# QUEBECOR INC.

ANNUAL REPORT 2006

# Table of contents


2. **2006 in brief**

4. **Highlights**

5. **Message to Shareholders**

10. **Videotron Ltd.**
The largest cable operator in Québec and leading provider of Internet access, cable telephone and wireless telephone services

14. **Sun Media Corporation**
The largest newspaper chain in Québec

18. **TVA Group Inc.**
The largest private French-language broadcaster in North America

22. **Archambault Group Inc.**
The largest chain of music stores in eastern Canada

24. **Quebecor Media Book Group Inc.**
The largest French-language publishing and distributing group in Québec and Canada

26. **Canoe Inc.**
A leading Canadian network of English- and French-language Internet properties

28. **Nurun Inc.**
A leading interactive media and marketing agency in North America, Europe and Asia

30. **Le Superclub Vidéotron ltée**
A major national entertainment products chain with locations in 9 of Canada's 10 provinces

32. **Quebecor World Inc.**
One of the largest commercial print media services companies in the world

34. **Corporate Giving**

37. **Financial Section**

135. **Board of Directors and Officers of Quebecor Inc.**

136. **General Information**

# 2006 in brief

le journal de montréal
Un autre monument DISPARAÎT
UNE SOUPE DE MICROBES
Le palmarès de 75 piscines de Montréal

**January**
Nurun closes acquisition of China Interactive, a Shanghai-based interactive marketing agency.

Quebecor Media refinances long-term debt and significantly reduces annual financing costs.

**February**
TVA Group launches digital specialty channel Prise 2.

Videotron launches Extreme Plus high-speed Internet service.

**March**
*Le Journal de Montréal* readership up 7 days a week.
(Source: NADbank® survey)

Quebecor World closes US$450.0 million private offering.

**April**
Videotron Business Solutions telephone service for small business is launched.

Archambault Group creates *Grand Prix de la relève musicale* award for young musicians.

Canoe Network celebrates 10th birthday.

**May**
Quebecor announces $36.0 million head office expansion project.

**June**
Quebecor World becomes exclusive printer of all of outdoor gear retailer Bass Pro Shops' catalogs.

**July**
Nurun closes acquisition of Madrid-based interactive communications agency Crazy Labs.

**August**
Videotron launches wireless telephone service.

Quebecor World announces transformation plan.

**September**
Quebecor, owner of the largest group of French-language publishing houses in Canada, becomes official presenter of the *Festival International de la Poésie de Trois-Rivières* in Québec.

**October**
Printing of *The Ottawa Sun* newspaper transferred to new printing plant in Saint-Janvier-de-Mirabel, Québec.

Quebecor World signs billion-dollar multi-year contract with Yellow Pages Group up to year 2020.

**November**
TVA Publishing becomes sole owner of television guides *TV Hebdo* and *TV 7 Jours*.

Two new free dailies, *24 Hours*™ and *24 Heures*MC, launched in Ottawa area.

Canoe logs 6,781,000 unique visitors, a monthly record.
(Source: comScore Media Metrix)

Leading Québec academic publisher CEC Publishing marks 50th birthday.

*First row (standing):*

**Louis St-Arnaud**
Senior Vice President, Legal Affairs and Secretary, Quebecor Inc.

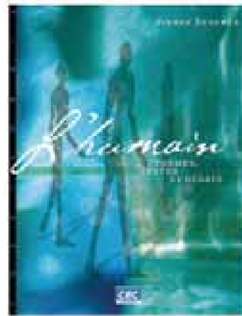
**Serge Gouin**
Chairman of the Board, Quebecor Media Inc.

*Second row:*

**Julie Tremblay**
Vice President, Human Resources, Quebecor Inc.

**Luc Lavoie**
Executive Vice President, Corporate Affairs, Quebecor In

**Louis Morin**
Vice President and Chief Financial Officer, Quebecor Media Inc.



**December**

New technology which will make Extreme Plus Internet service up to five times faster goes into beta testing.

Quebecor World closes US$400.0 million private offering.

Videotron launches new-style retail outlet in Montréal carrying all of its products: digital cable television, Internet access, cable telephone service and wireless telephone service.

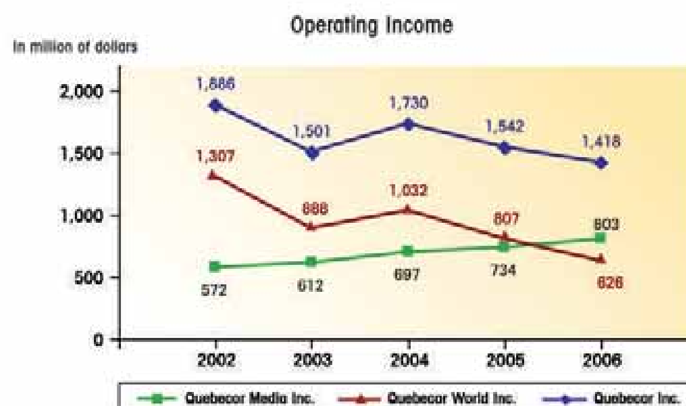
# Highlights

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars, except earnings per share data)

| | 2006 | 2005[1] (revised) | 2004[1] (revised) |
|---|---|---|---|
| **Operations** | | | |
| Revenues | $ 9,822.1 | $ 10,208.5 | $ 10,613.4 |
| Operating income[2] | 1,417.8 | 1,542.1 | 1,729.9 |
| Contribution to net loss or net income: | | | |
| Continuing operations | 124.4 | 102.1 | 114.1 |
| Gain on re-measurement of exchangeable debentures | 25.5 | 101.8 | 36.4 |
| Unusual items and impairment of goodwill and intangible assets | (242.8) | (127.3) | (39.4) |
| Discontinued operations | (1.0) | (6.9) | 1.1 |
| Net (loss) income | (93.9) | 69.7 | 112.2 |
| Cash flows provided by continuing operations | 538.7 | 974.8 | 995.1 |
| **Basic per share data** | | | |
| Contribution to net loss or income: | | | |
| Continuing operations | $ 1.94 | $ 1.58 | $ 1.76 |
| Gain on re-measurement of exchangeable debentures | 0.39 | 1.58 | 0.57 |
| Unusual items and impairment of goodwill and intangible assets | (3.77) | (1.97) | (0.61) |
| Discontinued operations | (0.02) | (0.11) | 0.02 |
| Net (loss) income | (1.46) | 1.08 | 1.74 |
| Dividends | 0.20 | 0.19 | 0.08 |
| Shareholders' equity | 20.35 | 21.87 | 21.69 |
| Weighted average number of shares outstanding (in millions) | 64.3 | 64.5 | 64.6 |
| **Financial position** | | | |
| Long-term debt | $ 5,209.4 | $ 4,687.7 | $ 4,888.2 |
| Shareholders' equity | 1,308.7 | 1,405.9 | 1,401.2 |
| Total assets | 13,612.5 | 13,670.9 | 14,428.6 |
| **Employees** | 43,000 | 46,000 | 47,000 |

[1] Please refer to note 1 to the consolidated financial statements for the year ended December 31, 2006.

[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 57 of this Annual Report.



# Message to Shareholders

Healthy diversification of Quebecor's assets continued generating positive results for the Company in 2006.

Quebecor Media grew its revenues by 11.4% and its operating income by 9.4%. The robust performance was spearheaded by the Cable segment, which posted excellent numbers on the strength of record customer growth in all its lines of business: digital cable television, Internet access and cable telephone service. Quebecor World's results were again impacted by overcapacity in the printing industry.

**Pierre Karl Péladeau**
President and Chief Executive Officer

**Jean Neveu**
Chairman of the Board

Quebecor's consolidated revenues were down 3.8% from the previous year to $9.82 billion. The increase in Quebecor Media's revenues only partially offset falling revenues at Quebecor World due to conversion into Canadian dollars, as well as continuing pricing pressures and lower volumes.

Quebecor posted a $93.9 million ($1.46 per basic share) net loss in 2006, compared with net income of $69.7 million ($1.08 per basic share) in 2005. The weaker results were due primarily to unusual items such as the recognition in 2006 of an unusual loss on debt refinancing generated by the refinancing of Quebecor Media's notes, a decrease in the unrealized gain on re-measurement of exchangeable debentures, and an increase in the reserve for restructuring and impairment of assets. It should be noted that the refinancing of notes in 2006 has made it possible for Quebecor Media and its subsidiaries to take advantage of lower interest rates and will significantly reduce future financial expenses, in comparison with those that would otherwise have been incurred.

### Fast-paced change

The year 2006 saw accelerating change in most of the industries in which we operate. The growing popularity of the Internet and new media is revolutionizing the way consumers get information, get entertainment products and communicate.

Anyone who has looked at this issue understands that the changes we are experiencing are not a passing fad and that we have to work with radically and permanently altered business models. All of Quebecor's properties have been affected, directly or indirectly, by the shock waves. The pressure on our printing plants, daily newspapers and

over-the-air television networks has been particularly intense. The business environment has also become more competitive for our printing, magazine, cable telephone, retail and Internet properties.

**Glowing results at Videotron**
Videotron posted remarkable performances in all its lines of business during the last financial year, reporting the highest overall customer growth rate of all major Canadian cable companies.

Videotron signed up 234,800 new customers for its cable telephone service during the year, 154,000 for its cable Internet access service and 149,000 for illico Digital TV. All three were annual customer growth records, in absolute terms, since the services were launched in 2005, 1998 and 1999 respectively. The net increase of 66,300 subscribers for Videotron's cable television services (i.e. the gains for illico Digital TV minus the losses for the analog cable service) were the best net annual growth performance for cable television in seven years.

With four core products, Videotron has become a key player in the telecom marketplace and has very strong growth potential going forward.

Videotron's successes have not been achieved through good fortune: they stem from a clear vision and substantial capital investment in the network. Over the past five years, Videotron has spent no less than $830.0 million to add bandwidth and upgrade its network. It will have to continue making substantial capital expenditures in the years ahead if it wants to hold its market leadership.

In late December 2006, Videotron began testing Cisco Systems Inc.'s new Wideband technology, which will increase the speed of its Extreme Plus High-Speed Internet service fivefold, upping it to as much as 100 mbps. The new technology will enable Videotron to maintain its competitive edge and begin meeting today the future needs of Internet users who crave more speed and better performance.

In September 2006, the Canadian Radio-television and Telecommunications Commission (CRTC) announced further deregulation of telephone services. This being the case, we urged the government to deregulate cable television and broadcasting in Canada just as quickly and completely. We also called upon the government to create a conducive environment for genuine competition in mobile telephone services expeditiously.

**New print media landscape**
Print media are in a state of flux around the world. Major national dailies are seeing their circulation erode as readers turn to online sources of information. Paid dailies are also facing competition from free commuter dailies in many urban centres.

In this fast-changing marketplace, daily newspapers sold by subscription or at newsstands will no longer be able to maintain costly production operations if they simply carry essentially the same information as is available elsewhere free of charge. Our readers' expectations have changed: they are looking for exclusives, in-depth reports and local news. Our market studies show that people want a newspaper that is user-friendly, attractive and colourful, literally and figuratively.

At Quebecor, we are firm believers in the future of our paid-circulation dailies. This is why we have invested more than $200.0 million in two new state-of-the-art printing plants, one in Mirabel, north of Montréal, which began operating in September 2006, and the other in Islington, in the Toronto area, which is slated to open in early 2007. The two new hi-tech facilities are equipped with presses which are among the fastest and most sophisticated in the world, producing dazzling print quality and slashing our operating costs through greater automation.

**The future of OTA: towards a new business model**

In recent years, over-the-air (OTA) television stations have lost audience share and advertising revenues while production costs have continued to rise. The winners have been the specialty channels: in addition to growing advertising revenues, they are collecting generous carriage fees from Canadian cable companies under CRTC rules.

The current system was designed in the days when OTA television dominated the market. This is no longer the case and it is unfortunate that the system for financing OTA has not been adapted to the new market environment of proliferating specialty services, audience fragmentation, a shrinking advertising pie, and a plethora of new distribution platforms, including high-speed Internet.

In Canada, the production of television programs is financed in part by the Canadian Television Fund (CTF). Under the funding allocation rules, which also date from a long-gone era, independent producers and the public broadcaster have a clear advantage when it comes to producing original Canadian content. This situation limits the ability of companies such as Quebecor to fully exploit the commercial potential of their productions on other exhibition windows, such as video on demand (VoD), which could help offset the general decline in ratings. illico Digital TV customers placed nearly 20 million VoD orders in 2006, the vast majority of them for Canadian productions. We have often tried to impress upon the appropriate government authorities the urgency of changing the rules of the game in order to recognize VoD as a legitimate broadcaster.

It is clear that the current model has been outstripped by technological progress and the emergence of new content distribution platforms. At CRTC public hearings held in November 2006, we argued that the current imbalance needs to be corrected by allowing OTA services such as the TVA Network to collect carriage fees in the same way as the specialty channels. The system must also be made more flexible so that OTA stations can realize their full potential as broadcasters, producers and disseminators of original content on multiple exhibition windows.

The issues in this debate extend well beyond economics. What is at stake is the TVA Network's ability to continue performing the vital role it has played in Québec for more than 45 years as a provider of original Canadian content; what is at stake, in the final analysis, is the preservation of a unique and vigorous cultural identity.

**Convergence: a promising strategy**

Convergence among our media properties picked up steam in 2006 and continues to be a cornerstone of Quebecor Media's development strategy. In this age of mushrooming distribution platforms, we are fortunate to have a presence on a number of technologies: television, the Internet, video on demand and mobile telephones. The breadth of our media footprint creates new opportunities for synergies and for maximizing the dissemination and visibility of our content by repurposing it for multiple distribution vehicles. Convergence is a reality. It is a business model that grows naturally out of the fast-paced development of digital technology. Convergence is a strategic economic asset that lies at the heart of Quebecor Media's business model.

**Spearheading our multimedia strategy**

With more than six million unique visitors per month, Canoe has become a pivotal mass-media property, a hub for the convergence of content from our daily newspapers, our community weeklies, our magazines, our OTA and specialty television channels. The emergence of what has come to be known as Web 2.0, which lets Internet users create and broadcast their own content, means the Web is supporting a greater degree of interactivity than ever before. Immense opportunities for new types of communication among visitors to our family of Internet properties are on the horizon.

**Development of Quebecor Media subsidiaries**

Our interactive agency Nurun was busy making two acquisitions in 2006: China Interactive in Shanghai and Crazy Labs in Madrid. The additions further enhance Nurun's ability to deliver all its services to customers the world over, including the Asian and European markets.

Archambault Group and Sogides Group also continued growing their business. The past year was an opportunity to redefine and reposition our Books division in the wake of the acquisition of Sogides ltée at the end of 2005. Quebecor Media Book Group is now the largest family of publishing houses in Québec.

**Printing: transformation plan and major investments**

Under the leadership of Wes Lucas, who was named President and Chief Executive Officer of Quebecor World in the second quarter of 2006, the subsidiary, which remains one of the largest commercial printers in the world, continued the ambitious transformation plan developed over the last two years.

Quebecor World's commitment under this transformation plan is to create the highest value for its customers, a higher value than any other alternative. To get there, Quebecor World is positioning itself as its customers' complete print solution partner by providing turnkey solutions, fully integrated with its customers' operations, marketing and advertising campaigns.

In accordance with its transformation plan, Quebecor World continued implementation of its retooling program, making investments of US$260.0 million in North America and US$164.0 million in Europe. In conjunction with the retooling program, Quebecor World continued its restructuring efforts in order to optimize the operational efficiency of its facilities and streamline administrative functions.

**Bright prospects**

We expect to see further changes in the media landscape in the coming years, including the emergence of mobile telephony as a vehicle for content. We will make a concerted effort to be a driving force in the new media universe. The launch of Videotron's mobile telephone service is a step in that direction.

2007 will also be a year of tremendous challenges for all our media properties: we foresee an upsurge in synergies and convergence across the company. More than ever before, we will have to break out of old, cloistered working environments and look at the big picture, one in which the whole is greater than the sum of its parts.

Finally, our huge commercial printing subsidiary will have to continue the turnaround begun in 2005 by investing in state-of-the-art manufacturing equipment and consolidating its market position.

**A word of thanks**

In this rapidly shifting environment, one which demands a prodigious ability to adapt, we are fortunate to be able to count on our dedicated management teams. We thank them for their outstanding work throughout 2006. We are also grateful to all our employees and directors – at Quebecor, Quebecor World and Quebecor Media – for their professional and personal commitment to making our Company better, more efficient, more responsive to the legitimate expectations of customers, business partners and shareholders.

Jean Neveu
Chairman of the Board

Pierre Karl Péladeau
President and
Chief Executive Officer

# Major Canadian telecommunications and entertainment provider

QUEBECOR MEDIA

Videotron posted stand-out financial results in 2006. The Cable segment, which includes Videotron Ltd. and Le SuperClub Vidéotron ltée, recorded total revenues of $1.31 billion, up $229.2 million (21.2%) from 2005, and operating income of $512.5 million, a substantial year-over-year increase of $99.2 million (24.0%).

Videotron strengthened its position as a major Canadian telecommunications and entertainment provider, completing its line of services with the addition of mobile telephone service. Videotron now offers four core products: cable television, Internet access, cable telephone service and wireless telephone service.

*First row (standing):*
**Jean Novak**
President, Videotron Business Solutions
**Daniel Proulx**
Senior Vice President, Engineering
*Second row:*
**Manon Brouillette**
Senior Vice-President, Marketing, Content and New Product Development, Consumer Sector
**Robert Dépatie**
President and Chief Executive Officer
**Yvan Gingras**
Executive Vice President, Finance and Operations and Chief Financial Officer

In keeping with its one-stop shopping strategy, Videotron offers these services in multi-product bundles that continue to win favour with customers: nearly 50% of Videotron customers subscribe to two or more services.

### Spending on network modernization

During the year, Videotron injected more than $300 million into its two-way broadband network, infrastructure, equipment and systems in order to deliver the best possible entertainment and telecommunications experience on the market and ready its network for future developments in entertainment and telecommunications.

### Record customer growth

Videotron ranked first in overall customer base growth among Canada's major cable companies in 2006.

**Cable television** – The net increase of 66,300 customers in 2006 (for analog service and illico Digital TV combined) was the largest net annual growth since 1999.

**illico Digital TV** – 149,000 new customers signed up for illico Digital TV in 2006, an annual growth record, in absolute terms, since the service was launched in 1999.

# Videotron wireless service is here at last.

**Cable Internet access** – As of the end of 2006, Videotron had 792,000 customers for its cable Internet access services, a 154,000 increase from the previous year, also an annual growth record, in absolute terms, since the service was launched in 1998.

**Cable telephone service** – The number of customers for Videotron's cable telephone service stood at 397,800 as of December 31, 2006, an increase of 234,800 from the end of 2005.

**Roll-out of residential telephone service continues**
Videotron rolled out its cable telephone service to a number of communities in 2006, including Saguenay–Lac-Saint-Jean, the Montérégie region, Gatineau, Sherbrooke and Saint-Jérôme. At year's end, the service was available in 80% of Videotron's service area and in all major urban centres in Québec.

With 397,800 customers at the end of December 2006, Videotron was the largest provider of cable telephone service in Canada, in terms of subscriber base, and the fifth largest in North America.

**Mobile telephone service launched**
Videotron launched a wireless telephone service in August 2006 and gradually rolled it out in the Québec City, Gatineau, Sherbrooke, Saguenay–Lac-Saint-Jean and Montréal areas.

The addition of a simple, user-friendly wireless telephone service completes Videotron's line of telecommunications services and its one-stop shopping concept, consolidating the company's leadership in customer experience.

**Customer service a top priority**

The quality of customer service is an absolute priority for Videotron. In 2006, Videotron's customer service department handled more than 10 million calls and its technicians made over 1.3 million visits to customers' homes. As well, Videotron successfully introduced a one-stop-shopping concept, with one monthly bill for all its services. The clear, easy-to-understand invoice makes life simpler for customers.

**Popularity of illico on Demand continues to soar**

The illico on Demand service, offered exclusively by Videotron and Archambault Group to all illico Digital TV subscribers, logged more than 20 million paid and free orders in 2006, twice as many as in 2005.

**Largest selection of French HD channels**

Videotron led the way again in 2006, offering its customers the widest selection of French-language high-definition (HD) channels in its service area. HD movies and events are also available on an *à la carte* basis on illico on Demand. Videotron remains committed to offering a channel line-up that meets customers' changing needs.

**Attractive Spanish-language package**

During the year, Videotron enriched its offerings for ethnic communities. The expanded selection of Spanish-language information and entertainment services in the *Hispano* package now includes no fewer than 10 channels, 8 of which are exclusive to Videotron.

**Ever faster**

Videotron increased the speed of its Internet services during the year, becoming the first major telecom provider in Canada to offer 16 mbps Internet access, subsequently upgraded to 20 mbps, across its service area.

**New ultra-fast technology tested**

At the end of December 2006, Videotron began testing a new Wideband technology developed by world Internet leader Cisco Systems Inc. which will considerably accelerate Videotron's Internet access service across its service area.

Videotron will be able to offer customers speeds of up to 100 mbps, five times as fast as its current Extreme High-Speed Internet service. That means it will be possible to download an MP3 track in a fraction of a second and a two-hour feature film in a few minutes.

Videotron was the first Internet Services Provider (ISP) in North America chosen by Cisco to test this new technology.

**New-style retail locations**

Videotron inaugurated its new specialty retail concept with the opening of a store at the Place Versailles shopping mall in east-end Montréal where consumers will be able to obtain information on all Videotron services. In recent years, Videotron has developed its retail network to reach consumers where they shop.

Throughout 2006, Videotron worked on enlarging its network of points of sale to increase its presence in all the regions it serves. The new Videotron retail locations, coming on the heels of the opening of the Videotron kiosks in shopping malls and Videotron counters in Le SuperClub Vidéotron locations, reflects Videotron's strategy of expanding its presence in the consumer marketplace and introducing innovative retail approaches.

**Videotron Business Solutions**

Videotron Business Solutions is a premier full-service business telecommunications provider which offers cable telephone, high-speed data transmission, Internet access, hosting and commercial cable television services to large and medium-sized organizations engaged in the telecommunications industry and public and parapublic services.

In 2006, Videotron Business Solutions successfully launched a cable telephone service for small and medium-sized businesses that require one or two lines, as part of its one-stop shop offering for small business.

QUEBECOR MEDIA

# New state-of-the-art printing plants

In 2006, Sun Media Corporation began reaping benefits from its investments. Mirabel Printing, built at a cost of $110.0 million, began operating in September 2006. The ultramodern facility boasts three Web presses, each equipped with four process-colour printing units. They are among the fastest in the world, capable for printing up to 43,000 pages per hour with a reject rate of only 2% and unprecedented colour quality.

As of December 31, 2006, Mirabel plant was printing about 15 community weeklies, the urban weeklies *ICI* and *Mirror*, the local newspapers *Le Journal de Sherbrooke* and *Le Journal de Trois-Rivières*, the urban daily *The Ottawa Sun*, and the editions of the free dailies *24 HOURS*™ *(Ottawa)* and *24 HEURES*MC *(Montréal and Gatineau)*.

As of the end of 2006, another printing plant was under construction in Islington, in the Toronto area. When it opens, it will also have ultramodern, state-of-the-art equipment

and will provide exceptional print quality for readers of *The Toronto Sun, The London Free Press* and other publications.

The Mirabel and Islington facilities will eventually also be responsible for printing telephone directories for Yellow Book USA, a major customer of Quebecor World.

**Free dailies growing in popularity**

In November 2006, Sun Media Corporation launched two new commuter dailies in the Ottawa area, *24 HOURS*™ in English and *24 HEURES*MC in French.

In 2006, the free dailies chalked up a 55% year-over-year revenue increase. Sun Media Corporation's commuter dailies grew their readership at a higher rate than any other press group in Canada during the year.

Our free dailies reach more than 800,000 readers daily in the Montréal, Toronto, Vancouver and Ottawa markets. According to the latest figures from the independent NADbank® firm, *24 HOURS*™ in Toronto increased its readership by 15.2% and *24 HEURES*MC in Montréal by 34.7%, the strongest growth of any urban daily in Canada. *24 HOURS*™ Vancouver is the largest free daily in its market.
(Sources: NADbank® surveys for 2005-2006, compared with 2004)

In February 2007, Sun Media Corporation expanded its chain of free dailies with the launch of two new *24 HOURS*™ papers in the province of Alberta, in Calgary and Edmonton, bringing the total number of free dailies it publishes to seven. The move is part of Quebecor Media's drive to strengthen its presence on different platforms and reach consumers through a variety of available media channels.

Sun Media Corporation's free dailies in Montréal, Ottawa, Toronto, Vancouver, Edmonton and Calgary are now a prime vehicle for advertisers seeking national coverage.

*First row (standing):*

**J. Craig Martin**
Executive Vice President, Operations, Western & Central Canada

**Kin Man Lee**
Executive Vice President, Sun Media Corporation and Publisher and Chief Executive Officer, *The Toronto Sun*

**Glenn Garnett**
Executive Editor-in-Chief, Sun Media Corporation and Editor-in-Chief, *The Toronto Sun*

**Bruno Péloquin**
Senior Vice President, Strategic Development and Customer Relations, Quebecor Media Inc.

*Second row:*

**Lyne Robitaille**
President and Publisher, *Le Journal de Montréal*

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

**Michel Slight**
Executive Vice President, Finances

**National coverage**
Sun Media Corporation publishes 17 paid dailies, 187 community newspapers, and 7 free dailies, across Canada. Each week, Sun Media Corporation newspapers are sold or distributed from Vancouver, B.C. to the Gaspé Peninsula in Québec.

Sun Media Corporation is the only major Canadian newspaper chain to publish daily newspapers in both English and French. Its urban dailies are read by over 2.8 million Canadians weekly, almost two-thirds (1.8 million) of whom are exclusive readers who cannot be reached through other print media.
(Source: NADbank® 2005, adults 18+)

**New direction for Sun Media Corporation**
In 2006, Sun Media Corporation adopted a new direction for all its newspapers in order to improve performance, eliminate inefficiencies and enhance the value of its product. It therefore launched initiatives to optimize its information and communication technologies, invest in value-added content for its clients, and centralize and upgrade publishing and makeup procedures.

Projects carried out in 2006 include teamwork with other Quebecor Media properties involved in complementary media platforms; development of interactive online projects such as blogs, live news coverage, discussion forums, chats, photo galleries, video footage and podcasts; resource optimization through the creation of centres of excellence for some content; and the appointment of national publishers for sections such as sports, arts and entertainment, op-ed and news.

These initiatives will enable Sun Media Corporation's dailies to set a new course in order to revitalize readership and capitalize on new technology.

**Community papers register significant improvement in results**
Bowes Publishers' community newspapers and Sun Media Corporation's Québec weeklies reported excellent results in 2006. The revenues of the weeklies grew by $10.9 million (4.2%) and operating income was up $4.7 million (6.5%), mainly because of the revenue growth.

**Strong increase in Alberta**
The urban dailies and community newspapers in the province of Alberta generated significant growth in their combined results throughout 2006. The robust performance was due to the favourable business environment and Sun Media Corporation's ability to meet the needs of Alberta advertisers and readers.

**Internet revenues up**
Sun Media Corporation's revenues from the Internet grew substantially in 2006. In conjunction with Canoe, Sun Media Corporation launched a new, more effective, more complete e-classifieds site.

***ICI*** **celebrates 10th anniversary**
The urban weekly *ICI* celebrated its 10th birthday in 2006. It can be accessed online from the *canoe.qc.ca* site and its reporters contribute regularly to the site's entertainment section.

In 2006, TVA Group pressed ahead with its business model in a television market environment marked by audience fragmentation, the emergence of a host of new broadcasting platforms, and rising production and content acquisition costs.

In this fast-changing landscape, TVA Group plans to continue playing its traditional role as a broadcaster while branching out into creating, producing and supplying high-quality television content for all exhibition windows. Increasingly, consumers will be able to view TVA Group content not only on over-the-air television stations and specialty channels, but also via the Internet, video on demand, DVDs, Mp3 players, mobile television and whatever digital broadcasting media the future may bring.

Being part of a major media group such as Quebecor Media, which has a strong presence in many of these new media, opens up numerous opportunities for synergies and convergence for TVA Group in terms of both content distribution and advertising coverage.

**Still number 1 in broadcasting**

In 2006, despite aggressive competition and the changing television environment, the TVA Network maintained its market dominance in Québec by airing rich, diverse programming that has popular appeal. The TVA Network garnered a 28% television audience share in Québec in 2006, more than its two closest over-the-air rivals combined. It had 23 of the top 30 television programs in Québec, including *Occupation Double* (1.7 million viewers),

*First row (standing):*

**France Lauzière**
Vice President, Programming

**Pierre Dion**
President and Chief Executive Officer

**Luc Doyon**
Senior Vice President,
Production and Multimedia Development

*Second row:*

**Édith Perreault**
Vice President, Sales and Marketing

**Serge Fortin**
Vice President, TVA News, LCN, Argent and Public Affairs

**Denis Rozon**
Vice President and Chief Financial Officer

**Claire Syril**
Vice President, Specialty Channels

# In the thick of the digital revolution

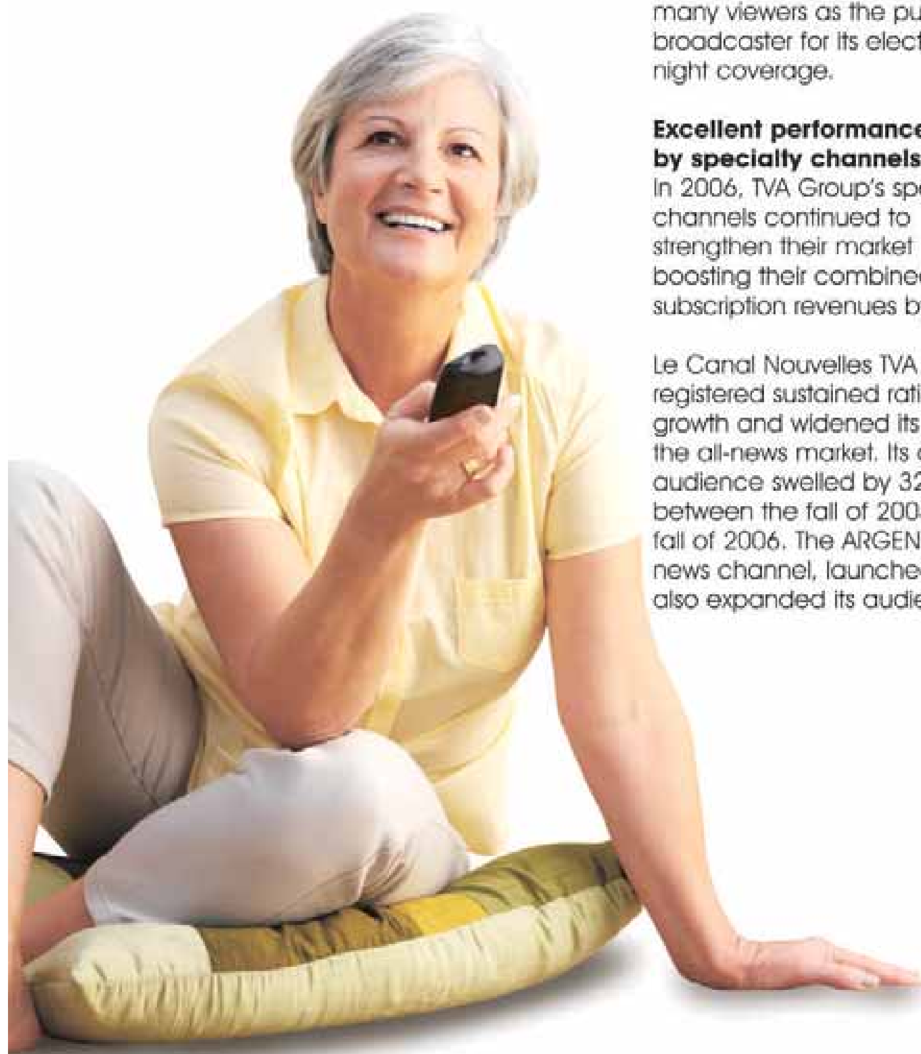
*Lance et compte : la reva*

*Annie et ses hommes*

the series *Lance et compte: la revanche* (1.6 million), *Libérée: le choix de Nathalie Simard* (1.7 million) and *Gala Artis* (1.5 million).

The new show *Le Banquier* has been a phenomenal success since the beginning of 2007, averaging two million viewers per episode, a clear sign that, notwithstanding the challenges facing the TVA Network, over-the-air television still provides an important shared experience that brings Quebecers together.

*Le Banquier* is a good example of the TVA Network's new business model, which harnesses both the organization's in-house resources and opportunities for cooperation with the content distribution platforms of other Quebecor Media properties. TVA Group signed a coproduction agreement with the owner of the original concept so it could adapt the successful program for Québec. The program is produced in-house by JPL Production Inc. It is being repurposed for all of Quebecor Media's platforms and properties: websites, mobile phones, illico on Demand, and so forth — an approach that shows the way of the future for television concept development at TVA Group.



The TVA Network also maintained its commanding lead in news and public affairs programming in 2006. Its dominance was convincingly demonstrated during the federal elections: on January 23, 2006, the TVA Network drew twice as many viewers as the public broadcaster for its election night coverage.

**Excellent performance by specialty channels**
In 2006, TVA Group's specialty channels continued to strengthen their market position, boosting their combined subscription revenues by 40%.

Le Canal Nouvelles TVA (LCN) registered sustained ratings growth and widened its reach in the all-news market. Its average audience swelled by 32% between the fall of 2005 and the fall of 2006. The ARGENT business news channel, launched in 2005, also expanded its audience.

Meanwhile, the Prise 2 channel, launched in February 2006, performed strongly with its menu of popular television series and movies from the 1970s and 1980s.

**Distribution: DVD sales on the rise**
In 2006, TVA Group's film distribution division TVA Films logged strong sales of the video releases of the film *Good Night and Good Luck* and of performances and television series such as Gregory Charles' *Noir et Blanc*, *Nos étés*, *Soirée canadienne* and *Le Cœur a ses raisons* (seasons I and II).

**TVA Publishing keeps on growing**
TVA Publishing's stable of some 40 magazines dominate their market with approximately 72% of newsstand sales of French-language magazines in Québec.

During the year, TVA Publishing launched the resoundingly successful biweekly *Moi & cie.*

In November 2006, TVA Group acquired the 50% interest it did not already hold in Trustmedia, publisher of the weekly television guides *TV Hebdo* and *TV 7 Jours*, to become sole owner of the company.

**New exhibition windows make their mark**

The entire programming of the specialty channels LCN and ARGENT is now available live on the Internet, as are most TVA Network news programs, including *Salut Bonjour!*, *Le TV Midi*, *TVA en direct.com*, *Le TVA 17 heures*, *Le TVA 18 heures* and *Le TVA 22 heures*.

About 70% of the TVA Network's prime time programming is now available through Videotron's illico on Demand service; some programs are also available on DVD.

Content related to some of TVA's new shows, such as *Le Banquier* and *Taxi 0-22*, can be downloaded to mobile phones.

**TVA Publishing Inc.**

*First row (standing):*

**Joanne Proulx**
Vice President, Sales, Development and Media Innova

**Sandra Cliche**
Publisher, Women and Youth

**Claude Leclerc**
Publisher, Home Decorating and Renovating

*Second row:*

**Suzanne McKenna**
Publisher, Weeklies

**Jocelyn Poirier**
President

**Frédéric Poussard**
Vice President, Finance and Operations

# Quebec leader in cultural product retailing and music recording/distribution

With its chain of bricks-and-mortar stores, virtual shops, distribution network and music labels, Archambault Group is a leading business provider of arts and culture products.

- The 15-store Archambault chain is a major retailer of CDs, books, videos, musical instruments, gifts and other cultural products.
- *archambault.ca* and *ZIK.ca* are the largest French-language online stores selling cultural products and music downloads in Canada.
- Distribution Select is the largest independent music distributor in Québec.

*First row (standing):*

**Denis Pascal**
Senior Vice President, Retail Sales Group

**Hervé Deplasse**
Managing Director, Exclaim

*Second row:*

**Pierre St-Georges**
General Manager, Musicor

**J. Serge Sasseville**
President, Music Segment

**Josée St-Vincent**
Vice President, Marketing

- Musicor is one of Québec's largest music labels. The Exclaim label promotes Musicor artists, and artists signed with labels distributed by Distribution Select, on French-language markets in Europe.

**Québec distributor of the year 17 times out of 22**

The music market is dominated by U.S. multinationals around the world but Québec remains a hold-out, an oasis for independent production.

Select held its longstanding lead in the marketplace in 2006 thanks to its exclusive catalog of CDs and videos, which includes the majority of Québec-produced hits.

According to the Nielsen Soundscan charts, Distribution Select distributed 22 of the top 40 French-language CDs of 2006 in Québec, including up-and-coming artists such as Pierre Lapointe, Ariane Moffatt, Dumas, Annie Villeneuve and Marie-Mai.

Labels distributed by Select released 70 of the top 100 singles of 2006in Québec, based on commercial radio airplay (including 10 of the 13 number 1 singles).

(Source: BDS French-language charts, 2006)

In October 2006, Distribution Select won the Québec music industry association's Félix award for distributor of the year for the 17th time in 22 years.

In 2006, Distribution Select also won, for the second time, the Nielsen Soundscan Award given during Canadian Music Week to the distributor with the largest number of Canadian artists among the Top 50.

Florence K

**ZIK.ca: music download leader**
*ZIK.ca* was the first French-language music download site in North America. It stands apart from the competition by virtue of its selection of French-language products and seamless integration with retailing of products on conventional media (CDs and DVDs). Sales have grown steadily since the site was launched in 2005.

**Select Digital created**
Archambault Group launched Select Digital in 2006. Select Digital aims to become a major Canadian distributor of French-language cultural and entertainment content in the new digital download market.

**Musicor: premier Québec record label**
Since its creation in 2003, Musicor has produced and marketed 43 CDs and 8 DVDs, including all the recordings related to the TVA Network's hit program *Star Académie*. In the space of only three years, Musicor has established itself as one of Québec's leading record labels.

**Exclaim: gateway to Europe**
Exclaim, an Archambault Group subsidiary based in France, continued publicizing Québec artists in Europe's French-language markets in 2006. It has scored successes in France with artists such as Dumas, Les Cowboys Fringants and Marie-Mai. Exclaim's mission is to serve as a gateway between Europe and Québec, and to promote Musicor recording artists, and artists signed with labels distributed by Distribution Select, in French-speaking markets in Europe.

**Respected by Quebecers**
According to a Léger Marketing survey published in the March 2007 issue of *Commerce* magazine, Archambault ranks 19th on the list of most respected companies in Québec, up six places from the previous year. According to the same poll, Archambault ranks first in its industry (retail trade, culture and leisure), well ahead of its nearest rival, which placed 91st in the overall rankings.

# Largest family of French-language publishing houses in Canada

Quebecor Media Book Group includes Sogides Group Inc., Québec's largest book publishing group with 13 general literature publishing houses, and CEC Publishing, a leader in academic publishing for 50 years.

Sogides Group is also engaged in distribution through its Messageries A.D.P. subsidiary, an exclusive distributor of French-language books to major retail chains and independent bookstores.

In 2006, Quebecor Media Book Group's properties published or republished close to 500 books.

**Groupe Homme**
Les Éditions de l'Homme
Le Jour, Éditeur
Utilis
Les Presses Libres

**Librex Group Inc.**
Les Éditions Libre Expression
Les Éditions Internationales Alain Stanké
Les Éditions Logiques
Les Éditions Trécarré
Les Éditions Quebecor
Les Éditions Publistar

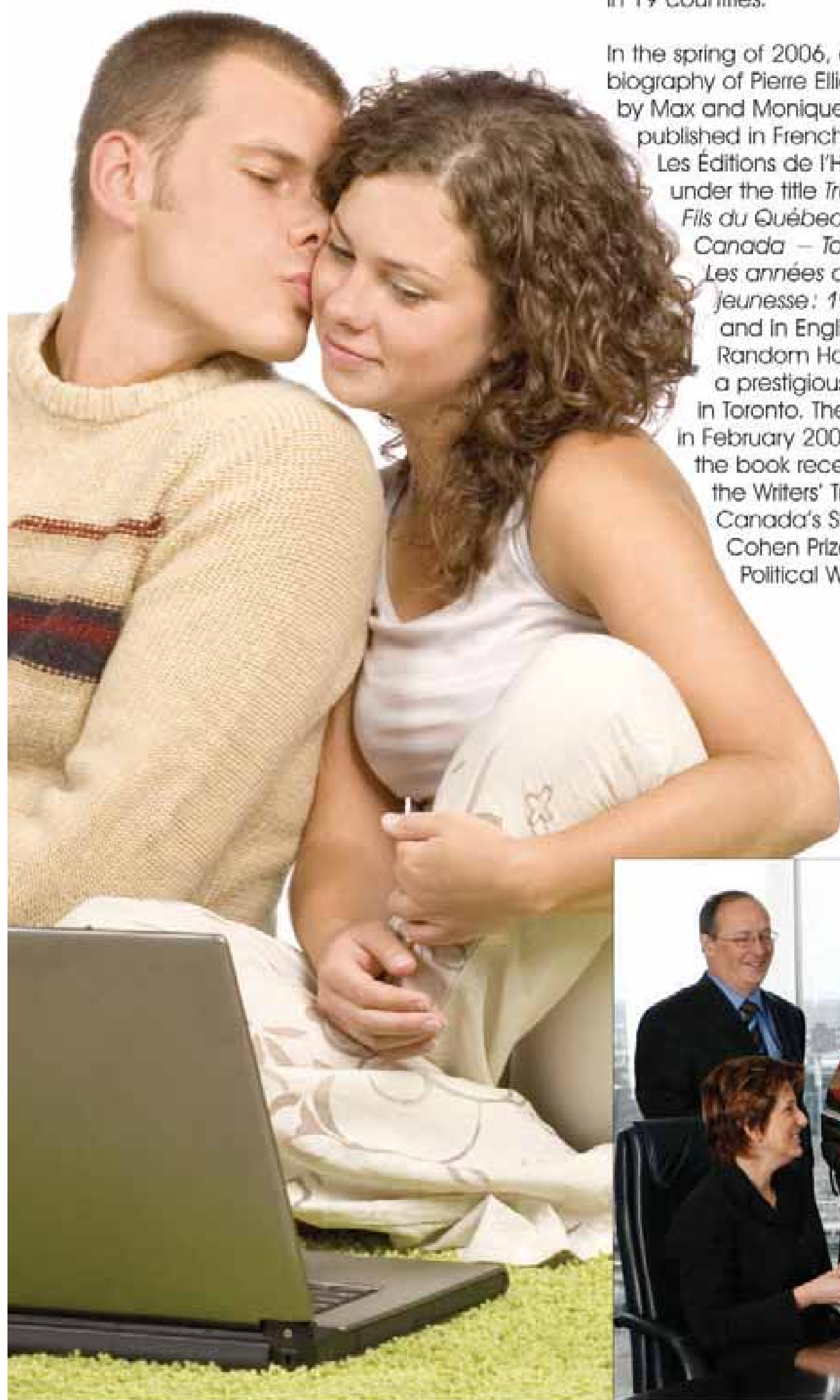
**Le Groupe Ville-Marie Littérature inc.**
Les Éditions de l'Hexagone
VLB Éditeur
Typo & Dessin

**Academic publishing**
CEC Publishing Inc.

**Distribution**
Messageries A.D.P. inc.

**International commercial success and prestigious awards**
Les Éditions Trécarré scored a resounding success in Québec during the year with the anti-cancer recipe book *Les aliments contre le cancer* by Dr. Richard Béliveau. The book has since been translated into 13 languages and distributed in 19 countries.

In the spring of 2006, a biography of Pierre Elliott Trudeau by Max and Monique Nemni, published in French by Les Éditions de l'Homme under the title *Trudeau – Fils du Québec, père du Canada – Tome 1 – Les années de jeunesse : 1919-1944* and in English by Random House, won a prestigious award in Toronto. Then, in February 2007, the book received the Writers' Trust of Canada's Shaughnessy Cohen Prize for Political Writing.



**CEC Publishing celebrates 50 years of excellence**
CEC Publishing, a leader in academic publishing, celebrated its 50th birthday in 2006.

CEC Publishing has a catalog of over 1,600 titles and distributes more than 6,200 titles. It has built a reputation as a provider of high-quality textbooks for all levels, from kindergarten to university. CEC Publishing is also the exclusive Canadian distributor for Hachette Éducation and exclusive Québec distributor of English-as-a-second-language materials published by Oxford University Press.

*First row (standing):*

**Christian Jetté**
Chief Executive, CEC Publishing Inc.

**Johanne Guay**
Vice President, Publishing, Librex Group Inc.

**Michel Turcotte**
General Manager, Messageries A.D.P. inc.

**Jean-Yves Soucy**
Publisher, Le Groupe Ville-Marie Littérature inc.

*Second row:*

**Céline Massicotte**
Vice President, Finance and Administration, Quebecor Media Book Group Inc.

**Pierre Lespérance**
President, Quebecor Media Book Group Inc.

**Pierre Bourdon**
Vice President, Publishing, Groupe Homme

# Ten years of online growth

The Canoe Network marked its 10th anniversary in 2006. Over the years, it has not only survived all the new trends and fashions ushered in by the Internet economy but has thrived and prospered, becoming one of the largest portal networks in Canada.

After 10 years of existence, the Canoe Network is still growing fast: it has stayed plugged in to the latest innovations in the Internet/new media universe and now operates one of Canada's most popular, heavily visited networks of Internet sites, in both English and French.

From the Internet and the iPod to mobile telephones and video on demand, we are witnessing an unprecedented proliferation of distribution platforms for information and entertainment content. Canoe has stepped up to the bar and positioned itself as a premier vehicle for the distribution of online content.

**Record traffic figures**

The Canoe Network logged 6,781,000 unique visitors in the month of November 2006, its best-ever monthly performance. By comparison, Canoe attracted 5,970,000 unique visitors in November 2005.

(Source: comScore Media Metrix)

**Strengthened management team**

Recruiting the best people is the key to victory in the Internet wars. In 2006, Canoe responded to the challenge by overhauling its corporate structure, hiring seasoned executives and implementing a new product-market strategy.

**Spread of blogs on general-interest portals**

During the year, Canoe enhanced the interactive side of its portals by, among other things, developing theme blogs and blogs featuring public figures in order to promote visitor loyalty and drive traffic to its sites. Canoe also set up close to 50 blogs in cooperation with community weeklies in order to raise its profile in local and cultural markets.

Canoe deepened its relationship with other Quebecor Media properties by developing interactive functionalities such as opinion polls and adding content that complements that of *Le Journal de Montréal*, other Sun Media Corporation dailies, and Toronto television station Sun TV.

In addition, Canoe worked with TVA Group to launch television show-related sites, including a site for the popular series *Un homme mort* which succeeded beyond expectations. Canoe has also begun webcasting several television programs live.

**Revamp of *jobboom.com***

The *jobboom.com* site received a major facelift in 2006. Canoe

**Canoe properties dominate across the board**

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

*jobboom.com*

*espacecanoe.com*

added a blog and a new content site exclusively dedicated to employment. Integration with Sun Media Corporation newspapers was extended. The newspapers' help wanted sections have all been renamed *Jobboom* to improve brand recognition across the country.

Jobboom Publishing released eight books on employment in 2006, as well as 10 issues of *Jobboom* magazine with a print run of 100,000 copies each.

**Tune-up for *autonet.ca***

An all-new, improved version of *autonet.ca*, one of the most complete car sites on the Canadian market, was launched in 2006. The site's visibility was also enhanced considerably through cooperation with Sun Media Corporation newspapers. Bundling of print and Web solutions is opening up new business opportunities.

**Development of *espacecanoe.com***

In 2006 Canoe developed a concept and a vision for the new *espacecanoe.com* site, a major social network which will become the centrepiece of Quebecor Media's Web presence. *espacecanoe.com* will be a user-driven site based on Web 2.0 technology, which supports original user-generated content and promotes the development of online social networks and communities of interest. The official launch is slated for early 2007.

**New classifieds site**

In 2006, Canoe designed a new, more effective e-classifieds site that is more closely integrated with Sun Media Corporation's newspapers, a major source of classified ads. The goal is to establish Canoe as a leader in the broader classifieds market, just as its *jobboom.com*, *autonet.ca*, *reseaucontact.com* and *micasa.ca* sites have become leaders in their advertising niches.

**Substantial increase in consulting subsidiary's revenues**

The revenues of Progisia Informatique, Canoe's IT-consulting services subsidiary, surged 57% in 2006. Progisia Informatique employs more than 200 professionals.

*First row (standing):*

**Marcel Sanscartier**
Vice President, Operations

**Patrick Lauzon**
Executive Vice President

**Julie Phaneuf**
Vice President and General Manager, Jobboom

*Second row:*

**Stephen Evans**
Vice President Editor, Emerging Products

**Bruno Leclaire**
President and Chief Executive Officer

**Michel Goyette**
Vice President and Chief Financial Officer

# 12 offices in 6 countries

QUEBECOR MEDIA

**Martin LeSauteur**
Senior Vice President, North America

**Jacques-Hervé Roubert**
President and Chief Executive Officer

**Guy Lemieux**
Vice President, Finance

Nurun posted excellent results in 2006 with a 13.5% increase in revenues and a 92.3% surge in operating income. The numbers reflect Nurun's progress in all the geographies in which it operates – North America, Canada, Europe and China – and in vertical markets such as services to government and to businesses in the tourism industry.

**Revenue growth and customer acquisition**

In addition to business acquisitions, the revenue increase in 2006 was driven by the recruitment of new customers such as France 24, NADAguides, Gaz de France, Loews Hotels, W.L. Gore, Pirelli, Clarins, Yves Rocher and the Québec ministry of tourism, and strengthened relationships with existing customers.

**Strategic acquisitions in China and Spain**

Nurun was active on the acquisitions market in 2006, completing two major takeovers.

In January 2006, Nurun announced the closing of the acquisition of China Interactive, a Chinese interactive marketing firm.

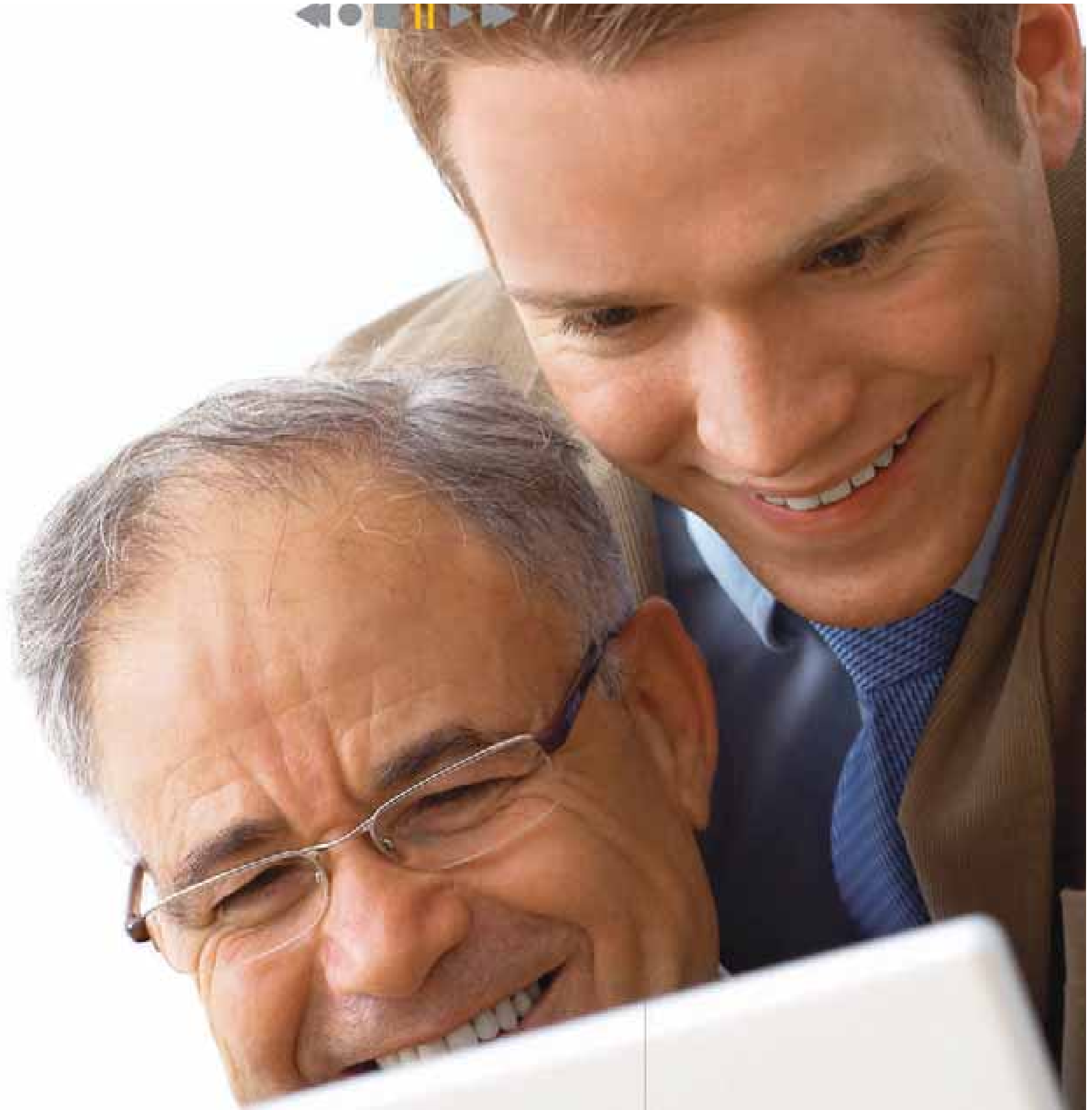
Since 2000, China Interactive has worked with many prestigious companies and organizations such as Pepsi, L'Oréal, FAW-VW Audi, FAW-VW Volkswagen, Chivas Regal, Malibu, JCDecaux and Philips Electronics (Shanghai) Co. Ltd. The acquisition further enhances Nurun's ability to deliver all its services to customers the world over, including the high-potential Asian market.

In July 2006, Nurun closed the acquisition of Crazy Labs, an interactive communications agency based in Madrid, Spain.

Founded in 2000, Crazy Labs has worked with local and international blue-chip clients such as Caja Madrid, Codorníu, Grupo Telefónica, Procter & Gamble, Nintendo, Vodafone, XBOX, Microsoft (MSN) and Warner Brothers in all phases of their interactive communications, from strategy to the design of their interactive advertisements and Web sites.

**Comprehensive, integrated services**

Over the years, Nurun has developed skill sets that deliver customer value in a range of related services:



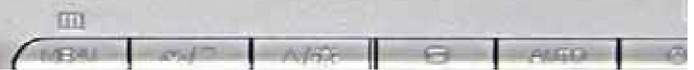
- **Interactive strategic consulting** – Develop and manage strategies to optimize the use of e-media, e-commerce and interactive technologies.

- **Interactive marketing** – Develop, manage and evaluate e-advertising, search engine optimization and online customer loyalty programs.

- **Design and development of websites and user interfaces for new interactive media** – Develop websites that support customers' brands and corporate objectives (e-commerce, institutional sites, advertising and promotional campaigns, mobile applications and others).

- **e-commerce** – Design and implement systems that support electronic business channels and business development on multiple distribution channels.

- **IT** – Select and use the best available technological platforms and Web solutions; integrate new and/or legacy applications and platforms.



Le SuperClub Vidéotron

QUEBECOR MEDIA

During the year, Le SuperClub Vidéotron opened a chain of retail stores, in cooperation with Videotron, to market all Videotron products: digital cable television, Internet access, cable telephone service and mobile telephone service. As of the end of 2006, a total of 26 locations had been opened in most parts of Québec.

The new-style stores are part of Videotron's strategy of innovative retailing that reaches consumers where they shop.

**Leader in high-definition DVD rentals**

DVDs in the two new high-definition formats, HD DVD and Blu-ray, have been available for rental at about 15 Le SuperClub Vidéotron locations since late November 2006. Consumer response has been up to expectations.

# One-stop shopping for entertainment and communication products

*First row (standing):*
**Jacques Charron**
Vice President
**Karine Humbert Gauthier**
Director, Publicity and Marketing
**Martine Desmarais**
Director, Finance and Control
*Second row:*
**Nancy Roy**
Purchasing Director
**Donald Lizotte**
President
**Yves Rondeau**
Director of Operations

**Microplay™**

Microplay™ posted an 18% increase in sales at its Québec locations in 2006, driven largely by the release of two new gaming consoles in November 2006, Nintendo's Wii and Sony's PS3.

There are a total of more than 120 Microplay™ shops serving video game buffs – slightly more than 20 stand-alone stores and the remainder located inside Le SuperClub Vidéotron stores.

**Revenue-sharing agreements with three U.S. studios renewed**

Le SuperClub Vidéotron renewed three revenue-sharing agreements with U.S. studios during the year. The agreements provide advantageous terms, spreading the financial risk more equitably and enabling Le SuperClub Vidéotron to carry more copies of a single movie at lower cost.

**Dominant presence**

Le SuperClub Vidéotron is poised to continue its growth. One of its main rivals in Canada pulled out of the Québec market in 2006, creating opportunities for consolidation. The Microplay™ stores, which rent and sell video games, and the new Videotron stores, which offer a full line of communications products, make Le SuperClub Vidéotron locations true one-stop shops for entertainment and communication products.

**One of the largest entertainment chains in Canada**

In all, Le SuperClub Vidéotron operates 263 stores in 9 of Canada's 10 provinces under the names Le SuperClub Vidéotron, Jumbo Video™, Microplay™ and Starstruck Entertainment™.

# Implementation of bold transformation plan

**Quebecor World**

*First row (standing):*
**Jacques Mallette**
Executive Vice President and Chief Financial Officer, Quebecor World Inc. and Quebecor Inc.

*Second row:*
**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.

**The Right Honourable Brian Mulroney, P.C., C.C., LL.D.**
Chairman of the Board

**Wes William Lucas**
President and Chief Executive Officer

During the year, Quebecor World launched a large-scale transformation plan organized around five key points:

**Customer value**
Build the capability to create the highest value for customers by providing differentiated, superior-value services to be the customer's complete print solution partner.

**Best people**
Develop its people to be the best that they can be, through a comprehensive people development program consisting of training, new processes, and tools to build high-performance teams.

**Great execution**
Implement a continuous improvement program to build superior execution capabilities producing the most efficient, most dependable, and highest quality results. Institute low-capital, high-return projects to begin a new cycle of high cash flow generation.

**Retooling program**
Complete its retooling program, which involves deploying state-of-the-art technology in fewer but larger facilities by running wider, faster, more energy-efficient next-generation technology, with a focus on maximizing return on capital.

**Strengthen the balance sheet**
Take the appropriate financing action to improve its financial flexibility by strengthening the balance sheet.

This strategy focuses on positioning Quebecor World to provide best-in-class integrated print solutions that should create the highest value for its customers, its people and its shareholders, an objective that is integral to Quebecor World's future success.

**Successful continuation of retooling plan**
In 2006, Quebecor World continued implementing its retooling program for North America and Europe. It stepped up the pace of disbursements in order to complete the program ahead of schedule.

Since the program was launched, Quebecor World has spent approximately US$424 million on the retooling plan in North America and Europe.
In 2006, nine new rotary offset and gravure presses were installed in Quebecor World's North American and European facilities. The wide, high-capacity presses are more efficient and are equipped with the latest technology to deliver high-quality output faster and at lower cost.

In tandem with the retooling plan, Quebecor World continued its initiatives during the year to reorganize and consolidate its facilities into larger, more specialized operations with better equipment.

**Major new contracts**

In October 2006, Quebecor World announced a significant directory printing agreement with Yellow Pages Group, valued at more than $1 billion through the year 2020, which extends existing printing contracts and increases the volumes manufactured by Quebecor World.

In early 2007, the renewal of a multiyear contract with Williams-Sonoma Inc., a company with which Quebecor World has had a relationship for 25 years, was announced.

**Global leader**

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.

Quebecor World's geographic scope and vast range of print solutions, supported by its flexible manufacturing platform, are its main competitive advantages.

Quebecor World offers customers a broad range of print and print-related services. These services consist of printing magazines, retail inserts, catalogs, direct mail, books, directories, and offering other value-added services, such as logistics, premedia, content and data management, business outsourcing and print marketing optimization.

# Quebecor and corporate giving: where our hearts are

QUEBECOR INC.

Since it was established in 1950, Quebecor has been committed to supporting social, community and cultural causes wherever it does business. Quebecor founder Pierre Péladeau was dedicated to civic responsibility and was generous throughout his life in his support for charities and good works he cared about. That philosophy is entrenched in the Company's corporate culture and has guided the men and women who have picked up the torch from Pierre Péladeau: they have proudly carried on Quebecor's tradition of helping and giving in many ways.

Each year, Quebecor provides financial backing to a large number of philanthropic, charitable and artistic organizations. It is a leading supporter of the arts and culture, funding and sponsoring many events and organizations in a variety of fields, including theatre, literature, poetry, music, dance and visual arts. Education and youth are also priorities for the Company. In addition, Quebecor supports hospitals and other organizations involved in health and medical research. Finally, it helps community organizations that aid the underprivileged.

**Espace Félix-Leclerc**

**Services, donations, caring**

During the year, Quebecor subsidiaries worked together to help advance many of the causes the Company supports. Our operating subsidiaries are in a position to put charities and cultural events in the public eye. Therefore, we harness all the means at our disposal and make a concerted effort to ensure the success of the causes and organizations we support.

The multimedia publicity campaigns orchestrated by Quebecor and its subsidiaries are highly effective in providing public exposure for worthwhile causes. They help organizations meet ambitious targets and build a foundation so they can survive and thrive in the long term. Indeed, Quebecor's contribution often plays a key role in the success of an event or a campaign.

Théâtre du Rideau Vert

La Maison de jeunes Kekpart

The 2006 Quebecor Prize was awarded to Monique Leyrac and Marcel Dubé at the President's Gala.

Quebecor wins the Prix Art-Affaires de Montréal, awarded by the Conseil des arts de Montréal and the Board of Trade of Metropolitan Montreal, in recognition of the company's contribution to Montréal's artistic and cultural life.

## Contributions worth nearly $20 million in 2006

Quebecor makes substantial contributions in kind consisting of services and media space in its properties. It donates printing services, air time, television commercial production services, advertising space in its newspapers, magazines and Internet sites, and merchandise. These contributions had a total value of more than $18 million in 2006.

Quebecor also distributed more than $1.8 million in cash contributions and sponsorships in 2006. The funding was divided among culture, education, support for youth, hospitals, medical research, community organizations and other causes.

Quebecor's corporate giving program therefore made contributions with a total value of nearly $20 million in 2006, with slightly more than half allocated to cultural events and organizations.

# FINANCIAL SECTION

ANNUAL REPORT 2006 • QUEBECOR INC.


| | |
|---|---|
| **MANAGEMENT DISCUSSION AND ANALYSIS** | **38** |
| COMPANY PROFILE | 38 |
| 2006 OVERVIEW | 39 |
| QUEBECOR'S INTEREST IN SUBSIDIARIES | 41 |
| 2006/2005 FINANCIAL YEAR COMPARISON | 41 |
| 2006/2005 FOURTH QUARTER COMPARISON | 43 |
| SEGMENTED ANALYSIS | 44 |
| 2005/2004 FINANCIAL YEAR COMPARISON | 54 |
| NON-GAAP FINANCIAL MEASURES | 57 |
| CASH FLOWS AND FINANCIAL POSITION | 58 |
| ADDITIONAL INFORMATION | 61 |
| **SELECTED FINANCIAL DATA** | **76** |
| **SELECTED QUARTERLY FINANCIAL DATA** | **77** |
| **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS** | **78** |
| **AUDITOR'S REPORT TO THE SHAREHOLDERS** | **79** |
| **CONSOLIDATED FINANCIAL STATEMENTS** | **80** |
| CONSOLIDATED STATEMENTS OF INCOME | 80 |
| CONSOLIDATED STATEMENTS OF RETAINED EARNINGS | 81 |
| CONSOLIDATED STATEMENTS OF CASH FLOWS | 82 |
| CONSOLIDATED BALANCE SHEETS | 84 |
| SEGMENTED INFORMATION | 86 |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | 90 |

## 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, Interactive Technologies and Communications, and Internet/Portals.

### PRINTING SEGMENT

Quebecor World Inc. operates in the commercial print media services industry. Quebecor World is a leading provider of high-value, complete print solutions to leading retailers, branded goods companies, catalogers and other businesses with marketing and advertising activities, and also to leading publishers of magazines, books, and other printed media. It is a market leader in almost all of the product categories and in the principal geographic markets of North America, Europe and Latin America.

Quebecor World offers its customers a broad range of print services and related communications services. These services include printing magazines, retail inserts, catalogs, direct mail, books, and directories, as well as other value-added services such as logistics, premedia, content and data management, business outsourcing and print marketing optimization.

Quebecor World's 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 customers of marketing and advertising solutions and print media. 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 cable operator in Québec and the third-largest in Canada, based on number of customers. Its state-of-the-art network passes 2.5 million homes and serves approximately 1.7 million customers. At December 31, 2006, Videotron had 1.6 million cable television customers, including 623,600 subscribers to its illico Digital TV service. Videotron is also involved in interactive multimedia development and is an Internet Service Provider ("ISP"), with 805,400 subscribers to its cable modem and dial-up Internet access services and 397,800 subscribers to its IP telephone service. It has 11,800 customers for its wireless telephone service, which was gradually rolled out in 2006 in some parts of Québec. Videotron also includes Videotron Business Solutions, a full-service business telecommunications provider which offers telephone, high-speed data transmission, Internet access, hosting and cable television services, and Le SuperClub Vidéotron ltée ("Le SuperClub Vidéotron"), a DVD, videocassette and video game sales and rentals chain.

### NEWSPAPERS SEGMENT

Sun Media Corporation is Québec's largest newspaper chain by paid and free circulation. It is also Canada's second-largest newspaper chain, with a 21.0% market share of paid circulation as of March 31, 2006, according to figures compiled by the Canadian Newspaper Association. Sun Media Corporation publishes 17 paid daily newspapers and has a presence in 8 of Canada's 10 largest urban markets. Its newspapers are first or second by paid circulation in each of those eight markets. Sun Media Corporation also publishes 194 community newspapers, weekly buyers guides, farm publications and other specialty publications, including 7 free dailies, namely *24 HOURS*™ in Toronto, *24 HOURS*™ in Vancouver, *24 HEURES*MC in Montréal, *24 HOURS*™ in Ottawa, *24 HEURES*MC in Ottawa-Gatineau, and since February 2007, *24 HOURS*™ in Calgary and *24 HOURS*™ in Edmonton. According to corporate figures, the aggregate circulation of Sun Media Corporation's paid newspapers was approximately 6.6 million copies per week as of December 31, 2006. 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, in partnership with TVA Group Inc. ("TVA Group"), which holds the other 75%.

### BROADCASTING SEGMENT

TVA Group Inc. is one of the largest private-sector producers and broadcasters 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 of the digital specialty channels Mystère, Argent and Prise 2. 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 Inc. ("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 of the Leisure and Entertainment segment consist primarily of retail sales of 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 Distribution Select, a division of Archambault Group); music recording and video production in Québec and Europe (through the Musicor label, a division of Archambault Group, and the Exclaim label, operated by Groupe Archambault France S.A.S., a subsidiary of Archambault Group). The Leisure and Entertainment segment is also engaged in the book industry through its subsidiary Quebecor Media Book Group Inc. ("Quebecor Media Book Group"), which includes academic publisher CEC Publishing Inc. ("CEC Publishing"), 13 general literature publishers under the Sogides Group Inc. ("Sogides Group") umbrella, and Messageries A.D.P. inc. ("Messageries A.D.P."), the exclusive distributor for more than 160 Québec and European publishers.

### 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 6.7 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), *reseaucontact.com* (dating), *micasa.ca* (real estate), *classifieds.canoe.ca* and *classees.canoe.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 Progisia Informatique business unit offers information technology consulting services that include e-commerce, outsourcing, integration and secure transaction environments. The Jobboom publishing division produces various print publications, including *Jobboom* magazine, 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.

## 2006 OVERVIEW

Quebecor Media reported continued growth in its operating results in 2006, driven mainly by the strong performance of its Cable segment. Quebecor World's revenues and operating income were again negatively impacted by challenging conditions in print media markets and temporary inefficiencies caused by the installation of new presses. To position itself to provide best-in-class integrated print solutions, Quebecor World implemented a transformation plan during 2006. The impact on Quebecor of the decrease in Quebecor World's revenues and operating income was amplified by the conversion of Quebecor World's results into Canadian dollars.

### QUEBECOR MEDIA INC.

Quebecor Media increased its revenues by $308.0 million (11.4%) and its operating income by $69.2 million (9.4%) in 2006. The growth was mainly due to the strong performance by the Cable segment, which recorded year-over-year revenue and operating income increases of $229.2 million (21.2%) and $99.2 million (24.0%) respectively, propelled by record customer growth. Meanwhile, the business environment in which the Broadcasting and Newspapers segments operate is undergoing far-reaching changes, including the growth of new media and the proliferation of platforms for the distribution of information and entertainment content, leading to changing consumer habits. Quebecor Media's strategy in response to these changes is to turn the new challenges into business opportunities. Among other things, Quebecor Media is developing its new media businesses and capturing synergies among its subsidiaries by pursuing a convergence strategy.

Significant developments since the end of 2005 include the following:

- In 2006, Videotron logged net increases of 234,800 customers for its cable telephone service, 154,000 customers for its cable Internet access service and 149,000 customers for illico Digital TV – all annual records, in absolute terms, since those services were launched in 2005, 1998 and 1999 respectively. Videotron also recorded a net increase of 66,300 customers for all cable television services combined (analog service plus illico Digital TV), the largest net annual growth for cable television services since 1999.
- On April 6, 2006, the Board of Directors of Quebecor Media approved the appointment of Pierre Karl Péladeau to the position of Vice Chairman of the Board and Chief Executive Officer.
- In 2006, Quebecor Media completed the refinancing of the totality of its notes. The Senior Notes maturing in 2011 and Senior Discount Notes maturing in 2011 that were refinanced were repurchased in three stages, the first block on July 19, 2005, the second on January 17, 2006, and the third on July 15, 2006. The refinancing operations will significantly reduce Quebecor Media's future financial expenses, in comparison with the expenses that would otherwise have been incurred, generating a positive net present value for the operation as a whole. The following stages in the refinancing process were carried out in January 2006:
  - On January 17, 2006, Quebecor Media issued US$525.0 million aggregate principal amount of 7.75% Senior Notes due March 2016. The Company 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 2011.
  - 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 ($237.0 million from Videotron, drawn on its existing revolving credit facilities, 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 11.125% Senior Notes maturing in 2011 and US$275.6 million aggregate principal amount of its 13.75% Senior Discount Notes, maturing in 2011, 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 recognized a $331.6 million unusual loss on debt refinancing in the first quarter of 2006, 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.
  - On July 15, 2006, Quebecor Media repurchased the balance of its outstanding Senior Notes and Senior Discount Notes maturing in 2011, for a total cash consideration of $39.3 million. In connection with this repurchase, a $10.5 million unusual loss on debt refinancing was recognized in the third quarter of 2006.
- On April 12, Quebecor Media announced the signing of a credit agreement for a long-term credit facility for the Canadian dollar equivalent of €59.4 million, maturing in 2015. Drawings under this credit facility will be used to finance, in part, the purchase by Quebecor Media of six presses to print some of Quebecor Media's newspapers. This facility is related to a German export financing program and provides Quebecor Media with financing at a very attractive cost.

- On August 10, 2006, Videotron launched a wireless telephone service in the Québec City area. The service has since been rolled out in all parts of Québec. As of December 31, 2006, there were 11,800 subscribers to Videotron's mobile service.
- On June 20, 2006, Sun Media Corporation announced a newsroom operations restructuring plan entailing the introduction of new content management technologies and the streamlining of newsgathering. It plans to invest approximately $7.0 million in these new technologies. Sun Media Corporation recorded $2.9 million in severance pay in 2006 in connection with the elimination of 85 full-time equivalent employees in newsrooms across the organization.
- Nurun made two acquisitions during 2006. On January 26, 2006, it announced the closing of the acquisition of China Interactive Limited ("China Interactive"), a Shanghai-based interactive marketing firm. On July 11, 2006, it announced the acquisition of Crazy Labs Webs Solutions, S.L. ("Crazy Labs"), an interactive communications agency based in Spain.

## QUEBECOR WORLD INC.

Consolidation in the print media industry because of overcapacity continued to exert negative pricing pressure in 2006, leading to a decrease in revenues. Quebecor World's operations were also affected by temporary inefficiencies from its retooling program and by volume reductions.

At the end of the second quarter of 2006, Quebecor World initiated a five-point transformation plan that focuses on five key areas:

(1) *Customer value*: Build the capability to create the highest value for its customers by providing differentiated, superior-value services to be the customer's complete print solution partner;

(2) *Best people*: Develop its people to be the best that they can be, through a comprehensive people development program consisting of training, new processes, and tools to build high-performance teams;

(3) *Great execution*: Implement a continuous improvement program to build superior execution capabilities producing the most efficient, most dependable, and highest quality results. Institute low-capital, high-return projects to begin a new cycle of high cash flow generation;

(4) *Retooling program*: Complete its retooling program, which involves deploying state-of-the-art technology in fewer but larger facilities by running wider, faster, more energy-efficient next-generation technology, with a focus on maximizing return on capital;

(5) *Strengthen the balance sheet*: Take the appropriate financing action to improve its financial flexibility by strengthening the balance sheet.

Quebecor World's commitment is to create the highest value for its customers, people and shareholders, a higher value than any other alternative. To achieve this objective, Quebecor World is focusing on being its customers' complete print solution partner by expanding its sophisticated, turnkey solutions, fully integrated with its customers' operations, marketing and advertising campaigns.

This strategy focuses on positioning Quebecor World to provide best-in-class integrated print solutions that will create the highest value for its customers, people and shareholders, an objective that is integral to Quebecor World's future success.

In 2006, Quebecor World continued to implement its retooling program for North America and Europe. Quebecor Word has invested approximately US$260.0 million in retooling in North America and approximately US$164.0 million in Europe, for a total of US$424.0 million.

In combination with the retooling program, ongoing restructuring efforts continue to optimize Quebecor World's overall platform as it concentrates on fewer but more efficient facilities with lower fixed costs. In 2006, Quebecor World announced the closure of one facility and the sale of another in France, the reorganization of its U.S. Book platform, which resulted in the closing of one facility and the reorganization of its U.S. Magazine platform, resulting in the closure of two facilities in 2006 and another projected to be closed by the end of the second quarter of 2007.

The 2006 initiatives are reflected in the reserve for restructuring, impairment of assets and other special charges of $126.9 million (US$111.3 million) recognized by Quebecor World. In 2006, 1,955 positions were eliminated at Quebecor World as a result of restructuring initiatives approved in 2006 and in previous years, with another 992 to come, for a total of 2,947. However, Quebecor World estimates that approximately 557 jobs were created at its other facilities in 2006. The restructuring initiatives introduced over the last three years have resulted, or will result in the elimination of 6,567 positions. However, Quebecor World estimates that approximately 1,328 new jobs were created, for a net reduction of 5,239 positions resulting from initiatives introduced during the 2004-2006 period.

Quebecor World intends to step up implementation of its retooling program and restructuring program in the first half of 2007. This is faster than previously planned, as Quebecor World will finalize the retooling in the first half of 2007, instead of 2008.

The year 2006 was difficult as Quebecor World continued to face highly competitive market conditions and temporary inefficiencies caused by the installation of new presses. While the retooling program is starting to generate some positive effects, it has not yet translated into increased operating income.

On December 29, 2006, Quebecor World purchased at par US$54.5 million of Senior Private Notes, pursuant to a tender offer announced on November 30, 2006. Quebecor World repurchased US$36.0 million in aggregate principal amount of the 8.54% and 8.69% Senior Notes, and US$18.5 million of the 8.42% and 8.52% Senior Notes.

On December 18, 2006, Quebecor World completed a private placement of US$400.0 million aggregate principal amount of 9.75% Senior Notes due January 15, 2015. The net proceeds from the issuance of the 9.75% Senior Notes were US$392.4 million and were used to early discharge in full the US$150.0 million Senior Debentures (7.25%), maturing in January 2007, plus accrued interest, and for Quebecor World general corporate purposes, including the reduction of other indebtedness and the completion of the $54.5 million purchase of Senior Private Notes mentioned above.

On July 28, 2006, Quebecor World entered into an agreement to arrange lease financing of printing presses and related equipment currently being installed in various facilities in North America. On December 19, 2006, Quebecor World received US$69.7 million in funding under the lease agreement, of which US$20.1 million is included in long-term debt. Quebecor World expects to receive an additional US$15.9 million under this program in 2007.

During the second quarter of 2006, Quebecor World redeemed its 8,000,000 Series 4 Redeemable First Preferred Shares for a total disbursement of US$175.9 million. The shares were repurchased using Quebecor World's revolving credit facility.

On March 6, 2006, Quebecor World successfully closed a private offering of US$450.0 million aggregate principal amount of 8.75% Senior Notes due March 15, 2016. Net proceeds from the issuance of the Senior Notes were

US$442.7 million and were used to repay in full the 7.20% Senior Notes with a principal amount of US$250.0 million that matured on March 28, 2006. Quebecor World used the remainder of the net proceeds for general corporate purposes, including the reduction of other indebtedness.

On January 16, 2006, Quebecor World announced it had concluded an agreement for the Canadian dollar equivalent of a €136.2 million long-term committed credit facility relating to purchases of rotary presses as part of the North American retooling program. The unsecured facility is related to a German export financing program and provides Quebecor World with financing at a very attractive cost. This facility will be drawn down over 2 years and will be repaid over the next 10 years. At December 31, 2006, the drawings under this facility amounted to $118.0 million (US$101.3 million).

### QUEBECOR INC.

In 2006, Quebecor recognized a $27.7 million unrealized gain on re-measurement of the floating rate debentures Series 2001 (compared with an unrealized gain of $126.0 million in 2005) 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 $2.22 per share decrease in the stock price between January 1, 2006 and December 31, 2006 generated an unrealized gain of $27.7 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.

### 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, such as operating income, free cash flows from operations and average monthly revenue per user ("ARPU"), do not have any standardized meaning under Canadian GAAP. These measures are defined under "Non-GAAP Measures" below.

## QUEBECOR'S INTEREST IN SUBSIDIARIES

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

Quebecor's share in the earnings of Quebecor World, which was 35.55% at January 1, 2004, has not changed significantly over the past three years. As of December 31, 2006, it stood at 35.62%. Quebecor World's Normal Course Issuer Bid expired on May 12, 2006. A total of 2,438,500 Subordinate Voting Shares were repurchased under this program. Quebecor World did not repurchase any Subordinate Voting Shares after August 12, 2005.

Quebecor's share in the earnings of Quebecor Media has been unchanged over the past three years. It stood at 54.72% as of December 31, 2006.

On August 2, 2006, TVA Group filed a new Normal Course Issuer Bid in order to purchase for cancellation, between August 4, 2006 and August 3, 2007, up to a maximum of 1,135,242 issued and outstanding Class B shares. During the financial years ended December 31, 2006, 2005 and 2004, 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 2006, 2005 and 2004, 9,800, 3,739,599 and 1,892,500 Class B shares were repurchased under the Substantial Issuer Bid and Normal Course Issuer Bids for total cash considerations of $0.2 million, $81.9 million and $41.0 million respectively. As a result of these repurchases, Quebecor Media's interest in TVA Group increased by 7.6 percentage points, from 37.6% on January 1, 2004 to 45.2% as of December 31, 2006.

On February 27, 2006, Nurun renewed its Normal Course Issuer Bid, the aim of which is to repurchase up to 1,656,016 Common Shares for cancellation on the open market, or up to approximately 5.0% of its issued and outstanding Common Shares, between March 1, 2006 and February 28, 2007. During the 12-month period ended December 31, 2006, a total of 437,500 Common Shares were repurchased for a total cash consideration of $1.6 million. In 2005, Nurun repurchased a total of 377,600 Common Shares for a total cash consideration of $0.8 million under its Normal Course Issuer Bid (no repurchase in 2004). In consideration of the acquisition of China Interactive in January 2006 and Crazy Labs in July 2006, Nurun issued 161,098 and 215,680 Common Shares respectively. As a result of these transactions, Quebecor Media's interest in Nurun increased from 57.3% as of January 1, 2004 to 57.8% as of December 31, 2006.

Through its subsidiaries, Quebecor Media's share in the earnings of Canoe, which stood at 75.3% following the swap of CANOE's assets in exchange for shares of Netgraphe Inc. ("Netgraphe") in March 2001, was 92.4% as of December 31, 2006. The increase mainly reflects the effect of the transaction that took the subsidiary private in September 2004.

Quebecor exercises direct and indirect controlling interests in three public companies. As of December 31, 2006, Quebecor held, directly or indirectly, 84.59%, 59.26% and 99.92% of the voting rights of Quebecor World, Nurun and TVA Group, respectively.

## 2006/2005 FINANCIAL YEAR COMPARISON

Quebecor's revenues decreased by $386.4 million (-3.8%) from $10.21 billion in 2005 to $9.82 billion in 2006. A $308.0 million increase in Quebecor Media's revenues only partially offset a $700.7 million decrease at Quebecor World, due to the impact of the conversion of Quebecor World's revenues into Canadian dollars, as well as continuing pricing pressure and volume reductions. The average exchange rate used for the translation of Quebecor World's results into Canadian dollars was US$1.00 = $1.13 in 2006, compared with US$1.00 = $1.21 in 2005, producing an unfavourable foreign-exchange variance estimated at $460.0 million in 2006. Stated in U.S. dollars, Quebecor World's revenues declined by US$197.0 million in 2006.

Operating income amounted to $1.42 billion in 2006, compared with $1.54 billion in 2005, a $124.3 million (-8.1%) decrease. Quebecor Media's operating income rose by $69.2 million to $802.8 million. The increase only partially offset a $180.5 million (US$113.8 million) decrease at Quebecor World, which generated operating income of $626.0 million (US$552.4 million) in 2006.

Quebecor recorded a net loss of $93.9 million ($1.46 per basic share) for 2006, compared with net income of $69.7 million ($1.08 per basic share) in 2005. The unfavourable variance of $163.6 million was due to the impact of the recognition in 2006 of a $342.6 million unusual loss on debt refinancing in connection with the refinancing of Quebecor Media's notes, compared with a $60.0 million loss in 2005. The refinancing enables Quebecor Media and its subsidiaries to benefit from more advantageous interest rates, generating a positive net present value for the operation as a whole.

A $98.3 million decrease in the unrealized gain on re-measurement of exchangeable debentures, the $124.3 million decrease in operating income, and a $32.3 million increase in the reserve for restructuring, impairment of assets and other special charges also contributed to the unfavourable variance. These factors were partially offset by a $107.1 million decrease in impairment of goodwill and licences and a $54.8 million decrease in financial expenses, due primarily to the favourable impact of the refinancing at Quebecor Media. There was an unfavourable variance of $203.8 million in income tax.

Excluding unusual items, namely the reserve for restructuring, impairment of assets and other special charges, the unrealized gain on re-measurement of exchangeable debentures, the gain (loss) on debt refinancing, the loss on sales of businesses and the impairment of goodwill and intangible assets (all net of income tax and non-controlling interest), net income from continuing activities was $124.4 million ($1.94 per basic share) in 2006, compared with $102.1 million ($1.58 per basic share) in 2005, an increase of $22.3 million ($0.36 per basic share).

The amortization charge increased by $11.1 million from $600.8 million in 2005 to $611.9 million in 2006 as a result of higher amortization charges at Quebecor Media due mainly to capital expenditures in 2005 and 2006, as well as the accelerated amortization recorded on some Newspapers segment equipment that is to be replaced. These factors were partially offset by the favourable effect of the conversion of Quebecor World's amortization charge into Canadian dollars.

Financial expenses decreased by $54.8 million from $463.3 million in 2005 to $408.5 million in 2006. Quebecor Media's financial expenses decreased by $60.7 million in 2006, mainly because of the impact of the refinancing of notes issued by Quebecor Media at more advantageous interest rates, which was partially offset by the negative impact of higher average debt levels and higher base interest rates. Quebecor World's financial expenses, stated in Canadian dollars, increased by $7.7 million. The unfavourable effect of higher average debt levels and higher base interest rates outweighed the net gains on currency translation and the increase in interest capitalized to fixed assets.

Reserves for restructuring, impairment of assets and other special charges totalled $145.9 million in 2006, compared with $113.6 million in 2005, a $32.3 million increase.

A number of facilities in North America and Europe were closed or downsized in 2006 as a result of Quebecor World's restructuring initiatives. Quebecor World approved the closure of a facility in Québec, an Illinois printing plant and binding facility in the Catalog group, the Kingsport (Tennessee) plant in Book, the Red Bank (Ohio), and Brookfield (Wisconsin) facilities in Magazine, and the Strasbourg plant in France, as well as the sale of the Lille plant in France. Quebecor World also made other general work-force reductions. Quebecor World recorded a net restructuring reserve totalling $86.3 million in 2006 ($48.6 million in 2005) in connection with the initiatives announced in 2006 and the continuation of initiatives from previous years.

Following impairment tests on various specific units, Quebecor World concluded that certain assets, mainly in Europe and North America, were impaired. Quebecor World recorded a $37.4 million charge in 2006 ($65.2 million in 2005) for impairment of long-lived assets and accelerated depreciation, mainly on machinery and equipment in plants affected by restructuring initiatives.

As of December 31, 2006, 1,738 positions had been eliminated at Quebecor World as a result of restructuring initiatives approved in 2006, with another 940 to come, for a total of 2,678 positions. However, Quebecor World estimated that approximately 557 new jobs had been created at its other facilities. A total of 217 positions were eliminated in 2006 under initiatives approved in prior years and a further 52 positions will be cut.

Quebecor Media recorded a reserve for restructuring of operations, impairment of assets and other special charges in the amount of $18.9 million in 2006, including a $17.0 million charge in the Newspapers segment (mainly in connection with two capital projects, namely the acquisition of new presses and the reorganization of content production) and a $1.9 million charge in the Broadcasting segment (in connection with a management reorganization).

Quebecor recognized a $27.7 million unrealized gain on re-measurement of the floating rate debentures Series 2001 in 2006 (compared with $126.0 million in 2005). The $2.22 per share decrease in the value of the Quebecor World shares underlying the exchangeable debentures between January 1 and December 31, 2006 generated an unrealized gain of $27.7 million on re-measurement of exchangeable debentures. The corresponding unrealized loss on the value of the Quebecor World shares has not been recorded in the books.

In 2006, Quebecor Media completed the repurchase of the totality of its outstanding Senior Notes and Senior Discount Notes, bearing interest at 11.125% and 13.75% respectively, for a total cash consideration of $1.4 billion, generating a $342.1 million unusual loss on debt refinancing ($119.7 million net of income tax and non-controlling interest). This loss includes the amount by which the consideration paid 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 Company had made an initial repurchase of its Senior Notes in 2005, generating an unusual loss on debt refinancing of $60.0 million ($22.4 million net of income tax and non-controlling interest). These repurchases were made as part of a refinancing that enables Quebecor Media to benefit from more advantageous interest rates, generating a positive net present value for the operation as a whole. The loss on debt refinancing recognized in 2006 also includes a $0.5 million loss ($0.2 million net of income tax and non-controlling interest) recorded in connection with the partial repurchase by Sun Media Corporation of its term loan "B" on December 29, 2006.

During the fourth quarter of 2006, Quebecor Media completed its annual impairment test on goodwill and on its broadcasting licences. Based on the results, the Company determined that the carrying amount of the Broadcasting segment's goodwill and broadcasting licences was impaired. The advertising revenue base of general-interest broadcasters is under pressure due to fragmentation of the television audience. Quebecor Media therefore reviewed its business plan and recorded a non-cash impairment charge totalling $180.0 million in 2006, including $148.4 million, without any tax consequences, for goodwill ($78.9 million net of non-controlling interest) and $31.6 million for the broadcasting licences ($6.8 million net of income tax and non-controlling interest). In 2005, Quebecor World recognized a non-cash charge of $287.1 million in respect of goodwill impairment related to its operations in Europe ($97.7 million net of income tax and non-controlling interest).

Quebecor recorded income tax credits totalling $111.1 million in 2006, compared with an income tax charge of $92.7 million in the same period of 2005, a favourable variance of $203.8 million. Excluding the reserve for restructuring, impairment of assets and other special charges, the gain on

re-measurement of debentures, the loss on debt refinancing, losses on sales of businesses and other assets, and impairment of goodwill and other intangible assets, the income tax expense was $58.9 million in 2006, for an effective tax rate of 14.8%, compared with $148.5 million and an effective tax rate of 31.0% in 2005. The difference reflects the tax rate reduction introduced in June 2006 by the Canadian federal government and the elimination, retroactive to January 1, 2006, of Part I.3 Tax on Large Corporations. The recovery by Quebecor World of income tax related to operating losses incurred in jurisdictions with higher tax rates where profits had been reported in 2005 was also a factor.

## 2006/2005 FOURTH QUARTER COMPARISON

In the fourth quarter of 2005, Quebecor's revenues totalled $2.67 billion, compared with $2.68 billion in the same period of 2005, a $10.2 million (-0.4%) decrease. A $91.6 million increase in Quebecor Media's revenues only partially offset a $109.4 million decrease at Quebecor World, mainly due to the impact of the conversion into Canadian dollars, as well as continuing pricing pressure and volume reductions. The average exchange rate used for the translation of Quebecor World's results into Canadian dollars was US$1.00 = $1.14 in the fourth quarter of 2006, compared with US$1.00 = $1.18 in the same period of 2005, producing an unfavourable foreign-exchange variance estimated at $60.0 million in the fourth quarter of 2006. Stated in U.S. dollars, Quebecor World's revenues declined by US$43.6 million in the fourth quarter of 2006.

Operating income was $412.2 million in the fourth quarter of 2006, compared with $409.3 million in the same period of 2005, a $2.9 million (0.7%) increase. A $26.0 million increase in Quebecor Media's operating income to $239.4 million was partially offset by a $12.6 million (US$5.4 million) decrease at Quebecor World, which generated operating income of $181.3 million (US$159.6 million) in the fourth quarter of 2006, and by an $8.7 million increase in charges related to Quebecor's stock option plan.

Quebecor recorded a net loss of $80.8 million ($1.26 per basic share) in the fourth quarter of 2006, compared with net income de $14.5 million ($0.23 per basic share) in the same period of 2005. The unfavourable variance of $95.3 million was due primarily to the recording of a $23.2 million unrealized loss on re-measurement of exchangeable debentures, compared with a $76.0 million unrealized gain in the same quarter of 2005, as well as a $49.4 million increase in the reserve for restructuring, impairment of assets and other special charges. It should be noted that the $107.9 million decrease in impairment of goodwill and licences led to an unfavourable variance of $89.1 million in non-controlling interest.

Excluding unusual items, namely the reserve for restructuring, impairment of assets and other special charges, the unrealized loss on re-measurement of debentures, the loss on debt refinancing, the gain (loss) on sales of businesses, and the impairment of goodwill and intangible assets, all net of income tax and non-controlling interest, net income was $41.1 million in the fourth quarter of 2006 ($0.64 per basic share), compared with $28.9 million ($0.45 per basic share) in the same period of 2005, an increase of $12.2 million ($0.19 per basic share).

Amortization charges totalled $165.7 million in the fourth quarter of 2006, compared with $150.2 million in the same quarter of 2005. The $15.5 million increase essentially was due to the same factors as those noted above in the discussion of the annual results, as well as the recognition of accelerated depreciation on some equipment by Quebecor World.

In the fourth quarter of 2006, financial expenses decreased by $1.3 million from $110.5 million to $109.2 million. Quebecor Media's financial expenses decreased by $10.7 million. There was a net decrease of $14.1 million in interest charges and amortization of the discount on long-term debt in the fourth quarter of 2006, essentially due to the same factors as those noted above in the discussion of the annual results. The loss on re-measurement of the Additional Amount payable amounted to $8.1 million in the fourth quarter of 2006, compared with $3.9 million in the same period of 2005, an unfavourable variance of $4.2 million. Quebecor World's financial expenses, stated in Canadian dollars, increased by $12.1 million. The unfavourable effect of higher average debt levels and higher base interest rates was partially offset by a favourable variance in net gains on currency translation. Furthermore, the discontinuation of dividend payments by Quebecor World and Abitibi-Consolidated in 2007 had the effect of reducing financial expenses related to exchangeable debentures.

The reserve for restructuring, impairment of assets and other special charges totalled $63.0 million in the fourth quarter of 2006, compared with $13.6 million in the same quarter of 2005.

During the fourth quarter of 2006, Quebecor World approved the closures of a Québec facility and an Illinois printing plant and binding facility in the Catalog group. Quebecor World also made other general workforce reductions. Quebecor World recorded a net restructuring reserve totalling $25.2 million in the fourth quarter of 2006. Following impairment tests on various specific units, Quebecor World concluded that certain assets, mainly in Europe and North America, were impaired. Quebecor World recorded a $28.3 million charge in the fourth quarter of 2006 for impairment of long-lived assets and accelerated depreciation, mainly on machinery and equipment in plants affected by restructuring initiatives.

In the fourth quarter of 2006, Quebecor Media recorded a reserve for restructuring of operations, impairment of assets and other special charges in the amount of $9.5 million in the Newspapers segment in connection with capital projects involving the acquisition of new presses and the reorganization of content production, and in connection with the voluntary workforce-reduction program.

Quebecor recognized a $23.2 million unrealized loss on re-measurement of the floating rate debentures Series 2001 in the fourth quarter of 2006 (compared with an unrealized gain of $76.0 million in the fourth quarter of 2005), an unfavourable variance of $99.2 million. The $1.85 per share increase in the value of Quebecor World shares underlying the exchangeable debentures between October 1, 2006 and December 31, 2006 generated an unrealized loss of $23.2 million on re-measurement of exchangeable debentures. The corresponding unrealized gain on the value of Quebecor World shares has not been recorded in the books.

In the fourth quarter of 2006, Quebecor Media recognized a non-cash charge of $179.2 million in respect of goodwill impairment related to the Broadcasting segment and impairment of the Sun TV broadcasting licence ($85.0 million net of income tax and non-controlling interest). In the fourth quarter of 2005, Quebecor World recognized a non-cash charge of $287.1 million ($97.7 million net of income tax and non-controlling interest) in respect of goodwill impairment related to its operations in Europe.

Quebecor recorded income tax credits totalling $8.0 million in the fourth quarter of 2006, compared with an income tax charge of $16.9 million in the same period of 2005, a $24.9 million improvement. Excluding the reserve for restructuring, impairment of assets and other special

charges, the loss on re-measurement of exchangeable debentures, the loss on debt refinancing, gains (losses) on sales of businesses and other assets, and the impairment of goodwill and other intangible assets, the income tax expense was $24.2 million in the fourth quarter of 2006, for an effective tax rate of 17.6%, compared with $53.8 million and an effective tax rate of 36.2% in the same period of 2005. The difference mainly reflects the recovery by Quebecor World of income tax related to operating losses incurred in jurisdictions with higher tax rates where profits had been reported in 2005. The tax rate reduction and the elimination of Part I.3 tax, discussed in the discussion of the annual results, were also factors.

## SEGMENTED ANALYSIS

### PRINTING SEGMENT

### Industry profile

Quebecor World operates in the commercial printing industry, a largely fragmented and capital-intensive industry. The North American, European, and Latin American printing industries are highly competitive in most product categories and geographic regions. Commercial printers tend to compete within each product category based on quality, range of services offered, distribution capabilities, customer service, price, availability of printing time on appropriate equipment and state-of-the-art technology.

#### *Customers*

Quebecor World's customers are notably retailers, catalogers, branded-goods companies, publishers, ad agencies, and companies implementing significant marketing and advertising campaigns. The activity of Quebecor World's customers is seasonal with a greater part of volume being realized in the second half of the year, primarily due to holiday marketing and promotions, new product launches, back-to-school ads, marketing by retailers, increased catalog activity, and the higher number of magazine pages associated with increased marketing in the second half of the year.

The primary drivers affecting the demand for the Printing segment's services and solutions are consumer trends and purchasing activity, marketing and advertising dynamics, and general economic growth rates. These are the key drivers of the demand for integrated print solutions because they affect the level and type of multi-channel marketing, advertising and merchandising activity.

#### *Technology and electronic data distribution*

Technological changes continue to increase the accessibility and quality of electronic alternatives to traditional delivery of printed documents through the increased use of the Internet and the electronic distribution of media content, documents and data.

While the acceleration of consumer acceptance of such electronic media will probably continue to increase, the value and role of printed media should continue to play a strong role in marketing, advertising, and publishing. The reason, Quebecor World believes, is that print media is an efficient and effective vehicle to market and advertise products. Quebecor World believes that in a multi-channel marketing strategy, print should continue to play a key and important role. It believes that a significant percentage of the purchases over the Internet are based upon a buying decision based upon a catalog or retail insert, and that print plays a synergistic role with many of the new technologies.

#### *Consolidation*

Consolidation of the printing industry is ongoing because of global overcapacity, which has led to negative price pressures. While capacity utilization in the printing industry has shown some positive signs in recent months, Quebecor World believes that overcapacity will remain an issue and will likely continue to impact prices in most print segments. The overall decrease in number of smaller companies and smaller plants creates the opportunity for larger companies and larger plants to leverage their scale and scope, and also to deploy more efficient equipment. In addition, as customers consolidate and require very large scale marketing campaigns, the largest players can provide an integrated, continent-wide advertising campaign delivered with local responsiveness.

#### *Strategy*

Quebecor World's broad geographic coverage and comprehensive offering of print solutions, coupled with its flexible global manufacturing platform, are key competitive strengths that enable Quebecor World to remain a market leader while maintaining a low-cost position.

Quebecor World's commitment is to create the highest value for its customers, people and shareholders, a higher value than any other alternative. To achieve this objective, Quebecor World is focusing on being its customers' complete print solution partner by providing sophisticated, turnkey solutions, fully integrated with its customers' operations, marketing and advertising campaigns.

At the end of the second quarter of 2006, Quebecor World initiated a five-point transformation plan that focuses on five key areas:

(1) *Customer value*: Build the capability to create the highest value for its customers by providing differentiated, superior-value services to be the customer's complete print solution partner;

(2) *Best people*: Develop its people to be the best that they can be, through a comprehensive people development program consisting of training, new processes, and tools to build high-performance teams;

(3) *Great execution*: Implement a continuous improvement program to build superior execution capabilities producing the most efficient, most dependable, and highest quality results. Institute low-capital, high-return projects to begin a new cycle of high cash flow generation;

(4) *Retooling program*: Complete its retooling program, which involves deploying state-of-the-art technology in fewer but larger facilities by running wider, faster, more energy-efficient next-generation technology, with a focus on maximizing return on capital;

(5) *Strengthen the balance sheet*: Take the appropriate financing action to improve its financial flexibility by strengthening the balance sheet.

This strategy focuses on positioning Quebecor World to provide best-in-class integrated print solutions that should create the highest value for customers, people and shareholders, an objective that is integral to Quebecor World's future success.

### Follow-up on transformation plan

Quebecor World completed the most extensive phase of its retooling programs in 2006. Execution of the retooling will be accelerated in the first half of 2007 as Quebecor World's objective is to finalize the retooling in the first half of 2007, before the traditional busy season in the third and fourth quarters. This is faster than previously planned, as Quebecor World will finalize the retooling in the first half of 2007, instead of 2008. 2006 was also a year during which

Quebecor World embarked upon a five-point transformation plan to create greater customer and shareholder value. Although the full extent of this transformation plan will be realized over time, actions have already been taken in 2006 to begin the transformation process.

*Customer value*

Quebecor World is committed to creating the highest value for its customers by providing innovative and complete marketing solutions through targeted advertising campaigns, and also for publishers by providing high-quality, efficient, on-time print solutions. Quebecor World is committed to creating high-value solutions by integrating a high quality print product with before and after print services. Before print, the subsidiary offers services such as premedia, data optimization, content management, and marketing campaign consulting. After print, it offers services such as complete logistics, co-mailing, postage reduction, and real time tracking and tracing. The objective is to create significant value for its customer through these solutions, so that Quebecor World can sell based on value, and not based on price. Quebecor World believes that this will contribute to improve margins.

As an example, Quebecor World announced the renewal of a multi-year contract with Williams-Sonoma Inc. ("Williams-Sonoma") at the beginning of 2007. The integrated strategic solutions proposed by Quebecor World, such as press efficiencies, quality and service, a compelling logistics program, personalization and mail-list services, along with its understanding of the multi-channel marketplace, will create additional value for Williams-Sonoma, which in turn allows Quebecor World to build on a successful 25-year relationship.

Quebecor World also signed a significant long-term directory printing agreement in October 2006 with Yellow Pages Group, valued at more than $1.0 billion through the year 2020. The agreement extends existing directory printing contracts in Eastern, Western and Central Canada and increases the volumes printed by Quebecor World. This contract includes expanded value-added before- and after-print services, including the use of Quebecor World proprietary AdMagic software and after-press services including value-added fulfillment.

*Best people*

Quebecor World has introduced a new people and organization capability-building program. The plan emphasizes creating high performance teams, building capabilities, helping people to become the best that they can be, providing feedback and coaching, developing people, and providing training programs and tools. In 2006, Quebecor World kicked off a comprehensive people development program with reviews of key leaders and has performed talent assessments at various levels throughout the organization. Quebecor World is implementing a leadership talent development tool to help assess and develop employees to ensure they possess the capabilities to deliver the greatest value to Quebecor World's customers and shareholders. Each person then creates a development plan and program designed to help them to become the best that they can be.

*Great execution*

The execution initiative drives fundamental improvements in Quebecor World's operating capability at the front line, with the objective that Quebecor World delivers on the benefits of its recent and significant retooling investment. As part of this initiative, Quebecor World is creating a Continuous Improvement Program that will be deployed across the entire platform. The program is tailored for Quebecor World's needs, and combines the best-in-class continuous improvement tools from Six Sigma, Lean Manufacturing, Kaizan, 5 S, and other leading processes. The program is designed to deliver real results based on increasing efficiency, reducing waste, improving quality, reducing errors, enhancing speed, and eliminating structural costs. Quebecor World has identified the facilities, projects and leaders to drive these programs and began implementing these continuous improvement projects across the organization. Quebecor World is currently implementing more than 40 projects.

*Retooling program*

Quebecor World is deploying the latest technology while remaining capacity-neutral. Quebecor World believes that this standardization, simplification, and focus on state-of-the-art technology across its platform will deliver the highest value to its customers and the highest returns to its shareholders. This new equipment, combined with the introduction of Quebecor World's new continuous improvement program, will result in more productive operations with lower operating costs, higher quality, less waste, fewer people and fewer facilities that, in the long run, should generate a higher return on invested capital.

In 2006, Quebecor World continued to implement its retooling program for North America and Europe. Quebecor World has accelerated the pace however, with an objective of completing the program ahead of schedule in 2007, compared to the previous plan's 2008 date. Quebecor World has invested approximately US$260.0 million with respect to the North American plan and approximately US$164.0 million for the European plan, for capital expenditures totalling US$424.0 million since the program began. The deployment of such an extensive program cannot be accomplished without experiencing certain plant closure and start-up related disruptions, which Quebecor World experienced in 2006.

To date, Quebecor World has placed 19 firm orders for new presses as part of its North American strategic retooling plan announced in 2004. Four of these presses were sold as part of a lease financing, which is further discussed under "Cash flows and financial position" below. The total commitment for the remaining 15 presses amounts to approximately US$184.0 million, of which US$148.0 million has already been invested. Five of these presses were operational at the end of 2005, nine began operations in 2006 and one was started up in the first quarter of 2007.

As part of the European strategic plan announced in 2005, Quebecor World has placed a total of five firm orders for new presses. The total commitment for these presses amounts to approximately US$75.0 million, of which US$60.0 million has already been disbursed. Of these five presses, two became operational in 2006 and three were started in the first quarter of 2007.

In combination with the retooling program, ongoing restructuring efforts continue to optimize Quebecor World's overall platform as it concentrates on fewer but more efficient facilities with lower fixed costs. In 2006, Quebecor World announced the closure of one facility and the sale of another in France, the reorganization of its U.S. Book platform, which resulted in the closing of one facility and the reorganization of its U.S. Magazine platform, resulting in the closure of two facilities in 2006 and another projected to be closed by the end of the second quarter of 2007.

*Strengthening the balance sheet*

Quebecor World's financial position was strengthened in 2006, notably with the issuance of approximately US$850.0 million of long-term notes, extending and improving Quebecor World's maturity profile. Quebecor World also undertook lease financing of equipment currently being installed in North America, renewed and extended two of its securitization programs, completed low-cost equipment financing and repurchased its high-cost Series 4 Redeemable First Preferred Shares. In November 2006, Quebecor World suspended the dividend on Multiple and Subordinate Voting Shares with a view to strengthening its balance sheet. As at December 31, 2006, Quebecor World had a liquidity position of more than US$900.0 million with only US$23.6 million drawn on its US$1.0 billion credit facility. Quebecor World is also currently evaluating additional strategic and tactical actions to improve the balance sheet.

## Analysis of 2006 operating results

The year 2006 was difficult as Quebecor World continued to face highly competitive market conditions, coupled with temporary disruptions and volume losses caused by the installation of new presses and the removal of older presses. While the retooling program is starting to generate some positive effects, it has not yet translated into increased operating income. As a result, Quebecor World's operating income was lower than in 2005. Quebecor World's management believes that its transformation plan will better position Quebecor World to face these difficult market conditions and drive greater long-term performance.

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

Quebecor World's revenues amounted to US$6.09 billion in 2006, a decrease of US$197.0 million (-3.1%) from with the previous year. Excluding the favourable impact of the translation of currencies other than the U.S. dollar (US$65.6 million), revenues decreased 4.2% in 2006, due mainly to continued price pressures and reduced volume, as discussed in greater detail in the geographic review below.

Paper sales, excluding the effect of currency translation, decreased by 2.1% in 2006, compared with 2005. Although variances in paper sales have an impact on revenues, they have little impact on operating income because the cost is generally passed on to the customer.

Operating income decreased by US$113.8 million (-17.1%) from US$666.2 in 2005 to US$552.4 million in 2006, essentially as a result of pricing pressures, as well as volume reductions, temporary operational inefficiencies caused by the start-up of new presses and higher energy costs, which were partially offset by lower labour costs.

Cost of sales decreased 1.7% in 2006, mostly because of a decrease in fixed plant costs, a decrease in labour costs and a decline in consumables, which were partly offset by higher energy costs. Gross profit margin decreased to 16.0% for 2006, compared with 17.2% in 2005.

Selling, general and administrative expenses and securitization fees increased by US$4.2 million (1.0%) from US$420.6 million in 2005 to US$424.8 million in 2006. Excluding the impact of currency translation, selling, general and administrative expenses and securitization fees decreased by US$4.0 million. The favourable impact of workforce reductions on labour costs was partially offset by higher interest rates underlying the securitization fees and cost increases related to the Sarbanes-Oxley Act of 2002 in the United States.

Stated in Canadian dollars, Quebecor World's revenues decreased by $700.7 million (-9.2%) compared with 2005 to $6.90 billion in 2006, and operating income decreased by $180.5 million (-22.4%) to $626.0 million. The decrease in revenues and operating income was amplified by translation into Canadian dollars.

## 2007 outlook

Quebecor World anticipates that 2007 will be a challenging year as it will continue to face highly competitive market conditions. In response, Quebecor World is successfully implementing its five-point transformation plan in order to create the highest value for its customers, people, and shareholders. Quebecor World is making progress on all five points within the transformation plan.

Quebecor World announced that as part of its retooling program, it has committed to finalize the retooling in the first half of 2007, significantly earlier than previously planned by 2008. This acceleration is part of the strategy to complete the retooling quickly, and to finish it before its customers' busy season in the third and fourth quarters. This will have positive benefits and results for the second half of 2007 but will result in increased inefficiencies, plant disruptions, waste, reduction in press speeds, and overall higher costs in the first half of the year.

Quebecor World's operations in the European segment are expected to continue to be affected by the difficult market conditions throughout the year 2007, mainly in France and the United Kingdom. Quebecor World will continue to implement its retooling plan in this platform, which will deliver improved execution in the long term.

## Geographic review

*North America*

In 2006, North American revenues totalled US$4.82 billion, a US$59.4 million (-1.2%) decrease. Excluding the effect of the translation of currencies other than the U.S. dollar and the impact of paper sales, revenues decreased by 2.0% compared with 2005, mainly due to restructuring activities, plant closures and lower prices.

Operating income decreased by US$86.7 million (-14.7%) in North America to US$502.7 million, mainly because of downward pressure on prices, lower volumes, temporary inefficiencies related to the installation and start-up of new presses, temporary inefficiencies from plant and press closures, the temporary inefficiencies of restructuring the network and higher energy costs.

Between 2005 and 2006, the North American workforce was reduced by 1,669 employees, or approximately 6.9%, and the benefits of this improvement will positively impact Quebecor World in future quarters.

<u>Magazines</u>

The Magazine group's revenues declined 6.0% to US$949.4 million in 2006, mainly due to print volume decreases brought about by restructuring, press shutdowns, new press start-ups, the closure of the Brookfield (Wisconsin) facility, temporary transfer of volumes during installations, upgrading, and lower pagination from major publishers. Continued price erosion also affected the Magazine group's revenues in 2006.

The Magazine transformation plan includes the installation of 10 new presses at 7 facilities, as well as additional investments in accompanying robotics and new bindery technology. Two of the presses were installed and operating in the fourth quarter of 2005, and seven additional presses were installed and began operations during 2006. Quebecor World completed the installation of the tenth press in the first quarter of 2007. This process resulted in inefficiencies which stemmed from the closure of old presses and plants, the

preparation, installation, and start-up of new equipment, and the temporary redistribution of print volume to other facilities during the process.

Quebecor World has announced a series of restructuring measures in connection with its Magazine transformation plan that will accelerate the retooling, with the objective of finalizing the retooling earlier than planned. Quebecor World therefore plans to concentrate the retooling in the first and second quarters of 2007. In January 2007, Quebecor World announced that it intends to close its facility in Lincoln (Nebraska) in the second quarter of 2007. It also consolidated its Cincinnati area magazine printing operations into one facility. This consolidation resulted in the closure of the Red Bank (Ohio), facility during the fourth quarter of 2006. Quebecor World also completed the closure of a facility in Brookfield (Wisconsin) in the third quarter of 2006. Quebecor World expects these measures to reduce costs, improve customer service, maximize asset utilization and increase efficiency. With the acceleration of the Lincoln plant closure, the retooling of the Magazine group will be completed by the end of the second quarter, with significant benefits in the third and fourth quarters.

Retail

Retail revenues were US$873.2 million in 2006, a 2.7% increase, attributable to new customer contracts, higher volumes, and higher revenues from materials and paper sales. The volume growth was mainly from new customers such as Brooks-Eckerd and existing customers such as Wal-Mart, CVS and Kohl's. Quebecor World is the leader in North America in the retail insert market, and partners with the leading retailers. It received several awards in 2006, recognizing its performance, quality, service, and value, with the most notable award being the Wal-Mart Customer Service Supplier of the Year award to the retail division.

Growth in the retail group is also attributed to gains in productivity during the year 2006, in line with the execution of Quebecor World's five-point transformation plan.

Catalog

Catalog revenues were US$680.0 million in 2006, up 2.1% as a result of volume growth primarily due to the addition of new customers, such as Bass Pro Shops and Brookstone. Sales with several current key customers also increased in the Catalog Group in 2006.

In line with the strategy to accelerate and finalize retooling in 2007, in November 2006, Quebecor World announced the further consolidation of the current platform into highly automated, more efficient facilities that will give customers a coast-to-coast, state-of-the-art catalog platform. Quebecor World moved the closure of its facility in Elk Grove Village (Illinois) into the first quarter of 2007, and is concentrating the restructuring and retooling in the first half of 2007, which will benefit the second half of 2007 and the future quarters. This accelerated closure should positively impact the later part of 2007, but should negatively impact the first and second quarters.

In February 2007, Quebecor World renewed a multi-year contract with Williams-Sonoma to continue to print a majority of their catalog circulation. The renewal is a direct result of Quebecor World's investment in new technologies and its commitment to creating value for its customers through a complete offering of marketing solutions.

Book & Directory

Book & Directory revenues decreased 6.2% to US$675.2 million in 2006, mainly because of reduced book manufacturing capacity related to temporary inefficiencies resulting from the retooling program, a plant closure, and the transfer of some book production to Latin America, all resulting in lower volumes in the Book group. As part of this plan, Quebecor World has closed its plant in Kingsport (Tennessee); the shutdown was completed at the end of the third quarter of 2006. Directory revenues were essentially flat in 2006.

In April 2006, Quebecor World announced its plan to reorganize and retool its Book platform in order to reduce fixed costs, reduce staff, improve customer service, maximize asset utilization and increase efficiency. The plan provides for investments in new state-of-the-art equipment and the decommissioning or relocation of certain existing assets. As part of the reorganization, the Book group has continued to implement its retooling program with the addition of two 64-page presses that are now fully operational. These presses, along with two similar presses installed in the fourth quarter of 2005, will better serve clients, particularly where runs are short, time to market is the priority, and quality performance is critical. Also, as an alternative to outsourcing in Asia, Quebecor World offers a seamless and cost-effective service for more labour-intensive products from its Latin American platform. In addition, Quebecor World intends to install two new presses for the mass-market segment of the Book industry in the first half of 2007 with an expected start-up in July 2007.

While Quebecor World received only a fraction of the expected benefits from these efforts in 2006, permanent staffing levels across the Book Group are significantly lower than they were a year ago. These cost reductions and capital improvements have resulted in a more efficient platform that is positioned to deliver improved results in 2007.

In March 2007, Quebecor World announced the signing of an exclusive multi-year agreement for the printing of mass market paperback books with Harlequin Enterprises Limited. Quebecor World's full-service solution for Harlequin Enterprises Limited ensures they receive a consistent and top-quality product, on-time to meet their precise onsale and subscriber distribution schedule. This volume will be printed on new presses that are part of Quebecor World's retooling program.

Direct

Direct revenues rose 4.8% to $367.9 million in 2006. The increase was due to a favourable change in product mix and higher paper sales, partly offset by decreased volumes from an important customer. Based on a leadership position in direct marketing, Quebecor World increased its sales with key customers, such as Capital One, Pier One and American Express.

Canada

Canadian revenues were US$893.3 million in 2006, a 2.1% decrease, primarily attributable to the impact of foreign exchange on the Canadian print market. Excluding the impact of currency translation on sales denominated in Canadian dollars and the effect of paper sales, revenues decreased by 5.0% compared with 2005 mainly due to reductions in market prices and volumes as a result of the impact of a negative move in exchange rates between the United States and Canada, and the general market conditions. The decrease in prices is mainly attributable to less favourable foreign exchange contracts on sales to U.S. customers, as well as to ongoing pricing pressures from major contractual customers. Volume was down in 2006 mainly due to lower volume in Retail and Catalog, combined with the sale of a facility in Québec.

In October 2006, Quebecor World signed a significant directory printing agreement with Yellow Pages Group, valued at more than $1.0 billion through the year 2020, which extends existing printing contracts and increases the volumes printed by Quebecor World.

Other revenues

Logistics revenues rose 4.3% to US$335.0 million in 2006 due to increased value based on Quebecor World's integrated end-to-end solution in providing value-added services, such as those offered at the new co-mailing facility in Bolingbrook (Illinois), which continued to produce increased revenues and margin. Overall, product mix compared to the prior year improved with a shift toward higher margin services. 2006 saw more effective network utilization and strategic use of specific modes of transportation. Overall, logistics continues to deliver successes. Quebecor World will expand its co-mailing capacity in 2007 with the addition of a third line.

Premedia revenues decreased 4.6% to US$55.6 million in 2006 due primarily to decreased volume and price erosion, which were partly offset by an overall positive change in work mix.

*Europe*

European revenues were US$1.03 billion in 2006, a decrease of US$137.5 million (-11.8%). Excluding the impact of currency translation and paper sales, revenues were down 11.1%. Volume decreased in 2006, mainly in France and in the United Kingdom. The implementation of the European retooling program that began early in 2006 has continued to impact volume as a result of plant closures, press shutdowns, movement of customers within Quebecor World's network, and temporary press start-up inefficiencies. France's volume shortfall is due to the disposal of certain facilities in 2005 and in the first quarter of 2006, the shutdown of a facility in the second quarter of 2006, and reduced gravure printing work, mainly in the Catalog and Retail markets. The volume of magazine sales in France was also impacted by the implementation of a new tax on distribution. Volume at the Corby facility in the United Kingdom continued to be negatively impacted by the non-renewal of a significant contract.

European operating income decreased by US$20.8 million (-36.0%) to US$37.0 million in 2006, primarily as a result of downward pressure on prices, as well as temporary operational inefficiencies caused by the start-up of new presses.

Despite the restructuring measures undertaken in many of the European segments, financial results for 2006 in Europe were below 2005 results due to pricing issues brought on by the difficult economic conditions in most regions, but also because of an unfavourable product mix, particularly in the United Kingdom, Austria and Belgium.

Between 2005 and 2006, the European workforce was reduced by approximately 17.2% or 806 employees.

As part of the European retooling plan, Quebecor World is purchasing five new state-of-the-art printing presses. Two of these presses were installed in Austria and the United Kingdom and were in operation at the end of the third quarter of 2006. Another two presses were installed in Belgium and Spain and were operational in January 2007. The second press in Belgium should be installed and operational by the end of the first quarter of 2007, together with the new cylinder engraving facility.

Quebecor World completed the shutdown of the Strasbourg (France) facility in the second quarter of 2006. The closure was completed on time and within initial cost estimates. In March 2006, Quebecor World announced the sale of its facility in Lille (France).

*Latin America*

Latin American revenues were $239.3 million in 2006, a decrease of US$2.4 million (-1.0%) from 2005. Excluding the impact of foreign currency translation and paper sales, revenues remained essentially flat. Prices increased in 2006 as a result of the favourable impact of export sales. Overall volume decreased in 2006, largely because of shortfalls in Peru related to the economic slowdown in that country, as well as lower volume in Mexico, mainly in the directory segment.

Latin American operating income decreased by US$2.5 million (-11.1%) to US$20.9 million in 2006, mainly because of the impact of the revenue decrease.

## Fourth quarter 2006 and 2005

Quebecor World's fourth quarter 2006 revenues were US$1.62 billion, a US43.6 million (-2.6%) decrease compared with the same period of 2005. Excluding the favourable impact of the fluctuation of currencies other than the U.S. dollar (US$30.0 million), revenues decreased by 4.4% in the fourth quarter of 2006 due to the temporary impact of restructuring and plant closures, which impacted volumes, as well as continuing pricing pressures. North American revenues were US$1.28 billion in the fourth quarter of 2006, a decrease of US$37.6 million (-2.8%) compared with the same period of 2005. Revenues decreased in all business groups except for Retail and Direct, essentially due to the same factors as those noted above in the discussion of the annual results. The Logistics group's revenues decreased by 3.0% due to a less favourable product mix than in the same period of 2005. In Europe, fourth quarter 2006 revenues decreased by US$9.4 million (-3.4%) to US$267.3 million, essentially for the same reasons as those noted above in the discussion of the annual results. Latin American revenues rose US$4.3 million (6.5%) to US$68.8 million in the fourth quarter of 2006,

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Cash flows generated by operating activities before undernoted item | $ 415.5 | $ 455.2 | $ 647.1 |
| Net change in non-cash balances related to operations | (179.5) | 14.3 | (159.3) |
| Cash flows generated by operating activities | 236.0 | 469.5 | 487.8 |
| Dividends on Preferred Shares | (43.1) | (39.6) | (38.8) |
| Additions to property, plant and equipment | (313.8) | (394.0) | (132.6) |
| Proceeds from disposal of businesses and assets | 111.0 | 83.3 | 3.0 |
| **Free cash flows from operations** | $ (9.9) | $ 119.2 $ | $ 319.4 |

mainly because of price increases stemming from the favourable impact of export sales, which were partially offset by lower volumes due to changes in the product mix.

Quebecor World generated operating income of US$159.6 million in the fourth quarter of 2006, compared with US$165.0 million in the same period of 2005, a decrease of US$5.4 million (-3.3%). In North America, operating income was US$146.4 million in the fourth quarter of 2006, flat in comparison with the same quarter of 2005. In Europe, operating income decreased US$7.5 million (-51.0%) to US$7.2 million because of the same factors as those noted above in the discussion of the annual results. Operating income decreased in most countries, except for Finland and Sweden, where it was flat. In Latin America, operating income was US$6.0 million in the fourth quarter of 2006, a US$0.4 million (-6.3%) decrease. The decline in volume was largely offset by higher prices and cost reductions.

Gross operating margin was 16.6% in the fourth quarter of 2006, compared with 16.3% in the same quarter of 2005.

Stated in Canadian dollars, Quebecor World's revenues were $1.84 billion in the fourth quarter of 2006, a $109.4 million (-5.6%) decrease. Operating income totalled $181.3 million, a decrease of $12.6 million (-6.5%) from the same period of 2005. The decrease in revenues and operating income stated in U.S. dollars was amplified by the effect of currency translation into Canadian dollars.

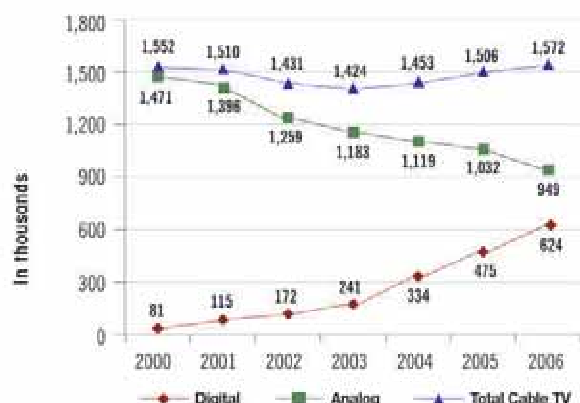
### Free cash flows from operations

Free cash flows from operations was negative US$9.9 million in 2006, compared with positive US$119.2 million in 2005. The negative difference of US$129.1 million resulted primarily from a US$193.8 million unfavourable variance in non-cash balances related to operations (caused mainly by an increase in accounts receivable, net of securitization, and income tax receivable, partially offset by an increase in accounts payable) and a US$113.8 million decrease in operating income, partially offset by a US$80.2 million decrease in additions to property, plant and equipment, and a reduction in current income tax charges.

### Average exchange rate

The average exchange rate used for the conversion of Quebecor World's results was US$1.00 = $1.13 in 2006 (US$1.00 = $1.21 in 2005) and US$1.00 = $1.14 in the fourth quarter of 2006 (US$1.00 = $1.18 in the same period of 2005).

**Chart 1**
**Customer base for cable television**




## CABLE SEGMENT

The Cable segment generated revenues of $1.31 billion in 2006, compared with $1.08 billion in 2005, a $229.2 million (21.2%) increase.

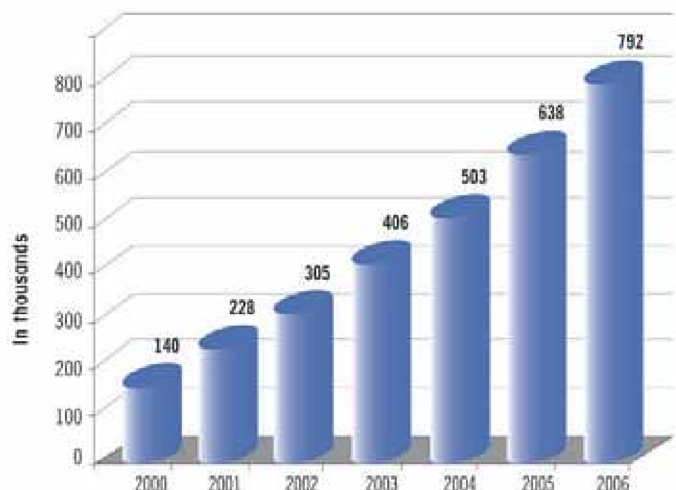
The revenues of Videotron's illico Digital TV service, excluding related services, rose by $82.4 million (44.5%) to $267.4 million in 2006. The strong performance of illico Digital TV in 2006 more than compensated for decreased revenues from analog cable television services. Combined revenues from all cable television services increased by $59.0 million (9.5%) to $677.3 million due to the impact of customer base growth, higher rates, and the favourable impact of the increase in illico Digital TV's customer base on equipment sales and revenues from illico on Demand, pay TV and pay per view.

illico Digital TV had 623,600 customers at the end of 2006, compared with 474,600 at the end of 2005 (*see Chart 1*). The 149,000 (31.4%) increase is the largest annual customer base growth, in absolute terms, since the launch of the service in 1999. By comparison, illico Digital TV recorded net customer growth of 140,900 and 92,800 in 2005 and 2004 respectively. As of December 31, 2006, illico Digital TV had a penetration rate (number of subscribers as a proportion of total subscribers to all cable television services) of 39.7% versus 31.5% a year earlier.

Videotron's analog cable television services lost 82,700 customers in 2006, compared with decreases of 87,400 and 64,400 in 2005 and 2004 respectively (*see Chart 1*). The combined customer base for all of Videotron's cable television services increased by 66,300 in 2006, compared with 53,500 in 2005 and 28,400 in 2004 (*see Chart 1*). The 2006 increase was the largest net annual increase in customers for cable television services since 1999.

Videotron's Internet access services registered strong continued growth in 2006, posting revenues of $345.1 million, a $74.3 million (27.4%) increase over 2005. The improvement was mainly due to customer acquisition. The number of customers for cable Internet access services stood at 792,000 at the end of 2006, an increase of 154,000 (24.1%) from the end of 2005, a record for annual growth, in absolute terms, since the service was launched in 1998 (*see Chart 2*). By comparison, the Internet access service achieved net customer growth of 135,400 and 96,300 in 2005 and 2004 respectively.

**Chart 2**
**Customer base for cable Internet access**



Videotron's Internet telephone service continued to register rapid growth in 2006. At the end of December 2006, the number of customers stood at 397,800, an increase of 234,800 (144.0%) from year-end 2005 (*see Chart 3*). The Internet telephone service generated total revenues of $107.4 million in 2006, an $86.3 million increase from $21.1 million in 2005.

As of December 31, 2006, Videotron also had 11,800 customers for its wireless telephone service.

Videotron's monthly ARPU increased by $9.51 (18.3%) from $51.86 in 2005 to $61.37 in 2006. By comparison, ARPU increased by $5.36 (11.5%) in 2005 over 2004.

Le SuperClub Vidéotron recorded revenues of $55.9 million in 2006. The 0.9% increase from 2005 was mainly due to the acquisition of eight Jumbo Entertainment Inc. ("Jumbo Entertainment") stores since April 2005, which was offset by lower revenues from rentals and royalties.

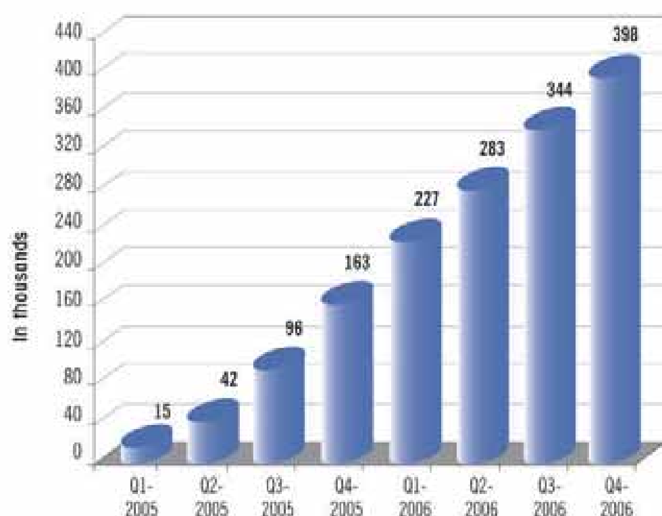
The Cable segment's total operating income increased by $99.2 million (24.0%) from $413.3 million in 2005 to $512.5 million in 2006, mainly because of customer base growth for all services, increases in some rates, and a decrease in the unit cost of digital set-top boxes. These favourable factors more than offset the negative impact of increases in some operating expenses, including labour costs, charges related to the stock option plan, customer service, advertising and promotion, network maintenance and contributions to regulatory funds. The customer base growth accounted for a large portion of the increase in operating costs.

The Cable segment's operating margin for all operations, i.e., operating income as a percentage of revenues, was 39.1% in 2006, compared with 38.3% in the previous year.

In the fourth quarter of 2006, the Cable segment recorded revenues of $362.9 million, compared with $299.1 million in the same period of 2005, an increase of $63.8 million (21.3%) due mainly to customer growth.

illico Digital TV grew its customer base by a net 38,300 in the fourth quarter of 2006, compared with 50,000 in the same quarter of 2005. Analog cable television services recorded a net loss of 18,600 customers during the quarter, compared with 15,500 in the same period of the previous year.

**Chart 3**
**Customer base for cable telephone service**




The combined customer base for all cable television services thus posted a net increase of 19,700 in the fourth quarter of 2006, compared with a net increase of 34,500 in the fourth quarter of 2005. The cable Internet access service recruited 37,500 new customers in the fourth quarter of 2006, compared with 50,300 in the same quarter of 2005. The IP telephone service recorded quarterly customer growth of 53,700, compared with 67,000 in the same period of 2005, and a total of 11,000 customers for wireless telephone services were under contract at the end of the fourth quarter.

The Cable segment's operating income increased by $29.3 million (26.5%) from $110.5 million in the fourth quarter of 2005 to $139.8 million in the fourth quarter of 2006. The higher operating income was essentially due to the factors noted above in the discussion of the annual results. The segment's operating margin for all operations was 38.5% in the fourth quarter of 2006, compared with 36.9% in the same period of 2005.

As per 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 2 shows operating income before the cost of subsidies granted customers on equipment sales and the impact on the segment's results.

In 2006, the Cable segment generated free cash flows from operations of $138.6 million, compared with $168.6 million in 2005, a $30.0 million decrease (*see Table 3*). The positive impact of the $99.2 million increase in operating income was outweighed by an unfavourable variation of $42.1 million in the net change in non-cash balances related to operations, resulting mainly from a reduction in accounts payable and increased subscriber equipment inventories, and an $82.7 million increase in additions to property, plant and equipment, partly as a result of investment in network modernization and the cable telephony project.

On January 1, 2006, the operations of Videotron Telecom Ltd. ("Videotron Telecom") (formerly the Business Telecommunications segment) were incorporated into the Cable segment. Since then, the Cable segment has encompassed a full line of business telecommunications services, including telephone, high-speed data transmission, Internet access, hosting, and cable television services.

Videotron increased the speed of its Internet access services several times in 2006:

- On January 16, 2006, Videotron increased download and upload speeds on its basic cable Internet access service from 300 kbps to 600 kbps. On the Extreme High-Speed service, download speeds were increased from 6.5 mbps to 10 mbps.
- On February 20, 2006, Videotron launched a new Extreme Plus High-Speed Internet service, which supports speeds of up to 16 mbps. On July 17, 2006, Videotron announced an increase in the speed of its Extreme Plus High-Speed Internet service from 16 mbps to 20 mbps. Videotron became the first major telecom provider in Canada to offer Internet access service of this speed throughout its service area.
- On August 17, 2006, Videotron announced an increase in the speed of its High-speed Internet service from 5.1 mbps to 7.0 mbps. The upgrade was phased in across Videotron's service area starting September 7, 2006.

- On December 22, 2006, Videotron began testing a new technology that promises to substantially increase Internet access speed across its network. The technology will enable Videotron to offer customers throughout its service area speeds of up to 100 mbps, five times faster than its current Extreme High-Speed Internet service.

On February 27, 2006, Videotron announced plans to invest $18.0 million in the Eastern Townships, Mauricie and Centre-du-Québec regions in order to upgrade its network to support new-generation technologies. The upgrade will increase bandwidth from 480 MHz to 860 MHz.

On April 11, 2006, Videotron Business Solutions launched a new telephone service for small businesses. It offers attractive packages and the possibility of bundling all telecommunications services through one-stop shopping at Videotron.

On August 10, 2006, Videotron launched a wireless telephone service in the Québec City area. The service has since been rolled out in all parts of Québec. As of December 31, 2006, there were 11,800 subscribers to Videotron's mobile service.

## NEWSPAPERS SEGMENT

In 2006, the Newspapers segment's revenues amounted to $928.2 million, compared with $915.6 million in 2005, a $12.6 million (1.4%) increase. Advertising revenues grew 3.1%, partly as a result of increases at the free dailies and the community newspapers. Circulation revenues decreased by 3.8%. Distribution, commercial printing and other revenues combined declined by 1.2%. At the community newspapers, revenues grew by $10.9 million (4.2%) in 2006. At the urban dailies, revenues increased by $1.7 million (0.3%). Within this group, the free dailies increased their revenues by 55.0% in comparison with 2005. The launch in March 2005 of *24 HOURS*™ in Vancouver, and in November 2006 of *24 HOURS*™ in Ottawa and *24 HEURES*MC in Ottawa-Gatineau, contributed to the increase.

Operating income decreased by $14.6 million (-6.6%) from $222.2 million in 2005 to $207.6 million in 2006. At the urban dailies, operating income declined by $9.8 million (-6.0%). The higher revenues did not entirely offset increases in operating expenses, such as newsprint and distribution costs (including advertising and promotion expenditures aimed at increasing the circulation at *The Toronto Sun* and *Le Journal de Montréal*), and charges related to the stock option plan. Labour costs were lower in 2006, mainly because of savings generated by the labour dispute at *Le Journal de Montréal*. The combined operating losses of the free dailies decreased by 25.9%. At the community newspapers, operating income rose by $4.7 million (6.5%), mainly because of the higher revenues, which were partially offset by increases in operating expenses, including labour and distribution costs.

In the fourth quarter of 2006, the Newspapers segment's revenues were $246.7 million, compared with $242.8 million in the same period of 2005. The $3.9 million (1.6%) increase was mainly due to a 3.7% increase in advertising revenues resulting from higher advertising revenues at the community newspapers and the urban dailies, which more than made up for a 2.8% decrease in circulation revenues. Revenues of the free dailies grew by 36.0% in the fourth quarter of 2006 compared with the same period of 2005. Quarterly operating income was $63.5 million, compared with $69.3 million in the same period of 2005, a $5.8 million (-8.4%) decrease. The higher revenues did not entirely offset increases in some operating costs, including newsprint, distribution (due to investments to increase circulation), and charges related to the stock option plan.

The Newspapers segment generated free cash flows from operations of $29.0 million in 2006, compared with $107.9 million in 2005, a

**Table 2: Cable segment**
**Operating income**
**(in millions of Canadian dollars)**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Operating income before cost of equipment subsidies to customers | $ 541.2 | $ 450.0 | $ 400.5 |
| Cost of equipment subsidies to customers | (28.7) | (36.7) | (36.7) |
| **Operating income** | **$ 512.5** | $ 413.3 | $ 363.8 |

**Table 3: Cable segment**
**Free cash flows from operations**
**(in millions of Canadian dollars)**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Cash flows from operating activities before undernoted item | $ 449.2 | $ 353.7 | $ 318.8 |
| Net change in non-cash balances related to operations | (8.6) | 33.5 | 10.6 |
| Cash flows from operating activities | 440.6 | 387.2 | 329.4 |
| Additions to property, plant and equipment | (302.6) | (219.9) | (144.5) |
| Proceeds from disposal of assets | 0.6 | 1.3 | 3.0 |
| **Free cash flows from operations** | **$ 138.6** | $ 168.6 | $ 187.9 |

$78.9 million decrease caused primarily by a $42.3 million increase in additions to property, plant and equipment due to progress payments made to acquire six new presses to print some of Quebecor Media's newspapers (*see Table 4*). Lower operating income, expenditures made in connection with restructuring programs, and the unfavourable impact of the net change in non-cash balances related to operations, due mainly to a reduction in accounts payable, were also factors in the decrease in free cash flows from operations.

On November 15, 2006, Sun Media Corporation launched two new free dailies in the Ottawa area, *24 HOURS*™ in English and *24 HEURES*MC in French.

Construction of the printing plant in Saint-Janvier-de-Mirabel, Québec, is proceeding on schedule. The first press was commissioned on September 15, 2006 and is being used to print some Québec community newspapers. As of December 31, 2006, construction of the building and the mailroom was almost complete. On October 15, 2006, printing of *The Ottawa Sun* was also transferred in its entirety to that facility.

On June 20, 2006, Sun Media Corporation announced a newsroom operations restructuring plan entailing the introduction of new content management technologies and the streamlining of newsgathering. It plans to invest approximately $7.0 million in these new technologies. Sun Media Corporation recorded $2.9 million in severance pay in 2006 in connection with the elimination of 85 full-time equivalent employees in newsrooms across the organization.

*Le Journal de Montréal* was engaged in a labour dispute with its unionized pressroom employees between June 4, 2006 and February 20, 2007. While operating under more difficult conditions, *Le Journal de Montréal* but took all necessary steps to prevent the dispute from affecting the daily printing and distribution of the newspaper.

**BROADCASTING SEGMENT**

The Broadcasting segment recorded revenues of $393.3 million in 2006, compared with $401.4 million in 2005, an $8.1 million (-2.0%) decrease. Revenues from broadcasting operations grew by $2.5 million (0.8%), mainly because of higher subscription revenues at the specialty channels (Mystère, ARGENT, Prise 2, LCN, mentv and Mystery), revenues from broadcast rights and exclusive rights, revenues from commercial production, and advertising revenues at Sun TV. These increases more than offset a decrease in the advertising revenues at the TVA Network. Distribution revenues declined by $7.4 million in 2006, primarily as a result of decreased revenues from theatrical and video releases of films. The theatrical releases in 2006, which included *Slither* and *Guide de la petite vengeance*, generated lower receipts than those released in 2005, which included the hits *C.R.A.Z.Y* and *White Noise*. The 2005 revenue figures also reflected strong results from the video releases of *C.R.A.Z.Y* and *White Noise*. Publishing revenues increased by $1.0 million (1.3%) in 2006.

The Broadcasting segment generated operating income of $42.1 million in 2006, compared with $53.0 million in 2005, a $10.9 million (-20.6%) decrease. Operating income from broadcasting operations declined by $8.9 million (-16.0%). The higher revenues and the impact of cost-control measures at Sun TV, as well as improved profitability at the specialty channels and settlement of certain disputes on favourable terms, were not enough to entirely offset the impact of decreased revenues and increases in operating expenses at the TVA Network, including content-related costs. Operating income from distribution operations decreased by $2.0 million, mainly because of weaker results from theatrical and video releases than in 2005. Operating income from publishing operations increased by $1.1 million compared with 2005. The improvement was mainly due to reductions in some operating costs, including printing and promotion. In 2005, substantial expenditures were made on content, advertising and marketing for the weekly magazines, in response to increased competition.

In the fourth quarter of 2006, the revenues of the Broadcasting segment amounted to $119.9 million, a slight $0.3 million (0.3%) increase in comparison with the same period of 2005. Revenues from broadcasting operations increased by $1.2 million. Higher subscription revenues at the specialty channels and increased revenues from broadcast rights and exclusive rights, Sun TV and commercial production outweighed a decrease in advertising revenues at the TVA Network. Revenues from distribution operations decreased by $0.7 million, primarily because of lower revenues from theatrical and video releases of films in comparison with the fourth quarter of 2005, when revenues were enhanced by the strong results of the films *C.R.A.Z.Y* and *White Noise*. Publishing revenues increased by $0.8 million in the fourth quarter of 2006, largely as a result of higher newsstand sales.

In the fourth quarter of 2006, the Broadcasting segment generated operating income of $18.9 million, compared with $16.8 million in the same period of 2005, a $2.1 million (12.5%) increase. Operating income from broadcasting operations decreased by $2.9 million in the fourth quarter of 2006, essentially for the same reasons as those noted above in the discussion of the annual results. The publishing division reported a favourable variance of $5.0 million in operating income, eliminating its operating loss. The improvement was due primarily to lower spending on content, advertising and marketing for the weekly magazines.

On November 24, 2006, TVA Publishing announced the acquisition of all the Trustmédia shares held by Transcontinental Inc., thereby increasing its interest in the magazines *TV Hebdo* and *TV 7 Jours* to 100%.

**Table 4: Newspapers segment**
**Free cash flows from operations**
**(in millions of Canadian dollars)**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Cash flows from operating activities before undernoted item | $ 161.0 | $ 184.6 | $ 187.1 |
| Net change in non-cash balances related to operations | (16.2) | (3.2) | (9.7) |
| Cash flows from operating activities | 144.8 | 181.4 | 177.4 |
| Additions to property, plant and equipment | (116.3) | (74.0) | (18.8) |
| Proceeds from disposal of assets | 0.5 | 0.5 | 0.6 |
| **Free cash flows from operations** | $ 29.0 | $ 107.9 | $ 159.2 |

On February 9, 2006, TVA Group launched the digital specialty channel Prise 2, which carries programs, series and films from the 1970s and 1980s.

### LEISURE AND ENTERTAINMENT SEGMENT

The revenues of the Leisure and Entertainment segment totalled $315.8 million in 2006, compared with $255.4 million in 2005. The $60.4 million (23.6%) increase was mainly due to the impact of the acquisition of Sogides ltée ("Sogides") in December 2005, as well as a 3.1% increase in the revenues of Archambault Group. Retail sales grew by 3.3% at Archambault Group, mainly because of the opening of Archambault stores in Gatineau, Boucherville and Québec City in 2005. However, the favourable impact of the store openings was partially offset by lower same-store sales of CDs and videos, and decreased sales at the Camelot-Info stores, partly as a result of the closing of one store. Archambault Group's distribution revenues decreased by 6.9% because of delays in the release and sale of CDs by certain artists in 2006, combined with the impact of the sale of the Trans-Canada division in the second quarter of 2006. Video-on-demand revenues grew by 77.8% in 2006. The Books division's revenues rose primarily as a result of the acquisition of Sogides. On a comparable basis, the Books division's revenues decreased because of fewer bestsellers in 2006 than in 2005 and lower sales in the academic segment.

The Leisure and Entertainment segment's operating income decreased by $7.7 million (-28.5%) to $19.3 million in 2006, compared with $27.0 million in 2005, because of weaker operating results, on a comparable basis, in the Books division. That was a result of the impact of the lower revenues at the publishing houses (including the academic segment), unfavourable variances due to inventory adjustments in 2005 and 2006, as well as the decrease in operating income generated by Archambault Group, mainly due to lower distribution revenues, investment in production activities, and lower same-store sales of CDs and videos.

In the fourth quarter of 2006, revenues of the Leisure and Entertainment segment totalled $105.1 million, compared with $87.7 million in the same quarter of 2005. The $17.4 million (19.8%) increase was mainly due to the impact of the acquisition of Sogides at the end of 2005, which was partially offset by a decrease in the number of bestsellers in comparison with the same quarter of 2005. The Leisure and Entertainment segment recorded operating income of $10.0 million in the fourth quarter of 2006, compared with $11.6 million in the same quarter of 2005. The $1.6 million (-13.8%) decrease in quarterly operating income was mainly due to the impact of the decrease in sales at the Archambault Group and unfavourable variances due to inventory adjustments by CEC Publishing in 2005.

A $1.5 million gain on disposal of a business was recognized in the Leisure and Entertainment segment in the second quarter of 2006 in relation to the disposal of the Trans-Canada division.

The Books division's 2006 results were enhanced by strong bookstore sales of several best-selling titles, including *Le Guide de l'auto 2007*, published by Les Éditions Trécarré (100,000 copies), *Cuisiner avec les aliments contre le cancer* by Dr. Richard Béliveau, published by Les Éditions Trécarré (96,000 copies) and *Passages obligés* by Josélito Michaud, published by Les Éditions Libre Expression (84,000 copies).

### INTERACTIVE TECHNOLOGIES AND COMMUNICATIONS SEGMENT

The revenues of the Interactive Technologies and Communications segment amounted to $73.9 million in 2006, compared with $65.1 million in 2005. The $8.8 million (13.5%) increase reflects the impact of the acquisition of Shanghai-based China Interactive in January 2006, Madrid-based Crazy Labs in July 2006, the recruitment of new customers and increased sales to existing customers.

The segment's operating income increased by $3.6 million (92.3%) from $3.9 million in 2005 to $7.5 million in 2006. The impact of customer growth, higher operating margins and the recognition of federal research and development tax credits from previous years outweighed the unfavourable effect of exchange rate fluctuations and increases in some operating costs.

In the fourth quarter of 2006, the Interactive Technologies and Communications segment's revenues amounted to $20.0 million, compared with $16.2 million in the same quarter of 2005, a $3.8 million (23.5%) increase. Fourth quarter operating income quadrupled to $3.3 million, compared with $0.8 million in the same period of 2005, an increase of $2.5 million. The variances in quarterly revenues and operating income were essentially due to the factors noted above in the analysis of the annual results.

On July 11, 2006, Nurun closed the acquisition of Crazy Labs, an interactive communications agency based in Madrid, Spain, for a total consideration of $5.9 million, including $5.1 million in cash and 215,680 Common Shares of Nurun (valued at $0.8 million). Founded in 2000, Crazy Labs has worked with local and international blue-chip clients such as Caja Madrid, Codorniu, Grupo Telefónica, Procter & Gamble, Nintendo, Vodafone, XBOX, Microsoft (MSN) and Warner Brothers in all phases of their interactive communications, from strategy to the design of their interactive advertisements and Web sites. This acquisition strengthens Nurun's presence in Spain, where it already had an office in Barcelona.

On January 26, 2006, Nurun announced the closing of the acquisition of China Interactive, a Chinese interactive marketing firm. The acquisition further enhances Nurun's ability to deliver all its services to customers the world over, including the high-potential Asian market. 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 Electronics (Shanghai) Co. Ltd. On the closing date of the acquisition, Nurun disbursed $2.5 million in cash and issued 161,098 Nurun Common Shares as a consideration. The shares are subject to an escrow agreement and will be released by no later than July 3, 2007. The shares are valued at $0.6 million.

### INTERNET/PORTALS SEGMENT

Canoe recorded total revenues of $64.9 million in 2006, a $14.9 million (29.8%) increase from $50.0 million in 2005. The revenues of the Progisia Informatique consulting division increased by 57.2% in 2006, mainly because of improved market positioning, as well as work done for subsidiaries of Quebecor Media. All revenue streams of the special-interest portals grew in 2006, resulting in an overall increase of 24.8%. Revenues at the general-interest portals increased by 11.2%, primarily as a result of higher advertising revenues.

Operating income was $13.3 million in 2006, compared with $10.5 million in 2005. The $2.8 million (26.7%) increase was due primarily to the growth in revenues, partially offset by increases in some operating costs, including labour costs and advertising and promotion expenses.

In the fourth quarter of 2006, Canoe's revenues totalled $18.1 million, compared with $14.4 million in the same quarter of 2005, a $3.7 million (25.7%) increase. The revenues of the special-interest portals and Progisia

Informatique grew by 33.8% and 51.2% respectively in the fourth quarter of 2006. Operating income decreased by $1.2 million (-31.6%) from $3.8 million in the fourth quarter of 2005 to $2.6 million in the fourth quarter of 2006, primarily as a result of the impact of increases in some operating costs, including labour costs and advertising and promotion expenses.

Canoe began redesigning its online classifieds site in 2006 to create a more effective site that is better integrated with Sun Media Corporation's newspapers, a major source of classified ads.

Canoe logged 6,781,000 unique visitors in November 2006, an all-time monthly record for the Canoe network (source: comScore Media Metrix). By comparison, Canoe attracted 5,970,000 unique visitors in November 2005 (according to comScore Media Metrix).

## 2005/2004 FINANCIAL YEAR COMPARISON

Quebecor Media developed its business and introduced successful new products and services in 2005. Customer growth and product line expansion in the Cable, 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.

Quebecor Media also announced major investments in its Newspapers segment and strategic acquisitions in its Broadcasting, Interactive Technologies and Communications, and Leisure and Entertainment segments in 2004 and 2005. Investments in new product launches and in market and product development by the Broadcasting and Newspapers segments impacted the results and cut into the growth recorded by the other segments.

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, 140,900 new customers for illico Digital TV, and a net increase of 53,500 customers for all cable television services combined.

2005 was a year in which Quebecor World entered a transitional period needed to achieve its goals. Quebecor World introduced several initiatives that were crucial for implementation of its investment program to further improve efficiency, customer service and productivity.

### RESULTS OF OPERATIONS

Quebecor's revenues totalled $10.21 billion in 2005, a decrease of $404.9 million (-3.8%) from 2004. A $240.5 million increase in the revenues of Quebecor Media only partially offset 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 $38.4 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) in 2005, compared with $112.2 million ($1.74 per basic share) in 2004, a decrease of $42.5 million ($0.66 per share). 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 amortization, $57.4 million in financial expenses and $38.1 million in reserves for restructuring, did not entirely offset the negative impact of recording a goodwill impairment of $287.1 million in respect of Quebecor World's European operations and Quebecor Media's recording a loss on debt refinancing of $60.0 million, combined with the $187.8 million decrease in operating income. There was a favourable variance of $244.7 million in non-controlling interest, mainly as a result of lower net income at Quebecor World.

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 the impairment of goodwill (all net of income tax and non-controlling interest), net income from continuing operations 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).

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 in 2005.

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. Quebecor Media's financial expenses decreased by $29.3 million in 2005, primarily because of the impact of refinancing a portion of the notes issued by Quebecor Media and all the notes issued by CF Cable TV Inc., 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 decreased by $38.1 million to $113.6 million in 2005. Quebecor World recognized total net reserves for restructuring, impairment of assts and other special charges of $113.8 million in 2005, compared with $148.9 million in 2004. Quebecor World carried out a number of restructuring initiatives in 2005, including 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.

The $10.08 per share decrease in Quebecor World's 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 was not recorded in the books. A $45.0 million unrealized gain on re-measurement of exchangeable debentures was recorded in 2004.

In 2005, the Company recognized an unusual loss on debt refinancing of $60.0 million, compared with $7.4 million in 2004. The loss on debt refinancing in 2005 derived primarily from the July 19, 2005 repurchase by Quebecor Media of US$128.2 million principal amount of its Senior Notes

and US$12.1 million principal amount at maturity of its Senior Discount Notes for a cash consideration of $215.3 million, including the redemption premium and the cost of settlement of the cross-currency swap agreements. The refinancing enabled Quebecor Media to benefit from more advantageous interest rates.

Quebecor World recognized a non-cash charge of $287.1 million ($274.2 million after income tax) in respect of goodwill impairment at its European business group, in view of the weak performance of its European operations.

Income tax expense totalled $92.7 million in 2005, compared with $130.4 million in 2004. The effective tax rate was 67.1% in 2005, compared with 28.6% in 2004. Excluding the reserve for restructuring, impairment of assets and other special charges, the gain on re-measurement of the exchangeable debentures, the loss on debt refinancing and the impairment 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 and reduction of tax liabilities under tax planning arrangements, and lower non-deductible charges at Quebecor Media, partially offset by the recording of the impact of higher tax rates in the province of Québec in the fourth quarter of 2005.

## SEGMENTED ANALYSIS

### Printing segment

In 2005, Quebecor World management continued developing strategies to improve the competitiveness and performance of its production facilities and reduce operating costs. Quebecor World began implementing its retooling program, which entails investments of more than US$330.0 million (of which US$190.7 million was disbursed during 2005), with the installation of a first group of five more efficient presses in North America. 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) to improve the platform's competitive position, lower its cost base and provide better service to customers. 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, generating total proceeds from disposal in the amount of US$115.0 million and a loss on disposal of US$12.0 million, net of income tax. Finally, Quebecor World carried out a number of restructuring initiatives in 2005 to improve the efficiency of its operations, reduce costs and eliminate inefficient and idle equipment.

The operating results and cash flows of the sold plants were presented as separate line items for discontinued operations in the Company's consolidated financial statements.

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 by 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.

Operating income decreased by US$129.8 million (-16.3%) to US$666.2 million in 2005 essentially as a result of 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 the restructuring initiatives.

Cost of sales rose 2.1% in 2005 compared with 2004, primarily as a result of increased paper sales 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.

Selling, general and administrative expenses and securitization fees decreased by US$25.4 million (-5.7%) to US$420.6 million in 2005, mainly because of headcount reductions and lower travel and entertainment expenses, partially offset by the unfavourable impact of currency fluctuations and 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.

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.

### Cable segment

The Cable segment recorded revenues of $1.08 billion in 2005, a $142.7 million (15.2%) increase. Revenues from the illico Digital TV service, excluding related services, increased $54.8 million, for a growth rate of 39.5%, more than compensating for lower revenues from analog cable television. Revenues from all cable television services combined increased by $41.5 million (7.2%). Revenues from the Internet access service increased by $48.3 million (21.7%). Videotron's Internet telephone service, officially launched at the beginning of 2005, generated revenues of $21.1 million in 2005. Business services posted a $12.3 million revenue increase, mainly because of higher revenues from server hosting and management and from network solutions, due in large part to new contracts with Quebecor World.

The customer base for illico Digital TV grew by 140,900 or 42.2% to 474,600 in 2005. Videotron recorded a net gain of 53,500 customers for all its cable television services combined in 2005, compared with 28,400 in 2004. The number of customers for cable Internet access services increased by 135,400 (26.9%) to 638,000 in 2005. The Internet telephone service recruited 163,000 customers in 2005. Videotron's net monthly ARPU increased by 11.5% to $51.86 in 2005, compared with $46.50 in 2004.

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

The Cable segment generated total operating income of $413.3 million in 2005, a $49.5 million (13.6%) increase 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 contributions to regulatory funds.

The new Internet telephone service launched at the beginning of 2005 accounted for a large portion of the increase in operating costs. Operating margin, stated as a percentage, was 38.1% in 2005, compared with 39.1% in 2004.

Free cash flows from operations amounted to $168.6 million in 2005, compared with $187.9 million in 2004, a $19.3 million decrease. A $57.8 million increase in cash flows from continuing operating activities, including the favourable impact of the increase in operating income, was outweighed by a $75.4 million increase in additions to property, plant and equipment as a result of investment in the network, including investments made in connection with the cable telephony project.

At the beginning of 2005, Videotron and Videotron Telecom launched an IP-based telephone service. Videotron became the first major cable company in Canada to offer consumers cable telephone service.

On September 20, 2005, Videotron announced a strategic agreement with Rogers Wireless, a subsidiary of Rogers Communications Inc., to enable Videotron to offer its customers wireless telephone service starting in 2006.

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 enhanced Videotron's competitive positioning by giving it the increased operational flexibility needed to invest in network modernization and new product launches.

In July 2005, Videotron announced plans to invest $29.0 million to upgrade its network and add bandwidth in the Québec City area.

On July 9, 2004, Le SuperClub Vidéotron closed the acquisition of virtually all the assets of Jumbo Entertainment for a cash consideration of $7.2 million. At the time of the acquisition, Jumbo Entertainment was operating a pan-Canadian chain of 105 video and games rental and retail stores.

### Newspapers segment

The revenues of the Newspapers segment increased by $27.5 million (3.1%) to $915.6 million in 2005. Advertising revenues grew by 4.5% and 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 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%) 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 at the free dailies rose by 14.8% between 2004 and 2005. The increase in the operating loss attributable to the launch of *24 HOURS*™ in Vancouver 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 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. The $51.3 million 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 some of Quebecor Media's newspapers.

In 2005, Quebecor Media announced an investment of more than $110.0 million to relocate and modernize *Le Journal de Montréal* printing plant, and another $110.0 million investment to build a new printing plant in Islington, in the Toronto area.

In March 2005, Sun Media Corporation launched *24 HOURS*™ in Vancouver, its third free daily after the newspapers in Montréal and Toronto.

### Broadcasting segment

The Broadcasting segment's revenues increased by $43.4 million (12.1%) to $401.4 million in 2005. Revenues from broadcasting operations rose by $35.6 million (13.1%) due to higher advertising revenues, including revenues from the Sun TV television station, acquired at the end of December 2004, the LCN (Le Canal Nouvelles TVA) 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* and the success of the theatrical and video releases of the Québec feature *C.R.A.Z.Y.* Revenue from publishing operations 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.

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.

### Leisure and Entertainment segment

The Leisure and Entertainment segment's revenues increased by $13.7 million (5.7%) to $255.4 million in 2005. The Books division's revenues increased by 17.6% due to the strong performance of Quebecor Media Book Group, 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 and its retail sales grew by 9.3% as a result of improved sales of books and videos, and the addition of three new stores 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, a $4.3 million (18.9%) increase mainly attributable to the Books division and due primarily to the increase in the division'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 December 2005, Quebecor Media closed the acquisition of Sogides for a cash consideration of $24.0 million plus an additional payment of $5.0 million contingent on the achievement of specified conditions in 2008. Sogides is a major Québec book publishing and distribution group which owns the publishing houses Les Éditions de l'Homme, Le Jour, Éditeur, Utilis, Les Presses Libres and Le Groupe Ville-Marie Littérature inc. (which includes Les Éditions de l'Hexagone, VLB Éditeur and Typo & Dessin), as well as Messageries A.D.P., the exclusive distributor for more than 160 Québec and European French-language publishing houses.

### Interactive Technologies and Communications segment

In 2005, the revenues of the Interactive Technologies and Communications segment amounted to $65.1 million, a $13.2 million (25.4%) increase 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 LLC ("Ant Farm Interactive"), acquired in April 2004. The segment's operating income increased by $1.6 million (69.6%) 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.

Nurun sold its entire interest in Mindready Solutions Inc. ("Mindready Solutions") in transactions that closed in May 2004 and March 2005.

On April 28, 2004, Nurun closed the acquisition of 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.

### Internet/Portals segment

The revenues of the Internet/Portals segment totalled $50.0 million in 2005, a $15.5 million (44.9%) increase. 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 related sources. 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 2005, Canoe expanded its family of portals with the launch of *micasa.ca*, a site for buying and selling real estate.

## NON-GAAP FINANCIAL MEASURES

The Company uses certain financial measures that are not calculated in accordance with Canadian GAAP to assess its financial performance. The Company uses these non-GAAP financial measures, such as operating income, free cash flows from operations and average monthly revenue per user, which it refers to as 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 loss or income, as reconciled to net (loss) income under Canadian GAAP, as net (loss) 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 on debt refinancing, loss (gain) on sales of businesses and other assets, impairment of goodwill and intangible assets, income taxes, dividends on Preferred Shares of a subsidiary, net of income tax, 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. Management 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 Company's management and Board of Directors use this measure in evaluating its consolidated results as well as results of the Company's operating segments. This measure eliminates the significant level of non-cash depreciation of tangible assets and amortization of certain intangible assets, and is unaffected by the capital structure or investment activities of the Company and its segments. Operating income is also relevant because it is a significant component of the Company's annual incentive compensation programs. A limitation of this measure, however, is that it does not reflect the periodic costs of capitalized tangible and intangible assets used in generating revenues in the Company's segments. The Company also uses other measures that do reflect such costs, such as free cash flows from operations. In addition, measures like operating income are commonly used by the investment community to analyze and compare the performance of companies in the industries in which the Company is engaged. The Company's definition of operating income may not be the same as similarly titled measures reported by other companies.

Table 5 provides a reconciliation of operating income with net (loss) income, as disclosed in the Company's consolidated financial statements.

### FREE CASH FLOWS FROM OPERATIONS

We use 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. 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 Company's liquidity and is used by its management and Board of Directors to evaluate cash flows generated by its segments' operations. The Company's definition of free cash flows from operations 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.

### AVERAGE MONTHLY REVENUE PER USER

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 that is consistent with Canadian GAAP, and the Company's definition and calculation of ARPU may not be the same as identically titled measurements reported by other companies. The Company calculates ARPU by dividing its combined cable television, Internet access 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

In 2006, cash flows from continuing operating activities were $538.7 million, compared with $974.8 million in 2005. The $436.1 million reduction was mainly due to the payment of $197.3 million in accrued interest on its Senior Discount Notes by Quebecor Media as part of the refinancing carried out in January 2006, and the impact of the $124.3 million decrease in the Company's operating income, as well as an unfavourable variance of $191.1 million in non-cash balances related to operations, essentially attributable to Quebecor World (caused mainly by increased accounts receivable, net of securitization and income tax receivable, which were partially offset by an increase in accounts payable).

In 2005, cash flows from continuing operating activities amounted to $974.8 million, a $20.3 million decrease from $995.1 million in 2004, 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 $178.5 million in non-cash balances related to operations, essentially attributable to Quebecor World.

### FINANCING ACTIVITIES

#### 2006 financial year

In 2006, Quebecor's consolidated debt, excluding the Additional Amount payable to The Carlyle Group, exchangeable debentures and convertible debentures, increased by $571.1 million. Quebecor Media's debt increased by $270.8 million and Quebecor World's debt by $324.8 million.

During the first and third quarters of 2006, Quebecor Media refinanced the entirety of its Senior Notes maturing in 2011 and Senior Discount Notes maturing in 2011. The refinancing entailed disbursements exceeding the book value of the repurchased notes, including repayment of liabilities related to cross-currency swap agreements and disbursements related to the loss on debt refinancing and swap agreements. The $380.0 million difference was financed by issuing long-term debt. The Company also used a portion of the net proceeds from the refinancing for general corporate purposes. On April 12, 2006, Quebecor Media contracted a €59.4 million loan to finance certain investment projects. Since the refinancing on January 17, 2006, the balance of Videotron's revolving credit facility has been reduced by $188.0 million, using cash flows provided by operating activities and repayments totalling $39.0 million have been made with respect to the bank credit facilities of Sun Media Corporation and Quebecor Media.

On January 17, 2006, Quebecor Media closed a major refinancing of its long-term debt. The refinancing consisted of two primary stages: i) the issuance of US$525.0 million aggregate principal amount of 7.75% Senior Notes due March 2016 (the net interest rate in Canadian dollars, considering the cross-currency swap agreements, is 7.39%), and ii) the 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

**Table 5**
**Reconciliation between the operating income measure used in this report and the net (loss) income measure used in the consolidated financial statements (in millions of Canadian dollars)**

| | Years ended December 31 | | |
|---|---|---|---|
| | **2006** | 2005 | 2004 |
| Net (loss) income | $ **(93.9)** | $ 69.7 | $ 112.2 |
| Amortization | **611.9** | 600.8 | 649.2 |
| Financial expenses | **408.5** | 463.3 | 520.7 |
| Reserve for restructuring of operations, impairment of assets and other special charges | **145.9** | 113.6 | 151.7 |
| Gain on re-measurement of exchangeable debentures | **(27.7)** | (126.0) | (45.0) |
| Loss on debt refinancing | **342.6** | 60.0 | 7.4 |
| Loss (gain) on sales of businesses and other assets | **0.3** | 5.1 | (9.3) |
| Impairment of goodwill and intangible assets | **180.0** | 287.1 | – |
| Income tax | **(111.1)** | 92.7 | 130.4 |
| Dividends on Preferred Shares of a subsidiary, net of income tax | **38.8** | 48.6 | 48.7 |
| Non-controlling interest | **(78.5)** | (79.7) | 165.0 |
| Loss (income) from discontinued operations | **1.0** | 6.9 | (1.1) |
| **Operating income** | $ **1,417.8** | $ 1,542.1 | $ 1,729.9 |

of $100.0 million, maturing in January 2011. 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 ($237.0 million from Videotron, drawn on its existing revolving credit facilities, and $40.0 million from Sun Media Corporation, drawn on a new credit facility contracted by means of an amendment to its existing credit facilities), were used to finance the repurchase of US$561.6 million aggregate principal amount of its Senior Notes maturing in 2011 and US$275.6 million aggregate principal amount of its Senior Discount Notes maturing in 2011, or 95.7% and 97.4% respectively of the notes issued and outstanding at that date. Quebecor Media used the remainder of the net proceeds from the refinancing for general corporate purposes. Since the repurchased notes, maturing in 2011, had been issued at higher rates, Quebecor Media's financial expenses will be significantly reduced in comparison with the expenses that would otherwise have been incurred and the operation as a whole will generate a positive net present value. On July 15, 2006, Quebecor Media purchased the balance of its outstanding Senior Notes maturing in 2011 and Senior Discount Notes maturing in 2011.

In respect of these repurchases, Quebecor Media recognized a $342.1 million unusual loss on debt refinancing in 2006 ($119.7 million net of income tax and non-controlling interest). This loss includes the amount by which the total $1.4 billion consideration paid exceeded the book value of the notes and the related cross-currency swap agreements, as well as the write-down of deferred financing expenses. The new notes were offered and sold on a private-placement basis, exempt from the listing requirements of the U.S. Securities Act of 1933. On May 8, 2006, Quebecor Media filed a registration statement with respect to an exchange offer under which notes registered with the U.S. Securities Exchange Commission ("SEC") were offered in exchange, without novation, for the privately placed notes. The Company completed this exchange on July 14, 2006. The registered notes have terms and conditions similar in all material respects to those issued on a private-placement basis.

On April 12, 2006, Quebecor Media announced the signing of a credit agreement for a long-term credit facility for the Canadian dollar equivalent of €59.4 million, due in 2015. Drawings under this credit facility are being used by Quebecor Media to finance the purchase of six rotary presses to print some of Quebecor Media's newspapers and other products. This facility, related to a German export financing program, provides Quebecor Media with financing at a very attractive cost. It is secured by, among other things, a first-ranking hypothec on Quebecor Media's movable assets.

On April 27, 2006, Sun Media Corporation's bank credit facility was amended to reduce the interest rates applicable on its term loan "A" credit facility and on U.S. dollar advances made under its term loan "B" credit facility by 0.50% and 0.25% respectively. As of December 31, 2006, the aggregate amount outstanding under the term loan "B" credit facility was $211.4 million.

On December 29, 2006, Sun Media Corporation paid down a portion of its term loan "B" in the amount of $15.0 million and closed out the corresponding portion of its hedge agreements. A $0.5 million loss ($0.2 million net of income tax and non-controlling interest) was recorded in connection with this transaction.

The $324.8 million increase in Quebecor World's long-term debt mainly was used to finance a $200.0 million disbursement related to the redemption on April 18, 2006 of Quebecor World's Series 4 Redeemable First Preferred Shares, as well as to finance investing activities and for Quebecor World general corporate purposes.

On December 29, 2006, Quebecor World purchased at par US$54.5 million of Senior Private Notes, pursuant to a tender offer announced on November 30, 2006. In total, Quebecor World repurchased US$36.0 million in aggregate principal amount of the 8.54% and 8.69% Senior Notes, and US$18.5 million of the 8.42% and 8.52% Senior Notes.

On December 18, 2006, Quebecor World completed a private placement of US$400.0 million aggregate principal amount of 9.75% Senior Notes due January 15, 2015. The net proceeds from the issuance of the 9.75% Senior Notes were US$392.4 million and were used to early discharge in full the US$150.0 million Senior Debentures (7.25%), maturing in January 2007, plus accrued interest, and for Quebecor World general corporate purposes, including the reduction of other indebtedness and the completion of the $54.5 million purchase of Senior Private Notes mentioned above.

On July 28, 2006, Quebecor World entered into an agreement to arrange lease financing of printing presses and related equipment currently being installed in various facilities in North America. On December 19, 2006, Quebecor World received US$69.7 million in funding under the lease agreement, of which US$20.1 million is included in long-term debt. Quebecor World expects to receive an additional US$15.9 million under this program in 2007.

On April 18, 2006, in accordance with provisions applicable to Quebecor World's Series 4 Redeemable First Preferred Shares, the 8,000,000 shares were redeemed at $25.2185 per share, for a total consideration of $200.0 million ($25.00 per share) plus accrued dividends, accruing as of and from March 1, 2006.

On March 6, 2006, Quebecor World successfully closed a private offering of US$450.0 million aggregate principal amount of 8.75% Senior Notes due March 15, 2016. Net proceeds from the issuance of the Senior Notes were US$442.7 million and were used to repay in full the 7.20% Senior Notes with a principal amount of US$250.0 million that matured on March 28, 2006. Quebecor World used the remainder of the net proceeds for general corporate purposes, including the reduction of other indebtedness.

On January 16, 2006, Quebecor World announced it had concluded an agreement for the Canadian dollar equivalent of a €136.2 million long-term committed credit facility relating to purchases of rotary presses as part of the North American retooling program. The unsecured facility is related to a German export financing program and provides Quebecor World with financing at a very attractive cost. This facility will be drawn down over 2 years and will be repaid over the next 10 years. At December 31, 2006, the drawings under this facility amounted to $118.0 million (US$101.3 million).

The credit ratings on Quebecor World's senior unsecured debt were reviewed in 2006. On January 12, 2006, Moody's Investors Service downgraded Quebecor World from Ba2 to Ba3. On February 17, 2006, Standard & Poor's lowered Quebecor World's credit rating from BB to BB-. On August 9, 2006, Dominion Bond Rating Service downgraded Quebecor World's credit rating from BB (high) to BB. On September 28, 2006, Standard & Poor's lowered Quebecor World's credit rating from BB- to B+. On October 18, 2006, Moody's Investors Service lowered Quebecor World's credit rating from Ba3 to B1. Then, on December 7, 2006, Moody's Investors Service lowered Quebecor World's credit rating again from B1 to B2. It is expected that Quebecor World's future borrowing costs may increase as a result of these rating changes.

#### 2005 financial year

During the 2005 financial 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 primarily were used, along with Quebecor Media's cash assets, 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 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. However, 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 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, Quebecor Media had to make prepayments totalling $75.9 million during 2005 ($197.7 million in 2004). These prepayments were financed from Quebecor Media's cash assets and were applied against other liabilities related to the cross-currency swap agreements.

On September 16, 2005, Videotron successfully closed a private offering of US$175.0 million aggregate principal amount of 6.375% Senior Notes due December 15, 2015, which were sold at a slight discount (99.5%) and resulted 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 $205.1 million (US$174.1 million), before transaction fees of $3.8 million. On February 6, 2006, the notes issued on a private-placement basis were exchanged against SEC-registered notes with similar terms and conditions in all material respects.

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 Senior Discount Notes, bearing interest at 11.125% and 13.75% 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 $60.0 million unusual loss on debt refinancing ($22.4 million net of income tax and non-controlling interest), 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 benefit from more advantageous interest rates, generating a positive net present value for the operation as a whole.

On July 15, 2005, Videotron repurchased the 9.125% 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 debt refinancing 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 by $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 had a $1.0 billion revolving bank facility for general corporate purposes. In December 2005, Quebecor World announced the renewal and extension of this facility until January 2009.

## INVESTING ACTIVITIES

In 2006, additions to property, plant and equipment totalled $796.9 million, compared with $794.5 million in 2005, a $2.4 million increase. At Quebecor World, additions to property, plant and equipment were $116.5 million lower in 2006 than in 2005 and were mainly related to the retooling program, as well as to productivity improvements. At Quebecor Media, additions to property, plant and equipment increased by $115.7 million, mainly due to instalment payments made under contracts to acquire six new presses to print some of Quebecor Media's newspapers and other products. Investments by Videotron in its network, including capital expenditures for network modernization and the IP telephony project, were also a factor in the increase.

Business acquisitions (including buyouts of minority interest) amounted to $10.6 million in 2006, compared with $177.2 million in 2005. The decrease was mainly because of the repurchase of 3,739,599 Class B Non-Voting Shares by TVA Group in 2005 for a cash consideration of $81.9 million under a Substantial Issuer Bid dated May 19, 2005. Also in 2005, Quebecor Media acquired Sogides for a cash consideration of $24.0 million and other considerations. Finally, Quebecor World disbursed a total of $58.2 million in 2005 to repurchase 2,438,500 Subordinate Voting Shares.

Additions to property, plant and equipment amounted to $794.5 million in 2005, an increase of $432.1 million from $362.4 million in 2004. Quebecor World accounted for $298.9 million of the increase and Quebecor Media for $138.7 million. The increases were attributable to investments by Quebecor World in connection with its retooling program, including US$177.0 million in North America, primarily deposits and instalment payments for the purchase of 14 new presses, and US$87.0 million in Europe as a deposit on the purchase of 5 new presses and other purposes. 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, as well as investments by Videotron in its network, including investments 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.

Also in 2005, Quebecor World carried out its action plan to dispose of the North American plants of its non-core Commercial group, which provided specialty printing services for general, financial and commercial products. The transactions carried out during 2005 under this plan generated proceeds on disposal of businesses and assets totalling $137.0 million (of which $29.7 million was received in 2006), for a total net loss on disposal of $6.1 million (net of non-controlling interest and income tax). The proceeds from disposal of assets in 2006 also include amounts received in connection with the sale and lease of printing presses and related equipment, as discussed in detail under "Financing activities."

## FINANCIAL POSITION

At December 31, 2006, the Company and its subsidiaries had cash, cash equivalents and temporary investments in the aggregate amount of $44.1 million (including amounts held in trust), consisting mainly of short-term investments.

At December 31, 2006, consolidated debt, excluding the Additional Amount payable to The Carlyle Group, exchangeable debentures and convertible notes, totalled $5.29 billion. Of that total debt, Quebecor World's long-term debt accounted for $2.35 billion and Quebecor Media's long-term debt for $2.82 billion. Quebecor Media's long-term debt included Videotron's $1.04 billion debt, Sun Media Corporation's $486.7 million debt, TVA Group's $96.5 million debt, and Quebecor Media's corporate debt of $1.20 billion.

The $124.4 million balance of consolidated debt consisted of Quebecor's debt, including advances under the Company's authorized $170.0 million revolving credit facility.

On November 7, 2006, Quebecor World suspended the payment of dividends on Multiple Voting Shares and Subordinate Voting Shares. On January 18, 2006, Quebecor World had approved a reduction of its quarterly dividend from US$0.14 to US$0.10 per share. Those measures were taken in view of Quebecor World's current investment program in North America and Europe, and pending improvement of its balance sheet. Dividends paid by Quebecor World to shareholders of its Multiple Voting Shares and Subordinate Voting Shares totalled US$0.30 per share in 2006, US$0.56 per share in 2005, and US$0.52 per share in 2004.

On February 23, 2007, 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 April 6, 2007 to shareholders of record at the close of business on March 12, 2007.

Management believes that cash flows from continuing operating activities and available sources of financing should be sufficient to cover planned 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, 2006, the Company and its subsidiaries were in compliance with all required financial ratios.

Quebecor World is subject to certain financial covenants in some of its major financing agreements. Concurrent with the offering of US$400.0 million aggregate principal amount of 9.75% Senior Notes, as discussed in the "Financing activities" section, Quebecor World obtained temporary accommodation of certain covenants under its bank credit facilities in order to provide itself with greater financial flexibility. There can be no assurance that, in the event Quebecor World requires similar accommodations in the future, as a result of weaker than expected financial performance or otherwise, it will obtain such accommodations or be able to renegotiate the terms and conditions of its financing agreements and securitization programs, which in turn would require Quebecor World to redeem, repay or repurchase its obligations prior to their scheduled maturity.

### SECURITIZATION

Quebecor World's accounts receivable securitization programs amounted to US$579.5 million as of December 31, 2006, compared with US$692.8 million at December 31, 2005.

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$408.0 million and €153.0 million respectively. The amounts outstanding under each program as at December 31, 2006 were $89.0 million, US$374.0 million and €97.9 million respectively (compared with $100.0 million, US$467.0 million and €118.0 million as at December 31, 2005).

As at December 31, 2006, Quebecor World had a retained interest of US$223.0 million in trade receivables sold, which is recorded in the Company's trade receivables (US$132.9 million as at December 31, 2005). As at December 31, 2006, an aggregate amount of US$802.5 million (US$825.7 million as at December 31, 2005) of accounts receivable had been sold under the securitization programs.

On October 20, 2006, Quebecor World amended and extended the availability of its U.S. securitization program for a three-year period through to August 28, 2009, increasing the program's liquidity horizon. The program has been reduced to US$408.0 million to take into account the sale of North American non-core printing facilities in the second half of 2005. A seasonal peak limit of US$459.0 million was also added to the program to permit greater utilization during peak volume periods of the year. On July 31, 2006, Quebecor World amended and extended its European securitization program for a three-year period through to May 29, 2009, for the same reasons.

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 those 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, 2006, material contractual obligations included capital repayment of long-term debt and convertible notes (excluding the Additional Amount payable and exchangeable debentures), interest payments, operating lease arrangements, capital asset purchases and other commitments, and obligations related to derivative financial instruments. These obligations are summarized in Table 6 below and are fully disclosed in notes 17, 19 and 25 to the Company's consolidated financial statements.

As of December 31, 2006, Quebecor World had made commitments to purchase 21 new presses for its facilities in North America and Europe. An amount of US$213.4 million has already been disbursed under these commitments; the US$59.9 million balance will be paid in 2007. Quebecor World has also made commitments involving expenses related to real property and equipment for its plants in North America and Europe. Future disbursements under these commitments will be approximately US$26.6 million.

Quebecor World has major operating leases where it will pay to purchase the underlying equipment (presses and binders) at the end of the term, and historically it has acquired most of the equipment when it is used for production. Some of these major operating leases expire in 2007 with a terminal value of US$74.8 million, of which US$44.4 million is guaranteed. The total terminal value of leases expiring between 2009 and 2013 is approximately US$48.1 million.

In August 2005, Quebecor Media announced two capital projects involving the modernization and relocation of some of its printing operations in Québec and Ontario, including acquisition of six new presses and state-of-the-art inserting and shipping equipment. As of December 31, 2006, the outstanding balance of commitments related to these projects was $43.4 million.

As of December 31, 2006, Quebecor had a commitment to build a new building in Montréal, scheduled to open in April 2008. The outstanding balance of commitments related to this project was $22.0 million at December 31, 2006.

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 supply agreement with this producer expired on December 31, 2006, although it has continued to supply newsprint to the Newspapers segment on the same terms. Sun Media Corporation is currently negotiating the renewal of this agreement. The agreement provided for discounts on prevailing market prices and contained a minimum annual purchase commitment of 15,000 tonnes of newsprint.

In connection with the acquisition of TVA Group in 2001 and Sun TV in 2004, Quebecor Media made commitments to invest $58.2 million in the Canadian television industry and the Canadian telecommunications industry over a period ending in 2010 in order to promote Canadian television content and the development of communications. As at December 31, 2006, the balance to be invested amounted to $8.6 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 values of certain assets under operating leases to the benefit of the lessor. Should the Company terminate these leases prior to term (or at the end of the lease terms) and should the fair value of the assets be less than the guaranteed residual value, then the 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, 2006, the maximum exposure with respect to these guarantees was $86.2 million and the Company has recorded a liability of $9.2 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 2007 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 $3.0 million. As at December 31, 2006, the Company had not recorded a liability associated with these guarantees, other than the $1.4 million provided for unfavourable leases related to discontinued operations in the Printing segment, since it is un likely at this time that the sub-lessee will default under the agreement. 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. Quebecor World has also retained certain liabilities for events that have occurred prior to sale, relating to taxes, litigation, environmental and other matters.

Generally, Quebecor World has indemnified the purchasers in the event that a third party asserts a claim against the purchaser that relates 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. The Company has not accrued any amount in respect of these items in the consolidated balance sheet.

### 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

**Table 6**
**Contractual obligations as of December 31, 2006**
**(in millions of Canadian dollars)**

| | Total | Less than 1 year | 1-3 years | 3-5 years | 5 years and more |
|---|---|---|---|---|---|
| Long-term debt and convertible notes | **$ 5,268.4** | $ 59.0 | $ 867.9 | $ 419.1 | $ 3,922.4 |
| Interest payments | **2,925.5** | 422.6 | 782.6 | 683.7 | 1,036.6 |
| Capital leases | **28.9** | 4.8 | 12.8 | 4.0 | 7.3 |
| Operating leases | **622.3** | 224.1 | 188.5 | 91.7 | 118.0 |
| Capital asset purchases and other commitments | **265.8** | 230.2 | 33.1 | 2.5 | – |
| Derivative financial instruments | **205.3** | 0.8 | 63.0 | – | 141.5 |
| **Total contractual obligations** | **$ 9,316.2** | **$ 941.5** | **$ 1,947.9** | **$ 1,201.0** | **$ 5,225.8** |

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's 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, 2006, the letters of credit amounted to $103.8 million and related primarily to employee compensation liabilities. The Company has not recorded any additional liability with respect to these letters of credit since the Company does not expect to make any payments in excess of what is recorded on the Company's financial statements. The letters of credit mature at various dates in 2007.

## PENSION PLANS AND POSTRETIREMENT BENEFITS

During the second quarter of 2006, Quebecor World announced modifications to the defined benefit plans for certain employees in Canada and in the United States, and the creation of a defined contribution Group Registered Retirement Savings Plan ("Group RRSP") for employees in Canada.

On October 1, 2006, affected Canadian employees had the choice of joining the Group RRSP, or continuing to participate in the modified plan. Future employees automatically join the new Group RRSP. A US$3.8 million curtailment charge was recorded in relation to these changes in 2006.

For Quebecor World employees in the United States, a portion of the defined benefit plans was frozen on October 1, 2006, and employees were offered an improved defined contribution plan. A US$5.5 million curtailment gain was recorded in relation to these changes in 2006.

## 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 certain 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 arrangements to hedge the foreign currency risk exposure on the entirety of its U.S. dollar-denominated long-term debt. Quebecor Media also uses interest rate swaps in order to manage the impact of interest rate fluctuations on its long-term debt.

Quebecor Media has also entered into currency forward contracts in order to hedge the planned purchase, in U.S. dollars, of digital set-top boxes, modems and other equipment in the Cable segment, and for other purposes. As well, Quebecor Media has entered into currency forward contracts in order to hedge the contractual instalments, in euros and Swiss Francs, on purchases of 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, has a nominal annual interest rate of 7.625%, 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 2006, Quebecor Media recorded total gains on derivative financial instruments of $2.2 million (losses of $82.5 million in 2005 and $191.1 million in 2004), partially offsetting losses of $3.4 million on the hedged instruments (gains of $78.1 million in 2005 and $183.1 million in 2004), for a net loss of $1.2 million ($4.4 million in 2005 and $8.0 million in 2004). The net loss in 2006 mainly related to fluctuations in the fair value of a cross-currency swap agreement entered into by Sun Media Corporation that had ceased to be effective, partially offset by gains related to fluctuations in the fair value of a foreign exchange forward contract for the purchase of new presses in the Newspapers segment. The net loss in 2005 mainly related to fluctuations in the fair value of the cross-currency swap agreement that had ceased to be effective, partially offset by gains recognized by Videotron on an interest rate swap agreement and a currency forward contract. The net loss in 2004 was due to fluctuations in the fair value of the ineffective financial instrument and of financial instruments that were not designated as hedges, partially offset by a foreign-exchange gain on the unhedged portion of the long-term debt.

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

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

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 at the then fair market value.

### Quebecor World Inc.

Quebecor World uses interest rate swap agreements to reduce its exposure to fluctuations in interest rates on its long-term debt. The total adjustment recorded to interest expense was an expense of US$4.0 million for 2006 (US$0.9 million for 2005).

Quebecor World also enters into foreign exchange forward contracts to hedge foreign-denominated sales and related receivables, as well as debt and equipment purchases. The total amounts recorded for these contracts for 2006 were revenues of US$13.2 million for foreign-denominated sales and a loss of US$1.3 million for other foreign-denominated transactions (revenues of US$29.5 million and a loss of US$1.4 million, respectively, for 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. As we enter into 2007, Quebecor World expects a lower level of revenues as a result of having fewer hedges in place and less favourable rates than in 2006.

Quebecor World enters into foreign exchange forward contracts and cross-currency swaps to hedge foreign-denominated asset exposures. The total adjustment recorded to derivative gain or loss related to these contracts for 2006 was a loss of US$28.4 million (a gain of US$48.0 million for 2005), 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, 2006 cover a notional quantity of 1,585,000 gigajoules in Canada and 8,005,000 MMBTU in the United States. These contracts expire between January 2007 and December 2009. Total adjustments of natural gas cost amounted to a loss of US$10.4 million in 2006 (US$7.6 million gain in 2005). For contracts outstanding for which hedge accounting is not applied, the portion of the change in the contracts' fair values recorded to derivative gain or loss was a loss of US$1.3 million for 2006 (nil for 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.

For 2006, the total amount deferred as a liability in relation to terminated derivative instruments was US$4.9 million (US$6.7 million and US$8.9 million for 2005 and 2004) and the total amount of revenues recognized in income was US$1.7 million (US$2.3 million and US$5.7 million for 2005 and 2004).

### FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is estimated using period-end market rates and reflects the amount the Company would receive or pay if the instruments were terminated at those dates *(see Tables 7 and 8)*.

### CAPITAL STOCK

In accordance with Canadian financial reporting standards, Table 9 presents information on the Company's capital stock as at February 28, 2007. In addition, 1,735,917 Company share options were outstanding as of February 28, 2007.

On May 11, 2005, the Company announced a Normal Course Issuer Bid for a maximum of 1,111,952 Class A Shares, representing approximately 5.0%

**Table 7: Quebecor Média inc.**
**Fair value of derivative financial instruments**
**(in millions of Canadian dollars)**

| | December 31, 2006 | | | |
|---|---|---|---|---|
| | Notional value | | Carrying amount asset (liability) | Fair value asset (liability) |
| Derivative financial instruments: | | | | |
| Interest rate swap agreements | 5.0 | CA$ | $ – | $ – |
| Foreign exchange forward contracts | | | | |
| - In US$ | 45.2 | US$ | – | 2.1 |
| - In € | 17.4 | € | 1.6 | 1.6 |
| - In CHF | 16.1 | CHF | 0.6 | 0.6 |
| Cross-currency interest rate swap agreements | 2,084.2 | US$ | (216.8) | (335.0) |

**Table 8: Quebecor World Inc.**
**Fair value of derivative financial instruments**
**(in millions of U.S. dollars)**

| | December 31, 2006 | | |
|---|---|---|---|
| | Notional value | Carrying amount asset (liability) | Fair value asset (liability) |
| Derivative financial instruments: | | | |
| Interest rate swap agreements | $ 200.0 | $ – | $ (7.5) |
| Foreign exchange forward contracts and cross-currency interest rate swap agreements | 1,171.1 | (12.7) | (15.5) |
| Commodity swap contracts | – | (1.4) | (13.7) |

of the issued and outstanding Class A Shares and a maximum of 4,228,399 Class B Subordinate Shares, representing approximately 10.0% of the public float for Class B Shares. Purchases were made on the open market during a 12-month period beginning 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. No shares were purchased in 2006.

## RELATED PARTY TRANSACTIONS

In 2006, the Company made purchases and incurred rent charges with affiliated companies in the amount of $12.6 million ($19.5 million in 2005 and $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 $0.2 million ($0.5 million in 2005 and $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.

The Company urges all current and potential investors to carefully consider the risks described below, the other information contained in this Management Discussion and Analysis and other information and documents filed by Quebecor with the appropriate securities regulatory authorities. The risks and uncertainties described below are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of or currently deems to be immaterial may also become important factors that affect it. If any of the following risks actually occurs, the Company's business, cash flows, financial condition or results of operations could be materially adversely affected.

You should also read the section of our Annual Report titled "Cautionary Statement Regarding Forward-Looking Statements and Forward-Looking Information", which contains important information regarding certain assumptions underlying Quebecor's forward-looking information.

### 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 it 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, revenue 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 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 that can affect advertising 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.

### Operational risks

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

The industry in which Quebecor World operates is highly competitive. Competition is 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. In certain circumstances, due primarily to factors such as freight rates and customer preference for local services, printers with better access to certain regions of a given country may have a competitive advantage in such regions. Since 2001, the printing industry has experienced a reduction in demand for printed materials and excess capacity. Some of the industries that Quebecor World services have been subject to consolidation efforts, leading to a smaller number of potential customers. Furthermore, if Quebecor World's smaller customers are consolidated with larger companies utilizing other printing companies, Quebecor World could lose its customers to competing printing companies. Primarily as a result of this excess capacity and customer consolidation, there have been, and may continue to be, downward pricing pressures and increased competition in the printing industry. Any failure on Quebecor World's part to compete effectively in the markets it serves could have a material adverse effect on the results of its operations, financial condition or cash flows and could require Quebecor World to change the way it conducts business or reassess strategic alternatives involving its operations.

Quebecor World is unable to predict market conditions and has only a limited ability to effect changes in market conditions for printing services. Pricing and demand for printing services have fluctuated significantly in the

**Table 9: Capital stock**
**(in shares and millions of Canadian dollars)**

| | February 28, 2007 | |
|---|---|---|
| | Issued and outstanding | Book value |
| Class A (Multiple Voting Shares) | 21,855,371 | $ 9.7 |
| Class B (Subordinate Voting Shares) | 42,461,651 | 336.9 |

past and each has declined significantly in recent years. Prices and demand for printing services may continue to decline from current levels. Further increases in the supply of printing services or decreases in demand could cause prices to continue to decline, and prolonged periods of low prices, weak demand and/or excess supply could have a material adverse effect on Quebecor World's business growth, results of operations and liquidity.

Quebecor World has significant operations outside the United States and Canada. Revenues from its operations outside the United States and Canada accounted for approximately 21% of Quebecor World's revenues for the year ended December 31, 2006. As a result, Quebecor World is subject to the risks inherent in conducting business outside the United States and Canada, including the impact of economic and political instability and being subject to different legal and regulatory regimes that may preclude or make more costly certain initiatives or the implementation of certain elements of Quebecor World's business strategy.

Quebecor World derives a significant portion of its revenues from long-term contracts with important customers. If Quebecor World is unable to renew such contracts on similar terms and conditions, or at all, or if it is not awarded new long-term contracts with important customers in the future, its operating results, financial condition and cash flows may be adversely affected.

Technological changes continue to increase the accessibility and quality of electronic alternatives to traditional delivery of printed documents through the online distribution and hosting of media content and the electronic distribution of documents and data. The acceleration of consumer acceptance of such electronic media, as an alternative to print materials, may decrease the demand for Quebecor World's printed products or result in reduced pricing for its printing services.

Due to fragmentation in the commercial printing industry, growth in Quebecor World's industry will continue to depend, in part, upon acquisitions, and Quebecor World may consider making strategic or opportunistic acquisitions in the future. Quebecor World cannot assure investors that future acquisition opportunities will exist on acceptable terms, that any newly acquired companies will be successfully integrated into its operations or that it will fully realize the intended results of any acquisitions. Quebecor World may incur additional long-term indebtedness in order to finance all or a portion of the consideration to be paid in future acquisitions. Quebecor World cannot provide any assurance that it will be able to obtain any such financing on acceptable terms. While Quebecor World continuously evaluates opportunities to make strategic or opportunistic acquisitions, it has no present commitments or agreements with respect to any material acquisitions.

Quebecor Media operates in highly competitive industries. In the Cable segment, it competes against direct broadcast satellite providers, or DBS (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, it competes against incumbent local exchange carriers ("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 primary ILEC in our market to provide terrestrial broadcasting distribution in Montreal and several other communities in Québec. The same ILEC has also recently acquired a cable network in our 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 services and pirate DBS services 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 ("ISPs") offering residential and commercial Internet access services. The CRTC also requires Quebecor Media to offer access to its high-speed Internet system to its ISP competitors and several third party ISPs have requested access to the network. A recent CRTC decision requires Quebecor Media to allow these third party ISPs to deliver voice applications as well. Competitors in the video rental industry include other video stores, video-on-demand services, television and other alternative entertainment media. The 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 facilities-based and therefore have a much lower infrastructure cost. Competition from ILECs is expected to increase in 2007 and following years, particularly if the federal government acts on proposals to lift winback restrictions on ILECs and to change the criteria for forbearance from regulation of local exchange services.

With its new mobile wireless telephony service, Quebecor Media competes against a mix of corporations, some of them being active in all the products Quebecor Media offers, while others only offer mobile wireless telephony services in its market.

In the broadcasting and publishing operations, Quebecor Media competes for advertising revenue and viewers/readers. Competition for newspaper advertising revenue is largely based on the newspaper's readership, circulation, demographic composition of the market, price and content. 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 in the Canadian broadcasting, publishing and other media industries has increased considerably, and our competitors include market participants with interests in multiple industries and media, some of which have greater financial and other resources than Quebecor Media.

The media industry is experiencing rapid and significant technological changes, which may result in alternative means of program and content transmission. The continued growth of the Internet has presented alternative content distribution options that compete with traditional media. Furthermore, in each of the Company's broadcasting markets, industry regulators have authorized DTH, microwave services and VDSL services and may authorize other alternative methods of transmitting television and other content with improved speed and quality. The Company may not be able to successfully compete with existing or newly developed alternative technologies, such as digital television over Internet Protocol connections ("IPTV"), or we 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 the ability of the Company to fund such implementation may be limited and could have a material adverse effect on its ability to successfully compete in the future. Any such difficulty or inability to compete could have a material adverse effect on its business, financial condition or results of operations.

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

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

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

In its cable business, Quebecor Media provides its digital television, Internet access and telephony services through a primary headend and its analog television services through eight additional regional headends in its single clustered network. This characteristic means that a failure in Quebecor Media's primary headend could prevent the subsidiary from delivering some of its products and services throughout its network until Quebecor Media has resolved the failure, which may result in significant customer dissatisfaction. To reduce its risk, Quebecor Media completed the construction of a back-up primary headend.

Revenues from the Company's broadcasting operations and publishing operations, are derived from advertising and circulation revenues. Advertising and circulation revenues are largely dependent on audience acceptance or readership, which is in large part a function of the content and quality offered, and is influenced by factors such as reviews by critics, promotions, quality and acceptance of other competing content in the marketplace, availability of alternative forms of entertainment, general economic conditions, public tastes generally and other intangible factors. In addition, the increase in narrowcast programming or specialty services in Canada has caused the conventional television audience to become increasingly fragmented. These factors continue to evolve rapidly and many are beyond the Company's control. Lack of audience acceptance for its content or shrinking or fragmented audiences or readership could limit the Company's ability to generate advertising and circulation revenue. If its television operations' ability to generate advertising revenue is limited, the Company may need to develop new or alternative financing sources in order to be able to continue providing attractive television programming for broad audiences. There can be no assurance that the Company would be able to develop any such new financing sources, and any such limitation of its ability to generate revenue, together with an inability to generate new financing sources, could have a material adverse effect on its business, financial condition and results of operations.

The most significant cost in its broadcasting business is television programming. The Company's broadcasting operations may be exposed in the future to volatile or increased television programming costs which may adversely affect its operating results.

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

The Company has experienced substantial growth in its business and has significantly expanded its operations in recent years. The Company has made a number of acquisitions in the recent past. Some of its acquisitions have involved expansion into businesses in which the Company has historically had limited or no involvement. This growth has placed, and will continue to place, a significant demand on its management. In addition, in the future the Company may make strategic acquisitions and further expand the types of businesses in which it participates. Such acquisitions and expansion may not meet its strategic objectives or may require us to incur significant costs or divert significant resources. If the Company is not successful in managing and integrating any acquired businesses, or if the Company is required to incur significant or unforeseen costs, it could have a material adverse effect on its business, financial condition or results of operations.

Labour represents a significant component of the cost structure of Quebecor and its subsidiaries. Increases in wages, salaries and benefits, such as medical, dental, pension and other post-retirement benefits, may impact the financial performance of Quebecor and its subsidiaries. Changes in interest rates, investment returns or the regulatory environment may impact the amounts the Company is required to contribute to the pension plans that it sponsors and may affect the solvency of its pension plans.

#### Insurance risk

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 elements of its self-insurance retention through its captive insurance subsidiary.

The Company believes that it has in place a combination of third-party 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. Quebecor World may therefore be required to invest significant capital in improving production technologies. If Quebecor World cannot obtain adequate capital or do not respond adequately to the need to integrate changing technologies in a timely manner, its operating results, financial condition or cash flows may be adversely affected.

The installation of new technology and equipment may also cause temporary disruptions of operations and losses from operational inefficiencies. The impact on operational efficiency is affected by the length of the period of remediation.

Quebecor Media is experiencing rapid and significant technological change that may result in alternative means of program and content transmission and that could have a material adverse effect on Quebecor Media's business, financial condition or results of operations. The continued growth of the Internet has presented alternative content distribution options that compete with traditional media. Furthermore, in each of Quebecor Media's broadcasting markets, industry regulators have already authorized direct-to-home satellite services, as well as microwave services, and may authorize other alternative methods of transmitting television and other content with improved speed and quality. The subsidiary 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 the subsidiary's ability to fund such implementation may be limited and could have a material adverse effect on its ability to successfully compete in the future.

The cable business of Quebecor Media has required substantial capital for the upgrade, expansion and maintenance of its network and the launch and expansion of new or additional services and Quebecor Media expects they will in the future need to make additional capital expenditures to maintain and expand services such as Internet access, high definition television, or HDTV, and new telephony services. Quebecor Media may not be able to obtain the funds necessary to finance its capital improvement program or any additional capital requirements through internally generated funds, additional borrowings or other sources. If Quebecor Media is unable to obtain these funds, the subsidiary would not be able to implement its business strategy and its business, financial condition or results of operations could be materially adversely affected. Even if Quebecor Media is able to obtain appropriate funding, the period of time required to upgrade its network could have a material adverse effect on its ability to successfully compete in the future.

### 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 require (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, 2006, approximately 39% of Quebecor Media's employees were represented by collective bargaining agreements. Through its subsidiaries, Quebecor Media is currently a party to 76 collective bargaining agreements.

- As of December 31, 2006, three of Videotron's five collective bargaining agreements, representing approximately 2,275 (or 94%) of its unionized employees, will expire between December 2007 and December 2009; two other agreements, representing approximately 138 (6%) of its unionized employees, will expire between December 2010 and August 2011.
- As of February 28, 2007, 15 of Sun Media Corporation's 50 collective bargaining agreements, representing approximately 642 (31%) of its unionized employees, have expired. Negotiations regarding these 15 agreements are either in progress or will be undertaken in 2007. The other 35 agreements, representing approximately 1,415 (69%) of its unionized employees, will expire between October 2007 and June 2010.
- As of December 31, 2006, 12 of TVA Group's 15 collective bargaining agreements, representing approximately 273 (33%) of its unionized employees, will expire between April 2007 and the end of December 2008; three of its agreements, representing approximately 544 (67%) of its unionized employees, have expired and negotiations regarding these agreements are under way.
- As of December 31, 2006, one of the remaining six collective bargaining agreements, representing approximately 20 (6%) of its unionized employees, expired in 2006. Negotiations regarding that agreement will begin in 2007. The other five agreements, representing approximately 315 (94%) of its unionized employees, will expire between April 2009 and April 2010.

*Le Journal de Montréal* was engaged in a labour dispute with its unionized pressroom employees between June 4, 2006 and February 20, 2007. While operating under more difficult conditions, *Le Journal de Montréal* has taken all necessary steps to prevent the dispute from affecting the daily printing and distribution of the newspaper.

As of today, Quebecor World has 51 collective bargaining agreements in North America. Furthermore, 11 collective bargaining agreements are under negotiation (10 of these agreements expired in 2006 and 1 expired prior to 2006). Two of the agreements under negotiation, covering approximately 500 employees, are first-time labour agreements. In addition, 9 collective bargaining agreements, covering approximately 1,400 employees, will expire in 2007. Quebecor World has approximately 22,300 employees in North America, of which approximately 7,300 or approximately 33%, are unionized. Currently, 72 of Quebecor World's plants and related facilities in North America are non-unionized. Quebecor World also has approximately 2,200 employees in Latin America of which the majority are either governed by agreements that apply industry-wide or by a collective agreement. Quebecor World has approximately 4,300 employees in Europe. Quebecor World's facility in the United Kingdom is unionized, while labour relations with employees in Quebecor World's other European facilities are governed by agreements that apply industry-wide and that set minimum terms and conditions of employment.

The Company's subsidiaries have had significant labour disputes in the past that have disrupted its 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, and its financial position and results of operations could be negatively impacted. 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 and energy price risks

Quebecor World and Quebecor Media use paper, newsprint and ink as their primary raw materials. The price of such raw materials has been volatile over time and may cause significant fluctuations in these subsidiaries' net sales and cost of sales. Although Quebecor World and Quebecor Media use their purchasing power as two of the major buyers in the printing industry to obtain favourable prices, terms, quality control and service, they may nonetheless experience increases in the costs of their raw materials in the future, as prices in the overall paper and ink markets are beyond their control. In general, Quebecor Media has not been able to pass along increases in the cost of paper and ink to its customers. In addition, Quebecor World may be unable to continue to pass any price increases on to its customers. Therefore, future increases in the price of paper and ink could adversely affect the margins and profits of Quebecor's subsidiaries.

Fuel and other energy costs represent a significant portion of Quebecor World's overall costs. Quebecor World may not be able to pass along a substantial portion of the rise in the price of fuel and other energy costs directly to its customers. In that event, increases in fuel and other energy costs, particularly resulting from increased natural gas prices, could adversely affect operating costs or customer demand and thereby negatively impact Quebecor World's operating results, financial condition or cash flows.

## 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, 2006, 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, 2006, Quebecor World, Quebecor Media, Videotron and Sun Media Corporation were using derivative financial instruments to manage their exchange rate and interest rate exposures. 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 a 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.

## Debt risks

### *Quebecor Inc.*

Quebecor is a holding company and much of its assets consist of shares of its subsidiaries, Quebecor World and Quebecor Media. As a holding company, Quebecor's operations are substantially managed by its subsidiaries, which generate all of its revenue streams. Consequently, Quebecor's cash flows and ability to distribute earnings to shareholders are dependent on its subsidiaries' ability to make dividend payments or other distributions to Quebecor, subject to laws and to the restrictive covenants in Quebecor World's and Quebecor Media's indebtedness.

### *Quebecor World Inc.*

Quebecor World and its consolidated subsidiaries have indebtedness and, as a result, significant interest-payment obligations. As of December 31, 2006, Quebecor World and its consolidated subsidiaries had a total debt of US$2.1 billion. Quebecor World's credit facilities, the indentures governing its various notes, debentures and other debt securities, and the terms and conditions of its other existing indebtedness will permit it or its consolidated subsidiaries to incur or guarantee additional indebtedness, including secured indebtedness in some circumstances. As of December 31, 2006, Quebecor World and its consolidated subsidiaries had approximately US$957.8 million in undrawn commitments under their credit facilities. To the extent Quebecor World incurs new indebtedness, the risks discussed above will increase.

Quebecor World's degree of leverage could have significant consequences, including the following:

- make it more difficult for Quebecor World to satisfy its obligations with respect to its various outstanding debt securities;
- increase Quebecor World's vulnerability to general adverse economic and industry conditions;
- require Quebecor World to dedicate a substantial portion of its cash flows from operations to making interest and principal payments on its indebtedness;
- limit Quebecor World's ability to use funds for capital expenditures, working capital and other general corporate purposes;
- limit Quebecor World's flexibility in planning for, or reacting to, changes in its business and the industry in which it operates, including cyclical downturns in its industry;
- place Quebecor World at a competitive disadvantage compared to competitors that have less debt; and
- limit Quebecor World's ability to borrow additional funds on commercially reasonable terms, if at all.

Quebecor World is party to a number of financing agreements, including its unsecured credit facility, the indentures governing its various senior notes, convertible notes and senior debentures, its accounts receivable securitization programs, and other debt instruments, which agreements, indentures and instruments contain financial and other covenants. If Quebecor World were to breach such financial or other covenants contained in its financing agreements, Quebecor World may be required to redeem, repay, repurchase or refinance its existing debt obligations prior to their scheduled maturity and its ability to do so may be restricted or limited by the prevailing conditions in the capital markets, available liquidity and other factors. If Quebecor World is unable to refinance any of its debt obligations in such circumstances, its ability to make capital expenditures and its financial condition and cash flows could be significantly adversely impacted. On December 8, 2006, Quebecor World obtained a temporary accommodation from the syndicate of lenders under its credit facilities with respect to certain covenants under such facilities in order to provide itself with greater financial flexibility. A similar accommodation with respect to a termination provision was sought and obtained from the counterparties under Quebecor World's accounts receivable securitization programs. There can be no assurance, in the event Quebecor World requires similar accommodations in the future, as a result of

weaker than expected financial performance or otherwise, that it will obtain such accommodations or be able to renegotiate the terms and conditions of its financing agreements and securitization programs, which in turn would require Quebecor World to redeem, repay or repurchase such obligations prior to their scheduled maturity.

In addition, from time to time, new accounting rules, pronouncements and interpretations are enacted or promulgated which may require Quebecor World, depending on the nature of such new accounting rules, pronouncements and interpretations, to reclassify or restate certain elements of its financial statements or to calculate in a different manner some of the financial ratios set forth in its financing agreements and other debt instruments, which in turn may cause Quebecor World to be in breach of the financial or other covenants contained in its financing agreements and other debt instruments.

***Quebecor Media Inc.***

Quebecor Media and its subsidiaries have a substantial amount of debt and significant interest-payment requirements. As of December 31, 2006, the subsidiary had $2.82 billion of consolidated long-term debt (excluding the Additional Amount payable to The Carlyle Group). Quebecor Media's substantial consolidated indebtedness could have significant consequences, including the following:

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

Although Quebecor Media is leveraged, the indenture governing its 7.75% Senior Notes due 2016 and its Senior Secured Credit Facilities permit the subsidiary to incur substantial additional indebtedness in the future, including up to an additional $100.0 million that Quebecor Media may borrow under its revolving credit facility and an uncommitted $350.0 million that Quebecor Media may borrow under its incremental credit facility. If Quebecor Media incurs additional debt, the risks it now faces as a result of its leverage could intensify.

Quebecor Media's senior secured credit facilities and the indenture governing its Senior Notes due 2016 contain a number of operating and financial covenants restricting its ability to, among other things:

- borrow money or sell preferred stock;
- issue guarantees of debt;
- make certain types of investments;
- pay dividends and make other restricted payments;
- create or permit certain liens, priority or mortgages;
- use the proceeds from sales of assets and subsidiary stock;
- enter into asset sales;
- create or permit restrictions on the ability of its restricted subsidiaries, if any, to pay dividends or make other distributions;
- engage in certain transactions with affiliates; and
- enter into mergers, consolidations and transfers of all or substantially all of its assets.

If Quebecor Media is unable to comply with these covenants and is unable to obtain waivers from its lenders, the subsidiary would be unable to make additional borrowings under its credit facilities, its indebtedness under these agreements would be in default and could, if not cured or waived, result in an acceleration of the subsidiary's debt and cause cross-defaults under its other debt, including Quebecor Media outstanding notes. If Quebecor Media's indebtedness is accelerated, the subsidiary may not be able to repay its indebtedness or borrow sufficient funds to refinance it. In addition, if Quebecor Media incurs additional debt in the future, the subsidiary may be subject to additional covenants, which may be more restrictive than those to which it is now subject. Even if Quebecor Media were able to comply with all applicable covenants, the restrictions on its ability to manage its business at its sole discretion could adversely affect its business by, among other things, limiting its ability to take advantage of financing, mergers, acquisitions and other corporate opportunities that would be beneficial to it.

### Contingencies

On March 13, 2002, legal action was initiated by the shareholders of a cable company against Videotron. These parties 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 without merit 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 material adverse effect on Quebecor Media's results or its financial position.

### Government acts and regulations 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.

The Company and its subsidiaries are subject to requirements of Canadian, U.S. and other foreign occupational health and safety laws and regulations at the federal, state, provincial and local levels. These requirements are complex, constantly changing and have tended to become more stringent over time. It is possible that these requirements may change or liabilities may arise in the future in a manner that could have a material adverse effect on the financial condition or results of operations of Quebecor and its subsidiaries. The Company cannot assure investors that it has been or that it will at all times be in complete compliance with all such requirements or that it will not incur material costs or liabilities in connection with those requirements in the future.

## CRITICAL ACCOUNTING POLICIES

### Revenue recognition

The Company recognizes operating revenues when the following conditions are met:

- persuasive evidence of an agreement exists;
- the product or service has been delivered;
- the price the buyer is to pay is fixed or determinable;
- collection of the receivable is reasonably assured.

The portion of revenues that has not been earned as of the billing date is recognized in deferred revenues.

The revenue recognition policies applied by the Company's main segments are described below.

***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, and directory platforms.

Services are sold either stand-alone or together as a multiple service arrangement. 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 services, printing and related services, and delivery. For arrangements that include multiple elements and when the criteria for recognition as a multiple element arrangement are met, the total contract value is allocated to each element based on its relative fair value. When the criteria are not met, each element is recognized as a single unit of accounting according to the revenue recognition criteria stated above.

Contract revenue is recognized using the proportional performance method on the basis of output and service activity at the pro rata billing value of work completed. Sales revenues that do not meet the criteria for the proportional performance method are recorded when the agreed services are rendered. The Printing segment also offers logistics and distribution services for the delivery of products related to print services. Those revenues are recognized once the freight services have been executed by the shipping facility.

Revenues are presented in the consolidated statements of income net of rebates, discounts, and amortization of contract acquisition costs. 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.

***Cable segment***

The Cable segment provides services under arrangements with multiple deliverables, which are comprised of two separate accounting units: one for subscriber services (cable connecting fees and operating services), the other for equipment sales to subscribers, including activation fees related to wireless phones.

Cable 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 cable 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, business solution and other services, such as Internet access, telephony and wireless, are recognized when services are rendered. Revenue from equipment sales to subscribers and their 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 the offer. Operating revenues related to service contracts are recognized in income over the life of the specific contracts on a straight-line basis representing the period over which the services are provided.

***Newspapers segment***

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

***Broadcasting segment***

Revenues of the Broadcasting segment derived from the sale of advertising airtime are recognized when the advertisement has been broadcast. Revenues derived from subscriptions to specialty channels are recognized as service is rendered. Revenues derived from circulation and advertising from publishing activities are recognized when publication is delivered. Subscription 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; and (e) collection of the arrangement fee is reasonably assured.

Theatrical revenues are recognized over the period of presentation and are based on a percentage of revenues generated by movie theatres. Revenues generated from the sale of videos 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.

***Leisure and Entertainment segment***

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

### Goodwill

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps.

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

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

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 synergy, control premium and temporary market price fluctuations.

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

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

The fair value of goodwill is determined in the same manner as a business combination. The Company allocates the fair value of a reporting unit to all of the assets and liabilities of the unit, 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 judgment used in determining the fair value of the reporting unit and in allocating this fair value to the assets and liabilities of the reporting unit may affect the value of the goodwill impairment to be recorded.

Quebecor has completed its annual goodwill impairment test for 2006. As a result, Quebecor Media recorded a goodwill impairment charge for its Broadcasting segment in 2006 totalling $148.4 million, with no tax consequences ($78.9 million net of non-controlling interest). In 2005, Quebecor World recognized a non-cash charge of $287.1 million ($97.7 million after income tax and non-controlling interest) for goodwill impairment related to Quebecor World's operations in Europe.

### Broadcasting licences

Broadcasting licences are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

To determine the fair value of its broadcasting licences, the Company uses the discounted future cash flows valuation method.

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

Determining the fair value of broadcasting licences involves complete reliance on estimates and assumptions. The judgment used in determining the fair value of its broadcasting licences may affect the value of the impairment to be recorded.

Based on the results of the latest impairment test performed, the Company recorded a $31.6 million impairment charge ($6.8 million net of income tax and non-controlling interest) for its Sun TV licence in the Broadcasting segment.

### 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 *Canadian Institute of Chartered Accountants Handbook ("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 carrying amount of the asset or group of assets 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.

Various events in 2006 suggested that the carrying amounts of some of Quebecor World's groups of assets may not be recoverable. First, Quebecor World introduced a series of restructuring initiatives in 2006 and further initiatives have been approved and will be implemented in the years to come, which had an impact on the recoverability tests for the plants affected by these initiatives. Other events or changes related to some plants in Quebecor World's manufacturing platform could also affect recoverability tests in the future.

Where recoverability tests indicated that undiscounted future net cash flows would not be sufficient to cover the carrying amounts of the tested group of assets, an impairment test was carried out. Quebecor World therefore recognized a US$33.0 million non-cash charge in 2006.

Quebecor World management concluded that at December 31, 2006, no further impairment charges were required other than those discussed above. Quebecor World continues to monitor groups of assets to identify any new events or changes in circumstances which could indicate that their carrying values are not recoverable. In the event that such a situation is identified or that actual results differ from management's estimates, an additional impairment charge could be necessary.

### 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, as well as 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, as the case may be, 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 foreign exchange forward 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 also 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 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 to manage the impact of fluctuations in interest rates on its 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 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 and interest rate 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 offset by reductions in the Company's future payments under the agreements. The portion of the 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. All the cross-currency swap agreements subject to a floor limit on negative fair value were closed out as part of the refinancing carried out on January 17, 2006.

Realized and unrealized gains or losses associated with derivative instruments that have been terminated or ceased 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 a hedge are reported on a mark-to-market basis in the consolidated financial statements. Any change in the fair value of these 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 70% to 75% of eligible costs. 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 24 months trended forward to estimate the following year's liability.

#### Allowance for doubtful accounts

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

#### Business combinations

Business acquisitions are accounted for by the purchase method. Under this accounting method, the purchase price is allocated to the acquired assets and assumed liabilities based on their estimated fair value at the date of acquisition. The excess of the purchase price over the sum of the values ascribed to the acquired assets and assumed liabilities is recorded as goodwill. The judgments made in determining the estimated fair value and the expected useful life of each acquired asset, and the estimated fair value of each assumed liability, can significantly impact net income because of, among other things, 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 judgment and involves complete reliance on estimates and assumptions. The Company primarily uses the discounted future cash flows approach to estimate the value of acquired intangible assets.

The estimates and assumptions used in the allocation of the purchase price at the date of acquisition may also have an impact on the amount of the impairment of goodwill and of broadcasting licences to be recognized, if any, after the date of acquisition, as discussed above under "Goodwill" and "Broadcasting Licences."

### Future income taxes

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

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 actual outcomes differ from management's estimates, the provision for the U.S. worker's compensation costs may 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 retroactively changed its accounting policy relating to the quantification and evaluation of misstatements in its financial statements in accordance with *Section 1506, Accounting Changes* of the *CICA Handbook*. The Company applied a methodology consistent with the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). The Company will now quantify the effect of prior year misstatements on the current year financial statements, assessing their impact on both the Company's financial position and results of operations of and evaluating the materiality of misstatements quantified under each method in light of quantitative and qualitative factors. Accordingly, the Company adjusted its consolidated balance sheet as at December 31, 2005 and adjusted its opening retained earnings in 2004 in the consolidated statements of retained earnings by $12.8 million. There was no impact on the consolidated statements of income and cash flows nor on the earnings per share for the years ended December 31, 2006, 2005 and 2004. The adjustment related to misstatements arose mainly in 2002 and in prior years. The restatement is comprised of (i) a reduction of $9.8 million to work in progress to consistently apply the revenue-recognition policy throughout the platforms for work not completed at year-end, (ii) an increase of other liabilities by $19.8 million resulting from the assessment of the sales process by Printing segment management, (iii) an increase of non-controlling interest by $27.6million, a decrease of translation adjustment by $33.0 million and a decrease of future income tax liability by $11.3 million, which reflect the review of the non-controlling interest in the translation adjustment, the impact of an overstatement in future income tax liability and the impact of (i) and (ii) above on income taxes and non-controlling interest.

## RECENT ACCOUNTING DEVELOPMENTS IN CANADA

In 2005, CICA published 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 for under Section 3855 to operations they choose to designate as eligible, for accounting purposes, as 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.

The new standards in Sections 3855, 3865 and 1530 came into effect for interim and annual financial statements relating to financial years beginning on or after October 1, 2006. The Company is currently assessing the impact these new standards will have on its consolidated 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.

## CONTROLS AND PROCEDURES

Quebecor's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated

to management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, to allow timely decisions regarding required disclosure. Quebecor's internal controls over financial reporting are designed to provide reasonable assurance that the Company's financial reporting is reliable and that its financial statements for external use are prepared in accordance with Canadian GAAP. Due to inherent limitations, it is possible that internal controls over financial reporting may fail to prevent or detect inaccuracies.

As of December 31, 2006, an evaluation has been carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of appropriate disclosure controls and procedures, in accordance with the requirements of Multilateral Instrument 52-109 under the Canadian Securities Administrators Rules and Policies. Based on that evaluation, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that, essentially as a result of a material weakness identified in Quebecor World's internal controls over financial reporting regarding impairment of long-term assets, the disclosure controls and procedures were not effective as of the end of the period covered by this annual report.

A material weakness, as defined under standards established in the United States by the Public Company Accounting Oversight Board's ("PCAOB") Auditing Standard No. 2, is a significant control deficiency, or combination of significant control deficiencies, that results in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected.

Quebecor World did not maintain effective processes and controls over the identification, capture, communication and documentation of financial information regarding the impairment of long-term assets processes.

This deficiency resulted in immaterial errors that were identified and corrected prior to issuance of Quebecor World's 2006 consolidated financial statements. However, this deficiency could have resulted in material non-cash adjustments to the financial statements and, as a result, there is a more than remote likelihood that a material misstatement of the annual or interim consolidated financial statements would not be prevented or detected.

Notwithstanding the above-mentioned material weakness, the management of Quebecor has concluded that the consolidated financial statements included in this report fairly present the Company's consolidated financial position and the consolidated results of operations, as of and for the year ending December 31, 2006.

Quebecor World has already started and will continue remediation plans to address the material weakness by enhancing and implementing additional changes to its impairment of long-term assets processes. The following are steps that the Company is taking to remedy the conditions leading to the above stated material weakness:

- develop and deploy a more exhaustive checklist to identify, capture and communicate the required information and documentation;
- continue to implement additional controls to identify, capture and timely communicate financial information to apply the Company's policy pertaining to the impairment of long term assets;
- continue to improve its forecasting systems;
- provide finance training for managers, process owners and accounting personnel.

## 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 risk (including fluctuations in demand for the Company's products and pricing actions by competitors), risks associated with capital investment (including risks related to technological development and equipment availability and breakdown), environmental risks, risks associated with labour agreements, commodity risks (including fluctuations in the cost and availability of raw materials), credit risk, financial risks, debt risks, risks related to interest rate fluctuations, foreign exchange risks, government regulation risks and changes in the general political and 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 in this Management Discussion and Analysis and the "Risk Factors" section of the Company's 2006 Annual Information Form.

The forward-looking statements in this report reflect the Company's expectations as of March 21, 2006, and are subject to change after that date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

Montréal, Québec
March 21, 2007

# SELECTED FINANCIAL DATA

Years ended December 31, 2006, 2005, 2004, 2003 and 2002
(in millions of Canadian dollars, except per share data)

| | 2006 | 2005[1] (revised) | 2004[1] (revised) | 2003[1] (revised) | 2002[1] (revised) |
|---|---|---|---|---|---|
| **Operations** | | | | | |
| Revenues | $ **9,822.1** | $ 10,208.5 | $ 10,613.4 | $ 10,718.6 | $ 11,495.9 |
| Income before amortization, financial expenses, reserves for restructuring of operations, impairment of assets and other special charges, gain on re-measurement of exchangeable debentures, (loss) gain on sales of businesses, shares of a subsidiary and other assets, (loss) gain on debt refinancing and on repurchase of redeemable preferred shares of a subsidiary and impairment of goodwill and intangible assets | **1,417.8** | 1,542.1 | 1,729.9 | 1,501.1 | 1,885.6 |
| Contribution to net (loss) income: | | | | | |
| Continuing operations | **124.4** | 102.1 | 114.1 | 26.9 | 116.6 |
| Gain on re-measurement of exchangeable debentures | **25.5** | 101.8 | 36.4 | – | – |
| Unusual items and impairment of goodwill and intangible assets | **(242.8)** | (127.3) | (39.4) | 38.6 | (34.9) |
| Discontinued operations | **(1.0)** | (6.9) | 1.1 | 0.9 | 1.5 |
| Net (loss) income | **(93.9)** | 69.7 | 112.2 | 66.4 | 83.2 |
| Cash flows provided by continuing operations | **538.7** | 974.8 | 995.1 | 899.2 | 1,098.2 |
| **Basic per share data** | | | | | |
| Contribution to net (loss) income: | | | | | |
| Continuing operations | $ **1.94** | $ 1.58 | $ 1.76 | $ 0.42 | $ 1.81 |
| Gain on re-measurement of exchangeable debentures | **0.39** | 1.58 | 0.57 | – | – |
| Unusual items and impairment of goodwill and intangible assets | **(3.77)** | (1.97) | (0.61) | 0.60 | (0.54) |
| Discontinued operations | **(0.02)** | (0.11) | 0.02 | 0.01 | 0.02 |
| Net (loss) income | **(1.46)** | 1.08 | 1.74 | 1.03 | 1.29 |
| Dividends | **0.20** | 0.19 | 0.08 | – | – |
| Shareholders' equity | **20.35** | 21.87 | 21.69 | 21.05 | 22.93 |
| Weighted average number of shares outstanding (in millions) | **64.3** | 64.5 | 64.6 | 64.6 | 64.6 |
| **Diluted per share data** | | | | | |
| Contribution to net (loss) income: | | | | | |
| Continuing operations | $ **1.94** | $ 1.57 | $ 1.75 | $ 0.42 | $ 1.77 |
| Gain on re-measurement of exchangeable debentures | **0.39** | 1.58 | 0.57 | – | – |
| Unusual items and impairment of goodwill and intangible assets | **(3.77)** | (1.97) | (0.61) | 0.60 | (0.54) |
| Discontinued operations | **(0.02)** | (0.11) | 0.02 | 0.01 | 0.02 |
| Net (loss) income | **(1.46)** | 1.07 | 1.73 | 1.03 | 1.25 |
| Diluted weighted average number of shares (in millions) | **64.3** | 64.6 | 64.7 | 64.7 | 64.6 |
| **Financial position** | | | | | |
| Working capital | $ **(332.2)** | $ (236.1) | $ (105.5) | $ (225.2) | $ (612.5) |
| Long-term debt | **5,209.4** | 4,687.7 | 4,888.2 | 5,286.4 | 5,681.8 |
| Shareholders' equity | **1,308.7** | 1,405.9 | 1,401.2 | 1,359.6 | 1,481.5 |
| Capitalization[2] | **4,173.2** | 4,571.5 | 4,974.0 | 5,010.9 | 5,534.4 |
| Total assets | **13,612.5** | 13,670.9 | 14,428.6 | 15,169.2 | 17,084.3 |

[1] Please refer to note 1 of the consolidated financial statments for the year ended December 31, 2006.

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

# SELECTED QUARTELY FINANCIAL DATA

Years ended December 31 2006 and 2005
(in millions of Canadian dollars, except for per share data)

| | Three-month periods ended | | | | Three-month periods ended | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 2006 | | | | 2005 |
| | December 31 | September 30 | June 30 | March 31 | December 31 | September 30 | June 30 | March 31 |
| **Operations** | | | | | | | | |
| Revenues | $ 2,670.0 | $ 2,431.0 | $ 2,348.9 | $ 2,372.2 | $ 2,680.2 | $ 2,520.3 | $ 2,505.3 | $ 2,502.7 |
| Income before amortization, financial expenses, reserves for restructuring of operations, impairment of assets and other special charges, (loss) gain on re-measurement of exchangeable debentures, loss on debt refinancing, gain (loss) on sale of businesses and other assets and impairment of goodwill and intangible assets | 412.2 | 354.6 | 347.7 | 303.3 | 409.3 | 381.4 | 395.1 | 356.3 |
| Contribution to net income or loss: | | | | | | | | |
| Continuing operations | 41.1 | 35.7 | 29.9 | 17.7 | 28.9 | 29.8 | 27.1 | 16.3 |
| (Loss) gain on re-measurement of exchangeable debentures | (19.0) | 7.7 | (6.2) | 43.0 | 61.4 | 22.2 | 45.3 | (27.1) |
| Unusual items and impairment of goodwill and intangible assets | (102.9) | (9.4) | (9.6) | (120.9) | (72.5) | (28.8) | (13.0) | (13.0) |
| Discontinued operations | – | (0.2) | (0.3) | (0.5) | (3.3) | (0.6) | (3.2) | 0.2 |
| Net (loss) income | (80.8) | 33.8 | 13.8 | (60.7) | 14.5 | 22.6 | 56.2 | (23.6) |
| **Basic per share data** | | | | | | | | |
| Contribution to net income or loss: | | | | | | | | |
| Continuing operations | $ 0.64 | $ 0.56 | $ 0.46 | $ 0.28 | $ 0.45 | $ 0.46 | $ 0.42 | $ 0.25 |
| (Loss) gain on re-measurement of exchangeable debentures | (0.30) | 0.12 | (0.10) | 0.67 | 0.96 | 0.34 | 0.70 | (0.42) |
| Unusual items and impairment of goodwill and intangible assets | (1.60) | (0.15) | (0.15) | (1.87) | (1.13) | (0.44) | (0.20) | (0.20) |
| Discontinued operations | – | – | – | (0.02) | (0.05) | (0.01) | (0.05) | – |
| Net (loss) income | (1.26) | 0.53 | 0.21 | (0.94) | 0.23 | 0.35 | 0.87 | (0.37) |
| Weighted average number of shares outstanding (in millions) | 64.3 | 64.3 | 64.3 | 64.3 | 64.3 | 64.6 | 64.6 | 64.7 |
| **Diluted per share data** | | | | | | | | |
| Contribution to net income or loss: | | | | | | | | |
| Continuing operations | $ 0.64 | $ 0.56 | $ 0.46 | $ 0.28 | $ 0.44 | $ 0.46 | $ 0.42 | $ 0.25 |
| (Loss) gain on re-measurement of exchangeable debentures | (0.30) | 0.12 | (0.10) | 0.67 | 0.96 | 0.34 | 0.70 | (0.42) |
| Unusual items and impairment of goodwill and intangible assets | (1.60) | (0.15) | (0.15) | (1.87) | (1.13) | (0.44) | (0.20) | (0.20) |
| Discontinued operations | – | – | – | (0.02) | (0.05) | (0.01) | (0.05) | – |
| Net (loss) income | (1.26) | 0.53 | 0.21 | (0.94) | 0.22 | 0.35 | 0.87 | (0.37) |
| Weighted average number of diluted shares outstanding (in millions) | 64.3 | 64.3 | 64.3 | 64.4 | 64.4 | 64.7 | 64.7 | 64.8 |

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

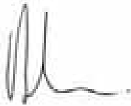
The accompanying consolidated financial statements of Quebecor Inc. and its subsidiaries are the responsibility of management and have been approved by the Board of Directors of Quebecor Inc.

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 auditor appointed by the shareholders has full access to the Audit Committee, with and without management being present.

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



**Pierre Karl Péladeau**
President and Chief Executive Officer

**Jacques Mallette**
Executive Vice President and Chief Financial Officer

Montréal, Canada
March 21, 2007

# 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, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flows for the years ended December 31, 2006, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we 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, 2006 and 2005 and the results of its operations and its cash flows for the years ended December 31, 2006, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada
March 20, 2007

# CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars, except earnings per share data)

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| **Revenues** | $ | **9,822.1** | $ | 10,208.5 | $ | 10,613.4 |
| Cost of sales and selling and administrative expenses | | **(8,404.3)** | | (8,666.4) | | (8,883.5) |
| Amortization | | **(611.9)** | | (600.8) | | (649.2) |
| Financial expenses (note 2) | | **(408.5)** | | (463.3) | | (520.7) |
| Reserve for restructuring of operations, impairment of assets and other special charges (note 3) | | **(145.9)** | | (113.6) | | (151.7) |
| Gain on re-measurement of exchangeable debentures | | **27.7** | | 126.0 | | 45.0 |
| Loss on debt refinancing (note 4) | | **(342.6)** | | (60.0) | | (7.4) |
| (Loss) gain on sale of businesses and other assets | | **(0.3)** | | (5.1) | | 9.3 |
| Impairment of goodwill and intangible assets (note 5) | | **(180.0)** | | (287.1) | | – |
| **(Loss) income before income taxes** | | **(243.7)** | | 138.2 | | 455.2 |
| Income taxes (note 6) | | **(111.1)** | | 92.7 | | 130.4 |
| | | **(132.6)** | | 45.5 | | 324.8 |
| Dividends on preferred shares of subsidiaries, net of income taxes | | **(38.8)** | | (48.6) | | (48.7) |
| Non-controlling interest | | **78.5** | | 79.7 | | (165.0) |
| **(Loss) income from continuing operations** | | **(92.9)** | | 76.6 | | 111.1 |
| (Loss) income from discontinued operations (note 7) | | **(1.0)** | | (6.9) | | 1.1 |
| **Net (loss) income** | $ | **(93.9)** | $ | 69.7 | $ | 112.2 |
| **Earnings per share (note 9)** | | | | | | |
| **Basic** | | | | | | |
| From continuing operations | $ | **(1.44)** | $ | 1.19 | $ | 1.72 |
| From discontinued operations | | **(0.02)** | | (0.11) | | 0.02 |
| Net (loss) income | | **(1.46)** | | 1.08 | | 1.74 |
| **Diluted** | | | | | | |
| From continuing operations | | **(1.44)** | | 1.18 | | 1.71 |
| From discontinued operations | | **(0.02)** | | (0.11) | | 0.02 |
| Net (loss) income | | **(1.46)** | | 1.07 | | 1.73 |
| **Weighted average number of shares outstanding (in millions)** | | **64.3** | | 64.5 | | 64.6 |
| **Diluted weighted average number of shares (in millions)** | | **64.3** | | 64.6 | | 64.7 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars)

| | 2006 | 2005 (revised, note 1) | 2004 (revised, note 1) |
|---|---|---|---|
| **Balance at beginning of year, as previously reported** | **$ 1,285.5** | $ 1,235.3 | $ 1,128.3 |
| Cumulative effect of change in accounting policy on prior years (note 1) | **(12.8)** | (12.8) | (12.8) |
| As revised | **1,272.7** | 1,222.5 | 1,115.5 |
| Net (loss) income | **(93.9)** | 69.7 | 112.2 |
| | **1,178.8** | 1,292.2 | 1,227.7 |
| Dividends | **(12.9)** | (12.3) | (5.2) |
| Excess of purchase price over carrying value of Class B Subordinate Shares acquired (note 22(b)) | **–** | (7.2) | – |
| **Balance at end of year** | **$ 1,165.9** | $ 1,272.7 | $ 1,222.5 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars)

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Cash flows related to operations** | | | |
| (Loss) income from continuing operations | $ **(92.9)** | $ 76.6 | $ 111.1 |
| Adjustments for: | | | |
| Amortization of property, plant and equipment | **602.8** | 593.6 | 640.5 |
| Amortization of deferred charges and other assets | **9.1** | 7.2 | 8.7 |
| Impairment of goodwill and intangible assets (note 5) | **180.0** | 287.1 | – |
| Amortization of contract acquisition costs | **33.9** | 32.6 | 34.1 |
| Impairment of assets and non-cash portion of restructuring charges (note 3) | **39.6** | 65.4 | 102.6 |
| Net (gain) loss on derivative instruments and on foreign currency translation on financial instruments | **(12.6)** | 3.5 | 6.1 |
| (Gain) loss on sale of businesses, property, plant and equipment and other assets | **(9.0)** | 2.2 | 3.0 |
| Gain on re-measurement of exchangeable debentures | **(27.7)** | (126.0) | (45.0) |
| Loss on revaluation of the Additional Amount payable (note 16) | **10.5** | 10.1 | 26.9 |
| Loss on debt refinancing (note 4) | **342.6** | 60.0 | 7.4 |
| Repayment of accrued interest on Senior Discount Notes | **(197.3)** | (3.0) | – |
| Amortization of deferred financing costs and long-term debt discount | **11.6** | 66.1 | 61.9 |
| Future income taxes | **(72.1)** | (7.6) | 63.0 |
| Non-controlling interest | **(78.5)** | (79.7) | 165.0 |
| Other | **8.2** | 6.1 | 7.7 |
| | **748.2** | 994.2 | 1,193.0 |
| Net change in non-cash balances related to operations | **(209.5)** | (19.4) | (197.9) |
| Cash flows provided by continuing operations | **538.7** | 974.8 | 995.1 |
| Cash flows (used by) provided by discontinued operations | **–** | (25.3) | 25.1 |
| Cash flows provided by operations | **538.7** | 949.5 | 1,020.2 |
| **Cash flows related to investing activities** | | | |
| Business acquisitions, net of cash and cash equivalents (note 8) | **(10.6)** | (177.2) | (172.5) |
| Proceeds from disposal of businesses, net of cash and cash equivalents (note 7) | **33.4** | 83.3 | (7.8) |
| Additions to property, plant and equipment | **(796.9)** | (794.5) | (362.4) |
| Net decrease in temporary investments | **39.2** | 59.1 | 94.5 |
| Increase in restricted cash, cash equivalents and temporary investments | **(14.1)** | (30.1) | (7.9) |
| Proceeds from disposal of assets | **104.3** | 25.2 | 14.0 |
| Proceeds from disposal of derivative instruments (note 27) | **–** | 85.7 | – |
| Other | **(3.3)** | (4.1) | (4.9) |
| Cash flows used in investing activities | **(648.0)** | (752.6) | (447.0) |
| **Sub-total, balance carried forward** | $ **(109.3)** | $ 196.9 | $ 573.2 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars)

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Sub-total, balance brought forward** | $ (109.3) | $ 196.9 | $ 573.2 |
| **Cash flows related to financing activities** | | | |
| Net increase (decrease) in bank indebtedness | 8.0 | 12.4 | (5.0) |
| Net (repayments) borrowings under revolving bank facilities | (269.1) | (22.3) | 73.0 |
| Issuance of long-term debt, net of financing fees | 2,318.1 | 200.9 | 389.2 |
| Repayments of long-term debt and unwinding of hedging contracts | (1,922.9) | (339.2) | (658.4) |
| Net decrease (increase) in prepayments under cross-currency swap agreements | 21.6 | (34.1) | (184.4) |
| Issuance of capital stock by subsidiaries | 9.1 | 19.9 | 18.6 |
| Dividends | (12.9) | (12.3) | (5.2) |
| Dividends paid to non-controlling shareholders | (81.0) | (83.5) | (73.1) |
| Repurchase of Class B Subordinate Shares (note 22(b)) | – | (9.8) | – |
| Other | (0.9) | (3.4) | 0.6 |
| Cash flows provided by (used in) financing activities | 70.0 | (271.4) | (444.7) |
| Net (decrease) increase in cash and cash equivalents | (39.3) | (74.5) | 128.5 |
| Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies | (22.5) | 25.2 | (75.8) |
| Cash and cash equivalents at beginning of year | 96.5 | 145.8 | 93.1 |
| **Cash and cash equivalents at end of year** | $ 34.7 | $ 96.5 | $ 145.8 |
| **Cash and cash equivalents consist of** | | | |
| Cash | $ 25.9 | $ 23.8 | $ 35.7 |
| Cash equivalents | 8.8 | 72.7 | 110.1 |
| | $ 34.7 | $ 96.5 | $ 145.8 |

**Additional information on the consolidated statements of cash flows**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Changes in non-cash balances related to operations (net of effect of business acquisitions and disposals): | | | |
| Accounts receivable | $ (53.7) | $ (72.1) | $ (67.0) |
| Inventories and investments in televisual products and movies | 3.9 | 13.3 | (22.2) |
| Accounts payable and accrued charges | (40.8) | (9.9) | (84.1) |
| Other | (118.9) | 49.3 | (24.6) |
| | $ (209.5) | $ (19.4) | $ (197.9) |
| Cash interest payments | $ 626.7 | $ 399.5 | $ 405.5 |
| Cash income taxes payments (net of refunds) | 46.8 | 59.3 | 90.3 |

See accompanying notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005
(in millions of Canadian dollars)

| | 2006 | 2005 (revised, note 1) |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 34.7 | $ 96.5 |
| Restricted cash and cash equivalents and temporary investments | 8.0 | 10.9 |
| Temporary investments | 1.4 | 40.6 |
| Accounts receivable (note 11) | 945.9 | 916.0 |
| Income taxes | 58.4 | 12.8 |
| Inventories and investments in televisual products and movies (note 12) | 574.4 | 569.5 |
| Prepaid expenses | 51.8 | 48.7 |
| Future income taxes (note 6) | 113.2 | 138.7 |
| | 1,787.8 | 1,833.7 |
| Property, plant and equipment (note 13) | 4,517.7 | 4,318.0 |
| Future income taxes (note 6) | 70.6 | 57.6 |
| Restricted cash (note 10) | 56.0 | 38.4 |
| Other assets (note 14) | 706.0 | 824.8 |
| Goodwill (note 15) | 6,474.4 | 6,598.4 |
| | $ 13,612.5 | $ 13,670.9 |

# CONSOLIDATED BALANCE SHEETS (continued)

December 31, 2006 and 2005
(in millions of Canadian dollars)

| | 2006 | 2005 (revised, note 1) |
|---|---|---|
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Bank indebtedness | $ 21.6 | $ 13.6 |
| Accounts payable, accrued charges and deferred revenue | 1,871.3 | 1,807.7 |
| Income taxes | 44.5 | 90.2 |
| Dividend payable to non-controlling shareholders | – | 27.2 |
| Future income taxes (note 6) | 1.6 | 2.0 |
| Additional Amount payable (note 16) | 122.0 | 111.5 |
| Current portion of long-term debt (note 17) | 59.0 | 17.6 |
| | 2,120.0 | 2,069.8 |
| Long-term debt (note 17) | 5,209.4 | 4,687.7 |
| Exchangeable debentures (note 18) | 302.8 | 405.4 |
| Convertible notes (note 19) | 137.2 | 134.3 |
| Other liabilities (note 20) | 1,034.6 | 1,090.1 |
| Future income taxes (note 6) | 635.3 | 712.1 |
| Non-controlling interest (note 21) | 2,864.5 | 3,165.6 |
| **Shareholders' equity** | | |
| Capital stock (note 22) | 346.6 | 346.6 |
| Retained earnings | 1,165.9 | 1,272.7 |
| Translation adjustment (note 24) | (203.8) | (213.4) |
| | 1,308.7 | 1,405.9 |
| Commitments and contingencies (note 25) | | |
| Guarantees (note 26) | | |
| | $ 13,612.5 | $ 13,670.9 |

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors,

**Jean Neveu**, Chairman of the Board

**Jean La Couture**, Director

# SEGMENTED INFORMATION

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars)

Quebecor Inc. (the "Company") operates in the following industry segments: Printing, Cable, Newspapers, Broadcasting, Leisure and Entertainment, 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, business solutions, telephony and wireless 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 businesses in Canada. The Leisure and Entertainment segment combines book publishing and distribution, and music production and distribution in Canada and in Europe. The Interactive Technologies and Communications segment offers e-commerce solutions through a combination of strategies, technology integration, IP solutions and creativity on the Internet and is active in Canada, the United States, Europe and Asia. 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 on debt refinancing, (loss) gain on sale of businesses and other assets and impairment of goodwill and intangible assets.

On January 1, 2006, the operations of Videotron Telecom Ltd., previously the Business Telecommunications segment, were folded into the Cable segment. Accordingly, prior period figures in the Company's segmented financial information were reclassified to reflect this change.

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**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Revenues** | | | |
| Printing | $ 6,901.8 | $ 7,602.5 | $ 8,227.5 |
| Cable | 1,309.5 | 1,080.3 | 937.6 |
| Newspapers | 928.2 | 915.6 | 888.1 |
| Broadcasting | 393.3 | 401.4 | 358.0 |
| Leisure and Entertainment | 315.8 | 255.4 | 241.7 |
| Interactive Technologies and Communications | 73.9 | 65.1 | 51.9 |
| Internet/Portals | 64.9 | 50.0 | 34.5 |
| Head Office and inter-segment | (165.3) | (161.8) | (125.9) |
| | $ 9,822.1 | $ 10,208.5 | $ 10,613.4 |

# SEGMENTED INFORMATION (continued)

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars)

**INDUSTRY SEGMENTS (continued)**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **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 on debt refinancing, (loss) gain on sale of businesses and other assets and impairment of goodwill and intangible assets** | | | |
| Printing | $ 626.0 | $ 806.5 | $ 1,031.5 |
| Cable | 512.5 | 413.3 | 363.8 |
| Newspapers | 207.6 | 222.2 | 227.8 |
| Broadcasting | 42.1 | 53.0 | 80.5 |
| Leisure and Entertainment | 19.3 | 27.0 | 22.7 |
| Interactive Technologies and Communications | 7.5 | 3.9 | 2.3 |
| Internet/Portals | 13.3 | 10.5 | 4.5 |
| | 1,428.3 | 1,536.4 | 1,733.1 |
| General corporate (expenses) revenues | (10.5) | 5.7 | (3.2) |
| | $ 1,417.8 | $ 1,542.1 | $ 1,729.9 |

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Amortization** | | | |
| Printing | $ 350.4 | $ 368.9 | $ 422.7 |
| Cable | 198.4 | 179.7 | 177.1 |
| Newspapers | 36.5 | 30.3 | 26.0 |
| Broadcasting | 14.3 | 13.7 | 11.9 |
| Leisure and Entertainment | 7.2 | 4.3 | 5.6 |
| Interactive Technologies and Communications | 2.3 | 1.7 | 1.7 |
| Internet/Portals | 1.1 | 0.8 | 0.7 |
| Head Office | 1.7 | 1.4 | 3.5 |
| | $ 611.9 | $ 600.8 | $ 649.2 |

# SEGMENTED INFORMATION (continued)

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars)

**INDUSTRY SEGMENTS (continued)**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Additions to property, plant and equipment** | | | |
| Printing | $ 355.2 | $ 471.7 | $ 172.8 |
| Cable | 302.6 | 219.9 | 144.5 |
| Newspapers | 116.3 | 74.0 | 18.8 |
| Broadcasting | 9.0 | 12.9 | 10.1 |
| Leisure and Entertainment | 3.4 | 7.9 | 3.3 |
| Interactive Technologies and Communications | 1.8 | 1.4 | 1.2 |
| Internet/Portals | 1.9 | 0.7 | 0.8 |
| Head Office | 6.7 | 6.0 | 10.9 |
| | $ 796.9 | $ 794.5 | $ 362.4 |

| | 2006 | 2005 (revised, note 1) |
|---|---|---|
| **Assets** | | |
| Printing | $ 6,833.2 | $ 6,660.2 |
| Cable | 4,253.5 | 4,251.7 |
| Newspapers | 1,579.2 | 1,503.5 |
| Broadcasting | 408.9 | 585.3 |
| Leisure and Entertainment | 178.0 | 183.1 |
| Interactive Technologies and Communications | 92.8 | 71.0 |
| Internet/Portals | 59.8 | 59.0 |
| Head Office | 207.1 | 357.1 |
| | $ 13,612.5 | $ 13,670.9 |

**GEOGRAPHIC SEGMENTS**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Revenues generated** | | | |
| Canada | $ 3,645.7 | $ 3,366.7 | $ 3,128.7 |
| United States | 4,712.2 | 5,123.5 | 5,534.6 |
| Europe | 1,191.6 | 1,428.7 | 1,701.1 |
| Latin America | 271.4 | 292.4 | 249.7 |
| Other | 1.2 | (2.8) | (0.7) |
| | $ 9,822.1 | $ 10,208.5 | $ 10,613.4 |

# SEGMENTED INFORMATION (continued)

Years ended December 31, 2006, 2005 and 2004
(in millions of Canadian dollars)

**GEOGRAPHIC SEGMENTS (continued)**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **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 on debt refinancing, (loss) gain on sale of businesses and other assets and impairment of goodwill and intangible assets** | | | |
| Canada | $ 897.6 | $ 847.7 | $ 810.5 |
| United States | 475.6 | 593.5 | 751.0 |
| Europe | 40.8 | 76.1 | 156.8 |
| Latin America | 23.6 | 28.4 | 15.6 |
| Other | (9.3) | (9.3) | (0.8) |
| | 1,428.3 | 1,536.4 | 1,733.1 |
| General corporate (expenses) revenues | (10.5) | 5.7 | (3.2) |
| | $ 1,417.8 | $ 1,542.1 | $ 1,729.9 |

| | 2006 | 2005 (revised, note 1) |
|---|---|---|
| **Property, plant and equipment** | | |
| Canada | $ 2,122.5 | $ 1,923.9 |
| United States | 1,622.7 | 1,766.3 |
| Europe | 635.6 | 524.6 |
| Latin America | 129.9 | 97.1 |
| Other | 7.0 | 6.1 |
| | 4,517.7 | 4,318.0 |
| **Goodwill** | | |
| Canada | 3,787.0 | 3,946.6 |
| United States | 2,481.9 | 2,474.8 |
| Europe | 193.2 | 167.6 |
| Latin America | 10.0 | 9.4 |
| Other | 2.3 | – |
| | 6,474.4 | 6,598.4 |
| **Other assets** | | |
| Canada | 1,401.3 | 1,772.3 |
| United States | 679.6 | 488.0 |
| Europe | 264.1 | 247.1 |
| Latin America | 167.1 | 162.4 |
| Other | 108.3 | 84.7 |
| | 2,620.4 | 2,754.5 |
| | $ 13,612.5 | $ 13,670.9 |

Quebecor Inc. is incorporated under the laws of Québec.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Change in accounting policy – Evaluation of misstatements policy**

The Company changed retroactively its accounting policy relating to the quantification and evaluation of misstatements in its financial statements in accordance with Section 1506, *Accounting Changes* of the *CICA Handbook*. The Company applied a methodology consistent with the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). The Company will now quantify the effect of prior-year misstatements on the current-year financial statements, assessing their impact on both the financial position and results of operations of the Company and evaluating the materiality of misstatements quantified on the above in light of quantitative and qualitative factors. Accordingly, the Company adjusted its consolidated balance sheet as at December 31, 2005 and adjusted its opening retained earnings in 2004 in the consolidated statements of retained earnings by $12.8 million. There was no impact on the consolidated statements of income and cash flows nor on the earnings per share for the years ended December 31, 2006, 2005 and 2004. The adjustment related to misstatements arose in prior years to 2002. The restatement is comprised of (i) a reduction of $9.8 million to work in progress of the Printing segment to consistently apply the revenue recognition policy throughout the platforms for work not completed at year-end, (ii) an increase of other liabilities by $19.8 million resulting from the assessment of the sales process by the Printing segment management, and (iii) an increase of non-controlling interest by $27.6 million, a decrease of translation adjustment by $33.0 million and a decrease of future income tax liability by $11.3 million, which reflect the impact of the review of the non-controlling interest in translation adjustment, an adjustment of an overstatement in future income tax liability and the impact of (i) and (ii) above on income taxes and non-controlling interest.

**Accounting policies**

**(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 2005 and 2004 have been reclassified to conform to the presentation adopted for the year ended December 31, 2006.

**(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 accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the determination of pension and post-retirements benefits costs, 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 those assets, the determination of the fair value of assets acquired and liabilities assumed in business combinations, implied fair value of goodwill, fair value of long-lived assets, broadcasting licences and goodwill for impairment test purposes, 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 long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss is recognized when the carrying amount of a group of assets held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. Measurement of an impairment loss is based on the amount by which the group of assets carrying amount exceeds its fair value. Fair value is determined using quoted market prices, when available, or using accepted valuation techniques such as the discounted future cash flows method.

**(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.

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

**Accounting policies (continued)**

**(e) Revenue recognition (continued)**

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, retail, catalog, book and directory platforms.

Services are sold either stand-alone or together as a multiple deliverable arrangements. Certain deliverables 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 deliverables include premedia services, printing and related services, and delivery. For arrangements which include multiple deliverables and for which the criteria for recognition as a multiple deliverable arrangements are met, the total contract value is allocated to each element based on its relative fair values. Where the criteria are not met, it is recognized as a single unit.

Contract revenue is recognized using the proportional performance method on the basis of output at the pro rata billing value of work completed. Contract revenues that do not meet the criteria for proportional performance method are recorded when the performance of the agreed services is achieved. The Printing segment also performs logistics and distribution services for the delivery of products related to print services for which the revenues are recognized once freight services are performed.

Revenue is presented in the consolidated statements of income net of rebates, discounts, and amortization of contract acquisition costs. Provisions for estimated losses, if any, are recognized in the period in which the loss is determinable.

*Cable segment*

The Cable segment provides services under arrangements with multiple deliverables, which are comprised of two separate accounting units: one for subscriber services (cable connecting fees and operating services) and the other for equipment sales to subscribers including activation fees related to wireless phones.

Cable 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 cable 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 access, telephony and wireless, are recognized when services are rendered. Revenue from equipment sales to subscribers and their 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 the offer. Operating revenues related to service contracts are recognized in income over the life of the specific contracts on a straight-line basis over the period in which the services are provided.

*Newspapers segment*

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

*Broadcasting segment*

Revenues of the Broadcasting segment derived from the sale of advertising airtime are recognized when the advertisement has been broadcast. Revenues derived from subscription to speciality television channels are recognized on a monthly basis at the time service is rendered. Revenues derived from circulation and advertising from publishing activities are recognized when publication is delivered.

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, broadcasting 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 are based on a percentage of revenues generated by movie theatres. Revenues generated from the sale of 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.

*Leisure and Entertainment segment*

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

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

**Accounting policies (continued)**

**(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, 2006, the Company recorded $19.5 million of barter advertising ($17.7 million in 2005 and $13.1 million in 2004).

**(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. As at December 31, 2006, these highly liquid investments consisted mainly of commercial paper and bankers' acceptance.

**(h) Temporary investments**

Temporary investments are recorded at the lower of cost and market value and as at December 31, 2006, these temporary investments consisted mainly of commercial paper.

**(i) Trade receivables**

Transfers of trade receivables under asset securitization programs are recognized as sales when the Company is deemed to have surrendered control over the 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 sum of total 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 gains or 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 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 a reduction of expenses. 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.

Work in progress of the Printing segment is measured at the prorata billing value for work completed as a result of print services for which revenues have been recognized under the proportional performance method. When the criteria have not been met to allow for recognition of revenue, related work in progress is measured as direct costs are incurred.

**(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.

(ii) Broadcast rights

Broadcast rights are essentially contractual rights allowing limited or unlimited broadcast of televisual products or movies. The Broadcasting segment records the broadcast rights acquired as an asset and the obligations incurred under a licence agreement as a liability 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.

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

**Accounting policies (continued)**

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

(ii) Broadcast rights (continued)

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 when televisual products and movies are broadcast 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 included in the licence.

(iii) Distribution rights

Distribution rights relate to the distribution of televisual products and movies. The costs include costs for movie distribution rights and other operating costs incurred, which 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 and 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.

Amounts paid for distribution rights before all of the above conditions are met are recorded as prepaid distribution rights. Distribution rights are amortized using the individual film forecast computation method 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 established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

**(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 accounted 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 costs and interest incurred with respect to the property, plant and equipment until they are ready for commercial production. In the case of projects to construct 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 expensed as incurred.

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

| Assets | 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.

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

**Accounting policies (continued)**

**(o) Property, plant and equipment (continued)**

Legal obligations associated with site restoration costs on the retirement of property are recognized in the period in which they are incurred. The obligations are initially measured at fair value and an equal amount is recorded to plant, property and equipment. Over time, the discounted asset retirement obligations accrete due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to income. The initial costs are depreciated over the useful life of the related property or the remaining leasehold engagement when applicable.

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

Intangible assets acquired that have an indefinite useful life, such as broadcasting licences, 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, free services 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 are 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, 2006.

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 redemption, or at maturity of the exchangeable debentures, or when a realized gain or loss, or an unrealized loss on the underlying shares is recorded.

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

Accounting policies (continued)

**(s) Exchangeable debentures (continued)**

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.

An increase of $1.00 per share in the market value of Quebecor World Inc. triggers 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. triggers 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 option awards between the grant date and the measurement date result in a change in the measurement of the liability and compensation cost. Other stock option 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 contributed surplus. 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 contributed surplus.

In the case of the employee share purchase plans of Quebecor World Inc., the contribution paid by the subsidiary on behalf of its employees is considered a compensation expense. The contribution paid by employees for the purchase of shares is recorded as an increase to the subsidiary's capital stock.

The deferred stock unit ("DSU") plans 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 share's trading price of the Company and its subsidiaries.

In the case of the deferred performance share units ("DPSU") plan of Quebecor World Inc., the subsidiary's matching contribution of 20.0% is recognized in compensation expense over the three year period during which it is earned, with a corresponding increase to the subsidiary's contributed surplus.

**(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. Under hedge accounting, the Company documents all hedging 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 relationship 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, as well as inventories and equipment purchases. Under hedge accounting, foreign exchange gains and losses are recognized as an adjustment to revenues, financial expenses and cost of property, plant and equipment, as the case may be, when the transaction is recorded.

The Company entered into foreign exchange forward contracts to hedge its net investments in foreign subsidiaries. Under hedge accounting, foreign exchange translation gains and losses were recorded under translation adjustment. Any realized or unrealized gain or loss on such derivative instruments was 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 deferred and recorded as derivative instruments 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 related to those assets and changes in the fair values of the derivative instruments are recorded in financial expenses.

The Company enters into interest rate swaps 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 payments made or received under interest rate swaps.

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

Accounting policies (continued)

**(u) Derivative financial and commodity instruments (continued)**

The Company has entered into a commodity swaps to manage a portion of its natural gas exposure. The Company designates a portion of its commodity swap agreements as hedges of its natural gas cost, under which the Company is committed to exchange, on a monthly basis, the difference between a fixed price and a floating indexed natural gas price.

Some of the Company's cross-currency swaps agreements repurchased in 2006 were subject to a floor limit on negative fair market value, below which the Company was required to make prepayments to reduce the lenders' exposure. Such prepayments were reimbursed by reductions in the Company's future payments under the agreements. The portion of these reimbursements related to interest was accounted for as a reduction in financial expenses. The prepayments were presented on the balance sheet as a reduction of the derivative instrument liability.

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 mark-to-market basis in the consolidated financial statements. Any change in the fair value of these 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 prorated 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 10.0% of the greater of the accrued 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.

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

The Company uses the fair value of plan assets as 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 cost of postretirement benefits is determined using actuarial methods and the related benefits are funded by the Company as they become due. The Company amortizes the cumulative unrecognized net actuarial gains and losses in excess of 10.0% 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

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| Interest on long-term debt, exchangeable debentures and convertible notes | $ | 418.7 | $ | 391.9 | $ | 423.7 |
| Amortization of deferred financing costs and long-term debt discount | | 11.6 | | 66.1 | | 61.9 |
| Net (gain) loss on derivative instruments and on foreign currency translation on financial instruments[1] | | (12.6) | | 3.5 | | 6.1 |
| Loss on revaluation of the Additional Amount payable | | 10.5 | | 10.1 | | 26.9 |
| Interest on bank indebtedness and other | | 12.6 | | 9.5 | | 13.1 |
| Investment income | | (4.2) | | (7.7) | | (9.1) |
| | | 436.6 | | 473.4 | | 522.6 |
| Interest capitalized to the cost of property, plant and equipment | | (28.1) | | (10.1) | | (1.9) |
| | $ | 408.5 | $ | 463.3 | $ | 520.7 |

[1] During the year ended December 31, 2006, the Company recorded a loss of $41.0 million on derivative instruments for which hedge accounting is not used (gain of $48.4 million in 2005 and loss of $67.6 million in 2004).

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

The following table details the reserve for restructuring, impairment of assets and other special charges:

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| Restructuring and other special charges | $ | 106.3 | $ | 48.2 | $ | 49.1 |
| Impairment of assets | | 37.4 | | 65.2 | | 91.0 |
| Pension settlement and curtailment | | 2.2 | | 0.2 | | 11.6 |
| | $ | 145.9 | $ | 113.6 | $ | 151.7 |

### (a) Printing segment

(i) Restructuring initiatives

2006

In 2006, restructuring initiatives were related to the closure or downsizing of various facilities mainly in North America and Europe. Quebecor World Inc. approved the closure of a facility in Québec, the closure of a printing and binding facilities in Illinois both in the Catalog group, the closure of the Kingsport (Tennessee) facility in the Book group, the closure of the Red Bank (Ohio) and the Brookfield (Wisconsin) facilities in the Magazine group, the closure of the Strasbourg facility and employee terminations at the Lille facility in France. There were also various headcount reductions across the organization. The total expected cost amounted to $87.7 million of which $64.2 million was related to work-force reduction and $23.5 million was for leases and carrying costs for closed facilities. The completion of these initiatives is expected by the end of 2007.

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

**(a) Printing segment (continued)**

(i) Restructuring initiatives (continued)

2005

In 2005, the restructuring initiatives were related to the downsizing of operations in Helio Corbeil, (France), the two phases of the downsizing operations in Corby (United Kingdom), the closure of a Canadian facility and other work-force reductions across the organization. Management expected those initiatives to be completed by the end of 2007 and supplemental costs of $4.4 million to be incurred in 2007 for leases and closed facilities mainly in Europe.

2004

The 2004 restructuring initiatives were related to the closure of the Stockholm (Sweden) facility, the closure of the Effingham (Illinois) facility in the Magazine group, an important downsizing at the Kingsport (Tennessee) facility in the Book group as well as the consolidation of various smaller facilities in North America and in Europe and other work-force reductions across the organization. No further charges are expected from these initiatives.

(ii) Impairment of assets

In 2006, 2005 and 2004, Quebecor World Inc. performed impairment tests on specific units, and concluded that some assets were impaired. Accordingly, Quebecor World Inc. recorded impairment and accelerated depreciation mainly on machinery and equipment related to facilities included in the restructuring initiatives.

(iii) Pension settlement and curtailment

In 2006, 2005 and 2004, Quebecor World Inc. recorded pension settlement or curtailment loss as part of the restructuring initiatives related to work-force reduction.

**Continuity of reserve for restructuring and other special charges**

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| Balance at beginning of year | $ | 32.4 | $ | 42.3 | $ | 59.9 |
| Current year initiatives expenses: | | | | | | |
| Work-force reduction | | 57.9 | | 26.3 | | 43.2 |
| Leases and carrying costs for closed facilities | | 14.7 | | 6.3 | | 5.8 |
| | | 72.6 | | 32.6 | | 49.0 |
| Prior year initiatives expenses: | | | | | | |
| Work-force reduction | | 8.9 | | 5.8 | | 8.6 |
| Leases and carrying costs for closed facilities | | 7.9 | | 14.7 | | – |
| | | 16.8 | | 20.5 | | 8.6 |
| Prior year under spending: | | | | | | |
| Work-force reduction | | (1.5) | | (3.5) | | (10.5) |
| Leases and carrying costs for closed facilities | | (0.5) | | (1.2) | | – |
| | | (2.0) | | (4.7) | | (10.5) |
| Payments: | | | | | | |
| Work-force reduction | | (38.0) | | (35.0) | | (62.0) |
| Leases and carrying costs for closed facilities | | (27.8) | | (19.8) | | – |
| | | (65.8) | | (54.8) | | (62.0) |
| Foreign currency changes | | 0.7 | | (3.5) | | (2.7) |
| **Balance at end of year** | $ | 54.7 | $ | 32.4 | $ | 42.3 |

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

### (b) Newspapers segment

In August 2005, Quebecor Media Inc. announced a plan to invest in two new printing facilities located in Toronto (Ontario) and in Saint-Janvier-de-Mirabel (Québec). As part of the plan, Sun Media Corporation will outsource the printing of certain of its publications in Ontario and Québec to the new facilities. In 2006, a charge for contractual termination benefits of $11.0 million was recorded in connection with the elimination of production positions at *The London Free Press*, *The Toronto Sun* and at *The Ottawa Sun*, and inserters' positions at *Le Journal de Montréal*, in relation to these projects.

In June 2006, the Newspapers segment announced a plan to restructure its news production operations by introducing new content management technologies and streamlining the news gathering process. The Newspapers segment expects the restructuring to be completed by early 2007. In 2006, the Newspapers segment recorded severance costs of $2.8 million relating to the elimination of editorial positions in operations across the organization.

Finally, in 2006, Sun Media Corporation implemented a voluntary work-force reduction program at *The London Free Press* and several smaller involuntary work-force reduction programs, namely at *The Toronto Sun* and Bowes Publishers. The Newspapers segment has recorded termination benefits of $3.2 million relating to these work-force reduction initiatives.

**Continuity of reserve for restructuring and other special charges**

| | | 2006 |
|---|---|---|
| Balance at beginning of year | $ | – |
| Work-force reduction initiatives | | 17.0 |
| Payments | | (4.3) |
| **Balance at end of year** | **$** | **12.7** |

### (c) Other segments

In 2006, other segments recorded restructuring costs of $1.9 million mainly related to the elimination of management positions in the Broadcasting segment.

In 2005, the Broadcasting segment recorded a net reversal of $0.2 million related to restructuring initiatives of prior years.

In 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 Cable segment for the settlement of a litigation related to the 2001 operations restructuring programs were recorded.

## 4. LOSS ON DEBT REFINANCING

### (a) Quebecor World Inc.

In February 2004, Quebecor World Inc. redeemed the remainder of the 7.75% Senior Notes that were not tendered in 2003, for a total cash consideration of US$32.5 million, resulting in a loss of $2.6 million.

### (b) Quebecor Media Inc.

On January 17, 2006, Quebecor Media Inc. recorded a loss of $331.6 million as a result of the refinancing of substantially all of its 11.125% Senior Notes and 13.75% Senior Discount Notes. The loss represents the excess of the consideration paid of $1.3 billion, including premiums and disbursements for unwinding hedging contracts, over the book value of the notes and the hedging contracts, and the write-off of deferred financing costs. The refinancing transactions carried out were as follows:

- Quebecor Media Inc. issued new 7.75% Senior Notes of US$525.0 million in aggregate principal amount (note 17(xvi)).
- Quebecor Media Inc. entered into new credit facilities comprised of (i) a five-year $125.0 million term loan "A" credit facility, (ii) a seven-year US$350.0 million term loan "B" credit facility and (iii) a new $100.0 million five-year revolving credit facility (note 17(xiv)).
- Videotron Ltd. borrowed $237.0 million under its existing revolving credit facility and Sun Media Corporation amended its existing credit facilities to borrow $40.0 million under a new term loan "C" maturing in 2009 (note 17(xxii)).

**4. LOSS ON DEBT REFINANCING (continued)**

**(b) Quebecor Media Inc. (continued)**

- The proceeds from new Senior Notes, the full amount of new term loans "A" and "B", the Videotron Ltd. drawing from its existing revolving credit facility and Sun Media Corporation's new term loan "C" were used to repurchase US$561.6 million in aggregate principal amount of the Company's 11.125% Senior Notes and US$275.6 million in aggregate principal amount at maturity of Quebecor Media Inc.'s 13.75% Senior Discount Notes. Total consideration offered per US$1,000.00 principal amount of Senior Notes was US$1,083.49 and total consideration per US$1,000.00 principal amount at maturity of Senior Discount Notes was US$1,042.64, which included an early tender premium of US$30.00 per US$1,000.00 of principal, or principal amount at maturity in the case of the Discount Notes.

On July 15, 2006, Quebecor Media Inc. repurchased the remaining balances of its 11.125% Senior Notes and 13.75% Senior Discount Notes for a total cash consideration of $39.3 million. The repurchase resulted in a loss of $10.5 million.

On July 19, 2005, as a result of the repurchase of a first portion of its 11.125% Senior Notes and its 13.75% Discount Notes, Quebecor Media Inc. recorded a loss of $60.8 million, comprised of the excess of the consideration paid of $215.3 million, including premiums and disbursements for unwinding hedging contracts, over the carrying value of the notes and of the hedging contracts, and the write-off of related 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. The total consideration was a fixed price of US$1,112.50 per US$1,000.00 principal amount for each Senior Note and a fixed price of US$1,007.50 per US$1,000.00 principal amount at maturity for each Discount Note, which includes an early tender premium in the amount of US$30.00 per US$1,000.00 of principal, or principal amount at maturity in the case of the Discount Notes.

**(c) Videotron Ltd.**

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

On November 19, 2004, the net proceeds from the issuance of a second series of the 6.875% Senior Notes (note 17(xx)) were used to repay in full Videotron Ltd.'s term loan credit facility "C" in place as of 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 on the marked-to-market of a derivative instrument and the write-off of $0.2 million in deferred financing costs.

**(d) Sun Media Corporation**

On December 29, 2006, Sun Media Corporation made a partial repayment of US$15.0 million on its term loan "B" credit facility (note 17(xxii)) and settled a corresponding portion of its hedging contracts. As a result, a loss of $0.5 million was recorded.

**5. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS**

**(a) Printing segment**

During the fourth quarter of 2005, Quebecor World Inc. completed its annual goodwill impairment test. Quebecor World Inc.'s European reporting unit had 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 impaired and an impairment charge of $287.1 million was taken.

**(b) Broadcasting segment**

During the fourth quarter of 2006, Quebecor Media Inc. completed its annual impairment test for its broadcasting licences and goodwill. Based on the results, the subsidiary concluded that the carrying values of the broadcasting licences and goodwill of its Broadcasting segment were impaired. Conventional television broadcasters are experiencing pressures on their advertising revenues caused by the fragmentation of the television market. Accordingly, Quebecor Media Inc. reviewed its business plan and recorded a total impairment charge of $179.2 million: $30.8 million for one of its broadcasting licences and $148.4 million for the goodwill.

In addition, during the third quarter of 2006, the Broadcasting segment recorded an impairment charge of $0.8 million related to an operating licence co-owned with another entity.

## 6. INCOME TAXES

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Domestic | $ (364.2) | $ 275.3 | $ 169.1 |
| Foreign | 120.5 | (137.1) | 286.1 |
| | $ (243.7) | $ 138.2 | $ 455.2 |

Total income tax expenses (credit) were allocated as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Continuing operations | $ (111.1) | $ 92.7 | $ 130.4 |
| Discontinued operations | (1.4) | (1.1) | 2.6 |
| Dividends on preferred shares of subsidiaries | 3.4 | 4.8 | 4.9 |
| | $ (109.1) | $ 96.4 | $ 137.9 |

Income tax expense (credit) attributable to income consists of:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Current: | | | |
| Domestic | $ 7.3 | $ 40.5 | $ 22.3 |
| Foreign | (46.3) | 59.8 | 45.1 |
| | (39.0) | 100.3 | 67.4 |
| Future: | | | |
| Domestic | (113.5) | 7.6 | 14.9 |
| Foreign | 41.4 | (15.2) | 48.1 |
| | (72.1) | (7.6) | 63.0 |
| | $ (111.1) | $ 92.7 | $ 130.4 |

**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 (loss) income:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Domestic statutory tax rate | **32.0 %** | 31.0 % | 31.0 % |
| Increase (reduction) resulting from: | | | |
| Effect of provincial and foreign tax rate differences | **29.0** | (35.4) | (7.7) |
| Effect of non-deductible charges, non-taxable income and tax rate variations | **7.0** | (12.0) | 1.1 |
| Change in valuation allowance | **(15.1)** | 30.3 | 5.3 |
| Change in future income tax balances due to a change in enacted tax rates | **8.5** | 8.6 | (0.5) |
| Tax consolidation transaction with a subsidiary | **–** | (21.0) | – |
| Large corporation and American State taxes | **(0.3)** | 3.7 | 1.1 |
| Impairment of goodwill | **(19.4)** | 56.2 | – |
| Other | **3.9** | 5.7 | (1.7) |
| **Effective tax rate** | **45.6 %** | 67.1 % | 28.6 % |

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

| | 2006 | 2005 (revised, note 1) |
|---|---|---|
| Loss and tax credit carryforwards | **$ 764.6** | $ 711.7 |
| Accounts payable, accrued charges and deferred revenue | **104.8** | 95.2 |
| Property, plant and equipment | **(668.4)** | (676.5) |
| Goodwill and other assets | **(107.0)** | (101.9) |
| Inventories | **(32.5)** | (36.1) |
| Long-term investments | **(30.1)** | (72.9) |
| Pension plan liability, postretirement and workers' compensation benefits | **(4.4)** | 39.3 |
| Other | **(12.4)** | (8.9) |
| | **14.6** | (50.1) |
| Valuation allowance | **(467.7)** | (467.7) |
| **Net future income tax liabilities** | **$ (453.1)** | $ (517.8) |

## 6. INCOME TAXES (continued)

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

| | | 2006 | | 2005 |
|---|---|---|---|---|
| | | | | (revised, note 1) |
| Future income tax assets: | | | | |
| Current | $ | 113.2 | $ | 138.7 |
| Long-term | | 70.6 | | 57.6 |
| | | 183.8 | | 196.3 |
| Future income tax liabilities: | | | | |
| Current | | (1.6) | | (2.0) |
| Long-term | | (635.3) | | (712.1) |
| | | (636.9) | | (714.1) |
| **Net future income tax liabilities** | $ | (453.1) | $ | (517.8) |

Subsequent recognition of tax benefits relating to the valuation allowance as at December 31, 2006 will be allocated as a reduction of goodwill in an amount of $31.0 million, while the remaining balance will be reported in the consolidated statement of income.

As at December 31, 2006, the Company had loss carryforwards for income tax purposes available to reduce future taxable income, including $849.3 million that will expire between 2007 and 2026, and $1,582.8 million that can be carried forward indefinitely. Of the latter amount, $665.7 million represent capital losses to be applied against future capital gains. The Company also has net State operating losses and State tax credits of $61.7 million in the United States, which expire between 2007 and 2026. Limitations on the utilization of these tax assets may apply and the Company has accordingly recorded a valuation allowance in the amount of $39.3 million. Finally, an amount of $327.8 million, included in the net operating loss carryforwards, is subject to recapture should a reevaluation occur on the investment in Europe.

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 18), 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 AND BUSINESS DISPOSALS

Discontinued operations

In 2005, Quebecor World Inc., Printing segment, completed the disposal of its North American non-core Commercial Printing Group, which provided general, financial, packaging and commercial specialty printing services. The following transactions were concluded:

- 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, which was fully paid in 2006, and has retained certain operating leases expiring until 2007.
- 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, which was received in full in March 2006. In 2005, as a result of this transaction, Quebecor World Inc. realized a loss amounting to $1.0 million (net of income tax and non-controlling interest). In 2006, as a result of an adjustment to the selling price based on the November 2005 closing working capital, Quebecor World Inc. paid $1.5 million.
- In November and December 2005, Quebecor World Inc. sold its interest in all its non-core Commercial Printing Group subsidiaries in Canada, for a cash consideration of $40.6 million and an amount of $19.8 million which was received in full in January 2006. In 2005, as a result of this transaction, Quebecor World Inc. realized a loss of $3.0 million (net of income tax and non-controlling interest). In 2006, as a result of an adjustment to the selling price based on the November 2005 closing working capital, Quebecor World Inc. paid $2.8 million.

**7. DISCONTINUED OPERATIONS AND BUSINESS DISPOSALS (continued)**

Discontinued operations (continued)

An additional loss of $1.0 million (net of income tax and non-controlling interest) was recorded in 2006 related to the previous transactions, resulting from adjustments to the selling prices.

On May 25, 2004, 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) in 2004.

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 table provides additional financial information related to the operations of the above discontinued operations for the years ended December 31, 2005 and 2004.

**Combined and consolidated statements of income**

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

Business disposals

In 2006 and 2005, the Company sold assets of certain businesses for cash considerations totalling $8.0 million and $0.8 million, resulting in a loss on disposal of $0.9 million and $5.1 million, respectively.

**8. BUSINESS ACQUISITIONS**

During the years ended December 31, 2006, 2005 and 2004, the Company acquired or increased its interest in several businesses and has accounted for these by the purchase method. Certain purchase price allocations related to the 2006 acquisitions 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 the dates of their respective acquisitions.

2006

- Several businesses, mainly in the Interactive Technologies and Communications segment, were acquired for a total consideration of $14.1 million, including $12.7 million in cash and $1.4 million in Common Shares of a subsidiary, resulting in additional goodwill of $7.6 million.

**8. BUSINESS ACQUISITIONS (continued)**

2005

- A total of 2,438,500 Subordinate Voting Shares of Quebecor World Inc., Printing segment, 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 preliminary additional goodwill of $22.3 million, which was reduced by $7.3 million in 2006 when the purchase price allocation was finalized.
- 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 a preliminary additional goodwill of $7.8 million, which was reduced by $2.9 million in 2006 when the purchase price allocation was finalized.
- 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

- 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 75.0% 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 25.0% interest in Sun TV. The balance payable of $3.6 million with respect to the final purchase price adjustment was paid in January 2007. The transfer of Sun Media Corporation's interest in CablePulse24 to CHUM Limited resulted in a gain on disposal of $8.0 million. The acquisition resulted in goodwill of $10.7 million.
- Other businesses were acquired for cash considerations totalling $19.5 million, resulting in additional goodwill of $13.5 million.

**8. BUSINESS ACQUISITIONS (continued)**

Business acquisitions are summarized as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Assets acquired** | | | |
| Cash and cash equivalents | $ 2.1 | $ – | $ 2.2 |
| Non-cash current operating assets | 2.5 | 13.0 | 11.4 |
| Property, plant and equipment | 0.3 | 7.3 | 29.5 |
| Other assets | 4.4 | 23.9 | 33.0 |
| Future income taxes | – | – | 20.3 |
| Goodwill | 7.6 | 24.4 | 59.5 |
| Non-controlling interest | 1.2 | 123.3 | 58.8 |
| | 18.1 | 191.9 | 214.7 |
| **Liabilities assumed** | | | |
| Bank indebtedness | – | (0.4) | – |
| Non-cash current operating liabilities | (3.1) | (3.0) | (16.1) |
| Future income taxes | (0.9) | (6.6) | (11.1) |
| Other liabilities | – | – | (4.8) |
| | (4.0) | (10.0) | (32.0) |
| **Net assets acquired at fair value** | $ 14.1 | $ 181.9 | $ 182.7 |
| **Consideration** | | | |
| Cash | $ 12.7 | $ 177.2 | $ 174.7 |
| Issuance of Common Shares of Nurun Inc. | 1.4 | – | – |
| Balance payable | – | 3.6 | – |
| Community newspaper (*Beauport Express*) | – | 1.1 | – |
| Investment in CablePulse24 | – | – | 8.0 |
| | 14.1 | 181.9 | 182.7 |

## 9. EARNINGS PER SHARE

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

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

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| (Loss) income from continuing operations | $ | (92.9) | $ | 76.6 | $ | 111.1 |
| Impact of assumed conversion of convertible notes, Additional Amount payable and stock options, net of applicable income taxes | | – | | (0.5) | | (0.4) |
| **(Loss) income from continuing operations, adjusted for dilution effect** | $ | (92.9) | $ | 76.1 | $ | 110.7 |
| Net (loss) income | $ | (93.9) | $ | 69.7 | $ | 112.2 |
| Impact of assumed conversion of convertible notes, Additional Amount payable and stock options, net of applicable income taxes | | – | | (0.5) | | (0.4) |
| **Net (loss) income, adjusted for dilution effect** | $ | (93.9) | $ | 69.2 | $ | 111.8 |
| Weighted average number of shares outstanding (in millions) | | 64.3 | | 64.5 | | 64.6 |
| Effect of dilutive stock options (in millions) | | – | | 0.1 | | 0.1 |
| **Weighted average number of diluted shares outstanding (in millions)** | | 64.3 | | 64.6 | | 64.7 |

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of the exchangeable debentures Series 2001 (note 18(i)) and of certain options of the Company and its subsidiaries, since their impact is non-dilutive. The number of the Company's excluded options for the diluted earnings per share calculation was 1,207,349, 1,432,349 and 1,347,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

## 10. RESTRICTED CASH

As at December 31, 2006, Quebecor World Inc.'s captive insurance subsidiary had pledged $56.0 million ($38.4 million as at December 31, 2005) of cash as collateral for a standby letter of credit issued to a third party for future estimated claims relating to the U.S. Workers' Compensation. The standby letter of credit is renewable annually and accordingly, the pledge agreement is also renewed annually. Therefore, the cash is intended for future use and is presented as a long-term asset in the consolidated balance sheet.

## 11. ACCOUNTS RECEIVABLE

| | | 2006 | | 2005 |
|---|---|---|---|---|
| Trade | $ | 857.5 | $ | 785.7 |
| Other | | 88.4 | | 130.3 |
| | $ | 945.9 | $ | 916.0 |

## 11. ACCOUNTS RECEIVABLE (continued)

Asset securitization

In 2006, Quebecor World Inc. amended its 1999 U.S. securitization program (the "U.S. Program") agreement, which reduced the program limit and extended the availability of the program for a three-year period through August 28, 2009. This agreement has allowed Quebecor World Inc. to sell, with limited recourse, a portion of its U.S. trade receivables on a revolving basis. The U.S. Program limit is US$408.0 million (US$459.0 million during peak season). As at December 31, 2006, the amount outstanding under the U.S. Program was US$374.0 million (US$467.0 million as at December 31, 2005). Consistent with its U.S. securitization agreement, Quebecor World Inc. sells all of its U.S. receivables to a wholly-owned subsidiary, Quebecor World Finance Inc., through a true-sale transaction.

In 2006, Quebecor World Inc. sold, 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, 2006, the amount outstanding under the Canadian Program was $89.0 million ($100.0 million as at December 31, 2005).

In 2006, Quebecor World Inc. amended its 2001 European securitization program (the "European Program") and extended the availability of the program until May 29, 2009. The European Program has allowed Quebecor World Inc. to sell, with limited recourse, a portion of its trade receivables from its Spanish and French facilities on a revolving basis. The European Program limit is €153.0 million. As at December 31, 2006, the amount outstanding under the European Program was €97.9 million (€118.0 million as at December 31, 2005).

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.

At December 31, 2006, an aggregate amount of $935.2 million ($960.3 million as at December 31, 2005) of trade receivables has been sold under the three programs, of which $260.0 million ($154.4 million as at December 31, 2005) were kept by Quebecor World Inc. as a retained interest, resulting in a net aggregate consideration of $675.2 million ($805.9 million as at December 31, 2005) on the sale. The retained interest is recorded in Quebecor World Inc.'s trade receivables, and its fair market value approximates its cost, given the short-term nature of the collection period of the trade receivables 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 on Quebecor World Inc.'s other assets for failure of debtors to pay when due, other than the retained interest of Quebecor World Inc.

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

In 2006, proceeds from revolving sales between the securitization trusts and Quebecor World Inc. totalled $4.9 billion ($5.9 billion in 2005).

## 12. INVENTORIES AND INVESTMENTS IN TELEVISUAL PRODUCTS AND MOVIES

| | **2006** | 2005 (revised, note 1) |
|---|---|---|
| Raw materials and supplies | **$ 314.8** | $ 310.5 |
| Work in progress | **155.5** | 144.8 |
| Finished goods | **64.1** | 69.1 |
| Investments in televisual products and movies | **40.0** | 45.1 |
| | **$ 574.4** | $ 569.5 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | | | | | | 2006 |
|---|---|---|---|---|---|---|
| | | Cost | | Accumulated amortization | | Net amount |
| Land | $ | 131.2 | $ | – | $ | 131.2 |
| Buildings and leasehold improvements | | 1,157.0 | | 373.3 | | 783.7 |
| Machinery and equipment | | 5,213.2 | | 3,297.6 | | 1,915.6 |
| Receiving, distribution and telecommunication networks | | 1,952.2 | | 756.9 | | 1,195.3 |
| Projects under development | | 491.9 | | – | | 491.9 |
| | $ | 8,945.5 | $ | 4,427.8 | $ | 4,517.7 |

| | | | | | | 2005 |
|---|---|---|---|---|---|---|
| | | Cost | | Accumulated amortization | | Net amount |
| Land | $ | 139.9 | $ | – | $ | 139.9 |
| Buildings and leasehold improvements | | 1,125.4 | | 337.3 | | 788.1 |
| Machinery and equipment | | 4,954.0 | | 2,983.0 | | 1,971.0 |
| Receiving, distribution and telecommunication networks | | 1,648.3 | | 604.6 | | 1,043.7 |
| Projects under development | | 375.3 | | – | | 375.3 |
| | $ | 8,242.9 | $ | 3,924.9 | $ | 4,318.0 |

As at December 31, 2006, the cost of property, plant and equipment and the corresponding accumulated amortization balance included amounts of $71.0 million ($177.0 million as at December 31, 2005) and $38.7 million ($81.5 million as at December 31, 2005), respectively, for assets held under capital leases, mainly machinery and equipment. Amortization expenses for property, plant and equipment held under capital leases amounted to $3.9 million in 2006, $6.5 million in 2005 and $9.1 million in 2004.

On December 19, 2006, Quebecor World Inc., Printing segment, concluded an agreement with various financial institutions for the sale and leaseback of machinery and equipment currently being installed in several facilities in North America. The transaction is considered to be a sale of assets with proceeds of $56.0 million and fees of $1.7 million. The subsequent transaction consists of operating leases over lease terms up to seven years. The disposal of these assets generated a negligible loss.

## 14. OTHER ASSETS

| | | 2006 | | 2005 |
|---|---|---|---|---|
| Portfolio investment held in a publicly traded company[1] | $ | 173.5 | $ | 318.0 |
| Deferred pension charge | | 112.9 | | 88.1 |
| Broadcasting licenses | | 84.2 | | 109.3 |
| Contract acquisition costs, net of accumulated amortization | | 88.8 | | 87.4 |
| Deferred financing costs, net of accumulated amortization | | 83.3 | | 72.2 |
| Customer relationships and non-competition agreements, net of accumulated amortization | | 30.7 | | 25.8 |
| Investments in televisual products and movies | | 29.4 | | 28.0 |
| Derivative instruments | | 19.0 | | 25.4 |
| Other | | 84.2 | | 70.6 |
| | $ | 706.0 | $ | 824.8 |

[1] Market value was $134.0 million as at December 31, 2006 ($208.9 million in 2005).

**15. GOODWILL**

For the years ended December 31, 2006, 2005 and 2004, the changes in the carrying amounts of goodwill are as follows:

| | | | | | | | 2006 |
|---|---|---|---|---|---|---|---|
| | Balance as at December 31, 2005 | Business acquisitions (disposals) | Discontinued operations | Translation adjustments | Write-down | Adjustment of purchase price and other | Balance as at December 31, 2006 |
| Printing | $ 2,725.0 | $ (1.5) | $ – | $ 28.3 | $ – | $ – | $ 2,751.8 |
| Cable | 2,581.8 | (0.1) | – | – | – | – | 2,581.7 |
| Newspapers | 1,003.3 | 0.5 | – | – | – | – | 1,003.8 |
| Broadcasting | 207.1 | – | – | – | (148.4) | (7.3) | 51.4 |
| Leisure and Entertainment | 47.1 | (0.6) | – | – | – | (2.9) | 43.6 |
| Interactive Technologies and Communications | 3.6 | 6.7 | – | 0.9 | – | – | 11.2 |
| Internet/Portals | 30.5 | 0.4 | – | – | – | – | 30.9 |
| **Total** | $ 6,598.4 | $ 5.4 | $ – | $ 29.2 | $ (148.4) | $ (10.2) | $ 6,474.4 |

| | | | | | | | 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 |

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

### 15. GOODWILL (continued)

| | | | | | 2004 |
|---|---|---|---|---|---|
| | Balance as at December 31, 2003 | Business acquisitions (disposals) | Translation adjustments | 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.

### 16. ADDITIONAL AMOUNT PAYABLE

The value of the Additional Amount payable resulting from the repurchase of the redeemable preferred shares of a subsidiary in 2003 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, 2006, the Additional Amount payable is valued at $122.0 million ($111.5 million as at December 31, 2005). Changes in the amount payable are recorded as financial expenses in the statement of income. The Additional Amount payable matures on December 15, 2008. The holder has had 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 to the holder.

**17. LONG-TERM DEBT**

| | Effective interest rate as at December 31, 2006 | Year of maturity | 2006 | 2005 |
|---|---|---|---|---|
| **Quebecor Inc.** | | | | |
| Bank credit facility (i) | 6.08 % | 2008 | $ 119.0 | $ 143.0 |
| Other debt | 6.33 % | 2007 | 5.4 | 6.0 |
| | | | 124.4 | 149.0 |
| **Quebecor World Inc. and its subsidiaries (ii)** | | | | |
| Bank credit facilities (iii) | 6.80 % | 2009 | 113.2 | 388.7 |
| Other credit facility (iv) | 4.60 % | 2016 | 118.0 | – |
| Senior Notes (v) | 4.875 and 6.125 % | 2008-2013 | 696.8 | 694.9 |
| Senior Notes (vi) | 8.42 and 8.52 % | 2010-2012 | 269.8 | 290.8 |
| Senior Notes (vii) | 8.54 and 8.69 % | 2015-2020 | 99.1 | 140.7 |
| Senior Notes (viii) | 9.75 % | 2015 | 466.2 | – |
| Senior Notes (ix) | 8.75 % | 2016 | 524.4 | – |
| Senior Debentures (x) | 6.50 % | 2027 | 3.7 | 3.7 |
| Senior Debentures (xi) | – % | 2007 | – | 174.4 |
| Senior Notes (xii) | – % | 2006 | – | 290.8 |
| Obligations under capital leases and other debts (xiii) | 0.00 to 8.40 % | 2007-2016 | 56.7 | 39.1 |
| | | | 2,347.9 | 2,023.1 |
| **Quebecor Media Inc. (ii)** | | | | |
| Bank credit facilities (xiv) | 7.09 % | 2011-2013 | 520.6 | – |
| Other credit facility (xv) | 4.77 % | 2015 | 59.2 | – |
| Senior Notes (xvi) | 7.75 % | 2016 | 611.8 | – |
| Senior Notes (xvii) | – % | 2011 | – | 672.0 |
| Senior Discount Notes (xviii) | – % | 2011 | – | 316.1 |
| | | | 1,191.6 | 988.1 |
| **Videotron Ltd. and its subsidiaries (ii)** | | | | |
| Bank credit facility (xix) | 5.21 % | 2009 | 49.0 | – |
| Senior Notes (xx) | 6.59 % | 2014 | 769.1 | 769.2 |
| Senior Notes (xxi) | 6.44 % | 2015 | 203.1 | 202.5 |
| | | | 1,021.2 | 971.7 |
| **Sub-total, balance carried forward** | | | $ 4,685.1 | $ 4,131.9 |

**17. LONG-TERM DEBT (continued)**

| | Effective interest rate as at December 31, 2006 | | Year of maturity | | 2006 | | 2005 |
|---|---|---|---|---|---|---|---|
| **Sub-total, balance brought forward** | | | | $ | 4,685.1 | $ | 4,131.9 |
| **Sun Media Corporation and its subsidiaries (ii)** | | | | | | | |
| Bank credit facilities (xxii) | 6.92 | % | 2008-2009 | | 250.8 | | 231.1 |
| Senior Notes (xxiii) | 7.88 | % | 2013 | | 236.0 | | 235.2 |
| | | | | | 486.8 | | 466.3 |
| **TVA Group Inc. and its subsidiaries (ii)** | | | | | | | |
| Revolving bank loan (xxiv) | 5.46 | % | 2010 | | 96.5 | | 107.1 |
| **Total long-term debt** | | | | | 5,268.4 | | 4,705.3 |
| **Less current portion** | | | | | | | |
| Quebecor Inc. | | | | | 0.1 | | 6.0 |
| Quebecor World Inc. and its subsidiaries | | | | | 35.8 | | 8.9 |
| Quebecor Media Inc. | | | | | 20.0 | | – |
| Sun Media Corporation and its subsidiaries | | | | | 3.1 | | 2.7 |
| | | | | | 59.0 | | 17.6 |
| | | | | $ | 5,209.4 | $ | 4,687.7 |

(i) The credit facility is a one-year revolving credit facility of $170.0 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 availability under this facility is dependent upon the market value of its investments in publicly traded companies. The credit agreement governing this credit facility contains covenants, limiting its ability to incur additional indebtedness. The borrowed amounts bear interest at floating rates based on bankers' acceptance or London Interbanking Offered Rate ("LIBOR") rates. 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.

(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 can be used for general corporate purposes and contains certain restrictions, including the obligation to maintain some financial ratios. Quebecor World Inc. paid fees of $3.0 million in 2006 ($2.1 million in 2005) on the unused portion. The credit facility bears interest at variable rates based on LIBOR or bankers' acceptance rates. At December 31, 2006, $27.5 million ($257.7 million in 2005) was drawn on the credit facility.

Quebecor World Inc. also has access to various credit facilities up to $168.8 million. These facilities are used in United States, Latin America and Europe, and are labelled in multiple currencies. At December 31, 2006, $85.7 million ($131.0 million in 2005) was drawn on these facilities. There were no restrictive covenants on these various credit facilities.

(iv) In January 2006, Quebecor World Inc. entered into a long-term committed credit facility with Société Générale (Canada) for Canadian dollar equivalent of €136.2 million. Issuance costs of US$4.6 million were paid on this transaction. This unsecured facility bears interest at variable rates and matures in 2016 and contains some restrictive covenants, including the obligation to maintain certain financial ratios.

(v) The unsecured 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 and the second tranche of US$400.0 million matures on November 15, 2013. These notes contain certain restrictions, such as maintaining its properties in good condition and payment of taxes and claims.

(vi) The unsecured Senior Notes, for a principal amount of US$231.5 million, net of a partial repurchase of US$18.5 million in December 2006, are comprised of two tranches. The first tranche of US$171.5 million matures on July 15, 2010, while the second tranche of US$60.0 million matures on July 15, 2012. These notes contain certain restrictions, including maintaining certain financial ratios.

**17. LONG-TERM DEBT (continued)**

(vii) The unsecured Senior Notes, for a principal amount of US$85.0 million, net of a partial repurchase of US$36.0 million in December 2006, are comprised of two tranches. The first tranche of US$55.0 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, including maintaining certain financial ratios.

(viii) In December 2006, unsecured Senior Notes were issued for a principal amount of US$400.0 million maturing in January 2015. Issuance costs of US$7.6 million were paid on this transaction. These notes contain certain restrictions, such as maintaining its properties in good condition and payment of taxes and claims.

(ix) In March 2006, unsecured Senior Notes were issued for a principal amount of US$450.0 million maturing in March 2016. Issuance costs of US$7.3 million were paid on this transaction. These notes contain certain restrictions, such as maintaining its properties in good condition and payment of taxes and claims.

(x) These Senior Debentures are due on August 1, 2027.

(xi) In December 2006, the Senior Debentures maturing in January 2007 were fully repaid.

(xii) In March 2006, the US$250.0 million Senior Notes were repaid on maturity.

(xiii) Other debts and capital leases are partially secured by assets.

On December 19, 2006, Quebecor World Inc. received $79.4 million in funding for a lease financing of printing presses and related equipment that are currently being installed in various facilities in North America. Of this amount, $23.4 million was recorded as debt. The remaining balance is treated as operating leases (note 13). Quebecor World Inc. expects that the debt will be rolled into operating leases in 2007.

(xiv) In January 2006, Quebecor Media Inc. entered into new bank credit facilities comprised of (i) a $125.0 million term loan "A" credit facility, bearing interest at bankers' acceptance rate, LIBOR or Canadian prime rate, plus a premium determined by a leverage ratio, and maturing in January 2011; (ii) a US$350.0 million term loan "B" credit facility, bearing interest at U.S. prime rate, plus a premium of 1.0%, or at LIBOR, plus a premium of 2.0%, and maturing in January 2013; and (iii) a new $100.0 million revolving credit facility, bearing interest at bankers' acceptance rate, LIBOR or Canadian prime rate, plus a premium determined by a leverage ratio, and maturing in January 2011. Financing fees of $2.1 million were paid. These new credit facilities contain covenants concerning certain financial ratios and restricting the declaration and payment of dividends and other distributions. They are collateralized by liens on all the movable property and assets of Quebecor Media Inc. (primarily shares of its subsidiaries), now owned or hereafter acquired. As of December 31, 2006, the carrying value of Quebecor Media Inc.' assets guaranteeing the credit facilities was $5,317.0 million. Quebecor Media Inc. shall repay the term loan "A" in quarterly repayments equal to 2.5% of the principal amount during the first three years term, 5.0% in the fourth year and 12.5% in the fifth year term. It shall repay the principal amount of its term loan "B" in quarterly repayments of 0.25% of the principal amount and the balance at the end of the term. Quebecor Media Inc. has fully hedged the foreign currency risk associated with the new term "B" loan by using cross-currency interest rate swaps, under which all payments have been set in Canadian dollars. As at December 31, 2006, no amount had been drawn on the revolving credit facility, while $115.6 million and US$347.4 million were drawn down on the term "A" and "B" credit facilities, respectively.

(xv) In April 2006, Quebecor Media Inc. entered into a long-term committed credit facility with Société Générale (Canada) for the Canadian dollar equivalent of €59.4 million, bearing interest at bankers' acceptance rate, plus a premium, and maturing in 2015. The facility is secured by all the property and assets of the Quebecor Media Inc., now owned and hereafter acquired. This facility mostly contains the same covenants as the bank facilities described in (xiv).

(xvi) In January 2006, Quebecor Media Inc. issued new Senior Notes of US$525.0 million in aggregate principal amount, before issuance fees of $9.0 million. The notes bear interest at 7.75% and mature in March 2016. These notes contain certain restrictions on Quebecor Media Inc., including limitations on its ability to incur additional indebtedness and pay dividends or make other distributions. The notes are unsecured and are redeemable at the option of Quebecor Media Inc. at a decreasing premium, commencing on March 15, 2011. Quebecor Media Inc. has fully hedged the foreign currency risk associated with the new Senior Notes by using cross-currency interest rate swaps, under which all payments have been set in Canadian dollars.

(xvii) The Senior Notes were repurchased during the year (note 4(b)).

(xviii) The Senior Discount Notes were repurchased during the year (note 4(b)).

(xix) The credit facility of $450.0 million is a revolving credit facility maturing in November 2009 and bears interest at bankers' acceptance or Canadian Prime 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, 2006, the carrying value of assets guaranteeing the credit facility of Videotron Ltd. was $4,253.5 million. The credit facility contains covenants such as maintaining certain financial ratios and some restrictions on the payment of dividends and asset acquisitions and disposals.

**17. LONG-TERM DEBT (continued)**

(xx) 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 issued 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 on 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, at a decreasing premium.

(xxi) 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 on 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, at a decreasing premium.

(xxii) The bank credit facilities amended on January 17, 2006, are comprised of (i) a revolving credit facility amounting to $75.0 million, maturing in 2008, (ii) a term loan "B" credit facility amounting to US$230.0 million maturing in 2009, and (iii) a new term loan "C" credit facility amounting to $40.0 million entered into in January 2006 and maturing in 2009. The credit facilities are collateralized by liens on all of the property and assets of Sun Media Corporation and its operating subsidiaries, now owned or hereafter acquired. The bank credit facilities contain covenants concerning certain financial ratios and restrictions on the declaration and payment of dividends and other distributions. As at December 31, 2006, the carrying value of assets guaranteeing the bank credit facilities was $1,579.2 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. Advances under the term loan "B" credit facility bear interest at LIBOR plus a margin of 1.75% per annum (margin was reduced by 0.25% to 1.75% on April 27, 2006), or at U.S. prime rate plus a margin of 0.75% per annum, while advances under the term "C" credit facility bear interest at Canadian bankers' acceptance rate plus a margin of 1.50% per annum or Canadian prime rate plus a margin of 0.50% per annum. 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, 2006, no amount had been drawn on the revolving credit facility, while US$181.4 million and $39.3 million were drawn down on the term loans "B" and "C" credit facilities, respectively.

(xxiii) 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 to make other distributions, and are unsecured. 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, at a decreasing premium.

(xxiv) The credit agreement consists of a revolving term bank loan of a maximum of $160.0 million, bearing interest at the prime rate of a Canadian chartered bank or bankers' acceptances rates, plus a variable margin determined by certain financial ratios. The revolving term loan matures on 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 on the payment of dividends. On December 31, 2006, the Company and its subsidiaries were in compliance with all debt covenants.

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

| | | |
|---|---|---|
| 2007 | $ | 59.0 |
| 2008 | | 404.7 |
| 2009 | | 463.2 |
| 2010 | | 376.1 |
| 2011 | | 43.0 |
| 2012 and thereafter | | 3,922.4 |

## 18. EXCHANGEABLE DEBENTURES

| | Effective interest rate as at December 31, 2006 | Year of maturity | | 2006 | | 2005 |
|---|---|---|---|---|---|---|
| Series 2001 (i) | 2.84 % | 2026 | $ | 168.8 | $ | 196.5 |
| Series Abitibi (ii) | 1.50 % | 2026 | | 134.0 | | 208.9 |
| | | | $ | 302.8 | $ | 405.4 |

(i) Each floating rate debenture Series 2001 with a principal amount of $1,000.00 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, 2006, the market value of the underlying shares was $13.50 per share ($15.72 per share as at December 31, 2005). 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, 2006, Quebecor Inc.'s interest in Quebecor World Inc. would have decreased from 35.62% to 26.13% (35.82% to 26.27% as at December 31, 2005). Restricted cash and cash equivalents as at December 31, 2006 included an amount of $6.0 million ($7.7 million in 2005) related to the interest payment on this debenture.

(ii) Each floating rate debenture Series Abitibi with a principal amount of $1,000.00 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, 2006, the market value of the underlying shares was $2.99 per share ($4.66 per share as at December 31, 2005). 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. Restricted cash and cash equivalents, as at December 31, 2006, included an amount of $2.0 million ($3.2 million in 2005) related to the interest payment on this debenture.

## 19. CONVERTIBLE NOTES

The 6.0% 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$1,000.00 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, 2006 and 2005 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 35.62% to 34.52% (35.82% to 34.73% as at December 31, 2005).

As at December 31, 2006, the Notes were classified as long-term since Quebecor World Inc. has the ability and the intent to refinance such debt on a long-term basis and has a committed revolving bank capability to replace such debt, if necessary.

## 20. OTHER LIABILITIES

| | 2006 | 2005 (revised, note 1) |
|---|---|---|
| Deferred gain on the mark-to-market of exchangeable debentures | $ 333.8 | $ 403.5 |
| Derivative instruments | 250.0 | 262.1 |
| Accrued post-retirement benefits liability (note 29) | 115.0 | 112.7 |
| Accrued pension benefits liability (note 29) | 100.2 | 107.7 |
| Accrued stock based compensation | 67.9 | 34.9 |
| Workers' compensation accrual | 53.5 | 47.5 |
| Deferred revenues | 32.5 | 32.9 |
| Reserve for environmental matters | 13.0 | 15.4 |
| Other | 68.7 | 73.4 |
| | $ 1,034.6 | $ 1,090.1 |

## 21. NON-CONTROLLING INTEREST

Non-controlling interest represents the interest of non-controlling shareholders in the participating shares of Quebecor Inc.'s subsidiaries. As at December 31, 2006, the most significant non-controlling interests were as follows:

| | | Non-controlling interest | |
|---|---|---|---|
| Subsidiary | Segment | % voting | % equity |
| Quebecor World Inc. | Printing | 15.41 % | 64.38 % |
| Quebecor Media Inc. | Cable, Newspapers, Broadcasting, Leisure and Entertainment, Business Telecommunications, Interactive Technologies and Communications and Internet/Portals | 45.28 % | 45.28 % |
| TVA Group Inc.[1] | Broadcasting | 0.08 % | 54.76 % |
| Nurun Inc.[1] | Interactive Technologies and Communications | 42.26 % | 42.26 % |

[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.

On April 18, 2006, Quebecor World Inc. redeemed its cumulative redeemable 6.75% First Series 4 Preferred Shares for an amount of $200.0 million. This transaction resulted in no gain or loss.

## 22. CAPITAL STOCK

### (a) Authorized capital stock

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

An unlimited number of Class B Voting Shares ("B shares") convertible into A shares on a one-for-one basis only if a takeover bid for A shares is made to holders of A shares without being made concurrently and under the same terms to holders of B shares.

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.

**22. CAPITAL STOCK (continued)**

**(b) Issued capital stock**

| | A shares | | B shares | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| 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 |
| A shares converted into B shares | (170,000) | (0.1) | 170,000 | 0.1 |
| **Balance as at December 31, 2006** | **21,855,371** | **$ 9.7** | **42,461,651** | **$ 336.9** |

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.

**23. STOCK-BASED COMPENSATION 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 directors, officers, senior employees and other key employees of the Company and its subsidiaries. The exercise price of each option is equal to the weighted average trading price of the Company's Class B shares on the Toronto Stock Exchange over the last five trading days immediately preceding the granting of the option. Each option may be exercised during a period not exceeding 10 years from the date granted. Options usually vest as follows: 1/3 after one year, 2/3 after two years, and 100% three years after the original grant. Holders of options under the stock option plan have the choice, when they exercise their options, of acquiring the Class B shares at the corresponding option exercise price, or receiving a cash payment 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, 2006 and 2005:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price** | Options | Weighted average exercise price |
| Balance at beginning of year | **1,713,349** | **$ 31.74** | 1,743,349 | $ 31.01 |
| Granted | **247,568** | **24.24** | 205,000 | 32.25 |
| Cancelled | **(225,000)** | **33.08** | (235,000) | 26.78 |
| **Balance at end of year** | **1,735,917** | **$ 30.50** | 1,713,349 | $ 31.74 |
| **Vested options at end of year** | **1,351,682** | **$ 31.47** | 1,501,266 | $ 31.71 |

**23. STOCK-BASED COMPENSATION PLANS (continued)**

**(a) Quebecor Inc. plans (continued)**

(i) Stock option plan (continued)

The following table gives summary information on outstanding options as at December 31, 2006:

| | | Outstanding options | | | Vested options |
|---|---|---|---|---|---|
| Range of exercise price | Number | Weighted average years to maturity | Weighted average exercise price | Number | Weighted average exercise price |
| $ 16.83 to 24.24 | 392,568 | 7.9 | $ 22.86 | 145,000 | $ 20.26 |
| 25.87 to 37.28 | 1,343,349 | 3.9 | 32.75 | 1,206,682 | 32.81 |
| **$ 16.83 to 37.28** | **1,735,917** | **4.8** | **$ 30.50** | **1,351,682** | **$ 31.47** |

For the year ended December 31, 2006, a compensation cost of $9.3 million ($0.5 million and $1.0 million in 2005 and 2004) relative 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 on the Toronto Stock Exchange over the last five trading days immediately preceding the relevant date 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, 2006 and 2005, the total number of DSUs outstanding under this plan was 71,970 and 61,623, respectively. The compensation expense related to the plan amounted to $1.2 million, $0.4 million and $0.5 million for the years ended December 31, 2006, 2005 and 2004, respectively.

**(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 4.0% 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. The total number of plan shares issued on behalf of employees, including Quebecor World Inc.'s contribution, was 566,913 in 2006, (333,646 shares in 2005), which represents a compensation expenses of $0.9 million in 2006 ($1.2 million in 2005 and $1.4 million in 2004).

The employee share investment plan gives eligible Quebecor World Inc. employees in Canada the opportunity to subscribe for up to 4.0% of their gross salary to purchase shares of Quebecor World Inc.'s capital stock and to have Quebecor World Inc. invest, on the employee's behalf, a further amount equal to 20.0% 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. The total number of shares issued on behalf of employees under this plan was 174,144 in 2006 (154,186 shares in 2005) which represents a compensation expense of $0.5 million in 2006 ($0.6 million in 2005 and 2004).

**23. STOCK-BASED COMPENSATION PLANS (continued)**

**(b) Quebecor World Inc. plans (continued)**

(ii) Stock option plan

Under the stock option plan, 7,204,734 Subordinate Voting Shares of Quebecor World Inc. out of a total of 9,000,000 remained reserved for participants at December 31, 2006. To date, 1,015,000 options have been granted to date outside of the shares reserved under this plan as inducement options. As at December 31, 2006, a total of 7,772,300 options to purchase Subordinate Voting Shares of Quebecor World Inc. were outstanding. The subscription price of the options was equal to the arithmetical average of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange for options priced in Canadian dollars, and on the New York Stock Exchange for options priced in U.S. dollars, over the five days immediately preceding the grant of the option. The options granted until 2004 vest over either 4 or 5 years and could be exercised over a period not exceeding 10 years from the grant date. For grants issued since 2005, half of the options is vested over four years and the other half is vested on the attainment of specific performance targets based on earnings per share and share price growth. In addition, the options granted since 2005 may be exercised over a period not exceeding six years from the grant date.

The number of stock options outstanding has fluctuated as follows:

| | | | 2006 | | | 2005 |
|---|---|---|---|---|---|---|
| | **Options** | | **Weighted average exercise price** | Options | | Weighted average exercise price |
| Balance at beginning of year | **5,947,970** | **US$** | **23.45** | 4,542,045 | US$ | 23.81 |
| Granted | **2,314,500** | | **10.45** | 1,930,120 | | 20.57 |
| Exercised | **–** | | **–** | (315,065) | | 20.52 |
| Cancelled | **(490,170)** | | **21.12** | (209,130) | | 22.24 |
| **Balance at end of year** | **7,772,300** | **US$** | **19.70** | 5,947,970 | US$ | 23.45 |
| **Vested options at end of year** | **3,041,159** | **US$** | **24.67** | 2,709,003 | US$ | 24.92 |

In 2004, the Board of Directors approved a special option grant to buy 1,000,000 Subordinate Voting Shares of Quebecor World Inc. The exercise price was equal to the share market price at the grant date and half the options is vesting over time and the other half upon the attainment of specific performance targets based on earnings per share and share price growth.

The following table summarizes information on stock options outstanding and vested at December 31, 2006:

| | | | | Outstanding options | | | | Vested options |
|---|---|---|---|---|---|---|---|---|
| Range of exercise price | | Number | Weighted average years to maturity | | Weighted average exercise price | Number | | Weighted average exercise price |
| US$ | 9.98 to 14.99 | 2,299,500 | 5.42 | US$ | 10.45 | – | US$ | – |
| | 15.00 to 21.99 | 2,201,328 | 4.33 | | 20.30 | 699,204 | | 19.88 |
| | 22.00 to 31.90 | 3,271,472 | 4.63 | | 25.79 | 2,341,955 | | 26.10 |
| **US$** | **9.98 to 31.90** | **7,772,300** | **4.78** | **US$** | **19.70** | **3,041,159** | **US$** | **24.67** |

**23. STOCK-BASED COMPENSATION PLANS (continued)**

**(b) Quebecor World Inc. plans (continued)**

(ii) Stock option plan (continued)

Had the vested options been exercised as at December 31, 2006, Quebecor Inc.'s interest in Quebecor World Inc. would have decreased from 35.62% to 34.81% (35.82% to 35.09% as at December 31, 2005).

The compensation cost charged against income for the Quebecor World Inc. plan was $4.2 million for the year ended December 31, 2006 ($1.3 million in 2005). The fair value of options granted is estimated using the binomial option pricing model. The following weighted average assumptions were used:

| | | 2006 | | | 2005 | |
|---|---|---|---|---|---|---|
| Weighted average fair value of options at grant date | US$ | 2.58 | | US$ | 4.32 | |
| Risk-free interest rate | | 4.45 | % | | 3.59 | % |
| Dividend yield | | 3.75 | % | | 2.93 | % |
| Expected volatility | | 33.44 | % | | 33.67 | % |
| Expected life | | 4.25 | years | | 4.25 | 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 of December 31, 2006, the total number of DSUs outstanding under this plan was 256,923 (215,447 in 2005). No compensation expense was recorded for the years ended December 31, 2006 and 2005 (2.1 million in 2004). The weighted average grant date fair value for units granted during the year was US$10.55 (US$17.91 in 2005 and US$20.69 in 2004).

(iv) Deferred performance share unit plan

In January 2006, Quebecor World Inc. established a new deferred performance share unit ("DPSU") plan. The DPSU plan is for the benefit of the Quebecor World Inc.'s senior management and key managers. Under the DPSU plan, employees defer a portion of their annual bonus for a three-year period (some employees have the choice to defer or not), over which time the amount will be indexed to the fair value of the Subordinate Voting Shares of Quebecor World Inc., including dividends. The subsidiary also contributes, on the employees' behalf, a further amount equal to 20.0% of the deferred bonus earned over the three-year period.

The application of the DPSU plan has been suspended for the fiscal year 2006, given that a special compensation arrangement was implemented for the year 2006. Under the special compensation arrangement, a portion of the annual bonus of eligible employees will be paid in cash and determined based upon the achievement of earnings before interest and taxes targets, and the other portion will be provided in the form of shares at the end of a three-year period, as long as these eligible employees remain employed by Quebecor World Inc.

As of December 31, 2006, 9,452 units were outstanding under the plan, which represented a negligeable compensation expense in 2006. The weighted average grant date fair value for units granted during the year was US$10.20.

**23. STOCK-BASED COMPENSATION PLANS (continued)**

**(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, directors 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 five-day weighted average closing price ending on the day preceding the date of grant 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. Should the Common Shares of Quebecor Media Inc. have not been so listed on March 1, 2008, optionees may exercise, from March 1 to March 30, from June 1 to June 29, from September 1 to September 29 and from December 1 to December 30 of each year, starting March 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) or, subject to certain stated conditions, Common Shares of Quebecor Media Inc. 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 20.0% vesting on the first anniversary of the date of the grant; (ii) equally over four years with the first 25.0% vesting on the second anniversary of the date of grant; and (iii) equally over three years with the first 33.0% vesting on the third anniversary of the date of grant.

The following table gives summary information on outstanding options granted as at December 31, 2006 and 2005:

| | **2006** | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **Options** | | **Weighted average exercise price** | Options | | Weighted average exercise price |
| Balance at beginning of year | **3,228,321** | **$** | **18.90** | 3,135,040 | $ | 17.99 |
| Granted | **795,393** | | **31.60** | 255,630 | | 28.96 |
| Cancelled | **(241,947)** | | **21.86** | (162,349) | | 17.13 |
| **Balance at end of year** | **3,781,767** | **$** | **21.38** | 3,228,321 | $ | 18.90 |
| **Vested options at end of year** | **1,639,460** | **$** | **17.59** | 939,965 | $ | 17.20 |

## 23. STOCK-BASED COMPENSATION PLANS (continued)

### (c) Quebecor Media Inc. stock option plan (continued)

The following table gives summary information on outstanding options as at December 31, 2006:

| | | Outstanding options | | | Vested options |
|---|---|---|---|---|---|
| Range of exercise price | Number | Weighted average years to maturity | Weighted average exercise price | Number | Weighted average exercise price |
| $ 15.19 to 21.77 | 2,752,905 | 6.00 | $ 17.96 | 1,612,837 | $ 17.43 |
| 22.98 to 33.41 | 1,028,862 | 9.04 | 30.56 | 26,623 | 26.80 |
| **$ 15.19 to 33.41** | **3,781,767** | **6.82** | **$ 21.38** | **1,639,460** | **$ 17.59** |

For the year ended December 31, 2006, a charge of $24.4 million related to the plan is included in income ($10.8 million in 2005 and 15.1 million in 2004).

Had the vested options been exercised as at December 31, 2006, the Company's interest in Quebecor Media Inc. would have decreased from 54.72% to 54.00% (54.72% to 54.31% in 2005).

## 24. 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:

| | 2006 | 2005 (revised, note 1) |
|---|---|---|
| Balance at beginning of year | $ (213.4) | $ (174.1) |
| Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations and exchange gains or losses on intercompany account balances that form part of the net investment | 9.6 | (45.0) |
| Portion included in income as a result of reductions in net investments in self-sustaining foreign operations | 1.4 | 5.5 |
| Other | (1.4) | 0.2 |
| **Balance at end of year** | **$ (203.8)** | $ (213.4) |

## 25. COMMITMENTS AND CONTINGENCIES

### (a) Leases and purchasing agreements

The Company rents premises and equipment under operating leases and has entered into long-term commitments to purchase services, capital equipment, and distribution and broadcasting rights that call for total future payments of $888.1 million. The minimum payments for the coming years are as follows:

| | Leases | Other commitments |
|---|---|---|
| 2007 | $ 224.1 | $ 230.2 |
| 2008 | 105.5 | 22.1 |
| 2009 | 83.0 | 11.0 |
| 2010 | 55.7 | 2.0 |
| 2011 | 36.0 | 0.5 |
| 2012 and thereafter | 118.0 | – |

Operating lease rentals expenses from continuing operations amounted to $125.6 million, $144.7 million and $149.7 million for the years ended December 31, 2006, 2005 and 2004, respectively.

### (b) Other commitments

As part of the acquisition of Group TVA Inc. in 2001 and Sun TV in 2004, Quebecor Media Inc. is committed, over a period ending in 2012, to invest $58.2 million 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, 2006, $8.6 million remained to be invested.

### (c) 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.

### (d) 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.

## 26. 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 to the benefit of the lessor. Should the Company terminate these leases prior to term (or at the end of the lease terms) and should the fair value of the assets be less than the guaranteed residual value, then the 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, 2006, the maximum exposure with respect to these guarantees was $86.2 million and the Company has recorded a liability of $9.2 million related to these guarantees.

## 26. GUARANTEES (continued)

*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 2007 and 2009. 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 $3.0 million. As at December 31, 2006, the Company did not recorded a liability associated with these guarantees, other than that provided for unfavourable leases of $1.4 million, since it is unlikely at this time that the sub-lessee would default under the agreement and that the Company would thus be required to honour the initial obligation. Recourse against the sub-lessees was 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, Quebecor World Inc., Printing segment, has provided customary representations and warranties. Quebecor World Inc. has also retained certain liabilities for events that have occured prior to the sale, relating to taxes, 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 relates 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. The Company has not accrued any amount in respect of these items in the consolidated balance sheet.

*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 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, 2006, the letters of credit amounted to $103.8 million. The Company has not recorded any liability with respect to these letters of credit, since the Company does not expect to make any payments in excess of what is recorded in the Company's financial statements. The letters of credit mature at various dates in 2007.

## 27. FINANCIAL INSTRUMENTS

The Company has issued certain 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 as well as 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.

**27. FINANCIAL INSTRUMENTS (continued)**

**(a) Description of derivative financial instruments**

(i) Management of foreign exchange risk

Foreign exchange forward contracts:

| | | 2006 |
|---|---|---|
| **Currencies (sold/bought)** | **Average rate[1]** | **Notional amount[2]** |
| **Quebecor World Inc. and its subsidiaries** | | |
| US$/$ | | |
| Less than 1 year | 0.8611 | $ 90.6 |
| Between 1 and 3 years | 0.8925 | 85.1 |
| Over 3 years | 0.9254 | 5.9 |
| $/US$ | | |
| Less than 1 year | 1.1623 | 54.9 |
| Between 1 and 3 years | 1.1412 | 308.8 |
| Over 3 years | 1.1280 | 116.5 |
| €/US$ | | |
| Less than 1 year | 0.7760 | 590.3 |
| SEK/US$ | | |
| Less than 1 year | 6.8656 | 52.8 |
| GBP/€ | | |
| Less than 1 year | 0.6917 | 10.7 |
| Between 1 and 3 years | 0.7061 | 1.4 |
| Other | | |
| Less than a year | – | 47.7 |
| **Quebecor Media Inc.** | | |
| $/€ | | |
| Less than 1 year | 1.4459 | 25.1 |
| $/CHF | | |
| Less than 1 year | 0.9265 | 14.9 |
| **Sun Media Corporation** | | |
| $/US$ | | |
| February 2013 | 1.5227 | 312.2 |
| **Videotron Ltd.** | | |
| $/US$ | | |
| Less than 1 year | 1.1152 | 50.4 |

[1] Rates are expressed as the number of units of the currency sold for one unit of currency bought.

[2] Exchange rates as of December 31, 2006 were used to translate amounts in foreign currencies.

**27. FINANCIAL INSTRUMENTS (continued)**

**(a) Description of derivative financial instruments (continued)**

(i) Management of foreign exchange risk (continued)

Cross-currency interest rate swaps:

| | Period covered | | National amount | Annual effective interest rate | Annual nominal interest rate | CDN dollar exchange rate of interest and capital payments per one U.S. dollar |
|---|---|---|---|---|---|---|
| **Quebecor Media Inc.** | | | | | | |
| Senior Notes | 2006 to 2016 | US$ | 525.0 | 7.39 % | 7.75 % | 1.1600 |
| Term loan "B" credit facilities | 2006 to 2009 | US$ | 198.9 | 6.27 % | LIBOR + 2.00% | 1.1625 |
| Term loan "B" credit facilities | 2009 to 2013 | US$ | 198.9 | Bankers' acceptance 3 months + 2.22% | LIBOR + 2.00% | 1.1625 |
| Term loan "B" credit facilities | 2006 to 2013 | US$ | 148.9 | 6.44 % | LIBOR + 2.00% | 1.1625 |
| **Videotron Ltd. and its subsidiaries** | | | | | | |
| Senior Notes | 2004 to 2014 | US$ | 190.0 | Bankers' acceptance 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 |

**27. 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 | | National amount | Annual effective interest rate | Annual nominal interest rate | CDN dollar exchange rate of interest and capital payments per 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$ | 181.4 | Bankers' acceptance 3 months + 2.29% | LIBOR + 1.75% | 1.5175 |

The cross-currency swap agreements settled as part of the refinancing of Quebecor Media Inc.'s debts on January 17, 2006, were subject to a floor limit on negative fair market value, below which Quebecor Media Inc. was required to make prepayments to limit the exposure of the counterparties. Such prepayments were offset by equal reductions in Quebecor Media Inc.'s commitments under the agreements. Quebecor Media Inc. was required to make prepayments of $75.9 million in 2005 and $197.7 million in 2004 under this provision.

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 at the then-market value.

(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, 2006, 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** | | | | | |
| November 2008 | US$ | 200.0 | Pay floating/ receive fixed | 4.88 % | LIBOR 3 months/ + 1.53 – 1.58% |
| **Videotron Ltd. and its subsidiaries** | | | | | |
| September 2007 | $ | 5.0 | Pay fixed/ receive floating | 3.75 % | Bankers' acceptance 3 months |

## 27. 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.

Carrying value and fair value of other financial instruments as at December 31, 2006 and 2005 are as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Quebecor Inc.** | | | | |
| Long-term debt | $ (124.4) | $ (124.4) | $ (149.0) | $ (149.0) |
| Exchangeable debentures | (302.8) | (302.8) | (405.4) | (405.4) |
| Deferred gain on the marked-to-market of the exchangeable debentures | (333.8) | – | (403.5) | – |
| **Quebecor World Inc. and its subsidiaries** | | | | |
| Long-term debt | (2,347.9) | (2,280.9) | (2,023.1) | (1,982.7) |
| Convertible Notes | (137.2) | (138.8) | (134.3) | (140.5) |
| Interest rate swaps | – | (8.7) | – | (12.1) |
| Foreign exchange forward contracts | (14.8) | (18.1) | 5.5 | 18.0 |
| Cross-currency interest rate swaps | – | – | 4.2 | 4.2 |
| Commodity swaps | (1.6) | (16.0) | (0.1) | (0.6) |
| **Quebecor Media Inc.** | | | | |
| Long-term debt | (1,191.6) | (1,206.3) | (988.1) | (1,078.8) |
| Cross-currency interest rate swaps | 3.8 | (17.8) | (21.5) | (261.3) |
| Foreign exchange forward contract | 2.2 | 2.2 | – | (1.8) |
| **Videotron Ltd. and its subsidiaries** | | | | |
| Long-term debt | (1,021.2) | (1,010.6) | (971.7) | (967.4) |
| Interest rate swaps | – | – | (0.9) | (0.9) |
| Cross-currency interest rate swaps | (71.8) | (141.1) | (73.7) | (135.0) |
| Foreign exchange forward contract | – | 2.1 | – | (0.2) |
| **Sun Media Corporation and its subsidiaries** | | | | |
| Long-term debt | (486.8) | (492.9) | (466.3) | (476.1) |
| Cross-currency interest rate swaps and foreign exchange forward contract | (148.8) | (176.1) | (154.1) | (186.5) |
| **TVA Group Inc. and its subsidiaries** | | | | |
| Long-term debt | (96.5) | (96.5) | (107.1) | (107.1) |

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.

## 27. 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 0.7 million of gigajoules for 2006 (at an average price of US$7.37/gigajoules as at December 31, 2006), and the difference between a fixed price and a floating U.S. natural gas price index on a notional quantity of 3.9 million of MMBTU for 2006 (at an average price of US$9.33/MMBTU as at December 31, 2006).

### (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 (either foreign or Canadian) must have at least credit ratings in accordance with the Company's credit risk management policy and are subject to concentration limits. The Company does not foresee any failure by counterparties in meeting their obligations and the risk is considered immaterial.

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, 2006, 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 its product-lines and the 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 in 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.

## 28. RELATED PARTY TRANSACTIONS

During the year, the Company made purchases and incurred rent charge with affiliated companies in the amount of $12.6 million ($19.5 million in 2005 and $15.4 million in 2004), included in the cost of sales and selling and administrative expenses. The Company made sales to affiliated companies in the amount of $0.2 million ($0.5 million in 2005 and $0.4 million in 2004). These transactions were concluded and accounted for at the exchange value.

## 29. PENSION PLANS AND POSTRETIREMENT BENEFITS

The Company maintains various flat-benefit plans, various final-pay plans with indexation features from none to 2%, and defined contribution plans. 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.

## 29. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

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, 2006 and 2005, and a statement of the funded status as at those dates. For data of the Printing segment, the measurement dates were September 30, 2006 and 2005:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Change in benefit obligations** | | | | |
| Benefit obligations at beginning of year | $ 1,853.2 | $ 1,675.1 | $ 121.1 | $ 114.9 |
| Service costs | 60.8 | 57.9 | 2.8 | 3.1 |
| Interest costs | 95.7 | 100.5 | 6.0 | 6.9 |
| Plan participants' contributions | 17.4 | 16.6 | 2.4 | 2.3 |
| Actuarial (gain) loss | (31.9) | 166.4 | (4.6) | 15.2 |
| Benefits and settlements paid | (127.9) | (110.0) | (9.0) | (11.5) |
| Plan amendments | 3.4 | 5.6 | (3.1) | (4.2) |
| Curtailment and divestitures gain | (73.1) | (11.4) | – | (3.2) |
| Other | 0.7 | – | 0.6 | – |
| Foreign currency changes | 15.9 | (47.5) | – | (2.4) |
| **Benefit obligations at end of year** | $ 1,814.2 | $ 1,853.2 | $ 116.2 | $ 121.1 |

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | $ 1,256.5 | $ 1,166.0 | $ – | $ – |
| Actual return on plan assets | 117.8 | 125.7 | – | – |
| Employer contributions | 124.9 | 83.2 | 6.6 | 9.2 |
| Plan participants' contributions | 17.4 | 16.6 | 2.4 | 2.3 |
| Benefits and settlements paid | (127.9) | (110.0) | (9.0) | (11.5) |
| Foreign currency changes | 11.5 | (25.0) | – | – |
| **Fair value of plan assets at end of year** | $ 1,400.2 | $ 1,256.5 | $ – | $ – |

As at December 31, 2006, plan assets included shares of the Company and its subsidiaries, in an amount of $2.8 million ($2.7 million as at December 31, 2005).

**29. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**

The plan assets are comprised of:

| | 2006 | 2005 |
|---|---|---|
| Equity securities | 62.9 % | 60.9 % |
| Debt securities | 34.4 | 37.0 |
| Other | 2.7 | 2.1 |
| | 100.0 % | 100.0 % |

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Reconciliation of funded status** | | | | |
| Excess of benefit obligations over fair value of plan assets at end of year | $ (414.0) | $ (596.7) | $ (116.2) | $ (121.1) |
| Unrecognized actuarial loss | 412.8 | 564.3 | 21.0 | 26.3 |
| Unrecognized net transition (asset) obligation | (8.7) | (9.8) | 0.5 | 0.5 |
| Unrecognized prior service cost (benefit) | 35.8 | 34.3 | (21.5) | (20.3) |
| Valuation allowance | (19.5) | (17.3) | – | – |
| Adjustment for fourth quarter contributions | 6.3 | 5.6 | 1.2 | 1.9 |
| **Net amount recognized** | $ 12.7 | $ (19.6) | $ (115.0) | $ (112.7) |

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 | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Benefit obligations | $ (1,803.9) | $ (1,846.8) | $ (116.2) | $ (121.1) |
| Fair value of plan assets | 1,388.7 | 1,249.3 | – | – |
| **Funded status – Plan deficit** | $ (415.2) | $ (597.5) | $ (116.2) | $ (121.1) |

Amounts recognized in the consolidated balance sheets are as follows:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Accrued benefit liability | $ (100.2) | $ (107.7) | $ (115.0) | $ (112.7) |
| Deferred pension charge | 112.9 | 88.1 | – | – |
| **Net amount recognized** | $ 12.7 | $ (19.6) | $ (115.0) | $ (112.7) |

**29. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**

Components of the net benefit costs are as follows:

| | Pension benefits | | | Postretirement benefits | | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | **2006** | 2005 | 2004 |
| Service costs | **$ 60.8** | $ 57.9 | $ 61.1 | **$ 2.8** | $ 3.1 | $ 3.5 |
| Interest costs | **95.7** | 100.5 | 101.9 | **6.0** | 6.9 | 9.4 |
| Actual return on plan assets | **(117.8)** | (125.7) | (113.2) | **–** | – | – |
| Current actuarial (gain) loss | **(31.9)** | 166.4 | (14.5) | **(4.6)** | 15.2 | (18.5) |
| Current prior service costs (benefits) | **0.7** | 5.6 | 0.3 | **(3.1)** | – | – |
| Curtailment loss, plan amendments and other | **7.9** | 4.4 | 3.9 | **–** | (6.2) | (15.0) |
| Elements of net benefit costs before adjustments to recognize the long-term nature and valuation allowance | **15.4** | 209.1 | 39.5 | **1.1** | 19.0 | (20.6) |
| Difference between actual and expected return on plan assets | **24.9** | 32.2 | 18.1 | **–** | – | – |
| Deferral of amount arising during the period: | | | | | | |
| Actuarial loss (gain) | **31.9** | (166.4) | 14.5 | **4.6** | (15.2) | 18.5 |
| Prior service costs (benefits) | **(0.7)** | (5.6) | (0.3) | **3.1** | – | – |
| Plan amendments and other | **(3.4)** | 5.1 | 2.0 | **–** | – | 16.9 |
| Amortization of previously deferred amounts: | | | | | | |
| Actuarial loss | **19.2** | 17.6 | 16.4 | **1.6** | 0.8 | 2.6 |
| Prior service costs or benefits | **2.6** | 1.6 | 3.0 | **(2.9)** | 1.6 | (0.4) |
| Transitional obligations | **(1.1)** | (1.5) | (1.5) | **–** | 0.1 | – |
| Total adjustments to recognize the long-term nature of benefit costs | **73.4** | (117.0) | 52.2 | **6.4** | (12.7) | 37.6 |
| Valuation allowance | **2.2** | 1.0 | 2.6 | **–** | – | – |
| **Net benefit costs** | **$ 91.0** | $ 93.1 | $ 94.3 | **$ 7.5** | $ 6.3 | $ 17.0 |

The expense related to defined contribution pension plans amounted to $31.0 million in 2006 ($23.5 million in 2005 and $26.8 million in 2004). The defined contribution pension plan benefit cost included contributions to multi-employer plans of $8.0 million for the year ended December 31, 2006 ($8.2 million in 2005 and $9.4 million in 2004).

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 $162.5 million for the year ended December 31, 2006 ($103.7 million in 2005 and $137.4 million in 2004).

In 2006, Quebecor World Inc. modified the defined benefit plans for certain employees in Canada and in the United States, and created a defined contribution Group Registered Retirement Savings Plan ("Group RRSP") for employees in Canada. As of October 1, 2006, employees in Canada had the choice to adhere to the new Group RRSP, or to continue to participate in the modified plan, while future employees automatically adhere to the new Group RRSP. A $4.3 million curtailment gain was recorded in 2006. For employees in the United States, one of the defined benefit plans was frozen on October 1, 2006, and an improved defined contribution plan has been offered to employees. A $6.4 million curtailment gain was recorded in 2006. Other settlements and curtailments were also recorded during the year.

**29. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)**

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

| | Pension benefits | | | Postretirement benefits | | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | **2006** | 2005 | 2004 |
| **Benefit obligations** | | | | | | |
| Discount rate | **5.4 %** | 5.3 % | 5.9 % | **5.4 %** | 5.3 % | 6.0 % |
| Rate of compensation increase | **3.4** | 3.4 | 3.4 | **–** | – | – |
| **Current periodic costs** | | | | | | |
| Discount rate | **5.3 %** | 5.9 % | 6.0 % | **5.3 %** | 6.0 % | 5.9 % |
| Expected return on plan assets[1] | **7.5** | 7.6 | 7.8 | **–** | – | – |
| Rate of compensation increase | **3.4** | 3.4 | 3.5 | **–** | – | – |

[1] After management and professional fees.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations was 8.5% for Quebecor World Inc. plans and 8.6% for Quebecor Media Inc. plans at the end of 2006. The costs of Quebecor World Inc.'s plans, as per the estimate, are expected to decrease gradually over the next three years to 4.9% and to remain at that level thereafter; the costs of Quebecor Media Inc.'s plans are expected to decrease to 5.0% over the next nine years. 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 | $ 1.2 | $ (0.9) |
| Effect on benefit obligation | 12.1 | (9.9) |

**30. RATES SUBJECT TO CRTC REGULATION**

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

# Board of Directors

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Fédération des chambres de commerce
du Québec

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**Robert Dutton**[3]
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**Jean-Marc Eustache**
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**Jean Neveu**
Chairman of the Board,
Quebecor Inc. and TVA Group Inc.

**Pierre Parent**[1][2]
President,
Resort One

**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.

**Pierre Karl Péladeau**
President and Chief Executive Officer,
Quebecor Inc. and
Vice Chairman of the Board and
Chief Executive Officer, Quebecor Media Inc.

**(1) Member of the Audit Committee**
**(2) Member of the Compensation Committee**
**(3) Member of the Corporate Governance and Nominating Committee**

# Officers

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Vice Chairman of the Board and
Executive Vice President

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Vice President, Human Resources

**Jean-François Pruneau**
Treasurer

**Claudine Tremblay**
Senior Director, Corporate Secretariat
and Assistant Secretary

# General Information

**ANNUAL MEETING**
Shareholders are invited to attend the Annual Meeting of Shareholders to be held at 11 a.m. on Thursday, May 10, 2007, at Palais des congrès de Montréal, 301, rue Saint-Antoine Ouest, Montréal (Québec).
Parking: 249, rue Saint-Antoine Ouest.

**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.A and QBR.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, N.A. – Denver, Colorado

**AUDITOR**
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
Website: 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 INFORMATION**
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) 982-7555or 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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