



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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## CORPORATE PROFILE

TVA Group Inc. (“TVA Group,” “TVA” or the “Corporation”), a subsidiary of Quebecor Media Inc. (“QMI” or the “parent corporation”), is a communications company with operations in three business segments: Broadcasting & Production, Magazines, and Film Production & Audiovisual Services. In the Broadcasting & Production segment, the Corporation creates, produces and broadcasts entertainment, information and public affairs programming, distributes audiovisual products and films, and is engaged in commercial production. It operates North America’s largest private French-language television network as well as seven specialty services. TVA Group also holds a minority interest in the Évasion specialty service. In the Magazines segment, TVA Group publishes over 50 titles, making it Quebec’s largest magazine publisher. The Film Production & Audiovisual Services segment provides soundstage and equipment rental as well as postproduction, visual effects and distribution services. The Corporation’s Class B shares are listed on the Toronto Stock Exchange under the ticker symbol TVA.B.

This Management’s Discussion and Analysis covers the Corporation’s main activities during the year ended December 31, 2017, and the major year-over-year changes. The Corporation’s consolidated financial statements for the years ended December 31, 2017, 2016 and 2015 have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

All amounts presented in this Management’s Discussion and Analysis are in Canadian dollars. This Management’s Discussion and Analysis should be read in conjunction with the information in the consolidated financial statements for the financial year ended December 31, 2017.

## BUSINESS SEGMENTS

Management made changes to the Corporation’s management structure at the beginning of 2016. Some Broadcasting & Production segment operations formerly conducted by TVA Accès inc. (now Mels Dubbing Inc.) were transferred to other units of the Corporation. Commercial production remained in the Broadcasting & Production segment, while custom publishing, commercial print production and premedia services were integrated into the operations of the Magazines segment and dubbing became part of the Film Production & Audiovisual Services segment. Prior comparative period disclosures have been restated to reflect this new presentation.

The Corporation’s operations consist of the following segments:

- The **Broadcasting & Production segment** includes the operations of TVA Network (including the subsidiary and divisions TVA Productions Inc., TVA Nouvelles and TVA Interactif), specialty services, the marketing of digital products associated with the various televisual brands, commercial production services and distribution of audiovisual products;
- The **Magazines segment** through its subsidiaries, notably TVA Publications Inc. and Les Publications Charron & Cie inc., publishes magazines in various fields including the arts, entertainment, television, fashion, sports and decorating, markets digital products associated with the various magazine brands, and provides custom publishing, commercial print production and premedia services;
- The **Film Production & Audiovisual Services segment** (“MELS”) through its subsidiaries Mels Studios and Postproduction G.P. and Mels Dubbing Inc. provides soundstage and equipment rental, dubbing, postproduction, visual effects and distribution services.

## HIGHLIGHTS SINCE END OF 2016

- On February 16, 2018, QMI filed an application with the Federal Court of Appeal for leave to appeal the Canadian Radio-television and Telecommunications Commission (“CRTC”) decision of January 17, 2018 with respect to the rate paid by BCE Inc. (“Bell”) for distribution of “TVA Sports.”
- On January 26, 2018, the Corporation sold the assets associated with *The Hockey News* to Roustan Media Ltd., owned by Graeme Roustan.
- On January 22, 2018, the Corporation acquired the assets of Mobilimage inc., essentially consisting of mobile production vehicles and equipment, for \$2,750,000. The acquired company’s mobile production vehicle and equipment rental business will be incorporated into the Film Production & Audiovisual Services segment’s operations.
- On January 17, 2018, the CRTC issued its decision on the application for final offer arbitration regarding the distribution of the mainstream sports service “TVA Sports” by the broadcasting distribution undertakings (“BDUs”) operated by Bell in Quebec. The CRTC selected Bell’s offer, which sets out per-subscriber wholesale rates for distribution of “TVA Sports” that are lower than the Corporation’s expectations for the period of September 1, 2016 to August 31, 2018.
- On October 13, 2017, following the announcement of Julie Tremblay’s retirement, the Chairperson of the Board of TVA Group announced the appointment of France Lauzière as President and CEO of the Corporation, and of Martin Picard as Vice President and Chief of Content Exploitation.
- On August 14, 2017, acting on the recommendation of the Minister of Canadian Heritage, the Governor in Council referred the broadcasting decisions on the renewal of the television licences of the major French-language broadcasting groups issued by the CRTC on May 15, 2017 back to the Commission for review and new hearings. Accordingly, a review of the decisions on renewal of the Corporation’s licences has been undertaken.
- On April 10, 2017, the Corporation announced the appointment of Lyne Robitaille as Vice President responsible for the Magazines segment, in addition to her existing duties as Senior Vice President, Newspapers, Distribution & Printing of QMI.

## NON-IFRS FINANCIAL MEASURES

To evaluate its financial performance, the Corporation uses certain measures that are not calculated in accordance with or recognized under IFRS. The Corporation's method of calculating non-IFRS financial measures may differ from the methods used by other companies and, as a result, the financial measures presented in this Management's Discussion and Analysis may not be comparable to other similarly titled measures reported by other companies.

### Adjusted operating income (loss) ("Adjusted operating results")

In its analysis of operating results, the Corporation defines adjusted operating income (loss) as net income (loss) before depreciation of property, plant and equipment, amortization of intangible assets, financial expenses, impairment of goodwill and of intangible assets, operational restructuring costs and others, income taxes and share of income of associated corporations. Adjusted operating income (loss) as defined above is not a measure of results that is consistent with IFRS. Neither is it intended to be regarded as an alternative to other financial performance measures or to the statement of cash flows as a measure of liquidity. This measure should not be considered in isolation or as a substitute for other performance measures prepared in accordance with IFRS. This measure is used by management and the Board of Directors to evaluate the Corporation's consolidated results and the results of its segments. This measure eliminates the significant level of impairment, depreciation and amortization of tangible and intangible assets and is unaffected by the capital structure or investment activities of the Corporation and its segments. Adjusted operating income (loss) is also relevant because it is a significant component of the Corporation's annual incentive compensation programs. The Corporation's definition of adjusted operating income (loss) may not be identical to similarly titled measures reported by other companies.

Table 1 below presents a reconciliation of adjusted operating income to net (loss) income attributable to shareholders as disclosed in the Corporation's consolidated financial statements.

**Table 1**  
**Reconciliation of the adjusted operating income measure used in this report to the net (loss) income attributable to shareholders measure used in the consolidated financial statements**  
(in thousands of dollars)

	Years ended December 31		Three-months ended December 31	
	2017	2016	2017	2016
Adjusted operating income:				
Broadcasting & Production	\$ 41,867	\$ 22,379	\$ 16,232	\$ 17,445
Magazines	10,020	13,830	2,482	2,139
Film Production & Audiovisual Services	14,494	9,192	4,254	2,400
	<b>66,381</b>	45,401	<b>22,968</b>	21,984
Depreciation of property, plant and equipment and amortization of intangible assets	34,874	35,961	8,365	9,639
Financial expenses	2,449	3,378	480	804
Impairment of goodwill and intangible assets	42,405	40,100	–	–
Operational restructuring costs and others	6,390	5,940	1,408	4,163
Tax (recovery) expense	(3,631)	542	3,493	1,946
Share of income of associated corporations	(445)	(829)	(117)	(226)
Non-controlling interest	290	164	129	(59)
<b>Net (loss) income attributable to shareholders</b>	<b>\$ (15,951)</b>	<b>\$ (39,855)</b>	<b>\$ 9,210</b>	<b>\$ 5,717</b>

## 2017/2016 FINANCIAL YEAR COMPARISON

### Analysis of consolidated results of TVA Group

**Operating revenues:** \$589,707,000, a slight decrease of \$1,159,000 (-0.2%).

- \$11,522,000 (2.7%) increase in the Broadcasting & Production segment (Table 2) essentially due to 4.9% growth in the segment's advertising revenues and a 9.5% increase in subscription revenues at "TVA Sports." The increases were partially offset by decreased commercial production revenues at TVA Network due to lower volume of activities, decreased subscription revenues at the other specialty channels, and lower revenues from the sale of our content.
- \$21,246,000 (-18.3%) decrease in the Magazines segment (Table 2) due mainly to decreases of 26.5% in advertising revenues, 9.6% in newsstand revenues and 9.4% in subscription revenues for comparable magazines, combined with the discontinuation of some titles in 2016 and lower volume of activities in custom printing.
- \$7,753,000 (13.1%) increase in the Film Production & Audiovisual Services segment (Table 2), essentially due to a 26.7% increase in revenues from soundstage and equipment rental, and a 13.3% increase in revenues from the segment's other operations, with the exception of postproduction which posted a 22.9% decrease.

**Table 2**  
**Operating revenues**  
(in thousands of dollars)

	Years ended December 31		Three-months ended December 31	
	2017	2016	2017	2016
Broadcasting & Production	\$ 439,149	\$ 427,627	\$ 117,016	\$ 128,194
Magazines	94,583	115,829	24,207	29,120
Film Production & Audiovisual Services	67,073	59,320	16,701	15,189
Intersegment items	(11,098)	(11,910)	(2,668)	(2,981)
	\$ 589,707	\$ 590,866	\$ 155,256	\$ 169,522

**Adjusted operating income:** \$66,381,000, a \$20,980,000 (46.2%) favourable variance.

- \$19,488,000 favourable variance in the Broadcasting & Production segment (Table 3) caused mainly by a 55.8% decrease in the "TVA Sports" specialty service's adjusted operating loss, a 4.3% increase in TVA Network's adjusted operating income and a 7.8% increase in the adjusted operating income of the other specialty services, partially offset by an increase in the adjusted operating loss of the TVA.ca platform launched in October 2016.
- \$3,810,000 unfavourable variance in the Magazines segment (Table 3), essentially due to the above-noted decrease in operating revenues, which was partially offset by savings generated by the staff and expense rationalization plans implemented in recent quarters and the decrease in operating expenses caused by the discontinuation of some titles in 2016.
- \$5,302,000 favourable variance in the Film Production & Audiovisual Services segment (Table 3) due primarily to a 50.6% increase in adjusted operating income from soundstage and equipment rental.

**Table 3**  
**Adjusted operating income**  
(in thousands of dollars)

	Years ended December 31		Three-months ended December 31	
	2017	2016	2017	2016
Broadcasting & Production	\$ 41,867	\$ 22,379	\$ 16,232	\$ 17,445
Magazines	10,020	13,830	2,482	2,139
Film Production & Audiovisual Services	14,494	9,192	4,254	2,400
	\$ 66,381	\$ 45,401	\$ 22,968	\$ 21,984

**Net loss attributable to shareholders:** \$15,951,000 (-\$0.37 per basic and diluted share), compared with \$39,855,000 (-\$0.92 per basic and diluted share) in the same period of 2016.

- The \$23,904,000 (\$0.55 per basic and diluted share) favourable variance was essentially due to:
  - \$20,980,000 increase in adjusted operating income; and
  - \$4,173,000 favourable variance in income tax;
partially offset by:
  - the variance between the \$42,405,000 charge for impairment of goodwill and certain intangible assets recognized in 2017 and the \$40,100,000 goodwill impairment charge recognized in 2016.
- The calculation of losses per share were based on a weighted average of 43,205,535 outstanding diluted shares for the years ended December 31, 2017 and 2016.

**Depreciation of property, plant and equipment and amortization of intangible assets:** \$34,874,000, a \$1,087,000 (-3.0%) decrease caused mainly by the charge for impairment of certain intangible assets recognized in the third quarter of 2017.

**Financial expenses:** \$2,449,000, a \$929,000 decrease due essentially to recognition of a foreign exchange gain in 2017, compared with a foreign exchange loss in 2016, and to lower interest charges on the net defined benefit liability.

**Charge for impairment of goodwill and intangible assets:** \$42,405,000 for 2017 compared with a \$40,100,000 goodwill impairment charge for 2016.

The continuing downward trend in operating revenues in the magazines industry led the Corporation to perform impairment tests on its Magazines cash-generating unit (“CGU”) in the third quarters of 2017 and 2016. The Corporation concluded that the recoverable amount of the Magazines CGU, based on value in use, was less than its carrying amount. Accordingly, a \$29,993,000 goodwill impairment charge, including \$1,489,000 without any tax consequences (\$40,100,000 without tax consequences in 2016), and a \$12,412,000 charge for impairment of certain intangible assets, including \$3,103,000 without any tax consequences (nil in 2016), were recognized.

**Operational restructuring costs and others:** \$6,390,000 in fiscal 2017, compared with \$5,940,000 in 2016, a \$450,000 increase.

- In 2017, the Corporation recorded a \$5,526,000 charge for onerous leases extending up to June 2022 for premises left unused following implementation of rationalization plans in the Magazines segment.
- In 2017, the Corporation also recorded \$1,552,000 in operational restructuring costs in connection with the elimination of positions, including \$816,000 in the Broadcasting & Production segment, \$581,000 in the Magazines segment and \$155,000 in the Film Production & Audiovisual Services segment.
- During the same period, the Corporation also recognized a \$740,000 gain in connection with the sale of a land.
- In 2016, the Corporation recorded \$4,822,000 in operational restructuring costs in connection with the elimination of positions and discontinuation of the publication of titles, including \$2,507,000 in the Broadcasting & Production segment, \$1,834,000 in the Magazines segment, and \$481,000 in the Film Production & Audiovisual Services segment.
- In 2016, the Corporation also recognized a \$748,000 compensation payment to Videotron Ltd., a corporation under common control, in connection with the cancellation of a lease when TVA Network's Quebec City station moved and the building was put up for sale.
- During the same period, the Corporation also recognized a \$198,000 loss following the final adjustment to a contingent consideration related to the sale of the book publishing operations acquired from Transcontinental and simultaneously transferred to Sogides Group, a corporation under common control.

**Income tax recovery:** \$3,631,000 (effective tax rate of 18.4%) in 2017 compared with an income tax expense in the amount of \$542,000 (effective tax rate of -1.4%) in the same period of 2016.

- In 2017, the effective tax rate was lower than the Corporation's statutory tax rate of 26.8%, primarily because of the non-deductible portion of the charge for impairment of goodwill and certain intangible assets, and permanent differences related to other non-deductible items.
- In 2016, the effective tax rate was lower than the Corporation's statutory tax rate of 26.9%, primarily because of the non-deductible goodwill impairment expense and permanent differences related to non-deductible items.

**Share of income of associated corporations:** \$445,000 in 2017, compared with \$829,000 in 2016; the \$384,000 decrease was essentially due to lower financial results at the associated corporations, partly reflecting a \$288,000 favourable adjustment in the third quarter of 2016 to ROC Television closure costs.

**Non-controlling interest:** \$290,000 in 2017 compared with \$164,000 in 2016. The \$126,000 increase was due to an increase in the net income of a corporation in which a subsidiary of the Corporation holds a 51% interest.

## SEGMENTED ANALYSIS

### Broadcasting & Production

**Operating revenues:** \$439,149,000, an \$11,522,000 (2.7%) increase due primarily to:

- 9.5% increase in subscription revenues and 23.0% increase in advertising revenues at “TVA Sports”;
- 1.5% increase in TVA Network’s advertising revenues;
- 12.1% increase in the advertising revenues of the specialty services other than “TVA Sports”; and
- 2.8% increase in the subscription revenues of the specialty services other than “TVA Sports” and “Argent,” on a comparable basis;

partially offset by:

- lower revenues from commercial production due to decreased volume of activities and lower revenues from content sales;
- retroactive downward adjustment by a BDU to the number of subscribers to two of the Corporation’s specialty services; and
- the closure of the “Argent” specialty service in April 2016.

**Table 4**  
**French-language audience share**  
(Market share in %)

	Year 2017 vs 2016		
	2017	2016	Difference
<b>French-language conventional broadcasters:</b>			
TVA	24.1	23.8	0.3
SRC	13.0	13.0	–
V	6.4	7.1	-0.7
	<b>43.5</b>	<b>43.9</b>	<b>-0.4</b>
<b>French-language specialty and pay services:</b>			
TVA	13.1	11.7	1.4
Bell Media	14.2	15.5	-1.3
Corus	7.6	8.1	-0.5
SRC	4.8	4.8	–
Others	5.2	4.9	0.3
	<b>44.9</b>	<b>45.0</b>	<b>-0.1</b>
<b>Total English-language channels and others:</b>	<b>11.6</b>	<b>11.1</b>	<b>0.5</b>
<b>TVA Group</b>	<b>37.2</b>	<b>35.5</b>	<b>1.7</b>

Source: Numeris - French Quebec, January 1 to December 31, 2017, Mon-Sun, 2:00 – 2:00, All 2+.

## French-language audience share

TVA Group's total market share for the period of January 1 to December 31, 2017 was 37.2%, compared with 35.5% in the same period of 2016, a 1.7-point increase.

TVA Group's specialty services had a combined market share of 13.1% in 2017, compared with 11.7% in 2016, a 1.4-point increase. The "LCN" and "Prise 2" channels were responsible for the bulk of the growth, with increases of 0.8 and 0.5 points respectively. With a 4.5% share, "LCN" became the most-watched specialty channel in Québec.

The "TVA Sports" channel also posted 0.3-point growth. The first round of the National Hockey League ("NHL") playoffs in the spring of 2017 was the 14<sup>th</sup> most-watched show in Quebec in 2017, with an average audience of 1,383,600 (38% market share). Most of the other specialty services maintained their market share.

TVA Network remains in the lead with a 24.1% market share, more than its two main over-the-air rivals combined. TVA Network carried 16 of the 30 most-watched programs in Quebec in 2017, including *La Voix*, which attracted nearly 2.3 million viewers, the grand finale of *Les beaux malaises* with more than 2 million viewers, and *La Voix Junior* with nearly 1.9 million viewers.

**Operating expenses:** \$397,282,000, a \$7,966,000 (-2.0%) decrease due primarily to:

- 4.4% decrease in the operating expenses of the "TVA Sports" channel, essentially because of:
  - comparative savings reflecting production and broadcast costs for the World Cup of Hockey tournament in 2016;partially offset by:
  - increase in program production costs caused by the fact that the Montreal Canadiens qualified for the spring 2017 Stanley Cup playoffs;
- 1.5% decrease in TVA Network's operating expenses, essentially because of the combination of:
  - savings related to fringe benefits, the expense rationalization plan implemented in the fourth quarter of 2016, and changes to the Corporation's management structure;
  - decrease in costs resulting from lower volume of activities in commercial production;
  - higher content and production costs; and
  - higher commissions on advertising sales;
- 28.2% decrease in operating expenses related to distribution of audiovisual products due to lower volume of activities; and
- decrease in the "Argent" channel's operating expenses resulting from its closure in April 2016; partially offset by increase in operating expenses related to the TVA.ca platform launched in October 2016.

**Adjusted operating income:** \$41,867,000, a \$19,488,000 (87.1%) favourable variance due primarily to:

- 55.8% decrease in the adjusted operating loss of "TVA Sports" because of the above-noted factors;
- 4.3% increase in TVA Network's adjusted operating income; and
- 7.8% increase in the adjusted operating income of the other specialty services;

partially offset by:

- increase in the adjusted operating loss of the TVA.ca platform.

**Analysis of cost/revenue ratio:** Employee costs and the cost of purchases of goods and services for the Broadcasting & Production segment's activities (expressed as a percentage of revenues) decreased from 94.8% in 2016 to 90.5% in 2017. The decrease was caused by higher operating revenues combined with the decrease in operating expenses.

## Magazines

**Operating revenues:** \$94,583,000, a \$21,246,000 (-18.3%) decrease due mainly to:

- 26.5% decrease in advertising revenues for comparable magazines, caused largely by the women's and decorating & cooking categories;
- loss of operating revenues resulting from the discontinuation of some titles in 2016;
- 9.6% decrease in newsstand revenues for comparable magazines, mainly in the entertainment category;
- decreased custom publishing revenues due to lower volume of activities; and
- 9.4% decrease in subscription revenues for comparable magazines, most substantially in the women's category.

## Canada Periodical Fund

The Government of Canada launched the Canada Periodical Fund ("CPF") on April 1, 2010. The CPF provides financial assistance to the Canadian magazine and non-daily newspaper industries so they can continue to produce and distribute Canadian content. All assistance related to this program is fully recorded under operating revenues. It amounted to 12.7% of the segment's operating revenues for fiscal 2017 (10.9% in 2016).

## Readership and market share statistics

With more than 3.2 million readers across all platforms for its French titles, TVA Group is the top publisher of French-language magazines in Quebec. It is also a leading player in the Canadian magazine market with a total of 9.8 million cross-platform readers. *7 Jours* is the number 1 entertainment and celebrity news magazine in Quebec with 558,000 readers on all platforms per week.

Canada's lifestyle standard-setter *Canadian Living* has 3.9 million readers on all platforms. Its French-language counterpart *Coup de pouce* is the leading French-language women's magazine in print and reaches 1.4 million readers per month on all platforms.

*Elle Canada* held its position as the country's top fashion and beauty magazine with more than 1.7 million readers on all platforms while *Clin d'œil* was Quebec's most popular French-language fashion and beauty magazine with 662,000 cross-platform readers.

Source: Vividata, Q3 2017, Total Canada, 12+

**Operating expenses:** \$84,563,000, a \$17,436,000 (-17.1%) decrease due mainly to:

- savings generated by the staff and expense rationalization plans implemented in recent quarters;
- decrease in operating expenses caused by the discontinuation of some titles in 2016; and
- decrease in operating expenses caused by lower volume of activities in custom publishing.

**Adjusted operating income:** \$10,020,000, a \$3,810,000 (-27.5%) unfavourable variance due mainly to the decrease in operating revenues, which outweighed the savings generated by the staff and expense rationalization plans.

**Analysis of cost/revenue ratio:** Employee costs and the cost of purchases of goods and services for the Magazines segment's activities (expressed as a percentage of revenues) increased slightly from 88.1% in 2016 to 89.4% in 2017. The increase was mainly due to the above-noted factors.

### **Film Production & Audiovisual Services**

**Operating revenues:** \$67,073,000, a \$7,753,000 (13.1%) increase due primarily to:

- 26.7% increase in revenues from soundstage and equipment rental due to the high utilization rate of our soundstages and major movie shoots in Montreal in 2017 compared with 2016; and
  - 13.3% increase in combined revenues from dubbing, subtitling, visual effects and distribution;
- partially offset by:
- 22.9% decrease in postproduction revenues due to lower volume of activities.

This segment's operations are heavily dependent on the availability of soundstages and equipment, and on the ability to meet producers' service production needs in accordance with shooting schedules.

The first and last quarters of the year are traditionally slow periods. In 2016, however, the Corporation recorded relatively strong first quarter results because of the filming of the series *Quantico* and relatively weak results during the rest of the year, when there were no major productions.

In 2017, filming for the major production *X-Men*, which required most of our facilities and a large portion of our equipment, moved into full swing in the third quarter and wound up in the fourth quarter, contributing to the variance in the segment's quarterly results.

**Operating expenses:** \$52,579,000, a \$2,451,000 (4.9%) increase due primarily to:

- 16.0% increase in operating expenses related to soundstage and equipment rental due to higher volume of activities; and
  - increases related to higher volume of activities in visual effects, dubbing and subtitling;
- partially offset by:
- 13.0% decrease in operating expenses related to postproduction services due to lower volume of activities.

**Adjusted operating income:** \$14,494,000, a \$5,302,000 (57.7%) favourable variance due primarily to the increase in adjusted operating income from soundstage and equipment rental.

**Analysis of cost/revenue ratio:** Employee costs and the cost of purchases of goods and services for the Film Production & Audiovisual Services segment's activities (expressed as a percentage of revenues) decreased from 84.5% in 2016 to 78.4% in 2017, essentially because of increased operating revenues generated by soundstage and equipment rental.

## 2017/2016 FOURTH QUARTER COMPARISON

### Analysis of consolidated results of TVA Group

**Operating revenues:** \$155,256,000, a \$14,266,000 (-8.4%) decrease.

- \$11,178,000 (-8.7%) decrease in the Broadcasting & Production segment (Table 2) essentially due to a 6.4% decrease in the segment's advertising revenues and a 15.0% decrease in the subscription revenues of the specialty channels as a result of retroactive adjustments to subscriptions to "TVA Sports" and two other specialty channels.
- \$4,913,000 (-16.9%) decrease in the Magazines segment (Table 2) due mainly to decreases of 22.8% in advertising revenues, 13.4% in newsstand revenues and 12.9% in subscription revenues for comparable magazines, combined with the discontinuation of some titles in 2016.
- \$1,512,000 (10.0%) increase in the Film Production & Audiovisual Services segment (Table 2), essentially due to higher revenues from soundstage and equipment rental, partially offset by a decrease in postproduction revenues.

**Adjusted operating income:** \$22,968,000, a \$984,000 (4.5%) increase.

- \$1,213,000 unfavourable variance in the Broadcasting & Production segment (Table 3), mainly because of a 9.5% decrease in the adjusted operating income of TVA Network.
- \$343,000 favourable variance in the Magazines segment (Table 3), essentially due to the implementation of staff and expense rationalization plans in recent quarters and the decrease in operating expenses caused by the discontinuation of some titles in 2016, largely offset by the above-noted decrease in operating revenues.
- \$1,854,000 favourable variance in the Film Production & Audiovisual Services segment (Table 3), caused primarily by an increase in adjusted operating income from soundstage and equipment rental, and a decrease in the adjusted operating loss of visual effects, partially offset by lower adjusted operating results from postproduction.

**Net income attributable to shareholders:** \$9,210,000 (\$0.21 per basic and diluted share) for the fourth quarter of 2017, compared with \$5,717,000 (\$0.13 per basic and diluted share) in the same period of 2016.

- The \$3,493,000 (\$0.08 per basic and diluted share) favourable variance was essentially due to:
  - \$2,755,000 favourable variance in operational restructuring costs and others;
  - \$1,274,000 favourable variance in depreciation and amortization expenses; and
  - \$984,000 increase in adjusted operating income;partially offset by:
  - \$1,547,000 unfavourable variance in the income tax expense.
- The calculation of earnings per share was based on a weighted average of 43,205,535 outstanding diluted shares for the quarters ended December 31, 2017 and 2016.

**Depreciation of property, plant and equipment and amortization of intangible assets:** \$8,365,000, a \$1,274,000 (-13.2%) decrease from the same quarter of 2016 caused mainly by the charge for impairment of certain intangible assets recognized in the third quarter of 2017.

**Financial expenses:** \$480,000, a \$324,000 decrease essentially due to higher interest revenues in the fourth quarter of 2017 than in the same period of 2016 and recognition of a foreign exchange gain for the quarter ended December 31, 2017, compared with a foreign exchange loss in the same period of 2016.

**Operational restructuring costs and others:** \$1,408,000 in the three-month period ended December 31, 2017, compared with \$4,163,000 in the same period of 2016, a \$2,755,000 favourable variance.

- In the fourth quarter of 2017, the Corporation made a \$1,863,000 upward adjustment to the charge for onerous leases extending up to June 2022 as a result of revised revenue estimates with respect to the subleasing of premises left unused following implementation of rationalization plans in the Magazines segment.
- In the three-month period ended December 31, 2017, the Corporation recorded \$285,000 in operational restructuring costs in connection with the elimination of positions, including \$106,000 in the Broadcasting & Production segment, \$161,000 in the Magazines segment, and \$18,000 in the Film Production & Audiovisual Services segment.
- During the same period, the Corporation also recognized a \$740,000 gain in connection with the sale of a land, as noted in the 2017/2016 financial year comparison above.
- In the three-month period ended December 31, 2016, in addition to recognition of a \$748,000 compensation payment for cancelling a lease, as described in the 2017/2016 financial year comparison, the Corporation recorded \$3,415,000 in operational restructuring costs in connection with the elimination of positions, including \$1,762,000 in the Broadcasting & Production segment, \$1,339,000 in the Magazines segment, and \$314,000 in the Film Production & Audiovisual Services segment.

**Income tax expense:** \$3,493,000 (effective tax rate of 27.5%) in the fourth quarter of 2017, compared with \$1,946,000 (effective tax rate of 26.4%) in the same period of 2016.

- In the fourth quarter of 2017, the effective income tax rate was higher than the Corporation's statutory tax rate of 26.8%, mainly because of permanent differences related to non-deductible items.
- The effective tax rate was slightly lower than the Corporation's statutory tax rate of 26.9% in the fourth quarter of 2016.

**Share of income of associated corporations:** \$117,000 in the fourth quarter of 2017, compared with \$226,000 in the same period of 2016; the \$109,000 unfavourable variance was mainly due to the lower financial results of an associated corporation in the television industry in 2017 than in 2016.

**Non-controlling interest:** \$129,000 in the three-month period ended December 31, 2017 compared with -\$59,000 in the same period of 2016. The \$188,000 increase was due to the improved financial results of a corporation in which a subsidiary of the Corporation holds a 51% interest.

## SEGMENTED ANALYSIS

### Broadcasting & Production

**Operating revenues:** \$117,016,000, an \$11,178,000 (-8.7%) decrease due primarily to:

- 10.2% decrease in TVA Network's advertising revenues;
- unfavourable retroactive adjustment resulting from the CRTC decision on the rate payable by Bell for distribution of the "TVA Sports" channel; and
- unfavourable retroactive adjustment by a BDU to the number of paying subscribers to two of the Corporation's specialty services during the period of September 1, 2015 to April 30, 2017;

partially offset by:

- 9.8% increase in the advertising revenues of the specialty services; and
- 2.2% increase in the subscription revenues of the specialty services other than "TVA Sports" on a comparable basis.

## French-language audience share

**Table 5**

### French-language audience share

(Market share in %)

Fourth quarter 2017 vs Fourth quarter 2016			
	2017	2016	Difference
<b>French-language conventional broadcasters:</b>			
TVA	24.3	24.1	0.2
SRC	14.5	13.4	1.1
V	6.8	7.0	-0.2
	45.6	44.5	1.1
<b>French-language specialty and pay services:</b>			
TVA	12.1	11.4	0.7
Bell Media	13.0	15.8	-2.8
Corus	7.7	7.1	0.6
SRC	4.6	4.7	-0.1
Others	5.2	4.9	0.3
	42.6	43.9	-1.3
<b>Total English-language channels and others:</b>	<b>11.8</b>	11.6	0.2
<b>TVA Group</b>	<b>36.4</b>	35.5	0.9

Source: Numeris - French Quebec, October 1 to December 31, 2017, Mon-Sun, 2:00 – 2:00, All 2+.

TVA Group’s total market share for the period of October 1 to December 31, 2017 was 36.4%, compared with 35.5% in the same period of 2016, a 0.9-point increase. TVA Network grew its market share by 0.2 points while the combined market share of the specialty services increased by 0.7 points from 11.4% to 12.1%.

The “LCN” channel’s market share increased by 0.6 points to 4.6%. The “Prise 2,” “MOI&cie” and “addikTV” channels grew their market share by 0.4, 0.2 and 0.1 points respectively, while the “Yoopla,” “TVA Sports” and “Casa” channels lost 0.3, 0.2 and 0.1 points. TVA Network remains in the lead with a 24.3% market share, more than its two main over-the-air rivals combined.

The *La Voix* phenomenon held strong. The grand finale of *La Voix Junior* attracted an audience that peaked at 2,476,000.<sup>1</sup> The original television series *L’Échappée*, *Boomerang* and *O’* broke through the million-viewer mark, as did the new shows *L’expérience Messmer*, *Conversation secrète* and *La vraie nature*.

<sup>1</sup> Source: Numeris, French Quebec, Sunday, November 19, 7 pm–9 pm

**Operating expenses:** \$100,784,000, a decrease of \$9,965,000 (-9.0%) due primarily to:

- 8.4% decrease in TVA Network's operating expenses, essentially because of:
  - savings related to fringe benefits and changes in the Corporation's management structure;
  - lower content and news costs; and
  - decrease in commissions on advertising sales;partially offset by:
  - higher production costs;
- 11.9% decrease in the operating expenses of "TVA Sports" resulting primarily from costs related to broadcast of the World Cup of Hockey final in the fourth quarter of 2016; and
- decrease in operating expenses related to distribution of audiovisual products.

**Adjusted operating income:** \$16,232,000, a \$1,213,000 (-7.0%) unfavourable variance due primarily to the 9.5% decrease in TVA Network's adjusted operating income.

**Analysis of cost/revenue ratio:** Employee costs and the cost of purchases of goods and services for the Broadcasting & Production segment's activities (expressed as a percentage of revenues) were relatively stable, decreasing from 86.4% in the fourth quarter of 2016 to 86.1% in the fourth quarter of 2017.

## Magazines

**Operating revenues:** \$24,207,000, a decrease of \$4,913,000 (-16.9%) primarily due to:

- 22.8% decrease in advertising revenues for comparable magazines, caused essentially by the women's and decorating & cooking categories;
- 13.4% decrease in newsstand revenues for comparable magazines, mainly in the entertainment category;
- 12.9% decrease in subscription revenues for comparable magazines, most substantially in the women's and specialty categories; and
- decrease in operating revenues caused by the discontinuation of some titles in 2016.

**Operating expenses:** \$21,725,000, a \$5,256,000 (-19.5%) decrease due primarily to the savings generated by the staff and expense rationalization plans implemented in recent quarters and the decrease in operating expenses caused by the discontinuation of some titles in 2016.

**Adjusted operating income:** \$2,482,000, a \$343,000 (16.0%) favourable variance due mainly to the savings generated by the staff and expense rationalization plans, which outweighed the decrease in operating revenues.

**Analysis of cost/revenue ratio:** Employee costs and the cost of purchases of goods and services for the Magazines segment's activities (expressed as a percentage of revenues) decreased from 92.7% in the fourth quarter of 2016 to 89.7% in the same period of 2017. The decrease was mainly due to the fact that the decrease in operating expenses exceeded the decrease in operating revenues.

## Film Production & Audiovisual Services

**Operating revenues:** \$16,701,000, a \$1,512,000 (10.0%) increase due primarily to:

- 37.9% increase in soundstage and equipment rental revenues because of higher volume of activities in the fourth quarter of 2017 than in the same period of 2016;

partially offset by:

- 14.2% decrease in revenues from all of the segment's other operations as a result of lower volume of activities, particularly in postproduction.

**Operating expenses:** \$12,447,000, a decrease of \$342,000 (-2.7%) due mainly to lower operating expenses for all of the segment's operations except soundstage and equipment rental, the operating expenses of which increased by 21.9% because of higher volume of activities in the fourth quarter of 2017 than in the same period of 2016.

**Adjusted operating income:** \$4,254,000, a \$1,854,000 (77.3%) favourable variance due primarily to the increase in adjusted operating income generated by higher volume of activities in soundstage and equipment rental and a decrease in the adjusted operating loss of visual effects, partially offset by a decrease in the adjusted operating results generated by postproduction due to lower volume of activities.

**Analysis of cost/revenue ratio:** Employee costs and the cost of purchases of goods and services for the Film Production & Audiovisual Services segment's activities (expressed as a percentage of revenues) decreased from 84.2% in the fourth quarter of 2016 to 74.5% in the fourth quarter of 2017. The decrease was caused by higher operating revenues combined with the decrease in operating expenses.

## 2016/2015 FINANCIAL YEAR COMPARISON

The table below shows the Corporation's operating results for the years ended December 31, 2016 and 2015:

**Table 6**  
**Comparative consolidated results for 2016 and 2015**  
(in thousands of dollars)

	Years ended December 31	
	2016	2015
<b>Operating revenues:</b>		
Broadcasting & Production	\$ 427,627	\$ 417,891
Magazines	115,829	117,132
Film Production & Audiovisual Services	59,320	64,570
Intersegment items	(11,910)	(9,703)
	\$ 590,866	\$ 589,890
<b>Adjusted operating income:</b>		
Broadcasting & Production	\$ 22,379	\$ 24,115
Magazines	13,830	9,080
Film Production & Audiovisual Services	9,192	14,195
	\$ 45,401	\$ 47,390
Total assets	\$ 586,608	\$ 635,114
Non-current liabilities	75,936	82,658

## SEGMENTED TREND ANALYSIS FOR YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

### Broadcasting & Production

#### Operating revenues

The Broadcasting & Production segment has recorded operating revenue growth in the order of 5.1% over the past three years. The growth derived mainly from the specialty channels, which increased their combined operating revenues by 9.8%. Advertising revenues increased 4.2% and subscription revenues by 12.7% despite the closure of the “Argent” channel in 2016. The “TVA Sports” channel accounted for much of the growth with a 16.7% increase in operating revenues. The “MOI&cie,” “Prise 2,” “Casa” and “addikTV” specialty services also grew their revenues by 29.3%, 10.8%, 9.2% and 8.9% respectively. Despite television audience fragmentation across content delivery platforms, including the Internet and video on demand, the Broadcasting & Production segment grew its advertising revenues by 4.9% as a result of its strategy of diversifying to specialty channels and the *TVA.ca* platform. During the period, TVA Group was also able to increase its market share by 3.1 points to 37.2%. The combined market share of the specialty services increased by 1.8 points while TVA Network grew its market share by 1.3 points.

#### Adjusted operating income

The segment’s adjusted operating income has increased by 73.6% since 2015. The “TVA Sports” channel was responsible for most of the improvement. It reduced its adjusted operating loss by more than half as a direct result of the increase in its operating revenues. The adjusted operating income of the other specialty channels increased by 20.6%, also mainly as a result of increased operating revenues. TVA Network grew its adjusted operating income by 3.1% during the period because the increase in its operating revenues exceeded the increase in its operating expenses. Those increases were partially offset by the adjusted operating loss of the *TVA.ca* platform launched in October 2016.

### Magazines

#### Operating revenues

The segment’s operating revenues decreased by 19.3% during the period despite the acquisition of magazines from Transcontinental Inc. in April 2015. The decrease was caused essentially by lower advertising and newsstand revenues for comparable magazines, lower custom publishing revenues, and the discontinuation of some titles. The downtrend in advertising revenues, which has affected the entire Canadian magazine industry, led to recognition of a \$42,405,000 non-cash charge for impairment of goodwill and certain intangible assets in the Magazines CGU in 2017 and a \$40,100,000 non-cash goodwill impairment charge in the same CGU in 2016.

#### Adjusted operating income

The segment’s adjusted operating income has increased by 10.4% since 2015 despite the decrease in advertising and newsstand revenues for comparable magazines. The increase in adjusted operating income derives primarily from the various staff and expense rationalization plans implemented in recent years to offset the decrease in operating revenues and the acquisition of magazines from Transcontinental Inc. in April 2015. TVA Group is the largest magazine publisher in Quebec.

## Film Production & Audiovisual Services

### Operating revenues

The acquisition of substantially all of the assets of A.R. Global Vision Ltd. on December 30, 2014 enabled the Corporation to diversify its revenue streams. The Film Production & Audiovisual Services segment has recorded 3.9% operating revenue growth over the past three years. The growth derived mainly from dubbing, subtitling, asset management and distribution operations, as well as visual effects. It was partially offset by lower operating revenues from postproduction. Soundstage and equipment rental accounted for 56.0% of segment revenues in 2017, compared with 49.9% and 58.0% in 2016 and 2015 respectively. The decrease in operating revenues from soundstage and equipment rental in 2016 was due to last-minute cancellation of a major production, causing a shortfall which the Corporation was unable to make up in its entirety. The segment's other operations (postproduction, visual effects, dubbing, subtitling, asset management and distribution) increased their combined operating revenues by 8.9% between 2015 and 2017.

### Adjusted operating income

The segment's profit margin was 22.0% in 2015, 15.5% in 2016 and 21.6% in 2017. The aforementioned last-minute cancellation of a major production was also responsible for the decreases in adjusted operating income and profit margin in 2016.

## CASH FLOWS AND FINANCIAL POSITION

Table 7 below shows a summary of cash flows related to operating, investing and financing activities:

**Table 7**  
**Summary of the Corporation's cash flows**  
(in thousands of dollars)

	Years ended December 31		Three months ended December 31	
	2017	2016	2017	2016
Cash flows related to operating activities	\$ 33,289	\$ 41,655	\$ 2,373	\$ 5,271
Business disposal	–	222	–	–
Net additions to property, plant and equipment and intangible assets	(22,676)	(31,366)	(3,699)	(5,859)
Net change in investments	350	(895)	–	–
Others	(31)	7	(41)	14
<b>Reimbursement of (increase in) net debt</b>	<b>\$ 10,932</b>	<b>\$ 9,623</b>	<b>\$ (1,367)</b>	<b>\$ (574)</b>
	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
<b>At period end:</b>				
Long-term debt	\$ 52,708		\$ 62,561	
Derivative financial instrument	–		322	
Short-term debt	9,844		6,562	
Less: cash	(21,258)		(17,219)	
<b>Net debt</b>	<b>\$ 41,294</b>		<b>\$ 52,226</b>	

## **Operating activities**

**Cash flows provided by operating activities:** \$8,366,000 decrease in 2017 mainly reflecting a \$21,342,000 unfavourable net change in operating assets and liabilities, essentially due to unfavourable variances in broadcast rights payable and accounts receivable, partially offset by favourable variances in programs, broadcast rights and inventories and in deferred revenues. The \$7,357,000 increase in income taxes payable was also a factor in the unfavourable variance. These unfavourable variances were partially offset by the \$20,980,000 increase in adjusted operating income.

**Working capital of TVA Group:** \$32,368,000 as at December 31, 2017 compared with \$12,899,000 as at December 31, 2016, a \$19,469,000 favourable variance mainly reflecting a decrease in current liabilities, particularly broadcast rights payable.

## **Investing activities**

**Net additions to property, plant and equipment and to intangible assets:** \$22,676,000 in 2017 compared with \$31,366,000 in 2016. The \$8,690,000 (-27.7%) decrease was mainly due to the net change in additions to property, plant and equipment and intangible assets financed from accounts payable and accrued liabilities, which amounted to -\$1,164,000 in 2017 compared with \$4,842,000 in 2016, as well as receipt of \$740,000 for disposal of an item of property, plant and equipment in 2017.

During 2017, the Corporation acquired equipment for rental, refurbished the ventilation system at one of its studio complexes and set up new premises to accommodate expected growth in the postproduction and visual effects businesses. The Corporation also continued making capital expenditures related to facilities.

and high-definition production equipment at some local stations.

**Business disposal:** \$222,000 in 2016. As part of the transaction closed with Transcontinental Inc. on April 12, 2015, the Corporation simultaneously transferred the acquired book publishing operations to Sogides Group, a corporation under common control, for the equivalent of the price paid, namely an agreed price of \$720,000, including \$300,000 in cash, and a contingent consideration receivable valued at \$420,000 in the fourth quarter of 2015. During the second quarter of 2016, the Corporation received a final contingent consideration of \$222,000 and accordingly recorded a \$198,000 loss under operational restructuring costs and others to reflect the change in value of that consideration.

**Net change in investments:** \$350,000 in fiscal 2017 compared with -\$895,000 in 2016. In 2017, the Corporation received \$293,000 related to an investment in an associated corporation and a \$57,000 liquidation dividend related to a portfolio investment. In 2016, the Corporation made a \$1,274,000 capital contribution to ROC Television and received \$379,000 related to other investments.

## **Financing activities**

**Long-term debt** (excluding deferred financing costs): \$62,839,000 as at December 31, 2017, compared with \$69,607,000 at December 31, 2016. The \$6,768,000 reduction essentially reflects quarterly capital repayments on the term loan.

## Financial position as at December 31, 2017

**Net available liquid assets:** \$171,258,000, consisting of a \$150,000,000 unused and available revolving credit facility and \$21,258,000 in cash.

As at December 31, 2017, minimum principal payments on debt in the coming years were as follows:

**Table 8**  
**TVA Group minimum principal payments on debt**  
**Years ended December 31**  
**(in thousands of dollars)**

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2018	\$	9,844
2019		52,995
<b>Total</b>	<b>\$</b>	<b>62,839</b>

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The weighted average term of TVA Group's debt was approximately 1.6 years as of December 31, 2017 (2.4 years as of December 31, 2016). The debt consisted entirely of floating-rate debt as of December 31, 2017 and 2016.

The Corporation also has a \$150,000,000 revolving credit facility, which was renewed on November 3, 2014 and matures on February 24, 2019. As at December 31, 2017 and 2016, there were no drawings on the revolving credit facility.

The Corporation's management believes that the cash flows generated on an annual basis by continuing operating activities and by available sources of financing should be sufficient to meet future cash requirements in regard to capital investments, working capital, interest payments, income tax payments, debt repayment, pension plan contributions, share redemptions, dividend payments (or distribution of capital), and to meet its commitments and guarantees.

Under its credit agreements, the Corporation is subject to certain covenants, including maintenance of certain financial ratios. As at December 31, 2017, the Corporation was in compliance with all the terms of its credit agreements.

**Analysis of consolidated balance sheet as at December 31, 2017**

**Table 9**

**Consolidated balance sheets of TVA Group**

**Analysis of main variances between December 31, 2017 and December 31, 2016**

(in thousands of dollars)

	<b>Dec. 31, 2017</b>	Dec. 31, 2016	Difference	Main reasons for difference
<b><u>Assets</u></b>				
Intangible assets	\$ <b>15,120</b>	\$ 32,493	\$ (17,373)	Recognition of an impairment charge in 2017.
Goodwill	<b>7,892</b>	37,385	(29,993)	Recognition of an impairment charge in 2017.
Deferred taxes	<b>14,015</b>	3,351	10,664	Impact of the increase in the deductible temporary difference arising from recognized impairment charge.
<b><u>Liabilities</u></b>				
Broadcast rights payable	<b>69,244</b>	92,627	(23,383)	Impact of additional monthly broadcast rights payments.
Long-term debt	<b>52,708</b>	62,561	(9,853)	Impact of quarterly capital repayments.

## ADDITIONAL INFORMATION

### Contractual obligations

As of December 31, 2017, material contractual commitments of operating activities included capital repayment and interest on debt, payments under broadcast rights acquisition contracts, and payments under other contractual commitments, such as operating leases for services and office space. These contractual obligations are summarized in Table 10.

**Table 10**  
**Material contractual obligations of TVA Group as of December 31, 2017**  
(in thousands of dollars)

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Long-term debt	\$ 9,844	\$ 52,995	\$ –	\$ –	\$ 62,839
Payment of interest <sup>1</sup>	2,232	1,578	–	–	3,810
Broadcast rights	180,118	154,203	140,580	239,487	714,388
Other commitments	20,455	20,974	3,529	2,367	47,325
<b>Total</b>	<b>\$ 212,649</b>	<b>\$ 229,750</b>	<b>\$ 144,109</b>	<b>\$ 241,854</b>	<b>\$ 828,362</b>

<sup>1</sup> Interest is calculated on a constant debt level equal to that at December 31, 2017 on the revolving credit facility and includes standby fees on that facility.

In 2013, QMI and TVA Group reached a 12-year agreement with Rogers Communications Inc. for Canadian French-language broadcast rights to NHL games. Operating expenses related to that contract are recognized in the Corporation's operating expenses and total commitments related to the contract have been included in the Corporation's commitments.

### Pension plan contributions

The expected employer contributions to the Corporation's defined-benefit pension plans and post-retirement benefit plans will be \$3,630,000 in 2018, based on the most recently filed actuarial report (contributions of \$4,620,000 were paid in 2017).

### Related party transactions

The Corporation entered into the following transactions with related parties in the normal course of business. These transactions were accounted for at the consideration agreed between parties.

The Corporation sold advertising space and broadcast rights to, recognized subscription revenues from, and provided production, postproduction and other services to corporations under common control and associated corporations in the aggregate amount of \$102,396,000 (\$100,095,000 in 2016).

The Corporation recorded telecommunications service costs, advertising space acquisition costs, professional service fees and commissions on sales and news gathering services arising from transactions with companies under common control and associated corporations totalling \$45,410,000 (\$45,135,000 in 2016).

In 2017, the Corporation also billed management fees to corporations under common control in the amount of \$3,556,000 (\$4,456,000 in 2016). These fees are recorded as a reduction of operating expenses.

The Corporation also recorded management fees to the parent corporation in the amount of \$3,420,000 in fiscal 2017 (\$3,820,000 in 2016).

## ROC Television

Since the announcement on February 13, 2015 of the discontinuation of the “SUN News” specialty service, operated by ROC Television, in which TVA Group holds a 49% interest, the Corporation has made capital contributions to ROC Television to cover its operating losses up to the closure date as well as costs related to the discontinuation of operations. A \$198,000 allowance was recorded under accounts payable and accrued liabilities at December 31, 2017 to cover those costs.

The partners made a capital contribution of \$2,600,000 in 2016, including \$1,274,000 from TVA Group for costs for which an allowance had already been made at the end of fiscal 2015 and \$1,326,000 from the other partner.

## Off-balance sheet arrangements

### Guarantees

The Corporation has guaranteed a portion of the residual values of certain assets under operating leases for the benefit of the lessor. If the fair value of the assets at the end of their respective lease terms is less than their guaranteed residual value, the Corporation is required to compensate the lessor for a portion of the shortfall, subject to certain conditions. As at December 31, 2017, the maximum liability in respect of these guarantees totalled approximately \$306,000, and the Corporation has recognized no amount in the consolidated balance sheet in relation to these guarantees. In previous years, the Corporation has made no payments in respect of these guarantees.

In the normal course of business, the Corporation enters into indemnification agreements with third parties as part of certain transactions, including acquisition contracts for goods, service agreements and leases. These indemnification agreements require the Corporation to compensate the third parties for costs incurred as a result of specific circumstances. The terms of these indemnification agreements vary from transaction to transaction, based on the contract terms. The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to third parties for all of its commitments.

## Capital stock

Table 11 below presents information on the Corporation’s capital stock. In addition, 60,000 Class B stock options of the Corporation were outstanding as of February 16, 2018.

**Table 11**  
**Number of shares outstanding as at February 16, 2018**  
(in shares and dollars)

	<b>Issued and outstanding</b>	<b>Carrying Amount</b>
Class A common shares	4,320,000	\$ 0.02
Class B shares	38,885,535	\$ 5.33

## **Risks and uncertainties**

The Corporation operates in the communications industry, which has a variety of risk factors and uncertainties. Due to the risks and uncertainties outlined below, the Corporation's operating environment and financial results may be materially affected. These risks are not the only ones that may affect the Corporation. Other risks and uncertainties, of which the Corporation is unaware, or deems negligible at this time, could also have a considerable negative impact on its financial position, operating results, cash flows or its activities.

### Risks related to seasonality and fluctuation of results of operations

The Corporation's business is sensitive to general economic cycles and may be adversely affected by the cyclical nature of the markets the Corporation serves, as well as by local, regional, national and global economic conditions. Seasonal variations in retail business influence the Corporation's financial results. In addition, the Broadcasting & Production segment has experienced and is expected to continue to experience significant seasonality due to, among other things, seasonal advertising patterns and seasonal influences on people's viewing habits.

Consequently, results of operations may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. Cash flow from operations may also fluctuate and are not necessarily closely correlated with revenue recognition. In particular, results of operations in any period depend to a large extent upon the production and delivery schedule of television programs and film projects.

The operating results of the Film Production & Audiovisual Services segment have varied in the past, and may vary in the future, depending on factors such as the timing of new service introductions, the timing of revenue recognition of longer term projects, increased competition, the ability of customers to finance projects, general economic factors and other factors. The Film Production & Audiovisual Services segment's operating results have historically been significantly influenced by the volume of business from the motion picture industry, which is an industry that is subject to seasonal and cyclical downturns, and, occasionally, work stoppages by actors, writers and others. A few customers represent a large part of the Film Production & Audiovisual Services segment's operating revenues, impacting the ability to forecast revenue in a particular quarter.

In addition, because the Corporation's operations are labour intensive, its cost structure is highly fixed and improvements in the flexibility and competitiveness of its cost structure may be difficult to achieve. During periods of economic contraction, revenues may decrease while the cost structure remains stable, resulting in decreased income. Similarly, fixed costs, including costs associated with grid programming and television content, leases, labour, depreciation and amortization expenses, account for a significant portion of the Corporation's business expenses. As a result of increases in grid programming and television content costs, lease rates, labour costs or capital expenditures, the financial results of the Corporation may be adversely affected.

### Risks related to the competition

Competition for advertising, customers, viewers, listeners, readers, and consumers is intense and comes from conventional television stations and networks, specialty services, radio, local, regional and national newspapers, magazines, direct mail, and other traditional and non-traditional communications and advertising media that operate in the Corporation's markets. The Corporation expects competition to persist, intensify and increase in each of its business areas in the future. Added competition in the market could result in reduced advertising sales and subscribers or an increase in costs to acquire programming and, consequently, have a negative impact on revenues. Competitors include both private companies and government-owned players, some of which have longer operating histories, greater name recognition, larger installed customer bases and greater financial, technical, marketing and other resources than the Corporation. As a result, they may be able to respond more quickly to new or changing opportunities, technologies, standards or customer requirements. Moreover, publicly owned stations benefit from strong financial support from governments, while also maintaining access to the advertising market and funding available for Canadian programming. In addition, increasing consolidation in the Canadian media industry is creating competitors with interests in multiple industries and media. The resources of some competitors may also give them an advantage in acquiring other businesses or assets that the Corporation might also be interested in acquiring. For all of the foregoing reasons, there can be no

assurance that the Corporation will be able to compete successfully against current or future competitors. Such competition could materially adversely affect the Corporation's business, operating results or financial condition.

Soundstage and equipment rental, postproduction and visual effects is a highly competitive, service-oriented business. The Corporation does not always have long-term or exclusive service agreements with its clients. Business is generally awarded based on customer satisfaction with reliability, availability, quality and price. There can be no assurance that the Corporation will be able to respond effectively to the various competitive factors affecting soundstage and equipment rental, postproduction and visual effects services.

The Corporation competes with a variety of soundstage and equipment rental, postproduction and visual effects firms, some of which have a national presence, and, to a lesser extent, the in-house operations of those major motion picture studios. Some of these firms and studios have greater financial marketing resources and have achieved a higher level of brand recognition than the Corporation has. In the future, the Corporation may not be able to compete effectively against these competitors merely on the basis of reliability, availability, quality and price or otherwise. The Corporation may also face competition from companies in related markets that could offer similar or superior services to those offered by the Corporation. An increasingly competitive environment and the possibility that customers may utilize in-house capabilities to a greater extent could lead to a loss of market share or price reductions, which could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

#### Risk related to the Corporation's ability to adapt to fast-paced technological change and to new delivery and storage methods

The arrival of new technologies and proliferation of available distribution platforms in the markets in which the Corporation operates – including video on demand, the Internet, personal video recorders, smartphones, tablet computers, and HD, 3D and 4K television – also influences its operations. The entertainment industry in general continues to undergo significant developments as advances in technologies and new methods of product delivery and storage, or certain changes in consumer behavior driven by these developments, emerge. Consumers are spending an increasing amount of time on the Internet and on mobile devices and are increasingly viewing content on a time-delayed or on-demand basis from the Internet, on their televisions and on portable devices. These technologies and business models may increase audience fragmentation, reduce the Corporation's ratings or have an adverse effect on advertising revenues from local and national audiences. If the Corporation cannot successfully exploit these and other emerging technologies, it could have a material adverse effect on its business, financial condition, results of operations, liquidity and prospects.

The Film Production & Audiovisual Services segment is also heavily dependent on technological change. The systems and equipment utilized by the Corporation in providing certain services to customers are subject to rapid technological change, as well as evolving customer needs and industry standards. In addition, competitors may introduce services embodying new technology, which could render the Corporation's existing services less marketable or obsolete. To remain competitive, the Corporation must ensure that its offering integrates the latest technology developed in the industry, including animation tools and techniques.

To accomplish this, it can either develop these capabilities by upgrading its proprietary software, which can result in substantial research and development costs, or it can seek to purchase third-party licences, which can also result in significant expenditures. In the event the Corporation seeks to develop these capabilities internally, there is no guarantee that it will be successful in doing so. In the event the Corporation seeks to obtain third-party licences, it cannot guarantee that they will be available or, once obtained, will continue to be available on commercially reasonable terms, or at all.

There can be no assurance that the Corporation will be able to conceive, develop, or acquire technological innovations successfully or that the Corporation's competitors will not successfully implement features or products of their own that are equivalent or superior to those of the Corporation or that make its technologies obsolete. Moreover, the cost associated with developing or acquiring new technology can be significant. There can be no assurance that the Corporation will have sufficient capital or be able to obtain sufficient financing to fund such capital expenditures, or that these costs will not have a material adverse effect on its financial condition and results of operations.

### Risks related to loss of key customers in the Film Production & Audiovisual Services segment

The Film Production & Audiovisual Services segment's primary customers are major motion picture studios and independent filmmakers. Historically, a material percentage of the Film Production & Audiovisual Services segment's operating revenues in each year have been derived from a limited number of customers, several of whom are foreign customers, whose loyalty to Canada may be tested when presented with more favourable production environments outside Canada. The Corporation still expects that a high percentage of the Film Production & Audiovisual Services segment's revenues for the foreseeable future will continue to come from a relatively small number of customers.

The Corporation does not always have long-term or exclusive service agreements with its Film Production & Audiovisual Services segment's customers. Business is based primarily on customer satisfaction with reliability, availability, quality and price. The Corporation is unable to predict if, or when, its customers will purchase its services. There can be no assurance that the revenues generated from key customers, individually or in the aggregate, will reach or exceed historical levels in any future period, or that the Corporation will be able to develop relationships with new customers.

Many of the major studios and other key customers of the Corporation have substantial capabilities to perform several or all of the services performed by the Film Production & Audiovisual Services segment. These customers periodically re-evaluate their decisions to outsource these services rather than perform them in-house. A decision by key customers to move services they currently purchase from the Corporation in-house could have a material adverse effect on the Corporation's results of operations and financial condition. The Corporation can give no assurance that it will continue to maintain favorable relationships with these customers or that they will not be adversely affected by economic conditions.

### Risks related to the Corporation's ability to meet the demands of its customers

The Corporation's Film Production & Audiovisual Services segment is dependent on its ability to meet the current and future demands of its customers, which include reliability, availability, quality and price. Any failure to do so, whether or not caused by factors within its control, could result in the loss of clients. There is no assurance that claims would not be asserted and dissatisfied customers may refuse to place further orders in the event of a significant occurrence of loss as a result of a failure by the Corporation to meet its customers' expectations with respect to reliability, availability, quality and price, which could have a material adverse effect on the Corporation's financial condition, results of operations and prospects. The Corporation's ability to deliver services within the time periods requested by customers depends on a number of factors, some of which are outside of its control, including equipment failure, work stoppages or interruption in services by third-party providers, including telephone, Internet or satellite service providers. In addition, because the Corporation is dependent upon a large number of software applications and hardware for postproduction and visual effects services, an error or defect in the software, a failure in the hardware, a failure of backup facilities or a delay in delivery of products and services could result in significantly increased costs for a project, and therefore losses to the Corporation's clients.

### Risks related to the launch of new specialty services

The Corporation is investing in the launch of new specialty services in the Broadcasting & Production segment. During the period immediately following the launch of a new specialty service, subscription revenues are always relatively modest, while initial operating expenses may prove more substantial. Furthermore, although the Corporation believes in the potential associated with this strategy, there is a possibility that the anticipated profitability could take several years to materialize or may never materialize.

### Risks related to changes in economic conditions

The revenues and operating results of the Corporation are and will continue to be influenced by the general economic environment and depend on the relative strength of the economy in its markets, as well as local, regional and national economic factors, since those affect the levels of television and magazine advertising revenues as well as the volume of work available from the film and television industries in Canada and the U.S. An economic slowdown or a recession in the Canadian or U.S. economy could adversely affect key national advertising accounts, as buyers of advertising have

historically reduced their advertising budgets during economic slowdowns. In addition, the deterioration of economic conditions could adversely affect payment patterns, which could increase the bad debt expense. During an economic downturn, there can be no assurance that operating results and revenues, outlook, prospects and financial condition would not be adversely affected.

Risks related to the possibility that the Corporation's content may not attract large audiences and to audience fragmentation, limiting the Corporation's ability to generate advertising revenues.

Broadcasting operating revenues are derived in large part from advertising revenues. Advertising revenues are largely dependent upon audience acceptance, which is in large part a function of the content and quality offered, and is influenced by factors such as reviews by critics, promotions, actors and other key talent, genre and specific subject matter, audience reaction, quality and acceptance of other competing content in the marketplace, availability of alternative forms of entertainment and leisure activities, general economic conditions, public tastes in general, and other intangible factors.

In addition, the markets in which the Corporation operates are experiencing a proliferation of available distribution platforms, including the Internet, wireless telephony, video on demand, mobile television and other technologies that may be marketed in the future. The proliferation of cable and satellite channels, advances in mobile and wireless technology, the migration of television audiences to the Internet, including social media, and the viewing public's increased control over the manner, content and timing of their media consumption through personal video recording devices have resulted in greater fragmentation of the television viewing audience and a more difficult advertising sales environment. In addition, the increase in narrowcast programming and 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 Corporation's control. It cannot predict the future effects of these factors on its business, financial condition and results of operations. Lack of audience acceptance for the Corporation's content, or shrinking or fragmented audiences, could limit its ability to generate advertising revenues. If the Corporation's ability to generate advertising revenue is limited, it 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 Corporation would be able to develop new financing sources, and any such limitation on its ability to generate operating revenues, together with an inability to generate new financing sources, could have a material adverse effect on its business, financial condition and results of operations.

Risks related to the fact that programming content may become more expensive to acquire and production costs may increase

The most significant costs in television broadcasting are programming and production costs. Increased competition in the television broadcasting industry, developments affecting producers and distributors of programming content, vertical integration of distributors and broadcasters, the creation of original, exclusive programming content by over-the-top video services, changes in viewer preferences and other developments could impact both the availability and the cost of programming content and the cost of production. Future increases or volatility in programming and production costs could adversely affect operating results. Developments in cable, satellite or other forms of distribution could also affect both the availability and the cost of programming and production and increase competition for advertising expenditures. As well, the value of royalties payable pursuant to the Copyright Act are frequently decided by the Copyright Board of Canada during or even after the applicable period, which can cause retroactive increases in content costs.

Government regulation risks

The Corporation is subject to extensive government regulation, mainly through the Broadcasting Act, which is administered by the CRTC. Changes to, or more aggressive enforcement of, the regulations and policies governing broadcasting or the introduction of new regulations, policies or terms of licence could have a material effect on the Corporation's business, financial condition or results of operations. Moreover, changes resulting from the CRTC's interpretations of existing policies and regulations could also be materially adverse to the Corporation's business, financial condition or results of operations. Since legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, the Corporation is unable to predict the ultimate cost of compliance with

these requirements or their effect on operations. Furthermore, the CRTC is the government authority responsible for issuing and renewing broadcasting licences and for the regulations governing the Canadian broadcasting system. The Corporation is subject to the CRTC's decisions in these areas and any decision made by this organization that runs counter to the Corporation's positions and interests, including the failure to renew any of its licences on as favourable terms, may negatively affect its activities and operating results.

In addition, the levels of the royalties payable by the Corporation are subject to change upon application by the collecting societies and approval by the Copyright Board. The Government of Canada may, from time to time, make amendments to the Copyright Act to implement Canada's international treaty obligations and for other obligations and purposes. Any such amendments could result in the Corporation's broadcasting undertakings being required to pay additional royalties for these licences or be subject to additional administrative costs associated with the tariffs.

#### Government assistance risks

The Corporation takes advantage of several government programs designed to support production and distribution of televisual and cinematographic products and magazine publishing in Canada, including federal and provincial refundable tax credits. There can be no assurance that the local cultural incentive programs which the Corporation may access in Canada will continue to be available in the future or will not be reduced, amended or eliminated. Any future reductions or other changes in the policies or rules of application in Canada or in any of its provinces in connection with these government incentive programs, including any change in the Quebec or the federal programs providing for refundable tax credits, could increase the cost of acquiring and producing Canadian programs which are required to be broadcasted and may have a material adverse effect on the Corporation's business, financial condition and results of operations. Canadian content programming is also subject to certification by various agencies of the federal government. If programming fails to so qualify, the Corporation would not be able to use the programs to meet its Canadian content programming obligations and the Corporation might not qualify for certain Canadian tax credits and government incentives.

To ensure that the Corporation maintains minimum levels of Canadian ownership under the Broadcasting Act and other legislation under which it derives the benefit of tax credits and industry incentives, it has placed constraints on the issue and transfer of its shares. The Corporation's transfer agent may refuse to issue or register the transfer of shares if this would prevent the Corporation from holding its licences. These constraints and transfer restrictions may adversely affect the liquidity of the Corporation's Class B Non-Voting Shares and may have an impact on their trading price.

In addition, the Canadian and provincial governments currently provide grants and incentives to attract foreign producers and support domestic film and television production. Many of the major studios and other key customers of the Film Production & Audiovisual Services segment, as well as content producers for the Broadcasting & Production segment, finance a portion of their production budgets through Canadian governmental incentive programs, including federal and provincial tax credits. There can be no assurance that the government grants and incentive programs presently being offered to participants in the film and television production industry will continue at their present levels or at all. If such grants or incentives are reduced or discontinued, the level of activity in the motion picture and television industries may be reduced, as a result of which the Corporation's results of operations and financial condition might be adversely affected.

#### Risks related to government incentives in locations outside of Quebec and other influences

The successful tax credit model of Quebec and other provinces in Canada has been copied by other jurisdictions around the world, including by many states in the United States of America. Some producers may select locations other than Quebec to take advantage of tax credit programs they may conclude to be more or as attractive as those Quebec offers. Other factors, such as the choice of director or star, may also cause productions to be filmed elsewhere and may therefore have a material adverse effect on the Corporation's business, financial condition and results of operations.

### Risks related to currency fluctuations and the Film Production & Audiovisual Services segment's dependence on foreign currency and revenue from customers outside Canada

Many of the Film Production & Audiovisual Services segment's customers have found Canada particularly attractive because of the exchange rate of the Canadian dollar to the U.S. dollar. The Canadian to U.S. dollar exchange rate has provided certain cost savings to U.S.-based film producers obtaining production services in Canada. There can be no assurance that favourable exchange rates will continue. Fluctuations in currency exchange rates could decrease the production activity in Canada of the customers of the Corporation and adversely affect its results of operations and financial condition. The Corporation cannot predict the effect of exchange rate fluctuations upon its future operating results and financial position.

### Risks related to intellectual property rights

The Corporation must protect its proprietary technology and operate without infringing upon the intellectual property rights of others. The Corporation relies on a combination of patent, copyright, trademark and trade-secret laws and other intellectual property protection methods to establish and protect its proprietary technology. These steps may not protect the Corporation's proprietary information nor give it any competitive advantage. Others may independently develop substantially equivalent intellectual property or otherwise gain access to the Corporation's trade secrets or intellectual property, or disclose such intellectual property or trade secrets. If the Corporation is unable to protect its intellectual property, the Corporation's business could be materially adversely affected.

In addition, there is no assurance that any patents that may have been or may be issued to the Corporation, or that the Corporation may license from third parties, will not be challenged, invalidated or circumvented, or that any rights granted thereunder would provide the Corporation with any proprietary protection. The Corporation generally enters into confidentiality or licence agreements with its employees, consultants and vendors, and generally controls access to and distribution of its software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use its proprietary information, products or technology without authorization, or to develop similar or superior technology independently. Policing unauthorized use of products or technology is difficult and expensive. In addition, effective copyright, patent and trade secret protection may be unavailable or limited in certain foreign countries. The Corporation cannot provide any assurances that the steps it takes will prevent misappropriation of its technology or that its confidentiality or licence agreements will be enforceable. Finally, some or all of the underlying technologies of the Corporation's products and system components may not be covered by patents or patent applications.

In addition, to produce its projects, the Corporation also relies on third-party software, which is readily available to others. Failure of its patents, copyrights and trade-secret protection, non-disclosure agreements and other measures to provide protection of its technology and the availability of third-party software may make it easier for competitors to obtain technology equivalent or superior to the Corporation's technology or that makes its technology obsolete, which could weaken its competitive position.

### Risks related to protecting and defending against intellectual property claims

Litigation may be necessary in the future to enforce the Corporation's intellectual property rights, protect its trade secrets, trademarks and other intellectual property rights, protect and enforce its patents, determine the validity and scope of the proprietary rights of others, or defend against claims of infringement or invalidity. The Corporation has received, and is likely to receive in the future, claims of infringement of other parties' proprietary rights. If any claims or actions are asserted against the Corporation, it may seek to obtain a licence under a third party's intellectual property rights. It cannot provide any assurances, however, that under such circumstances a licence would be available on reasonable terms or at all. Irrespective of the validity or the successful assertion of such claims, any such litigation could result in substantial costs and diversion of resources, could effectively prevent the Corporation from using important technology and could have a material adverse effect on its business, operating results or financial condition.

The Corporation reviews these matters to determine what, if any, actions may be required or should be taken, including legal action or negotiated settlement. There can be no assurance that the Corporation's actions to establish and protect trademarks, copyrights and other proprietary rights will be adequate to prevent imitation or unauthorized reproduction

of the Corporation's products by others or prevent third parties from seeking to block sales, licensing or reproduction of these products as a violation of their trademarks, copyrights and proprietary rights. Moreover, there can be no assurance that others will not assert rights in, or ownership of, the Corporation's trademarks, copyrights and other proprietary rights, or that the Corporation will be able to successfully resolve these conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States or Canada.

#### Risks related to the availability of licences for third-party technology

In addition to its proprietary technology, the Corporation also relies on certain technology that it licenses from third parties, including software that it uses with its proprietary software. There is no assurance that these third-party technology licences will continue to be available to the Corporation on commercially reasonable terms or at all or that the technology licences will not result in intellectual property infringement claims by third parties. The loss of or inability to maintain any of these technology licences could result in delays in projects until equivalent technology is identified, licensed and integrated to complete a given project. Any such delays or failures in projects could materially adversely affect the Corporation's business, financial condition or results of operations.

#### Risks related to the Corporation's ability to successfully upgrade, maintain and secure information systems to support the organization's needs

The Corporation relies heavily on information systems to manage operations. The reliability and capacity of information systems is critical. Despite preventative efforts, these systems are vulnerable from time to time to damage or interruption from, among other things, security breaches, computer viruses, power outages and other technical malfunctions. Any disruptions affecting information systems, or any delays or difficulties in transitioning to or in integrating new systems, could have a material adverse impact on the Corporation's businesses. In addition, the Corporation's ability to continue to operate its businesses without significant interruption in the event of a disaster or other disruption depends in part on the ability of its information systems to operate in accordance with its disaster recovery and business continuity plans. The operation of existing systems could experience disruption due to unexpected issues with employee hiring, retention, supply chain, and training and installation of equipment or software, among other things.

#### Cybersecurity risks

The ordinary course of the Corporation's business involves the receipt, collection, storage and transmission of sensitive data, including its proprietary business information and that of its customers, as well as personally identifiable information on its customers and employees, whether in its systems, infrastructure, networks, or processes, or those of its suppliers. The secure processing, maintenance and transmission of this information is critical to TVA Group's operations and strategy.

Although TVA Group has implemented and regularly reviews and updates processes and procedures to protect against unauthorized access to, or use of sensitive data, including data on its customers, and although, to prevent data loss, ever-evolving cyberthreats require TVA Group to continually evaluate and adapt its systems, infrastructure, networks and processes, TVA Group cannot assure that its systems, infrastructure, networks and processes, as well as those of its suppliers, will be adequate to safeguard against all information security access by third parties or errors by employees or by third-party suppliers. If the Corporation is subject to a significant cyberattack or breach, unauthorized access, errors of third-party suppliers or other security breaches, it may incur significant costs, be subject to investigations, sanctions and litigation, including under laws that protect the privacy of personal information, and it may suffer damage to its business, competitive position and reputation.

In addition, the preventive actions the Corporation takes to reduce the risks associated with cyberattacks, including protection of its systems, infrastructure, networks and processes, as well as efforts to improve the overall governance of information security and the controls within its IT systems, may be insufficient to repel or mitigate the effects of a major cyberattack in the future.

### Risks related to protection of personal data

TVA Group stores and processes increasingly large amounts of personally identifiable information on its clients, employees, and/or business partners. The Corporation faces risks inherent in protecting the security of such personal data. In particular, TVA Group faces a number of challenges in protecting the data in, and hosted on its systems, or those belonging to its suppliers, including from advertent or inadvertent actions or inactions by its employees, as well as in relation to compliance with applicable laws, rules and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data. Although TVA Group has developed systems, processes and security controls that are designed to protect the personally identifiable information on its clients, employees and business partners, TVA Group may be unable to prevent the improper disclosure, loss, misappropriation of, unauthorized access to, or other security breach relating to such data that TVA Group stores or processes or that its suppliers store or process. As a result, TVA Group may incur significant costs, be subject to investigations, sanctions and litigation, including under laws that protect the privacy of personal information, and TVA Group may suffer damage to its business, competitive position and reputation.

### Risks related to distributors and subscription revenues

The Corporation relies on broadcasting distribution undertakings (“BDUs”) (including cable and direct-to-home satellite broadcasting services, as well as multichannel multipoint distribution systems) for the distribution of its specialty services. Operating revenues could be negatively affected if affiliation agreements with BDUs are not renewed according to terms and conditions similar to those in effect at this time. Affiliation agreements with BDUs extend over several years and come to term at different times. Due to industry concentration among BDUs in recent years and with the population of Canada clustered into a small number of large urban centres, a significant percentage of the subscriber base is reached through a small number of BDUs.

The subscription revenues of the specialty services depend on the number of subscribers and the rate billed to the BDUs for carriage of the service. The extent to which the Corporation’s subscriber base will grow is uncertain and is dependent upon the ability and willingness of BDUs to deploy and expand their digital technologies, their marketing efforts and the packaging of their services’ offerings, as well as upon the willingness of subscribers to adopt and pay for the specialty services. In addition, the broadcast signals of the Corporation’s specialty services may sometimes be stolen, representing a risk of loss of subscription revenues.

### Risks related to the impact on the Corporation’s business of the loss of key management and other personnel, or inability to attract, retain and motivate management and other personnel

The Corporation depends on its management team and other key personnel to run its business. The loss of any of these individuals could adversely affect the Corporation’s operations. Due to the specialized nature of its business, the Corporation believes that its future success will also depend, in a large part, upon its ability to continue to attract, retain and motivate highly skilled management, programming, creative, technical and marketing personnel. Competition for highly skilled individuals is intense, and there can be no assurance that the Corporation will be successful in attracting, retaining and motivating such individuals in the future.

### Known and unknown environmental risks

The Corporation is subject to various federal, provincial and local environmental requirements which govern certain of its activities, operations or properties and which may impose substantial costs of investigation, removal and remediation. A breach of these acts and regulations (“Environmental Laws”) may result in the imposition of fines and penalties. In addition, these Environmental Laws typically include responsibility and liability in certain circumstances without regard to whether the owner or operator knew of or caused the presence of certain contaminants or other environmental violations. Environmental Laws may require the owner or operator to undertake or pay for remedial action or to pay damages regardless of fault. Environmental Laws may also impose liability with respect to sold, transferred or terminated operations, even if the operations were terminated, sold or transferred many years ago. Compliance with Environmental Laws may involve substantial costs and significant obligations for the Corporation. Future Environmental Laws may entail stricter standards, more aggressive enforcement, higher fines, and higher costs for

compliance, corrective measures and remediation. All these factors may have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation owns certain soundstages and vacant lots, some of which are located on a former landfill, with the presence of gas emitting waste. As a result, the operation and ownership of these soundstages and vacant lots carries an inherent risk of environmental and health and safety liabilities for personal injuries, property damage, release of hazardous materials, remediation and clean up costs, and other environmental damages (including potential civil actions, compliance or remediation orders, fines and other penalties), and may result in being involved from time to time in administrative and judicial proceedings relating to such matters, which could have a material adverse effect on its business, financial condition and results of operations. The Corporation may be liable for environmental damage caused by previous owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, and the payment of such liabilities could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Furthermore, there can be no assurance that various permits which the Corporation may require in the normal course of its current and anticipated future operations or in relation to certain development and construction projects, or in relation to gas emitting waste disposal, will be obtainable on reasonable terms or on a timely basis or that the applicable environmental and health and safety laws and regulations would not have a material adverse effect on operations or on development and construction projects which the Corporation might undertake. In addition, the release of harmful substances in the environment or other environmental damage caused by the Corporation's properties or activities may result in the suspension or revocation of operating and environmental permits.

#### Risks related to litigation and other claims

The Corporation is involved in various legal proceedings, including class actions, and other claims in the normal course of business. As a distributor of media content, it may also face potential liability for defamation, invasion of privacy, negligence, and other claims based on the nature and content of the materials distributed. These types of claims have been brought, sometimes successfully, against producers and distributors of media content. A negative outcome in respect of any such claim or litigation could have an adverse effect on the Corporation's results, liquidity or financial position. Moreover, irrespective of the validity or the successful assertion of such claims or lawsuits, the Corporation could incur significant costs and diversion of resources and of management's attention in defending against them, which could have a material adverse effect on its business, financial condition, operating results, liquidity and prospects.

#### Risks related to financing

The Corporation currently has adequate financing to pursue its current activities and has access to credit facilities totalling \$219.8 million. However, risk factors such as capital market upheavals could reduce the amount of capital available or increase the cost of this capital in future years. There is no guarantee that additional funds will be made available to the Corporation or, if they are, that they will be provided within a time frame and under conditions that are acceptable to the Corporation. Not being able to obtain this additional financing at the required time and as necessary could have a significant negative effect on the Corporation. Finally, there is no guarantee that, when these facilities are refinanced, market conditions will be favourable or that terms comparable to those the Corporation now enjoys will be available.

#### Labour relations risks

As of December 31, 2017, approximately 48% of permanent employees were unionized. TVA's labour relations were governed by 13 collective agreements. As of December 31, 2017, six collective agreements had come to term, covering about 82% of the Corporation's permanent unionized employees.

On May 5, 2014, the Corporation and the union representing its employees signed a new collective agreement covering 68% of the Corporation's unionized employees. That agreement expired on December 31, 2016 and bargaining talks to renew it are under way.

The Corporation has in the past experienced labour disputes which have disrupted its operations and impaired its growth and operating results. The Corporation cannot predict the outcome of current or future negotiations with respect to labour disputes, union representation, or the renewal of collective agreements. Nor can the Corporation assure that it will not experience work stoppages, strikes, property damage or other forms of labour protests pending the outcome of any current or future negotiations. If the Corporation's unionized workers engage in a strike or if there is any other form of work stoppage, the Corporation could experience a significant disruption in its operations, damage to its properties or service interruption, which could adversely affect its business, assets, financial position, and results of operations. Even if the Corporation does not experience strikes or other forms of labour protests, the outcome of labour negotiations could adversely affect its business, including if current or future labour negotiations or contracts were to further restrict the Corporation's ability to maximize the efficiency of its operations. In addition, the Corporation's ability to make short-term adjustments to control compensation and benefit costs is limited by the terms of its collective bargaining agreements.

In addition, many individuals associated with the film and television industry are members of guilds or unions that bargain collectively with producers on an industry-wide basis from time to time. A strike or other form of labour protest affecting those guilds or unions could affect the level of production activity in the industry and restrict the ability of the Corporation to service its customers, which in turn would adversely affect the Corporation's results of operations and financial condition.

#### Risks related to pension plan obligations

Economic cycles, labour force demographics and regulatory changes could also have a negative impact on the funding of the Corporation's defined-benefit pension plans and the related expenditures. There is no guarantee that the expenditures and contributions required to fund these pension plans will not increase in the future and therefore negatively impact the Corporation's operating results and financial position. Risks related to the funding of defined-benefit plans may materialize if total obligations with respect to a pension plan exceed the total value of its trust fund's assets. Shortfalls may arise due to lower-than-expected returns on investments, changes in the assumptions used to assess pension plan obligations, and actuarial losses.

#### Risks related to an increase in paper, printing and postage costs

A significant proportion of the Magazines segment's operating expenses is comprised of paper, printing and postage costs. The segment is dependent on external suppliers for its entire paper supply and has no control over paper prices, which may vary considerably. The Magazines segment uses third parties for all of its printing services, and printing costs accounted for approximately 21% of operating expenses for the fiscal year ended December 31, 2017. Further, distribution of its publications to subscribers is handled in part by Canada Post Corporation. Any interruption in distribution services could negatively affect the Magazines segment's operating results and its financial position, and a significant increase in paper or postage costs could be detrimental to the segment's activities and operating results.

#### Risks related to broadcasting licences and goodwill

As noted under "Critical Accounting Policies and Estimates - Asset Impairment" below, the Corporation's broadcasting licences and goodwill are not amortized but tested for impairment annually, or more frequently if events or changes in conditions indicate that it is more likely than not that the asset has been impaired. The fair value of the broadcasting licences and of goodwill is and will continue to be influenced by assumptions based on the general economic situation, which are used to support the calculation of future discounted cash flows performed by the Corporation in order to determine the fair value of its broadcasting licences and of goodwill. There is no guarantee that the value of the broadcasting licences and of goodwill will not be negatively affected by changes to these assumptions in the event of an economic slowdown. The Corporation is constantly monitoring the value of its broadcasting licences and goodwill, and any change in their fair value would be recognized as a non-cash impairment charge (or reversal of a charge if any) in the consolidated statements of income.

### Risks related to QMI's ability to exert a significant degree of control over the Corporation as the holder of a majority of the Class A Shares

QMI, which owned 99.97% of all the issued and outstanding Class A Shares as of the date of this Management's Discussion and Analysis, can exercise its voting power to elect all of the members of the Board of Directors. QMI can also exercise its majority voting power to unilaterally pass any resolution submitted to a vote of the Corporation's shareholders, including in respect of the approval of certain significant corporate transactions, except for resolutions for which holders of Class B Non-Voting Shares are entitled to vote as provided by or in respect of which QMI is an interested party and for which disinterested shareholder approval is required. Such concentration of ownership may have the effect of delaying, deterring or preventing a change in control of the Corporation that might otherwise be beneficial to its shareholders, discouraging bids for the Class B Non-Voting Shares or limit the amount certain investors may be willing to pay for the Class B Non-Voting Shares.

### Risks related to acquisitions, sale of assets, business combinations, or joint ventures

From time to time, the Corporation engages in discussions and activities with respect to possible acquisitions, sales of assets, business combinations, or joint ventures intended to complement or expand its business, some of which may be significant transactions and involve significant risks and uncertainties. The Corporation may not realize the anticipated benefit from any of the transactions it pursues and may have difficulty incorporating or integrating any acquired business. Regardless of whether it consummates any such transaction, the negotiation of a potential transaction (including associated litigation), as well as the integration of any acquired business, could entail significant costs and cause diversion of management's time and resources and disrupt business operations. The Corporation could face several challenges in the consolidation and integration of information technology, accounting systems, personnel and operations.

If the Corporation determines to sell individual properties or other assets or businesses, it will benefit from the net proceeds realized from such sales. However, revenues may suffer in the long term due to the disposition of a revenue-generating asset, or the timing of such dispositions may be poor, causing the Corporation to fail to realize the full value of the disposed asset, all of which may diminish its ability to repay its indebtedness at maturity.

Each of these factors could have a material adverse effect on the Corporation's business, financial condition, operating results, liquidity and prospects.

### **Financial instruments and financial risk**

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

As the Corporation and its subsidiaries use financial instruments, they are exposed to credit risk, liquidity risk and market risk related to foreign exchange and interest rate fluctuations.

### Fair value of financial instruments

In accordance with IFRS 13, *Fair Value Measurement*, the Corporation has considered the following fair value hierarchy. This hierarchy reflects the significance of the inputs used in measuring the financial instruments accounted for at fair value on the consolidated balance sheet:

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

The fair value of long-term debt is estimated based on a valuation model using Level 2 inputs. The fair value is based on discounted cash flows using year-end market yields or the market value of similar financial instruments with the same maturity.

The fair value of long-term debt corresponds to its carrying value as at December 31, 2017 and 2016.

#### Credit risk management

Credit risk is the risk of the Corporation incurring a financial loss on bad debts should a client or another party to the contract fail to meet its contractual obligations.

In the normal course of business, the Corporation regularly evaluates the financial position of its clients and reviews the credit history of each new client. As at December 31, 2017, no clients had balances representing a significant portion of the Corporation's consolidated trade receivables. The Corporation establishes an allowance for doubtful accounts taking into account client-specific credit risk. The Corporation has trade accounts receivable from numerous clients, primarily advertising agencies. As a result, the Corporation does not believe that it is exposed to an unusual or significant level of credit risk. As at December 31, 2017, 17.7% of trade receivables had been outstanding for more than 120 days after the billing date (13.4% as at December 31, 2016), of which 22.9% were covered by an allowance for doubtful accounts (25.6% as at December 31, 2016).

The table below shows the variance in the allowance for doubtful accounts for the years ended December 31, 2017 and 2016:

**Table 12**  
**Changes in allowance for doubtful accounts**  
(in thousands of dollars)

	December 31, 2017	December 31, 2016
Balance as at beginning of year	\$ 2,981	\$ 3,622
Change recorded in consolidated statement of loss	1,163	(450)
Utilization	(367)	(191)
<b>Balance as at end of year</b>	<b>\$ 3,777</b>	<b>\$ 2,981</b>

#### Liquidity risk management

Liquidity risk is the risk that the Corporation and its subsidiaries will be unable to meet financial obligations as they fall due or will be required to meet them at excessive cost. The Corporation and its subsidiaries ensure that they have sufficient cash flows from continuing operations and available sources of financing to meet future cash requirements for long-term investments, working capital, interest payments, income tax payments and debt servicing, pension plan contributions, dividends, share redemptions, commitments and guarantees.

#### Market risk

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

#### Foreign exchange risk

The Corporation is exposed to limited foreign exchange risk on revenues and expenses due to the low volume of transactions made in currencies other than the Canadian dollar. The most frequently used foreign currency is the U.S. dollar, which is primarily used to make capital expenditures and collect income from certain clients. In light of the low volume of foreign currency transactions, the Corporation does not feel it necessary to engage in hedging. Accordingly, the Corporation has limited sensitivity to changes in foreign exchange rates.

### Interest rate risk

The Corporation is exposed to interest rate risk associated with its revolving credit facility and its term loan facility. As at December 31, 2017, the Corporation's long-term debt consisted entirely of floating-rate debt.

The Corporation regularly reviews its position to ensure that its exposure to these risks has not changed.

### Capital management

The Corporation's primary objectives in managing capital are to:

- Safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders;
- Maintain an optimal capital base in order to meet the capital requirements of its various operating segments, including growth opportunities and maintaining investor and creditor confidence.

The Corporation manages its capital structure in accordance with the characteristics of the risks associated with its segments' underlying assets and applicable requirements, if any. The Corporation manages its capital structure by issuing new debt or repaying existing debt with cash flows provided by operating activities, distributing amounts to shareholders through dividends or share redemptions or issuing capital stock in the marketplace and making adjustments to its capital expenditure program. The Corporation's strategy remains unchanged from last year.

The Corporation's capital structure is composed of shareholder's equity, long-term debts and a derivative financial instrument, less cash.

The capital structure as of December 31, 2017 and 2016 was as follows:

**Table 13**  
**TVA Group capital structure**  
(in thousands of dollars)

	<b>December 31, 2017</b>	December 31, 2016
Long-term debt	\$ 62,839	\$ 69,607
Derivative financial instrument	–	322
Less: cash	(21,258)	(17,219)
Net liabilities	<b>41,581</b>	52,710
Equity attributable to shareholders	<b>\$ 263,529</b>	\$ 278,225

Excluding maintenance of certain financial ratios under its credit agreements, the Corporation is not subject to any other externally imposed capital requirements. As at December 31, 2017, the Corporation was in compliance with the terms of its credit agreements.

## **Contingencies and legal disputes**

There are a number of legal proceedings against the Corporation and its subsidiaries that are pending. In the opinion of the management of the Corporation and its subsidiaries, the outcome of those proceedings is not expected to have a material adverse effect on the Corporation's results or on its financial position.

## **Critical Accounting Policies and Estimates**

### ***Revenue recognition***

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

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

### Advertising revenues

Revenues from the sale of advertising airtime and space on the Corporation's websites and mobile apps are recognized when the advertisement airs or is displayed online. Revenues from the sale of advertising space in magazines are recognized when the advertisement is published, i.e. at the magazine publication date.

### Subscription revenues

Revenues from specialty television channel subscriptions are recognized on a monthly basis when the service is rendered.

Amounts received for magazine subscriptions are accounted for as deferred revenues and are amortized over the subscription term.

### Revenues from newsstand magazine sales

Revenues from newsstand magazine sales are recognized when the magazines are delivered to newsstands and are calculated using an amount of revenue less an allowance for future returns.

### Revenues from soundstage and equipment rental

Revenues from soundstage and equipment rental are recognized on a linear basis over the rental period.

### Revenues from postproduction, visual effects and distribution

Revenues from postproduction, visual effects and distribution are recognized when the service is rendered.

## *Impairment of assets*

For the purposes of assessing impairment, assets are grouped in CGUs, which are the smallest groups of assets that generate separately identifiable cash inflows. The Corporation reviews at each balance sheet date whether events or circumstances have occurred to indicate that the carrying amounts of long-lived assets with finite useful lives may be less than their recoverable amounts. Goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use are tested for impairment each fiscal year, as well as whenever there is an indication that the carrying amount of the asset, or the CGU to which an asset has been allocated, exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use of the asset or the CGU. Fair value less costs of disposal is the amount obtainable by an entity at the valuation date from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU.

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

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

An impairment loss recognized in prior periods for long-lived assets with finite useful lives and intangible assets with indefinite useful lives, other than goodwill, can be reversed through the consolidated statement of income when the carrying amount does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods.

Determining CGUs requires the use of judgement to determine the lowest level at which there are separately identifiable cash inflows generated by a group of assets.

When determining the value less costs of disposal, the appraisal of the information available at the valuation date is based on management's judgment, and may involve estimates and assumptions. As well, the discounted expected future cash flows method involves the use of estimates, such as the amount and timing of a series of expected future cash flows, expected variations in the amount or timing of the cash flows, the time value of money as represented by the risk-free interest rate and the risk premium associated with the asset or CGU.

Therefore, the judgment used in determining the recoverable amount of an asset or a CGU may affect the amount of the impairment loss of the asset or CGU to be recorded, as well as the potential reversal of the impairment charge in the future.

Based on the data and assumptions used in its most recent impairment tests, the Corporation believes that there are no long-lived assets with finite useful lives, or goodwill and intangible assets with indefinite useful lives, on its books at this time that could suffer significant impairment.

### ***Pension plans and post-retirement benefits***

The Corporation offers employees defined-contribution pension plans and defined-benefit pension plans.

Defined-benefit pension plan costs and obligations are estimated on the basis of a number of assumptions, including the discount rate, future salary levels, the retirement age of employees, health care costs, and other actuarial factors. Some of these assumptions could materially affect the employee costs and financial expenses recognized in the consolidated statement of income, the gain or loss on re-measurement of defined-benefit plans recognized in the consolidated statement of comprehensive income and the carrying amount of defined-benefit assets and other liabilities recognized in the consolidated balance sheet. Pension plan assets, based on fair value, consist of equities as well as corporate and government fixed-income securities.

Re-measurements of the net defined-benefit liability or asset are recognized immediately in other comprehensive income and recorded in accumulated other comprehensive income. Re-measurements include the following items:

- (i) Actuarial gains and losses arising from changes in the financial and demographic actuarial assumptions used to determine defined-benefit obligations or resulting from experience adjustments on liabilities;
- (ii) The difference between the actual rate of return on plan assets and the expected interest revenues on plan assets considered in the calculation of interest on net defined-benefit assets or liabilities;
- (iii) Changes in the net defined-benefit asset limit or the minimum funding liability.

Recognition of a net benefit asset is limited under certain circumstances to the amount recoverable, which is primarily based on the extent to which the Corporation can unilaterally reduce future contributions to the plan. In addition, an adjustment to the net defined-benefit asset or liability can be recorded to reflect a minimum funding liability in some of the Corporation's pension plans.

The Corporation 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 post-retirement benefits in future periods.

### ***Stock-based compensation***

Stock-based awards to officers or directors that call for settlement in cash, such as Deferred Stock Units and Performance Stock Units, or that call for settlement in cash or other assets at the holder's option, such as stock option awards, are accounted for at fair value and classified as a liability. The compensation cost is recognized in expenses over the vesting period. Changes in the fair value of stock-based awards between the grant date and the measurement date result in a change in the liability and compensation expense.

The fair value of the Deferred Stock Units and Performance Stock Units is based on the underlying share price as of the measurement date. Estimates of the fair value of stock options are determined by applying an option-pricing model, taking into account the terms and conditions of the grant and assumptions such as the risk-free rate, distribution yield, expected volatility and the expected remaining life of the option.

The judgment and assumptions used in determining the fair value of liability classified stock option plans may have an effect on the compensation cost recorded in the statements of income.

## ***Provisions***

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

Provisions are reviewed at each balance sheet date and changes in estimates are reflected in the consolidated statement of income in the reporting periods in which the re-measurements occurred.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date or to transfer it to third parties at that time, and it is adjusted for the effect of time value when material.

No amounts are recognized for obligations that are possible but not probable, or those for which an amount cannot be reasonably estimated.

## ***Income taxes***

Deferred taxes are accounted for using the liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred tax assets and liabilities are valued at the 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 enacted or substantively enacted tax rates on deferred tax assets and liabilities is recognized in income in the period during which the substantive enactment date falls. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to the amount that is more probable than not to be realized.

The assessment of deferred income taxes 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 deferred income tax assets realized could be slightly different from that recorded, since it is influenced by the Corporation's future operating results.

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

## **Recent accounting pronouncements**

IFRS 9 *Financial Instruments* is required to be applied retrospectively for annual periods beginning on or after January 1, 2018.

On January 1, 2018, the Corporation adopted the new rules under IFRS 9, which simplifies the measurement and classification of financial assets by reducing the number of measurement categories in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities.

The Corporation does not expect its consolidated financial statements to be materially impacted by the adoption of IFRS 9.

IFRS 15 *Revenue from Contracts with Customers* is required to be applied retrospectively for annual periods beginning on or after January 1, 2018.

On January 1, 2018, the Corporation adopted on a fully retrospective basis the new rules under IFRS 15 which specifies how and when an entity should recognize revenue as well as requiring such entities to provide users of financial statements with more informative disclosures. The standard provides a single, principles-based, five-step model to be applied to all contracts with customers.

The Corporation does not expect its consolidated financial statements to be materially impacted by the adoption of IFRS 15.

IFRS 16 *Leases* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that IFRS 15 is applied at the same time as IFRS 16.

IFRS 16 sets out the new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides lessees with a single accounting model for all leases, with certain exemptions. In particular, lessees will be required to report most leases on their balance sheets by recognizing right-of-use assets and related financial liabilities.

Under IFRS 16, most lease charges will be expensed as an asset amortization charge, along with a financial expense on the asset-related financial liabilities. As operating lease charges are currently recognized as operating expenses as they are incurred, the adoption of IFRS 16 will change the timing of the recognition of these lease charges over the term of each lease. It will also affect the classification of expenses in the statement of income.

The adoption of IFRS 16 will have a material impact on the Corporation's consolidated financial statements since the Corporation has commitments under long-term leases for premises and equipment. However, the adoption impacts on the consolidated financial statements have not yet been measured.

### **Disclosure controls and procedures**

In accordance with *Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, an evaluation was conducted of the effectiveness of the Corporation's disclosure controls and procedures (DC&P) and its internal control over financial reporting (ICFR).

Based on this evaluation, the President and Chief Executive Officer, and the Vice-President and Chief Financial Officer, have concluded that DC&P and ICFR were effective as at year-end December 31, 2017, and that the DC&P design provides reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared, and the information that the Corporation must present in its annual documents, its interim documents or in other documents it files or submits under securities regulations is recorded, processed, condensed and presented within the time frames prescribed by this legislation. Further, the ICFR design provides reasonable assurance that the Corporation's financial information is reliable and that its financial statements have been prepared, for the purpose of publishing financial information, in accordance with IFRS.

Lastly, no changes to the ICFR that have had or are likely to have a significant effect on this control mechanism were identified by management during the accounting period beginning October 1, 2017 and ending December 31, 2017.

## **Additional information**

The Corporation is a reporting issuer under the securities acts of all the provinces of Canada. It is therefore required to file financial statements, an information circular and an annual information form with the various securities regulatory authorities. Copies of those documents are available free of charge from the Corporation on request, and on the Web at [www.sedar.com](http://www.sedar.com).

## **Forward-looking information disclaimer**

The statements in this Management's Discussion and Analysis that are not historical facts may be forward-looking statements and are subject to important known and unknown risks, uncertainties and assumptions which could cause the Corporation's actual results for future periods to differ materially from those set forth in the forward-looking statements. Forward-looking statements generally can be identified by the use of the conditional or by forward-looking terminology such as "propose," "will," "expect," "may," "anticipate," "intend," "estimate," "plan," "foresee," "believe" or the negative of those terms or variations of them or similar terminology. Certain factors that may cause actual results to differ from current expectations include seasonality, operational risks (including pricing actions by competitors and the risk of loss of key customers in the Film Production & Audiovisual Services segment), programming, content and production cost risks, credit risk, government regulation risks, government assistance risks, changes in economic conditions, fragmentation of the media landscape, risk related to the Corporation's ability to adapt to fast-paced technological change and to new delivery and storage methods, and labour relation risks.

The forward-looking statements in this document are made to give investors and the public a better understanding of the Corporation's circumstances and are based on assumptions it believes to be reasonable as of the day on which they were made. Investors and others are cautioned that the foregoing list of factors that may affect future results is not exhaustive and that undue reliance should not be placed on any forward-looking statements.

For more information on the risks, uncertainties and assumptions that could cause the Corporation's actual results to differ from current expectations, please refer to the "Risks and Uncertainties" section of this Management's Discussion and Analysis and other public filings available at [www.sedar.com](http://www.sedar.com) and <http://groupepva.ca>.

The forward-looking statements in this Management's Discussion and Analysis reflect the Corporation's expectations as of March 1<sup>st</sup>, 2018, and are subject to change after this date. The Corporation 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, unless required to do so by the applicable securities laws.

Montreal, Quebec

March 1<sup>st</sup>, 2018

**Table 14**  
**SELECTED FINANCIAL DATA**  
**Years ended December 31, 2017, 2016 and 2015**  
(in thousands of dollars, except for per-share data)

	2017	2016	2015
<b>Operations</b>			
Operating revenues	\$ 589,707	\$ 590,866	\$ 589,890
Adjusted operating income	\$ 66,381	\$ 45,401	\$ 47,390
Net loss attributable to shareholders	\$ (15,951)	\$ (39,855)	\$ (55,226)
<b>Basic and diluted per-share data</b>			
Basic loss per share	\$ (0.37)	\$ (0.92)	\$ (1.42)
Weighted average number of outstanding shares (in thousands)	43,206	43,206	38,827

**Table 15**  
**SELECTED QUARTERLY FINANCIAL DATA**  
(in thousands of dollars, except for per-share data)

	2017			
	December 31	September 30	June 30	March 31
<b>Operations</b>				
Operating revenues	\$ 155,256	\$ 140,785	\$ 152,542	\$ 141,124
Adjusted operating income (loss)	\$ 22,968	\$ 32,935	\$ 11,072	\$ (594)
Net income (loss) attributable to shareholders	\$ 9,210	\$ (15,259)	\$ (1,870)	\$ (8,032)
<b>Basic and diluted per-share data</b>				
Basic earnings (loss) per share	\$ 0.21	\$ (0.35)	\$ (0.04)	\$ (0.19)
Weighted average number of outstanding shares (in thousands)	43,206	43,206	43,206	43,206
<b>2016</b>				
	December 31	September 30	June 30	March 31
<b>Operations</b>				
Operating revenues	\$ 169,522	\$ 131,592	\$ 144,229	\$ 145,523
Adjusted operating income	\$ 21,984	\$ 20,693	\$ 2,427	\$ 297
Net income (loss) attributable to shareholders	\$ 5,717	\$ (32,507)	\$ (5,676)	\$ (7,389)
<b>Basic and diluted per-share data</b>				
Basic earnings (loss) per share	\$ 0.13	\$ (0.75)	\$ (0.13)	\$ (0.17)
Weighted average number of outstanding shares (in thousands)	43,206	43,206	43,206	43,206

- The Corporation's businesses experience significant seasonality due to, among other factors, seasonal advertising patterns, consumers' viewing, reading and listening habits, and demand for production services from international and local producers. Because the Corporation depends on the sale of advertising for a significant portion of its revenues, operating results are also sensitive to prevailing economic conditions, including changes in local, regional and national economic conditions, particularly as they may affect advertising expenditures.
- Operating expenses in the Broadcasting & Production segment vary, mainly as a result of programming costs, which are directly related to programming strategies and to live sports broadcasts, while in the Magazines segment operating costs fluctuate according to the arrival of magazines on newsstands, which may vary from quarter to quarter. In the Film Production & Audiovisual Services segment, operating expenses vary according to demand for production services from international and local producers.

Accordingly, the results of operations for interim periods may vary from one quarter to the next.