable to The Carlyle Group, exchangeable debentures and convertible debentures, decreased by $186.8 million. Quebecor World's debt was reduced by $185.7 million and Quebecor Media's debt by $2.9 million.

During the third quarter of 2005, Videotron closed a private placement of Senior Notes. The $205.1 million net proceeds were used, along with Quebecor Media's cash assets, primarily to finance the repurchase of Senior Notes issued by the CF Cable TV subsidiary with a book value of $93.1 million, and the repurchase by Quebecor Media of its Senior Notes and Senior Discount Notes with a book value of $167.7 million. TVA Group drew down $72.2 million on its revolving credit facility to finance the repurchase of its shares. The net increase in debt caused by the transactions described above and the effect of discount amortization were more than offset by the favourable impact of the exchange rate on the debt denominated in a foreign currency. The decrease in debt related to changes in the exchange rate was however offset by an equal increase in the value of the cross-currency swap agreements entered under "Other liabilities."

Because of the increase in the negative fair value of certain cross-currency swap agreements during 2005, Quebecor Media had to make prepayments totalling $75.9 million. These prepayments were financed from Quebecor Media's cash assets and were applied against other liabilities related to the cross-currency swap agreements.

On January 6, 2006, Quebecor Media signed an agreement for a long-term credit facility for the Canadian dollar equivalent of 59.4 million euros relating to the purchase of six rotary presses by Quebecor Media in 2005.

On January 17, 2006, Quebecor Media closed a major refinancing of its long-term debt. The refinancing comprised two primary stages: i) the issuance of US$525.0 million aggregate principal amount of 7 3/4% Senior Notes due March 2016 (the net

interest rate in Canadian dollars, considering the cross-currency swap agreements, is 7.39%); and ii) refinancing of Quebecor Media's bank credit facilities through the establishment of a term loan "A" credit facility in the amount of $125.0 million, maturing in January 2011, a term loan "B" credit facility in the amount of US$350.0 million, maturing in January 2013, and a five-year revolving credit facility in the amount of $100.0 million. The proceeds from Quebecor Media's new Senior Notes, the full amount of its new term loans "A" and "B", and amounts received from its subsidiaries ($251.7 million from Videotron, drawn on its existing revolving credit facilities and its cash and cash equivalents, and $40.0 million from Sun Media Corporation, drawn on a new credit facility), were used to finance the repurchase of almost all of Quebecor Media's existing Notes, issued at higher rates, which will have the effect of reducing Quebecor Media's annual financial expenses by nearly $80.0 million. Quebecor Media will recognize a loss on settlement of debt estimated at $206.0 million, net of income tax reductions, including the amount by which the disbursements exceed the book value of the Notes and the cross-currency swap agreements, and the write-down of deferred financial expenses. The new Notes were offered and sold on a private placement basis exempt from the listing requirements of the Securities Act. A registration statement with respect to an exchange offer under which Notes registered with the U.S. Securities and Exchange Commission ("SEC") will be offered in exchange for non-registered Notes.

On September 16, 2005, Videotron successfully closed a private offering of US$175.0 million aggregate principal amount of 6 3/8% Senior Notes due December 15, 2015, which were sold at a discount (99.5%) and result in an effective yield of 6.44%. (The net interest rate in Canadian dollars, taking into account cross-currency swap agreements, is 6.05%.) The net proceeds from the sale of the Senior Notes totalled US$174.1 million ($205.1 million), before transaction fees of $3.8 million. These Notes were offered and sold on a private placement basis exempt from the listing requirements of the Securities Act. Videotron filed a registration statement with respect to an exchange offer under which Notes registered with the SEC are offered in exchange for non-registered Notes. Videotron completed the exchange on February 6, 2006. The registered Notes will have terms and conditions similar in all material respects to the Notes issued on a private placement basis.

On July 19, 2005, Quebecor Media purchased US$128.2 million in aggregate principal amount of its Senior Notes and US$12.1 million in aggregate principal amount at maturity of its Discount Notes, bearing interest at 11.125% and 13.750% respectively, under offers dated June 20, 2005. Quebecor Media paid a cash consideration of $215.3 million to purchase the Notes, including the redemption premium and the cost of settlement of the cross-currency swap agreements. Quebecor Media therefore recognized a $60.8 million loss on settlement of debt in the third quarter of 2005, including the amount by which the disbursements exceeded the book value of the Notes and the cross-currency swap agreements, as well as the write-down of deferred financial expenses. The refinancing enabled Quebecor Media and its subsidiaries to take advantage of more advantageous interest rates.

On July 15, 2005, Videotron repurchased the 9 1/8% Senior Notes due in 2007 issued by its CF Cable TV subsidiary for a cash consideration of $99.3 million, including the cost of terminating the related cross-currency swap agreements. In connection with this transaction, Videotron recognized a $0.8 million gain on settlement of debt in the third quarter of 2005.

In the second quarter of 2005, TVA Group amended the credit agreement governing its revolving credit facility. The maturity date was extended to June 15, 2010, and the amount of the facility was increased from $65.0 million to $160.0 million.

Quebecor World's consolidated debt, excluding convertible debentures, was reduced by $185.7 million in 2005. During the year, Quebecor World made net debt repayments of $95.5 million on its revolving bank credit facilities. The effect of conversion into Canadian dollars also contributed to the decrease in Quebecor World's long-term debt.

Quebecor World maintains a $1.0 billion revolving bank facility for general corporate purposes. In December 2005, Quebecor World announced the renewal and extension of this facility to January 2009. The facility is composed of three tranches, which can be extended on a yearly basis. A total of US$750.0 million is available to both Quebecor World and its U.S. subsidiary, and US$250.0 million is available to the U.S. subsidiary only. All tranches are cross-guaranteed by Quebecor World and the U.S. subsidiary.

On January 16, 2006, Quebecor World announced it had concluded an agreement with Société Générale Corporate and Investment Banking, for the Canadian dollar equivalent of 136.0 million euros (US$160.0 million), a long-term committed credit facility relating to purchases of MAN Roland presses as part of the North American retooling program. The unsecured facility will be drawn on over the course of the next 25 months and will be repaid over the next 10 years, at lower cost than alternative financing options.

Quebecor World's 7.20% Senior Notes for a principal amount of US$250.0 million will mature on March 28, 2006. On March 6, 2006, Quebecor World completed a private offering of US$450.0 million aggregate principale amount of 8 3/4% Senior Notes due March 15, 2016, which were issued at par. The net proceeds from the issuance of the 8 3/4% Senior Notes amount to approximately US$442.2 million and will be used to repay in full the 7.20% Senior Notes and the balance will be used for general corporate purposes, including the reduction of other indebtedness. The 7.20% Senior Notes have not been included in the current portion of long-term debt.

Quebecor World's Series 4 Cumulative Redeemable First Preferred Shares are redeemable at the option of Quebecor World on or after March 15, 2006. Quebecor World announced, on March 15, 2006 that, in accordance with provisions applicable to these shares, the 8,000,000 Series A Preferred Shares will be

redeemed on April 18, 2006 at $25.2185 per share. This price represents $25.00 per share (for a total amount of $200.0 million) plus dividends accruing from March 1, 2006.

The credit ratings on Quebecor World's senior unsecured debt were reviewed in 2005 and early in 2006. On November 2, 2005, Standard & Poor's lowered Quebecor World's credit rating from BB+ to BB. On December 23, 2005, the Dominion Bond Rating Service lowered Quebecor World's credit rating from BBB (low) to BB (high). On January 17, 2006, Moody's downgraded Quebecor World from Ba2 to Ba3. It is expected that Quebecor World's future borrowing costs will increase as a result of these rating changes.

2004 Fiscal year

In 2004, Quebecor's consolidated debt, excluding the additional amount payable to The Carlyle Group, exchangeable debentures and convertible debentures, decreased by $477.0 million. Quebecor Media's debt was reduced by $212.2 million and Quebecor World's debt by $265.2 million.

Quebecor Media made net debt repayments totalling $163.8 million in 2004, including mandatory payments of $37.5 million and $3.5 million by Videotron and Sun Media Corporation respectively. As well, voluntary net repayments of bank credit facilities of $97.0 million and $25.8 million were made by Quebecor Media and Sun Media Corporation respectively. As a result of the issuance of new Senior Notes by Videotron on November 19, 2004, its debt level increased by $78.1 million as of that date. The positive impact of exchange rate fluctuations on the value of the debt denominated in foreign currency, partially offset by the effect of the amortization of discounts on the face value of debt, also contributed to debt reduction.

Because of the appreciation of the Canadian dollar against the U.S. dollar, Quebecor Media had to make prepayments of $197.7 million in 2004 and $123.6 million in 2003 under its cross-currency swap agreements. These prepayments were financed from Quebecor Media's cash assets and credit facilities, and were applied against other liabilities related to the cross-currency swap agreements.

On November 19, 2004, Videotron closed a private offering of US$315.0 million aggregate principal amount of 6 7/8% Senior Notes due 2014 and amended the terms of its credit facilities. The new Notes formed a single series with the US$335.0 million aggregate principal amount of Senior Notes issued in October 2003. The new Notes were sold at a 5% premium to their face amount, resulting in gross proceeds of approximately US$331.0 million before accrued interest, and an effective interest rate of 6.15%.

The net proceeds from the sale of the Notes were used to repay in full Videotron's term loan of approximately $318.1 million and to pay a $54.6 million dividend to Quebecor Media. Concurrent with this offering, Videotron also amended the terms of its credit facilities to increase its revolving credit facility by $350.0 million to $450.0 million, increase its capacity to make future distributions to Quebecor Media, and extend the maturity of its revolving credit facility to 2009.

On October 12, 2004, Sun Media Corporation's bank credit facility was amended to reduce the interest rates applicable on U.S. dollar advances made under its term loan "B" credit facility by 0.25% per year, with the possibility for a further reduction under certain circumstances. As of December 31, 2004, the aggregate amount outstanding under the term loan "B" credit facility was $241.6 million. This reduction followed a similar reduction made on December 2, 2003, under which Sun Media Corporation's bank credit facilities were amended to reduce the interest rates applicable on U.S. dollar advances made under its term loan "B" credit facility by 0.25% per year.

Quebecor World's consolidated debt, excluding convertible debentures, was reduced by $265.2 million in 2004. Quebecor World made net debt repayments totalling $107.4 million during the year. The effect of conversion into Canadian dollars also contributed to the decrease in Quebecor World's long-term debt.

In October 2004, Quebecor World received approval from a bank syndicate to extend for an additional year two tranches of its revolving bank facility totalling US$750.0 million, maturing in 2006, and to renew for three years a US$250.0 million tranche maturing in 2004. As a result, all tranches will mature in November 2007.

Quebecor World's 6 1/2% Senior Debentures due 2027 have been redeemable at the option of the holders at par value since August 1, 2004. As of December 31, 2004, US$146.8 million of these debentures had been tendered out of an aggregate principal amount of US$150.0 million. Quebecor World used its long-term bank credit facilities to redeem the Senior Debentures.

In February 2004, Quebecor World redeemed all of the remaining 7 3/4% Senior Notes, callable on or after February 15, 2004, which had not been tendered in November 2003, for a total cash consideration of US$32.5 million.

Quebecor extended its $200.0 million bank credit facility during the third quarter of 2004. The floating interest rate on drawings under the facility, based on bankers' acceptance rate, was cut by 0.5% on an annual basis. As well, the security on this credit was amended to remove a portion of the shares held by Quebecor in its subsidiaries.

INVESTING ACTIVITIES

Additions to property, plant and equipment and business acquisitions, including buyouts of minority interests, totalled $967.4 million in 2005, compared with $534.9 million in 2004, an increase of $432.5 million.

Additions to property, plant and equipment amounted to $790.2 million in 2005, an increase of $427.8 million from $362.4 million in 2004. Quebecor World accounted for $298.9 million

of the increase and Quebecor Media for $134.4 million. The increases are attributable to investments in new equipment by Quebecor World, including US$177.0 million in North America, primarily deposits and instalment payments for the purchase of 14 new presses, and deposits totalling US$87.0 million in Europe as a deposit for the purchase of 5 new presses and for other purposes. In both cases, the investments will increase production capacity and improve efficiencies. The investments were made as part of Quebecor World's retooling projects on the two continents. The increase in additions to property, plant and equipment was also due to instalment payments made by Quebecor Media under contracts to acquire six new presses, which will be used primarily to print *Le Journal de Montréal*, *The Toronto Sun* and *The London Free Press*, as well as investments by Videotron in its network, including investments made in connection with the cable telephony project.

Business acquisitions (including buyouts of minority interest) increased by $4.7 million from $172.5 million in 2004 to $177.2 million in 2005. In the fourth quarter of 2005, Quebecor Media acquired Sogides for a cash consideration of $24.0 million and other considerations. In 2005, TVA Group repurchased 3,739,599 Class B Non Voting Shares for a cash consideration of $81.9 million. In 2005, Quebecor World disbursed a total of $58.2 million to repurchase 2,438,500 Subordinate Voting Shares.

Also in 2005, Quebecor World carried out its action plan to dispose of the North American plants in its non-core Commercial group, which provides specialty printing services for general, financial and commercial products. The transactions carried out under this plan during the year generated proceeds on disposal totalling $137.0 million, including $103.7 million in cash, of which $19.8 million is receivable after December 31, 2005, for a total net loss on disposal of $6.1 million (net of non-controlling interest and income tax).

Additions to property, plant and equipment and business acquisitions, including buyouts of minority interests, decreased by $265.3 million from $800.2 million in 2003 to $534.9 million in 2004.

In 2004, additions to property, plant and equipment amounted to $362.4 million compared with $472.5 million in 2003, a $110.1 million decrease. Additions to property, plant and equipment were substantially lower in the Printing segment ($168.1 million), primarily because of the acquisition of previously leased presses in 2003. The decrease in additions to property, plant and equipment by Quebecor World was partially offset by a $49.9 million increase at Quebecor Media, mainly related to ongoing network expansion and upgrading programs, and the development of new services in the Cable segment.

Business acquisitions, including buyouts of minority interests, amounted to $172.5 million in 2004 compared with $327.7 million in 2003, a decrease of $155.2 million. In 2004, Quebecor World acquired the 50.0% interest it did not already hold in Helio Charleroi of Belgium, formerly a subsidiary of European Graphic Group S.A., for a cash consideration of $53.8 million. In 2004, Quebecor Media acquired Sun TV for $43.2 million and bought out minority interests in Netgraphe for a cash consideration of $25.2 million and in TVA Group for $41.0 million. The decrease in business acquisitions in comparison with 2003 mainly reflects the repurchase for cancellation in 2003 of 10.0 million Subordinate Voting Shares by Quebecor World for a net cash consideration of $241.1 million.

FINANCIAL POSITION

At December 31, 2005, the Company and its subsidiaries had cash, cash equivalents and temporary investments in the aggregate amount of $186.4 million (including amounts held in trust), consisting mainly of short-term investments.

At December 31, 2005, consolidated debt, excluding the additional amount payable to The Carlyle Group, exchangeable debentures and convertible notes, totalled $4.72 billion. Of the total debt, Quebecor World's long-term debt accounted for $2.02 billion and Quebecor Media's long-term debt for $2.55 billion. Quebecor Media's long-term debt included Videotron's $971.7 million debt, Sun Media Corporation's $466.3 million debt, TVA Group's $119.4 million debt, as well as Quebecor Media Senior Notes in an aggregate amount of $988.1 million.

The $149.0 million balance of consolidated debt consists of Quebecor's debt, including advances under the Company's authorized $200.0 million revolving credit facility

In the third quarter of 2004, Quebecor resumed payment of quarterly dividends, which now stand at $0.05 on its Class A and Class B shares. Quebecor declared no dividend in 2003. On January 18, 2006, Quebecor World announced that, in light of the current capital spending program, the Board of Directors had approved a reduction in the quarterly dividend on the Multiple Voting Shares and Subordinate Voting Shares from US$0.14 per share to US$0.10 per share. Dividends paid by Quebecor World to shareholders of Multiple Voting Shares and Subordinate Voting Shares totalled US$0.56 per share in 2005 and US$0.52 per share in 2004 and 2003.

On February 16, 2006, the Company's 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 March 28, 2006 to shareholders of record at the close of business on March 3, 2006.

Management believes that cash flows from continuing operating activities and available sources of financing should be sufficient to cover cash requirements for capital investment, working capital, interest payment, dividends, mandatory debt repayment, and pension plan contributions.

Pursuant to its financing agreements, the Company and its subsidiaries are required to maintain certain financial ratios. The key indicators listed in these agreements include debt service coverage ratio, debt ratio (long-term debt over operating income)

and debt/equity ratio. As of December 31, 2005, the Company was in compliance with all required financial ratios.

Securitization

Quebecor World's accounts receivable securitization programs amounted to US$692.8 million as of December 31, 2005, compared with US$785.5 million at December 31, 2004.

Quebecor World entered into securitization agreements to sell, with limited recourse, and on a revolving basis, a portion of its Canadian, U.S., French and Spanish trade receivables to unrelated trusts. The program limits under each of the Canadian, U.S. and European securitization programs are $135.0 million, US$510.0 million and 153.0 million euros respectively. The amounts outstanding under each program as at December 31, 2005 were $100.0 million, US$467.0 million and 118.0 million euros respectively (compared with $126.0 million, US$500.0 million and 133.5 million euros as at December 31, 2004).

As at December 31, 2005, Quebecor World had a retained interest of US$132.9 million in trade receivables sold, which is recorded in the Company's trade receivables. As at December 31, 2005, an aggregate amount of US$825.7 million (US$936.1 million as at December 31, 2004) of accounts receivable had been sold under the securitization programs.

In 2005, Quebecor World renewed and amended its 1999 agreement to sell, with limited recourse, a portion of its U.S. trade receivables on a revolving basis. The US$510.0 million program continues to be renewable annually and has been extended through to September 29, 2006, with an option to extend the term for an additional year. The amendment allows for more flexibility in reporting requirements to the purchaser. Quebecor World amended its Canadian securitization program in 2005 to accommodate its then credit rating by Dominion Bond Rating Service.

Quebecor World is subject to certain requirements under the securitization programs. In addition to financial covenants that mirror those contained in the bank facility, Quebecor World is subject to other covenants typically found in securitization agreements. If such other covenants fail to be maintained, one or more of the securitization agreements could be terminated. If a termination event were to occur based on failure to meet one of these other covenants, Quebecor World believes that it would be able to meet its cash obligations from other financing sources, such as its revolving bank facility, the issuance of debt or the issuance of equity.

ADDITIONAL INFORMATION

CONTRACTUAL OBLIGATIONS

As of December 31, 2004, material contractual obligations included future payments under long-term debt arrangements, operating lease arrangements and capital asset purchases and other commitments. These obligations are summarized in Table 9 below and are fully disclosed in notes 16, 18 and 24 to the Company's consolidated financial statements. The obligations listed in Table 9 do not reflect the impact of the refinancing carried out by Quebecor Media on January 17, 2006, or the establishment of a long-term credit facility by Quebecor World on January 16, 2006.

As of December 31, 2005, Quebecor World had made commitments to purchase 24 new presses for its facilities in North America and Europe for a total cost of US$291.6 million, essentially as part of its long-term strategic plan. Of this amount, US$220.7 million has already been disbursed. The balance of the commitments consists of payments totalling US$31.0 million in 2006 and US$39.8 million in 2007. Quebecor World also made commitments to purchase other equipment with a total value of US$27.1 million.

Historically, Quebecor World acquired most of the equipment under lease when it was used for production. The total terminal value of the leases expiring after 2006 is approximately US$115.8 million, of which US$52.2 million is guaranteed.

On August 24, 2005, Quebecor Media announced an investment of more than $110.0 million to relocate and modernize the *Le Journal de Montréal* printing plant. The newspaper will acquire three new presses and state-of-the-art shipping and inserting equipment, representing a commitment of $42.9 million as of December 31, 2005.

On August 29, 2005, Quebecor Media and Quebecor World also announced the creation of a partnership to operate a new printing

Table 9: Contractual obligations
(in millions of Canadian dollars)

	Total	Less than a year	1-3 years	3-5 years	5 years and more
Long-term debt and convertible notes	$ 4,803.0	$ 8.7	$ 692.1	$ 1,212.9	$ 2,889.3
Capital leases	36.6	8.9	8.1	11.6	8.0
Operating leases	575.2	163.3	192.1	96.1	123.7
Capital asset purchases and other commitments	257.2	130.2	122.1	4.9	–
Total contractual obligations	**$ 5,672.0**	**$ 311.1**	**$ 1,014.4**	**$ 1,325.5**	**$ 3,021.0**

plant in Islington, in the Greater Toronto Area. The $110.0 million plant will facilitate consolidating some of Quebecor World's printing operations in Ontario and strengthen convergence between Quebecor Media's Toronto media properties. The new plant should be fully operational by 2007. The new jointly operated entity will acquire three new presses under commitments totalling $31.8 million as of December 31, 2005.

Newsprint represents a significant input and component of operating costs for the Newspapers segment. The segment sources its newsprint needs through one newsprint producer. The long-term supply agreement with this producer expired on December 31, 2005, although it has continued to supply newsprint to us on the same terms. Quebecor Media is currently negotiating the renewal of this agreement. The agreement provided for discounts from prevailing market prices and contained a minimum annual purchase commitment of 15,000 tonnes of newsprint.

The Broadcasting segment has commitments to invest $62.5 million over an eight-year period in the Canadian television industry and the Canadian telecommunications industry in order to promote television content and the development of communications. As at December 31, 2005, the remaining balance to be invested in coming years amounted to $18.7 million.

GUARANTEES

In the normal course of business, the Company enters into numerous agreements containing guarantees. The major guarantees provided by the Company are described below.

Operating lease agreements

The Company has guaranteed a portion of the residual value of certain assets under operating leases with expiry dates between 2006 and 2010 to the benefit of the lessor. Should the Company terminate these leases prior to term (or at the end of the 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 2016. Should the lessee default under the agreement, the Company must, under certain conditions, compensate the lessor. As at December 31, 2005, the maximum exposure with respect to these guarantees is $94.8 million and the Company has recorded a liability of $9.1 million related to these guarantees.

Sub-lease agreements

In the case of some of its assets under operating leases, the Company has entered into sub-lease agreements with expiry dates between 2006 and 2008. Should the sub-lessee default under the agreement, the Company must, under certain conditions, compensate the lessor for the default. The maximum exposure in respect of these guarantees is $9.1 million. As at December 31, 2005, the Company had not recorded a liability associated with these guarantees, other than that provided for unfavourable leases (discontinued operations) of $1.4 million, since it is not likely at this time that the sub-lessee will default under the agreement and that the Company will be required to honour the initial obligation. Recourse against the sub-lessee is also available, up to the total amount due.

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. However, in connection with certain dispositions of businesses or real estate, Quebecor World has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. Quebecor World has also retained certain liabilities for events occurring prior to sale, relating to tax, environment, litigation and other matters. Generally, Quebecor World has indemnified the purchasers in the event that a third party asserts a claim against the purchaser that relate to a liability retained by Quebecor World. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it could be required to pay to guaranteed parties. Finally, in connection with the sale of Mindready Solutions, the Company has guaranteed, up to a maximum amount of $1.0 million, that company's commitments related to a lease of premises that expires in 2011. The Company has not accrued any amount in respect of these items in the consolidated balance sheet.

Long-term debt

Under the terms of their respective U.S. indebtedness, certain Company subsidiaries have agreed to indemnify their respective lenders against changes in withholding taxes. These indemnifications extend for the term of the indebtedness and do not have a limit on the maximum potential liability. The nature of the indemnification agreement prevents the Company from estimating the maximum potential liability it could be required to pay to lenders. Should such amounts become payable, the Company and its subsidiaries would have the option of repaying those debts. No amount has been accrued in the consolidated financial statements with respect to these indemnifications.

Outsourcing companies and suppliers

In the normal course of 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.

Irrevocable standby letters of credit

Certain Company subsidiaries have granted irrevocable standby letters of credit, issued by highly rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As of December 31, 2005, the guarantee instruments amounted to $101.0 million. The Company has not recorded any additional liability with respect to these guarantees, as it does not expect to make any payments in excess of what is recorded in the Company's financial statements. The guarantee instruments mature at various dates in 2006 and 2007.

FINANCIAL INSTRUMENTS

The Company uses a number of financial instruments, mainly cash and cash equivalents, trade receivables, temporary investments, long-term investments, bank indebtedness, trade payables, accrued liabilities, dividends payable and long-term debt. The carrying amount of these financial instruments, except for temporary investments, long-term investments and long-term debt, approximates their fair value due to their short-term nature. The fair value of long-term debt is estimated based on discounted cash flows using period-end market yields of similar instruments with the same maturity. The fair value of temporary investments and long-term investments is based on market value.

The Company uses various derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Quebecor Media Inc.

Quebecor Media has entered into foreign exchange forward contracts and cross-currency swap agreements to hedge foreign currency risk exposure on almost 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 fluctuations in interest rates on its long-term debt.

Quebecor Media has also entered into currency forward contracts in order to hedge the planned purchase, in U.S. dollars, of digital set-top boxes and modems in 2005 and for other purposes. Quebecor Media also entered into currency forward contracts in order to hedge the contractual instalments, in euros and Swiss francs, of its investment in printing presses and related equipment.

During the second quarter of 2004, Quebecor Media determined that one of its cross-currency interest rate swap agreements had ceased to be an effective hedge according to the criteria established by accounting standards. Consequently, Quebecor Media ceased to use hedge accounting for this derivative instrument. The instrument has a notional value of US$155.0 million, covers the period 2008 to 2013, and has a nominal annual interest rate of 7 5/8%, and an effective annual interest rate equal to the three-month bankers' acceptance rate plus 3.7%. Management believes that this cross-currency interest rate swap agreement remains suitable to Quebecor Media's needs, based on current economic criteria.

In 2005, Quebecor Media recorded total losses on derivative financial instruments of $82.5 million ($191.1 million in 2004 and $351.9 million in 2003), outweighing gains of $78.1 million on the hedged instruments ($183.1 million in 2004 and $373.9 million in 2003), for a net loss of $4.4 million (net loss of $8.0 million in 2004 and net gain of $22.0 million in 2003). The net loss in 2005 related mainly to fluctuations in the fair value of a cross-currency swap agreement entered into by Sun Media Corporation that had ceased to be effective, according to criteria established by accounting standards, partially offset by gains recognized by Videotron on an interest rate swap agreement and a currency forward contract. The net loss in 2004 was mainly due to the recording of a $30.2 million loss on the value of a financial instrument that had ceased to be effective (according to accounting standards) and of financial instruments that were not designated as hedges, as well as a $22.2 million foreign-exchange gain on the unhedged portion of the long-term debt. In 2003, the Company recorded a $22.0 million gain on the unhedged portion of the long-term debt.

Some of Quebecor Media's cross-currency swap agreements are subject to a floor limit on negative fair value, below which Quebecor Media can be required to make prepayments to reduce the lender's exposure. The prepayments are offset by equal reductions in Quebecor Media's future payments under the agreements. The portion of the reduction in commitments related to interest payments is accounted for as a reduction in financial expenses. Prepayments are applied against liabilities related to derivative financial instruments on the balance sheet. All of the cross-currency swap agreements subject to a floor limit on negative fair market value were closed out as part of the refinancing carried out on January 17, 2006.

Due to the increase in the negative fair value of certain cross-currency swap agreements during 2005, 2004 and 2003, the Company had to make prepayments totalling $75.9 million $197.7 million and $123.6 million respectively. These prepayments were financed from Quebecor Media's cash assets and credit facilities.

In addition, certain cross-currency interest rate swaps entered into by Quebecor Media and its subsidiaries include an option that allows each party to unwind the transaction on a specific date or at any time, from an anniversary date of the transaction to maturity, at the then fair market value.

Quebecor World Inc.

Quebecor World uses interest rate swaps to reduce its exposure to fluctuations in interest rates on its long-term debt.

Quebecor World enters into foreign-exchange forward contracts to hedge foreign denominated sales and related receivables and equipment purchases. The total amounts recorded to these accounts for these contracts in 2005 included revenue of US$24.0 million and a loss of US$0.7 million (a revenue adjustment of

US$17.6 million, and a gain of US$1.6 million for 2004). For Canada and Europe, the foreign-denominated revenues as a percentage of their total revenues were 26.8% and 11.1% respectively in 2005. The forward contracts used to manage exposure to currency fluctuations with respect to these foreign-denominated sales and related receivables were settled with highly favourable results in the current year. The Company expects less favourable results in 2006 from hedging exchange rate risks on foreign exports since it has fewer hedges in place and at considerably lower rates than in 2005.

In February 2005, Quebecor World sold foreign exchange forward contracts that were used to hedge its net investment in a foreign subsidiary for a cash consideration of $85.7 million (US$69.2 million). These foreign exchange forward contracts were already recorded at their fair market value and all resulting gains were previously recorded in cumulative translation adjustment.

Quebecor World enters into foreign-exchange forward contracts and cross-currency swaps to hedge foreign-denominated asset exposures. The total adjustment recorded to foreign exchange gain or loss related to these contracts for 2005 was a gain of US$51.0 million (a loss of US$27.9 million for 2004), which was offset by an equal foreign exchange loss on the translation of foreign-denominated assets.

Quebecor World has entered into natural gas swap contracts to manage its exposure to the price of this commodity. Contracts outstanding at December 31, 2005 cover a notional quantity of 176,000 gigajoules in Canada and 2,201,000 MMBTU in the United States. These contracts expire between January 2006 and June 2008. The total adjustment for natural gas costs in 2005 was a gain of US$8.2 million (a gain of US$2.4 million for 2004).

The total amount deferred as a liability by Quebecor World in relation to terminated derivative instruments was US$6.7 million in 2005 (US$8.9 million in 2004 and US$14.7 million in 2003) and the total amount recognized in income was US$2.3 million (US$5.7 million in 2004 and US$6.2 million in 2003).

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is estimated using period-end market rates and it reflects what the Company would receive or pay if the instruments were terminated at those dates (*see tables 10 and 11*). The information in Table 10 below does not

Table 10: Quebecor Media Inc.
Fair value of financial instruments
(in millions of Canadian dollars)

	As at December 31, 2005		
	Notional value	Carrying amount asset (liability)	Fair value asset (liability)
Derivative financial instruments			
Interest rate swap agreements	$ 95.0 CAD	$ (0.9)	$ (0.9)
Foreign exchange forward contracts:			
In US$	8.8 US$	–	(0.2)
In EUR	40.6 EUR	–	(1.7)
In CHF	13.2 CHF	–	(0.1)
Cross-currency interest rate swap agreements	2,099.0 $US	(248.5)	(582.9)

Table 11: Quebecor World Inc.
Fair market value of financial instruments
(in millions of U.S. dollars)

	As at December 31, 2005		
	Notional value	Carrying amount asset (liability)	Fair value asset (liability)
Derivative financial instruments			
Interest rate swap agreements	$ 233.0	$ –	$ (10.4)
Foreign exchange forward contracts	714.3	4.7	15.5
Cross-currency interest rate swap agreements	67.1	3.6	3.6
Commodity swap contracts	–	(0.1)	(0.5)

show the effects of the Refinancing Plan carried out by Quebecor Media on January 17, 2006.

CAPITAL STOCK

In accordance with Canadian financial reporting standards, Table 12 below presents information on the Company's capital stock as at December 31, 2005. In addition, there were 1,713,349 outstanding stock options of the Company as at December 31, 2005.

On May 11, 2005, the Company announced a normal course issuer bid for a maximum of 1,111,952 Class A Shares, representing approximately 5% of the issued and outstanding Class A Shares and a maximum of 4,228,399 Class B Subordinate Shares, representing approximately 10% of the public float of Class B Shares. Purchases are being made on the open market during a 12-month period that began May 12, 2005. During the 12-month period ended December 31, 2005, the Company purchased 334,100 Class B Shares for a cash consideration of $9.8 million. The price paid exceeded the book value of the purchased Class B Shares by $7.2 million, which was charged to retained earnings.

RELATED PARTY TRANSACTIONS

In 2005, the Company made purchases and incurred rent charges with affiliated companies in the amount of $19.5 million ($15.4 million in 2004), which is included in the cost of sales and selling and administrative expenses. The Company made sales to affiliated companies in the amount of $0.5 million ($0.4 million in 2004). These transactions were concluded and accounted for at the exchange value.

RISKS AND UNCERTAINTIES

The Company operates in the communications and media industries, which entail a variety of risk factors and uncertainties. The Company's operating environment and financial results may be materially affected by the risks and uncertainties outlined below.

Seasonality

The Company's business is sensitive to general economic cycles, which affect demand for products and services. It may be adversely affected by the cyclical nature of the markets the Company serves, as well as by local, regional, national and global economic conditions.

In addition, because the Company's operations are labour intensive, its cost structure is highly fixed. During periods of economic contraction, revenues may decrease while the cost structure remains stable, resulting in decreased earnings. In any given year, this seasonality could adversely affect the Company's cash flows and operating results.

Finally, some of the Company's business segments are affected by the seasonal nature of some of their activities, as a result of seasonal fluctuations in advertising revenues, in consumer viewing, reading and listening habits, and other factors. In addition, in some business segments, a portion of the Company's sales consists of single transactions rather than long-term contracts, making the Company vulnerable to seasonal changes in the weather. Since the Company depends on advertising sales for a significant portion of its revenues, its operating results are also sensitive to prevailing economic conditions, including changes in local, regional and national economic conditions, which can affect advertiser spending. The Printing segment's business is seasonal, primarily as a result of the higher number of magazine pages, new product launches and back-to-school, retail and holiday catalog promotions generally produced in the second half of the year. Consequently, interim operating results should not necessarily be considered representative of full-year results, given the seasonal nature of some operations.

Operating risks

The industry in which the Company operates is highly competitive in most product categories and geographic regions.

Quebecor World faces competition largely based on price, quality, range of services offered, distribution capabilities, customer service, availability of printing time on appropriate equipment and state-of-the-art technology. Quebecor World competes for commercial business not only with large national printers, but also with smaller regional printers. Over the past three years, the printing industry has experienced a reduction in demand for printed materials and is currently experiencing excess capacity. Furthermore, some of the industries Quebecor World services have been subject to consolidation efforts, leading to a smaller number of potential customers. Primarily as a result of this excess capacity and customer consolidation, there has been, and may continue to be downward pricing pressure and increased competition in the printing industry. Any failure to compete effectively in the markets

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

	As at December 31, 2005	
	Issued and outstanding	Book value
Class A (Multiple Voting Shares)	22.0	$ 9.8
Class B (Subordinate Voting Shares)	42.3	$ 336.8

it serves could have a materially adverse effect on its operating results, financial condition and cash flows. Quebecor World is unable to predict market conditions and has only a limited ability to effect changes in market conditions for printing services. It cannot be certain that prices and demand for printing services will not decline from current levels. Changes to the level of supply and demand could cause prices to continue to decline, and prolonged periods of low prices, weak demand and/or excess supply could have a materially adverse effect on the Quebecor World's business growth, results of operations and cash flows.

Quebecor Media operates in highly competitive industries. In its cable operations, Quebecor Media competes against direct broadcast satellite providers, or DBS (which is also called DTH in Canada, for "direct-to-home" satellite), multi-channel multipoint distribution systems, or MDS, satellite master antenna television systems and over-the-air television broadcasters. In addition, Quebecor Media competes against incumbent local exchange carriers, or ILECs, which have secured licenses to launch video distribution services using video digital subscriber line, or VDSL, technology. The CRTC has approved a regional license for the main ILEC in Quebecor Media's market to provide terrestrial broadcasting distribution in Montréal and several other communities in Québec. The same ILEC has also recently acquired a cable network in Quebecor Media's main service area which currently serves approximately 15,000 customers. Quebecor Media also faces competition from illegal providers of cable television services and illegal access to non-Canadian DBS and pirate DBS that enable customers to access programming services from U.S. and Canadian DBS without paying any fees.

In the Internet access business, Quebecor Media competes against other Internet service providers, or ISPs, offering residential and commercial Internet access services. The CRTC also requires Quebecor Media to offer its ISP competitors access to its high speed Internet system and several third-party ISPs have requested access to its network. A recent CRTC decision requires Quebecor Media to extend the access to third-party ISPs for voice or telephony applications as well. Competitors in the video rental industry include other video stores, video-on-demand services, television and other alternative entertainment media. Quebecor Media telephony service has numerous competitors, including ILECs, competitive local exchange carriers, or CLECs, wireless telephone service operators and other providers of telephony services, and competitors that are not facility-based and therefore have much lower infrastructure costs.

In its broadcasting and publishing operations, and in particular in the newspaper industry, Quebecor Media competes for advertising revenue and viewers/readers. Competition for newspaper advertising revenue is largely based on readership, circulation, the demographic composition of the market, the price and content of the newspaper. Competition for readers is largely based on price, editorial content, quality of delivery service and availability of publications. Competition for advertising revenue and readers comes from local, regional and national newspapers, radio, broadcast and cable television, direct mail and other communications and advertising media that operate in Quebecor Media's markets. In recent years, competition with online services and other new media technologies has also increased significantly. In addition, consolidation has increased significantly in the Canadian broadcasting, publishing and other media industries, and the company's competitors include market participants with interests in multiple industries and media, some of which have greater financial and other resources than Quebecor Media.

Quebecor Media cannot be sure that its existing and future competitors will not pursue or not be capable of achieving business strategies similar to or competitive with its own. Quebecor Media may not be able to compete successfully in the future against existing or potential competitors, and increased competition could have a materially adverse effect on its business, financial condition or results of operations.

Insurance risks

The Company is exposed, in the normal course of business, to a variety of operational risks, some of which are transferred to third parties by way of insurance agreements. It has also chosen to retain a portion of its losses in the form of self-insurance in order to reduce the cost of protecting such risks. The Company manages certain element of its self-insurance through its captive insurance subsidiary.

The Company believes that it has in place a combination of third-party insurance and self-insurance that provides adequate protection against significant unexpected losses while minimizing costs and limiting its overall exposure.

Risks associated with capital investments

Because production technologies continue to evolve, Quebecor World must make capital expenditures to maintain its facilities and may be required to make significant capital expenditures to remain technologically and economically competitive. If it cannot obtain adequate capital, results of operations and financial condition could be adversely affected.

Quebecor World is also subject to certain risks associated with the installation of new technology and equipment, which may cause temporary disruptions to operations and losses from operational inefficiencies. Such disruptions are closely monitored in order to bring them under control within a short period of time.

The media industry is experiencing rapid and significant technological change that may result in alternative means of program and content transmission and that could have a materially adverse effect on Quebecor Media's business, financial condition or results of operations. The continued growth of the

Internet has presented alternate content-distribution options that compete with traditional media. Furthermore, in each of Quebecor Media's broadcasting markets, industry regulators have already authorized direct-to-home satellite services, or DTH, as well as microwave services, and may authorize other alternate 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 or it may be required to acquire, develop or integrate new technologies itself. The cost of the acquisition, development or implementation of new technologies could be significant and its ability to fund such implementation may be limited, which could have a materially adverse effect on its ability to successfully compete in the future.

Environmental risks

The Company is subject to various laws, regulations and government policies relating to the generation, storage, transportation and disposal of solid waste, the release of various substances into the environment, and to environmental protection in general.

The Company is also subject to various laws and regulations, which allow regulatory authorities to compel (or seek reimbursement for) the cleanup of environmental contamination at the Company's own sites and at off-site facilities where its waste is, or has been disposed of. The Company has established a provision for expenses associated with environmental remediation obligations when such amounts can be reasonably estimated. The amount of the provision is adjusted as new information is known. The Company believes the provision is adequate to cover the potential costs associated with contamination issues.

Although the Company believes it is in compliance with such laws, regulations and government policies in all material respects, there is no assurance that all environmental liabilities have been determined.

Labour agreements

As of December 31, 2005, approximately 41% of Quebecor Media's employees were represented by labour agreements. Through its subsidiaries, Quebecor Media is currently a party to 78 collective bargaining agreements. As of December 31, 2005:

- four of Videotron's collective bargaining agreements, representing approximately 2,199 unionized employees, were renewed and will expire between 2009 and 2011;
- twenty of Sun Media Corporation's collective bargaining agreements, representing approximately 388, or 19%, of its unionized employees, have expired. Negotiations on these agreements are either in progress or will be undertaken in 2006. A further 29 agreements, representing approximately 1,621, or 81%, of its unionized employees, will expire between February 2006 and June 2010;
- twelve of TVA Group's 15 collective bargaining agreements, representing approximately 379, or 41%, of its unionized employees, will expire between April 2007 and the end of December 2008; another agreement, representing approximately 516, or 56%, of its unionized employees, will expire at the end of December 2006; and two more agreements, representing 26 employees, have expired and negotiations on these agreements will be undertaken in 2006. A group of 53 employees is currently in the process of being unionized;
- three of Quebecor Media's other collective bargaining agreements, representing approximately 126, or 13%, of Quebecor Media's other unionized employees, have expired. Negotiations on these agreements are either in progress or will be undertaken in 2006. Quebecor Media has a further seven agreements, representing approximately 859, or 87%, of other unionized employees, which will expire between the end of December 2006 and March 2010.

As of December 31, 2005, Quebecor World had 61 collective bargaining agreements in North America, 11 of which were under negotiation at December 31, 2005 (7 of these agreements expired in 2005; 4 expired prior to 2005). Two of the agreements under negotiation, covering approximately 400 employees, are first-time labour agreements. In addition, 22 agreements, covering approximately 2,450 employees, will expire in 2006. The Company has approximately 24,500 employees in North America and about 8,600 are unionized. Of its total plants and related facilities in North America, 69 are non-unionized.

The Company's subsidiaries have experienced significant labour disputes in the past, which have disrupted the Company's operations, resulted in damages to its assets and impaired its operating results. While labour relations are stable at present, the Company cannot be certain that it will be able to maintain a productive and efficient workplace in the future. The Company cannot predict the outcome of any future negotiations relating to the renewal of its collective bargaining agreements, nor can it give any assurance that it will not experience work stoppages, strikes or other forms of labour protests pending the outcome of any future negotiations. If the Company's unionized workers engage in a strike or if there is any other form of work stoppage, the Company could experience a significant disruption of its operations, financial position and results of operations. Even if the Company does not experience strikes or other forms of labour protests, the outcome of labour negotiations could negatively impact its operating results.

Commodity risks

Newsprint, paper and ink are among the Company's largest raw material requirements. The price of paper and newsprint is volatile and may significantly affect the Company's net sales and cost of sales. The Company uses its purchasing power as one of the major buyers in the printing and publishing industry to obtain the best prices,

terms, quality control and service. To maximize its purchasing power, the Company also negotiates with a limited number of suppliers. To mitigate such risks, Quebecor World negotiates long-term contracts with its customers that include price adjustment clauses based on the cost of materials.

Credit risk

Concentration of credit risk with respect to trade receivables is limited due to the Company's diverse operations and large customer base. As of December 31, 2005, the Company had no significant concentration of credit risk. The Company believes that the diversity of its product mix and customer base contributes to reducing its credit risk, as well as the impact of any potential change in its local market or product-line demand.

Financial risks

In the normal course of business, the Company and its subsidiaries are exposed to fluctuations in interest rates, exchange rates and commodity prices. The Company and its subsidiaries manage this exposure through staggered maturities and an optimal balance of fixed- and variable-rate debt.

As at December 31, 2005, Quebecor World, Quebecor Media, Videotron and Sun Media Corporation were using derivative financial instruments to manage their exchange rate and interest rate exposure. Quebecor World has also entered into natural gas swap contracts to manage exposure on this commodity.

While these agreements expose the Company and its subsidiaries to the risk of non-performance by a third party, the Company and its subsidiaries believe that the possibility of incurring such loss is remote due to the creditworthiness of the parties with whom they deal. The Company does not hold or issue any derivative financial instruments for trading purposes and subscribes to a financial risk management policy. These financial derivatives are described under "Financial Instruments" above.

Contingencies

On March 13, 2002, legal action was initiated against Videotron by the shareholders of a cable company, who contend that Videotron did not honour its commitment related to a stock purchase agreement signed in August 2000. These parties are requesting compensation totalling $26.0 million. Videotron's management believes that the suit is not justified and intends to vigorously defend its case.

A number of other legal proceedings against Quebecor Media and its subsidiaries are still outstanding. In the opinion of the management of Quebecor Media and its subsidiaries, the outcome of these proceedings is not expected to have a materially adverse effect on Quebecor Media's results or its financial position.

Government regulation risks

The Company is subject to extensive government regulation, mainly through the Broadcasting Act and the Telecommunications Act, both administered by the CRTC. Changes to the regulations and policies governing broadcast television, speciality channels and program distribution through cable and DBS satellite services, the introduction of new regulations or policies or terms of license could have a material effect on the Company's business, financial condition or operating results.

The Cable segment rents certain infrastructures from utility companies for which rates were established by and under the CRTC's jurisdiction. In 2004, this federal responsibility was transferred to the provincial level. This transfer and the involvement of a new government body could lead to potential rate increases that could materially affect the Company's results.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

Printing segment

The Printing segment provides a wide variety of print and print-related services to its customers, who usually require that the specifics be agreed upon prior to the process being undertaken. Substantially all of the Printing segment's revenues are derived from commercial printing and related services under the Magazine, Catalog, Retail, Book, Direct and Directory platforms.

Contract revenue is recognized using the percentage of completion method over the contract term on the basis of production and service activity at the pro rata billing value of work completed. Sales revenues that do not meet the criteria for percentage of completion recognition are recorded when the performance of the agreed services is completed. Under specified agreements with certain customers, the Printing segment receives logistics and distribution management fees for the future delivery of the products related to print services already provided. Such revenues are recognized once the freight is received by the shipper.

Revenue is presented in the consolidated statements of income net of rebates, discounts and amortization of contract-acquisition costs. Discounts are recorded as reductions of revenue and the cost of free services is recorded as cost of goods sold when the revenue for the related purchase is recorded. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined.

Services are sold either as stand-alone or together as a multiple service. Certain components of multiple service 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. These identifiable elements include premedia manufacturing, commercial impression, and delivery. For arrangements which include multiple elements and for which the criteria for recognition as a multiple element arrangements are met, the total contract value

is allocated to each element based on its relative fair value. Where the criteria are not met, it is recognized as a single unit of accounting according to the revenue recognition criteria stated above.

Cable segment

The Cable segment provides services under arrangement with multiple deliverables, comprising a separate unit of accounting for subscriber services (connecting fees and operating services) and a separate unit of accounting for the sale of equipment to subscribers.

Connection fee revenues of the Cable segment are deferred and recognized as revenues over the estimated average 30-month period that subscribers are expected to remain connected to the network. The incremental and direct costs related to connection fees, in an amount not exceeding the revenue, are deferred and recognized as an operating expense over the same 30-month period. Operating revenues from cable and other services, such as Internet and telephony access, are recognized when services are provided. Revenues from sales of equipment to subscribers and equipment costs are recognized in income when the equipment is delivered. Revenues from video rentals are recorded as revenue when services are provided. Promotion offers are accounted for as a reduction in the related service revenue when customers take advantage of offers.

Newspapers segment

Revenues of the Newspapers segment, derived from circulation and advertising from publishing activities, are recognized when the publication is delivered. Revenues from the distribution of publications and products are recognized on delivery, net of provisions for estimated returns. Revenues from commercial printing contracts are recognized once the product is delivered.

Broadcasting segment

Revenues of the Broadcasting segment derived from the sale of advertising airtime are recognized when the advertising has been broadcast. Revenues derived from circulation and advertising from publishing activities are recognized in accordance with the revenue recognition policy used by the Newspaper segment for its publishing activities. Revenues derived from specialty television channels are recognized on a monthly basis at the time the service is rendered.

Revenues derived from the sale and distribution of films and from television program rights are recognized when the following conditions are met: (a) persuasive evidence of a sale or a licensing agreement with a customer exists and is provided solely by a contract or other legally enforceable documentation that sets forth, at a minimum (i) the licence period, (ii) the film or group of films affected, (iii) the consideration to be received for the rights transferred; (b) the film is complete and has been delivered or is available for delivery; (c) the licence period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale; (d) the arrangement fee is fixed or determinable; (e) the collection of the arrangement fee is reasonably assured. Theatrical revenues are recognized over the presentation period and when all of the above conditions are met. Theatrical revenues are based on a percentage of revenues generated by movie theatres. Revenues generated from video are recognized at the time of delivery of the videocassettes and DVDS, less a provision for future returns, or are accounted for based on a percentage of retail sales and when the aforementioned conditions are met.

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 a combination of valuation methods, including discounted future cash flow, operating income multiples, and market price.

The discounted cash flows method involves the use of estimates such as the amount and timing of 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 operating income multiples method calls for the fair value of enterprises with comparable and observable economic characteristics being available, as well as recent operating income multiples.

The market price method must take into account the fact that the price of an individual share may not be representative of the fair value of the business unit as a whole, due to factors such as synergies, control premium, and temporary market price fluctuation.

Determining the fair value of a reporting unit is therefore based on management's judgement 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 a business combination. The Company allocates the fair value to all the reporting unit's assets and liabilities, whether or not recognized separately, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire it. The excess of the fair value over the amounts assigned to the reporting unit's assets and liabilities is the fair value of goodwill.

The judgement 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.

Quebecor has completed its annual goodwill impairment test for 2005. Based on the results of this test, a non-cash charge of $287.1 million ($274.5 million after income tax) was recognized as a write-down of goodwill related to Quebecor World's operations in Europe.

Impairment of long-lived assets

The Company reviews the carrying amounts of its long-lived assets 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. 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 loss is recognized 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 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.

As a result of restructuring initiatives undertaken by Quebecor World in 2005, recoverability tests were performed for downsized plants and plants receiving transferred assets. Underperforming plants were also tested for recoverability. In cases where projected undiscounted future cash flows were not sufficient to recover the net book value of assets, an impairment was recorded to reflect the fair market value of those assets.

Derivative financial instruments

The Company uses various derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity pricing. The Company does not hold or use any derivative instruments for trading purposes. The Company documents all relationships between derivatives and hedged items, its strategy for using hedges and its risk-management objective. The Company assesses the effectiveness of derivatives when the hedge is put in place and on an ongoing basis.

The Company enters into foreign exchange forward contracts to hedge anticipated foreign-denominated sales and related receivables, raw material and equipment purchases. Under hedge accounting, foreign exchange translation gains and losses and the portion of the forward premium or discount on the contract relating to the period prior to consummation of the transaction are recognized as an adjustment to revenues, cost of sales, and property, plant and equipment, respectively, when the transaction is recorded.

The Company enters into foreign exchange forward contracts to hedge its net investments in foreign subsidiaries. Under hedge accounting, foreign exchange translation gains and losses are recorded under translation adjustment. Any realized or unrealized gain or loss on such derivative instruments is also recognized in translation adjustment.

The Company enters into foreign exchange forward contracts and cross-currency swaps to hedge some of its long-term debt. Under hedge accounting, foreign exchange translation gains and losses are recorded under other assets or other liabilities. The fees on forward foreign exchange contracts and on cross-currency swaps are recognized as an adjustment to interest expenses over the term of the agreement.

The Company enters into foreign exchange forward contracts and cross-currency swaps to hedge foreign-denominated asset exposures. Under hedge accounting, foreign exchange translation gains and losses are recorded in income. Changes in the spot rates on the derivative instruments are recorded in income. The forward premium or discount on forward exchange contracts and the interest component of the cross-currency swaps are recognized as an adjustment to interest expense over the term of the agreement.

The Company enters into interest rate swaps in order to manage the impact of fluctuations in interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as hedges of the interest cost on the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps on an accrual basis.

The Company uses Treasury Lock Agreements in order to manage the impact of fluctuating interest rates on the forecasted issuance of long-term debt. The Company designates its Treasury Lock Agreements as hedges of the future interest payments resulting from the issuance of long-term debt. The single payment from the derivative instrument at its maturity date is deferred and amortized over the term of the long-term debt.

The Company entered into a commodity swap to manage a portion of its natural gas exposure. The Company is committed to exchange, on a monthly basis, the difference between a fixed price and a floating natural gas price index. The Company designates its commodity hedge agreements as hedges of natural gas costs. Natural gas costs are adjusted to include amounts payable or receivable under the commodity hedge agreements.

Some of the Company's cross-currency swap agreements are subject to a floor limit on negative fair market value, below which the Company can be required to make prepayments to reduce the lenders' exposure. Such prepayments are reimbursed by reductions in the Company's future payments under the agreements. The portion of these reimbursements related to interest is accounted for as a reduction in financial expenses. The prepayments are presented on the balance sheet as a reduction in the liability of the derivative instrument.

Realized and unrealized gains or losses associated with derivative instruments that have been terminated or cease to be effective prior to maturity are deferred under other current or non-current assets or liabilities on the balance sheet and recognized in income in the

period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished, or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Derivative instruments that are ineffective or that are not designated as hedges are reported on a market-to-market basis in the consolidated financial statements. Any change in the fair value of such derivative instruments is recorded in 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's policy is to maintain its contribution at a level sufficient to cover benefits. Actuarial valuations of the Company's numerous pension plans were 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 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 health care 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.

Health care costs

The Company provides its North American employees with health care benefits, covering approximately 75% of costs of services covered by the plans. Health care plan costs and liabilities are estimated with the assistance of actuaries. The trend assumption is the most important factor in estimating future costs. The Company uses the claims filed in the past 12 to 24 months trended forward to estimate its obligations in the coming year.

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 combination

Business acquisitions are accounted for by the Company using 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 judgements 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 liabilities requires judgement 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 impairment to be recognized, if any, after the date of acquisition, as discussed above under "Goodwill."

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 judgemental 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.

Insurance

U.S. worker's compensation claims tend to be relatively low in value on a case-by-case basis, and the Company self-insures against the majority of such claims.

The liability provision of such self-insurance is estimated based on reserves for claims that are established by an independent administrator and the provision is adjusted annually to reflect the

estimated future development of the claims, using Company-specific factors provided by its actuaries. The adjustment is recorded in income or expense.

While the Company believes that the assumptions used are appropriate, in the event that the actual outcome differs from management's estimates, the provision for the U.S. worker's compensation costs may have to be adjusted.

The Company also maintains third-party insurance coverage against U.S. worker's compensation claims which could be unusually large in nature, as discussed in the risks and uncertainties section hereafter.

CHANGES IN ACCOUNTING POLICIES

The Company makes changes to its accounting policies in order to conform to new Canadian Institute of Chartered Accountants ("CICA") accounting standards.

Revenue recognition and revenue arrangements with multiple deliverables

In 2004, the Cable segment reviewed and adopted a new accounting policy regarding the period in which reconnection related revenues and expenses are recognized, based on Abstracts EIC-141 and EIC-142, released by the CICA Emerging Issues Committee. The Company adopted the new accounting policy on a prospective basis, without restatement of financial results for prior periods.

Since January 1, 2004, installation revenues in the Cable segment have been deferred and recognized under revenues over 30 months, which is the estimated average period customers remain connected to the network. Direct and incremental reconnection related costs, of an amount not exceeding the revenues, are now deferred and recognized under operating expenses over the same 30-month period. Previously, reconnection expenses and direct and incremental costs were immediately recognized under revenues and operating expenses. This change in accounting policy had no effect on the reported amounts of operating income and net income.

Hedging relationships

In June 2003, the CICA issued amendments to *Accounting Guideline 13* ("AcG-13"), *Hedging Relationships*. The amendments clarify certain requirements and provide additional guidance related to the identification, designation and documentation of hedging relationships, as well as the assessment of the effectiveness of hedging relationships. The requirements of the guideline are applicable to all hedging relationships in effect for financial periods beginning on or after July 1, 2003. Retroactive application is not permitted. All hedging relationships must be assessed as of the beginning of the first year of application to determine whether the hedging criteria in the guideline are met. Hedge accounting is to be discontinued for any hedging relationship that does not meet all the requirements of the guideline. The Company adopted the new standards as of January 1, 2004.

Subscriber equipment and hook-up costs

In the fourth quarter of 2003, the Company revised its accounting for equipment sales to subscribers and hook-up costs. Until the end of the third quarter of 2003, the cost of subsidies granted subscribers on equipment sold was capitalized and amortized over three years on a straight-line basis, and the cost of reconnecting subscribers, which included material, direct labour and certain overhead charges, was capitalized to fixed assets and depreciated over three or four years on a straight-line basis.

The Company has changed its accounting policies in order to expense as incurred the costs of subscriber subsidies and the costs of reconnecting subscribers. These changes have been applied retroactively.

Stock-based compensation

Effective January 1, 2003, Quebecor World, TVA Group, Nurun and Netgraphe changed the method of accounting for stock option plans and decided to adopt the fair value method on a prospective basis for employee stock option awards. Employee stock option awards granted, modified or settled prior to January 1, 2003 are not recognized according to the fair value method but according to the settlement method. Thus, the fair value method is applied only to employee stock options granted after December 31, 2002.

On October 15, 2004, TVA Group amended its stock option plan and the stock option awards agreement for all participants, effective as of that date. Under the amended plan, all awards may now be settled in cash or other assets, at the employee's option. Since October 15, 2004, the compensation cost related to employee stock awards has therefore been recorded in operating expenses and based on the vesting period. Changes in the fair value of the underlying shares between the award date (which is the date of the amendment of the stock option plan for all options granted prior to October 15, 2004) and the valuation date trigger a change in the assessed compensation cost.

Exchangeable debentures

In 2004, the Company adopted the consensus in Abstract EIC-56 of the *CICA Handbook*, which rescinds the ability to use hedge accounting for exchangeable debentures when the issuer's investment in the underlying shares is consolidated or accounted for by the equity method. Therefore, since July 1, 2004, in accordance with EIC-56, changes in the fair value of the floating rate debentures, Series 2001, based on fluctuations in the value of the underlying 12.5 million shares of Quebecor World, have been recorded directly in the statement of income instead of being recorded as a deferred amount on the balance sheet. In 2005, the Company recorded a $126.0 million unrealized gain on re-measurement of exchangeable debentures (gain of $45.0 million in 2004). Under this standard, the corresponding unrealized loss on the value of Quebecor World shares underlying the exchangeable debentures is not recorded in the books.

RECENT ACCOUNTING DEVELOPMENTS IN CANADA

In June 2005, the CICA issued Section 3831, *Non-Monetary Transactions*. This revised standard requires all non-monetary transactions to be measured at fair value, subject to certain restrictions. This revised standard is effective for non-monetary transactions initiated in fiscal periods beginning on or after January 1, 2006.

In December 2005, the CICA issued EIC-159, *Conditional Asset Retirement Obligations*, which clarifies the timing of liability recognition for conditional obligations associated with the retirement of a tangible long-lived asset in accordance with Section 3110 of the *CICA Handbook*. The accounting treatment stipulated in this EIC is to be applied retroactively, with restatement of prior periods, to all interim and annual financial statements for periods ended after March 31, 2006. This EIC will have no impact on the Company's consolidated financial statements.

In 2005, the CICA issued Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3865, *Hedges*, and Section 1530, *Comprehensive Income*.

Section 3855 stipulates standards governing when and in what amount a financial instrument is to be recorded on the balance sheet. Financial instruments are to be recognized at fair value in some cases, at cost-based value in others. The section also stipulates standards for reporting gains and losses on financial instruments.

Section 3865 is an optional application that allows entities to apply treatments other than those provided under Section 3855 to eligible operations they choose to designate, for accounting purposes, as being part of a hedging relationship. It expands on the guidance in AcG-13, *Hedging Relationships*, and Section 1650, *Foreign Currency Translation*, specifying the application of hedge accounting and the information that is to be reported by the entity.

Section 1530 stipulates a new requirement that certain gains and losses be temporarily accumulated outside net income and recognized in other comprehensive income.

New standards in Sections 3855, 3865 and 1530 will become effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company is currently assessing the impact these new standards will have on its financial statements prepared in accordance with Canadian GAAP. The Company believes, however, that these new standards are similar to those currently used for U.S. GAAP purposes.

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, an evaluation of the effectiveness of Quebecor Inc.'s disclosure controls and procedures was conducted. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that disclosure controls and procedures were effective as of December 31, 2005 and, more specifically, that the design of such controls and procedures provide reasonable assurance that material information relating to Quebecor Inc., 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.

OTHER 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 which could cause the Company's actual results for future periods to differ materially from those set forth in the forward-looking statements. Certain factors that may cause actual results to differ from current expectations include seasonality (including seasonal fluctuations in customer orders), operating risks (including fluctuations in demand for the Company's products and pricing actions by competitors), risks associated with capital investments, environmental risks, risks associated with labour agreements, commodity risks (including fluctuations in the cost and availability of raw materials and equipment), credit risks, financial risks, government regulation risks, and changes in the general economic environment. 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 this Management Discussion and Analysis for the year ended December 31, 2005.

The forward-looking statements in this report reflect the Company's expectations as of March 15, 2006, and are subject to change after that date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Montréal, Québec
March 15, 2006

Years ended December 31, 2005, 2004, 2003, 2002 and 2001
(in millions of Canadian dollars, except per share data)

	2005	2004[1]	2003[1]	2002[1]	2001[1]
Operations					
Revenues	**$ 10,208.5**	$ 10,613.4	$ 10,718.6	$ 11,495.9	$ 11,153.4
Income before amortization, financial expenses, reserves for restructuring of operations, impairment of assets and other special charges, gains (loss) on sale of businesses, shares of a subsidiary and other assets, gain on re-measurement of exchangeable debentures, (loss) gain on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary and write-down of goodwill	**1,542.1**	1,729.9	1,501.1	1,885.6	1,747.9
Contribution to net income:					
Continuing operations	**102.1**	114.1	26.9	116.6	53.3
Goodwill amortization	**–**	–	–	–	(105.2)
Gain on re-measurement of exchangeable debentures	**101.8**	36.4	–	–	–
Unusual items and write-down of goodwill	**(127.3)**	(39.4)	38.6	(34.9)	(199.5)
Discontinued operations	**(6.9)**	1.1	0.9	1.5	(0.2)
Net income (loss)	**69.7**	112.2	66.4	83.2	(251.6)
Cash flows provided by continuing operations	**973.5**	995.1	899.2	1,098.2	989.1
Basic per share data					
Contribution to net income:					
Continuing operations	**$ 1.58**	$ 1.76	$ 0.42	$ 1.81	$ 0.83
Goodwill amortization	**–**	–	–	–	(1.63)
Gain on re-measurement of exchangeable debentures	**1.58**	0.57	–	–	–
Unusual items and write-down of goodwill	**(1.97)**	(0.61)	0.60	(0.54)	(3.09)
Discontinued operations	**(0.11)**	0.02	0.01	0.02	–
Net income (loss)	**1.08**	1.74	1.03	1.29	(3.89)
Dividends	**0.19**	0.08	–	–	0.39
Shareholders' equity	**22.51**	22.35	21.44	22.71	39.67
Weighted average number of shares outstanding (in millions)	**64.5**	64.6	64.6	64.6	64.6
Diluted per share data					
Contribution to net income:					
Continuing operations	**$ 1.57**	$ 1.75	$ 0.42	$ 1.77	$ 0.83
Goodwill amortization	**–**	–	–	–	(1.63)
Gain on re-measurement of exchangeable debentures	**1.58**	0.57	–	–	–
Unusual items and write-down of goodwill	**(1.97)**	(0.61)	0.60	(0.54)	(3.09)
Discontinued operations	**(0.11)**	0.02	0.01	0.02	–
Net income (loss)	**1.07**	1.73	1.03	1.25	(3.89)
Diluted weighted average number of shares (in millions)	**64.6**	64.7	64.7	64.6	64.6
Financial position					
Working capital	**$ (187.9)**	$ (95.4)	$ (214.2)	$ (599.3)	$ (244.9)
Long-term debt	**4,687.7**	4,888.2	5,286.4	5,681.8	7,013.6
Shareholders' equity	**1,451.7**	1,443.6	1,384.9	1,466.8	2,562.6
Capitalization[2]	**4,589.7**	4,996.8	5,037.0	5,568.8	7,365.1
Total assets	**13,677.0**	14,438.7	15,180.2	17,097.5	19,476.1

[1] The comparative figures for the years 2004, 2003, 2002 and 2001 have been reclassified to conform with the presentation adopted for the year ended December 31, 2005.

[2] Included in the capitalization are shareholders' equity and non-controlling interest.

Years ended December 31, 2005, and 2004
(in millions of Canadian dollars, except per share data)

	Three-month periods ended				Three-month periods ended			
				2005				2004
	December 31	**September 30**	**June 30**	**March 31**	December 31	September 30	June 30	March 31
Operations								
Revenues	**$ 2,680.2**	**$ 2,520.3**	**$ 2,505.3**	**$ 2,502.7**	$ 2,898.2	$ 2,628.9	$ 2,596.2	$ 2,490.1
Income before amortization, financial expenses, reserves for restructuring of operations, impairment of assets and other special charges, gain (loss) on sale of businesses, shares of a subsidiary and other assets, gain (loss) on re-measurement of exchangeable debentures, (loss) gain on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary and write-down of goodwill	**409.3**	**381.4**	**395.1**	**356.3**	503.6	421.5	445.0	359.8
Contribution to net income or loss:								
Continuing operations	**28.9**	**29.8**	**27.1**	**16.3**	52.4	33.4	22.4	5.9
Gain (loss) on re-measurement of exchangeable debentures	**61.4**	**22.2**	**45.3**	**(27.1)**	24.3	12.1	–	–
Unusual items and write-down of goodwill	**(72.5)**	**(28.8)**	**(13.0)**	**(13.0)**	(16.4)	(5.5)	(15.5)	(2.0)
Discontinued operations	**(3.3)**	**(0.6)**	**(3.2)**	**0.2**	(0.9)	1.0	(0.3)	1.3
Net income (loss)	**14.5**	**22.6**	**56.2**	**(23.6)**	59.4	41.0	6.6	5.2
Basic per share data								
Contribution to net income or loss:								
Continuing operations	**$ 0.45**	**$ 0.46**	**$ 0.42**	**$ 0.25**	$ 0.81	$ 0.51	$ 0.35	$ 0.09
Gain (loss) on re-measurement of exchangeable debentures	**0.96**	**0.34**	**0.70**	**(0.42)**	0.38	0.19	–	–
Unusual items and write-down of goodwill	**(1.13)**	**(0.44)**	**(0.20)**	**(0.20)**	(0.25)	(0.09)	(0.24)	(0.03)
Discontinued operations	**(0.05)**	**(0.01)**	**(0.05)**	**–**	(0.01)	0.02	(0.01)	0.02
Net income (loss)	**0.23**	**0.35**	**0.87**	**(0.37)**	0.93	0.63	0.10	0.08
Weighted average number of shares outstanding (in millions)	**64.3**	**64.6**	**64.6**	**64.7**	64.6	64.6	64.6	64.6
Diluted per share data								
Contribution to net income or loss:								
Continuing operations	**$ 0.44**	**$ 0.46**	**$ 0.42**	**$ 0.25**	$ 0.80	$ 0.51	$ 0.35	$ 0.09
Gain (loss) on re-measurement of exchangeable debentures	**0.96**	**0.34**	**0.70**	**(0.42)**	0.38	0.19	–	–
Unusual items and write-down of goodwill	**(1.13)**	**(0.44)**	**(0.20)**	**(0.20)**	(0.25)	(0.09)	(0.24)	(0.03)
Discontinued operations	**(0.05)**	**(0.01)**	**(0.05)**	**–**	(0.01)	0.02	(0.01)	0.02
Net income (loss)	**0.22**	**0.35**	**0.87**	**(0.37)**	0.92	0.63	0.10	0.08
Weighted average number of diluted shares outstanding (in millions)	**64.4**	**64.7**	**64.7**	**64.8**	64.7	64.7	64.7	64.7

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

These financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles and include amounts that are based on best estimates and judgments.

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

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

These financial statements have been examined by the auditors appointed by the shareholders, KPMG LLP, chartered accountants, and their report is presented hereafter.

Pierre Karl Péladeau
President and Chief Executive Officer

Jacques Mallette
Executive Vice President and Chief Financial Officer

Montréal, Canada
March 15, 2006

AUDITOR'S REPORT TO THE SHAREHOLDERS OF QUEBECOR INC.

We have audited the consolidated balance sheets of Quebecor Inc. and its subsidiaries as at December 31, 2005 and 2004 and the consolidated statements of income, retained earnings and cash flows for the years ended December 31, 2005, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years ended December 31, 2005, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Montréal, Canada
February 15, 2006, except as to note 29, which is dated as of March 15, 2006.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2005, 2004 and 2003
(in millions of Canadian dollars, except earnings per share data)

	2005	2004	2003
Revenues	**$ 10,208.5**	$ 10,613.4	$ 10,718.6
Cost of sales and selling and administrative expenses	**(8,666.4)**	(8,883.5)	(9,217.5)
Amortization	**(600.8)**	(649.2)	(682.6)
Financial expenses (note 2)	**(463.3)**	(520.7)	(581.6)
Reserve for restructuring of operations, impairment of assets and other special charges (note 3)	**(113.6)**	(151.7)	(128.8)
Gain on re-measurement of exchangeable debentures	**126.0**	45.0	–
(Loss) gain on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary (note 4)	**(60.0)**	(7.4)	104.4
(Loss) gain on sale of businesses, shares of a subsidiary and other assets	**(5.1)**	9.3	(1.1)
Write-down of goodwill (note 5)	**(287.1)**	–	(0.5)
Income before income taxes	**138.2**	455.2	210.9
Income taxes (note 6)	**92.7**	130.4	18.5
	45.5	324.8	192.4
Dividends on preferred shares of subsidiaries, net of income taxes	**(48.6)**	(48.7)	(44.4)
Non-controlling interest	**79.7**	(165.0)	(82.5)
Income from continuing operations	**76.6**	111.1	65.5
(Loss) income from discontinued operations (note 7)	**(6.9)**	1.1	0.9
Net income	**$ 69.7**	$ 112.2	$ 66.4
Earnings per share (note 9)			
Basic			
From continuing operations	**$ 1.19**	$ 1.72	$ 1.02
From discontinued operations	**(0.11)**	0.02	0.01
Net income	**1.08**	1.74	1.03
Diluted			
From continuing operations	**1.18**	1.71	1.02
From discontinued operations	**(0.11)**	0.02	0.01
Net income	**1.07**	1.73	1.03
Weighted average number of shares outstanding (in millions)	**64.5**	64.6	64.6
Diluted weighted average number of shares (in millions)	**64.6**	64.7	64.7

See accompanying notes to consolidated financial statements.

Years ended December 31, 2005, 2004 and 2003
(in millions of Canadian dollars)

	2005	2004	2003
Balance at beginning of year	**$ 1,235.3**	$ 1,128.3	$ 1,061.9
Net income	**69.7**	112.2	66.4
	1,305.0	1,240.5	1,128.3
Dividends	**(12.3)**	(5.2)	–
Excess of purchase price over carrying value of Class B Subordinate Shares acquired (note 21 b))	**(7.2)**	–	–
Balance at end of year	**$ 1,285.5**	$ 1,235.3	$ 1,128.3

See accompanying notes to consolidated financial statements.

Years ended December 31, 2005, 2004 and 2003
(in millions of Canadian dollars)

	2005	2004	2003
Cash flows related to operations			
Income from continuing operations	**$ 76.6**	$ 111.1	$ 65.5
Adjustments for:			
Amortization of property, plant and equipment	**593.6**	640.5	667.4
Amortization of deferred charges, other assets and write-down of goodwill	**294.3**	8.7	15.7
Amortization of deferred financing costs and long-term debt discount	**66.1**	61.9	63.0
Amortization of contract acquisition costs	**32.6**	34.1	33.0
Impairment of assets, non-cash portion of restructuring and write-down of investments (note 3)	**65.4**	102.6	81.8
Loss (gain) on ineffective derivative instruments and on foreign currency translation on unhedged long-term debt	**3.5**	6.1	(2.0)
Loss on sale of businesses, property, plant and equipment, and other assets	**2.2**	3.0	19.5
Gain on re-measurement of exchangeable debentures	**(126.0)**	(45.0)	–
Loss on revaluation of the additional amount payable (note 15)	**10.1**	26.9	4.5
Loss (gain) on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary (note 4)	**60.0**	7.4	(104.4)
Future income taxes	**(7.6)**	63.0	(23.8)
Non-controlling interest	**(79.7)**	165.0	82.5
Interest on redeemable preferred shares of a subsidiary	**–**	–	24.5
Other	**6.1**	7.7	(2.4)
	997.2	1,193.0	924.8
Net change in non-cash balances related to operations	**(23.7)**	(197.9)	(25.6)
Cash flows provided by continuing operations	**973.5**	995.1	899.2
Cash flows (used by) provided by discontinued operations	**(25.3)**	25.1	28.2
Cash flows provided by operations	**948.2**	1,020.2	927.4
Cash flows related to financing activities			
Net increase (decrease) in bank indebtedness	**12.4**	(5.0)	(7.7)
Net (repayments) borrowings under revolving bank facilities and commercial paper	**(22.3)**	73.0	260.0
Issuance of long-term debt, net of financing fees	**200.9**	389.2	2,323.5
Repayments of long-term debt and unwinding of hedging contracts	**(342.2)**	(658.4)	(2,840.6)
Net increase in prepayments under cross-currency swap agreements	**(34.1)**	(184.4)	(118.1)
Issuance of capital stock by subsidiaries	**19.9**	18.6	216.1
Repurchase of Class B Subordinate Shares (note 21)	**(9.8)**	–	–
Dividends	**(12.3)**	(5.2)	–
Dividends paid to non-controlling shareholders	**(83.5)**	(73.1)	(71.1)
Repurchase of redeemable preferred shares of a subsidiary (note 4)	**–**	–	(55.0)
Other	**(3.4)**	0.6	8.0
Cash flows used in financing activities	**(274.4)**	(444.7)	(284.9)
Sub-total, balance carried forward	**$ 673.8**	$ 575.5	$ 642.5

Years ended December 31, 2005, 2004 and 2003
(in millions of Canadian dollars)

	2005	2004	2003
Sub-total, balance brought forward	**$ 673.8**	$ 575.5	$ 642.5
Cash flows related to investing activities			
Business acquisitions, net of cash and cash equivalents (note 8)	**(177.2)**	(172.5)	(327.7)
Proceeds from disposal of businesses, net of cash and cash equivalents (notes 7 and 8)	**83.3**	(7.8)	24.7
Additions to property, plant and equipment	**(790.2)**	(362.4)	(472.5)
Proceeds from disposal of derivative instruments (note 26)	**85.7**	–	–
Net decrease (increase) in temporary investments	**59.1**	94.5	(108.1)
(Increase) decrease in cash and cash equivalents and temporary investments held in trust	**(30.1)**	(7.9)	223.0
Proceeds from disposal of assets	**25.2**	14.0	8.2
Other	**(4.1)**	(4.9)	(2.8)
Cash flows used in investing activities	**(748.3)**	(447.0)	(655.2)
Net (decrease) increase in cash and cash equivalents	**(74.5)**	128.5	(12.7)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**25.2**	(75.8)	(85.1)
Cash and cash equivalents at beginning of year	**145.8**	93.1	190.9
Cash and cash equivalents at end of year	**$ 96.5**	$ 145.8	$ 93.1
Cash and cash equivalents consist of			
Cash	**$ 23.8**	$ 35.7	$ 62.3
Cash equivalents	**72.7**	110.1	30.8
	$ 96.5	$ 145.8	$ 93.1
Additional information on the consolidated statements of cash flows			
Changes in non-cash balances related to operations (net of effect of business acquisitions and disposals):			
Accounts receivable	**$ (72.1)**	$ (67.0)	$ 230.1
Inventories and investments in televisual products and movies	**13.3**	(22.2)	51.4
Accounts payable and accrued charges	**(9.9)**	(84.1)	(260.6)
Other	**45.0**	(24.6)	(46.5)
	$ (23.7)	$ (197.9)	$ (25.6)
Non-cash transaction related to financing activities			
Issuance of additional amount payable	**$ –**	$ –	$ 70.0
Cash interest payments	**$ 396.5**	$ 405.5	$ 526.3
Cash income tax payments (net of refunds)	**59.3**	90.3	10.2

See accompanying notes to consolidated financial statements.

December 31, 2005 and 2004
(in millions of Canadian dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	**$ 96.5**	$ 145.8
Cash and cash equivalents and temporary investments held in trust (market value of $49.3 million ($19.2 million in 2004)) (notes 10 and 17)	**49.3**	19.2
Temporary investments (market value of $40.6 million ($99.7 million in 2004))	**40.6**	99.7
Accounts receivable (note 11)	**916.0**	824.8
Income taxes	**12.8**	63.9
Inventories and investments in televisual products and movies (note 12)	**579.3**	638.9
Prepaid expenses	**45.0**	51.9
Future income taxes (note 6)	**138.7**	122.6
	1,878.2	1,966.8
Long-term investments (market value of $223.4 million ($386.7 million in 2004))	**332.5**	352.6
Property, plant and equipment (note 13)	**4,318.0**	4,388.4
Future income taxes (note 6)	**57.6**	81.0
Other assets	**492.3**	561.5
Goodwill (note 14)	**6,598.4**	7,088.4
	$ 13,677.0	$ 14,438.7

December 31, 2005 and 2004
(in millions of Canadian dollars)

	2005	2004
Liabilities and Shareholders' Equity		
Current liabilities		
Bank indebtedness	$ **13.6**	$ 0.8
Accounts payable, accrued charges and deferred revenue	**1,804.0**	1,870.0
Income taxes	**90.2**	68.0
Dividend payable to non-controlling shareholders	**27.2**	–
Future income taxes (note 6)	**2.0**	5.3
Additional amount payable (note 15)	**111.5**	101.4
Current portion of long-term debt (note 16)	**17.6**	16.7
	2,066.1	2,062.2
Long-term debt (note 16)	**4,687.7**	4,888.2
Exchangeable debentures (note 17)	**405.4**	692.7
Convertible notes (note 18)	**134.3**	135.4
Other liabilities (note 19)	**1,070.4**	878.0
Future income taxes (note 6)	**723.4**	785.4
Non-controlling interest (note 20)	**3,138.0**	3,553.2
Shareholders' equity		
Capital stock (note 21)	**346.6**	349.2
Retained earnings	**1,285.5**	1,235.3
Translation adjustment (note 23)	**(180.4)**	(140.9)
	1,451.7	1,443.6
Commitments and contingencies (note 24)		
Guarantees (note 25)		
Subsequent events (note 29)		
	$ **13,677.0**	$ 14,438.7

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors,

Jean Neveu, Chairman of the Board

Jean La Couture, Director

Years ended December 31, 2005, 2004 and 2003
(in millions of Canadian dollars)

Quebecor Inc. (the "Company") operates in the following industry segments: Printing, Cable, Newspapers, Broadcasting, Leisure and Entertainment, Business Telecommunications, Interactive Technologies and Communications and Internet/Portals. The Printing segment includes the printing of magazines, retail inserts, catalogs, books, direct mail, and directories; it also offers digital premedia and logistics services. The Printing segment operates in the United States, Canada, Europe and Latin America. The Cable segment offers television distribution, Internet and telephony services in Canada and operates in the rental of videocassettes, digital video discs ("DVD" units) and games. The Newspapers segment includes the printing, publishing and distribution of daily and weekly newspapers in Canada. The Broadcasting segment operates French- and English-language general-interest television networks, specialized television networks, magazine publishing and movie distribution in Canada. The Leisure and Entertainment segment, which has operations solely in Canada, combines book publishing and distribution, and music production and distribution. The Business Telecommunications segment operates in Canada and offers enterprises, through its network, business-to-business connections, Internet connections, Website hosting and telephone services. The Interactive Technologies and Communications segment offers e-commerce solutions through a combination of strategies, technology integration, IP solutions and creativity on the Internet and is active in Canada, the United States and Europe. The Internet/Portals segment operates Internet sites in Canada, including French- and English-language portals and specialized sites.

These segments are managed separately since they all require specific market strategies. The Company assesses the performance of each segment based on income before amortization, financial expenses, reserve for restructuring of operations, impairment of assets and other special charges, gain on re-measurement of exchangeable debentures, (loss) gain on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary, (loss) gain on sale of businesses, shares of a subsidiary and other assets and write-down of goodwill.

The accounting policies of each segment are the same as the accounting policies used for the consolidated financial statements.

Segment income includes income from sales to third parties and inter-segment sales. Transactions between segments are negotiated and measured as if they were transactions between unrelated parties.

INDUSTRY SEGMENTS

	2005	2004	2003
Revenues			
Printing	**$ 7,602.5**	$ 8,227.5	$ 8,481.2
Cable	**1,002.0**	871.6	805.0
Newspapers	**915.6**	888.1	845.9
Broadcasting	**401.4**	358.0	340.9
Leisure and Entertainment	**255.4**	241.7	205.0
Business Telecommunications	**102.1**	78.6	77.7
Interactive Technologies and Communications	**65.1**	51.9	44.8
Internet/Portals	**50.0**	34.5	28.2
Head Office and inter-segment	**(185.6)**	(138.5)	(110.1)
	$ 10,208.5	$ 10,613.4	$ 10,718.6

Years ended December 31, 2004, 2003 and 2002
(in millions of Canadian dollars)

INDUSTRY SEGMENTS (continued)

	2005	2004	2003
Income before amortization, financial expenses, reserve for restructuring of operations, impairment of assets and other special charges, gain on re-measurement of exchangeable debentures, (loss) gain on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary, (loss) gain on sale of businesses, shares of a subsidiary and other assets and write-down of goodwill			
Printing	**$ 806.5**	$ 1,031.5	$ 888.3
Cable	**382.0**	341.2	275.3
Newspapers	**222.2**	227.8	224.8
Broadcasting	**53.0**	80.5	81.5
Leisure and Entertainment	**27.0**	22.7	14.7
Business Telecommunications	**31.3**	22.6	14.4
Interactive Technologies and Communications	**3.9**	2.3	1.1
Internet/Portals	**10.5**	4.5	3.1
	1,536.4	1,733.1	1,503.2
General corporate revenues (expenses)	**5.7**	(3.2)	(2.1)
	$ 1,542.1	$ 1,729.9	$ 1,501.1

	2005	2004	2003
Amortization			
Printing	**$ 368.9**	$ 422.7	$ 455.6
Cable	**145.2**	143.5	141.8
Newspapers	**30.3**	26.0	27.6
Broadcasting	**13.7**	11.9	12.2
Leisure and Entertainment	**4.3**	5.6	4.1
Business Telecommunications	**34.5**	33.6	35.9
Interactive Technologies and Communications	**1.7**	1.7	2.4
Internet/Portals	**0.8**	0.7	1.3
Head Office	**1.4**	3.5	1.7
	$ 600.8	$ 649.2	$ 682.6

Years ended December 31, 2004, 2003 and 2002
(in millions of Canadian dollars)

INDUSTRY SEGMENTS (continued)

	2005	2004	2003
Additions to property, plant and equipment			
Printing	$ 471.7	$ 172.8	$ 340.9
Cable	191.8	123.1	90.3
Newspapers	74.0	18.8	14.3
Broadcasting	12.9	10.1	5.7
Leisure and Entertainment	7.9	3.3	1.3
Business Telecommunications	23.8	21.4	17.9
Interactive Technologies and Communications	1.4	1.2	0.9
Internet/Portals	0.7	0.8	0.3
Head Office	6.0	10.9	0.9
	$ 790.2	$ 362.4	$ 472.5

	2005	2004
Assets		
Printing	$ 6,666.3	$ 7,564.4
Cable	3,986.2	3,912.7
Newspapers	1,503.5	1,443.4
Broadcasting	585.3	549.7
Leisure and Entertainment	183.1	126.7
Business Telecommunications	265.5	266.3
Interactive Technologies and Communications	71.0	64.3
Internet/Portals	59.0	57.5
Head Office	357.1	453.7
	$ 13,677.0	$ 14,438.7

GEOGRAPHIC SEGMENTS

	2005	2004	2003
Revenues generated			
Canada	$ 3,366.7	$ 3,128.7	$ 3,442.3
United States	5,123.5	5,534.6	5,408.2
Europe	1,428.7	1,701.1	1,623.1
Latin America	292.4	249.7	248.6
Other	(2.8)	(0.7)	(3.6)
	$ 10,208.5	$ 10,613.4	$ 10,718.6

Years ended December 31, 2004, 2003 and 2002
(in millions of Canadian dollars)

GEOGRAPHIC SEGMENTS (continued)

	2005	2004	2003
Income before amortization, financial expenses, reserve for restructuring of operations, impairment of assets and other special charges, gain on re-measurement of exchangeable debentures, (loss) gain on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary, (loss) gain on sale of businesses, shares of a subsidiary and other assets and write-down of goodwill			
Canada	$ 847.6	$ 810.5	$ 734.7
United States	593.5	751.0	647.3
Europe	76.1	156.8	122.3
Latin America	28.4	15.6	9.1
Other	(9.3)	(0.8)	(10.2)
	1,536.3	1,733.1	1,503.2
General corporate revenues (expenses)	5.8	(3.2)	(2.1)
	$ 1,542.1	$ 1,729.9	$ 1,501.1

	2005	2004
Property, plant and equipment		
Canada	$ 1,923.9	$ 1,876.8
United States	1,766.3	1,795.5
Europe	524.6	612.6
Latin America	97.1	99.8
Other	6.1	3.7
	4,318.0	4,388.4
Goodwill		
Canada	3,946.6	3,952.8
United States	2,474.8	2,586.0
Europe	167.6	539.8
Latin America	9.4	9.8
	6,598.4	7,088.4
Other assets		
Canada	1,775.2	1,722.8
United States	491.2	604.1
Europe	247.1	334.8
Latin America	162.4	156.3
Other	84.7	143.9
	2,760.6	2,961.9
	$ 13,677.0	$ 14,438.7

Quebecor Inc. is incorporated under the laws of Québec.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles ("GAAP").

(a) Basis of presentation

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

Certain comparative figures for the years 2004 and 2003 have been reclassified to conform with the presentation adopted for the year ended December 31, 2005.

(b) Foreign currency translation

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

Other foreign currency transactions are translated using the temporal method. Translation gains and losses are included in financial expenses.

(c) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the determination of pension and other employee benefits, key economic assumptions used in determining the allowance for doubtful accounts, the provision for obsolescence, the allowance for sales returns, reserves for environmental matters and for the restructuring of operations, the useful life of assets for amortization and evaluation of expected future cash flows to be generated by assets, the determination of the fair value of assets acquired and liabilities assumed in business combinations, implied fair value of goodwill, provisions for income taxes and determination of future income tax assets and liabilities, and the determination of fair value of financial instruments. Actual results could differ from these estimates.

(d) Impairment of long-lived assets

The Company reviews, when a triggering event occurs, the carrying values of its long-lived assets by comparing the carrying amount of the asset or group of assets to the expected future undiscounted cash flows to be generated by the asset or group of assets. An impairment loss is recognized when the carrying amount of an asset or group of assets held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which the asset carrying amount exceeds its fair value, based on quoted market prices, when available, or on the estimated present value of future cash flows.

(e) Revenue recognition

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

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

The portion of unearned revenue is recorded under "Deferred revenue" when customers are invoiced.

Revenue recognition policies for each of the Company's main segments are as follows:

Printing segment

The Printing segment provides a wide variety of print and print-related services to its customers, which usually require that the specifics be agreed upon prior to undertaking the process. Substantially all of the Printing segment's revenues are derived from commercial printing and related services under the Magazine, Catalog, Retail, Book, Direct and Directory platforms.

Contract revenue is recognized using the percentage of completion method over the contract term on the basis of production and service activity at the pro rata billing value of work completed. Sales revenues that do not meet the criteria for percentage of completion recognition are recorded when the performance of the agreed services is achieved. Under specified agreements with certain customers, the Printing segment receives logistics and distribution management revenues for the future delivery of the products related to print services already provided for which the revenues are recognized once freight is received by the shipping facility.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition (continued)

Printing segment (cntinued)

Revenue is presented in the consolidated statements of income net of rebates, discounts and amortization of contract acquisition costs. Discounts are recorded as reductions of revenue and the cost of free services is recorded as cost of goods sold when the revenue for the related purchase is recorded. Provisions for estimated losses, if any, are recognized in the period in which the loss is determinable.

Services are sold either stand-alone or together as a multiple service. Certain components of multiple service 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. These identifiable elements include pre-media manufacturing, commercial impression, and delivery. For arrangements which include multiple elements and for which the criteria for recognition as a multiple element arrangements are met, the total contract value is allocated to each element based on their relative fair values. Where the criteria are not met, it is recognized as a single unit of accounting according to revenue recognition criteria stated above.

Cable segment

The Cable segment provides services under arrangement with multiple deliverables comprised of a separate unit of accounting for subscriber services (connecting fees and operating services) and a separate unit of accounting for the sale of equipment to subscribers.

Connection fee revenues of the Cable segment are deferred and recognized as revenues over the estimated average 30-month period that subscribers are expected to remain connected to the network. The incremental and direct costs related to connection fees, in an amount not exceeding the revenue, are deferred and recognized as an operating expense over the same 30-month period. Operating revenues from cable and other services, such as Internet and telephony access, are recognized when services are provided. Revenues from sales of equipment to subscribers and costs of equipment are recognized in income when the equipment is delivered. Revenues from video rentals are recorded as revenue when services are provided. Promotion offers are accounted for as a reduction in the related service revenue when customers take advantage of offers.

Newspapers segment

Revenues of the Newspapers segment, derived from circulation and advertising from publishing activities, are recognized when the publication is delivered. Revenue from the distribution of publications and products is recognized upon delivery, net of provisions for estimated returns. Revenue from commercial printing contracts is recognized once the product is delivered.

Broadcasting segment

Revenues of the Broadcasting segment derived from the sale of advertising airtime are recognized when the advertising has been broadcast. Revenues derived from circulation and advertising from publishing activities are recognized in accordance with the revenue recognition policy used by the Newspapers segment for its publishing activities. Revenues derived from specialty television channels are recognized on a monthly basis at the time the service is rendered.

Revenues derived from the sale and distribution of film and from television program rights are recognized when the following conditions are met: (a) persuasive evidence of a sale or a licensing agreement with a customer exists and is provided solely by a contract or other legally enforceable documentation that sets forth, at a minimum (i) the licence period, (ii) the film or group of films affected, (iii) the consideration to be received for the rights transferred; (b) the film is complete and has been delivered or is available for delivery; (c) the licence period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale; (d) the arrangement fee is fixed or determinable; (e) the collection of the arrangement fee is reasonably assured. Theatrical revenues are recognized over the presentation period and when all of the above conditions are met. Theatrical revenues are based on a percentage of revenues generated by movie theatres. Revenues generated from video are recognized at the time of delivery of the videocassettes and DVDs, less a provision for future returns, or are accounted for based on a percentage of retail sales and when the aforementioned conditions are met.

(f) Barter transactions

In the normal course of operations, the Newspapers, Broadcasting and Internet/Portals segments offer advertising in exchange for goods and services. Revenues thus earned and expenses incurred are accounted for on the basis of the fair value of the goods and services obtained.

For the year ended December 31, 2005, the Company recorded $17.7 million of barter advertising ($13.1 million in 2004 and $16.3 million in 2003).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

(h) Temporary investments

Temporary investments are recorded at the lower of cost and market value. Temporary investments consist of commercial paper bearing interest from 3.33% to 3.40% and maturing between April and May 2006.

(i) Trade receivables

Any gains or losses on the sale of trade receivables are calculated by comparing the carrying amount of the trade receivables sold to the total cash proceeds on the sale and the fair value of the retained interest in such receivables on the date of transfer. The fair value of the retained interest approximates its carrying value given the short-term nature of associated cash flows. Costs, including losses on sales of trade receivables, are recognized in income in the period incurred and included in cost of sales and selling and administrative expenses.

The Company establishes an allowance for uncollectible doubtful accounts based on the specific credit risk of its customers and historical trends.

(j) Tax credits and government assistance

The Broadcasting and Leisure and Entertainment segments have access to several government programs designed to support production and distribution of televisual products and movies, magazine and book publishing in Canada. The financial aid for production is accounted for as reduction in expenses in compliance with the subsidiary's accounting policy for the recognition of revenue from completed televisual products and movies. The financial aid for broadcast rights is applied against investments in televisual products or used directly to reduce operating expenses during the year. The financial aid for magazine and book publishing is accounted for in revenues when the conditions for acquiring the government assistance are met.

The Printing, Interactive Technologies and Communications and Leisure and Entertainment segments receive tax credits for manufacturer's investments, new job creation, research and development and publishing activities. These tax credits are accounted for using the cost reduction method. Under this method, tax credits related to eligible expenses are accounted for as a reduction in related costs whether they are capitalized or expensed, in the year the expenses are incurred, as long as there is reasonable assurance of their realization.

(k) Inventories

Inventories are valued at the lower of cost, determined by the first-in, first-out method or the weighted-average cost method, and net realizable value. Net realizable value represents the market value for all inventories, except for raw materials and supplies, for which it is replacement cost. The work in process is valued at the pro rata billing value of the work completed.

(l) Investments in televisual products and movies

(i) Programs produced and productions in progress

Programs produced and productions in progress related to broadcast activities are accounted for at the lower of cost and net realizable value. Cost includes direct charges for goods and services and the share of labour and general expenses relating to each production. The cost of each program is charged to cost of sales when the program is broadcasted or when a loss can be estimated.

(ii) Broadcast rights

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

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

Broadcast rights are classified as short or long term, based on management's estimates of the broadcast period. These rights are amortized upon the broadcast of televisual products and movies over the contract period, based on the estimated number of showings, using an amortization method based on future revenues. This amortization is presented in cost of sales and selling and administrative expenses. Broadcast rights are valued at the lower of unamortized cost or net realizable value. Broadcast rights payable are classified as current or long-term liabilities based on the payment terms in the licence agreement.

(iii) Distribution rights

Distribution rights relate to the distribution of televisual products and movies. The costs include the costs of movies acquisition rights and other operating costs incurred that provide future economic benefits. The net realizable value of distribution rights represents the Broadcasting segment's share of future estimated revenues to be derived, net of future costs. The Broadcasting segment records an asset and a liability for the distribution rights and obligations incurred under a licence agreement when the televisual product or movie has been accepted in accordance with the conditions of the licence agreement, the televisual product or movie is available for broadcast and the cost of the licence is known or can be reasonably estimated.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(l) Investments in televisual products and movies (continued)

(iii) Distribution rights (continued)

Amounts paid for distribution rights, prior to the conditions being met for recording the asset, are recorded as prepaid distribution rights. Distribution rights are amortized using the forecast computation method for each individual movie, based on actual revenues realized over total expected revenues.

Estimates of revenues related to television products and movies are examined periodically by Broadcasting segment management and revised as necessary. The value of unamortized costs is reduced to net realizable value, as necessary, based on this assessment. The amortization of distribution rights is presented in cost of sales and selling and administrative expenses.

(m) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in income in the period that includes the enactment or substantive enactment date. A valuation allowance is recorded if the realization of future income tax assets is not considered "more likely than not".

(n) Long-term investments

Investments in joint ventures are accounted for using the proportionate consolidation method. Joint ventures represent a negligible portion of the Company's operations. Investments in companies subject to significant influence are accounted for by the equity method. Portfolio investments are accounted for by the cost method. Carrying values of investments recorded for by the equity or cost method are reduced to estimated market values if there is other than a temporary decline in the value of the investment.

(o) Property, plant and equipment

Property, plant and equipment are stated at cost, net of government grants and investment tax credits. Cost represents acquisition or construction costs, including preparation, installation and testing charges and interest incurred with respect to the property, plant and equipment until they are ready for commercial production. In the case of projects to construct and connect cable receiving and distribution networks, cost includes equipment, direct labour and direct overhead costs. Projects under development may also include advances for equipment under construction. Expenditures for additions, improvements and replacements are capitalized, whereas maintenance and repair expenditures are charged to cost of sales.

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

Asset	Estimated useful life
Buildings	15 to 40 years
Machinery and equipment	3 to 20 years
Receiving, distribution and telecommunication networks	3 to 20 years

Leasehold improvements are amortized over the term of the lease.

When an asset retirement obligation exist, the fair value of the future removal obligations on these assets is recorded as a liability on a discounted basis when it is incurred and an asset retirement cost of the equivalent amount is capitalized to plant, property and equipment. The obligation is discounted using the Company's credit-adjusted risk free-rate and is reviewed periodically to reflect the passage of time and changes in the estimated future costs underlying the obligation. The Company amortizes the asset retirement cost capitalized to plant, property and equipment and recognizes accretion expense in connection with the discounted liability over the estimated remaining useful life of the asset.

The Company does not record an asset retirement obligation in connection with its cable distribution networks. The Company expects to renew all of its agreements with utility companies to access their support structures in the future, making the retirement date of these assets undeterminable.

(p) Goodwill and other intangible assets

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

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

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Goodwill and other intangible assets (continued)

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

Intangible assets with definite useful lives, such as customer relationships and non-competition agreements, are amortized over their useful life using the straight-line method over a period of 3 to 10 years.

(q) Contract acquisition costs

Contract acquisition costs consist of cash payments or accruals related to amounts payable or credits owed to customers in connection with long-term agreements. Contract acquisition costs are generally amortized as reductions of revenue ratably over the related contract term or as related sales volume has been recognized. Whenever events or changes occur that impact the related contract, including significant declines in the anticipated profitability, the Company evaluates the carrying value of the contract acquisition costs to determine if impairment has occurred. These costs are included in other assets in the consolidated balance sheets.

(r) Deferred start-up costs and financing fees

Deferred start-up costs are recorded at cost and include development costs related to new specialty services and pre-operating expenditures and are amortized when commercial operations begin using the straight-line method over periods of three to five years. Financing fees related to long-term financing are amortized using the interest rate method and the straight-line method over the term of the related long-term debt.

(s) Exchangeable debentures

The carrying amount of the exchangeable debentures is based on the market price, at the balance sheet date, of the underlying 12.5 million subordinate shares of Quebecor World Inc., Printing segment, and of the 44.8 million common shares of Abitibi-Consolidated Inc. (the "underlying shares") that would have satisfied the debentures' liability had the Company elected to settle the debentures with the underlying shares as at December 31, 2005.

At maturity, each exchangeable debenture is exchangeable for the underlying shares based on a fixed conversion factor, determined at the date the debentures were issued. The Company has the option to deliver shares, cash equivalents based on the market price of the underlying shares at the time of exchange, or a combination of cash and shares.

As it is contemplated that the underlying shares will be transferred by the Company to the holders of the exchangeable debenture, Series Abitibi, to satisfy the liability, hedge accounting is used. Accordingly, the difference between the carrying amount of the debentures at the balance sheet date and the original amount of the exchangeable debentures is recorded as a deferred amount until there is a redemption, or at maturity of the exchangeable debentures, when a realized gain or loss on the underlying shares will be recorded.

Since July 1, 2004, the use of hedge accounting has been rescinded by the Emerging Issues Committee amended Abstract EIC-56, when the issuer's investment in the underlying shares is consolidated. Accordingly, changes in the carrying amount of exchangeable debenture Series 2001, based on fluctuations in the market price of the underlying 12.5 million subordinate shares of Quebecor World Inc., are being recorded directly in the statement of income instead of as a deferred amount on the balance sheet. The $57.5 million gain on exchangeable debentures already deferred as at July 1, 2004 continues to be deferred for subsequent recognition in income in the earlier of the period in which it is no longer probable that the underlying shares will be remitted as payment of the debt, or the period in which the underlying shares are remitted as payment of the debt.

Accordingly, an increase of $1.00 per share in the market value of Quebecor World Inc. will trigger a corresponding increase in the market value of the exchangeable debentures resulting in a loss of $12.5 million to be recorded in income. On the other hand, a decrease of $1.00 per share in the market value of Quebecor World Inc. will trigger a corresponding decrease in the market value of the exchangeable debentures, resulting in a gain of $12.5 million.

(t) Stock-based compensation

The compensation cost attributable to stock-based awards to employees that call for settlement in cash or other assets, at the option of the employee, is recognized in operating expenses over the vesting period. Changes in the intrinsic value of the stock options awards between the grant date and the measurement date result in a change in the measurement of the liability and compensation cost. Other stock options awards to employees are measured based on the fair value of the options at the grant date and a compensation expense is recognized over the vesting period of the options, with a corresponding increase to additional paid-in capital. When the stock options are exercised, capital stock is credited by the sum of the consideration paid, together with the related portion previously recorded to paid-in capital.

In the case of the employee share purchase plans of the Company's subsidiaries, the contribution paid by the subsidiaries on behalf of their employees is considered a compensation expense. The contribution paid by employees for the purchase of shares is credited to the subsidiary's capital stock.

The deferred stock unit plans ("DSU") of the Company and its subsidiaries are recognized as a compensation expense and as accrued liabilities as they are awarded. The DSUs are re-measured at each reporting period, until settlement, using the trading price of the Company and its subsidiaries shares.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Derivative financial and commodity instruments

The Company uses various derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity pricing. The Company does not hold or use any derivative instruments for trading purposes. The Company documents all relationships between derivatives and hedged items, its strategy for using hedges and its risk-management objective. The Company assesses the effectiveness of derivatives when the hedge is put in place and on an ongoing basis.

The Company enters into foreign exchange forward contracts to hedge anticipated foreign-denominated sales and related receivables, raw material and equipment purchases. Under hedge accounting, foreign exchange translation gains and losses and the portion of the forward premium or discount on the contract relating to the period prior to consummation of the transaction are recognized as an adjustment to revenues, cost of sales and property, plant and equipment, respectively, when the transaction is recorded.

The Company enters into foreign exchange forward contracts to hedge its net investments in foreign subsidiaries. Under hedge accounting, foreign exchange translation gains and losses are recorded under translation adjustment. Any realized or unrealized gain or loss on such derivative instruments is also recognized in translation adjustment.

The Company enters into foreign exchange forward contracts and cross-currency swaps to hedge some of its long-term debt. Under hedge accounting, foreign exchange translation gains and losses are recorded under other assets or other liabilities. The fees on forward foreign exchange contracts and on cross-currency swaps are recognized as an adjustment to interest expenses over the term of the agreement.

The Company enters into foreign exchange forward contracts and cross-currency swaps to hedge foreign-denominated asset exposures. Under hedge accounting, foreign exchange translation gains and losses are recorded in income. Changes in the spot rates on the derivative instruments are recorded in income. The forward premium or discount on forward exchange contracts and the interest component of cross-currency swaps are recognized as an adjustment to interest expense over the term of the agreement.

The Company enters into interest rate swaps in order to manage the impact of fluctuations in interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as hedges of the interest cost on the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps on an accrual basis.

The Company uses Treasury Lock Agreements in order to manage the impact of fluctuating interest rates on forecasted issuance of long-term debts. The Company designates its Treasury Lock Agreements as hedges of the future interest payments resulting from the issuance of long-term debts. The single payment from the derivative instrument at its maturity date is deferred and amortized over the term of the long-term debt.

The Company has entered into a commodity swap to manage a portion of its natural gas exposure. The Company is committed to exchange, on a monthly basis, the difference between a fixed price and a floating natural gas price index. The Company designates its commodity hedge agreements as hedges of natural gas costs. Natural gas costs are adjusted to include amounts payable or receivable under the commodity hedge agreements.

Some of the Company's cross-currency swap agreements are subject to a floor limit on negative fair market value, below which the Company can be required to make prepayments to reduce the lenders' exposure. Such prepayments are reimbursed by reductions in the Company's future payments under the agreements. The portion of these reimbursements related to interest is accounted for as a reduction in financial expenses. The prepayments are presented on the balance sheet as a reduction in the liability of the derivative instrument.

Realized and unrealized gains or losses associated with derivative instruments that have been terminated or cease to be effective prior to maturity are deferred under other current or non-current assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Derivative instruments that are ineffective or that are not designated as hedges are reported on a market-to-market basis in the consolidated financial statements. Any change in the fair value of such derivative instruments is recorded in income.

(v) Pension plans and postretirement benefits

(i) Pension plans

The Company offers defined benefit pension plans and defined contribution pension plans to some of its employees. Defined benefit pension plan costs are determined using actuarial methods and are funded through contributions determined in accordance with the projected benefit method pro-rated on service, which incorporates management's best estimate of future salary levels, other cost escalations, retirement ages of employees and other actuarial factors. Pension plan expense is charged to operations and includes:

- Cost of pension plan benefits provided in exchange for employee services rendered during the year.
- Amortization of the initial net transition asset, prior service costs and amendments on a straight-line basis over the expected average remaining service period of the active employee group covered by the plans.
- Interest cost of pension plan obligations, expected return on pension fund assets, and amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the benefit obligation or the fair value of plan assets over the expected average remaining service period of the active employee group covered by the plans.

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Pension plans and postretirement benefits (continued)

(i) Pension plans (continued)

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

The Company participates in a number of multi-employer defined benefit pension plans. These multi-employer plans are accounted for according to the standards on defined contribution plans, since the Company has insufficient information to apply defined benefit plan accounting.

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

The Company uses the fair value of plan assets as at the end of the year to evaluate plan assets for the purpose of calculating the expected return on plan assets, except for the Printing segment, which uses a market related value. The market-related value is based on a combination of rigorous historical performance analysis and the forward-looking views of the financial markets as indicated by the yield on long-term bonds and the price-to-earnings ratios of the major stock market indices.

(ii) Postretirement benefits

The Company offers health, life and dental insurance plans to some of its retired employees. The Company accrues the cost of postretirement benefits, other than pensions. These benefits are funded by the Company as they become due. The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10% of the accrued benefit obligation over the expected average remaining service life of the active employee group covered by the plans.

(w) Environmental expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which are not expected to contribute to current or future operations are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are likely, and when the costs, based on a specific plan of action in terms of the technology to be used and the extent of the corrective action required, can be reasonably estimated.

2. FINANCIAL EXPENSES

	2005	2004	2003
Interest on long-term debt, exchangeable debentures and convertible notes	**$ 391.9**	$ 423.7	$ 493.4
Amortization of deferred financing costs and long-term debt discount	**66.1**	61.9	63.0
Loss (gain) on ineffective derivative instruments and on foreign currency translation on unhedged long-term debt	**3.5**	6.1	(2.0)
Loss on revaluation of additional amount payable	**10.1**	26.9	4.5
Interest on redeemable preferred shares of a subsidiary	**–**	–	24.5
Interest on bank indebtedness and other	**9.5**	13.1	16.0
Investment income	**(7.7)**	(9.1)	(14.5)
	473.4	522.6	584.9
Interest capitalized to the cost of property, plant and equipment	**(10.1)**	(1.9)	(3.3)
	$ 463.3	$ 520.7	$ 581.6

3. RESERVE FOR RESTRUCTURING OF OPERATIONS, IMPAIRMENT OF ASSETS AND OTHER SPECIAL CHARGES

(a) Printing segment

2005

Restructuring initiatives

During the year ended December 31, 2005, Quebecor World Inc. continued its restructuring initiatives by approving a downsizing plan for the Corby (England) and Helio Corbeil (France) operations, the closure of a Canadian facility and other work-force reductions across the organization. The cash costs of these initiatives were estimated at $41.0 million while cash costs of $32.6 million were incurred in 2005. Quebecor World Inc. also recorded a non-cash cost of $0.2 million related to the curtailment of one of Quebecor World Inc.'s Canadian pension plans.

In addition, Quebecor World Inc. incurred cash costs of $16.4 million related to prior year initiatives and a net reversal of $0.6 million was recorded. The net reversal is comprised of cash overspending of $4.1 million and reversal of prior years' restructuring and other charges of $4.7 million.

Finally, in 2005, Quebecor World Inc. incurred cash costs of $4.6 million for severance payments related to the disposal of a non-core facility, classified under "Discontinued operations."

3. RESERVE FOR RESTRUCTURING OF OPERATIONS, IMPAIRMENT OF ASSETS AND OTHER SPECIAL CHARGES (continued)

(a) Printing segment (continued)

2005 (continued)

Impairment of assets

During the year ended December 31, 2005, following a review of its long-lived assets, Quebecor World Inc. performed impairment tests for various specific units, mainly those affected by the restructuring initiatives. Accordingly, Quebecor World Inc. recorded an impairment of long-lived assets and accelerated depreciation, mainly in Europe, totalling $65.2 million.

The impairment of long-lived assets is calculated as the excess of the carrying amount of an asset over its fair value, based on quoted market prices, when available, or on the estimated present value of future cash flows.

2004

Restructuring initiatives

During the year ended December 31, 2004, Quebecor World Inc. approved restructuring initiatives to improve asset utilization and enhance efficiency. The restructuring initiatives included the closure of the Stockholm facility in Sweden, the closure of the Effingham, Illinois, facility in the Magazine platform, a significant downsizing at the Kingsport, Tennessee, facility in the Book platform, the consolidation of five small facilities in North America and one in Europe, and other work-force reductions across Quebecor World Inc.

The cash cost of these $51.8 million initiatives are mostly related to work-force reductions, lease obligation, facility carrying costs and equipment dismantling, including an amount of $2.8 million related to discontinued operations. The non-cash cost of these initiatives includes $11.6 million for the curtailment of American pension plans.

In 2004, the review and execution of prior year's initiatives resulted in a net reversal of $1.9 million, comprised of a cash overspending of $8.5 million and a $10.4 million reversal of prior years' restructuring and other charges, mostly due to reversing the termination of 75 positions.

Impairment of assets

The execution of the 2004 restructuring initiatives resulted in certain long-lived assets being permanently idled. In addition, other events triggered a recoverability test on other groups of assets. Accordingly, for the year ended December 31, 2004, Quebecor World Inc. recorded impairment of long-lived assets of $95.8 million, of which $5.6 million is related to discontinued operations.

2003

Restructuring initiatives

During the year ended December 31, 2003, Quebecor World Inc. initiated restructuring initiatives following continued volume declines in certain business segments for a total cost of $50.6 million, of which $4.1 million is related to discontinued operations. A cash charge of $52.0 million was taken, consisting of $44.1 million in work-force reduction costs and $7.9 million in additional closure costs for four smaller facilities. The total cost also included a reversal of $1.4 million related to 2001-2002 initiatives, comprised of a cash overspending of $17.4 million and a $18.8 million reversal of prior year restructuring and other charges. The cash overspending was related to the costs of closed facilities not yet disposed of, office leases not yet subleased, and other completed initiatives.

Impairment of assets

Quebecor World Inc. also reviewed in 2003 the status of long-lived assets that became permanently idle and recorded an impairment of long-lived assets of $81.5 million, of which $1.0 million is related to discontinued operations.

Continuity of reserve for restructuring and other special charges

The following table sets forth Quebecor World Inc.'s restructuring reserve activities and other special charges in 2005 against the reserve carried foward from 2004:

	Work-force reduction costs	Leases, closed facility carrying costs and other	Total
Balance as at December 31, 2004	$ 25.6	$ 16.7	$ 42.3
Overspending of prior year initiatives	1.1	3.0	4.1
Reversal of prior year reserves	(3.5)	(1.2)	(4.7)
2004 initiatives	4.7	11.7	16.4
2005 initiatives	31.8	5.4	37.2
Reserve utilized	(38.8)	(20.6)	(59.4)
Foreign currency changes	(2.1)	(1.4)	(3.5)
Balance as at December 31, 2005	**$ 18.8**	**$ 13.6**	**$ 32.4**

3. RESERVE FOR RESTRUCTURING OF OPERATIONS, IMPAIRMENT OF ASSETS AND OTHER SPECIAL CHARGES (continued)

(a) Printing segment (continued)

Continuity of reserve for restructuring and other special charges (continued)

The reserve is expected to be utilized as follows:

	Work-force reduction costs	Leases, closed facility carrying costs and other	Total
2006	$ 18.8	$ 8.1	$ 26.9
2007	–	2.9	2.9
2008	–	1.3	1.3
2009	–	0.7	0.7
2010 and thereafter	–	0.6	0.6
	$ 18.8	$ 13.6	$ 32.4

In addition to the restructuring reserve balance of $32.4 million, $10.1 million of restructuring charges related to the 2005 and 2004 initiatives remain to be recorded in 2006 when the liabilities related to the initiatives will have been contracted.

(b) Other segments

During the year ended December 31, 2005, the Broadcasting segment recorded a net reversal of $0.2 million related to restructuring initiatives of prior years.

During the year ended December 31, 2004, a write-down of deferred costs of $0.8 million in the Broadcasting segment, and an additional charge of $2.0 million in the Business Telecommunications segment for the settlement of a litigation related to the 2001 operations restructuring program were recorded.

During the year ended December 31, 2003, Quebecor Media Inc. and its subsidiaries recorded asset write-downs totalling $1.3 million and severance costs and other restructuring charges of $0.5 million.

4. (LOSS) GAIN ON DEBT REFINANCING AND ON REPURCHASE OF REDEEMABLE PREFERRED SHARES OF A SUBSIDIARY

(a) Quebecor World Inc.

In November 2003, Quebecor World Inc., Printing segment, repurchased 89.6% of its 7.75% Senior Notes, in place as at December 31, 2002, pursuant to a tender offer. The remaining Senior Notes were redeemed in February 2004. In December 2003, Quebecor World Inc. also redeemed all of its 8.375% Senior Notes in place as at December 31, 2002. These debt extinguishments resulted in a loss of $2.6 million in 2004 ($39.7 million in 2003) and consisted of premiums paid and the write-off of discounts and deferred costs related to these transactions.

(b) Quebecor Media Inc.

As a result of the repurchase of a portion of its Notes on July 19, 2005, Quebecor Media Inc. recorded a loss of $60.8 million, comprised of the excess of the consideration paid over the carrying value of the Notes and of the hedging contracts, and the write-off of deferred financing costs. Quebecor Media Inc. repurchased US$128.2 million and US$12.1 million, respectively, in aggregate principal amounts of its Senior Notes and Senior Discount Notes (note 16(xii) and (xiii)), bearing interest at 11.125% and 13.750% respectively, pursuant to the tender offers announced on June 20, 2005. Under these offers, the total consideration was a fixed price of US$1,112.50 per US$1,000 principal amount for each Senior Note and a fixed price of US$1,007.50 per US$1,000 principal amount at maturity for each Discount Note, which includes an early tender premium in the amount of US$30.00 per US$1,000 of principal (or principal amount at maturity, in the case of the Discount Notes). Quebecor Media Inc. paid cash considerations totalling $215.3 million for the repurchase of the Notes, including the premiums and disbursements for unwinding hedging contracts.

(c) Videotron Ltd.

On July 15, 2005, Videotron Ltd., Cable segment, repurchased the entire aggregate principal amount of its subsidiary, CF Cable TV Inc., Senior Secured First Priority Notes, which bore interest at 9.125% and were due in 2007, for a total cash consideration of $99.3 million. The repurchase resulted in a gain of $0.8 million, including the cost of unwinding of a hedging contract.

On November 19, 2004, the net proceeds from the issuance of a second series of the 6.875% Senior Notes (note 16(xv)) were used to repay in full Videotron Ltd.'s term loan credit facility "C" in place as at December 31, 2003. As a result of the refinancing of the term loan, Videotron Ltd. recorded a loss of $4.8 million, comprised of a loss of $4.6 million for the marked-to-market of a derivative instrument and the write-off of $0.2 million in deferred financing costs.

On October 8, 2003, net proceeds from the issuance of a first series of the 6.875% Senior Notes (note 16(xv)) were used to repay Videotron Ltd.'s term loan credit facilities "A" and "B", in place as at December 31, 2002, as well as amounts outstanding on its revolving credit facilities. As a result of the debt refinancing, Videotron Ltd. recorded a loss of $17.1 million, comprised of a loss on the unwinding of hedging contracts and the write-off of deferred financing costs.

4. (LOSS) GAIN ON DEBT REFINANCING AND ON REPURCHASE OF REDEEMABLE PREFERRED SHARES OF A SUBSIDIARY (continued)

(d) Sun Media Corporation

On February 7, 2003, net proceeds from the issuance of the 7.625% Senior Notes (note 16(xix)) and from the new credit facilities were used to reimburse, in their entirety, the Sun Media Corporation Senior Bank Credit facility of Sun Media Corporation and the two series of Senior Subordinated Notes at December 31, 2002. As a result of the debt refinancing, Sun Media Corporation recorded a net gain of $7.5 million in 2003, comprised of a cash gain of $10.3 million from unwinding hedging contracts, offset by the write-off of the related deferred financing costs.

(e) Videotron Telecom Ltd.

On December 22, 2003, Quebecor Media Inc. repurchased the redeemable preferred shares issued by Videotron Telecom Ltd., Business Telecommunications segment, for a cash consideration of $55.0 million and an additional amount payable of $70.0 million (note 15). As the carrying value of these preferred shares, classified as a liability instrument, was $278.7 million at the date of the transaction, a gain of $153.7 million was recorded in the consolidated statement of income.

5. WRITE-DOWN OF GOODWILL

In the fourth quarter of 2005, Quebecor World Inc., Printing segment, completed its annual goodwill impairment test. Quebecor World Inc.'s European reporting unit experienced poor market conditions throughout 2005, namely continued price erosion and decreased volumes, as well as several production inefficiencies and the loss of an important client. As a result, Quebecor World Inc. concluded that the carrying amount of goodwill for its European reporting unit was not fully recoverable and an impairment charge of $287.1 million was taken.

6. INCOME TAXES

The domestic and foreign components of income (loss) before income taxes are as follows:

	2005	2004	2003
Domestic	$ 275.3	$ 169.1	$ 165.7
Foreign	(137.1)	286.1	45.2
	$ 138.2	$ 455.2	$ 210.9

Total income tax expenses were allocated as follows:

	2005	2004	2003
Continuing operations	$ 92.7	$ 130.4	$ 18.5
Discontinued operations	(1.1)	2.6	6.1
Dividends on preferred shares of subsidiaries	4.8	4.9	4.4
	$ 96.4	$ 137.9	$ 29.0

Income tax expense attributable to income consists of:

	2005	2004	2003
Current:			
Domestic	$ 40.5	$ 22.3	$ 20.1
Foreign	59.8	45.1	22.2
	100.3	67.4	42.3
Future:			
Domestic	7.6	14.9	(54.4)
Foreign	(15.2)	48.1	30.6
	(7.6)	63.0	(23.8)
	$ 92.7	$ 130.4	$ 18.5

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share data and option data)

6. INCOME TAXES (continued)

The following table reconciles the difference between the domestic statutory tax rate and the effective tax rate used by the Company and its subsidiaries in the determination of consolidated net income:

	2005	2004	2003
Domestic statutory tax rate	**31.0 %**	31.0 %	33.1 %
Increase (reduction) resulting from:			
Effect of provincial and foreign tax rate differences	**(35.4)**	(7.7)	(26.7)
Effect of non-deductible charges and/or a tax rate reductions	**9.4**	4.3	(2.1)
Effect of non-taxable revenue	**(21.4)**	(3.2)	–
Change in valuation allowance	**30.3**	5.3	9.6
Change in future income tax balances due to changes in tax rates	**8.6**	(0.5)	17.6
Tax consolidation transaction with a subsidiary	**(21.0)**	–	–
Large corporation and American State taxes	**3.7**	1.1	2.6
Other	**5.7**	(1.7)	(2.6)
Effective tax rate before the following items	**10.9**	28.6	31.5
Effect of the non-taxable net gain on debt refinancing and on repurchase of redeemable preferred shares	**–**	–	(22.7)
Write-down of goodwill	**56.2**	–	–
Effective tax rate	**67.1 %**	28.6 %	8.8 %

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

	2005	2004
Loss and tax credit carryforwards	**$ 679.8**	$ 537.0
Accounts payable, accrued charges and deferred revenue	**89.0**	87.6
Pension plan liability, postretirement and workers' compensation benefits	**39.3**	40.3
Property, plant and equipment	**(676.5)**	(682.5)
Long-term investments	**(76.1)**	(143.7)
Goodwill and other assets	**(101.9)**	(85.7)
Inventories	**(36.1)**	(39.3)
Other	**(18.3)**	(13.4)
	(100.8)	(299.7)
Valuation allowance	**(428.3)**	(287.4)
Net future income tax liabilities	**$ (529.1)**	$ (587.1)

6. INCOME TAXES (continued)

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

	2005	2004
Future income tax assets:		
Current	$ 138.7	$ 122.6
Long-term	57.6	81.0
	196.3	203.6
Future income tax liabilities:		
Current	(2.0)	(5.3)
Long-term	(723.4)	(785.4)
	(725.4)	(790.7)
Net future income tax liabilities	$ (529.1)	$ (587.1)

The net change in the total valuation allowance for the year ended December 31, 2005 is due mainly to an increase of $40.0 million allocated to income and the realization of a capital loss of approximately $400.0 million from the winding up of a subsidiary in 2005, for which Quebecor Media Inc. recorded a full valuation allowance of $76.0 million.

Subsequent recognition of tax benefits relating to the valuation allowance as at December 31, 2005 will be allocated as a reduction of goodwill in an amount of $27.0 million, while the remaining balance will be reported in the consolidated statement of income.

As at December 31, 2005, the Company had loss carryforwards for income tax purposes including $1,454.3 million available to reduce future taxable income, of which $720.0 million will expire from 2006 to 2025, and $734.3 million that can be carried forward indefinitely, and $692.0 million available to reduce future capital gains that can be carried forward indefinitely. The Company also has net state operating losses and state tax credits of $55.2 million in the United States, which expire from 2006 to 2024.

On December 14, 2005, Quebecor Inc. entered into a tax consolidation transaction by which Quebecor Media Inc. transferred unused capital losses of $192.0 million to Quebecor Inc. This transaction allowed the Company to record tax benefits related to a capital loss realized from the winding-up of a subsidiary in 2005 and to reduce the temporary differences on its long-term investments, resulting in a total reduction of $29.0 million of its income tax expense in 2005.

The Company has not recognized a future income tax liability for the undistributed earnings of its subsidiaries, except for the underlying 12.5 million subordinate shares of Quebecor World Inc. related to the exchangeable debentures Series 2001 (note 17), in the current or in prior years since the Company does not expect to sell or repatriate funds from those investments, in which case the undistributed earnings might become taxable. Any such liability cannot reasonably be determined at the present time.

7. DISCONTINUED OPERATIONS

On May 10, 2005, Quebecor World Inc., Printing segment, announced its intention to divest its North American non-core Commercial Printing Group, which provides general, financial, packaging and commercial specialty printing services, in order to focus on its core long-run printing business. The following transactions were concluded during the year:

- In June, July and August 2005, Quebecor World Inc. concluded the sale of certain assets related to its Los Angeles (California) and Westwood (Massachusetts) facilities, two business units in the North American non-core Commercial Printing Group, for cash considerations totalling $4.9 million, resulting in a loss on disposal of $2.1 million (net of income tax and non-controlling interest). Under the terms of the Los Angeles facility sale agreement, Quebecor World Inc. has assumed obligations for termination benefits relating to this business, recorded as part of restructuring and other special charges, and has retained certain operating leases.
- In November 2005, Quebecor World Inc. sold the operating assets of the remaining units of its non-core Commercial Printing Group in the United States for a total consideration of $71.7 million comprised of $38.4 million in cash, $23.4 million in preferred units of Matlet Group, LLC (the purchaser) and $9.9 million in a promissory note receivable. Quebecor World Inc. realized a loss amounting to $1.0 million (net of income tax and non-controlling interest). The selling price is subject to an adjustment based on the closing working capital.
- In November and December 2005, Quebecor World Inc. sold its interest in all its subsidiaries of the non-core commercial printing group in Canada, for a cash consideration of $40.6 million and an amount of $19.8 million which was received subsequent to December 31, 2005. Quebecor World Inc. realized a loss of $3.0 million (net of income tax and non-controlling interest). The selling price related to one of these transactions is subject to an adjustment based on the closing working capital.

On May 25, 2004, in response to a partial takeover bid for Mindready Solutions Inc., 6.75 million Common Shares of Mindready Solutions Inc. held by Nurun Inc., Interactive Technologies and Communications segment, were sold for a cash consideration of $7.8 million, of which $4.4 million was received on the closing date of the bid and the balance of $3.4 million in February 2005. In March 2005, Nurun Inc. sold its 9.6% remaining interest in Mindready Solutions Inc. for cash proceeds of $0.4 million. The sale resulted in a loss on disposal of $0.3 million (net of income taxes and non-controlling interest).

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share data and option data)

7. DISCONTINUED OPERATIONS (continued)

On May 5 and 8, 2003, Sun Media Corporation, Newspapers segment, concluded the sale of its operating businesses in Florida and British Columbia for a total cash consideration of $22.4 million, resulting in a gain on disposal of $0.3 million (net of income taxes and non-controlling interest). These operations included 13 weekly publications as well as commercial printing operations.

On March 14, 2003, Nurun Inc. closed the sale of its interest in Nurun Technologies S.A. for a cash consideration of $0.3 million, resulting in a loss on disposal of $0.1 million (net of income taxes and non-controlling interest).

The results of the disposed businesses were reclassified and disclosed in the consolidated statements of income as "(Loss) income from discontinued operations", while the cash flows related to the operations of the disposed businesses were reclassified and disclosed in the consolidated statements of cash flows as "Cash flows provided by (used in) discontinued operations".

The following tables provide additional financial information related to the operations of the above discontinued operations for the years ended December 31, 2005, 2004 and 2003, as well as information on the assets and liabilities of these discontinued operations at December 31, 2005 and 2004.

Combined and consolidated statements of income

	2005	2004	2003
Revenues	$ **257.4**	$ 377.0	$ 511.0
Cost of sales and selling and administrative expenses	**(250.8)**	(349.2)	(481.8)
Amortization	**(5.1)**	(13.8)	(16.5)
Financial income	**(0.2)**	–	(3.1)
Reserve for restructuring of operations and other special charges	**(4.6)**	(8.4)	(4.9)
(Loss) income before income taxes	**(3.3)**	5.6	4.7
Income taxes	**(1.1)**	2.6	3.4
	(2.2)	3.0	1.3
Non-controlling interest	**1.4**	(1.6)	(0.6)
(Loss) gain on disposal of businesses (net of income taxes and of non-controlling interest)	**(6.1)**	(0.3)	0.2
(Loss) income from discontinued operations	$ **(6.9)**	$ 1.1	$ 0.9

Combined and consolidated balance sheet

	2005	2004
Current assets	$ –	$ 30.3
Long-term assets	–	114.4
Current liabilities	–	(17.5)
Non-controlling interest	–	(81.6)
Net assets	$ –	$ 45.6

8. BUSINESS ACQUISITIONS AND DISPOSALS

Business acquisitions

During the years ended December 31, 2005, 2004 and 2003, the Company acquired or increased its interest in several businesses and has accounted for these by the purchase method. Certain price allocation are preliminary and should be finalized as soon as Company's management has gathered all the significant information believed to be available and considered necessary. The results of operations of these businesses have been included in the Company's consolidated financial statements from their date of acquisition.

2005 acquisitions

- On May 10, 2005, Quebecor World Inc., Printing segment, filed a normal course issuer bid to repurchase for cancellation up to a maximum of 7.3 million Subordinate Voting Shares, representing approximately 9.95% of the public float for the Subordinate Voting Shares. Purchases are at prevailing market prices on the open market over a 12-month period starting May 13, 2005.

  A total of 2,438,500 Subordinate Voting Shares of Quebecor World Inc. were repurchased for a cash consideration of $58.2 million, resulting in additional goodwill of $1.3 million.

- A total of 3,739,599 Class B non-voting Common Shares of TVA Group Inc., Broadcasting segment, were repurchased for a cash consideration of $81.9 million, resulting in an additional goodwill of $22.3 million on a preliminary basis.
- On December 12, 2005, Quebecor Media Inc. acquired Sogides ltée, a major book publishing and distribution group in Québec, for a cash consideration of $24.0 million and an additional contingent payment of $5.0 million based on the achievement of specific conditions in 2008. This acquisition resulted in an additional goodwill of $7.8 million on a preliminary basis.
- Other businesses were acquired for cash considerations totalling $13.1 million, along with the operating assets of community newspaper *Beauport Express*, resulting in additional goodwill of $3.7 million.

2004 acquisitions

- In November 2004, Quebecor World Inc. purchased the remaining 50% of the issued and outstanding shares of Helio Charleroi in Belgium, a former subsidiary of European Graphic Group S.A., for a cash consideration of $53.8 million, of which $19.8 million has been recorded in goodwill.
- A total of 1,892,500 Class B non-voting Common Shares of TVA Group Inc. were repurchased for a cash consideration of $41.0 million, resulting in additional goodwill of $10.2 million.
- All minority interests in Canoe Inc., Internet/Portals segment, directly owned by minority shareholders, were acquired for a cash consideration of $25.2 million, resulting in additional goodwill of $4.8 million.
- On December 2, 2004, TVA Group Inc. and Sun Media Corporation, two subsidiaries of Quebecor Media Inc., completed the acquisition of Sun TV (formerly Toronto 1). The purchase price paid at the closing was $43.2 million, $32.4 million of which was paid in cash by TVA Group Inc. for its 75% interest in Sun TV. Sun Media Corporation paid $2.8 million in cash and transferred to CHUM Limited its 29.9% interest in CablePulse24, a 24-hour news station in Toronto, for its 25% interest in Sun TV. In December 2005, TVA Group Inc. and Sun Media Corporation recorded a balance payable of $3.6 million in respect to the final purchase price adjustment. The acquisition resulted in preliminary goodwill of $11.2 million, which was reduced by $0.5 million in 2005 when the purchase price allocation was finalized. Also, the transfer of Sun Media Corporation's interest in CablePulse24 to CHUM Limited resulted in a gain on disposal of $8.0 million.
- Other businesses were acquired for cash considerations totalling $19.5 million, resulting in additional goodwill of $13.5 million.

2003 acquisitions

- In June 2003, a total of 10,000,000 Subordinate Voting Shares of Quebecor World Inc. for a net cash consideration of $241.1 million, resulting in additional goodwill of $5.4 million.
- A total of 1,452,200 Class B Non-Voting Common Shares of TVA Group Inc. were repurchased for a cash consideration of $25.8 million, resulting in additional goodwill of $5.9 million.
- On October 15, 2003, Quebecor Media Inc. increased its interest in CEC Publishing Inc., Leisure and Entertainment segment, from 50% to 100%, for a cash consideration of $15.0 million, resulting in preliminary additional goodwill of $9.4 million, which was reduced by $5.5 million in 2004 when the purchase price allocation was finalized.
- On November 3, 2003, Sun Media Corporation, Newspapers segment, completed the acquisition of the newspaper operations of Annex Publishing & Printing Inc. for a cash consideration of $34.2 million, subject to certain purchase equation adjustments, resulting in additional goodwill of $20.8 million. The newspaper operations are located in Southern Ontario and include two daily newspapers, one semi-weekly and six weekly publications, two shopping guides, as well as a commercial printing operation.
- Other acquisitions were made for cash considerations totalling $14.0 million, resulting in additional goodwill of $7.4 million.

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share data and option data)

8. BUSINESS ACQUISITIONS AND DISPOSALS (continued)

Business acquisitions (continued)

Business acquisitions are summarized as follows:

	2005	2004	2002
Assets acquired			
Cash and cash equivalents	**$ –**	$ 2.2	$ 2.4
Non-cash current operating assets	**20.5**	11.4	10.0
Property, plant and equipment	**3.9**	29.5	2.6
Other assets	**10.3**	33.0	22.7
Future income taxes	**–**	20.3	–
Goodwill	**34.6**	59.5	43.4
Non-controlling interest	**123.3**	58.8	262.2
	192.6	214.7	343.3
Liabilities assumed			
Bank indebtedness	**(0.4)**	–	–
Non-cash current operating liabilities	**(6.9)**	(16.1)	(5.9)
Future income taxes	**(3.4)**	(11.1)	(7.2)
Other liabilities	**–**	(4.8)	(0.1)
	(10.7)	(32.0)	(13.2)
Net assets acquired at fair value	**$ 181.9**	$ 182.7	$ 330.1
Consideration			
Cash	**$ 177.2**	$ 174.7	$ 330.1
Balance payable	**3.6**	–	–
Community newspaper (*Beauport Express*)	**1.1**	–	–
Investment in CablePulse24	**–**	8.0	–
	$ 181.9	$ 182.7	$ 330.1

Business disposals

In 2005 and 2003, the Company sold assets of certain businesses for cash considerations totalling $0.8 million and $2.0 million, resulting in a loss on disposal of $5.1 million and $1.1 million, respectively.

9. EARNINGS PER SHARE

Earnings per share are calculated by dividing net income by the weighted daily average number of shares outstanding during the year. Diluted earnings per share are calculated by taking into account the potentially dilutive effect of convertible notes and stock options.

9. EARNINGS PER SHARE (continued)

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

	2005	2004	2003
Income from continuing operations	$ 76.6	$ 111.1	$ 65.5
Impact of assumed conversion of convertible notes and stock options, net of applicable income taxes	(0.5)	(0.4)	(0.3)
Income from continuing operations, adjusted for dilution effect	$ 76.1	$ 110.7	$ 65.2
Net income	$ 69.7	$ 112.2	$ 66.4
Impact of assumed conversion of convertible notes and stock options, net of applicable income taxes	(0.5)	(0.4)	(0.3)
Net income, adjusted for dilution effect	$ 69.2	$ 111.8	$ 66.1
Weighted average number of shares outstanding (in millions)	64.5	64.6	64.6
Effect of dilutive stock options (in millions)	0.1	0.1	0.1
Weighted average number of diluted shares outstanding (in millions)	64.6	64.7	64.7

The diluted earnings per share calculation did not take into consideration the potential dilutive effect of the exchangeable debentures Series 2001 (note 17(i)) and the dilutive effect of certain options, since their impact is non-dilutive. The number of the Company's excluded options for the diluted earnings per share calculation was 1,432,349, 1,347,000 and 1,518,349 for the years ended December 31, 2005, 2004 and 2003 respectively.

10. CASH AND CASH EQUIVALENTS AND TEMPORARY INVESTMENTS HELD IN TRUST

On March 1, 2005, Quebecor World Inc., Printing segment, pledged $38.5 million ($8.4 million on March 1, 2004) of cash held in a short-term liquidity fund, as collateral for a standby letter of credit issued to an insurer related to estimated disbursements for the settlement of claims to be incurred by Quebecor World Inc.'s captive insurance subsidiary. The standby letter of credit is automatically renewable annually for an indefinite period of time and accordingly, the pledged amount held in a liquidity fund also has to be renewed annually.

11. ACCOUNTS RECEIVABLE

	2005	2004
Trade	$ 785.7	$ 754.5
Other	130.3	70.3
	$ 916.0	$ 824.8

Assets securitization

In 2005, Quebecor World Inc., Printing segment, renewed and amended its 1999 agreement to sell, with limited recourse, a portion of its U.S. trade receivable on a revolving basis (the "U.S. Program"). The amendment allows for more flexibility in the Quebecor World Inc.'s reporting requirements to the purchaser and Quebecor World Inc. continues to have the option to extend the term of the U.S. Program for an additional year. The U.S. Program limit of US$510.0 million has been extended through September 29, 2006. As at December 31, 2005, the amount outstanding under the U.S. Program was US$467.0 million (US$500.0 million as at December 31, 2004).

In 2005, Quebecor World Inc. amended its 2003 agreement to sell, with limited recourse, a portion of its Canadian trade receivables on a revolving basis (the "Canadian Program"). The Canadian Program limit is $135.0 million. As at December 31, 2005, the amount outstanding under the Canadian Program was $100.0 million ($126.0 million as at December 31, 2004). The program was amended to accommodate its existing credit rating by Dominion Bond Rating Service.

In 2005, Quebecor World Inc. also sold, with limited recourse, a portion of its French and Spanish trade receivables on a revolving basis under the terms of European securitization agreement dated June 2001 (the "European Program"). The European Program limit is 153.0 million euros. As at December 31, 2005, the amount outstanding under the European Program was 118.0 million euros (133.5 million euros as at December 31, 2004).

Quebecor World Inc. has retained responsibility for servicing, administering and collecting trade receivables sold. No servicing asset or liability has been recognized, since the fees Quebecor World Inc. receives for servicing the receivables approximate the related costs.

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share data and option data)

11. ACCOUNTS RECEIVABLE (continued)

Assets securitization (continued)

At December 31, 2005, an aggregate of $960.3 million ($1,125.2 million as at December 31, 2004) of accounts receivable had been sold under the three programs, of which $154.6 million ($181.0 million as at December 31, 2004) was kept by Quebecor World Inc. as retained interest, resulting in a net aggregate consideration of $805.7 million ($944.2 million as at December 31, 2004) on the sale. The retained interest is recorded in Quebecor World Inc.'s accounts receivable, and its fair market value approximates its cost, given the short nature of the collection period of the accounts receivable sold. The rights of Quebecor World Inc. on the retained interest are subordinated to the rights of the investors under the programs. There is no recourse under the programs to Quebecor World Inc.'s other assets for failure of debtors to pay when due, other than the Quebecor World Inc. retained interest.

Securitization fees vary based on commercial paper rates in Canada, the United States and Europe and, generally, provide a lower effective funding cost than that available under Quebecor World Inc.'s bank facilities.

In 2005, proceeds from revolving sales between the securitization trusts and Quebecor World Inc. totalled $5.9 billion ($6.2 billion in 2004).

12. INVENTORIES AND INVESTMENTS IN TELEVISUAL PRODUCTS AND MOVIES

	2005	2004
Raw materials and supplies	$ 310.5	$ 357.8
Work in process	154.6	182.0
Finished goods	69.1	63.3
Investments in televisual products and movies	45.1	35.8
	$ 579.3	$ 638.9

13. PROPERTY, PLANT AND EQUIPMENT

			2005
	Cost	Accumulated amortization	Net amount
Land	$ 139.9	$ –	$ 139.9
Buildings and leasehold improvements	1,128.4	340.3	788.1
Machinery and equipment	5,077.5	3,106.5	1,971.0
Receiving, distribution and telecommunications networks	1,521.8	478.1	1,043.7
Projects under development	375.3	–	375.3
	$ 8,242.9	$ 3,924.9	$ 4,318.0

			2004
	Cost	Accumulated amortization	Net amount
Land	$ 146.1	$ –	$ 146.1
Buildings and leasehold improvements	1,237.6	361.4	876.2
Machinery and equipment	5,401.0	3,128.0	2,273.0
Receiving, distribution and telecommunications networks	1,384.2	359.2	1,025.0
Projects under development	68.1	–	68.1
	$ 8,237.0	$ 3,848.6	$ 4,388.4

As at December 31, 2005, the cost of property, plant and equipment and the corresponding accumulated amortization balance included amounts of $177.0 million ($222.4 million as at December 31, 2004) and $81.5 million ($93.8 million as at December 31, 2004), respectively, for assets held under capital leases. Amortization expenses for property, plant and equipment held under capital leases amounted to $6.5 million in 2005, $9.1 million in 2004 and $24.7 million in 2003.

14. GOODWILL

For the years ended December 31, 2005, 2004 and 2003, the changes in the carrying amounts of goodwill are as follows:

							2005
	Balance as at December 31, 2004	Business acquisitions (disposals)	Discontinued operations	Translation adjustments	Write-down	Adjustment of purchase price and other	Balance as at December 31, 2005
Printing	$ 3,235.9	$ 1.2	$ (51.7)	$ (173.3)	$ (287.1)	$ –	$ 2,725.0
Cable	2,581.8	–	–	–	–	–	2,581.8
Newspapers	1,012.5	1.0	–	–	–	(10.2) [1]	1,003.3
Broadcasting	185.3	22.3	–	–	–	(0.5)	207.1
Leisure and Entertainment	39.3	7.8	–	–	–	–	47.1
Interactive Technologies and Communications	3.1	1.3	–	(0.8)	–	–	3.6
Internet/Portals	30.5	–	–	–	–	–	30.5
Total	$ 7,088.4	$ 33.6	$ (51.7)	$ (174.1)	$ (287.1)	$ (10.7)	$ 6,598.4

							2004
	Balance as at December 31, 2003	Business acquisitions (disposals)	Discontinued operations	Translation adjustments	Write-down	Adjustment of purchase price and other	Balance as at December 31, 2004
Printing	$ 3,436.0	$ 24.5	$ –	$ (224.6)	$ –	$ –	$ 3,235.9
Cable	2,661.1	5.2	–	–	–	(84.5)[1]	2,581.8
Newspapers	1,012.1	0.4	–	–	–	–	1,012.5
Broadcasting	165.0	20.3	–	–	–	–	185.3
Leisure and Entertainment	43.8	1.0	–	–	–	(5.5)	39.3
Interactive Technologies and Communications	–	2.8	–	0.3	–	–	3.1
Internet/Portals	25.7	4.8	–	–	–	–	30.5
Total	$ 7,343.7	$ 59.0	$ –	$ (224.3)	$ –	$ (90.0)	$ 7,088.4

[1] Recognition of tax benefits not recognized as at the business acquisition date.

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share and per option data)

14. GOODWILL (continued)

							2003
	Balance as at December 31, 2002	Business acquisitions (disposals)	Discontinued operations	Translation adjustments	Write-down	Adjustment of purchase price and other	Balance as at December 31, 2003
Printing	$ 3,989.5	$ 12.7	$ –	$ (566.1)	$ –	$ (0.1)	$ 3,436.0
Cable	2,662.7	–	–	–	–	(1.6)	2,661.1
Newspapers	1,001.4	20.8	(10.1)	–	–	–	1,012.1
Broadcasting	158.6	6.7	–	–	–	(0.3)	165.0
Leisure and Entertainment	35.1	8.7	–	–	–	–	43.8
Business Telecommunications	0.9	(0.9)	–	–	–	–	–
Internet/Portals	26.2	–	–	–	(0.5)	–	25.7
Total	$ 7,874.4	$ 48.0	$ (10.1)	$ (566.1)	$ (0.5)	$ (2.0)	$ 7,343.7

15. ADDITIONAL AMOUNT PAYABLE

The value of the additional amount payable resulting from the repurchase of the redeemable preferred shares (note 4(e)) fluctuates based on the market value of Quebecor Media Inc. Common Shares. Until Quebecor Media Inc. is listed on a stock exchange, the value of the additional amount payable is based on a formula established in the agreement. At the date of the transaction, both parties had agreed to an initial value of $70.0 million. As at December 31, 2005, the additional amount payable is valued at $111.5 million ($101.4 million as at December 31, 2004). Change in the amount payable is recorded as a financial expense in the statement of income. The additional amount payable matures on December 15, 2008. The holder has the right to require payment at any time since December 15, 2004. If Quebecor Media Inc. files a prospectus for an initial public offering, the holder has the right to require Quebecor Media Inc. to pay the additional amount by delivering 3,740,682 Common Shares of Quebecor Media Inc. adjusted to take into account certain shareholders' equity transactions. Quebecor Media Inc. holds an option to pay this additional amount in cash, for a period of 30 days following each June 15, 2007 and June 15, 2008. Quebecor Media Inc. may, under certain conditions and if its shares are publicly traded at that time, pay the additional amount by delivering 3,740,682 Common Shares of Quebecor Media Inc. to the holder.

16. LONG-TERM DEBT

	Effective interest rate as at December 31, 2005	Year of maturity	2005	2004
Quebecor Inc.				
Credit facility (i)	5.01 to 5.75 %	2007	**$ 143.0**	$ 141.0
Other debts	5.21 %	2006	**6.0**	6.3
			149.0	147.3
Quebecor World Inc. and its subsidiaries (ii)				
Credit facility (iii)	4.62 and 5.62 %	2009	**388.7**	502.2
Senior Notes (iv)	4.875 and 6.125 %	2008-2013	**694.9**	717.8
Senior Debentures (v)	7.25 %	2007	**174.4**	180.3
Senior Notes (vi)	8.42 and 8.52 %	2010-2012	**290.8**	300.5
Senior Notes (vii)	8.54 and 8.69 %	2015-2020	**140.7**	145.4
Senior Notes (viii)	7.20 %	2006	**290.8**	300.5
Senior Debentures (ix)	6.50 %	2027	**3.7**	3.9
Obligations under capital leases and other debts (x)	0.00 to 10.80 %	2006-2016	**39.1**	58.2
			2,023.1	2,208.8
Quebecor Media Inc. (ii)				
Credit facility (xi)		2007	**–**	–
Senior Notes (xii)	11.50 %	2011	**672.0**	844.7
Senior Discount Notes (xiii)	13.75 %	2011	**316.1**	296.0
			988.1	1,140.7
Videotron Ltd. and its subsidiaries (ii)				
Credit facility (xiv)		2009	**–**	–
Senior Notes (xv)	6.59 %	2014	**769.2**	796.6
Senior Notes (xvi)	6.44 %	2015	**202.5**	–
Senior Secured First Priority Notes (xvii)	7.59 %	2007	**–**	92.3
			971.7	888.9
Sun Media Corporation and its subsidiaries (ii)				
Credit facilities (xviii)	6.24 %	2008-2009	**231.1**	241.6
Senior Notes (xix)	7.88 %	2013	**235.2**	242.7
			466.3	484.3
TVA Group Inc. and its subsidiaries (ii)				
Revolving bank loan (xx)	4.02 %	2010	**107.1**	34.9
Total long-term debt			**$ 4,705.3**	$ 4,904.9
Less current portion				
Quebecor Inc.			**6.0**	–
Quebecor World Inc. and its subsidiaries			**8.9**	13.9
Sun Media Corporation and its subsidiaries			**2.7**	2.8
			17.6	16.7
			$ 4,687.7	$ 4,888.2

Years ended December 31, 2005, 2004 and 2003
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16. LONG-TERM DEBT (continued)

(i) The credit facility is a one-year revolving credit facility of $200.0 million that can be extended on a yearly basis. In the event it was not extended, the outstanding borrowed amounts would convert into a one-year term loan. The credit agreement governing this credit facility contains certain covenants, including the obligation to maintain pledged investments in publicly traded companies with a market value of at least 200% of the borrowed amounts. The borrowed amounts bear interest at floating rates based on bankers' acceptance rate or London Interbanking Offered Rate ("LIBOR"). The credit facility is secured by a limited number of shares owned in certain Company subsidiaries.

(ii) The debts of these subsidiaries are non-recourse to the parent company, Quebecor Inc., except for the Quebecor Media Inc. credit facility, whose recourse is limited to the Company's ownership interest in Quebecor Media Inc.

(iii) The credit facility is a revolving credit facility comprised of three tranches, each maturing in January 2009, and totalling US$1.0 billion. All three tranches can be extended on a yearly basis. The credit facility contains certain restrictions, including the obligation to maintain some financial ratios. The credit facility can be used for general corporate purposes. Quebecor World Inc. paid fees on the unused portion of $2.1 million in 2005 ($1.6 million in 2004). The credit facility bears interest at variable rates based on bankers' acceptance rate or LIBOR.

(iv) The Senior Notes, for a principal amount of US$600.0 million, are comprised of two tranches. The first tranche of US$200.0 million matures on November 15, 2008. The second tranche of US$400.0 million matures on November 15, 2013. Issuance costs of US$4.8 million have been paid on that transaction.

(v) These Senior Debentures are repayable in U.S. dollars and mature on January 15, 2007.

(vi) The Senior Notes, for a principal amount of US$250.0 million, are comprised of two tranches. The first tranche of US$175.0 million matures on July 15, 2010, while the second tranche of US$75.0 million matures on July 15, 2012. These notes contain certain restrictions that are generally less restrictive than those of the credit facility.

(vii) The Senior Notes, for a principal amount of US$121.0 million, are comprised of two tranches. The first tranche of US$91.0 million matures on September 15, 2015, and the second tranche of US$30.0 million matures on September 15, 2020. These notes contain certain restrictions, which are generally less restrictive than those of the credit facility.

(viii) The Senior Notes, for a principal amount of US$250.0 million, mature in March 2006. A US$33.0 million portion of the notes bears a floating interest rate, but has been swapped to a fixed rate, at the same rate as the coupon on the fixed rate portion. These notes contain certain restrictions, which are generally less restrictive than those on the credit facility. At December 31, 2005, the Senior Notes were classified as long-term, since Quebecor World Inc. has the ability and the intent to maintain such debt on a long-term basis and has long-term bank facilities available (*see (iii) above*) to replace such debt, if necessary.

(ix) These Senior Debentures, due on August 1, 2027, were redeemable at the option of the holder at their par value. US$146.8 million Senior Debentures were tendered and redeemed out of a principal amount of US$150.0 million.

(x) Other debts and capital leases are partially secured by assets. An amount of $16.1 million ($27.6 million in 2004) is denominated in euros, an amount of $3.0 million ($4.0 million in 2004) is repayable in Swedish kronas, and $1.2 million is denominated in Canadian dollars ($1.7 million in 2004).

(xi) The credit facility of $75.0 million ($135.0 million in 2004), available for general liquidity purposes, is a one-year revolving credit facility that can be extended on a yearly basis, and which was refinanced in January 2006 (note 29). The credit facility is secured by a first ranking moveable hypothec on all tangible and intangible assets, current and future, of Quebecor Media Inc. As at December 31, 2005, the carrying value of assets guaranteeing the credit facility is $6,675.5 million. The credit facility in aggregate is secured by Quebecor Media Inc.'s shareholders. The borrowed amounts bear interest at floating rates based on bankers' acceptance rate or bank prime rate.

(xii) The Senior Notes, for a principal amount of US$586.8 million, net of the partial repurchase in July 2005 (note 4(b)) were issued at discount for net proceeds of US$573.8 million. These notes bear interest at a rate of 11.125%, payable semi-annually, since January 15, 2002. Notes contain certain restrictions for Quebecor Media Inc., including limitations on its ability to incur additional indebtedness. The notes are unsecured and are redeemable at the option of Quebecor Media Inc. at a decreasing premium, commencing on July 15, 2006. Quebecor Media Inc. has fully hedged the foreign currency risk associated with the Senior Notes by using a cross-currency interest rate swap agreement, under which all payments were set in Canadian dollars. On January 17, 2006, Quebecor Media Inc. repurchased US$561.6 million in aggregate principal amounts of the notes (note 29).

(xiii) The Senior Discount Notes, for a principal amount of US$282.9 million, net of the partial repurchase in July 2005 (note 4(b)), were issued at discount for net proceeds of US$145.0 million. These notes bear interest at a rate of 13.75%, payable semi-annually, commencing January 15, 2007. Notes contain certain restrictions for Quebecor Media Inc., including limitations on its ability to incur additional indebtedness. The notes are unsecured and are redeemable at the option of Quebecor Media Inc. at a decreasing premium commencing on July 15, 2006. Quebecor Media Inc. has fully hedged the foreign currency risk associated with the Senior Discount Notes by using a cross-currency interest rate swap agreement, under which all payments were set in Canadian dollars. On January 17, 2006, Quebecor Media Inc. repurchased US$275.6 million in aggregate principal amounts at maturity of the notes (note 29).

16. LONG-TERM DEBT (continued)

(xiv) The credit facility of $450.0 million is a revolving credit facility maturing in November 2009 that bears interest at bankers' acceptance or LIBOR rates, plus a margin, depending on Videotron Ltd.'s leverage ratio. The credit facility is secured by a first ranking hypothec on the universality of all tangible and intangible assets, current and future, of Videotron Ltd. and its subsidiaries. As at December 31, 2005, the carrying value of assets guaranteeing the credit facility of Videotron Ltd. was $3,986.2 million. The credit facility contains covenants such as maintaining certain financial ratios and some restrictions on the payment of dividends and asset acquisitions and dispositions.

(xv) In October 2003, a first series of Senior Notes was issued at discount for net proceeds of US$331.9 million, before issuance fees of US$5.7 million. In November 2004, a second series of Senior Notes was sold at premium on their face amount of US$315.0 million resulting in gross proceeds of US$331.0 million before accrued interest and issuance fees of US$6.2 million. These notes bear interest at a rate of 6.875%, payable every six months on January 15 and July 15, and mature in January 2014. The notes contain certain restrictions for Videotron Ltd., including limitations on its ability to incur additional indebtedness, and are unsecured. Videotron Ltd. has fully hedged the foreign currency risk associated with the Senior Notes by using cross-currency interest rate swaps, under which all payments were set in Canadian dollars. The notes are redeemable, in whole or in part, at any time on or after January 15, 2009, with a premium.

(xvi) On September 16, 2005, Senior Notes were issued at discount for net proceeds of US$174.1 million, before issuance fees of $3.8 million. These Notes bear interest at a rate of 6.375% payable every six months on December 15 and June 15, and mature on December 15, 2015. The Notes contain certain restrictions for Videotron Ltd., including limitations on its ability to incur additional indebtedness, and are unsecured. Videotron Ltd. has fully hedged the foreign currency risk associated with the Senior Notes by using cross-currency interest rate swaps, under which all payments were set in Canadian dollars. The notes are redeemable, in whole or in part, at any time on or after December 15, 2010, with a premium.

(xvii) The Senior Secured First Priority Notes were repurchased on July 15, 2005 (note 4(c)).

(xviii) The bank credit facilities comprise a revolving credit facility of $75.0 million, maturing in 2008, and a term loan "B" credit facility of US$230.0 million, excluding issuance fees of US$0.5 million, maturing in 2009, and are collateralized by liens on all of the property and assets of Sun Media Corporation and its operating subsidiaries, now owned or hereafter acquired. The bank credit facilities contain covenants that restrict the declaration and payment of dividends and other distributions, as well as the obligation to maintain certain financial ratios. As at December 31, 2005, the carrying value of assets guaranteeing the bank credit facilities was $1,503.5 million. Any amount borrowed under the revolving credit facility bears interest at Canadian bankers' acceptance and/or Canadian prime rate plus an applicable margin determined by financial ratios. On October 12, 2004, the bank credit facilities were amended such that advances under the term loan "B" credit facility bear interest at LIBOR plus a margin of 2.00% per annum, or at U.S. prime rate plus a margin of 1.00% per annum, with the possibility of such margins being reduced under certain circumstances. Sun Media Corporation has fully hedged the foreign currency risk associated with the term "B" loan by using cross-currency interest rate swaps, under which all payments were set in Canadian dollars. As at December 31, 2005, no amount had been drawn on the revolving credit facility, while the term loan "B" credit facility was in use for an amount of US$198.7 million.

(xix) The Senior Notes were issued at discount for net proceeds of US$201.5 million, before issuance fees of US$4.1 million. These notes bear interest at a rate of 7.625% and mature in 2013. The notes contain certain restrictions for Sun Media Corporation, including limitations on its ability to incur additional indebtedness, and are unsecured. The Senior Notes are guaranteed by specific subsidiaries of Sun Media Corporation. Sun Media Corporation has fully hedged the foreign currency risk associated with the Senior Notes by using cross-currency interest rate swaps and a foreign exchange forward contract, under which all payments were set in Canadian dollars. The notes are redeemable, in whole or in part, at any time on or after February 15, 2008, with a premium.

(xx) The credit agreement amended in 2005 consists of a revolving term bank loan of a maximum of $160.0 million ($65.0 million in 2004), bearing interest at the prime rate of a Canadian chartered bank or bankers' acceptances rates, plus a variable margin determined by certain financial ratios. In 2005, the revolving term loan maturity was extended to June 15, 2010. The credit facility contains certain restrictions, including the obligation to maintain certain financial ratios.

Certain debts of the Company and its subsidiaries contain restrictions to the payment of dividends. On December 31, 2005, the Company and its subsidiaries were in compliance with all debt covenants.

Principal repayments on long-term debt over the next years are as follows:

2006	$ 17.6
2007	324.7
2008	241.2
2009	911.4
2010	313.1
2011 and thereafter	2,897.3

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share data and option data)

17. EXCHANGEABLE DEBENTURES

	Effective interest rate as at December 31, 2005	Year of maturity	2005	2004
Series 2001 (i)	3.55 %	2026	**$ 196.5**	$ 322.5
Series Abitibi (ii)	2.31 %	2026	**208.9**	370.2
			$ 405.4	$ 692.7

(i) Each floating rate debenture Series 2001 with a principal amount of $1,000 is exchangeable for 29.41 Subordinate Voting Shares of Quebecor World Inc., Printing segment, presently held by the Company, or 12.5 million Subordinate Shares in total (the "underlying shares"). The debentures are secured by the underlying shares and may be exchanged at any time, at the option of the holder, for the underlying shares at the fixed conversion ratio. The Company may, at its option, satisfy its obligation by payment of a cash amount equal to the fair value of the underlying shares at the time of the request. As at December 31, 2005, the market value of the underlying shares was $15.72 per share ($25.80 per share as at December 31, 2004). Redemption of the debentures before 10 years from the date of issuance may trigger a penalty for the initiator. These debentures bear interest, payable semi-annually, at a rate of 1.5% plus a floating percentage based on the dividend rate on the underlying shares. Had the debentures been reimbursed by the underlying shares as at December 31, 2005, Quebecor Inc.'s interest in Quebecor World Inc. would have decreased from 35.82% to 26.27% (35.38% to 25.95% as at December 31, 2004). Cash and cash equivalents held in trust as at December 31, 2005 and 2004 included an amount of $7.6 million related to the interest payment on this debenture.

(ii) Each floating rate debenture Series Abitibi with a principal amount of $1,000 is exchangeable for 80.8 Common Shares of Abitibi-Consolidated Inc. presently held by the Company, or 44,821,024 common shares in total (the "underlying shares"). The debentures are secured by the underlying shares and may be exchanged at any time, at the option of the holder, for the underlying shares at the fixed conversion ratio. The Company may, at its option, satisfy its obligation by payment of a cash amount equal to the fair value of the underlying shares at the time of the request. As at December 31, 2005, the market value of the underlying shares was $4.66 per share ($8.26 per share as at December 31, 2004). Redemption of the debentures before 10 years from the date of issuance may trigger a penalty for the initiator. These debentures bear interest, payable quarterly, at a rate of 1.5% plus a floating percentage based on the dividend rate on the underlying shares. Cash and cash equivalents held in trust, as at December 31, 2005 and 2004, included an amount of $3.2 million related to the interest payment on this debenture.

18. CONVERTIBLE NOTES

The 6% Convertible Senior Subordinated Notes (the "Notes") mature on October 1, 2007. The Notes were issued by World Color Press, Inc. and revalued in order to reflect their fair value at the time World Color Press, Inc. was acquired, based on Quebecor World Inc.'s borrowing rate for similar financial instruments. The equity component of the Notes, which corresponds to the option of the holder to convert the Notes into equity shares of Quebecor World Inc., was valued at the date of acquisition and classified as a non-controlling interest. Since the acquisition of World Color Press, Inc. by Quebecor World Inc., each US$1,000 tranche is convertible into 30.5884 Subordinate Voting Shares of Quebecor World Inc., which corresponds to a price of US$26.24 per share and US$197.25 in cash. The Notes are convertible at any time at the option of the holder and redeemable at the option of Quebecor World Inc. at a decreasing premium from October 2002 to final maturity. The aggregate principal amount of the Notes as at December 31, 2005 and 2004 was US$119.5 million. The number of equity shares of Quebecor World Inc. to be issued upon conversion of the Convertible Notes would be 3,656,201, and Quebecor Inc.'s interest would decrease from 35.82% to 34.73% (35.38% to 34.31% as at December 31, 2004).

19. OTHER LIABILITIES

	2005	2004
Deferred gain on the marked-to-market of exchangeable debentures	**$ 403.5**	$ 242.2
Cross-currency interest rate swap agreements and other derivative instruments	**262.1**	240.2
Accrued postretirement benefits liability (note 28)	**112.7**	117.7
Accrued pension benefits liability (note 28)	**107.7**	118.7
Workers' compensation accrual	**47.5**	36.4
Accrued stock based compensation	**34.9**	24.7
Deferred revenues	**32.9**	27.8
Reserve for environmental matters	**15.4**	19.1
Other	**53.7**	51.2
	$ 1,070.4	$ 878.0

20. NON-CONTROLLING INTEREST

Non-controlling interest includes the interest of non-controlling shareholders in the participating shares of Quebecor Inc.'s subsidiaries. As at December 31, 2005, the most significant non-controlling interests were as follows:

Subsidiary	Segment	Non-controlling interest
Quebecor World Inc.	Printing	64.18 %
Quebecor Media Inc.	Cable, Newspapers, Broadcasting, Leisure and Entertainment, Business Telecommunications, Interactive Technologies and Communications and Internet/Portals	45.28 %
TVA Group Inc.[1]	Broadcasting	54.77 %
Nurun Inc.[1]	Interactive Technologies and Communications	42.10 %

[1] Nurun Inc. and TVA Group Inc. are subsidiaries of Quebecor Media Inc. The non-controlling interest percentage represents the interests of non-controlling shareholders in the participating shares of Quebecor Media Inc.'s subsidiaries.

21. CAPITAL STOCK

(a) Authorized capital stock

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

An unlimited number of Class B Voting Shares ("B shares") convertible into A shares on a one-for-one basis only if a takeover bid regarding A shares is made to holders of A shares without being made concurrently and under the same terms to holders of B shares.

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

(b) Issued capital stock

	A shares		B shares	
	Number	Amount	Number	Amount
Balance as at December 31, 2003	22,617,475	$ 10.1	42,008,647	$ 338.4
A shares converted into B shares	(309,804)	(0.2)	309,804	0.2
Shares issued upon exercise of options	–	–	25,000	0.7
Balance as at December 31, 2004	22,307,671	9.9	42,343,451	339.3
A shares converted into B shares	(282,300)	(0.1)	282,300	0.1
Shares repurchased and cancelled	–	–	(334,100)	(2.6)
Balance as at December 31, 2005	**22,025,371**	**$ 9.8**	**42,291,651**	**$ 336.8**

On May 11, 2005, the Company filed a normal course issuer bid to repurchase for cancellation up to a maximum of 1,111,952 A shares, representing approximately 5% of the issued and outstanding A shares, and a maximum of 4,228,399 B shares representing approximately 10% of the public float for the B shares. Purchases are at prevailing market prices on the open market over a 12-month period starting May 12, 2005.

During the year ended December 31, 2005, the Company repurchased 334,100 B shares for a cash consideration of $9.8 million. The excess of the purchase price over the carrying value of B shares repurchased in the amount of $7.2 million was charged to retained earnings.

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share data and option data)

22. SHARE PURCHASE PLANS

(a) Quebecor Inc. plans

(i) Stock option plan

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

The following table gives details on changes to outstanding options for the years ended December 31, 2005 and 2004:

	2005		2004	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance at beginning of year	**1,743,349**	**$ 31.01**	1,778,349	$ 30.75
Granted	**205,000**	**32.25**	–	–
Exercised	**–**	**–**	(25,000)	17.85
Cancelled	**(235,000)**	**26.78**	(10,000)	16.86
Balance at end of year	**1,713,349**	**$ 31.74**	1,743,349	$ 31.01
Vested options at end of year	**1,501,266**	**$ 31.71**	1,654,183	$ 31.57

The following table gives summary information on outstanding options as at December 31, 2005:

	Outstanding options			Vested options	
Range of exercise price	Number	Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
$ 16.86 to 20.51	145,000	6.2	$ 20.26	141,667	$ 20.34
25.87 to 33.08	1,268,349	4.9	31.82	1,059,599	31.75
36.32 to 37.28	300,000	3.7	36.97	300,000	36.97
$ 16.86 to 37.28	**1,713,349**	**4.8**	**$ 31.74**	**1,501,266**	**$ 31.71**

For the year ended December 31, 2005, a compensation cost of $0.5 million (charge of $1.0 million and $0.6 million in 2004 and 2003) related to the plan was included in net income.

(ii) Deferred stock unit plan

The Quebecor Inc. deferred stock unit ("DSU") plan is for the benefit of the Company's directors. Under this plan, each director receives a portion of his compensation in the form of DSUs, such portion representing at least 50% of the annual retainer. Subject to certain conditions, each director may elect to receive in the form of units up to 100% of the total fees payable for his services as a director. The value of a DSU is based on the weighted average trading price of the Company's B shares. DSUs will entitle the holders thereof to dividends which will be paid in the form of additional units at the same rate that would be applicable to dividends paid from time to time on the Company's B shares. Subject to certain limitations, the DSUs will be redeemed by the Company when the director ceases to serve as a director of the Company. For the purpose of redeeming units, the value of a DSU shall correspond to the fair market value of the Company's B shares on the date of redemption. As at December 31, 2005 and 2004, the total number of DSUs outstanding under this plan was 61,623 and 49,409, respectively. The compensation expense related to the plan amounted to $0.4 million, $0.5 million and $0.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.

22. SHARE PURCHASE PLANS (continued)

(b) Quebecor World Inc. plans

(i) Employee share purchase plans

The Employee Stock Purchase Plan gives eligible Quebecor World Inc. employees in the United States the opportunity to acquire shares of Quebecor World Inc.'s capital stock for up to 4% of their gross salary and to have Quebecor World Inc. contribute, on the employee's behalf, a further amount equal to 17.5% of the total amount invested by the employee. The number of Quebecor World Inc. shares that may be issued and sold under the plan is limited to 4,000,000 Subordinate Voting Shares of Quebecor World Inc., subject to adjustments in the event of stock dividends, stock splits or similar events. As at December 31, 2005, 3,448 employees (4,107 as at December 31, 2004) were participating in the plan. The total number of plan shares issued on behalf of employees, including Quebecor World Inc.'s contribution, was 333,646 in 2005, including Quebecor World Inc.'s contribution of 49,692 (417,769 shares in 2004, including Quebecor World Inc.'s contribution of 62,221), which represents a compensation expenses of $1.2 million in 2005 ($1.4 million in 2004 and $2.7 million in 2003).

The Employee Share Investment Plan gives eligible Quebecor World Inc. employees in Canada the opportunity to subscribe for up to 4% of their gross salary to purchase shares of Quebecor World Inc.'s capital stock and to have Quebecor World Inc. contribute, on the employee's behalf, a further 20% of the amount invested by the employee. The number of Quebecor World Inc. shares that may be issued and sold under this plan is limited to 3,000,000 Subordinate Voting Shares of Quebecor World Inc., subject to adjustments in the event of stock dividends, stock splits or similar events. As at December 31, 2005, 1,861 employees (1,403 employees as at December 31, 2004) were participating in the plan. The total number of shares issued on behalf of employees under this plan was 154,186 in 2005, including the Company's contribution of 18,900 (166,705 in 2004, including Quebecor World Inc.'s contribution of 25,930) which represents a compensation expense of $0.6 million in 2005 ($0.6 million in 2004 and 2003).

(ii) Stock option plan

Under the stock option plan, a total of 7,204,734 Subordinate Voting Shares of Quebecor World Inc. has been reserved for participants in the stock option plan. As at December 31, 2005, the number of Subordinate Voting Shares of Quebecor World Inc. related to stock options outstanding was 5,947,970. The subscription price was usually equal to the share market price at the date the options were granted. The options vest over either four or five years. In 2005, the Board of Directors approved certain changes to the stock option plan. As such, all new grants are now half vesting over four years and half vesting upon attainment of specific performance targets based on earnings per share and share price growth. Also, the options may be exercised during a period not exceeding 10 years from the date they have been granted for options granted until 2004, or during a period not exceeding 6 years from the date they have been granted for options granted in 2005.

The number of stock options outstanding has fluctuated as follows:

	2005			2004		
	Options	**Weighted average exercise price**		Options	Weighted average exercise price	
Balance at beginning of year	**4,542,045**	**US$**	**23.81**	3,699,061	US$	22.52
Granted	**1,930,120**		**20.57**	1,181,023		23.83
Exercised	**(315,065)**		**20.52**	(55,363)		14.28
Cancelled	**(209,130)**		**22.24**	(282,676)		24.40
Balance at end of year	**5,947,970**	**US$**	**23.45**	4,542,045	US$	23.81
Vested options at end of year	**2,709,003**	**US$**	**24.92**	2,306,882	US$	23.81

In 2004, the Board of Directors approved a special option grant to buy 1,000,000 Subordinate Voting Shares of Quebecor World Inc. The subscription price was equal to the share market price at the grant date and the options are half vesting over time and half vesting upon attainment of specific performance targets based on earnings per share and share price growth.

22. SHARE PURCHASE PLANS (continued)

(b) Quebecor World Inc. plans (continued)

(ii) Stock option plan (continued)

The following table summarizes information on stock options outstanding and vested at December 31, 2005:

Range of exercise price	Number	Outstanding options: Weighted average years to maturity	Outstanding options: Weighted average exercise price	Vested options: Number	Vested options: Weighted average exercise price
US$ 15.00 to 18.00	84,009	1.3	US$ 16.65	84,009	US$ 16.65
18.00 to 21.00	1,185,332	5.5	19.76	256,982	19.47
21.00 to 24.00	2,336,322	4.8	22.04	1,058,717	22.90
24.00 to 29.00	1,872,606	6.7	26.37	848,003	27.53
29.00 to 32.00	469,701	4.4	29.33	461,292	29.28
US$ 15.00 to 32.00	**5,947,970**	**5.5**	**US$ 23.45**	**2,709,003**	**US$ 24.92**

Had the vested options been exercised as at December 31, 2005, Quebecor Inc.'s interest in Quebecor World Inc. would have decreased from 35.82% to 35.09% (35.38% to 34.77% as at December 31, 2004).

The compensation cost charged against income for the Quebecor World Inc. plan was $1.3 million for the year ended December 31, 2005 ($5.6 million in 2004). The fair value of options granted in 2003 was estimated using the Black-Scholes option-pricing model. Since 2004, the fair value of options granted is estimated using the binomial option pricing model. The following weighted average assumptions were used:

	2005	2004
Weighted average fair value of options at grant date	**US$ 4.32**	US$ 7.01
Risk-free interest rate	**3.26 to 4.13 %**	4.01 to 4.59 %
Dividend yield	**2 to 3 %**	2 to 3 %
Expected volatility	**33 to 34 %**	30 %
Expected life	**4.25 years**	7 years

(iii) Deferred stock unit plan

The Quebecor World Inc. deferred stock unit ("DSU") plan is for the benefit of Quebecor World Inc.'s directors. Under this plan, a portion of each director's compensation package is received in the form of units. The value of a DSU is based on the weighted average trading price of the Subordinate Voting Shares of Quebecor World Inc. Subject to certain limitations, the DSUs will be redeemed by Quebecor World Inc. when a director ceases to be a DSU participant. For the purpose of redeeming DSUs, the value of a DSU shall correspond to the fair market value of a Subordinate Voting Share of Quebecor World Inc. on the date of redemption.

As at December 31, 2005, the total number of DSUs outstanding under this plan was 215,447 (153,948 in 2004). A reversal of $0.7 million of the compensation expense was recorded for the year ended December 31, 2005 (an expense of $2.0 million in 2004 and $1.3 million in 2003).

(c) Quebecor Media Inc. stock option plan

Under a stock option plan established by Quebecor Media Inc., 6,185,714 Common Shares of Quebecor Media Inc. were set aside for officers, senior employees and other key employees of Quebecor Media Inc. and its subsidiaries. Each option may be exercised within a maximum period of 10 years following the date of grant at an exercise price not lower than, as the case may be, the fair market value of the Common Shares of Quebecor Media Inc. at the date of grant, as determined by its Board of Directors (if the Common Shares of Quebecor Media Inc. are not listed on a stock exchange at the time of the grant) or the trading price of the Common Shares of Quebecor Media Inc. on the stock exchanges where such shares are listed at the time of grant. Unless authorized by the Quebecor Media Inc. Compensation Committee in the context of a change of control, no options may be exercised by an optionee if the shares of Quebecor Media Inc. have not been listed on a recognized stock exchange. On December 31, 2007, if the shares of Quebecor Media Inc. have not been so listed, optionees may exercise, between January 1 and January 31 of each year, starting January 1, 2008, their right to receive an amount in cash equal to the difference between the fair market value, as determined by Quebecor Media Inc.'s Board of Directors, and the exercise price of their vested options. Except under specific circumstances, and unless the Compensation Committee decides otherwise, options vest over a five-year period in accordance with one of the following vesting schedules determined by the Compensation Committee at the time of grant: (i) equally over five years with the first 20% vesting on the first anniversary of the date of the grant; (ii) equally over four years with the first 25% vesting on the second anniversary of the date of grant; and (iii) equally over three years with the first 33% vesting on the third anniversary of the date of grant.

22. SHARE PURCHASE PLANS (continued)

(c) Quebecor Media Inc. stock option plan (continued)

The following table gives summary information on outstanding options granted as at December 31, 2005 and 2004:

		2005		2004
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance at beginning of year	**3,135,040**	**$ 17.99**	2,607,537	$ 16.93
Granted	**255,630**	**28.96**	663,930	21.84
Cancelled	**(162,349)**	**17.13**	(136,427)	16.48
Balance at end of year	**3,228,321**	**$ 18.90**	3,135,040	$ 17.99
Vested options at end of year	**939,965**	**$ 17.20**	268,282	$ 16.51

The following table gives summary information on outstanding options as at December 31, 2005:

	Outstanding options		Vested options	
Range of exercise price	Number	Weighted average years to maturity	Number	Weighted average exercise price
$ 15.19 to 21.77	2,921,392	7.0	936,335	$ 17.18
21.77 to 31.55	306,929	9.2	3,630	22.98
$ 15.19 to 31.55	**3,228,321**	**7.2**	**939,965**	**$ 17.20**

For the year ended December 31, 2005, a charge of $10.8 million related to the plan has been included in income ($15.1 million in 2004 and $6.6 million in 2003).

Had the vested options been exercised as at December 31, 2005, the Company's interest in Quebecor Media Inc. would have decreased from 54.72% to 54.31% (54.72% to 54.60% in 2004).

23. TRANSLATION ADJUSTMENT

The change in the translation adjustment included in shareholders' equity is the result of the fluctuation in the exchange rates on translation of net assets of self-sustaining foreign operations, exchange gains or losses on intercompany account balances that form part of the net investments and foreign exchange gains or losses related to derivative financial instruments used to hedge net investments.

The net change in translation adjustment is as follows:

	2005	2004
Balance at beginning of year	**$ (140.9)**	$ (91.9)
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	**(45.0)**	(51.7)
Portion included in income as a result of reductions in net investments in self-sustaining foreign operations	**5.5**	2.7
Balance at end of year	**$ (180.4)**	$ (140.9)

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(tabular amounts in millions of Canadian dollars, except per share and per option data)

24. COMMITMENTS AND CONTINGENCIES

(a) Leases

The Company rents premises and equipment under operating leases and has entered into long-term commitments to purchase services, capital equipment, and distribution and broadcasting rights that call for total future payments of $832.4 million. The minimum payments for the coming years are as follows:

	Leases	Other commitments
2006	$ 163.3	$ 130.2
2007	113.5	114.6
2008	78.6	7.5
2009	56.4	4.9
2010	39.7	–
2011 and thereafter	123.7	–

Operating lease rentals from continuing operations amounted to $144.7 million, $149.7 million and $153.8 million for the years ended December 31, 2005, 2004 and 2003, respectively.

(b) Long-term agreement

Newsprint represents a significant component of operating costs for the Newspapers segment. Sun Media Corporation uses one newsprint manufacturer to supply its requirements, and has entered into a long-term agreement with this supplier, which expired December 31, 2005. The Company is currently renegotiating the contract for the period ending December 31, 2006 under principally the same terms and conditions. The terms of the expired agreement provide the Company with an ongoing discount to market prices and require Sun Media Corporation to purchase an annual minimum of 15,000 tonnes of newsprint exclusively from this supplier.

(c) Other commitments

The Broadcasting segment has commitments to invest $62.5 million over a period ending in 2012 in the Canadian TV industry and in the Canadian communications industry to promote Canadian TV content and the development of communications. As at December 31, 2005, $18.7 million remained to be invested.

(d) Environment

The Company is subject to various laws, regulations and government policies, principally in North America and Europe, relating to health and safety, to the generation, storage, transportation, disposal and environmental emissions of various substances, and to environment protection in general. The Company believes it is in compliance in all material respects with such laws, regulations and government policies. Furthermore, the Company does not anticipate that maintaining compliance with such environmental statutes will have a material adverse effect upon its competitive or consolidated financial position.

(e) Contingencies

On March 13, 2002, legal action was initiated by the shareholders of a cable company against Videotron Ltd., Cable segment. They contend that Videotron Ltd. did not honor its commitment related to a stock purchase agreement signed in August 2000. The plaintiffs are requesting compensation totalling $26.0 million. Videotron Ltd. management claims the suit is not justified and intends to vigorously defend its case in Court.

A number of other legal proceedings are still outstanding against the Company and its subsidiaries. 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 results or its financial position.

25. GUARANTEES

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

Operating leases

The Company has guaranteed a portion of the residual value of certain assets under operating leases with expiry dates between 2006 and 2010 to 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 2016. Should the lessee default under the agreement, the Company must, under certain conditions, compensate the lessor. As at December 31, 2005, the maximum exposure with respect to these guarantees was $94.8 million and the Company has recorded a liability of $9.1 million related to these guarantees.

Sub-lease agreements

In the case of some of its assets under operating leases, the Company has entered into sub-lease agreements with expiry dates between 2006 and 2008. Should the sub-lessee default under the agreement, the Company must, under certain conditions, compensate the lessor for the default. The maximum exposure in respect of these guarantees is $9.1 million. As at December 31, 2005, the Company had not recorded a liability associated with these guarantees, other than that provided for unfavourable leases of $1.4 million related to the discontinued operations of the Printing segment since it is not likely at this time that the sub-lessee will default under the agreement and be required to honour the initial obligation. Recourse against the sub-lessee is also available, up to the total amount due.

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. However, in connection with certain disposals of businesses or real estate (note 7), Quebecor World Inc., Printing segment, has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. Quebecor World Inc. has also retained certain liabilities for events that have occur prior the sale, relating to tax, environmental, litigation and other matters. Generally, Quebecor World Inc. has indemnified the purchasers in the event that a third party asserts a claim against the purchaser that relate to a liability retained by Quebecor World Inc. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it could be required to pay to guaranteed parties. Finally, in connection with the sale of Mindready Solutions Inc., the Company has guaranteed, up to a maximum amount of $1.0 million that Company's commitments related to a premises lease which expires in 2011. The Company has not accrued any amount in respect of these items in the consolidated balance sheet.

Long-term debt

Under the terms of their respective U.S. indebtedness, certain Company subsidiaries have agreed to indemnify their respective lenders against changes in withholding taxes. These indemnifications extend for the term of the indebtedness and do not have a limit on the maximum potential liability. The nature of the indemnification agreement prevents the Company from estimating the maximum potential liability it could be required to pay to lenders. Should such amounts become payable, the Company and its subsidiaries would have the option of repaying those debts. No amount has been accrued in the consolidated financial statements with respect to these indemnifications.

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.

Irrevocable standby letters of credit

Certain of the Company subsidiaries have granted irrevocable standby letters of credit, issued by high rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As of December 31, 2005, the guarantee instruments amounted to $101.0 million. The Company has not recorded any additional liability with respect to these guarantees, as the Company does not expect to make any payments in excess of what is recorded in the Company's financial statements. The guarantee instruments mature at various dates in 2006 and 2007.

26. FINANCIAL INSTRUMENTS

The Company has issued debt in foreign currency and has operations in, and exports its products to, several countries and is therefore exposed to risks related to foreign exchange fluctuations and also subject to risks related to interest rate fluctuations. To reduce these risks, Quebecor Inc. and its subsidiaries use derivative financial instruments. None of these instruments is held or issued for speculative purposes.

In February 2005, Quebecor World Inc., Printing segment, sold foreign exchange forward contracts held to hedge its net investment in a foreign subsidiary for a cash consideration of $85.7 million. These foreign exchange forward contracts were already recorded at their fair value and all resulting gains were previously recorded in cumulative translation adjustment.

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26. FINANCIAL INSTRUMENTS (continued)

(a) Description of derivative financial instruments

(i) Management of foreign exchange risk

Foreign exchange forward contracts:

	2005		2004	
Currencies (sold/bought)	Average rate[1]	Notional amount[2]	Average rate[1]	Notional amount[2]
Quebecor World Inc. and its subsidiaries				
US$/$				
Less than 1 year	**0.8125**	**$ 265.6**	0.6534	$ 144.4
Between 1 and 3 years	**0.8323**	**39.7**	0.6323	441.1
EUR/US$				
Less than 1 year	**0.8276**	**348.8**	0.7477	223.7
SEK/US$				
Less than 1 year	**7.7751**	**51.6**	6.6918	50.6
GBP/EUR				
Less than 1 year	**0.6857**	**12.4**	0.6956	26.2
Between 1 and 3 years	**–**	**–**	0.7068	2.2
Other				
Less than 1 year	**–**	**112.5**	–	106.4
Between 1 and 3 years	**–**	**0.1**	–	11.3
Quebecor Media Inc.				
$/EUR				
August 2007	**1.4310**	**58.1**	–	–
$/CHF				
February 2007	**0.9050**	**11.9**	–	–
Sun Media Corporation				
$/US$				
February 2013	**1.5227**	**312.2**	1.5227	246.4
Less than 1 year	**–**	**–**	1.2016	1.7
Videotron Ltd.				
$/US$				
Less than 1 year	**1.1790**	**10.4**	1.3201	86.5

[1] Rates are expressed as the number of units of the currency sold for one unit of currency bought.

[2] Exchange rates as at December 31, 2005 and 2004 were used to translate amounts in foreign currencies.

26. FINANCIAL INSTRUMENTS (continued)

(a) Description of derivative financial instruments (continued)

(i) Management of foreign exchange risk (continued)

Cross-currency interest rate swaps:

	2005		2004	
Currencies (sold/bought)	Average rate[1]	Notional amount[2]	Average rate[1]	Notional amount[2]
Quebecor World Inc and its subsidiaries				
EUR/US$				
Less than 1 year	**0.7963**	**$ 78.0**	0.7461	$ 100.1
Between 1 and 3 years	–	–	0.8226	41.6
SEK/US$				
Less than 1 year	–	–	7.4	3.7

[1] Rates are expressed as the number of units of the currency sold for one unit of currency bought.

[2] Exchange rates as at December 31, 2005 and 2004 were used to translate amounts in foreign currencies.

	Period covered	Notional amount	Annual effective interest rate	Annual nominal interest rate	Exchange rate of interest and capital payments per CDN dollar for one U.S. dollar
Quebecor Media Inc.					
Senior Notes	2001 to 2011	US$ 586.8	11.98 %	11.125 %	1.5255
Senior Discount Notes	2001 to 2011	US$ 282.9	14.60 %	13.75 %	1.5822[1]
Videotron Ltd. and its subsidiaries					
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' acceptance 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

[1] As per the agreement, the exchange rate includes an exchange fee.

26. FINANCIAL INSTRUMENTS (continued)

(a) Description of derivative financial instruments (continued)

(i) Management of foreign exchange risk (continued)

Cross-currency interest rate swaps (continued):

	Period covered		Notional amount	Annual effective interest rate	Annual nominal interest rate	Exchange rate of interest and capital payments per CDN dollar for one U.S. dollar
Sun Media Corporation and its subsidiaries						
Senior Notes	2003 to 2008	US$	155.0	8.17 %	7.625 %	1.5227
Senior Notes	2008 to 2013	US$	155.0	Bankers' acceptance 3 months + 3.70%	7.625 %	1.5227
Senior Notes	2003 to 2013	US$	50.0	Bankers' acceptance 3 months + 3.70%	7.625 %	1.5227
Term loan "B" credit facility	2003 to 2009	US$	199.3	Bankers' acceptance 3 months + 2.48%	LIBOR + 2.00%	1.5175

Some of these cross-currency swap agreements are subject to a ceiling on negative fair market value, below which Quebecor Media Inc. may be required to make prepayments to limit the exposure of the counterparties. Such prepayments are offset by equal reductions in Quebecor Media Inc.'s commitments under the agreements. Because of the appreciation of the Canadian dollar against the U.S. dollar, Quebecor Media Inc. was required to make prepayments of $75.9 million in 2005 and $197.7 million in 2004. These prepayments were financed from Quebecor Media Inc.'s available cash and from its existing credit facilities. As part of the refinancing of its debts on January 17, 2006 (note 29), Quebecor Media Inc. settled these existing cross-currency swap agreements and entered into new hedging contracts under which Quebecor Media Inc. is not required to make prepayments in the future.

Also, certain cross-currency interest rate swaps entered into by Quebecor Media Inc. and its subsidiaries include an option that allows each party to unwind the transaction on a specific date or at any time, from an anniversary date of the transaction to maturity, at the then-market value.

26. FINANCIAL INSTRUMENTS (continued)

(a) Description of derivative financial instruments (continued)

(ii) Management of interest rate risk

The Company's subsidiaries have entered into interest rate swaps to manage their interest rate exposure and have committed to exchange, at specific intervals, the difference between the fixed and floating interest rates calculated by reference to the notional amounts.

The amounts of outstanding contracts as at December 31, 2005, by subsidiary and by currency, are shown in the table below:

Maturity		Notional amount	Pay/receive	Fixed rate	Floating rate
Quebecor World Inc. and its subsidiaries					
March 2006	US$	33.0	Pay fixed/ receive floating	7.20 %	LIBOR 3 months + 1.36%
November 2008	US$	200.0	Pay floating/ receive fixed	4.88 %	LIBOR 3 months + 1.53 to 1.58%
Videotron Ltd. and its subsidiaries					
May 2006	$	90.0	Pay fixed/ receive floating	5.41 %	Bankers' acceptance 3 months
September 2007	$	5.0	Pay fixed/ receive floating	3.75 %	Bankers' acceptance 3 months

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share and per option data)

26. FINANCIAL INSTRUMENTS (continued)

(b) Fair value of financial instruments

The carrying amount of cash and cash equivalents, restricted cash, temporary investments, accounts receivable, bank indebtedness, accounts payable and accrued charges, dividend payable and the additional amount payable approximates their fair values since these items will be realized or paid within one year or are due on demand.

Financial instruments with a fair value that is different from their carrying amount as at December 31, 2005 and 2004 are as follows:

	2005		2004	
	Carrying value	**Fair value**	Carrying value	Fair value
Quebecor Inc.				
Long-term debt[1]	**$ (149.0)**	**$ (149.0)**	$ (147.3)	$ (147.3)
Exchangeable debentures	**(405.4)**	**(405.4)**	(692.7)	(692.7)
Deferred gain on the marked-to-market of the exchangeable debentures	**(403.5)**	**–**	(242.2)	–
Quebecor World Inc. and its subsidiaries				
Long-term debt[1]	**(2,023.1)**	**(1,982.7)**	(2,208.8)	(2,336.2)
Convertible Notes[1]	**(134.3)**	**(140.5)**	(135.3)	(146.5)
Interest rate swaps	**–**	**(12.1)**	–	(6.1)
Foreign exchange forward contracts	**5.5**	**18.0**	87.5	132.0
Cross-currency interest rate swaps	**4.2**	**4.2**	(20.1)	(20.1)
Commodity swaps	**(0.1)**	**(0.6)**	(0.1)	(1.7)
Quebecor Media Inc.				
Long-term debt	**(988.1)**	**(1,078.8)**	(1,140.7)	(1,332.9)
Cross-currency interest rate swaps	**(21.5)**	**(261.3)**	(3.9)	(241.9)
Foreign exchange forward contract	**–**	**(1.8)**	–	–
Videotron Ltd. and its subsidiaries				
Long-term debt	**(971.7)**	**(967.4)**	(888.9)	(901.1)
Interest rate swaps	**(0.9)**	**(0.9)**	(4.6)	(4.6)
Cross-currency interest rate swaps	**(73.7)**	**(135.0)**	(45.5)	(72.3)
Foreign exchange forward contract	**–**	**(0.2)**	(8.4)	(8.4)
Sun Media Corporation and its subsidiaries				
Long-term debt[1]	**(466.3)**	**(476.1)**	(484.3)	(507.7)
Cross-currency interest rate swaps and foreign exchange forward contract	**(154.1)**	**(186.5)**	(147.4)	(169.8)
TVA Group Inc. and its subsidiaries				
Long-term debt	**(107.1)**	**(107.1)**	(34.9)	(34.9)

[1] Including current portion.

The fair values of the financial liabilities are estimated based on discounted cash flows using year-end market yields or market value of similar instruments with the same maturity. The fair value of the derivative financial instruments is estimated using year-end market rates, and reflects the amount the Company would receive or pay if the instruments were closed out at those dates.

26. FINANCIAL INSTRUMENTS (continued)

(c) Commodity risk management

Quebecor World Inc., Printing segment, has entered into commodity swap agreements to manage a portion of its North American natural gas exposure. Quebecor World Inc. is committed to exchange, on a monthly basis, the difference between a fixed price and a floating Canadian natural gas price index on a notional quantity of 0.2 million of gigajoules for 2006 (at an average price of US$9.845/gigajoules as at December 31, 2005), and the difference between a fixed price and a floating U.S. natural gas price index on a notional quantity of 2.2 million of MMBTU for 2006 (at an average price of US$10.909/MMBTU as at December 31, 2005).

(d) Credit risk management

The Company is exposed to credit losses resulting from defaults by counterparties when using financial instruments.

When the Company enters into derivative contracts, the counterparties are international and Canadian banks that have a minimum credit rating of A- from Standard & Poor's or A3 from Moody's and are subject to concentration limits. The Company does not foresee any failure by counterparties in meeting their 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 at December 31, 2005, 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 Company believes that the product-line and geographic diversity of its customer base is instrumental in reducing its credit risk, as well as the impact of fluctuations in local market or product-line demand. The Company has long-term contracts with most of its largest customers of the Printing segment. These contracts usually include price-adjustment clauses based on the cost of paper, ink and labour. The Company does not believe that it is exposed to an unusual level of customer credit risk.

27. RELATED PARTY TRANSACTIONS

During the year, the Company made purchases and incurred rent charges with affiliated companies in the amount of $19.5 million ($15.4 million in 2004 and $15.3 million in 2003), included in the cost of sales and selling and administrative expenses. The Company made sales to affiliated companies in the amount of $0.5 million ($0.4 million in 2004 and $0.3 million in 2003). These transactions were concluded and accounted for at the exchange value.

28. PENSION PLANS AND POSTRETIREMENT BENEFITS

The Company maintains various flat-benefit plans and various final-pay plans with indexation features from none to 2%. Also, the Company's policy is to maintain its contribution at a level sufficient to cover benefits. Actuarial valuations of the Company's numerous pension plans were performed once at least in the last three years and the next required valuations will be performed at least once in the next three years.

The Company provides postretirement benefits to eligible employees. The costs of these benefits, which are principally health care, are accounted for during the employee's active service period.

The following tables give a reconciliation of the changes in the plans' benefit obligations and the fair value of plan assets for the years ended December 31, 2005 and 2004, and a statement of the funded status as at those dates. For data of the Printing segment, the measurement dates were September 30, 2005 and 2004:

	Pension benefits		Postretirement benefits	
	2005	2004	**2005**	2004
Change in benefit obligations				
Benefit obligations at beginning of year	**$ 1,675.1**	$ 1,681.5	**$ 114.9**	$ 159.7
Service costs	**57.9**	61.1	**3.1**	3.5
Interest costs	**100.5**	101.9	**6.9**	9.4
Plan participants' contributions	**16.6**	14.2	**2.3**	2.7
Actuarial loss (gain)	**166.4**	(14.5)	**15.2**	(18.5)
Benefits and settlements paid	**(110.0)**	(98.0)	**(11.5)**	(12.7)
Plan amendments	**5.6**	(1.7)	**(4.2)**	(16.9)
Curtailment and divestitures (gain) loss	**(11.4)**	1.6	**(3.2)**	(7.8)
Other	**–**	–	**–**	1.9
Foreign currency changes	**(47.5)**	(71.0)	**(2.4)**	(6.4)
Benefit obligations at end of year	**$ 1,853.2**	$ 1,675.1	**$ 121.1**	$ 114.9

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share and per option data)

28. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

	Pension benefits		Postretirement benefits	
	2005	2004	**2005**	2004
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 1,166.0**	$ 1,005.9	**$ –**	$ –
Actual return on plan assets	**125.7**	113.2	**–**	–
Employer contributions	**83.2**	174.1	**9.2**	10.0
Plan participants' contributions	**16.6**	14.2	**2.3**	2.7
Benefits and settlements paid	**(110.0)**	(98.0)	**(11.5)**	(12.7)
Foreign currency changes	**(25.0)**	(43.4)	**–**	–
Fair value of plan assets at end of year	**$ 1,256.5**	$ 1,166.0	**$ –**	$ –

As at December 31, 2005, plan assets included shares of the Company and its subsidiaries, in an amount of $2.7 million ($2.1 million as at December 31, 2004).

The plan assets are comprised of:

	2005	2004
Equity securities	**60.9 %**	58.8 %
Debt securities	**37.0**	37.5
Other	**2.1**	3.7
	100.0 %	100.0 %

	Pension benefits		Postretirement benefits	
	2005	2004	**2005**	2004
Reconciliation of funded status				
Excess of benefit obligations over fair value of plan assets at end of year	**$ (596.8)**	$ (509.1)	**$ (121.1)**	$ (114.9)
Unrecognized actuarial loss	**564.3**	475.4	**26.3**	12.6
Unrecognized net transition (asset) obligation	**(9.8)**	(11.8)	**0.5**	0.6
Unrecognized prior service cost (benefit)	**34.3**	36.2	**(20.3)**	(18.2)
Adjustment for fourth quarter contributions	**5.8**	4.3	**1.9**	2.2
Valuation allowance	**(17.3)**	(16.4)	**–**	–
Other	**(0.1)**	(0.1)	**–**	–
Net amount recognized	**$ (19.6)**	$ (21.5)	**$ (112.7)**	$ (117.7)

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

	Pension benefits		Postretirement benefits	
	2005	2004	**2005**	2004
Benefit obligations	**$ (1,846.8)**	$ (1,502.8)	**$ (121.1)**	$ (114.9)
Fair value of plan assets	**1,249.3**	984.8	**–**	–
Funded status – Plan deficit	**$ (597.5)**	$ (518.0)	**$ (121.1)**	$ (114.9)

28. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Amounts recognized in the consolidated balance sheets are as follows:

	Pension benefits		Postretirement benefits	
	2005	2004	**2005**	2004
Accrued benefit liability	**$ (107.7)**	$ (118.7)	**$ (112.7)**	$ (117.7)
Deferred pension charge[1]	**88.1**	97.2	**–**	–
Net amount recognized	**$ (19.6)**	$ (21.5)	**$ (112.7)**	$ (117.7)

[1] Included in other assets.

Components of the net benefit costs are as follows:

	Pension benefits			Postretirement benefits		
	2005	2004	2003	**2005**	2004	2003
Service costs	**$ 57.9**	$ 61.1	$ 57.7	**$ 3.1**	$ 3.5	$ 3.1
Interest costs	**100.5**	101.9	100.9	**6.9**	9.4	10.3
Actual (return) loss on plan assets	**(125.7)**	(113.2)	(147.4)	**–**	–	–
Current actuarial (gain) loss	**166.4**	(14.5)	144.4	**15.2**	(18.5)	9.5
Current prior service costs (benefits)	**5.6**	0.3	2.3	**–**	–	(0.3)
Curtailment loss, plan amendments and other	**4.4**	3.9	6.1	**(6.2)**	(15.0)	–
Elements of net benefit costs before adjustments to recognize the long-term nature and valuation allowance	**209.1**	39.5	164.0	**19.0**	(20.6)	22.6
Difference between actual and expected return on plan assets	**32.2**	18.1	52.4	**–**	–	–
Deferral of amount arising during the period:						
Actuarial (gain) loss	**(166.4)**	14.5	(144.4)	**(15.2)**	18.5	(9.5)
Prior service costs	**(5.6)**	(0.3)	(2.3)	**–**	–	0.3
Plan amendments and other	**5.1**	2.0	(3.0)	**–**	16.9	–
Amortization of previously deferred amounts:						
Actuarial loss	**17.6**	16.4	8.4	**0.8**	2.6	2.2
Prior service costs (benefits)	**1.6**	3.0	1.2	**1.6**	(0.4)	(0.3)
Transitional obligations	**(1.5)**	(1.5)	(1.5)	**0.1**	–	0.1
Total adjustments to recognize the long-term nature of benefit costs	**(117.0)**	52.2	(89.2)	**(12.7)**	37.6	(7.2)
Valuation allowance	**1.0**	2.6	1.1	**–**	–	–
Net benefit costs	**$ 93.1**	$ 94.3	$ 75.9	**$ 6.3**	$ 17.0	$ 15.4

The expense related to defined contribution pension plans amounted to $23.5 million in 2005 ($26.8 million in 2004 and $36.3 million in 2003). The defined contribution pension plan benefit cost included contributions to multi-employer plans of $8.2 million for the year ended December 31, 2005 ($9.4 million in 2004 and $11.0 million in 2003).

The total cash amount paid or payable for employee future benefits for all plans, consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, totalled $103.7 million for the year ended December 31, 2005 ($137.4 million in 2004 and $127.5 million in 2003).

Years ended December 31, 2005, 2004 and 2003
(tabular amounts in millions of Canadian dollars, except per share and per option data)

28. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

The weighted average rates used in the measurement of the Company's benefit obligations as at December 31 and current periodic benefit costs are as follows:

	Pension benefits			Postretirement benefits		
	2005	2004	2003	**2005**	2004	2003
Benefit obligations						
Discount rate	**5.3 %**	5.9 %	6.0 %	**5.3 %**	6.0 %	5.9 %
Rate of compensation increase	**3.4**	3.4	3.5	**–**	–	–
Current periodic costs						
Discount rate	**5.9 %**	6.0 %	6.7 %	**6.0 %**	5.9 %	6.8 %
Expected return on plan assets[1]	**7.6**	7.8	8.1	**–**	–	–
Rate of compensation increase	**3.4**	3.5	3.4	**–**	–	–

[1] After management and professional fees.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 8.2% for Quebecor World Inc. plans and 7.8% for Quebecor Media Inc. plans at the end of 2005. The cost, as per the estimate, is expected to decrease gradually over the next six years to 4.5% and 5.0% and to remain at that level thereafter for Quebecor World Inc. and Quebecor Media Inc. plans, respectively. A one-percentage point change in the assumed health care cost trend would have the following effects:

	Postretirement benefits	
Sensitivity analysis	1% increase	1% decrease
Effect on service and interest costs	$ 1.4	$ (1.3)
Effect on benefit obligation	14.2	(11.5)

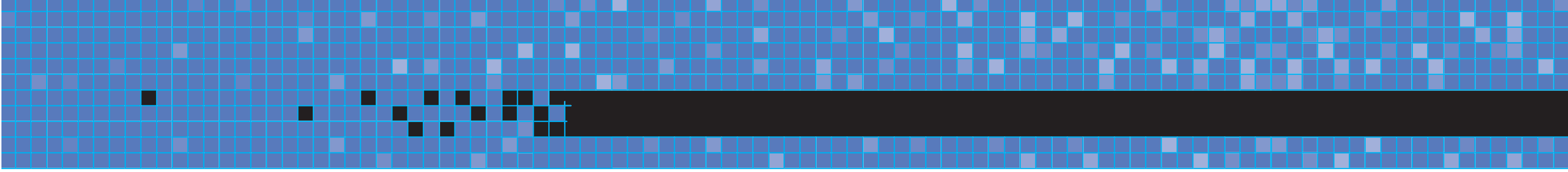
29. SUBSEQUENT EVENTS

(a) On January 16, 2006, Quebecor World Inc., Printing segment, concluded an agreement with Société Générale Corporate and Investment Banking for a Canadian dollar equivalent of 136.0 million euros long-term committed credit facility relating to purchases of MAN Roland presses as part of the North American retooling program. The unsecured facility will be drawn over the course of the next 25 months and will be repaid over the next 10 years at lower costs than alternate financing.

(b) On January 17, 2006, Quebecor Media Inc. issued new Senior Notes of US$525.0 million in aggregate principal amount, bearing interest at 7.75% and maturing in March 2016. In addition, Quebecor Media Inc. refinanced its credit facilities through the execution of a $125.0 million term loan "A" credit facility, maturing in January 2011, a US$350.0 million term loan "B" credit facility, maturing in January 2013 and a $100.0 million five-year revolving credit facility. Funds from new Senior Notes and new term loans "A" and "B" credit facilities, in addition to borrowings from Videotron Ltd. existing revolving credit facility and a new credit facility of Sun Media Corporation were used to repurchase US$561.6 million in aggregate principal amounts of Quebecor Media Inc.'s outstanding 11.125% Senior Notes and US$275.6 million in aggregate principal amounts at maturity of Quebecor Media Inc.'s outstanding 13.75% Senior Discount Notes, pursuant to tenders offers announced December 16, 2005. In the tender offers, the total consideration per US$1,000 principal amount of Senior Notes was US$1,083.49 and the total consideration per US$1,000 principal amount at maturity of Senior Discount Notes was US$1,042.64, which includes a tender premium of US$30.00 per US$1,000 of principal, or principal amount at maturity, in the case of the Discount Notes, in respect of Notes tendered on or prior to December 30, 2005. As a result, Quebecor Media Inc. will record an estimated loss of $332.0 million comprised of the excess of the consideration paid of $1.3 billion, including disbursements for unwinding hedging contracts, over the carrying value of the Notes and of the hedging contracts, and the write-off of deferred financing costs.

(c) On March 6, 2006, Quebecor World Inc. completed a private offering of US$450.0 million aggregate principal amount of 8 3/4% Senior Notes due March 15, 2016, which were sold at pair. The net proceeds from the sale of the Senior Notes amount to approximately US$442.2 million and will be used to repay in full US$250.0 million aggregate principal amount of 7.20% Senior Notes due March 28, 2006 and the balance will be used for general corporate purposes, including the reduction of other indebtedness.

(d) On March 15, 2006, Quebecor World Inc. announced that, in accordance with provisions applicable to Series 4 Redeemable First Preferred Shares ("the Shares"), the 8,000,000 Shares will be redeemed on April 18, 2006 at $25.2185 per share. This price represents $25.00 per share (for a total amount of $200.0 million) plus dividends accruing from March 1, 2006.



LIST OF DIRECTORS AND OFFICERS OF QUEBECOR INC.

BOARD OF DIRECTORS

Françoise Bertrand(2)(3)
President,
Fédération des chambres de commerce du Québec

Alain Bouchard(2)
Chairman of the Board,
President and Chief Executive Officer,
Alimentation Couche-Tard Inc.

Robert Dutton(3)
President and Chief Executive Officer,
RONA Inc.

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer,
Transat A.T. Inc.

Jean La Couture, FCA(1)
President,
Huis Clos ltée

Pierre Laurin(1)(3)
Executive in Residence,
HEC Montréal

The Right Honourable Brian Mulroney, P.C., C.C., LL.D
Senior Partner,
Ogilvy Renault, and
Chairman of the Board,
Quebecor World Inc.

Jean Neveu
Chairman of the Board,
Quebecor Inc. and
TVA Group Inc.

Pierre Parent(1)(2)
President,
Resort One and
R.O. Canada Inc.

Érik Péladeau
Executive Vice President and
Vice Chairman of the Board,
Quebecor Inc., and
Vice Chairman of the Board,
Quebecor Media Inc. and
Quebecor World Inc.

Pierre Karl Péladeau
President and Chief Executive Officer,
Quebecor Inc. and
Quebecor World Inc.

OFFICERS

Jean Neveu
Chairman of the Board

Érik Péladeau
Executive Vice President and
Vice Chairman of the Board

Pierre Karl Péladeau
President and Chief Executive Officer

Jacques Mallette
Executive Vice President and
Chief Financial Officer

Luc Lavoie
Executive Vice President,
Corporate Affairs

Louis St-Arnaud
Senior Vice President,
Legal Affairs and Secretary

Mark D'Souza
Vice President and Treasurer

Michel Ethier
Vice President, Taxation

Roger Martel
Vice President, Internal Audit

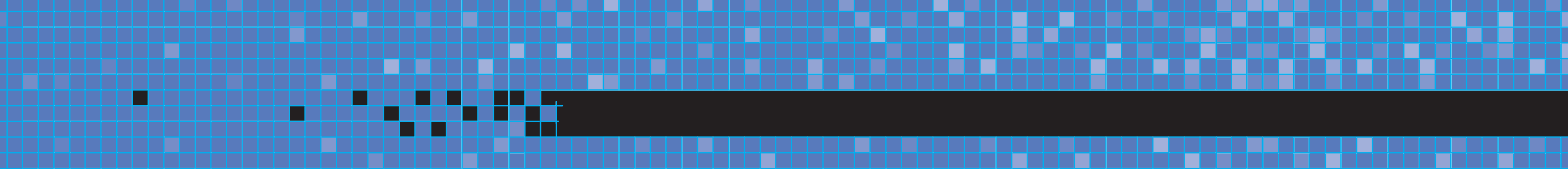
Denis Sabourin
Vice President and Corporate Controller

Julie Tremblay
Vice President, Human Resources

Frédéric Despars
Senior Director, Legal Affairs

Claudine Tremblay
Senior Director, Corporate Secretariat
and Assistant Secretary

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance and Nominating Committee



ANNUAL MEETING
Shareholders are invited to attend the Annual Meeting of Shareholders to be held at 10:30 a.m. on Thursday, May 11, 2006, at Studio G, TVA Group Inc., 1600, boul. de Maisonneuve Est, Montréal (Québec).

STOCK EXCHANGE LISTINGS
The Class A Multiple Voting Shares and the Class B Subordinate Voting Shares are listed on the Toronto Stock Exchange, under the ticker symbols QBR.MV.A and QBR.SV.B.

REGISTRAR AND TRANSFER AGENT
Computershare Investor Services Inc.
1500 rue University
Bureau 700
Montréal (Québec) H3A 3S8

TRANSFER OFFICES
– Toronto
– Vancouver

CO-TRANSFER AGENT
Computershare Trust Company, Inc. – Denver, Colorado

AUDITORS
KPMG LLP

INFORMATION
For further information or to obtain copies of the Annual Report or the Management Proxy Circular, please contact the Company's Corporate Communications at (514) 380-1973, or address correspondence to:
612, rue Saint-Jacques
Montréal (Québec) H3C 4M8
Web site: www.quebecor.com or through SEDAR at www.sedar.com

Vous pouvez vous procurer une version française de ce rapport annuel à l'adresse indiquée ci-dessus.

DUPLICATE COMMUNICATIONS
Shareholders who receive more than one copy of a document, particularly of the Annual Report or the quarterly reports, are requested to notify Computershare Investor Services Inc. at (514) 982-7555 or 1 800 564-6253.

CURRENCY
All dollar amounts appearing in this Annual Report are in Canadian dollars, except if another currency is specifically mentioned.

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