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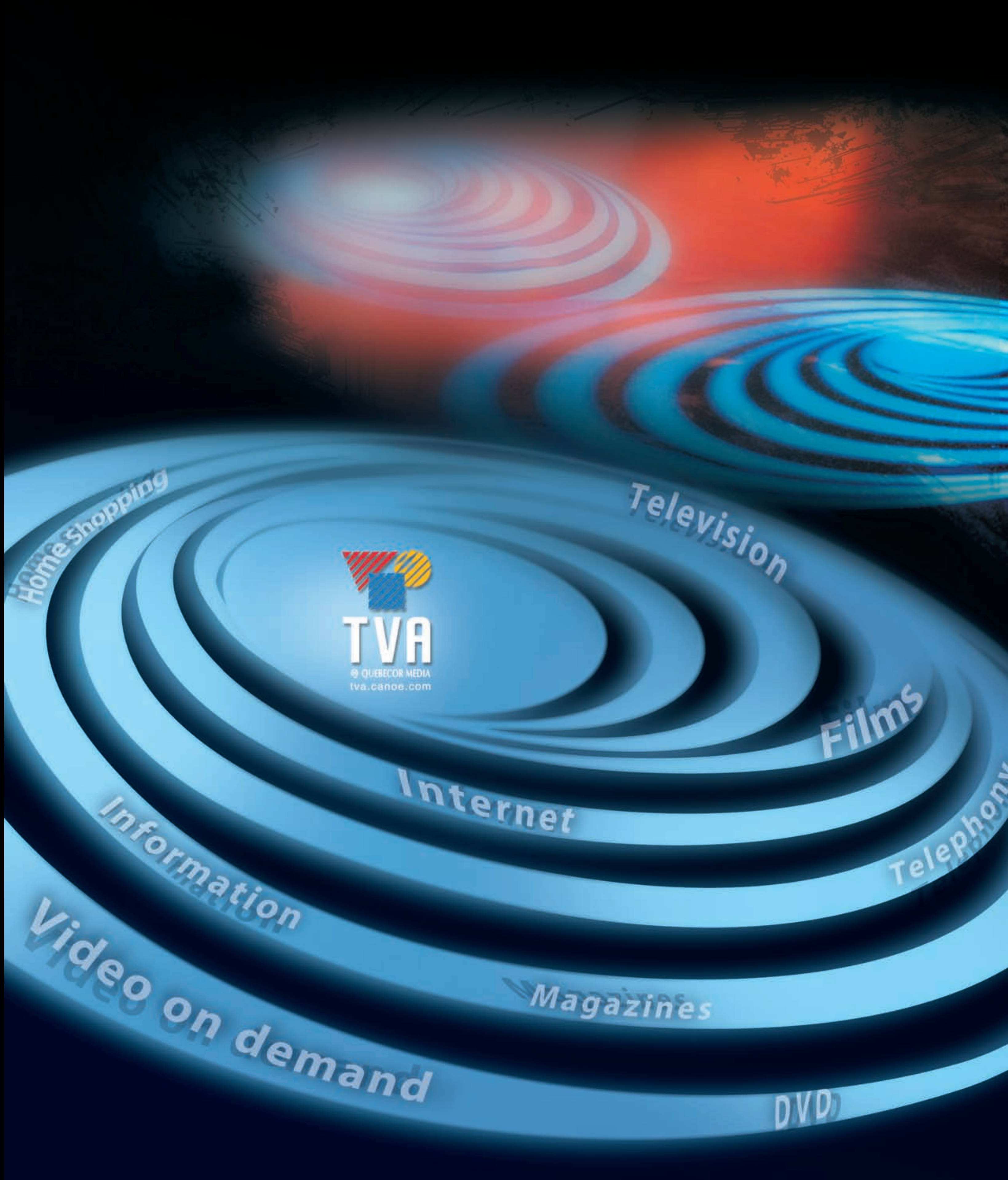
GROUP TVA INC. ANNUAL REPORT **2006**



ANNUAL REPORT **2006**

ANNUAL REPORT 2006

TVA at the heart of the digital revolution

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Profile

TVA Group Inc. (TVA Group, TVA or the Company), founded in 1961 under the name Corporation Télé-Métropole inc., is an integrated communications company with operations in television, magazine editing and the distribution of audiovisual content.

TELEVISION

TVA is one of the largest private-sector French-language producer and the largest private-sector broadcaster of French-language entertainment, news and public affairs programming in North America. TVA owns six of the ten stations, comprising the TVA Network, namely: CFTM-TV (Montréal), CFCM-TV (Québec), CFER-TV (Rimouski), CHLT-TV (Sherbrooke), CHEM-TV (Trois-Rivières) and CJPM-TV (Saguenay). The four remaining TVA Network affiliated stations are: CFEM-TV (Rouyn), CHOT-TV (Gatineau), CHAU-TV (Carleton) and CIMT-TV (Rivière-du-Loup). The latter two stations are owned by Télé Inter-Rives Ltée, in which TVA has a 45% ownership. TVA Network signals reaches nearly the entire French-speaking audience in the province of Québec and a significant portion of French-speaking viewers in the rest of Canada. TVA also owns a 75% interest in SUN TV, a conventional station based in Toronto. Moreover, TVA holds an interest in specialty services such as Le Canal Nouvelles (LCN) (100%), Argent (100%), Mystère (100%), Prise 2 (100%), Mentv (51%), Mystery (50%) and Canal Évasion (8%), as well as Canal Indigo pay-per-view channel (20%). TVA is also active in the merchandising of different products and in infomercials.

PUBLISHING

TVA operates in the publishing sector through its subsidiaries, TVA Publications Inc. and TVA Publications II Inc. (TVA Publications), whose general interest and entertainment weeklies and monthlies make it the leading French-language magazine publisher in Québec.

DISTRIBUTION

TVA is also active in the distribution of televisual and films products mainly for the canadian market. TVA owns rights which it sells through different platforms: cinema, video, video on demand, pay tv and generalist and specialty television.

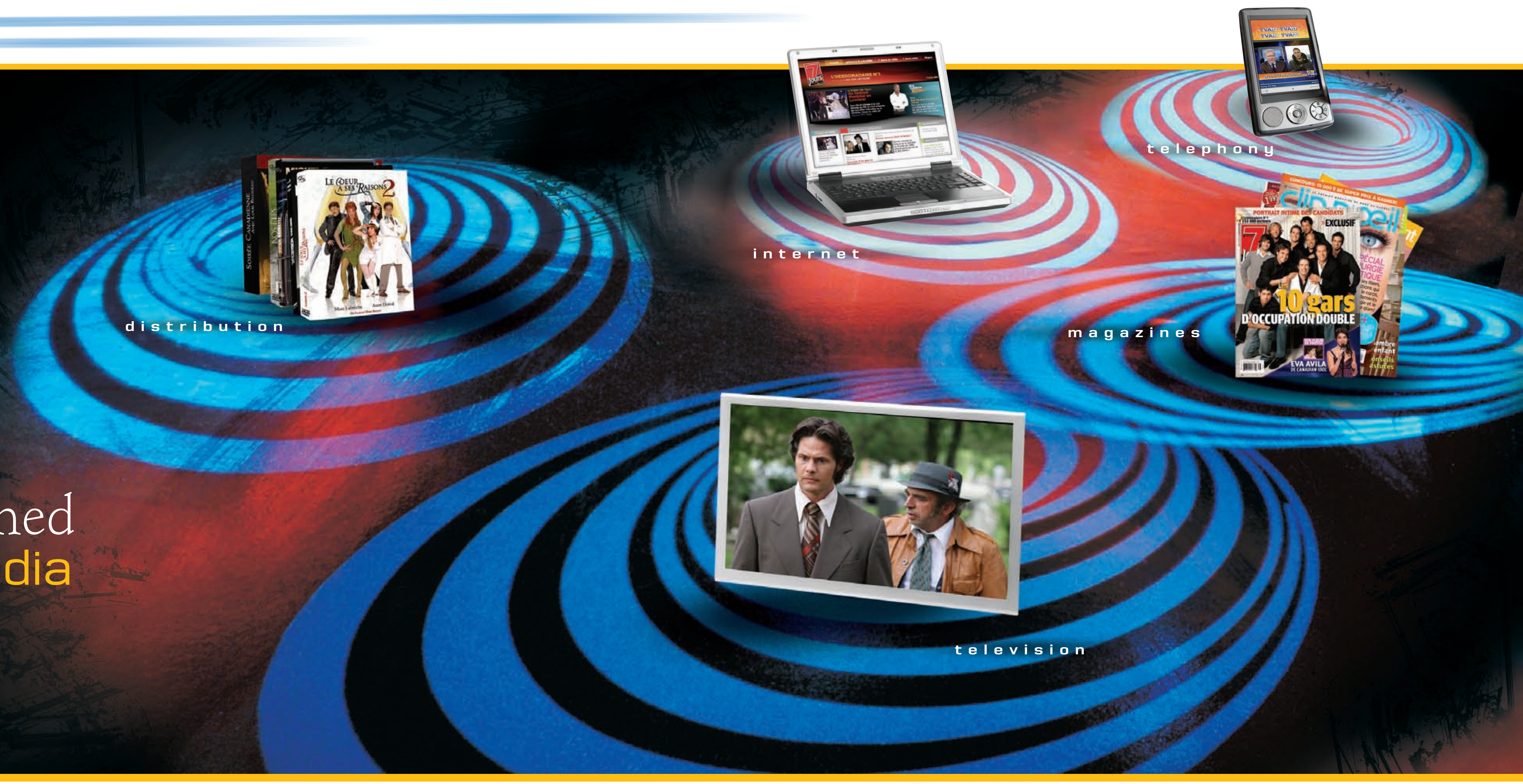
FINANCIAL HIGHLIGHTS

(in thousands of dollars, except for amounts pertaining to shares)

	2006	2005
Operating revenues	**$ 393,312**	$ 401,352
Operating income before amortization, financial expenses, restructuring costs of operations, depreciation of intangibles assets, gain on business acquisition and disposal, (recovery) income taxes, non-controlling interest, equity in income of companies subject to significant influence	**42,056**	52,991
(Net loss) net income	**(3,140)**	28,373
Cash flows provided by current operations	**29,991**	36,561
Total assets	**477,504**	513,374
Long-term debt	**96,515**	107,098
Shareholders' equity	**$ 181,492**	$ 189,898
(Loss) income per share	**$ (0.12)**	$ 0.98
Book value per share	**$ 6.72**	$ 7.02
Debt ratio	**35%**	36%
Weighted average number of shares outstanding (in thousands)	**27,026**	28,910
Number of shares outstanding (in thousands)	**27,025**	27,035
STOCK PRICE - TVA.B (TSX)		
High	**$ 17.50**	$ 23.00
Low	**$ 13.96**	$ 15.20
Close	**$ 14.90**	$ 16.00
NUMBER OF FULL-TIME EMPLOYEES		
(TVA Group Inc. and its 100% subsidiaries)	**1,374**	1,418

NUMBER OF SHARES (as of december 31, 2006) (in thousands)	**Total**	Quebecor Media inc. shareholding	
Classe A shares (with voting rights)	**4,320**	4,317	99.9%
Classe B shares (without voting rights)	**22,705**	7,911	34.8%
TOTAL	**27,025**	12,228	45.2%

Content designed for today's media



MESSAGE to Shareholders

A modern company turned resolutely toward growth

At a time when the media world is becoming ever more fragmented and complex, TVA remains the leader it has always been, both as a faithful reflection of the communities it serves and as a modern company turned resolutely toward growth.

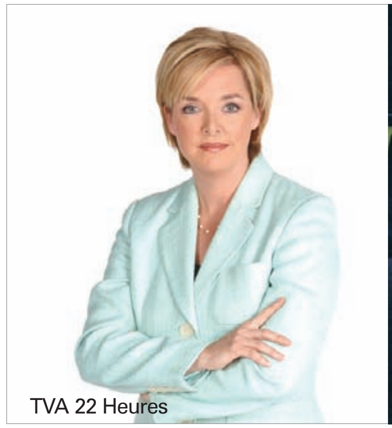
Fully aware of the digital revolution that is progressing at lightening speed, multiplying the distribution platforms available and profoundly changing the habits of consumers, TVA dominates its traditional market while remaining at the forefront of change. In line with the three-year strategic plan it implemented last year, the Company is preparing for the future by investing in its most promising markets, deploying its productions on a growing number of distribution platforms, improving the content and presentation of its magazines, and consolidating its presence in the film distribution and audiovisual products market in Québec and across Canada. The Company complements these initiatives by applying a philosophy of cost control to counter the significant increases in operating expenses seen in recent years.

Through all of the activities it carried out in 2006, TVA Group continued to lay the foundations for sustained growth by putting into motion a broader vision of its mission in a multiplatform media world. The Company's ability to uphold its achievements while integrating change enables it to take on the challenges brought on by an industry undergoing a virtual transformation.

TVA at the heart of the digital revolution

For TVA Group, as for the rest of the media industry, 2006 clearly marked the point of no return in the global movement toward the proliferation of distribution platforms that began in recent years, when the Company recorded a decrease in its advertising revenues.

This inescapable movement, born of the frenzied evolution of digital technology and the growing ability of consumers to watch what they want, when they want, has accelerated the fragmentation of conventional television's audiences and the segmentation of the advertising pie, while the costs for content production and acquisition have been on an upward trend.


TVA 22 Heures


Taxi 0-22

Last year, in this environment, TVA resolutely pursued its commitment to a business model centred on the heart of the digital revolution. Under this business model, TVA plans to cease confining itself solely to the role of broadcaster, and to take on other roles, such as that of creator, producer and supplier of quality television content for all the distribution platforms, available now and in the future, whether they be in the entertainment, news or services sector. The result is that consumers will increasingly have the option of viewing TVA's content not only on conventional and specialty channels, but also on the Internet, video-on-demand, DVD, iPod, mobile television, or any other distribution platform that digital technology will give way to in the future.

Already, the programming of such specialty channels as LCN and Argent is available in real time via the Internet in its entirety, as are most of TVA's news programs, including *Salut Bonjour*, *TVA Midi*, *TVA en direct.com*, *TVA 17 Heures* and *TVA 18 heures*. Moreover, approximately 70% of the programs TVA airs during prime time are available through *illico on Demand*, and many of these programs are also available on DVD. The content of several new programs, such as *Le Banquier* and *Taxi 0-22*, can now be downloaded to a mobile phone. There is no doubt that the availability of TVA's content on a variety of distribution platforms will only increase in the months and years to come.

In this context of fragmented audiences and proliferating distribution platforms, TVA's objective is to reach consumers wherever they choose to view its content. TVA Network intends, now more than ever, to get its advertisers onto these different platforms and offer them creative advertising options created specifically for new media. Through the acquisition of revolutionary measurement tools like iTVX, the Company is now able to calculate with stunning accuracy the impact of advertising integration in programs, also known as "product placement," and thereby arrive at fairer pricing. These measurement tools will also allow it to develop new advertising models, for both creative approach and ad length, that are better suited to today's media realities.

In this regard, technology will make it increasingly easier to reinvent advertising models and, more specifically, to make greater use of interactivity between advertisers and consumers on all types of distribution platforms, including conventional television.

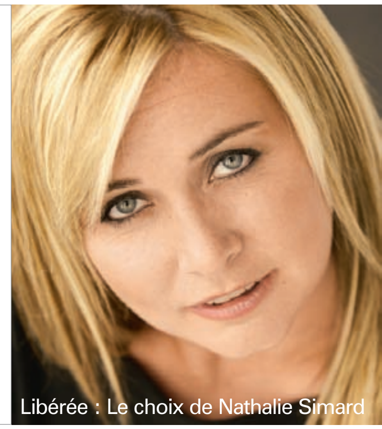
Toward a new business model

For TVA, the only viable business model in the medium and long terms is one centred on a broader role for content producers, creators and suppliers and the ability to maximize the opportunities presented by all distribution platforms. It is with this in mind that the Company, in the last few months of 2006, extensively reorganized its operating structure and put in place a new management team. The team has been given a mandate to make this fundamental shift in strategy a reality by establishing a true multimedia culture within the Company along with an organizational structure that provides the flexibility and efficiency needed to do just that.

More than ever before, it is very clear that the backing of major media groups, in Québec and elsewhere, is essential for multiplatform strategies to succeed. As such, TVA Group's being a part of a larger group like

MESSAGE to Shareholders


Occupation Double


Libérée : Le choix de Nathalie Simard


Gala Artis


Lance et Compte : La Revanche

Quebecor Media, which enjoys a strong presence on several new distribution platforms, represents considerable potential for synergy and convergence in terms of content distribution and our advertisers' reach.

To make the most of this potential, the content in question must belong to TVA. As a broadcaster that depends on advertising as its sole source of revenue, it assumes all the business risks involved in the productions aired on its network. Consequently, the financing rules for television production that are currently in effect and that are entirely unsuited to today's realities, must undergo a profound change. It is essential that all industry stakeholders adopt a new approach, while contributing to maintaining the quality of original Canadian programming.

As such, TVA Group has great hopes for the review of the Broadcasting Policy undertaken in 2006 by the Canadian Radio-Television and Telecommunications Commission (CRTC), a process in which Quebecor and TVA are active participants. In particular, we hope, as pointed out by the President and Chief Executive Officer of Quebecor during the CRTC hearing held last November, that the new policy will enable private conventional stations to have the necessary means to prosper financially, namely by authorizing them to collect fees to which only pay television and specialty channels currently have access.

Television: still number one by far

Year after year, TVA Network dominates the television waves in Québec with programming that is rich, diversified and focused on the interests of its audience. In 2006, TVA had a 28% share of the television market in Québec, which is greater than the shares of its two closest competitors combined. In addition, 23 of its programs were among the year's 30 best-watched programs.

In 2006 as in previous years, *Occupation Double* achieved excellent ratings, with an average of over 1.7 million viewers, followed by the series *Lance et compte : La Revanche*, with over 1.6 million viewers. *Libérée : le choix de Nathalie Simard*, which aired in two parts on January 8 and 15, 2006, was one of the most watched programs in Québec television last year, with 1.7 million viewers, similar to the first edition of the *Gala Artis*, which drew more than 1.5 million viewers.

Since the beginning of 2007, the new program *Le Banquier*, a Québec adaptation of the international game show *Deal or no Deal*, has surpassed all expectations and achieved average ratings of 2 million viewers, a sign that conventional television remains a common meeting ground with strong potential.

In news and public affairs, TVA's leadership and credibility shone through even more brightly in 2006. The network's news programs largely dominated the ratings in their respective time slots, attracting more than twice the viewers of its main competitors combined.

This dominance was particularly evident during the federal election night broadcast on January 23, 2006, when TVA's ratings were two times higher than those of the government-run station.

In a television industry experiencing tremendous upheaval, these achievements speak to TVA's ability to stay on course in its primary activity, while making an important contribution to original Canadian productions in French and, at the same time, to the vitality of Québec culture.

Ensuring long-term growth

Throughout 2006, TVA Group continued to make investments with a view to supporting its leadership position and ensuring the Company's long-term growth.

After having filed an application with the CRTC for authorization to install retransmitters in the Ottawa and London markets, the Company concluded an agreement to make SUN TV available on the Rogers Cable digital network across Ontario. Efforts continue to be made to reduce SUN TV's operating costs while increasing its revenues, which climbed 10% in 2006. SUN TV now reaches more than 5 million homes and has considerably improved its ratings in recent months, despite operating in a highly competitive market. SUN TV's position in the Toronto market, the fifth largest advertising market in North America, remains a very important element in TVA Group's development strategy.

In the publishing sector, on November 10, 2006, TVA Group acquired the second half of the shares in Trustmedia, publisher of the weekly magazines *TV Hebdo* and *TV 7 Jours*, thereby making it the sole shareholder in the company.

TVA Group is always on the lookout for investment opportunities that could help ensure its long-term development and growth, particularly in English Canada, whether it be in the television, publishing or distribution sector.

Specialty channels with excellent performance

Over the last year, TVA Group's specialty channels have successfully consolidated their market position. Generally speaking, their subscription revenues grew 40% under extremely competitive market conditions.

Due mostly to the changes in its programming, LCN saw sustained improvement in its ratings and increased its reach in the continuous news market. Between fall 2005 and fall 2006, LCN's audience grew 32%, representing an exceptional increase. Apart from its success in television, TVA's continuous news channel also broadcasts in real time on the Web, where it attracts an ever larger number of Internet users. Similarly, the economic and financial news channel Argent, launched in 2005 and also broadcast continuously on the Internet, has succeeded in broadening its audience following adjustments to its programming.

The Prise 2 channel, launched in February 2006, has put in an exceptional performance since its beginnings, with television series and serial dramas such as *Soirée Canadienne*, *Symphorien* and *Entre chien et loup*, as well as series for young people like *Les Pierrafeu* and the adventures of *Popeye*.

The Mystère channel, launched in 2005, is making progress on the road to profitability, and we continue to work on improving its visibility and reach.

We also anticipate being able to launch one or two of new channels by 2008.

MESSAGE to Shareholders

Publishing: improved profitability

With over 40 magazines, *TVA Publications* easily dominates its markets with 72% of newsstand sales for French-language periodicals in Québec.

In 2005, the arrival of a new competitor in the arts magazine market spurred TVA Group to invest further in the content and presentation of its products in order to protect its market shares and dominant position across the sector. This, in turn, affected its profitability. We are pleased to report that the price war in this market has lost much of its strength, with *7 Jours* achieving an average of approximately 106,000 copies sold, while its competitor magazine sees its readership melt away week by week. In the second half of 2006, this context contributed to our publishing sector generating far superior financial results.

Also worth noting is the excellent performance of the arts magazine *Star Système*, launched in 2004, which enjoyed a 50% increase in its newsstand sales last year and is now one of the most profitable titles.

During the last fiscal year, TVA Publications stopped production of two magazines, *Clin d'œil Shopping* and *Sensass*, and then went on last fall to launch *Moi & Cie*, a semimonthly magazine that has achieved a level of success far superior to initial projections.

TVA Publications launched the *7 Jours* Web site and expects to make several of its magazines available on new media platforms in the coming months.

Despite the efforts of competitors to destabilize it, TVA Publications has faced every challenge head on and continues to make investments with a view to maintaining its dominant position and pursuing growth. In the months ahead, the publishing segment anticipates taking advantage of all opportunities to broaden its reach, particularly in English Canada, by creating or acquiring new titles.

Distribution: weaker than expected activity

In 2005, TVA Films put in a very strong performance, mainly as a result of the resounding success of the films *C.R.A.Z.Y.* and *White Noise* (*Interférences*). Last year saw a much lower level of activity due to the movies *Slither* and *Le Guide de la petite vengeance* not being as successful as anticipated and to films scheduled to be released in 2006 being postponed until 2007, with two of these even being cancelled.

Consequently, TVA Group's distribution segment recorded a marked decrease in its operating revenues in 2006 due to the difficulty it experienced in generating substantial box office revenues.

However, the drop in operating revenues from video rentals and sales was less significant. Moreover, TVA Films saw its sales of television rights grow nearly 10% over 2005.

Several titles for which TVA Films owns the distribution rights will be available for the small screen in 2007 and, although it is difficult to predict how the public will receive these movies, the sector will certainly see more activity this year than last. One of the films for which we have great hopes is *La Vie en rose*, by French filmmaker Olivier Dahn, which retraces the important episodes in the life of Edith Piaf.

Results that reflect a media industry undergoing a transformation

The financial results for 2006 are a testament that the evolution of the media industry has reached a point of no return and that TVA Group was rightly inspired in recent years to put in place a new business model focused on multiplatform production.

TVA's consolidated revenues for the year ended December 31, 2006 were $393 million, compared with $401 million for 2005. Despite the turbulence experienced by the industry and the fragmentation of audiences and the advertising pie, the Company nonetheless generated operating income of $42.1 million for the year, against $53.0 million for 2005.

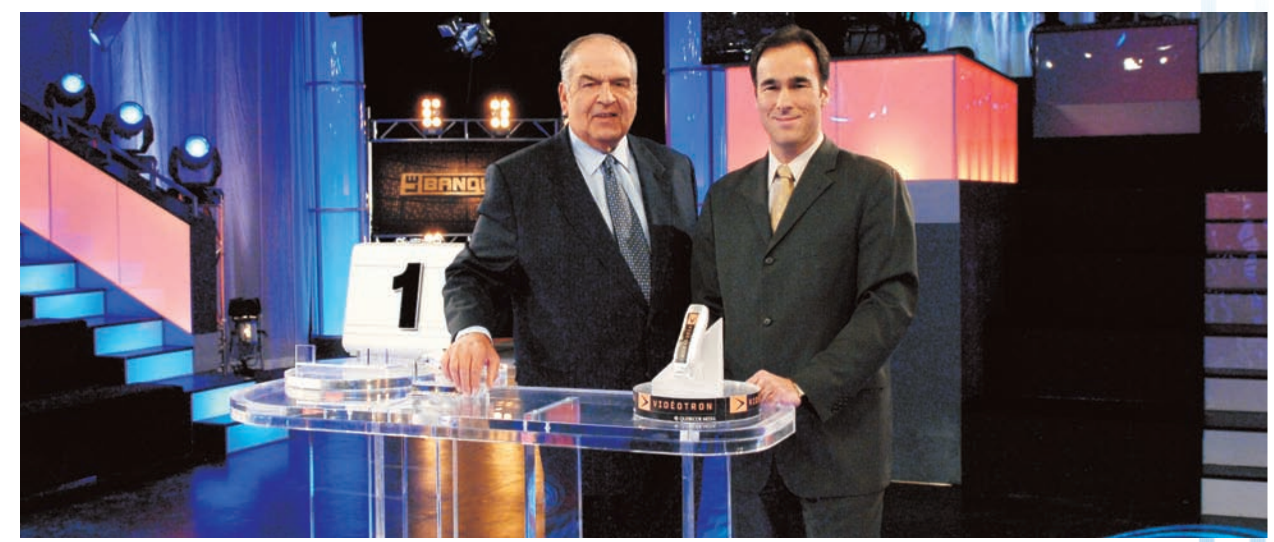
Acknowledgements

In this context of profound change affecting the industry, TVA Group remains the leader in its primary market, that market being conventional television. Although this success has never been denied, it is largely due to the expertise, commitment and motivation of its employees, who, year after year, unflinchingly take on the challenges with which they are entrusted.

We would also like to acknowledge the extraordinary contribution of our Board of Directors, whose sound advice has helped TVA Group to deftly manoeuvre in all of its markets, at the heart of a complex and quickly evolving media world. We would especially like to recognize Mr. Fernand Bélisle, who stepped down from the Board in 2005.

We would also like to take this opportunity to thank all of our shareholders for their ongoing trust and support, in particular our majority shareholder, Quebecor Media, whose initiatives serve, both today and in the future, to ensure that TVA Group remains the leader in its primary markets.

Our thanks also go out to TVA's audience, whose loyalty is our constant source of motivation. And finally, we thank our advertisers, that we will continue to support on TVA and the various distribution platforms they choose, together with us, to reach consumers.



Jean Neveu
Chairman of the Board

Pierre Dion
President and Chief Executive Officer

The Team

A dynamic team with experience and vision

1 PIERRE DION
President and Chief Executive Officer

2 DENIS ROZON
Vice-President and Chief Financial Officer

3 LUC DOYON
Senior Vice-President, Production and multimedia development

4 RICHARD RENAUD
Vice-President, Regional Stations and General manager, TVA Québec

5 YVES DION
President, TVA Films

6 SERGE FORTIN
Vice-President, TVA News, LCN, Argent and Public Affairs

7 ÉDITH PERREAULT
Vice-President, Sales and Marketing

8 JOCELYN POIRIER
President, TVA Publications Inc.

9 MAXIME BÉDARD
Director, Legal Affairs

10 ALAIN LÉTOURNEAU
Vice-President, Shopping TVA

11 FRANCE LAUZIÈRE
Vice-President, Programming

12 RICHARD GAUTHIER
Vice-President, Human Resources

13 CLAIRE SYRIL
Vice-President, Specialty Channels

14 JEAN GUIMOND
Vice-President, JPL Production Inc.

TVA Network remains a dominant force on the television landscape

Television of modern times

The world of telecommunications is changing rapidly, yet TVA Network remains a dominant force on the television landscape. Despite sustained audience fragmentation, TVA still offers sure value. It had a 28% share of the Québec television market in 2006, far exceeding the combined shares of its two main rivals. Year after year, its rich and diversified programming meets the expectations of audiences in all regions of Québec.

Once again in 2006, the majority of the 30 most-watched programs in the province were programs broadcast on TVA, a total of 23 programs, to be precise. Among these were the series *Occupation double* and *Lance et compte : la revanche*, as well as specials such as *Surprise sur prise*, *Célébration 2006*, the *Gala Artis* and *Libérée : le choix de Nathalie Simard*, all of which attracted more than 1.5 million viewers each.

The popularity of long-running series continued unabated, with *Annie et ses hommes*, *Les Poupées russes* and *Histoire de filles* each scoring average ratings considerably in excess of one million viewers. More recent series in their second season, like *Le Négociateur*, *Nos Étés* and *Le Cœur a ses raisons*, also continued to draw over one million viewers per episode.

During the winter 2007 season, TVA launched two new programs, *Le Banquier* and *Taxi 0-22*, that were instant successes and will certainly be among this year's most popular Québec television programs.

News and information: More credible and more popular than ever

Year in, year out, TVA Network's team of news anchors and journalists maintain a standard of credibility clearly reflected in its ratings. In 2006, this dominance remained striking, with TVA's newscasts achieving higher ratings than both of its main rivals combined, all time slots considered.

The daily 5 p.m. newscast, *Le 17 heures*, with Pierre Bruneau and Paul Laroque, draws an average of nearly 700,000 television viewers, while news anchor Sophie Thibault continues to attract the largest late-evening newscast audience in francophone television in Québec.

In public affairs, the program *J.E.*, hosted by Annie Gagnon and Michel Jean, is a benchmark among Québec consumers, drawing over 700,000 viewers every week, and sometimes close to one million, an incredible performance for a program aired on Friday evenings.

This renewed success over the years is no coincidence. It

Television

All its newscasts now broadcast live on the Web

is founded on unrelenting thoroughness and professionalism, regardless of the surrounding events or circumstances.

This was illustrated by a number of achievements in the last year

First, during the election night special on January 23, 2006, the duo of Pierre Bruneau – Claude Charron and the TVA team drew close to a million viewers, or almost double the number attracted by rival state-owned television, which had considerably more resources at its disposal.

The professionalism of TVA's journalists was also solidly demonstrated on several occasions throughout the year, particularly during the shooting at Dawson College and the collapse of the de la Concorde viaduct in Laval. The images captured on-site and from the TVA helicopter during these two tragedies made waves around the world. Special live programs broadcast simultaneously on TVA Network and on LCN were the most-watched on Québec television and proved the ability of our teams to react quickly on the spot and provide viewers with exclusive, in-depth coverage of rapidly evolving events.

Also, last September, the news and information service opened a bureau in Washington, appointing its international affairs specialist, Richard Latendresse, as correspondent.

TVA's news and information service has built a considerable presence on the Internet, with all its newscasts now broadcast live on the Web.

A Québec-wide reach

TVA is present across all regions of Québec, thanks to its 10 regional stations. TVA Group owns six of these stations: CFTM Montreal, CFCM Québec City, CHLT Sherbrooke, CHEM Trois-Rivières, CJPM Saguenay and CFER Rimouski. The company also holds a 45% interest in Télé Inter-Rives ltée, operator of affiliated stations CIMT in Rivière-du-Loup and CHAU, transmitting from Carleton. The other two affiliates are CFEM, in Rouyn, and CHOT, in Gatineau. TVA offers quality services across its broadcast area and its teams are deeply committed to social, economic and community life in their respective regions.

The TVA signal reaches almost the entire francophone viewing audience in Québec, as well as the French-speaking communities of Ontario and New Brunswick. TVA is also broadcast from coast to coast in Canada, enabling francophones outside Québec to benefit from its programming to the same degree as those in Québec and its neighbouring provinces.

More specialty channels

By putting the experience it has gained in television over many years to the best possible use, TVA Group forged ahead in 2006 with the implementation of its network of specialty channels with a view to taking up its position in this growing segment of the media universe. After having launched two new specialty channels in 2005, Mystère and Argent, 2006 saw TVA add Prise 2, a channel that airs television and cinema classics. The network of specialty channels is rounded out by the all-news channel LCN and Shopping TVA, and the English-language digital channels Mentv and Mystery, co-owned with CanWest MediaWorks Inc.

Last year proved to be an excellent one for all of the specialty channels operated by TVA, whose subscription revenues climbed about 40%.

LCN: Spectacular growth

LCN, which is marking its 10th anniversary this year, is a force to be reckoned with in the all-news segment in Québec. In addition to informing the public at all hours of the day and night about the latest breaking news, LCN uses blocks of newscasts aired at regular intervals to provide live coverage of major events and informative commentary by experts and seasoned analysts, who assist viewers in better understanding our world.

Television

Last year, TVA's specialty news channel grew tremendously, with its average minute audience rising 32% and its market share increasing from 1.7% to 2.1%. In this regard, TVA is just 0.3 points away from its main rival, which is long-established and has considerably greater financial means. LCN made important strides in gaining viewers, particularly in the evening, with the popularity of Denis Lévesque's daily program that draws 100,000 viewers. In addition, the half-hour morning show hosted by legal chronicler Claude Poirier attracts a large audience.

In 2006, LCN worked on further strengthening its presence on the Internet. While the Canoë portal airs its newscasts for Internet users, LCN was the first news network to broadcast its complete programming live on the Web.

Argent: More and more valuable information

In its second year of operation, the Argent channel, specializing in financial and economic news, improved its ratings and worked on fine-tuning its programming with a view to pursuing growth. In the coming months, its programming will focus more closely on the concrete relationship between people and money and on advisory services for better financial management.

Broadcast live on the Web like LCN, Argent is also widely visited by Internet users and has a presence in the print media in the weekend editions of the Journal de Montréal.

Mystère: Moving toward profitability

Launched in October 2004, Mystère offers mystery and suspense shows, with series such as Omerta and Fortier that keep viewers on the edge of their seats.

Relying on subscriber revenues since February 2006, Mystère moved throughout the year toward achieving profitability and continues to offer excellent ratings potential.

Mentv and Mystery: A profitable presence in the anglophone market

TVA holds a 51% and 50% interest, respectively, in the English-language digital specialty channels Mentv and Mystery, in partnership with CanWest MediaWorks Inc. After reaching the breakeven point in 2005, these two channels maintained their growth last year and represent an excellent investment for the Company.

Shopping TVA: An Internet strategy on the grow

In 2006, home-shopping specialty channel Shopping TVA made changes so as to substantially reduce its product handling and distribution costs. It also acquired fully digital production facilities, affording it greater flexibility and allowing it to produce its programs for all distribution platforms.

On-line sales on Shopping TVA rose 29% in 2006, and this distribution platform is without a doubt the network's most important catalyst for future growth. In view of this, we made major improvements to the Web site, both technical and marketing, and the results of this initiative have been very positive, particularly from the third quarter of the year onward.

Prise 2: a remarkable performance

Launched in February 2006, Prise 2 achieved instant success with a program schedule consisting of cult classics from Québec television, including *Symphorien*, *Entre Chien et loup*, *Soirée canadienne* and *L'Or du temps*, as well as movie classics. In just a few months, Prise 2 has achieved a remarkable penetration rate with more than 220,000 subscribers, which will allow it to reach the breakeven point very quickly.

SUN TV: Broader reach

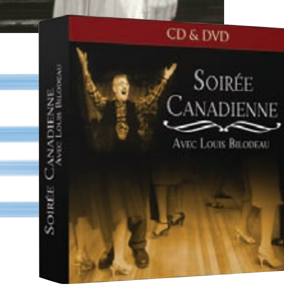
Acquired by TVA at the end of 2004, in partnership with Sun Media Corporation, the SUN TV station in Toronto now beams into 5 million homes and saw its ratings grow considerably in 2006, specifically through an agreement with Rogers Cable to make SUN TV available on its digital network across Ontario. The Company also filed an application with the CRTC for authorization to install retransmitters in the Ottawa and London markets, thereby enabling it to further extend its reach.

Throughout 2006, SUN TV pursued its efforts to reduce operating costs while increasing revenues by 10%, decidedly an excellent performance in a market that is as competitive as the one in Toronto.

JPL Production: An increasingly important role

TVA's production subsidiary, JPL Production, plays a growing role in the network's schedule, producing some of the most popular programs, including *Salut Bonjour !*, *Tout simplement Clodine*, *Les Poupées russes*, *Les Retrouvailles*


Entre Chien et Loup




Poupées Russes

Television

and *Gala Artis*. JPL Production also owns the rights to and produces *Le Banquier*, the brand new and very popular game show broadcast twice weekly on TVA since last January. The division, which has access to several state-of-the-art production studios along with competent and motivated employees, had another record year in 2006, producing close to 1,800 hours of programming, compared with an output of 1,700 hours the previous year.

With TVA's expanded commitment to producing content for a variety of distribution platforms, JPL will be called upon to play an even more substantial role in the future.

TVAccès: Impressive growth

TVAccès, a division that brings together the commercial production activities of TVA Network in Montréal and Québec, was established in 2003. Specializing in the production of commercials, corporate videos and infomercials, it determinedly pursued growth throughout 2006, achieving a 22% increase in revenues and a 24% rise in EBITDA.

As the second largest commercial production company in Québec, TVAccès consolidated its position in 2006, with a 15.3% rise in the number of its national productions, representing the strongest growth by far in the entire industry.

Always working with our advertisers

Although the emergence of new distribution platforms continues to fragment audiences and advertisers, television remains one of the most effective advertising vehicles. Even more importantly, due to its popularity, reach and long tradition of excellence, TVA Network

continues to provide advertisers with maximum impact for their advertising investment. In the last few months, to complement traditional commercial breaks, we have acquired an extremely accurate measurement tool called iTVX for calculating the impact of product placement integrated into programming.

At a time when TVA is making greater inroads than ever into new media, it is the next logical step for the Company to introduce advertisers to these new technologies, to reach the public on any and all of the distribution platforms that people choose for entertainment and information.

Motivated by the challenges ahead

While fully assuming its role as a broadcasting leader in Québec, TVA Group looks with confidence to the challenges of the future. Whether it be in the area of specialty television, Internet, video-on-demand, wireless telephony or any other audiovisual distribution platform, TVA will be ever more involved in creating, producing and distributing content to reach consumers and advertisers wherever they are.

To this end, the employees at TVA are highly motivated and stimulated by these challenges, and look forward to making the most of their relationship with owner Quebecor Media. In partnership with its sisters companies, TVA Group foresees carrying on in its leadership role, both at the top of its industry and as a stakeholder in the dynamic culture of Québec.

Looking towards the future

The leading magazine publisher in Québec

With over 40 magazine titles, TVA Publications is by far the leading magazine publisher in Québec, with nearly 50% of total sales and over 72% of newsstand sales. TVA Publications publishes the most popular arts and entertainment magazines in Québec, including *7 Jours*, *Star Système*, *Échos Vedettes* and *Le Lundi*, as well as weeklies and monthlies with wide readership, including *Clin d'œil*, *Les Idées de ma maison* and *Décoration Chez-Soi*.

Return to profitability

TVA Publications was able to resume achieving profitability as of the second quarter of 2006, reflecting the efforts made in recent months to preserve our market share and position in the face of intense competition. These efforts helped to effectively curb the impact of a new competitor's entry into the arts and entertainment magazine market. Its arrival in 2005 sparked a market war that has since subsided for the most part. While this rival sees its readership growing smaller week after week, *7 Jours* now sells some 106,000 copies every week and has become profitable once more.

During the year, TVA Publications acquired Transcontinental's 50% interest in Trustmedia, making it the sole shareholder in and publisher of *TV Hebdo*.

Outstanding success

Over the last year, TVA Publications has continued to invest in the content and format of its magazines, while also taking a fresh look at the relevance of certain titles. As a result, we decided to cease publication of *Clin d'œil shopping* and *Sensass*, and launch a new magazine, *Moi & Cie*, featuring host Patricia Paquin. Since it appeared on newsstands, this semimonthly magazine has achieved success surpassing all expectations.

Also in the arts and entertainment magazine segment, the weekly *Star Système* saw its number of copies sold in newstands jump by 58% in 2006, enabling it to achieve profitability, while *Le Lundi* saw its readership grow for the first time in a number of years.

A strategy for growth on the Web

In 2006, TVA Publications began to deploy a strategy to stimulate its growth on the Internet by launching the 7jours.canoe.ca site. This site adds value to the magazine in that it gives Internet users access to photo galleries and exclusive video briefs of interviews by a reporter-journalist.

In the months ahead, we will provide our readers and all Internet users with content that complements our print magazines in order to offer consumers our brands in whichever media universe they choose, whether it be the Internet or other distribution platforms.

On the lookout for growth opportunities outside Québec

While protecting its markets in Québec, TVA Publications remains interested in external growth opportunities, particularly in English-speaking Canada. It examines acquisition projects in light of this priority on an ongoing basis.

A strategy focused on the acquisition of distribution rights

Promising projects in 2007

Good Night and Good Luck

Following a certain amount of good fortune in 2005, due mainly to the outstanding success of the films *C.R.A.Z.Y.* and *White Noise* (*Interférences*), TVA Films saw a much lower level of activity in 2006. As a result, its revenues in the cinema sector were 78% lower than for the previous year.

Several factors contributed to this situation. First, the movies *Slither* and *Le Guide de la petite vengeance*, which we expected to perform well, did not enjoy the level of box office success we anticipated. In addition, several films slated for release in 2006 were delayed until early 2007, and two were even cancelled.

The home video and DVD market: a good performance

The video and DVD purchase and rental market extended the success achieved by the movies *C.R.A.Z.Y.* and *White Noise* in 2005 and reflected last year's lack of a box office hit. However, apart from the film *Good Night and Good Luck*, DVD sales for concerts and television series, such as Gregory Charles' *Noir et Blanc*, *Nos étés*, *Soirée canadienne* and *Le Cœur a ses raisons* I and II, were also good. Finally, TVA Films saw the sales of titles from its catalogue grow a substantial 10%.

Promising films for 2007

With several films that were originally scheduled for launch in 2006 finally being released this year, we foresee stronger activity in 2007.

Among the products whose distribution rights TVA Films owns and that offer excellent business potential, *La Vie en rose* by Olivier Dahn is a movie seems very promising. This film, featuring French actress Marion Cotillard, retraces the important moments in the life of Edith Piaf and should draw a broad audience. The movie *Because I Said So* (*Cherche homme parfait*), featuring Diane Keaton and Mandy Moore, also seems marked for success, as does *How I Met My Boyfriend's Dead Fiancée*, with Eva Longoria and Jason Biggs, scheduled for release in October 2007.

Putting multimedia at the heart

Despite lower operating revenues for 2006 on the heels of an extraordinary year in 2005, TVA Films remains solidly on track. While always on the lookout for Canadian and foreign movie projects with strong box office potential, we will continue to deploy a strategy focused on the acquisition of distribution rights across all platforms.

CORPORATE PROFILE

TVA Group Inc. (TVA) is a communications company with operations in three business sectors: television, publishing and distribution. In the television sector, TVA produces and broadcasts entertainment, information and public affairs programming, in addition to its commercial production and home shopping operations. It is the privately owned operator of North America's largest French-language television network, in addition to operating six specialty channels and a conventional television station in Toronto. In the publishing sector, TVA produces some 40 specialty magazines, making it Québec's largest publisher of French-language magazines. In the distribution sector, TVA owns a large catalogue of distribution rights that it operates on all media platforms: cinema, video, pay and pay-per-view television, as well as specialty and conventional television. The Company's shares, formerly listed under the ticker symbol TVA.NV.B, have been listed on the Toronto Stock Exchange under the ticker symbol TVA.B since May 29, 2006.

RESULTS FOR THE FOURTH QUARTER OF 2006

For management's discussion and analysis of the fourth quarter of 2006, please refer to the public filings for that quarter.

OVERVIEW OF 2006

TVA's operating income[1] for 2006 was down 21% against 2005. The Company saw its operating income[1] in the television sector decrease significantly as a result of the fragmentation of the television market, which continues to exert strong pressure on the advertising revenues of conventional broadcasters. The Company posted a net loss of $3,140,000 for 2006, compared with net income of $28,373,000 for 2005. Among the highlights of fiscal 2006:

- Write down of the full value of the broadcast licence and of the goodwill of SUN TV in the amount $31,084,000 following the annual impairment tests carried out by the Company.

- Decrease of 25% in TVA Network's operating income[1] due to the combination of a 3.6% drop in advertising revenues and a 4.2% increase in operating expenses.

- Growth of 34% in the operating income[1] for specialty channels despite the launch of a new channel, *Prise 2*, in February 2006.

- Decrease in the operating loss[1] for SUN TV due to a drop in its operating expenses of more than 3% despite a 10% increase in its operating revenues for the year, compared with the previous year.

- Despite a competition constantly present, the Company's publishing business registered an important improvement in its profitability in 2006, compared with the previous year when there was strong competition and a price war among weekly magazines.

- Operating loss[1] of $1,707,000 in the distribution sector as a result of much lower than anticipated box office revenues for new releases in theatres, including the movies *Slither* and *Le Guide de la petite vengeance*. These lower results in cinema also affected revenues in video.

GENERAL

The year 2006 was a very turbulent one for the television sector. From the start of 2006, this sector was subject to the increased fragmentation of its audience, not only in favour of specialty channels but also new distribution platforms such as the Internet and video-on-demand. This audience fragmentation spurred many advertisers to review their strategy and reallocate a portion of their budget accordingly. This situation, combined with the sustained competition from existing conventional networks and TVA Network's position as a leader in the conventional television market in Québec, resulted in lower advertising revenues for TVA Network for the year ended December 31, 2006. Despite this context, TVA Network continues to dominate the viewing shares for francophone Québec with a market share of 27.5, which is greater than the shares of TQS and the Société Radio-Canada combined (source: BBM, Monday to Sunday, two years and over, from August 28 to December 10, 2006). During the same period, TVA broadcasted 23 of its market's 30 best-watched programs, including *Occupation Double*, *Lance et compte : La revanche* and *Les Poupées Russes*. In February 2006, TVA launched a new specialty channel type Nostalgie called *Prise 2* that features classic television series and films. As for the LCN news channel, it saw its audience and market shares grow tremendously in the fall of 2006.

In the publishing sector, the intense competition and price war among weekly magazines that began in the fourth quarter of 2005 continued through a good portion of 2006. This situation subsided somewhat in the third and fourth quarters of 2006, and we are now working on gradually rebuilding our profitability in this sector. In addition, a new magazine entitled *Moi & Cie*, featuring host Patricia Paquin, was launched in October 2006 and has enjoyed commercial success that exceeds our initial projections.

The year 2006 was not a very good one in terms of box office revenues for Québec-made films. In addition, several releases originally planned to take place during the year under our agreements with American producers were postponed until 2007.

TVA also made a number of changes to its management team and operational structure. Its objective in doing so has been to adapt to the profound changes taking place in the industry in which it operates, thereby enabling it to remain the leader and offer its audience and business customers the best content available, when they want it, and in the media of their choice.

OPERATING RESULTS

The following management's discussion and analysis of the financial position and results of TVA's operations should be read in conjunction with the Company's consolidated financial statements.

Operating revenues (in thousands of dollars)

	Year ended December 31, 2006	Year ended December 31, 2005
Television	**$ 309,317**	$ 306,774
Publishing	**78,125**	77,129
Distribution	**14,369**	21,789
Intersegment items	**(8,499)**	(4,340)
	$ 393,312	$ 401,352

Consolidated operating revenues for TVA totalled $393,312,000 for 2006, compared with $401,352,000 for the previous year. This decrease is mainly the result of lower revenues in the distribution segment, with a 34% decline in its revenues due to a lower level of activity in 2006 and to weaker than expected box office revenues for the movies *Slither* and *Le Guide de la petite vengeance*, both released in 2006. In 2005, this segment saw growth of 65% with the success of the movies *C.R.A.Z.Y.* and *White Noise*.

In our television sector, the significant growth in subscription revenues for our specialty channels partially offset the decrease in TVA Network's advertising revenues. Revenues for publishing were up 1.3% due mainly to an increase in the sector's advertising revenues from contra advertising. Intersegment items increased significantly in 2006, compared with 2005, essentially as a result of a greater number of transactions between the television and publishing sectors, primarily in contra advertising.

Operating income[1] (in thousands of dollars)

	Year ended December 31, 2006	Year ended December 31, 2005
Television	**$ 42,963**	$ 52,377
Publishing	**1 358**	273
Distribution	**(1,707)**	341
Intersegment items	**(558)**	-
	$ 42,056	$ 52,991

[1] **Operating income or operating loss:** In its analysis of operating results, the Company defines operating income or operating loss as income (loss) before amortization, financial expenses, restructuring costs of operations, depreciation of intangible assets, gain on business acquisition and disposal, (recovery) income taxes, non-controlling interest, equity in income of companies subject to significant influence. Operating income or operating loss, as defined above, is not a measure of results that is consistent with Canadian generally accepted accounting principles ("GAAP"). 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 is not intended to represent funds available for debt service, dividend payment, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for other performance measures prepared in accordance with Canadian GAAP. Operating income is used by the Company because management believes it is a meaningful measurement of performance. This measure is commonly used by senior management and the Board of Directors to analyze and compare the consolidated results of the Company with those of companies in the industries in which the Company is engaged. Measurements such as operating income are also commonly used by the investment community to analyze and compare the performance of companies in the industries in which we are engaged. The Company's definition of operating income may not be identical to similarly titled measures reported by other companies.

Reconciliation between the operating income[1] measure used in this report and the net income (net loss) measure used in the consolidated financial statements (in thousands of dollars)

	Year ended December 31, 2006	Year ended December 31, 2005
(Net loss) Net income	**(3,140) $**	28 373 $
Amortization of fixed assets and deferred start-up costs	**13,905**	13,740
Financial expenses	**5,308**	2,764
Depreciation of intangible assets	**31,828**	–
Restructuring costs of operations	**507**	(232)
Gain on business acquisition and disposal	**(368)**	(44)
(Recovery) Income taxes	**(2,591)**	11,943
Non-controlling interest	**(3,252)**	(2,747)
Equity in income of companies subject to significant influence	**(141)**	(806)
Operating income[1]	**$ 42,056**	$ 52,991

TVA Group reported an operating income of $42,056,000 for fiscal 2006, compared with an operating income of $52,991,000 for the previous year.

In the television sector, operating income for 2006 declined $9,414,000, or 18%, compared with 2005. This decrease is mainly the result of the decline in the profitability of TVA Network, which was affected by lower advertising revenues combined with higher operating expenses, particularly programming costs. For its part, SUN TV continued to improve its results by decreasing its loss by more than 20% in 2006, compared with 2005, while our specialty channels saw their operating income climb by 34%.

In the publishing segment, despite sustained competition, profit margins improved for 2006, compared with the previous year, such that the Company generated operating income of $1,358,000 for 2006, against $273,000 for 2005. In the distribution sector, lower operating revenues are responsible for the significant drop in operating income, with a loss of $1,707,000 posted for 2006, against an operating income of $341,000 for the previous year.

TELEVISION

Operating revenues for the television sector rose by $2,543,000, or 0.8%, in 2006 over 2005, to $309,317,000. This slight growth is mainly the result of an increase of nearly 25% in the revenues of our specialty channels, an increase in the revenues of SUN TV, and growth of more than 20% in the revenues from our commercial production activities. However, these gains were offset by a considerable drop in the advertising revenues of TVA Network, which continues to be affected by market pressure and fragmentation.

The advertising market of conventional television continues to be difficult, and these advertising dollars are increasingly shifting toward the advertising market of specialty channels and new media, such as the Internet. TVA Network saw its advertising revenues decrease by 3.6% compared with last year, in spite of a strong programming with a good performance. According to BBM, TVA Network broadcasted 23 of its market's 30 best-watched programs in 2006, compared with 27 of 30 in 2005. Programs such as *Occupation Double*, *Lance et compte : La Revanche*, *Surprise sur prise* and *Célébration 2006* placed in the top five. And so, despite the current fragmentation in the television sector, TVA Network continues to achieve excellent audience ratings, enabling it to maintain its position as the Québec market leader. For the period from January 1 to December 31, 2006, it captured a market share of 26.9, which is higher than the shares of TQS and the Société Radio-Canada combined (source: BBM, francophone Québec, Monday to Sunday, two years and older). Our conventional television station in Toronto, SUN TV, saw its revenues for 2006 climb by 10% in a highly competitive market, while our specialty channels reported continued subscription revenue growth, with a solid increase of 40% over 2005. This substantial growth is due, to a large extent, to the new channels *Mystère* and *Argent*, the free trial period for which ended in early 2006, as well as to the revenues from the new channel launched in February 2006, *Prise 2*. Furthermore, our 24-hour news channel, *LCN*, continues to deliver excellent audience ratings, with an increase of 32% in its average minute audience between the fall of 2006 and 2005.

Operating expenses for the television business were $266,354,000 for fiscal 2006, against $254,397,000 for 2005. This rise in operating expenses of $11,957,000, or 4.7%, is essentially due to a 4.2% increase in operating expenses for TVA Network, combined with the costs incurred by our new Prise 2 digital specialty channel, launched in February 2006. SUN TV's operating costs for the year were 3.4% lower than for the previous year, reflecting the changes made in recent months with a view to reducing these costs and increasing the profitability of the station.

Operating income generated by the television sector was $42,963,000 for 2006, compared with an operating income of $52,377,000 for the previous year, representing a drop of nearly 18%. TVA Network is, in large part, responsible for this lower operating income, with a decrease in its own operating income of 25% against 2005. We are pursuing our efforts to diversify our sources of revenues by guiding our announcers to new distribution platforms while developing new tools to measure the effectiveness of our actions in media creativity and the integration of products into our programs. Also, over the last few months, we have put in place a three-year plan to reduce expenses and investment in technology in order to achieve greater operational flexibility. This decline in profitability was, however, offset by the growth of the specialty channels, which saw their operating income increase by nearly 34%, and by the major reduction in SUN TV's operating loss. SUN TV posted an operating loss of $8,574,000 for 2006, compared with a loss of $10,756,000 for 2005. Commercial production reported an increase in its operating income for 2006 of almost 29% over the previous year.

PUBLISHING

Operating revenues for the publishing sector were $78,125,000 for fiscal 2006, against $77,129,000 for the year ended December 31, 2005. This 1.3% rise in operating revenues is mainly attributable to the increase in the sector's advertising revenues from contra advertising. Revenues from newsstand sales were down nearly 3%, primarily due to monthly magazine sales, while weekly magazines posted stable newsstand revenues compared with 2005. During the fourth quarter, we launched a new magazine entitled *Moi & Cie*, featuring host Patricia Paquin. This new product, which replaces the magazine Sensass, has gotten off to an excellent start. We will continue to work on developing our various publications to ensure they are continually better able to meet consumers' expectations and match their interests, while making every effort to improve profitability. Despite the intense competition in this market, TVA still has approximately 72% of the newsstand sales market for francophone magazines in Québec and close to 50% of the units sold for francophone magazines in Québec (source: Audit Bureau of Circulation). In 2005, the arrival of a new competitor that publishes a weekly artistic magazine served to heighten competition in this market, and the Company needed to invest further in its magazine content and formats in order to protect its market shares and position as leader, thereby affecting its profitability in the segment. This competition diminished somewhat over the last two quarters of 2006, leading to improved financial results for our publishing segment.

Operating expenses for the publishing sector were $76,767,000 for fiscal 2006, against $76,856,000 for the previous year. This slight decrease in operating expenses from last year is due to printing and filming costs that were 9% lower, compared with 2005, as a result of the decrease in the number of pages across all our weekly magazines, the smaller format of *TV 7 Jours*, and the decrease in the value of the premiums offered compared with 2005, when a major offensive was launched to counter the competition. In addition, a significant increase in the advertising budget for contra advertising offset the lower operating expenses mentioned previously.

Operating income for the publishing sector was $1,358,000 for the year, against $273,000 for last year. This profitability increase is a result of the decisions made over several quarters with a view to protecting our market shares and strengthening our position in the face of growing, intense competition. We are now working on gradually rebuilding our profit margins in our various product categories. Despite the gradual recovery of our profit margins, we intend to pursue certain investments that were made to maintain and further increase the very high quality of our magazine content and formats.

DISTRIBUTION

Operating revenues for the distribution sector were $14,369,000 for fiscal 2006, against $21,789,000 for the year ended December 31, 2005. This decrease in operating revenues is due mainly to a lower level of activity in 2006 compared with 2005, as well as to the disappointing performances of the movies *Slither*, by the producers of *White Noise*, and *Le Guide de la petite vengeance*, both released in 2006 and for which we anticipated better results. In 2005, this sector reported a very good performance with the phenomenal success of the movies *C.R.A.Z.Y.* and *White Noise*, with its revenues for cinema and video more than doubling those posted for 2004. Cinema revenues were down 78% from last year due to the difficulty we experienced in generating box office revenues as substantial as those generated by last year's hit movies. In addition to the above-mentioned films, several planned releases were postponed until early 2007 and two releases were simply cancelled. In video, operating revenues followed suit by dropping off but to a lesser extent (30%), having also been subject to the effects of the 2005 hit movies *C.R.A.Z.Y.* and *White Noise* and the lack of a box office hit in 2006. In contrast, the movie *Good Night and Good Luck* achieved good video sales in 2006, subsequent to its release in theatres that bridged two fiscal years last year. Activity for concert and television series DVDs, such as *Noir et blanc* by Gregory Charles, *Nos étés*, *Soirée canadienne*, *Le Cœur a ses raisons I et II*, rounded out the year's sales. Our sales of television rights grew almost 10% over 2005. A considerable portion of these sales were made to member entities in our television sector, generating operating income on these rights of $574,000. The operating loss that appears under the heading "Intersegment items" in the statement of income represents the unrealized portion of the profit recognized for these sales in the distribution sector.

The operating loss for 2006 was $1,707,000, compared with operating income of $341,000 for last year. The reality of this sector is such that the majority of films released are subject to production realities and even the strategies of producers. Several titles for which TVA Films owns the distribution rights will arrive in theatres in early 2007 rather than fall 2006 as originally planned. Although we are unable to foresee consumer receptivity to the films, the level of activity this spring will nevertheless be greater than it was in spring 2006.

Comparative results (in thousands of dollars)

	Year ended December 31, 2006	Year ended December 31, 2005
Operating revenues	**$ 393,312**	$ 401,352
Operating expenses	**351,256**	348,361
Operating income	**42,056**	52,991
Amortization	**13,905**	13,740
Financial expenses	**5,308**	2,764
Depreciation of intangible assets	**31,828**	-
Restructuring costs of operations	**507**	(232)
Gain on business acquisition and disposal	**(368)**	(44)
(Loss) Income before the following items	**(9,124)**	36,763
(Recovery) Income taxes	**(2,591)**	11,943
Non-controlling interest	**(3,252)**	(2,747)
Equity in income of companies subject to significant influence	**(141)**	(806)
(Net loss) Net income	**$ (3,140)**	$ 28,373

AMORTIZATION

The amortization of fixed assets and deferred start-up costs totalled $13,905,000 for the year, compared with $13,740,000 for 2005. This increase is essentially due to the completion of a greater number of fixed asset projects in 2006 and the amortization related to said projects.

FINANCIAL EXPENSES

Financial expenses totalled $5,308,000 for the year, compared with $2,764,000 for the previous year. This increase is the result of the rise in interest rates as well as the higher average debt level in 2006 compared with 2005 when the Company borrowed a considerable amount to finance a major share buyback in July 2005.

DEPRECIATION OF INTANGIBLE ASSETS

During the fourth quarter, the Company conducted its annual impairment tests for its broadcast licences and goodwill. Based on the results of these tests, the Company recorded a total depreciation expense of $31,084,000, of which $23,119,000 was for SUN TV's broadcast licence and $7,965,000 for goodwill. This depreciation became necessary following the review of SUN TV's business plan in light of the market experience over the last two years and due to pressure being exerted on the advertising revenues of conventional broadcasters, including, among other things, the fragmentation of the television market.

This depreciation charge is in addition to the depreciation of another intangible asset recorded during the year representing the Company's share of the operating licence for a co-owned magazine in its publishing sector amounting to $744,000. The total depreciation of intangible assets for the year represents $31,828,000.

RESTRUCTURING COSTS OF OPERATIONS

In 2006, the Company recorded a restructuring reserve of $1,404,000 following the elimination of some 30 positions in its television segment. This reserve was lowered by the recording of revenues from the reversal of a portion of the restructuring reserve related to the production activities of its former subsidiary, TVA Acquisition, in the amount of $897,000 following the settlement of certain matters and based on the new information available to the Company.

In 2005, the Company recorded a gain of $1,257,000 due to the recovery of an account receivable that was initially written off during the restructuring carried out in 2001 following the repositioning of the distribution segment. This gain was diminished due to the writing off of the distribution rights totalling $591,000 that had been acquired through its former subsidiary, TVA Acquisition Inc., and an additional charge of $434,000 for its restructuring reserve related to the production activities of its former subsidiary, TVA Acquisition Inc.

GAIN ON BUSINESS ACQUISITION AND DISPOSAL

On November 10, 2006, the Company acquired the totality of the shares in Trustmedia Inc., 50% of which was held by a co-owning shareholder, making it the sole shareholder in this company. Following this acquisition, the Company posted a gain of $368,000, given that the purchase price was lower than the fair value of the net assets acquired. The cash overage acquired in the transaction on the consideration paid is $818,000. No taxes were recorded on this gain since the result is a permanent difference.

During the year ended December 31, 2005, the Company recorded an additional gain of $44,000 following the final settlement in the sale of its subsidiary, Les Éditions TVA inc., to its parent company, Quebecor Media Inc.

INCOME TAXES

The Company reported an income tax recovery of $2,591,000, equivalent to a tax rate of 28.4%, for fiscal 2006, compared with an income tax expense of $11,943,000, or a rate of 32.5%, for 2005. This lower tax rate is due to the favourable impact of an amount of $3,223,000 recorded against future income tax expenses due to the lower federal income tax rate in effect since June 22, 2006. The impact of this lower tax rate is offset by the cumulative effect of the fiscal consolidation implemented at SUN TV and the permanent difference generated by the depreciation of SUN TV's goodwill.

During the year, the Company obtained from Quebecor World Inc., a company under the common control of its ultimate parent, Quebecor Inc., tax deductions representing income taxes of approximately $4,452,000. The full amount was recorded as current income taxes. This transaction allowed the Company to realize a profit of $293,000, which was recorded as contributed surplus. Tax benefits of $1,113,000 related to this transaction for fiscal 2006 and $2,557,000 related to transactions for prior fiscal years will be entered into the Company's results when the rate applying to these benefits will be officially enacted by the legislative authorities.

NON-CONTROLLING INTEREST

Non-controlling interest for 2006 was $3,252,000, against $2,747,000 for last year. Non-controlling interest represents Sun Media Corporation's share in SUN TV's net loss.

EQUITY IN INCOME OF COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

Equity in income of companies subject to significant influence was $141,000 for 2006, compared with $806,000 for the previous year. Our lower equity in the income of these companies operating in the television industry is a result of the weaker results they achieved.

(NET LOSS) NET INCOME

TVA reported a net loss of $3,140,000, or $0.12 per diluted share, for the year ended December 31, 2006, compared with net income of $28,373,000, or $0.98 per diluted share, for the previous year.

The calculation of per-share amounts was based on a weighted average of 27,026,199 outstanding diluted shares for the year ended December 31, 2006, and on a weighted average of 28,917,369 outstanding diluted shares for the year ended December 31, 2005.

This decline in net income is the result of the depreciation expense for the broadcast licence and SUN TV's goodwill less related income taxes and the decrease of $10,935,000 in operating income. The net impact of this depreciation is $23,454,000, or $0.87 per diluted share, calculated as the depreciation of $31,084,000 less income taxes on the broadcast licence in the amount of $7,630,000.

CASH FLOWS AND FINANCIAL RESOURCES

OPERATIONS

Cash flows provided by operations amounted to $32,333,000 for 2006, compared with $14,746,000 for the previous year. These increased cash flows related to operating activities are essentially due to the net change in non-cash working capital items, which is mainly explained by the favourable change in accounts receivable and investments in televisual products and movies.

INVESTMENTS

On December 8, 2006, the Company (75%) and Sun Media Corporation (25%), a company under common control of its ultimate parent, Quebecor Inc., reached an agreement with CHUM Limited in respect of the final settlement on the working capital that was part of the purchase price for SUN TV Company. Following this settlement, the Company recorded its share in the favourable adjustment of the working capital of $81,000. The final purchase price for the Company's interest in SUN TV Company was $35,012,000, which represents the $34,500,000 initial purchase price agreed plus a working capital adjustment of $37,000 and transaction fees of $475,000. The Company made the final payment of the purchase price, including the working capital adjustment, of $2,625,000 on January 8, 2007. Effective December 2, 2004, 100% of SUN TV's operating income has been included in the Company's consolidated statement of income. During the previous year, the Company had also changed the Toronto 1 corporate name to SUN TV.

On December 20, 2006, a subsidiary of the Company, SUN TV Company, owned at 75% and operating the television channel SUN TV, entered into a fiscal consolidation transaction with the Company and non-controlling interest, Sun Media Corporation, a company under common control of its ultimate parent, Quebecor Inc., in order to reduce the fiscal consolidation put in place on July 12, 2005. To realize this transaction, SUN TV Company received a partial repayment of the convertible bonds of the shareholding companies in the amount of $11,700,000, of which Sun Media Corporation for $2,925,000. In return, SUN TV Company repurchased 11,700 preferred shares redeemable at the option of the holder, carrying a 10.85% fixed cumulative dividend, of which 2,925 preferred shares from Sun Media Corporation for $2,925,000. This transaction results for the Company, on a consolidated level, in a reduced long-term investment in convertible bonds of $2,925,000, and an equivalent reduction in redeemable preferred shares disclosed under "Non-controlling interest and redeemable preferred shares."

FINANCING

During fiscal 2005, TVA Group Inc. filed an offer to repurchase for cancellation, in the normal course of its operations between August 4, 2005 and August 3, 2006, a maximum of 1,137,722 of the Company's Class B shares, or about 5% of the total number of Class B shares issued and outstanding at the opening of this offer. A total of 9,800 Class B shares were repurchased under this program during fiscal 2006, for a total net cash consideration of $154,000.

During fiscal 2006, TVA Group Inc. filed a new offer to repurchase for cancellation, in the normal course of its operations between August 4, 2006 and August 3, 2007, a maximum of 1,135,242 of the Company's Class B shares, or about 5% of the total number of Class B shares issued and outstanding at the opening of this offer. No shares were redeemed during the year under review.

During 2006, a subsidiary of the Company, SUN TV Company, owned at 75% and operating the television channel SUN TV, obtained from its non-controlling shareholder, Sun Media Corporation, a company under common control of its ultimate parent, Quebecor Inc., additional advances of $5,149,000.

At December 31, 2006, the unused and available balance of the revolving credit stood at $61,499 000, compared with $52,344,000 at December 31, 2005.

FINANCIAL SITUATION

TVA Group's financial situation remains good. As at December 31, 2006, the consolidated debt ratio as measured by the debt-to-shareholders' equity ratio stood at 34:66 or 0.52, compared with 38:62 or 0.62 at December 31, 2005. The decline in this ratio is the result of the combined impact of debt reduction, the net loss for the year and the dividends paid out during the year.

The Company's long-term debt was reduced by $10,583,000, decreasing from $107,098,000 at December 31, 2005 to $96,515,000 at December 31, 2006.

The Company paid dividends of $0.20 per share during the fiscal year, the same amount paid during the prior fiscal year.

Quarterly financial data
(in thousands of dollars, except for amounts pertaining to shares)
For the three-month periods ended

	2006 Dec. 31	**Sept. 30**	**June 30**	**March 31**
Operations				
Operating revenues	**$ 119,937**	**$ 79,014**	**$ 103,437**	**$ 90,924**
Operating income (loss)	**$ 18,859**	**$ 4,765**	**$ 18,827**	**$ (395)**
(Net loss) Net income	**$ (12,994)**	**$ (820)**	**$ 13,413**	**$ (2,739)**
Basic per-share data				
(Net loss) Net income	**$ (0.48)**	**$ (0.03)**	**$ 0.50**	**$ (0.10)**
Weighted average number of shares outstanding (in thousands)	**27,025**	**27,025**	**27,025**	**27,028**
Diluted per-share data				
(Net loss) Net income	**$ (0.48)**	**$ (0.03)**	**$ 0.50**	**$ (0.10)**
Weighted average number of diluted shares outstanding (in thousands)	**27,025**	**27,025**	**27,030**	**27,031**

	2005 Dec. 31	Sept. 30	June 30	March 31
Operations				
Operating revenues	$ 119,546	$ 81,042	$ 104,084	$ 96,680
Operating income	$ 16,756	$ 4,812	$ 24,669	$ 6,754
Net income	$ 8,706	$ 2,671	$ 14,101	$ 2,895
Basic per-share data				
Net income	$ 0.32	$ 0.10	$ 0.46	$ 0.09
Weighted average number of shares outstanding (in thousands)	27,061	27,416	30,524	30,629
Diluted per-share data				
Net income	$ 0.32	$ 0.10	$ 0.46	$ 0.09
Weighted average number of diluted shares outstanding (in thousands)	27,065	27,425	30,527	30,643

Most of the Company's revenues come from the sale of advertising. These advertising revenues are usually seasonal in nature and are impacted by the cyclic and economic character of the industry and the markets in which advertisers operate. The Company's second and fourth quarters are customarily the most favourable periods for advertising revenues, especially for the television sector.

Operating expenses in the television sector vary, mainly as a result of programming costs. In the Company's publishing and distribution sectors, operating costs fluctuate according to, respectively, the arrival of magazines on newsstands and the release of films on the market.

In recent years, the growing use of the Internet, fragmentation of television audiences and content digitization have opened new content-distribution platforms and changed consumer habits. This reality has resulted in a fragmentation of the advertising market, to the detriment of conventional television and traditional media. In order to respond to this trend, TVA relies on its ability to create, develop and produce quality information and entertainment content and invests significantly in launching specialty channels so that it can continue to reach the broadest possible audiences and constantly meet advertisers' needs.

CAPITAL STOCK

The following table provides data on the Company's capital stock as at December 31, 2006.

Number of shares outstanding as at December 31, 2006

Class A common shares	4,320,000
Class B shares	22,704,848
	27,024,848

Stock options outstanding for the year ended December 31, 2006

	Conventional Class B stock options	Quebecor Media Inc. stock options
Balance as at December 31, 2005	310,177	100,242
Granted	503,684	40,444
Exercised	(27,500)	–
Cancelled	(296,666)	(11,568)
Balance as at December 31, 2006	489,695	129,118

Of the options outstanding as at December 31, 2006, 31,625 conventional Class B stock options at an average exercise price of $20.75 and 36,526 QMI stock options at an average exercise price of $16.17 can be exercised.

FINANCIAL DATA FOR THE PAST THREE YEARS (in thousands of dollars, except for amounts pertaining to shares)

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Operating revenues	**$ 393,312**	$ 401,352	$ 357,960
(Net loss) net income	**$ (3,140)**	$ 28,373	$ 51,368
Basic and diluted (loss) income per share	**$ (0.12)**	$ 0.98	$ 1.61
Total assets	**$ 477,504**	$ 513,374	$ 446,757
Long-term debt	**$ 96,515**	$ 107,098	$ 34,929
Dividends per shares			
Classe A shares	**$ 0.20**	$ 0.20	$ 0.20
Classe B shares	**$ 0.20**	$ 0.20	$ 0.20

The increase in operating revenues from 2004 to 2005 was due essentially to the growth in advertising revenues for the television sector, a considerable portion of which came from the new channels launched in 2005 (SUN TV, Mystère and Argent). The distribution sector also played a role in this growth by contributing to the success of *C.R.A.Z.Y.* and *White Noise* and to the excellent marketing carried out for these films. On the other hand, the increased operating expenses related to these new television channels and the required investments in our magazine content and formats to maintain our shares contributed to the drop in the Company's net income from $51,368,000 in 2004 to $28,373,000 in 2005.

The increase in the long-term debt from 2004 to 2005 is explained mainly by the share buybacks conducted during the year, which were financed directly from the revolving loan agreement. The growth in total assets from 2004 to 2005 is the result of higher working capital and the fiscal consolidation transaction conducted with SUN TV.

The total decrease in assets between December 31, 2006 and December 31, 2005 is essentially due to the depreciation of the intangible assets of SUN TV following the annual impairment tests conducted by the Company, as explained under the heading "Depreciation of intangible assets."

RELATED-PARTY TRANSACTIONS

During the year ended December 31, 2006, the Company sold advertising space, recorded subscription revenues and provided production and postproduction technical services to companies under common control for a total of $27,835,000 ($22,973,000 for 2005). Transactions with related companies are recorded at market value.

For the year ended December 31, 2006, the Company recorded an amortization expense for broadcast rights, expenses for information and communication systems, printing and filming services, charges for access rights and charges for professional services, all from transactions concluded with companies under common control and affiliated companies, for a total of $48,831,000 ($54,827,000 for 2005).

The Company also recorded management fees to the parent company in the amount of $3,700,000 for 2006 ($3,250,000 for 2005).

OFF-BALANCE SHEET COMMITMENTS

CONTRACTUAL COMMITMENTS

In the normal course of its operations, the Company is committed under operating leases, mainly for services and office space, and also under distribution and broadcasting rights acquisition contracts, for total payments of $69,494,000.

The minimum payments for the coming fiscal years are as follows:

2007	$ 37,393,000
2008	$ 14,685,000
2009	$ 9,794,000
2010	$ 5,151,000
2011	$ 1,388,000
2012 and beyond	$ 1,083,000

OTHER COMMITMENTS

As part of the acquisition of Toronto's SUN TV television station, the Company is committed to investing a total amount of $4,600,000 in tangible benefits in the Canadian television industry over a period of five to seven years. This amount is in addition to the balance of commitments of $8,996,000 under the terms of the former owner's licence that the Company is required to assume over a period of four to seven years. On January 11, 2007, the Canadian Radio-Television and Telecommunications Commission (CRTC) approved an application to amend the conditions of the licence of SUN TV in regard to the tangible benefits to be invested. This decision serves to reduce the tangible benefits the Company must invest by $4,339,000. As at December 31, 2006, the balance of the Company's commitments under licence conditions imposed by the CRTC was $3,613,000, of which $2,572,000 is to be invested by August 31, 2008 and $1,041,000 by August 31, 2011.

GUARANTEES

In the normal course of its operations, the Company provides indemnification agreements to counterparties in transactions such as purchase contracts, service agreements and leasing transactions. These indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnification. No amounts have been accrued, since the Company does not expect to make any payments pertaining to these agreements.

The Company has guaranteed a portion of the residual values of certain assets under operating leases to the benefit of the lessor. If the fair value of the assets, at the end of their respective lease terms, is less than the residual value guaranteed, then the Company must, under certain conditions, compensate the lessor for a portion of the shortfall. The maximum exposure in respect of these guarantees is approximately $716,000. As at December 31, 2006, the Company did not record any liability related to these guarantees.

CRITICAL ACCOUNTING POLICIES

GOODWILL

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

In the first step, the fair value of a reporting unit is compared with its carrying amount. To determine the fair value of the reporting unit, the Company uses a combination of valuation methods, including discounted future cash flows and operating income multiples.

The discounted future cash flows method involves the use of estimates such as the amount and timing of a series of 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 liability.

The operating income multiples method requires the availability of the fair value of companies with comparable and observable economic characteristics, as well as of recent operating income multiples.

Therefore, determining the fair value of a reporting unit requires judgment and involves complete reliance on estimates and assumptions.

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

The fair value of goodwill is determined in the same manner as the value of goodwill in a business combination. The Company allocates the fair value of a reporting unit to all the assets and liabilities of the unit, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the fair value of goodwill. The Company conducts its annual tests on October 1st.

LICENCES

Licences, which include broadcast licences, represent the cost of acquiring rights to operate broadcasting stations and have an indefinite useful life.

These licences are tested for impairment annually or are re-evaluated where events or changes in circumstances so require. The carrying value of the licence is compared with its fair value and any unfavourable variances are charged to the Company's results.

The Company uses the Greenfield valuation method to determine the fair value of its broadcast licences. This method involves calculating the costs that a new player would incur to operate its licence in a context where the licence is the only asset it owns at start-up.

These costs must take into consideration the investment needed to build the network or station, including pre-operating costs to establish the brand and the sales force. This approach separates the value of the licence from the value of other assets based on the following assumptions:

- The only asset owned by the company at the date of the valuation is the broadcast licence itself.
- The company has not started to broadcast, and no network exists for it to carry out its operations. It must therefore acquire programming rights and put in place the broadcast infrastructure required for its operation.
- Investments and expenses related to other assets on the balance sheet (e.g., working capital, qualified personnel, software) must be taken into account in the forecasted cash flows.
- The level of financial performance must correspond to the level that the industry in general is able to achieve.

Furthermore, terminal cash flows are fully attributable to the licence held on the date of the valuation.

This approach is based on the assumption that a potential market exists. The only constraint is the time that it will take the company to reach its mature market share.

This method takes into account the significant costs involved in marketing and the acquisition of programming rights. General, sales and administrative, and pre-operating costs must be included in the calculation in order to evaluate the cash flows attributable to the licence. Lastly, the cash flows are actualized to determine the final value attributable to the licence.

The Company conducts its annual tests on October 1st.

For the year ended December 31, 2006, the Company wrote off the broadcast licence of SUN TV, its television station in Toronto, for $23,119,000.

PENSION PLANS AND POST-RETIREMENT BENEFITS

The Company offers its employees defined benefit and defined contribution pension plans. The Company's policy is to maintain its contributions at a sufficient level to cover benefits. Actuarial valuations have been performed of the Company's various pension plans in the last three years. Pension plan assets at fair value and consist of equities and corporate and government fixed-income securities.

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

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

FUTURE INCOME TAXES

The Company is required to assess the probability of the realization of the future income tax assets generated from temporary differences between the book basis and tax basis of assets and liabilities and losses carry-forward in the future. This assessment is judgmental in nature and dependent on assumptions and estimates regarding the availability and character of future taxable income. The ultimate amount of future income tax assets realized could be materially different from those recorded, as it is influenced by future operating results of the Company.

RECENT ACCOUNTING DEVELOPMENTS IN CANADA

In 2005, CICA published Section 3855, *Financial Instruments – Recognition and Measurement,* and Section 1530, *Comprehensive Income*.

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

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

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

Application of new standards in Sections 3855, 3865 and 1530 to interim and annual financial statements will be effective for financial periods beginning on or after October 1, 2006. The Company is currently evaluating the impact of the new standards on its financial statements prepared according to Canadian GAAP.

RISKS AND UNCERTAINTIES

The Company operates in the communications industry, which has a variety of risk factors and uncertainties. Due to the risks and uncertainties outlined below, the Company's operating environment and financial results may be materially affected.

SEASONALITY

The Company's business is sensitive to general economic cycles and may be adversely affected by the cyclical nature of the markets the Company serves, as well as by local, regional, national and global economic conditions. Seasonal variations in retail business influence the Company's financial results. In addition, because the Company's operations are labour intensive, its cost structure is highly fixed. During periods of economic contraction, revenue may decrease while the cost structure remains stable, resulting in decreased earnings.

OPERATIONAL RISKS

Competition for advertising, customers, viewers, listeners, readers and distribution is intense and comes from conventional television stations and networks, specialty cable channels, radio, local, regional and national newspapers, magazines, direct mail and other traditional communications and advertising media that operate in the Company's markets. The arrival of new technologies, including video-on-demand, the Internet, personal video recorders and high-definition television, also influences the Company's operations. The markets in which the Company operates are dealing with the multiplication of possible distribution platforms, including the Internet, cellular telephony, video-on-demand, mobile television and any other future technology that may be marketed in future. This evolving technology can, however, open up business possibilities for the Company, creating the opportunity for it to distribute its content on all available platforms. Its competitors include both private companies and government-owned players. In addition, increasing consolidation in Canadian media sectors is creating competitors with interests in different industries and media.

ENVIRONMENTAL RISKS

The Company is subject to a variety of environmental laws and regulations. Failure to comply with present or future laws or regulations could result in a substantial liability. Although the Company believes it is in compliance with such laws, regulations and government policies in all material respects, there is no assurance that all environmental liabilities have been determined.

CREDIT RISKS

The concentration of credit risks with respect to trade receivables is limited due to the Company's diverse operations and customer base. As at December 31, 2006, no customer balance represented a significant portion of the Company's consolidated trade receivables.

GOVERNMENT REGULATION RISKS

The Company is subject to extensive government regulation mainly through the *Broadcasting Act* and the *Telecommunications Act*, both administered by the CRTC. Changes to the regulations and policies governing television, the introduction of new regulations or policies or terms of licence could have a material effect on the Company's business, financial condition or results of operations.

GOVERNMENT ASSISTANCE RISKS

The Company takes advantage of several government programs designed to support production and distribution of televisual products and movies and magazine publishing in Canada. Any future changes in the rules of application of these government programs may have a significant impact on the Company's operating results.

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the Company disclosure controls and procedures was conducted. Based on this evaluation, the President and Chief Executive Officer and the Vice-President and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of the end of the financial year ended December 31, 2006, and more specifically that the design of such controls and procedures provides reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared.

The purpose of internal controls over financial reporting is to provide reasonable assurance of the reliability of the Company's financial reporting and of preparation of its financial statements in accordance with GAAP. The management have assessed whether the Company made any change to its internal controls, during the financial year ended December 31, 2006, that has had or is liable to have a material effect. No such change was found.

ADDITIONAL INFORMATION

The Company 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 said documents may be obtained free of charge on request from the Company or on the Internet at www.sedar.com.

FORWARD-LOOKING INFORMATION DISCLAIMER

The statements in this management's discussion and analysis that are not historical facts are forward-looking statements and are subject to important known and unknown risks, uncertainties and assumptions which could cause the Company's actual results for future periods to differ materially from those set forth in the forward-looking statements. Certain factors that may cause actual results to differ from current expectations include seasonality, operational risks (including pricing actions by competitors), capital investment risks, environmental risks, credit risks, government regulation risks, governmental assistance risks and general changes in the economic environment. Investors and others are cautioned that the foregoing list of factors that may affect future results is not exhaustive and that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please refer to the Company's public filings available at www.sedar.com and www.tva.canoe.com including, in particular, the "Risks and uncertainties" section of the Company's annual management's discussion and analysis for the year ended December 31, 2006, and the updated information in the Company's actual management's discussion and analysis.

The forward-looking statements in this management's discussion and analysis reflect the Company's expectations as of February 13, 2007, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

Montréal, Québec
February 13, 2007

MANAGEMENT'S REPORT

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

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

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

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

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

Jean Neveu
Chairman of the board

Denis Rozon
Vice-President and
Chief Financial Officer

Montréal, Canada
February 13, 2007

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of TVA Group Inc. as at December 31, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montreal, Canada
February 5, 2007

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2006 and 2005
(in thousands of dollars, except per share amounts)

	2006	2005
Operating revenues	$ 393,312	$ 401,352
Operating, selling and administrative expenses	351,256	348,361
Amortization of fixed assets	12,870	12,753
Amortization of deferred start-up costs	1,035	987
Financial expenses (note 3)	5,308	2,764
Depreciation of intangible assets (note 4)	31,828	–
Restructuring costs of operations (note 5)	507	(232)
Gain on business acquisition and disposal (note 2)	(368)	(44)
(Loss) income before income taxes, non-controlling interest and equity in income of companies subject to significant influence	(9,124)	36,763
(Recovery) income taxes (note 6)	(2,591)	11,943
Non-controlling interest	(3,252)	(2,747)
Equity in income of companies subject to significant influence	(141)	(806)
(Net loss) net income	$ (3,140)	$ 28,373
Basic and diluted (loss) earnings per share (note 17)	$ (0.12)	$ 0.98

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 2006 and 2005
(in thousands of dollars)

	2006	2005
Balance, beginning of year	$ 71,280	$ 111,680
(Net loss) net income	(3,140)	28,373
Dividends paid	(5,405)	(5,766)
Share redemption - excess of purchase price over net carrying value (note 17)	(104)	(63,007)
Balance, end of year	$ 62,631	$ 71,280

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005
(in thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ 2,956	$ 1,757
Accounts receivable (note 10)	112,629	105,023
Investments in televisual products and films (note 11)	42,221	45,145
Inventories and prepaid expenses	6,259	5,607
Future income tax assets (note 6)	4,267	9,156
	168,332	166,688
Investments in televisual products and films (note 11)	27,186	28,040
Investments (note 12)	54,830	57,840
Fixed assets (note 13)	74,038	77,173
Future income tax assets (note 6)	3,448	3,478
Other assets (note 14)	8,213	6,870
Licences (note 4)	69,589	93,452
Goodwill (note 4)	71,868	79,833
	$ 477,504	$ 513,374
Liabilities and shareholders' equity		
Current liabilities		
Bank overdraft	$ –	$ 12,284
Accounts payable and accrued liabilities (note 15)	82,640	74,628
Broadcast and distribution rights payable	22,867	26,466
Deferred revenue	7,022	5,620
Deferred credit (note 6)	864	1,394
	113,393	120,392
Broadcast rights payable	3,226	2,532
Long-term debt (note 16)	96,515	107,098
Future income tax liabilities (note 6)	44,331	54,638
Deferred credit (note 6)	213	290
Non-controlling interest and redeemable preferred shares (notes 7 and 12)	38,334	38,526
	296,012	323,476
Shareholders' equity		
Capital stock (note 17)	115,137	115,187
Contributed surplus (note 6)	3,724	3,431
Retained earnings	62,631	71,280
	181,492	189,898
Commitments, guarantees and contingencies (note 22)		
	$ 477,504	$ 513,374

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Jean Neveu
Chairman of the Board

A.Michel Lavigne
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005
(in thousands of dollars)

	2006	2005
Cash flows from operating activities		
(Net loss) net income	**$ (3,140)**	$ 28,373
Non-cash items		
Equity in income of companies subject to significant influence	**(141)**	(806)
Amortization	**13,993**	13,879
Future income taxes (note 6)	**(5,853)**	(1,588)
Non-controlling interest	**(3,252)**	(2,747)
Depreciation of intangible assets (note 4)	**31,828**	–
Other items	**(3,444)**	(550)
Cash flows from current operations	**29,991**	36,561
Net change in non-cash items (note 9)	**2,342**	(21,815)
	32,333	14,746
Cash flows from investing activities		
Additions to fixed assets	**(9,028)**	(12,887)
Deferred charges	**(287)**	(742)
Business acquisition (note 2)	**818**	–
Proceeds from the disposal of a business (note 2)	**91**	–
Repayment (purchase) of convertible bonds issued by an affiliated company (note 12)	**2,925**	(37,300)
Other changes in investments	**549**	2,342
	(4,932)	(48,587)
Cash flows from financing activities		
Bank overdraft	**(12,284)**	12,284
Deferred financing charges	**–**	(441)
(Decrease) increase in long-term debt	**(10,583)**	72,169
(Redemption) issuance of redeemable preferred shares (note 12)	**(2,925)**	37,300
Advance from non-controlling interest (note 7)	**5,149**	–
Share redemption (note 17)	**(154)**	(81,934)
Dividends paid	**(5,405)**	(5,766)
	(26,202)	33,612
Net change in cash	**1,199**	(229)
Cash, beginning of year	**1,757**	1,986
Cash, end of year	**$ 2,956**	$ 1,757

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2006 and 2005
(Amounts presented in the tables are expressed in thousands of dollars)

TVA Group Inc. ("the Company"), incorporated under Part 1A of the *Companies Act* (Québec), is involved mainly in television broadcasting, specialized magazine publishing and televisual product and film distribution.

1. Significant accounting policies

(a) Principles of consolidation and long-term investments

The consolidated financial statements include the accounts of the Company and all of its subsidiaries from the date control was acquired to the balance sheet date. The equity in the joint ventures is accounted for using the proportionate consolidation method.

Investments in companies subject to significant influence are accounted for using the equity method, while all other investments are accounted for using the cost method.

(b) Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions. Assets, liabilities, revenue and expense items, as well as the disclosure of contingent assets and liabilities, are determined based on these estimates and assumptions. Financial statement items that require more extensive use of estimates include assets and liabilities arising from pension plans and post-retirement benefits, key economic assumptions used to determine the allowance for doubtful accounts, broadcast estimates, future estimated revenues, the expected net realizable value of broadcast rights, estimated future net revenues from distribution rights, restructuring costs of operations, the useful life of assets for purposes of calculating amortization, the valuation of future cash flows expected to be generated by assets, the determination of the fair value of assets and liabilities from business combinations, the implicit fair value of goodwill, the provisions for income taxes, components of future income tax assets and liabilities and the fair value of financial instruments. Actual results could differ from those estimates.

(c) Tax credits and government assistance

The Company is eligible for several government programs designed to support televisual product and film production and distribution as well as magazine publishing in Canada. Government assistance for televisual productions is accounted for as a reduction of production costs. In the publishing segment, government assistance for editing is accounted for as deferred revenue and is amortized during the year in which the Company meets the assistance requirements. Government assistance for magazine distribution is accounted for as a reduction of related expenses.

Government assistance for film distribution is subject to specific conditions with respect to distribution operations; if the Company fails to comply with these conditions, it may be required to repay the assistance in whole or in part. The non-refundable portion of the government assistance for marketing costs is accounted for as a cost reduction. The refundable portion is accounted for as an advance and is repayable in whole or in part when the film reaches a certain level of profitability. If the film fails to reach the expected revenue levels, all or part of such advances will not be refundable by the Company and will be accounted for as a reduction of the Company's operating expenses.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

1. Significant accounting policies (continued)

(e) Programs produced and in progress

Programs produced and in progress relate to television activities. Programs produced and in progress are accounted for at the lower of cost and net realizable value. Costs include direct charges for goods and services and the share of labour and general expenses relating to each program. The cost of each program is charged to operating expenses when the program is broadcast.

(f) Broadcast rights and broadcast rights payable

Broadcast rights are essentially contractual rights allowing limited or unlimited broadcast of televisual products or films. The Company records broadcast rights acquired as an asset and records obligations incurred under broadcast rights acquisition agreements as a liability when the broadcast period begins and the following conditions have been met:

(i) The cost of each program, film or series is known or can be reasonably determined.
(ii) The programs, films or series have been accepted by the Company in accordance with the conditions of the acquisition contract for broadcast rights.
(iii) The programs, films or series are available for their initial broadcast.

Before the above asset recognition conditions have been met, the amounts paid for broadcast rights are included under broadcast rights as prepaid broadcast rights.

Broadcast rights are classified as short term or long term based on management's estimates of the broadcast period.

The broadcast rights are amortized upon the broadcast over the contract period based on the estimated number of showings and using an amortization method based on estimated future revenues. Amortization of broadcast rights is included under operating, selling and administrative expenses. Broadcast rights are valued at the lower of unamortized cost or expected net realizable value.

Broadcast rights payable are classified as current or long-term liabilities based on the payment terms set out in the acquisition contract.

(g) Distribution rights and distribution rights payable

Distribution rights relate to the distribution of televisual products and films. Costs include the cost of film acquisition rights. The net realizable value of the distribution rights represents the Company's share of estimated future revenues to be generated, net of future costs. The Company records distribution rights as an asset and records obligations incurred under distribution rights acquisition agreements as a liability when the film has been accepted in accordance with the terms set out in the agreement, the film is available for broadcast and the cost of the rights is known or can be reasonably estimated.

Before the above asset recognition conditions have been met, amounts paid for distribution rights are included under distribution rights as prepaid distribution rights.

Distribution rights are amortized using the individual-film-forecast-computation method. Under this method, each distribution right is amortized based on actual gross revenues over total expected gross revenues. The amortization of distribution rights is included under operating, selling and administrative expenses.

Revenue estimates for each film are reviewed periodically by management and revised as necessary based on management's assessment of current market conditions. Distribution rights are valued at the lower of unamortized cost and net realizable value.

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1. Significant accounting policies (continued)

(h) Fixed assets

Fixed assets are recorded at cost.

The Company calculates amortization using the following methods and rates:

Asset	Method	Rate
Buildings	Straight-line	2.5% to 4%
Equipment	Straight-line and declining balance	6.6% to 33.3%

(i) Deferred charges

Deferred charges consist of start-up costs for specialty channels and deferred financing expenses. Deferred charges related to specialty channels are amortized on a straight-line basis over a five-year period from the commencement of commercial operations; deferred charges related to financing are amortized on a straight-line basis over the corresponding debt repayment period. Deferred charges are included under other assets.

(j) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds the estimated future cash flows, an impairment charge is recognized corresponding to the amount by which the asset's carrying amount exceeds its fair value.

(k) Licences and goodwill

Licences consist of broadcast licences and magazine trademark licences for Canadian operations. Broadcast licences represent the cost of acquiring the rights to operate television stations. These licences have an indefinite useful life.

Goodwill represents the excess of the purchase price over the fair value of net assets related to business acquisitions.

Licences with an indefinite useful life and goodwill are not amortized in the statement of income; however, they are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs impairment tests on October 1 of each year.

(l) Pension plans and post-retirement benefits

The Company has established defined benefit and defined contribution pension plans for its employees. In addition, under a former plan, the Company provides health, life and dental insurance benefits to certain retired employees. The Company's active employees no longer qualify for this type of coverage. The difference between employer contributions to the plan and the recorded employee benefit expense is accounted for as an accrued benefit asset or obligation.

The following accounting policies apply to all defined benefit plans:

(i) The cost of pensions and post-retirement benefits is actuarially determined using the projected benefit method prorated on service and is charged to income as services are provided by employees. The calculations take into account management's best estimates of expected pension plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs.
(ii) For purposes of calculating the expected return on pension plan assets, the assets are valued at fair value.
(iii) Past service costs arising from plan amendments are amortized on a straight-line basis over the active employees' average remaining service period at the amendment date.

1. Significant accounting policies (continued)

(l) Pension plans and post-retirement benefits (continued)

(iv) The excess of the net actuarial gain (net actuarial loss) over 10% of the greater of the accumulated benefit obligation or the fair value of plan assets is amortized over the active employees' average remaining service period.

(v) The expected long-term return on pension plan assets is based on the fair value of the assets.

(vi) The initial net transitional asset is amortized on a straight-line basis over the expected remaining service life of the employee group covered by the plans.

The defined contribution pension plan expense recorded in the statement of income represents the contributions the Company must pay in exchange for services rendered by the employees.

m) Operating revenue recognition

Advertising revenues

Revenues from the sale of advertising airtime in the television segment are recognized when the advertisement is broadcast. In the publishing segment, 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

Royalty revenues from specialty television channel subscriptions are recognized on a monthly basis when the service is rendered. Revenues from magazine subscriptions are recognized 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 the newsstands and are calculated using an amount of revenue less a provision for future returns.

Distribution revenues

Revenues from the sale of film and television program distribution rights are recognized when the following conditions have been met:

(i) There is persuasive evidence of a sales transaction with a client. Evidence is persuasive only if there is a contract or other legally enforceable document setting forth, as a minimum, (i) the licence period, (ii) the film or group of films covered and (iii) the consideration to be received in exchange for the rights.

(ii) The film has been completed and delivered or is available for delivery.

(iii) The licence period has begun and the client can begin the operation, exhibition, broadcasting or selling process.

(iv) The Company's fee is fixed or can be reasonably determined.

(v) Collection of the Company's fee is reasonably assured.

Theatrical revenues are recognized in the months during which the film is shown in theatres, based on a percentage of box office receipts, provided that the above conditions have been met. Revenues from videos are recognized during the month in which the film is released on video and are based on deliveries of videocassettes and digital video discs (DVDs), less a provision for future returns, or based on a percentage of retail sales, provided that the above conditions have been met.

1. Significant accounting policies (continued)

m) Operating revenue recognition (continued)

Sale of products

Revenues from the sale of products on the home shopping TV service are recognized when the products are delivered.

(n) Foreign currency translation

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenues and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of amortization, which is translated at the historical rate. Translation gains and losses are included in the statement of income for the year.

(o) Income taxes

The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts of the assets and liabilities and their tax bases; they are computed by applying the tax rates and provisions that are enacted or substantially enacted at the financial statement date for the years in which temporary differences are expected to reverse.

(p) Stock-based compensation and other stock-based payments

The Company uses the intrinsic value method for all stock options awarded to employees that require settlement in cash or other assets, at the employee's discretion. Under this method, the compensation expense related to awards to employees who intend to settle in cash or other assets is recorded under operating costs over the vesting period of the options for each year. Changes in the fair value of the underlying shares occurring between the award date (which, for options granted prior to this date, corresponds to the plan amendment date) and the measurement date lead to changes in the valuation of the compensation expense whose consideration is accounted for in accounts payable and accrued liabilities. For the executive and employee share plan, the Company's contributions on the employees' behalf are recorded as a compensation expense. Any consideration paid by executives and employees to purchase stock is credited to capital stock. Awards to senior management under the deferred share unit plan and Quebecor Media Inc.'s stock option plan are valued and recorded in the financial statements at their fair value. Under this method, changes in the fair value of the phantom share units and of Quebecor Media Inc.'s stock option plan modifies the compensation expense recorded over the vesting period of the awards.

(q) Earnings per share

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effects of options when calculating diluted earnings per share.

(r) Barter transactions

In the normal course of business, the Company disseminates and publishes advertising in exchange for goods and services. The related revenues are accounted for based on the fair value of the goods and services obtained. For the year ended December 31, 2006, the Company recognized revenues from barter transactions totalling $12,374,000 ($11,798,000 in 2005) and operating expenses related to barter transactions totalling $12,476,000 ($11,782,000 in 2005).

2. Business acquisitions and disposal

Business acquisitions

Trustmedia Inc.

On November 10, 2006, the Company acquired all of the shares of Trustmedia Inc., which had been 50% owned by the other shareholder under a joint ownership arrangement, thereby becoming Trustmedia Inc.'s sole shareholder. As a result of this acquisition, the Company recorded a gain of $368,000, reflecting the fact that the price paid was less than the fair value of the net assets acquired. The excess of the cash acquired as part of this transaction over the consideration paid was $818,000. No income taxes were recorded on this gain because it gives rise to a permanent difference.

SUN TV

On December 8, 2006, the Company (75%) and Sun Media Corporation (25%), a company under common control of the ultimate parent entity, Quebecor Inc., reached an agreement with CHUM Ltd. on the final settlement of the working capital adjustment forming part of the purchase price of SUN TV Company. Following this settlement, the Company recorded its share of the favourable working capital adjustment in the amount of $81,000. The final purchase price for the Company's ownership interest in SUN TV Company was $35,012,000, i.e., an agreed purchase price of $34,500,000, plus a working capital adjustment of $37,000 and transaction expenses of $475,000. The Company made the final payment of the purchase price, including a working capital adjustment in the amount of $2,625,000, on January 8, 2007. SUN TV's results have been included in the Company's consolidated results since December 2, 2004. During the previous year, the Company changed Toronto 1's corporate name to SUN TV.

Certain prior year comparative figures have been restated to conform to the current year's presentation. During the allocation of SUN TV's purchase price, certain assets were accounted for at fair value, including the non-controlling interest. In order to reflect only the portion of assets acquired by the Company at fair value, the licence was reduced by $7,707,000, goodwill by $2,655,000, future income tax liabilities by $2,784,000 and the non-controlling interest by $7,578,000. This restatement had no accounting impact on the Company's net income, cash flows and shareholders' equity for any of the periods presented.

Business disposal

TVA Publishing Inc.

On December 31, 2004, the Company sold its 100% interest in TVA Publishing Inc., a book publishing company, to Quebecor Media Inc., its parent entity, for a preliminary cash consideration of $1,619,000. As a result of this transaction, which was recognized at the exchange value, the Company recorded a gain on disposal of $754,000 in 2004. During the year ended December 31, 2005, the Company recorded an additional gain of $44,000 following the final settlement of the sale. The final consideration currently amounts to $1,710,000. As part of this transaction, the Company reduced its goodwill by $530,000.

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3. Financial expenses

	2006	2005
Interest on long-term debt	**$ 5,193**	$ 2,686
Dividends on redeemable preferred shares (note 12) [1]	**4,093**	1,852
Interest revenue on convertible bonds issued by an affiliated company (note 12) [1]	**(3,961)**	(1,792)
Interest revenue	**(203)**	(193)
Amortization of deferred financing charges	**88**	140
Other	**98**	71
	$ 5,308	$ 2,764

(1) Of these amounts, dividends totalling $4,047,000 ($1,785,000 in 2005) were paid, while $3,917,000 ($1,728,000 in 2005) was received as interest revenue.

4. Impairment of intangible assets

SUN TV Company

During the last quarter of the current year, in accordance with CICA Handbook Section 3062 *"Goodwill and Other Intangible Assets,"* the Company carried out annual impairment tests of its broadcast licences and goodwill. Based on the results of these tests, the Company recorded a total depreciation expense of $31,084,000, including $23,119,000 for SUN TV's broadcast licence and $7,965,000 for goodwill. This write-down became necessary following the review of SUN TV's business plan due to the past two years' market experience and pressures on general broadcasters' advertising revenues, including television market fragmentation.

Trustmedia Inc.

During the year, the Company recorded its share of the depreciation of an intangible asset representing an operating licence for a magazine held in a co-ownership arrangement via Trustmedia Inc., in the amount of $744,000.

5. Restructuring costs of operations

During the year, the Company recorded a provision for restructuring costs in the amount of $1,404,000 following the elimination of approximately 30 positions in the television segment. The balance of restructuring costs payable as at December 31, 2006 was $254,000.

Restructuring of TVA International's former operations

In 2001, the Company, via its subsidiary TVA Acquisition Inc., wrote down various assets and recorded provisions for restructuring following segment repositioning.

In 2006, the Company utilized the provision in the amount of $890,000 ($1,169,000 in 2005). Following the settlement of certain matters and based on new information available to the Company, the provision was revalued, leading to a reduction of the initial balance, for a total amount of $897,000. The balance of the restructuring provision for this segment thus amounted to $3,403,000 as at December 31, 2006 ($5,190,000 as at December 31, 2005).

During the prior year, the Company recorded a charge in the amount of $591,000 corresponding to a revaluation of the distribution rights written off acquired through its subsidiary, TVA Acquisition Inc., a gain of $1,257,000 following recovery of a receivable initially written off and an increase of $434,000 in the restructuring provision.

6. Income taxes

The income tax expense (recovery) is detailed as follows:

	2006	2005
Current income taxes	**$ 3,262**	$ 13,531
Future income taxes	**(5,853)**	(1,588)
	$ (2,591)	$ 11,943

The following table reconciles the Canadian statutory tax rate and the effective tax rate used by the Company to calculate the consolidated net income (loss):

	2006	2005
Canadian statutory tax rate	**32.0 %**	31.0%
Impact of provincial tax rate differences	**4.6**	(1.6)
	36.6	29.4
Increase (decrease) resulting from:		
Tax impact of non-deductible charges	**(57.3)**	1.5
Tax impact of Quebec and federal future tax rate increase (decrease)	**33.9**	5.6
Change in deferred credit	**6.7**	(1.6)
Other	**8.5**	(2.4)
Effective tax rate	**28.4%**	32.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6. Income taxes (continued)

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

	2006	2005
Future income tax assets		
Loss carryforwards	**$ 16,817**	$ 22,622
Restructuring reserve	**864**	1,394
Goodwill and licences	**3,788**	4,151
Difference between the carrying amount and tax base of fixed assets and investments	**3,952**	4,260
Other	**2,365**	2,303
	27,786	34,730
Valuation allowance	**(20,071)**	(22,096)
	7,715	12,634
Future income tax liabilities		
Goodwill and licences	**(23,986)**	(34,267)
Difference between the carrying amount and tax base of fixed assets and investments	**(576)**	(1,317)
Other	**(19,769)**	(19,054)
	(44,331)	(54,638)
Net future income tax liabilities	**$ (36,616)**	$ (42,004)

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

	2006	2005
Future income tax assets		
Current	**$ 4,267**	$ 9,156
Long-term	**3,448**	3,478
	7,715	12,634
Future income tax liabilities		
Long-term	**(44,331)**	(54,638)
Net future income tax liabilities	**$ (36,616)**	$ (42,004)

In 2002, the Company recognized $21,000,000 in future income tax assets primarily related to deferred tax losses following the winding-up of certain companies in the production and distribution segment. These future income tax assets were offset under deferred credit in the Company's liabilities. Deferred credit is amortized to income tax expense in proportion to the net reduction of the future income tax assets. As at December 31, 2006, the deferred credit balance amounted to $1,077,000 ($1,684,000 in 2005).

(Amounts presented in the tables are expressed in thousands of dollars)

6. Income taxes (continued)

During the year, the Company obtained tax deductions from Quebecor World Inc., a company under common control of the ultimate parent entity, Quebecor Inc., representing income taxes of approximately $4,452,000 ($1,927,000 in 2005). The entire amount was accounted for as current income tax assets. As a result of this transaction, the Company realized a gain of $293,000 (nil in 2005), which was accounted for as contributed surplus. Transaction-related tax benefits amounting to $1,113,000 and $2,557,000 relating to prior year transactions will be recognized as income when the legislative authorities officially enact the rate applying to these tax deductions. An amount of $3,046,000 payable to Quebecor World Inc. was included under accounts payable and accrued liabilities as at December 31, 2006.

During the prior year, a total tax amount of $10,018,000 was received, an amount of $7,461,000 was paid to Quebecor World Inc. and a total amount of $2,557,000 was recorded as a current income tax liability.

The Company recorded no future income tax liabilities with respect to its subsidiaries' retained earnings during the current year or in prior years because it does not expect to sell these investments or because the retained earnings will become taxable.

Figures in the tables presented previously for 2006 and 2005 include a valuation allowance of $20,071,000 and $22,096,000 respectively relating to loss carryforwards and other available tax benefits. The net change in the valuation allowance for the year ended December 31, 2006 was mainly due to a reduction in the amount of $376,000 ($992,000 in 2005) resulting from the use of tax losses for which a valuation allowance was recognized and to a reduction of approximately $1,600,000 in the valuation allowance following a decrease in the federal income tax rate.

As at December 31, 2006, the Company had loss carryforwards for income tax purposes of approximately $7,041,000 ($20,572,000 in 2005) available to reduce its future taxable income. These carryforwards expire as follows:

2007	$ 594
2009	121
2010	1, 784
2015	3, 448
2026	1, 094

The Company also has capital losses in the amount of $81,659,000 ($81,659,000 in 2005) that may be carried forward indefinitely and for which no future income tax assets were recorded.

7. Non-controlling interest

During the year, a Company subsidiary, SUN TV Company (formerly 3095531 Nova Scotia Company), in which the Company has a 75% interest and which operates the SUN TV television station, obtained additional advances in the amount of $5,149,000 from its non-controlling shareholder, Sun Media Corporation, which is under common control of the ultimate parent entity, Quebecor Inc. To date, advances totalling $24,048,000, including $18,036,000 granted by the Company and $6,012,000 granted by Sun Media Corporation, have been converted into common shares of the subsidiary, thereby maintaining the respective interests in SUN TV Company at 75% and 25%.

8. Joint ventures

The share of operations in the joint ventures included in the Company's consolidated financial statements is detailed as follows:

	2006	2005
Consolidated statements of income [1]		
Operating revenues	**$ 9,528**	$ 9,541
Operating, selling and administrative expenses	**7,888**	8,717
Operating income before the following items	**1,640**	824
Amortization	**561**	629
Financial expenses (interest revenues)	**(57)**	(28)
Licence impairment	**744**	–
Income taxes	**18**	79
Net income	**$ 374**	$ 144
Consolidated balance sheets [1]		
Current assets	**$ 5,120**	$ 4,938
Long-term assets	**–**	1,307
Current liabilities	**1,821**	2,387
Consolidated statements of cash flows		
Cash flows from operating activities	**1,268**	56
Cash flows from financing activities	**(510)**	(125)

(1) Trustmedia Inc. is fully consolidated in the Company's statements of income, effective November 10, 2006, the transaction date of the acquisition of 100% of the shares held by the former co-owner. As of that date, Trustmedia Inc.'s income has not been included as a share of the income of a joint venture.

(Amounts presented in the tables are expressed in thousands of dollars)

9. Information on cash flows

Additional information regarding the consolidated statements of cash flows is detailed as follows:

(a) Changes in non-cash working capital items related to operating activities are as follows:

	2006	2005
Decrease (increase) in assets		
Accounts receivable	$ (2,211)	$ (15,799)
Investments in televisual products and films	3,698	(19,340)
Inventories and prepaid expenses	(615)	(642)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	4,484	5,794
Deferred revenues	335	524
Broadcast and distribution rights payable	(2,905)	9,909
Current income tax assets and liabilities	(444)	(2,107)
Other	–	(154)
	$ 2,342	$ (21,815)

(b) Interest and income taxes paid and recorded as operating activities are detailed as follows:

	2006	2005
Interest paid	$ 5,204	$ 2,120
Net income taxes paid	4,007	13,556

(c) Non-cash transactions

The consolidated statements of cash flows exclude the following non-cash transactions:

	2006	2005
Acquisition of fixed assets financed by accounts payable and accrued liabilities	$ 1,953	$ 1,246
Investment disposal proceeds receivable	–	353

10. Accounts receivable

Receivables from companies under common control are subject to the same conditions as trade accounts receivable.

	2006	2005
Trade accounts receivable	$ 73,678	$ 75,823
Receivables from companies under common control	20,348	19,349
Tax credits and government assistance receivable	9,611	5,954
Current income tax assets	8,992	3,897
	$ 112,629	$ 105,023

Companies under common control are subsidiaries of the ultimate parent entity, Quebecor Inc.

11. Investments in televisual products and films

			2006
	Short-term	Long-term	Total
Programs produced and in progress	$ 2,973	$ –	$ 2,973
Broadcast rights	39,248	20,287	59,535
Distribution rights	–	6,899	6,899
	$ 42,221	$ 27,186	$ 69,407

			2005
	Short-term	Long-term	Total
Programs produced and in progress	$ 5,867	$ –	$ 5,867
Broadcast rights	39,278	20,704	59,982
Distribution rights	–	7,336	7,336
	$ 45,145	$ 28,040	$ 73,185

12. Investments

	2006	2005
Convertible bonds issued by an affiliated company (a)	$ 34,375	$ 37,300
Canoe Inc., portfolio investment, 13.8% ownership interest	11,262	11,262
Tele Inter-Rives Ltd., company subject to significant influence, 45% ownership interest	6,688	6,376
Other investments	2,505	2,902
	$ 54,830	$ 57,840

(a) On July 12, 2005, a Company subsidiary, in which the Company has a 75% ownership interest and which operates the SUN TV television station, entered into a fiscal consolidation transaction with the Company and its non-controlling shareholder, Sun Media Corporation, which is under common control of the ultimate parent entity, Quebecor Inc. To carry out this transaction, SUN TV Company issued 149,300 preferred shares redeemable at the option of the holder and carrying a 10.85% fixed cumulative dividend, of which 37,300 shares were issued to Sun Media Corporation at a price of $1,000 per share. In return, SUN TV Company invested $149,300,000, including $37,300,000 in Sun Media Corporation, in the form of 15-year convertible bonds bearing interest at an annual rate of 10.5%, payable semi-annually, and maturing on July 6, 2020.

On December 20, 2006, SUN TV Company entered into a transaction to reduce the fiscal consolidation established on July 12, 2005 with the Company and its non-controlling shareholder, Sun Media Corporation. To carry out this transaction, SUN TV Company received $11,700,000 as partial repayment of the convertible bonds issued by the shareholder companies, including $2,925,000 from Sun Media Corporation. In return, SUN TV Company redeemed 11,700 preferred shares redeemable at the option of the holder and carrying a 10.85% fixed cumulative dividend, including 2,925 preferred shares from Sun Media Corporation in the amount of $2,925,000. On a consolidated basis, this transaction had the effect of reducing the Company’s long-term investment in convertible bonds by $2,295,000, with an equivalent reduction in redeemable preferred shares included under non-controlling interest and redeemable preferred shares.

(Amounts presented in the tables are expressed in thousands of dollars)

12. Investments (continued)

(a) (continued)

This transaction also reduced the Company's and Sun Media Corporation's current income tax payable because the interest on the convertible bonds is deductible for income tax purposes, whereas the dividend income on preferred shares is not taxable.

As a result of these transactions and on a consolidated basis, the Company has a long-term convertible bond investment in the amount of $34,375,000 ($37,300,000 in 2005) in Sun Media Corporation and an equivalent amount in redeemable preferred shares included under non-controlling interest and redeemable preferred shares.

(b) During the year ended December 31, 2005, a term loan bearing interest at 8%, maturing on August 1, 2007 and amounting to $2,048,000 on the payment date was repaid in full to the Company.

13. Fixed assets

			2006
	Cost	**Accumulated amortization**	**Net book Value**
Land	**$ 3,168**	**$ –**	**$ 3,168**
Buildings	**70,397**	**47,568**	**22,829**
Equipment	**181,131**	**138,413**	**42,718**
Projects in progress	**5,323**	**–**	**5,323**
	$ 260,019	**$ 185,981**	**$ 74,038**

			2005
	Cost	Accumulated amortization	Net book Value
Land	$ 3,168	$ –	$ 3,168
Buildings	67,222	44,124	23,098
Equipment	172,516	129,169	43,347
Projects in progress	7,560	–	7,560
	$ 250,466	$ 173,293	$ 77,173

14. Other assets

	2006	2005
Accrued pension plan benefit assets (note 20)	**$ 6,417**	$ 4,238
Deferred charges		
Deferred financing charges, net of accumulated amortization	**305**	393
Deferred start-up costs for specialty channels, net of accumulated amortization	**1,491**	2,239
	$ 8,213	$ 6,870

15. Accounts payable and accrued liabilities

	2006	2005
Trade accounts payable and accrued liabilities	**$ 64,653**	$ 58,456
Accounts payable to companies under common control and affiliated companies	**11,936**	11,477
Current income tax liabilities	**6,051**	4,695
	$ 82,640	$ 74,628

16. Long-term debt

During the prior year, the Company renewed its credit agreement consisting of a revolving-term bank loan for a maximum amount of $160,000,000, bearing interest at floating rates based on the banker's acceptance rate or bank prime rate, plus a variable margin based on the ratio of total debt to operating earnings before interest, taxes, amortization and other items. The credit agreement matures on June 15, 2010 and is repayable in full on that date.

As at December 31, 2006, the borrowed amounts totalled $96,515,000 ($107,098,000 in 2005) in banker's acceptances, bearing interest at an average rate of 5.47% (4.02% in 2005).

Under the credit agreement, the Company is subject to certain covenants including the maintenance of certain financial ratios. As at December 31, 2006, the Company was in compliance with these covenants.

As at December 31, 2006, the Company had outstanding letters of credit amounting to $500,659 ($558,000 in 2005).

17. Capital stock

Authorized

An unlimited number of preferred shares, non-participating, non-voting, with a par value of $10 each, issuable in series.
An unlimited number of Class A common shares, participating, voting, without par value.
An unlimited number of Class B shares, participating, non-voting, without par value.

	2006	2005
Issued and fully paid		
4,320,000 Class A common shares	**$ 72**	$ 72
22,704,848 Class B shares (22,714,648 in 2005)	**115,065**	115,115
	$ 115,137	$ 115,187

Normal course issuer bid

During the year, the Company filed a new normal course issuer bid to redeem a maximum of 1,135,242 Class B shares of the Company for cancellation between August 4, 2006 and August 3, 2007, representing approximately 5% of the Class B shares issued and outstanding not held by insiders at the beginning of the issuer bid. The Company redeems these Class B shares at the market price at the time of purchase, plus brokerage fees.

During the year, 9,800 Class B shares (290,400 in 2005) were redeemed for cancellation under the normal course issuer bid for a net cash consideration of $154,000 ($5,850,000 as at December 31, 2005). All of the redeemed shares were cancelled as at December 31, 2006.

17. Capital stock (continued)

Normal course issuer bid (continued)

During the prior year, the Company filed a new normal course issuer bid to redeem a maximum of 1,137,722 Class B shares of the Company for cancellation between August 4, 2005 and August 3, 2006, representing approximately 5% of the Class B shares issued and outstanding not held by insiders at the beginning of the issuer bid. During that period, the Company redeemed 49,600 Class B shares under the issuer bid.

Substantial issuer bid

During the prior year, the Company filed an issuer bid to redeem up to 3,500,000 of its participating non-voting Class B shares for cancellation at a price of no less than $19.50 per share and no more than $22.00 per Class B share. On July 6, 2005, the Company took delivery of 3,449,199 Class B shares of its capital stock under the issuer bid for a total consideration of $75,882,000, plus $201,000 in transaction fees, financed by the credit agreement and corresponding to $22.00 per Class B share. The Class B shares redeemed for cancellation under this issuer bid represented 13.16% of the 26,203,647 Class B shares issued and outstanding prior to redemption.

Class B stock option plan for managers

Under the plan introduced in 1999 for managers of the Company and its subsidiaries, the terms and conditions for granting options are determined by the Company's compensation committee. However, the subscription price of each Class B share under an option cannot be less than the market closing price the day before the option is granted. The options granted under the plan can usually be exercised over a five-year period at a rate of 25% per year as of the second anniversary date. In addition, the option term cannot exceed 10 years. A maximum of 1,400,000 shares were reserved for the purposes of the plan.

When exercising options, the beneficiaries may elect to receive from the Company a cash payment equal to the number of shares corresponding to the options exercised, multiplied by the difference between the market value and the purchase price of the shares under the option. The market value is defined as the average market closing price of the shares over the last five trading days preceding the date on which the option was exercised. On December 13, 2006, the Board of Directors adopted a resolution to amend the plan. One of the amendments stipulates that, unless there are special circumstances and unless the compensation committee decides otherwise, the options granted may be exercised over a five-year period based on one of the following methods, as determined by the compensation committee when the option is granted:

(i) in equal instalments of 20% over a five-year period, with the first 20% instalment exercisable as of the first anniversary of the grant date;
(ii) in equal instalments of 25% over a four-year period, with the first 25% instalment exercisable as of the second anniversary of the grant date;
(iii) in equal instalments of 33% over a three-year period, with the first 33% instalment exercisable as of the third anniversary of the grant date.

The proposed stock option plan amendments must be approved by the shareholders of the Company and by the Toronto Stock Exchange.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2006 and 2005
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17. Capital stock (continued)

Class B stock option plan for managers (continued)

During the year, the Company granted 503,684 conventional options under the plan (115,630 in 2005).

A compensation expense reversal in the amount of $13,000 ($75,000 in 2005) was recorded, reflecting the fact that the market value of TVA Group Inc.'s listed shares as at December 31, 2006 was lower than their market value as at December 31, 2006.

The following table provides summary information as at December 31, 2006 and 2005 concerning the conventional options and the changes that occurred during the years then ended:

		2006		2005
Conventional options	**Number**	**Weighted average exercise price (in dollars)**	Number	Weighted average exercise price (in dollars)
Balance, beginning of year	**310,177**	**$ 20.27**	215,000	$ 19.81
Granted	**503,684**	**15.62**	115,630	20.85
Exercised	**(27,500)**	**14.00**	(6,000)	14.00
Cancelled	**(296,666)**	**17.36**	(14,453)	20.85
Balance, end of year	**489,695**	**$ 17.59**	310,177	$ 20.27
Vested options, end of year	**31,625**	**$ 20.75**	72,500	$ 18.50

			Outstanding options		Exercisable options
Exercise price range (in dollars)	Number of options outstanding as at December 31, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price (in dollars)	Number of exercisable options as at December 31, 2006	Weighted average exercise price (in dollars)
$14.00 to $18.85	295,564	9.34	$ 15.44	–	$ –
$18.86 to $25.20	194,131	7.85	20.87	31,625	20.75
	489,695	8.75	$ 17.59	31,625	$ 20.75

Under the plan, the Company may apply different terms or conditions to the granting of options. In 1999, the Company granted options whose exercise depended on the market performance of the Class B share price ("performance options"). A total of 50,000 performance options with an average exercise price of $18.85 were outstanding as at December 31, 2003 and were exercised in 2004. No options were issued in 2006 or 2005.

Class B stock purchase plan for executives and employees

In 1998, the Company introduced a stock purchase plan reserving a total of 375,000 Class B shares for its employees and a stock purchase plan reserving a total of 375,000 Class B shares for its executives. Under these plans, participants may subscribe to shares in accordance with certain terms and conditions relating to their salary. The shares may be acquired at a price equal to 90% of the average market closing price. The plans also include no-interest financing terms. During the year, no Class B shares (nil in 2005) were issued under these plans. As at December 31, 2006 and 2005, a total of 229,753 Class B shares were issuable under the employee plan, while 332,643 shares were issuable under the executive plan.

17. Capital stock (continued)

Deferred share unit plan

During the year ended August 27, 2000, the Company introduced a long-term profit sharing plan for certain senior managers. The deferred share units are redeemable by participants (in cash or, at the option of the Company, in Class B shares or in a combination of cash and shares) only upon termination of employment. Under this plan, no more than 25,000 Class B shares may be issued. During the year, the Company issued no deferred share units (nil in 2005). No units were outstanding as at December 31, 2006 and 2005.

(Loss) earnings per share

The following tables present calculations for basic and diluted (loss) earnings per share:

	2006	2005
(Net loss) net income	**$ (3,140)**	$ 28,373
Weighted average number of shares outstanding	**27,025,666**	28,910,015
Dilutive effect of stock options	**533**	7,354
Weighted average number of diluted shares outstanding	**27,026,199**	28,917,369
Basic and diluted (loss) earnings per share (in dollars)	**$ (0.12)**	$ 0.98

A total of 391,934 Class B stock options (262,677 in 2005) were not included in the calculation of the diluted (loss) earnings per share, reflecting the fact that the exercise price was higher than the average share price in 2006.

18. Quebecor Media Inc. stock option plan

Under the stock option plan established by Quebecor Media Inc., 6,185,714 common shares of Quebecor Media Inc. were set aside for senior management, executive employees, directors and other key employees of Quebecor Media Inc. and its subsidiaries. Each option may be exercised within ten years of the grant date at an exercise price no lower than (as the case may be) the fair market value of the common shares at the grant date, as determined by the Board of Directors (if Quebecor Media Inc.'s common shares are not listed on a recognized stock exchange at the grant date), or the weighted average trading price over the last five trading days preceding the grant date of Quebecor Media Inc.'s common shares on the stock exchanges where such shares are listed at the grant date. Unless authorized by Quebecor Media Inc.'s compensation committee in the event of a transaction involving a change of control, options may not be exercised by optionees if Quebecor Media Inc.'s common shares are not listed on a recognized stock exchange. If Quebecor Media Inc.'s common shares are not so listed as at March 1, 2008, as of that date and only between March 1 and March 30, June 1 and June 29, September 1 and September 29, and December 1 and December 30 of each year, optionees may exercise their right to receive a cash amount equal to the difference between the fair market value, as determined by Quebecor Media Inc.'s Board of Directors, and the exercise price of their vested options, or, under certain conditions, they may purchase common shares of Quebecor Media Inc.

Except under specific circumstances, and unless the compensation committee decides otherwise, options vest over a five-year period in accordance with one of the following methods, as determined by the compensation committee at the grant date: (i) equally over five years, with the initial 20% instalment vesting on the first anniversary of the grant date; (ii) equally over four years, with the initial 25% instalment vesting on the second anniversary of the grant date; and (iii) equally over three years with the initial 33% instalment vesting on the third anniversary of the grant date.

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18. Quebecor Media Inc. stock option plan (continued)

Under this plan, the Company recorded a compensation expense of $742,000 for the year ended December 31, 2006 ($375,000 in 2005), reflecting the fact that the exercise price of the options was lower than the fair value of Quebecor Media Inc.'s shares as at December 31, 2006 and 2005, as determined by Quebecor Media Inc.'s Board of Directors.

The following table provides summary information on the outstanding options granted to the Company's senior management, executive employees, directors and other key employees as at December 31, 2006 and 2005 and on changes that occurred during the years then ended.

	2006		2005	
Conventional options	**Number**	**Weighted average exercise price (in dollars)**	Number	Weighted average exercise price (in dollars)
Balance, beginning of year	**100,242**	**$ 20.33**	86,784	$ 19.16
Granted	**40,444**	**30.78**	13,458	27.86
Cancelled	**(11,568)**	**30.47**	–	–
Balance, end of year	**129,118**	**$ 22.69**	100,242	$ 20.33
Vested options, end of year	**36,526**	**$ 16.17**	24,351	$ 16.17

	Outstanding options		Vested options
Exercise price (in dollars)	Number of outstanding options as at December 31, 2006	Weighted average remaining contractual life (years)	Number of vested options as at December 31, 2006
$16.17	48,701	5.23	36,526
22.98	38,083	7.69	–
27.86	13,458	8.25	–
30.47	20,182	9.12	–
31.92	8,694	9.63	–
	129,118	7.18	36,526

19. Tax credits and government assistance

Government assistance in the amount of $4,558,000 ($3,559,000 in 2005) was applied against production expenses, with tax credits accounting for $3,387,000 ($2,629,000 in 2005) and production financing accounting for $1,171,000 ($930,000 in 2005) of this amount.

Operating revenues for the publishing segment included $1,114,000 ($1,204,000 in 2005) in government assistance for editing. Government assistance for magazine distribution amounted to $1,691,000 ($1,968,000 in 2005) and was recorded as a reduction of operating costs.

Operating expenses for the distribution segment included non-refundable government assistance in the amount of $676,000 ($1,287,000 in 2005). As at December 31, 2006, advances received amounted to $1,898,000 ($2,243,000 in 2005) and were included under distribution rights payable.

20. Pension plans and post-retirement benefits

Pension plans provided to the Company's management and unionized employees include a defined benefit plan based on career earnings indexed before and after retirement, as well as a defined contribution plan. The Company offers its senior management an end-of-career earnings pension plan indexed before and after retirement, as well as an unindexed surplus post-retirement plan for which the benefits offset the tax limit effect. Employees of TVA Publishing are provided with a career-earnings pension plan indexed before and after retirement.

The Company's various retirement plans have undergone actuarial valuations over the past three years.

The following table presents the effective valuation dates for funding purposes:

	Most recent valuation date	Date of next required valuation
TVA Group Management Plan	December 31, 2005	December 31, 2006
TVA Group Union Members' Plan	December 31, 2005	December 31, 2006
TVA Group Senior Management Plan	December 31, 2003	December 31, 2006
TVA Publishing Employees' Plan	December 31, 2004	December 31, 2007

Total cash amounts recognized in 2006 as paid or payable for employee future benefits, including employer contributions to the defined benefit pension plans, the defined contribution pension plan and the post-retirement benefit plan, amounted to $6,197,000 ($4,865,000 in 2005).

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20. Pension plans and post-retirement benefits (continued)

The following tables provide information on the defined benefit plans and reconcile the changes in the plans' accrued benefit obligations and the fair value of the plan assets for the years ended December 31, 2006 and 2005:

		2006		2005
	Pension plans	**Other plans**	Pension plans	Other plans
Accrued benefit obligations				
Balance, beginning of year	**$ 153,200**	**$ 2,253**	$ 122,564	$ 1,585
Participants' contributions	**2,283**	**–**	2,186	–
Current service cost	**3,443**	**4**	2,786	4
Interest cost	**7,810**	**84**	7,604	64
Plan amendments	**82**	**–**	5,574	–
Benefits paid	**(8,553)**	**(116)**	(5,553)	(141)
Actuarial loss	**(657)**	**–**	18,039	741
Balance, end of year	**$ 157,608**	**$ 2,225**	$ 153,200	$ 2,253

		2006		2005
	Pension plans	**Other plans**	Pension plans	Other plans
Plan assets				
Fair value of plan assets, beginning of year	**$ 137,852**	**$ –**	$ 124,536	$ –
Actual return on plan assets	**16,750**	**–**	13,813	–
Employer contributions	**5,716**	**–**	2,870	–
Participants' contributions	**2,283**	**–**	2,186	–
Benefits paid	**(8,553)**	**–**	(5,553)	–
Fair value of plan assets, end of year	**$ 154,048**	**$ –**	$ 137,852	$ –

The plan assets are allocated as follows:

	2006	2005
Equity securities	**56.8%**	54.7%
Debt securities	**38.5%**	44.4%
Other	**4.7%**	0.9%
Total	**100.0%**	100.0%

The plan assets were valued as at December 31, 2006 and 2005.

As at December 31, 2006 and 2005, common shares of the ultimate parent entity, Quebecor Inc., were included in the above-mentioned equity securities and accounted for $620,000 (0.4% of the plan assets) and $457,000 (0.3% of the plan assets) respectively.

(Amounts presented in the tables are expressed in thousands of dollars)

20. Pension plans and post-retirement benefits (continued)

The amounts presented in the above tables with respect to accrued benefit obligations and the fair value of plan assets at year-end include the following amounts relating to plans that have not been fully funded:

	2006 Pension plans	2006 Other plans	2005 Pension plans	2005 Other plans
Accrued benefit obligations	**$ 107,883**	**$ 2,225**	$ 153,200	$ 2,253
Fair value of plan assets	**103,089**	**–**	137,852	–
Funded status - deficit	**$ 4,794**	**$ 2,225**	$ 15,348	$ 2,253

	2006 Pension plans	2006 Other plans	2005 Pension plans	2005 Other plans
Reconciliation of funded status				
Excess of assets (obligations) over obligations (assets), at end of year	**$ (3,560)**	**$ (2,225)**	$ (15,348)	$ (2,253)
Unrecognized past service cost	**10,059**	**(67)**	10,803	(53)
Unrecognized net actuarial loss	**15,449**	**983**	23,387	1,115
Unrecognized transitional obligation (asset)	**(5,147)**	**452**	(5,648)	511
Accrued benefit asset (obligation)	**16,801**	**(857)**	13,194	(680)
Valuation allowance	**(10,384)**	**–**	(8,956)	–
Accrued benefit asset (obligation), net of valuation allowance	**$ 6,417**	**$ (857)**	$ 4,238	$ (680)

The amounts recorded in the Company's balance sheets as at December 31, 2006 and 2005 are as follows:

	2006 Pension plans	2006 Other plans	2005 Pension plans	2005 Other plans
Accrued benefit assets, under other assets	**$ 6,417**	**$ –**	$ 4,238	$ –
Accrued benefit obligations, under accounts payable and accrued liabilities	**–**	**(857)**	–	(680)
Net amount recognized	**$ 6,417**	**$ (857)**	$ 4,238	$ (680)

20. Pension plans and post-retirement benefits (continued)

The following table presents the components of the Company's defined benefit plan expense for 2006 and 2005:

	2006 Pension plans	2006 Other plans	2005 Pension plans	2005 Other plans
Current service cost	**$ 3,443**	**$ 4**	$ 2,786	$ 4
Interest cost	**7,810**	**84**	7,604	64
Expected return on plan assets	**(10,068)**	**–**	(9,320)	–
Actuarial loss (gain) on obligation	**(657)**	**–**	–	–
Past service cost	**82**	**–**	–	–
Amortization of past service cost	**725**	**14**	821	25
Amortization of transitional obligation (asset)	**(502)**	**59**	(502)	75
Change in valuation allowance	**1,428**	**–**	922	–
Amortization of unamortized net actuarial loss	**1,345**	**133**	10	24
Defined benefit plan expense	**$ 3,606**	**$ 294**	$ 2,321	$ 192

The significant assumptions considered most likely by management and used to value the Company's accrued benefit obligations are as follows:

	2006	2005
Obligations		
Year-end discount rate	**5.00%**	5.00%
Rate of compensation increase	**3.25%**	3.25%
Current periodic cost		
Discount rate	**5.00%**	6.00%
Expected rate of return on plan assets	**7.25%**	7.50%
Rate of compensation increase	**3.25%**	3.25%

For the purpose of calculating the post-retirement benefit obligation, the annual rate of increase in healthcare costs was assumed to be 8.6% for 2006. Based on this assumption, this rate will gradually decrease to 5% over a nine-year period and will remain at that level thereafter. A 1% change in this rate would have the following impact:

	Post-retirement benefits	
	1% increase	1% decrease
Impact on service/interest costs	$ 8	$ (7)
Impact on benefit obligation	165	(135)

Defined contribution plans

The total expense for the Company's defined contribution pension plans for the year ended December 31, 2006 was $2,150,000 ($1,994,500 in 2005).

(Amounts presented in the tables are expressed in thousands of dollars)

21. Related party transactions

During the year ended December 31, 2006, the Company concluded the following transactions with related parties in the normal course of business. Related party transactions are recorded at the contractual exchange value.

Operating revenues

The Company has a policy of providing airtime, selling programs and leasing technical production and postproduction services to companies under common control at market value. The Company sold airtime and leased technical production and postproduction services amounting to $27,835,000 ($22,973,000 in 2005) to companies under common control.

Operating, selling and administrative expenses

The Company paid management fees to the parent company in the amount of $3,700,000 ($3,250,000 in 2005).

The Company recorded expenses relating to amortization of broadcast rights, information systems, communications, printing, filming services, access rights and professional services for a total of $48,831,000 ($54,827,000 in 2005) arising from transactions with companies under common control and affiliated companies. The balance sheet includes broadcast rights amounting to $522,000 ($803,000 in 2005) and broadcast rights payable totalling $315,000 ($486,000 in 2005) with respect to these same companies.

22. Commitments, guarantees and contingencies

(a) Commitments

The Company has commitments under operating leases, mainly for services and office space, and under distribution and broadcasting rights agreements, representing total payments of $69,494,000. The minimum payments for the coming years are as follows:

2007	$ 37,393
2008	14,685
2009	9,794
2010	5,151
2011	1,388
2012 and thereafter	1,083

Other commitments

In addition, as part of the acquisition of the Toronto-based television station SUN TV, the Company undertook to invest a total of $4,600,000 as tangible benefits in the Canadian television industry over a period of five to seven years. This amount is in addition to the balance of commitments of $8,996,000 under the terms of the former owner's licence, which the Company is required to assume over a period of four to seven years. On January 11, 2007, the Canadian Radio-television and Telecommunications Commission (CRTC) approved an application to amend SUN TV's licence conditions with respect to the tangible benefits to be invested. This decision will enable the Company to reduce the tangible benefits to be invested by $4,339,000. As a result of this decision, as at December 31, 2006, the Company had an uncommitted balance of $3,613,000 for purposes of the licence conditions imposed by the CRTC, including $2,572,000 to be committed by August 31, 2008 and $1,041,000 to be committed by August 31, 2011.

22. Commitments, guarantees and contingencies (continued)

(b) Guarantees

The Company 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 Company is required to compensate the lessor for a portion of the shortfall, subject to certain conditions. The maximum exposure with respect to these guarantees is approximately $716,000. As at December 31, 2006, the Company had recorded no liabilities related to these guarantees.

In the normal course of business, the Company provides indemnification agreements to third parties as part of certain transactions, including purchase contracts, service agreements and leases. These indemnification agreements require the Company to compensate the third parties for costs incurred as a result of statutory and regulatory changes (including changes to tax laws) or as a result of legal action or regulatory penalties resulting from these transactions. The terms of these indemnification agreements vary from transaction to transaction, based on the contract terms. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to third parties. Historically, the Company has made no significant payments under such agreements. No liabilities have been recorded with respect to these agreements because the Company does not expect to make any payments thereunder.

(c) Contingencies

In the normal course of business, various legal actions, proceedings and claims are pending against the Company. In management's opinion, the settlement of these legal actions, proceedings and claims will not have a material adverse impact on the Company's financial position, operating results or cash flows.

23. Financial instruments

Credit risk management

The Company is exposed to credit losses resulting from defaults by third parties. In the normal course of business, the Company regularly evaluates the financial position of its clients and reviews the credit history of each new client. As at December 31, 2006, no clients had balances representing a significant portion of the Company's consolidated trade receivables. The Company establishes an allowance for doubtful accounts in response to the specific credit risk of its clients. The Company's accounts receivable balance is divided among various clients, primarily advertising agencies.

Fair value of financial instruments

The carrying amount of cash, accounts receivable, bank overdraft, accounts payable and accrued liabilities approximates their fair value because these items will be realized or paid within one year. As at December 31, 2006, the fair value of the long-term debt was equivalent to the book value because it bears interest at variable rates. The fair value of the convertible bonds issued by an affiliated company could not be determined because financial instruments with essentially the same economic characteristics are virtually impossible to find on the market. In addition, the fair value of the other investments could not be determined because no prices are quoted on an organized market for these types of investments.

(Amounts presented in the tables are expressed in thousands of dollars)

24. Segmented information

The Company's operations consist of the following segments:

- The television segment includes the operations of the following entities: the TVA Network, analog and digital specialty services, SUN TV, JPL Production Inc. (a production company), TV Access Productions and home shopping TV services.
- The publishing segment includes the operations of TVA Publishing Inc. and its subsidiaries, TVA Publishing II Inc. and various French-language magazine publishers specializing in arts, entertainment, television, fashion, decoration, etc.
- The distribution segment includes televisual product/film distribution operations.

The other items represent the elimination of intersegment transactions in the normal course of business with respect to revenues, expenses, unrealized profits and the investment in Canoe Inc. on the balance sheet.

The reportable segments determined by management are strategic operating units that provide various goods and services. They are managed separately because, among other reasons, each segment requires different marketing strategies.

The segments' accounting policies are the same as those used by the Company as a whole (see note 1).

The following tables provide information on revenues and assets:

					2006
	Television	**Publishing**	**Distribution**	**Other items**	**Total**
Operating revenues	**$ 309,317**	**$ 78,125**	**$ 14,369**	**$ (8,499)**	**$ 393,312**
Operating, selling and administrative expenses	**266,354**	**76,767**	**16,076**	**(7,941)**	**351,256**
Operating income before amortization, financial expenses, depreciation of intangible assets, restructuring costs of operations and gain on business acquisition and disposal	**$ 42,963**	**$ 1,358**	**$ (1,707)**	**$ (558)**	**$ 42,056**
Additions to fixed assets	**$ 8,211**	**$ 355**	**$ 462**	**$ –**	**$ 9,028**
Goodwill	**$ 2,539**	**$ 69,329**	**$ –**	**$ –**	**$ 71,868**
Total assets	**$ 362,200**	**$ 85,071**	**$ 18,971**	**$ 11,262**	**$ 477,504**

24. Segmented information (continued)

					2005
	Television	Publishing	Distribution	Other items	Total
Operating revenues	$ 306,774	$ 77,129	$ 21,789	$ (4,340)	$ 401,352
Operating, selling and administrative expenses	254,397	76,856	21,448	(4,340)	348,361
Operating income before amortization, financial expenses, depreciation of intangible assets, restructuring costs of operations and gain on business acquisition and disposal	$ 52,377	$ 273	$ 341	$ –	$ 52,991
Additions to fixed assets	$ 12,664	$ 223	$ –	$ –	$ 12,887
Goodwill	$ 10,504	$ 69,329	$ –	$ –	$ 79,833
Total assets	$ 389,169	$ 89,769	$ 23,174	$ 11,262	$ 513,374

25. Comparative figures

Certain comparative figures from 2005 have been restated to conform to the current year's presentation.

SIX-YEAR REVIEW

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Consolidated results	2006	2005	2004	2003	2002	2001
(in thousands of dollars)					(16 months)	
Operating revenues	**$ 393,312**	$ 401,352	$ 357,960	$ 340,945	$ 439,194	$ 344,652
Operating, selling and administrative expenses	**351,256**	348,361	277,457	259,486	331,577	274,102
Operating income before depreciation, amortization, financing expenses and other items (1)	**42,056**	52,991	80,503	81,459	107,617	70,550
Amortization	**13,905**	13,740	11,853	11,980	15,165	14,190
Financial expenses	**5,308**	2,764	678	1,111	2,693	9,498
Other items (1)	**31,967**	(276)	11	418	2,396	183,949
Income (loss) before income taxes, non-controlling interest and equity in income of companies subject to significant influence	**(9,124)**	36,763	67,961	67,950	87,363	(137,087)
Income taxes (recovery)	**(2,591)**	11,943	17,181	13,928	19,273	18,810
Income (loss) before non-controlling interest and equity in income of companies subject to significant influence	**(6,533)**	24,820	50,780	54,022	68,090	(155,897)
Non-controlling interest	**3,252**	2,747	147	–	–	(50,034)
Equity in income of companies subject to significant influence	**141**	806	441	491	(4,889)	(11,623)
Income (loss) before amoritzation of goodwill	**(3,140)**	28,373	51,368	54,513	63,201	(117,486)
Amortization of goodwill	**–**	–	–	–	–	3,876
Net income (loss)	**($ 3,140)**	$ 28,373	$ 51,368	$ 54,513	$ 63,201	($ 121,362)

Financial data and ratios	2006	2005	2004	2003	2002	2001
(in thousands of dollars except for amounts pertaining to shares)					(16 months)	
Cash flows prodived by current operations	**$ 29,991**	$ 36,561	$ 66,371	$ 73,297	$ 84,563	$ 16,362
Acquisitions of fixed assets	**(9,028)**	(12,887)	(10,118)	(5,742)	(7,747)	(7,786)
Fixed assets	**74,038**	77,173	77,999	62,863	67,929	76,287
Total assets	**477,504**	513,374	446,757	389,861	425,941	408,870
Long-term debt	**96,515**	107,098	34,929	24,364	51,220	53,875
Shareholders' equity	**181,492**	189,898	249,225	242,153	218,628	169,097
Debt ratio	**35%**	36%	12%	9%	19%	24%
Per share						
Net earnings (net loss)	**($ 0.12)**	$ 0.98	$ 1.61	$ 1.65	$ 1.84	($ 3.55)
Book value	**$ 6.72**	$ 7.02	$ 8.10	$ 7.45	$ 6.45	$ 4.91

(1) Include depreciation of intangibles assets, restructuring cost of operations, gain on business acquisition and disposal, gain and loss on investments disposal.

Board of directors

MARC A. COURTOIS (1)
Corporate director

JACQUES DORION (2)
President and Chief Executive Officer, Carat Canada

SERGE GOUIN (2)
Chairman of the Board, Quebecor Media inc.

SYLVIE LALANDE
Corporate director

A. MICHEL LAVIGNE (1)
Corporate director

JEAN NEVEU
Chairman of the Board, TVA Group Inc.,
and Chairman of the Board, Quebecor inc.

ÉRIK PÉLADEAU
Vice-President of the Board and
Executive Vice-President, Quebecor Inc.,
Vice-President of the Board, Quebecor World Inc.,
and Vice-President of the Board, Quebecor Media Inc.

ANDRÉ TRANCHEMONTAGNE (1)
Corporate director

LAURENT VERREAULT (2)
Chairman and Chief Executive Officer,
Groupe Laperrière & Verreault Inc.

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

The management

PIERRE DION
President and Chief Executive Officer

LUC DOYON
Senior Vice-President, Production
and multimedia development

DENIS ROZON
Vice-President and Chief Financial Officer

SERGE FORTIN
Vice-President, TVA News, LCN,
Argent and Public Affairs

RICHARD GAUTHIER
Vice-President, Human Resources

FRANCE LAUZIÈRE
Vice-President, Programming

ÉDITH PERREAULT
Vice-President, Sales and Marketing

RICHARD RENAUD
Vice-President, Regional Stations and
General manager, TVA Québec

JOCELYN POIRIER
President, TVA Publications Inc.

YVES DION
President, TVA Films

CLAIRE SYRIL
Vice-President, Specialty Channels

JEAN GUIMOND
Vide-President, JPL Production Inc.

ALAIN LÉTOURNEAU
Vice-President, Shopping TVA

CLAUDINE TREMBLAY
Corporate Secretary

CHRISTIAN MARCOUX
Assistant Secretary

MAXIME BÉDARD
Director, Legal Affairs

General information

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Pour obtenir une version française de ce rapport annuel, veuillez vous adresser au siège social de la compagnie.

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ANNUAL MEETING
Shareholders are invited to attend at the Annual Meeting to be held on May 4, 2007, at 11h00 a.m. at
Marriot Château Champlain,
1050, de la Gauchetière West
Montréal, (Québec)

LEGAL DEPOSIT
Bibliothèque nationale du Québec, 2007

Graphic Design : TVA Publications Inc. Printing : Quebecor World Saint-Jean