2014 Annual Report

It's the connection that counts

Manitoba Telecom Services Inc.

MTS allstream

OUR CORPORATE FAMILY TREE

Manitoba Telecom Services Inc.

TABLE of CONTENTS

MTS Allstream delivers innovative products and services to our business customers across Canada and to all market segments in Manitoba. Leveraging the entrepreneurial spirit and skills of our employees, our close customer relationships and our national broadband network, we provide a broad range of solutions including high-speed Internet, wireless, digital TV, converged IP networking and unified communications.

Page	Section
2	**Chair's letter to shareholders**
3	**CEO's letter to shareholders**
4	**Management's discussion and analysis**
5	Executive summary – Corporate profile
6	Executive summary – 2014 in review
6	Executive summary – MTS
8	Executive summary – Allstream
10	Executive summary – 2014 consolidated financial scorecard
11	Discussion of operations
12	MTS
18	Allstream
21	Selected annual and quarterly financial information
25	Liquidity and capital resources
27	Critical accounting estimates and assumptions
28	Changes in accounting policies
29	Regulatory developments
31	Risks and uncertainties
39	Controls and procedures
40	Non-IFRS performance measures
41	Glossary
44	**Consolidated financial statements and notes**
77	**Five years in review**
78	**Board of directors**
79	**Leadership team**
80	**Shareholder and investor information**

CHAIR'S LETTER to SHAREHOLDERS

Dear fellow shareholders,

It's the Connection that Counts.

That's much more than a clever turn of phrase – connection in all its many forms dictates our success on every front. Connection is the core of our business and the heart of our company. It fuels our growth and inspires our evolution, as it has for more than a century.

While the very human need to connect is a historical constant, the manner in which connection occurs is anything but. We live and work in an environment of perpetual technological change, and MTS Allstream's resilience is a product of its ability to adapt to and build upon that change. 2014 was no exception, and we move forward mindful of a rapidly transforming, highly competitive landscape.

Our task, then, is to position MTS Allstream to advance in that arena. The financial results were not what we hoped for last year and a number of factors constrained the company's ability to produce the kind of value it is capable of.

Not surprisingly the year was one of significant reevaluation, and as CEO Pierre Blouin prepared to retire we began a process of discovery that will shape the future of our company.

We have emerged from that process poised for growth under the leadership of Jay Forbes, a seasoned telecommunications and technology executive whom we welcomed as CEO in January. An inspirational leader with a proven track record in creating operational value, Jay's first order of business has been to conduct a strategic and economic assessment aimed squarely at clarifying goals and structuring the company to achieve them.

We will announce a refreshed strategic direction in Q2, 2015, with renewed energy and clarity of purpose, propelled by a blueprint for change that positions us for growth. Going forward our performance will be fortified by the emphasis we have - and always will – place in building connections, both tangible and relational.

As we look forward, MTS Allstream has never been more aware that **It's the Connection that Counts**. We must arm our customers with the tools they need to participate fully as citizens in a digital economy. The energy is palpable, our path is clear and we are ready for the next chapter in our history.

On behalf of the Board of Directors of MTS Allstream and our employees across Canada, thank you for your continued confidence and ongoing support.

David Leith
Chair of the Board of Directors

March 16, 2015

CEO'S LETTER to SHAREHOLDERS

Dear fellow shareholders,

It's the Connection that Counts.

I made the decision to join MTS Allstream confident in three things: the company's financial stability, competitive strength and potential for growth.

My first 90 days were spent connecting with as many of our stakeholders as I could; hearing their ideas, concerns and thoughts about the future. I emerged from those discussions deeply energized and inspired by both their current view of the company and commitment to what it can become. As a newly-minted Manitoban, I can say in no uncertain terms that I am extremely pleased to be here.

From my point of view, the company possesses a number of distinct advantages–hidden gems actually–that equip it to deliver escalating value for shareholders in an increasingly competitive marketplace:

- Outstanding customer connectivity through modern telecom networks that reach nearly every citizen and business in Manitoba and link business customers coast-to-coast;
- Highly-regarded brands in MTS, Allstream, AAA Security and EPIC Information Solutions that reflect a long and rich heritage of service and corporate social responsibility, and provide a receptive market for new service offerings;
- Exceptional operating platforms, reinforced by Network Operations Centres that deliver reliability and mission-critical operational competency that would be the envy of virtually any other industry.

In addition, the company's steady cash flow and solid balance sheet ensure continued, low cost access to the capital we will need to grow our business.

Having spent most of my career in technology and telecommunications, it's clear that MTS Allstream has the potential to capitalize on the convergence of these sectors–particularly when it comes to delivering mobile and fixed Internet solutions to our customers.

This forward-thinking approach is evident in the strategic investment being made to develop Manitoba's first Tier 3 data centre, opening later this summer. The response we have received from both the provincial and U.S. business communities is encouraging, and demonstrates a clear and present need for secure cloud computing, hosting and colocation services.

Indeed, these considerable investments in infrastructure underscore the degree to which our long-term success depends on our ability to anticipate and respond to our customers' needs, while nimbly navigating the shifting landscape of telecommunications world-wide. There is no shortage of alternatives for our customers–or our investors–and so thriving in the years ahead depends not only on our ability to differentiate ourselves from, but to distinguish ourselves among, our competitors. With that in mind, the customer experience will be an area of profound strategic focus for us.

From a privileged position of trust earned through a century of service, MTS Allstream stands on a firm foundation: financially, strategically, organizationally. There is no doubt in my mind that we are positioned to accelerate growth and I'm looking forward to engaging our 5,000 employees across Canada in the process.

The theme of this annual report was a conscious choice. As technology evolves at a blistering pace, MTS Allstream will be held accountable for its ability to deliver on every front. It is connection that allows us to anticipate opportunity, shape its execution and create enduring value for our shareholders. Truly, **It's the Connection that Counts**.

Jay Forbes
Chief Executive Officer

March 16, 2015

MANAGEMENT'S DISCUSSION and ANALYSIS

February 4, 2015

This Management's Discussion and Analysis ("MD&A") of our financial results comments on our operations, performance and financial condition for the years ended December 31, 2014 and 2013. This MD&A is based on financial statements prepared under International Financial Reporting Standards ("IFRS"). All financial amounts, unless otherwise indicated, are in Canadian dollars and in accordance with IFRS. MTS Allstream implemented changes to its organizational structure on January 1, 2012. Accordingly, segmented information for 2011 has been re-stated.

Unless otherwise indicated, this MD&A for the year ended December 31, 2014 is as at February 4, 2015.

In preparing this MD&A, we have taken into account information available to us up to February 4, 2015. In this MD&A, "we", "our" and "us" refer to Manitoba Telecom Services Inc. ("the Company"). This MD&A should be read in conjunction with our audited condensed consolidated financial statements for the year ended December 31, 2014.

About us

For more information about our company, including our Annual Information Form and audited consolidated financial statements for the year ended December 31, 2014, dated February 4, 2015, please visit our website at www.mtsallstream.com or visit SEDAR at www.sedar.com.

Risks and uncertainties

In conjunction with our audited condensed consolidated financial statements and this MD&A, we urge you to read the important risks and uncertainties that are detailed on page 31 of this MD&A.

Non-IFRS measures of performance (EBITDA and free cash flow)

In this MD&A, we provide information concerning earnings before interest, taxes, depreciation and amortization ("EBITDA") and free cash flow because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by IFRS, and are not necessarily comparable to similarly titled measures used by other companies. Please refer to the glossary section of this MD&A for a discussion of these terms.

Regarding forward-looking statements

This MD&A and, in particular, but not limited to, the "Risks and uncertainties" section of this MD&A, include forward-looking statements and information (collectively, "statements") including, but not limited to, statements pertaining to the Company's corporate direction, business opportunities, operations, financial objectives, future financial results and performance, 4G Long Term Evolution ("LTE") wireless network expansion, fibre-to-the-home ("FTTH") deployment, national IP fibre network expansion, pension funding, as well as other statements that are not historical facts. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "should", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", "see", "set", "pending" and other similar terms. All forward-looking statements are made pursuant to the safe harbour provisions of applicable Canadian securities legislation.

Forward-looking statements are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any forward-looking conclusion, forecast or projection, whether expressed or implied. Therefore, forward-looking statements should be considered carefully and undue reliance should not be placed on them.

Please note that forward-looking statements in this MD&A reflect Management's expectations as at February 4, 2015, and thus, are subject to change thereafter.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. This MD&A and the financial information contained herein have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors ("the Board").

Factors that could cause anticipated opportunities and actual results to differ materially include, but are not limited to, matters identified in the "Risks and uncertainties" section of this MD&A.

EXECUTIVE SUMMARY – CORPORATE PROFILE

The COMPANY

Manitoba Telecom Services Inc. is the market leader in Manitoba and a leading national communications provider in Canada. We provide innovative communications solutions for the way Canadians live and work today, serving all market segments in Manitoba through our MTS Inc. subsidiary ("MTS") and business customers across Canada through our Allstream Inc. subsidiary ("Allstream"). Our common shares are listed on the TSX (trading symbol: MBT). Our company is headquartered in Winnipeg, with eight other corporate offices across Canada. Our website is www.mtsallstream.com.

LEADERSHIP

Our areas of leadership are complemented by a team of disciplined, senior, operational management executives. Their vision and leadership set the direction and support for solid financial results and shareholder value creation over the long term. We believe in and promote the talent, creativity and ingenuity of our employees. Together we work to earn our customer's loyalty which in turn creates value for our shareholders.

Executive leadership change

The Board of Directors appointed Jay Forbes Chief Executive Officer of MTS Allstream, effective January 1, 2015. Prior to joining MTS Allstream, Jay served as President and CEO of information services provider Teranet, President of Ingram Micro's European, Middle Eastern and African operations and President and CEO Aliant, where he transformed the company into the second-largest regional local exchange carrier in North America.

To view more leadership team information, please visit www.mtsallstream.com/leadershipteam.

OUR STRATEGY. YOUR RESULTS.

We continue to focus on our customers, building their trust, their brand loyalty and meeting their needs so they choose us. This is all done in a way that also provides attractive returns to the business. Our targeted investment in customer experience, brand building and innovation leads to creating solid revenue growth in our strategic lines of products and services. We are a leading, socially responsible corporate citizen with a reputation as a great place to work.

Corporate governance – Board of Directors

Governed by a Board of Directors, the Board consists of 11 members who are business and community leaders. Members have been carefully chosen for nomination in order to maintain independence and also to ensure that the Board has a solid base of experience and expertise. The highest governing authority in our management structure, the director's responsibilities include the following items:

- Review and approval of our strategic direction, financial objectives and major policy decisions
- Oversight of executive compensation, performance evaluation and succession plans
- Monitoring financial and operational performance, risks, business conduct and ethics and internal auditing controls
- CEO selection and succession planning process
- Effective Board governance and director education and
- Timely and accurate disclosure of shareholder information.

Key awards and recognitions

- Annual Globe and Mail's - Board Games ranking: Rated in 8th place in 2014, compared to 15th place in 2013
- Co-recipient of the "Best Overall Governance Award" by the Canadian Society of Corporate Secretaries at the Second Annual Excellence in Governance Awards
- Shortlisted by the U.S.-based Corporate Secretary magazine for the Corporate Governance Awards in the category of "Best Overall Corporate Governance – International".

The Globe and Mail's corporate ranking reviews Canadian publicly traded companies by board composition, shareholding and compensation, shareholder rights and disclosure. Our high ranking highlights our top-performing Board – one which follows and observes some of the best corporate practices and policies. For more information on our Board, please visit www.mtsallstream.com/bod or review our annual management information circular.

The Canadian Society of Corporate Secretaries Governance Awards recognizes companies that demonstrate leading-edge approaches to good governance and public disclosure. We take a proactive approach to corporate governance and demonstrate a strong and vibrant corporate governance culture, making us a standout organization across the board in governance. The complete award report can be viewed at www.cscs.org/EGWinners.

Our people – shaping our organization

A key factor in our success is our highly skilled and dedicated workforce of approximately 5,000 across Canada. We pride ourselves in providing an environment that promotes creativity and embraces people to think and act beyond the ordinary, creating an iconic team of talented people. This winning culture makes us a better organization that positively connects us to our customers and shareholders.

EXECUTIVE SUMMARY – 2014 in REVIEW

First quarter

- MTS secures prime block of 700 MHz spectrum
- Supreme Court of Canada's decision reached regarding pension lawsuit
- Allstream establishes a national Technical Support Centre of Excellence in Montreal
- MTS unveils *Future First*, a new community investment program
- Allstream named official supplier of the TORONTO 2015 Pan Am/Parapan Am Games
- Allstream connects its 3,000th building to its national IP-fibre network

Second quarter

- Allstream introduces new SIP gateway service, provides up to 40 per cent savings for IP voice customers
- MTS offers the Apple iPad Air and iPad Mini with retina display
- MTS introduces unmatched flexible six-service bundle
- Launch of MTS's province-wide Text with 9 1 1, a first in Canada
- MTS breaks ground on new, world-class EPIC Data Centre
- Judi Hand joins MTS Allstream Board of Directors

Third quarter

- CEO Pierre Blouin announces his retirement
- MTS's LTE network ranked number one by PCMag.com
- MTS Allstream earns Best Overall Governance Award
- Board of Directors member Jocelyne M. Côté-O'Hara retires after 17 years of service
- Barbara Fraser joins MTS Allstream Board of Directors

Fourth quarter

- Jay Forbes named as new CEO
- MTS launched its 4G HSPA wireless network in Churchill, latest in expansion to six Manitoba communities
- New MTS concept store opens in Winnipeg, first of its kind in this marketplace
- Ranked 8th on the Globe and Mail's Annual Board Games report card
- AAA Security receives Consumer Choice Award for being the preferred alarm service provider in Manitoba
- MTS's Network Operations Centre opens, unique to the province
- MTS first in Western Canada to offer Major League Baseball network to MTS Ultimate TV® subscribers
- Five local charities receive $25,000 each as part of MTS's annual employee giving campaign and *Future First* program

January 2015

- Jay Forbes starts as new MTS Allstream CEO
- Second annual MTS *Future First* grants application process opens - $100,000 in grants to be awarded with winners selected by Manitobans

Up to February 4, 2015

- Our 4G LTE network now powering fast wireless data for 26 communities
- 16 communities now connected to our fibre-to-the-home ("FTTH") network
- Over 1,020 Wi-Fi locations now in Winnipeg

EXECUTIVE SUMMARY – MTS

MTS – MAKING THE CONNECTION

MTS is the only full-service telecommunications provider for residential and business customers in Manitoba. We have strong in-region distribution and the richest bundling capabilities among our peers, all supported by our extensive infrastructure and exceptional brand recognition. A technology leader, MTS operates advanced wireless networks delivering the best coverage for Manitobans with its 4G, (LTE and HSPA+), CDMA and Wi-Fi wireless networks. More than 850,000 Manitobans now have access to MTS's 4G LTE wireless network. This network powers LTE devices allowing MTS customers to stream movies and download music, pictures and apps faster than ever before, to play multi-player games and to quickly access emails and business documents.

Our advanced fibre and VDSL2+ network brings up to 50 Mbps HSI and IPTV to 70% of Manitoba homes and world-class services to local businesses. We also continue to invest to build out our extensive FTTH network with 16 Manitoba communities now being served with FTTH coverage (download speeds of up to 250 Mbps on FTTH).

MTS offers a full suite of wireless, high-speed Internet, IPTV, wireline voice, and home security services (through its AAA Alarms Systems LTD subsidiary ("AAA Security") to its consumer market. MTS also has a full array of business solutions including information solutions and business telecommunications services. Information solutions currently includes IT infrastructure, application development, managed services, networking services and unified cloud services provided by EPIC Information Solutions ("EPIC") and will include our new EPIC data centre once it is open. The data centre is currently under construction with a mid-2015 opening date.

With over 100 years of operations, MTS is rooted firmly in the community and has been contributing to Canada's social and economic development for more than a century. MTS is also a proud sponsor of the MTS Centre, home to the NHL's Winnipeg Jets and official telecommunications services supplier to the CFL's Winnipeg Blue Bombers.

To view more information on MTS's services, visit www.mts.ca.

Services
- Wireless (4G LTE, 4G HSPA+, CDMA and Wi-Fi)
- High-speed Internet
- IPTV
- Wireline voice
- Home and commercial security
- Information solutions
- Business services (Data, converged IP and unified communications)

506,586
Wireless subscribers
51% MB market share

217,348
High-speed Internet subscribers
54% MB market share

112,028
Television subscribers
34% Winnipeg market share

208,801
Business network access lines

259,059
Residential network access lines

41,812
Security and monitoring customers

MTS STRATEGIC OBJECTIVE

At MTS, we intend to strengthen our market-leading position by:

- The ongoing expansion of our broadband and wireless services coverage across the province
- Servicing and engaging our customers through our high-quality products and services along with our cost-effective bundling options
- Valuing, promoting and protecting our reputation, which guides how we work with our customers, shareholders and within our communities

MTS COMPETITIVE ADVANTAGES

4G LTE network – speed and power

MTS was the first provider of 4G LTE high-speed mobile data in Manitoba. Our network is currently capable of delivering download speeds of up 150 Mbps and upload speeds of up to 50 Mbps, ensuring our customers can use their smartphones to the fullest. With the expectation of ever-increasing data traffic on our networks, MTS is constantly evolving our LTE technology, offering the benefits of these advancements to our customers.

Market-leading network and data reach

Our combined 4G LTE, 4G HSPA+, CDMA and Wi-Fi network coverage to 97% of Manitobans gives us the best wireless network reach in the province. MTS customers, when traveling outside of Manitoba, can connect to LTE in over 80 locations in Canada. We are also one of only two Canadian carriers to offer international LTE roaming.

Unlimited data usage

We are the only provider in Manitoba to provide unlimited data plans. With MTS, our customers can surf, download and stream all they want on our Internet and wireless services without worrying about paying overage charges within Manitoba. Our wireless networks, coverage and experience are all built to make it easy to stay powered and connected.

Our Ultimate TV® – it is as unique as our customers

MTS customers can choose from flexible channel groups to build custom-designed channel packages that are right for them. And with MyAccount, our TV customers can add and remove channel groups online, anytime, selecting from nearly 500 channels, including more than 170 HD channels. The service also has features like MyPVR, which lets users control their Whole Home PVR from a computer or mobile device, so they'll never miss an episode of their favourite shows no matter where they are.

MyBundle service – one-of-a-kind

MTS "owns the connected home" in Manitoba, with unmatched bundling that brings our most attractive offers to our higher-value customers. MTS customers are able to mix and match the services they want, including wireless, television, Internet, home phone and security services. Bundle customers can wrap-up four-, five- or six-services into one neat package which can include up to five MTS post-paid wireless plans. Started in July of 2014, our unique five- and six-bundle options provide additional support of lower churn. Our MyBundle® option presents the best value and is recognized as the gold standard in Manitoba. As at December 31, 2014, we had a total of 105,172 bundled customers, which is a 5.7% increase over 2013.

Exceptional brand recognition, unwavering commitment to Manitoba
MTS has been serving Manitobans for more than a century, supported by our market-leading brand. With this comes a responsibility to support our province through community events such as the MTS Digital Media Camp at the Gimli Film Festival, among many other programs. MTS also continued its ongoing sponsorship of educational institutions across the province, including the Canadian Museum for Human Rights.

KEY MTS DEVELOPMENTS

MTS has long been recognized as an industry innovator, often being the first to introduce services in areas such as wireless, digital television, the Internet and electronic commerce.

Offered the latest technology and services

- **Our own cloud** – Construction of our new data centre is on track, opening in mid-2015. This facility is unique, being the first and only commercial Tier 3 data centre in the province. When opened it will provide IT solutions and cloud services to Manitoba businesses as well as organizations across North America. It is expected that data centre and cloud services will provide a new and important growth opportunity for MTS over the next several years.
- **Center of excellence** – MTS unveiled its new network monitoring and management facility, the Manitoba Network Operations Centre in late 2014. Unique to Manitoba, this facility offers 24/7 monitoring, surveillance and management of MTS's critical network infrastructure.
- **Invested** – MTS launched its 4G HSPA wireless network in six new communities in 2014. Community members are now able to download mobile apps and stream video in seconds thanks to data speeds that are up to five-times faster than the CDMA network they previously experienced. More than 4,000 people living and working in these communities will benefit from this investment.
- **Phones, tablets and Internet sticks** – We added the Samsung Galaxy Note 4, the Apple iPhone6, iPhone 6 Plus, iPad, iPad mini with retina display and the iPad mini, the Sony Xperia Z3 and the BlackBerry Passport to our device line-up in 2014. Also, all MTS smartphone plans now include messaging, call display, and voicemail lite.

Provided the best possible wireless experience with our 4G LTE network

- **Connected to the most advanced service** – MTS was the first carrier in Manitoba to turn on a LTE wireless network. Our LTE service was launched in Winnipeg and Brandon in 2012. In 2014, we added 18 more communities to our LTE network, bringing current LTE network coverage to 75% of Manitoba's population with plans to cover more than 90% of Manitoba's population over the next few years.

Tuned into TV and the Internet

- **Expanded connections** – Our MTS FiON® Network expansion continued in 2014, providing customers in 16 communities with the most advanced services MTS currently offers, including MTS Ultimate TV® and ultra-fast high-speed Internet. The MTS Ultimate TV® service is currently available to 94% of Winnipeg households, to 99% of Brandon households, to 97% of Portage la Prairie households and to a growing number of homes in connected communities.
- **Connecting in your favourite spots** – MTS currently has over 1,020 Wi-Fi hotspots throughout Manitoba, including the home of the Winnipeg Jets, the MTS Centre, which is the largest Wi-Fi hotspot in the province.

In the community – unlimited possibilities
As one of the country’s leading national communications providers, our goal is to contribute to the welfare of the communities in which we operate and serve. Our aim is to continuously have a positive impact on the lives of our employees, customers and other stakeholders through our products and services, as well as through our actions in our workplace, communities and environment.

We are committed to a brighter future for our young people through the MTS *Future Firs*t program. *Future First*, launched in 2013, is a multi-faceted community investment strategy that includes sponsorships, grants, donations, scholarships, employee volunteerism and fundraising programs to help in the advancement of Manitoba's young people.

2014 community support – More than 50,000 volunteer hours in support of local organizations

EXECUTIVE SUMMARY – ALLSTREAM

ALLSTREAM – a LEADER in the CANADIAN BUSINESS SECTOR

Allstream is the only Canadian-owned national communications supplier that works exclusively with business customers. An industry leader in innovative IP-based solutions, Allstream leverages its nationwide high-performance IP network to help businesses of all sizes unify the many ways they connect - to better serve customers, and to improve efficiency and productivity. All our services run on a secure national network, which is built and managed using advanced IP and fiber technologies.

Allstream is a strong competitor in the Canadian telecommunications market, with converged IP revenues growing at 8.0% in 2014. With our extensive national IP network, we connect businesses across our nation with state-of-the-art telecommunication services. As at December 31, 2014, this IP-network spans over 30,000 kilometers with connections to a total of 3,215 buildings (up 212 buildings from 2013). To view our IP network map, go to www.allstream.com/about-us/ipnetwork/.

For more details on Allstream's products and services, visit www.allstream.com.

IP-based solutions	1 of only 3	3,215	30,000 km+
• IP connectivity • Unified communications • Security and hosting services	Truly national providers in business markets	IP fibre-connected buildings	National IP fibre network with 9 U.S. network access points

ALLSTREAM STRATEGIC OBJECTIVES

Our 2014 key strategic objectives were to:

- Continue to leverage our national IP fibre network, facilitating high-margin IP growth
- Improve our profitability and margins by exiting low-margin legacy business and shifting to high-margin businesses, such as IP-based products that are delivered on our network
- Continue to improve the customer experience by the use of our service guarantees, increased training of sales staff and strong customer support and
- Improve operational efficiencies through simplification

ALLSTREAM COMPETITIVE ADVANTAGES

A superior customer service – service guarantees

What our Allstream customers receive is a commitment for predictable and personalized service, with a guarantee that we will stand behind this promise. To support this claim, Allstream offers an Allstream Service Guarantee, an industry-first customer service commitment. If we falter in this assurance to our clients, we will give the client a month of free service – proof that we keep our promises and are accountable.

Network structure and reach

Allstream is the only national communications provider focused exclusively on serving Canadian business. We are able to leverage our multi-billion-dollar investment in our extensive IP fibre network, along with the popularity of IP-based products in the Canadian business marketplace. Our IP grid allows us to drive growth in high-margin on-net IP-based services.

KEY ALLSTREAM DEVELOPMENTS

National fibre footprint growth

Strategy to expand our on-net footprint and increase installations into already-connected buildings – Allstream's targeted expansion approach maximizes momentum created by the popularity and growth of IP-based products in the Canadian business marketplace. We have 3,215 buildings now connected to our fibre network, with 212 new buildings connected in 2014. This focused smart growth approach has supported our drive to deliver value to all business markets, while growing our target market.

In 2014, customer installations into buildings that are already on our IP network were up by 29.1% over 2013.

EXECUTIVE SUMMARY – 2014 CONSOLIDATED FINANCIAL SCORECARD

Revenues *($millions)*

Year	Value
2014	$1,612
2013	$1,634

- Consolidated revenues down 1.3% in comparison to 2013, mostly due to declines in legacy revenues, along with a decline in wireless wholesale and voice revenues, partly offset by strong revenues from converged IP, broadband, wireless data and information solutions services.
- Strategic lines of business revenues[1] were up $41.5 million, or 4.9% over 2013. Legacy lines of business revenues[2] were down $60.0 million, or 9.5% from last year.
- Wireless wholesale revenues were down $10.9 million, or 47.0%, as other carriers move their customers from MTS's legacy CDMA network to their own networks.

EBITDA *($millions)*

Year	Value
2014	$566
2013	$551

- Consolidated EBITDA was up $14.6 million or 2.6% over 2013 due to transaction and restructuring costs in 2013 and 4.9% growth in revenues from strategic lines of business in 2014.

EPS *($)*

Year	Value
2014	$1.70
2013	($1.24)

- Earnings per share ("EPS") increased from the prior year due to the 2013 pension plan decision costs ($1.52), the write-down of Allstream's long-term assets ($1.41), and transaction and restructuring costs ($0.38). 2014 EPS was impacted by increased depreciation and amortization expense due to Allstream being held for sale in 2013 ($0.34), partly offset by the SR&ED ITCs* ($0.22).

Capital expenditures *(% of revenues)*

Year	Value
2014	18%
2013	18%

- Capital expenditures were $288.3 million, down $7.7 million or 2.6% from 2013.
- When adjusted for the $23.6-million SR&ED ITCs recognized in 2014, capital expenditures were up $15.9 million or 5.4% over 2013, in line with the Company's 2014 plans to allow for investment in growth and strategic initiatives at MTS and Allstream.

Free cash flow *($millions)*

Year	Value
2014	$155
2013	$121

- After excluding the impact of the $23.6-million SR&ED ITCs recorded in 2014 which lowered capital expenditures, consolidated free cash flow still increased year over year mainly due to increased EBITDA and lower finance costs.

[1]Strategic lines of business consist of wireless, broadband, converged IP and information solutions services
[2]Legacy lines of business consist of local access, long distance and legacy data services
**Scientific research and experimental development investment tax credits*

DISCUSSION of OPERATIONS

CONSOLIDATED STATEMENTS of NET INCOME and OTHER COMPREHENSIVE INCOME

($ millions, except EPS and weighted average shares outstanding)	**2014**	2013	% variance
MTS operating revenues	**1,001.8**	995.0	0.7
Allstream operating revenues	**644.1**	673.6	(4.4)
Intersegment eliminations	**(33.9)**	(34.9)	2.9
Total consolidated operating revenues	**1,612.0**	1,633.7	(1.3)
Operations expense	**1,046.1**	1,047.2	0.1
MTS EBITDA before transaction and restructuring costs	**472.0**	478.9	(1.4)
Allstream EBITDA before transaction and restructuring costs	**99.5**	107.3	(7.3)
Other EBITDA before transaction costs	**(5.6)**	0.3	n.a.*
Consolidated EBITDA before transaction and restructuring costs	**565.9**	586.5	(3.5)
MTS transaction costs	**—**	1.8	n.a.*
Allstream transaction and restructuring costs	**—**	25.8	n.a.*
Other transaction costs	**—**	7.6	n.a.*
Total transaction and restructuring costs	**—**	35.2	n.a.*
MTS EBITDA	**472.0**	477.1	(1.1)
Allstream EBITDA	**99.5**	81.5	22.1
Other EBITDA	**(5.6)**	(7.3)	(23.3)
Consolidated EBITDA	**565.9**	551.3	2.6
Depreciation and amortization	**(317.1)**	(309.1)	(2.6)
Other expense	**(2.5)**	(0.8)	n.a.*
Impairment loss - Allstream	**—**	(130.4)	n.a.*
Pension plan decision costs	**—**	(142.1)	n.a.*
Finance costs	**(65.9)**	(81.1)	18.7
Income (loss) before income taxes	**180.4**	(112.2)	n.a.*
Income tax (expense) recovery	**(48.7)**	27.8	n.a.*
Net income (loss) for the year	**131.7**	(84.4)	n.a.*
Other comprehensive (loss) income for the year, net of tax	**(77.4)**	202.4	n.a.*
Total comprehensive income for the year	**54.3**	118.0	(54.0)
Weighted average shares outstanding[1] (in millions)	**77.6**	68.2	13.8
EPS	**$1.70**	$(1.24)	n.a.*

**not applicable*
[1]The increase in the number of weighted average shares outstanding is due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program.

2014 DISCUSSION OF CONSOLIDATED OPERATIONS

Operating revenues

The decrease in total consolidated operating revenues is mainly due to legacy revenue declines and a decrease in wireless wholesale and voice revenues, partly offset by strong revenue growth from wireless data, converged IP, broadband and information solutions services.

Operations expense

During the year, the Company took actions to reduce its cost structure. These undertakings included reduced staffing across both operating divisions with an annualized impact of $8.8 million as well as renegotiated supplier agreements and real estate leases with an annualized impact of $5.1 million. In addition, Allstream whose direct costs are a function of on-net volume and supplier pricing, negotiated new arrangements with both incumbent and alternative suppliers that reduced annualized direct costs by $10.5 million. These actions, including the impact of reductions from prior years, had the result of more than offsetting the incremental $16.9 million in EPIC operations expense as well as the full impact of inflation and growth in strategic services on salaries and other expenses.

EBITDA

Consolidated EBITDA increased due to transaction and restructuring costs in 2013 and growth in revenues from strategic lines of business in 2014, partly offset by legacy revenue declines.

Depreciation and amortization expense
The increase in depreciation and amortization expense is due to Allstream being held for sale in 2013 ($31.5 million), partly offset by the SR&ED ITCs recovery recorded in Q1 2014 ($11.8 million) and the Q3 2014 SR&ED ITCs adjustment ($12.0 million). IFRS does not allow amortization of assets while they are classified as held for sale.

Finance costs
Decreased finance costs are mainly a result of a significant reduction in our pension solvency deficit throughout most of 2014, (which decreased pension plan non-cash interest expense) and reduced interest costs on both long-term and short-term debt.

Income tax expense
Our income tax expense increase is mainly due to the 2013 tax impacts of the pension plan costs relating to the Supreme Court of Canada ("SCC") ruling, the write-down of Allstream's long-term assets and transaction and restructuring costs.

The Company continues to have substantial capital cost allowance pools, tax losses and investment tax credits, which we expect will fully offset our taxable income and eliminate cash income taxes until 2020 at the earliest. The present value of these available tax assets is approximately $270 million.

Net income and EPS
Net income and EPS were up over 2013 due to the 2013 pension plan decision costs, the write-down of Allstream's long-term assets, and transaction and restructuring costs. 2014 net income and EPS were impacted by increased depreciation and amortization expense due to Allstream being held for sale in 2013, partly offset by the impact of the 2014 SR&ED ITCs.

Other comprehensive (loss) income
Other comprehensive (loss) income represents net actuarial gains and losses arising from changes in the present value of our defined-benefit pension liabilities and in the fair value our defined-benefit pension assets. These items are recognized in other comprehensive income net of tax, and therefore, do not have an impact on net income or EPS.

The decrease in other comprehensive income in 2014 was due to a decrease in long-term interest rates, partly offset by a solid return on pension assets.

DISCUSSION of OPERATIONS – MTS

Described below are MTS's seven business lines. The following pages then provide an analysis of the results for each line of business, on an annual basis.

Wireless services
Leading networks and devices
MTS's wireless portfolio for residential and business customers consists of cellular, wireless data and group communications. Our market share and combined 4G LTE, 4G HSPA+, CDMA-EVDO and Wi-Fi hotspot networks demonstrate that we are the market leader, with the best wireless network reach in the province. We are also the only Manitoba provider to offer unlimited data plans. Our 4G HPSA+ network coverage is available to 97% of Manitobans and our 4G LTE network covers over 75% of Manitobans. We were the first 4G LTE provider in Manitoba - this advanced network is currently capable of delivering download speeds of up to 150 Mbps and upload speeds of 50 Mbps, ensuring our customers can use their smartphones or tablets to the fullest. To view the map of our wireless network coverage, please visit www.mts.ca/coverage.

Broadband and converged IP services
Top priority to grow broadband
Broadband and converged IP services include revenues earned from providing high-speed Internet and IPTV services to residential customers, as well as IP-based connectivity to business customers. Our high-speed Internet service provides fast, reliable speeds with the most comprehensive Internet service in Manitoba. MTS has an extensive VDSL2+ and fibre-to-the-home network that covers more than 70% of Manitoba households including 97% of the seven biggest communities. Currently 70% of Manitoba homes are eligible the most-advanced IPTV service, along with Internet speeds up to 50 Mbps on VDSL2+, with some homes having access to Internet speeds of up 250 Mbps on FTTH.

To find out more about our Internet plans, please visit www.mts.ca/internetoffer. MTS has a multi-year program to expand our FTTH network in Manitoba. Since 2010, we have launched the MTS FTTH network in 16 communities. To learn more about our customized TV viewing experience, please visit www.mts.ca/tvchannels.

Information solutions
Connecting the dots between technology, business and people
Revenues from this line of business include revenues earned by EPIC, which specializes in customized information technology solutions for customers in Manitoba and Saskatchewan. EPIC revenues are derived from product fulfillment, application development and managed services. This line of business will include our new EPIC data centre once it is up and running. Manitoba's first Tier 3 data centre is currently under construction. The facility's opening is scheduled for mid-2015.

Unified communications, security and monitoring services
Seamless integration
Revenues for this line of business are earned from the sale of MTS IP telephony products and services to business customers in Manitoba, along with our IP-based security offerings to national business customers. For certain customers, the ability to offer integrated security and equipment services is important for winning their business. This business line also includes revenues earned by AAA Security, which involves the installation and monitoring of alarm services to residential, business and industrial customers. To learn more about AAA Security, please visit www.aaasecure.ca.

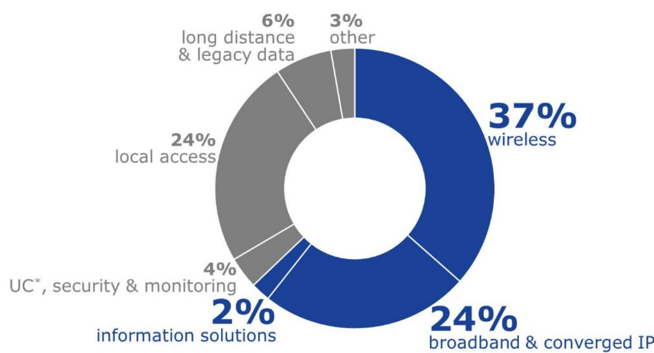
Local access services
Quality sets us apart
Our local access services include revenues earned from the sale of residential and business voice connectivity, including calling features (such as call answer, call display, call waiting and 3-way calling), payphone revenue, wholesale revenues from services provided to third parties and contribution revenues. The quality and reach of our local wireline connection remains a competitive differentiator in the success of our voice service operations.

Long distance and legacy data services
Enhanced services and features
Long distance and legacy data services enable residential and business customers in Manitoba to communicate with destinations outside their local exchange. Services include outbound long distance, toll-free services, calling cards, audio conferencing, and other services and features. Legacy data services support businesses in sharing information between multiple office locations by providing them with, and connecting them to, a local area network.

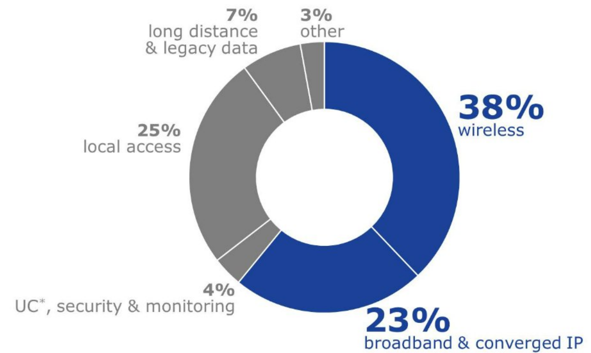
Other
Other services include revenues earned from intersegment transactions, customer late-payment charges, charges from the routing and exchange of long distance network traffic nationally and the sale and maintenance of terminal equipment such as telephone switches and hardware to business customers, both in Manitoba and nationally.

MTS FINANCIALS

2014 MTS revenue mix



2013 MTS revenue mix



*Unified communications

MTS operating revenues

($ millions)	**2014**	2013	% variance
Wireless services	**365.7**	375.3	(2.6)
Broadband and converged IP services	**241.9**	228.1	6.0
Information solutions	**22.4**	4.5	n.a.*
Unified communications, security and monitoring services	**36.9**	35.8	3.1
Local access services	**241.5**	251.9	(4.1)
Long distance and legacy data services	**65.8**	71.0	(7.3)
Other services	**27.6**	28.4	(2.8)
Total MTS operating revenues	**1,001.8**	995.0	0.7

*not applicable

MTS operating revenues *($ millions)*

Year	Value
2014	1,001.8
2013	995.0
2012	980.6
2011	963.8
2010*	942.0

*estimated

MTS EBITDA *($ millions)*

Year	Value
2014	472.0
2013	477.1
2012	477.5

2010 and 2011 EBITDA are not shown as they have not been amended for International Accounting Standard 19 (IAS 19).

EBITDA

MTS EBITDA has decreased due to declines in legacy revenues, wireless wholesale and voice revenues partly offset by cost reductions and growth in Internet, IPTV and wireless data revenues.

Wireless services

Wireless revenues *($ millions)*

Year	Value
2014	365.7
2013	375.3
2012	362.1
2011	356.3
2010*	328.3

*estimated

Wireless customers and ARPU

Year	Customers	ARPU
2014	506,586	$60.00 ARPU
2013	501,388	$62.26 ARPU
2012	497,367	$60.35 ARPU
2011	496,432	$59.66 ARPU
2010	483,754	$57.32 ARPU

Wireless revenues

($ millions)	2014	2013	% variance
Wireless voice and other revenues	**204.2**	224.4	(9.0)
Wireless data revenues	**149.2**	127.7	16.8
Wireless subscriber revenues	**353.4**	352.1	0.4
Wireless wholesale revenues	**12.3**	23.2	(47.0)
Total wireless revenues	**365.7**	375.3	(2.6)

Wireless voice and other revenues: the decrease was due to lower pricing in the competitive four-player Manitoba market, partly offset by an increase in the number of wireless subscribers.

Wireless data revenues: driven by strong demand for smartphones and corresponding data usage, which contributed to the increase in wireless data revenues.

In 2014, subscribers with data plans increased by 33,735 or 12.3%, reflecting the value of our feature-rich data plan offering and contributing to industry-leading post-paid churn of 0.96%. Currently, 74.0% of our growing post-paid subscriber base now has data plans. We also saw a 2.3% increase in wireless post-paid subscribers, a positive reflection of continued strong adoption and usage of smartphones and data applications.

Wireless wholesale revenues: wireless wholesale revenues continue to decline as other carriers move their customers from MTS's legacy CDMA network to their own networks. Revenues from CDMA roaming were down from $16.7 million in 2013, to $9.1 million in 2014 and are expected to be approximately $5 million in 2015.

Wireless subscriber statistics

	2014	2013	% variance
Post-paid subscribers with data plans	**308,767**	275,032	12.3
Total post-paid subscribers	**417,186**	407,772	2.3
Pre-paid subscribers	**63,941**	68,379	(6.5)
Total subscribers	**481,127**	476,151	1.0
Other customers	**25,459**	25,237	0.9
Total wireless customers	**506,586**	501,388	1.0

Wireless ARPU statistics

	2014	2013	% variance
Subscriber data ARPU	**$24.73**	$21.44	15.3
Subscriber cellular ARPU	**$33.23**	$36.93	(10.0)
Subscriber ARPU	**$57.96**	$58.37	(0.7)
Other ARPU	**$2.04**	$3.89	(47.6)
Blended wireless ARPU	**$60.00**	$62.26	(3.6)

Other wireless statistics

(percentage)	2014	2013
Post-paid churn (excluding wholesale)	**0.96**	0.99
Blended churn	**1.63**	1.67
Penetration rate	**79.0**	78.0

Broadband and converged IP services

Broadband and converged IP revenues

($ millions)	**2014**	2013	% variance
Internet revenues	**128.5**	117.7	9.2
IPTV revenues	**85.2**	82.0	3.9
Converged IP revenues	**28.2**	28.4	(0.7)
Total broadband and converged IP revenues	**241.9**	228.1	6.0

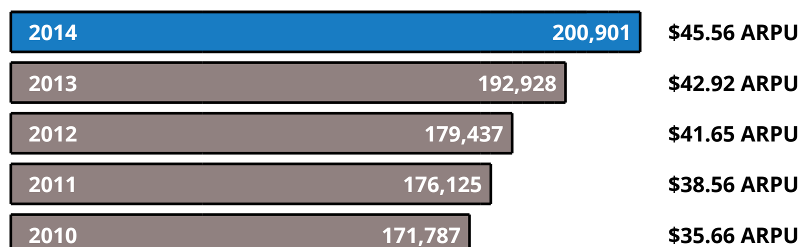
Internet revenues: increased due to 4.3% growth in high-speed Internet subscribers and greater average revenue per user ("ARPU") resulting from price increases and customers taking higher-speed Internet services, partly offset by a higher proportion of subscribers receiving promotional pricing.

IPTV revenues: increased resulting from an increase in new IPTV customers, Classic TV subscribers migrating to higher-ARPU MTS Ultimate TV® and a price increase, partly offset by a greater number of customers receiving promotional pricing. Subscriber statistics include a 10.0% increase in higher-ARPU MTS Ultimate TV® subscribers, mostly due to lower-ARPU Classic TV subscribers migrating to MTS Ultimate TV®. Our superior product enables us to maintain our market share and industry-leading low churn rates. As at December 31, 2014, 90.8% of our growing IPTV customer base subscribed to our premium IPTV service - MTS Ultimate TV®.

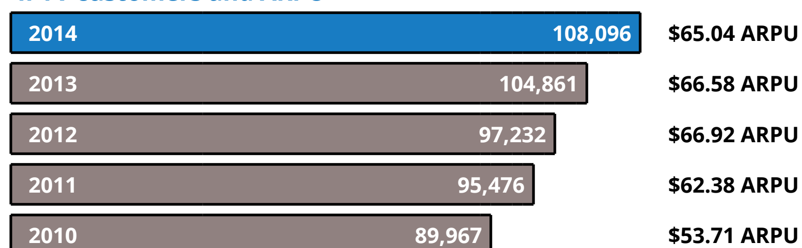
Broadband and converged IP revenues *($ millions)*

*estimated

Residential HSI customers and ARPU



IPTV customers and ARPU



Internet statistics

	2014	2013	% variance
Dial-up Internet subscribers	**5,086**	6,390	(20.4)
Business high-speed Internet subscribers	**16,447**	15,403	6.8
Residential high-speed Internet subscribers	**200,901**	192,928	4.1
Total Internet subscribers	**222,434**	214,721	3.6

Television statistics

	2014	2013	% variance
Ultimate TV subscribers	**98,129**	89,223	10.0
Classic TV subscribers	**9,967**	15,638	(36.3)
Total IPTV subscribers	**108,096**	104,861	3.1
Other TV subscribers	**3,932**	4,224	(6.9)
Total TV subscribers	**112,028**	109,085	2.7
IPTV ARPU	**$65.04**	$66.58	(2.3)

Information solutions

Information solutions revenues

($ millions)	2014	2013	% variance
Information solutions revenues	**22.4**	4.5	n.a.*

*not applicable

EPIC was acquired in September 2013 and has performed as expected, providing $22.4 million in revenues in 2014. This line of business will eventually include revenues generated by MTS's new data centre when it opens in mid-2015. It will be the only custom-built commercial data centre of this size in Manitoba, enabling customers to securely host IT equipment.

Unified communications, security and monitoring services

Unified communications, security and monitoring revenues

($ millions)	2014	2013	% variance
Unified communications revenues	**24.0**	23.1	3.9
Security and monitoring revenues	**12.9**	12.7	1.6
Total unified communications, security and monitoring revenues	**36.9**	35.8	3.1

The increase in unified communications revenues in 2014 reflect greater hardware sales. Security and monitoring service revenues increased over 2013, reflecting increased alarm monitoring revenue.

Local access services

Local access revenues

($ millions)	2014	2013	% variance
Local access revenues	**241.5**	251.9	(4.1)

Local access statistics

	2014	2013	% variance
Residential network access services lines	**259,059**	274,557	(5.6)
Business network access services lines	**208,801**	212,276	(1.6)

Local access service revenues were down in 2014, reflecting a combination of declines in residential local access lines resulting from wireless substitution and a reduction in business local access lines.

Long distance and legacy data revenues

($ millions)	2014	2013	% variance
Long distance revenues	**36.7**	40.4	(9.2)
Legacy data revenues	**29.1**	30.6	(4.9)
Total long distance and legacy data revenues	**65.8**	71.0	(7.3)

Long distance and legacy data services

Long distance revenues were down, due to customer migration to lower-priced long distance plans and reduced volumes, as customers continue to replace long distance calling with alternative methods of communication, such as email, text messaging and social networking. This ongoing trend is expected to continue, but with only 3.7% of MTS revenues being generated by long distance services, this decline is having an increasingly negligible impact on the Company.

Legacy data revenues decreased as customers continue to migrate towards MTS's converged IP services.

DISCUSSION of OPERATIONS – ALLSTREAM

Allstream has five lines of business, each of which is described below. The following pages then provide an analysis of the results for each line of business, on an annual basis.

Converged IP services

Demand for on-net IP services continues to drive sales. It is the core of what we do for Canadian businesses

Converged IP services include revenues earned from the provision of IP-based networking and related products and services to business customers nationally. Allstream's Business IP virtual private network ("VPN") service provides business organizations with a connectivity solution that enables growth and expansion to any location, while reducing costs and increasing productivity. Our IP network allows us to offer a full suite of secure, reliable IP connectivity options, which include IP-VPN, Wavelength, Switched Ethernet, IP Trunking, Dedicated Internet Access and Managed Network Services. To read more about our national IP fibre network services, please visit www.allstream.com/products/ip-connectivity/.

Unified communications, hosting and security services

Helping customers share vital data and expertise

Unified communications, hosting and security services include revenues earned from the provision of IP-related telephony products and services, along with revenues from IP-based security offerings to national business customers.

Local access services

Keeping your business properly connected

Local access services include revenues earned for the provision of business voice connectivity, including calling features, to national business and wholesale customers.

Long distance and legacy data services

Providing telecommunications links to the people you need to stay in touch with - wherever they are

Long distance and legacy data services include revenues earned from the provision of long distance calling, along with legacy data services such as private line networks, to business customers nationally.

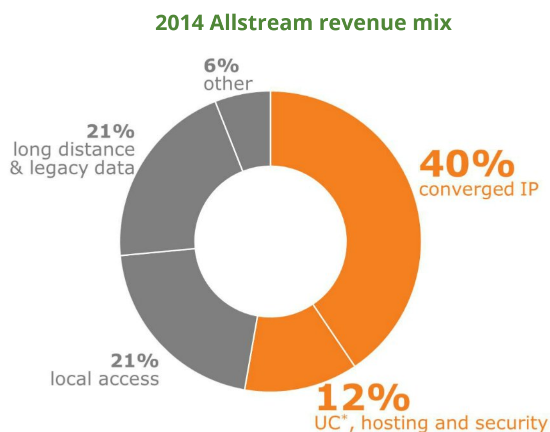
Other

Offering easy access and reliable service

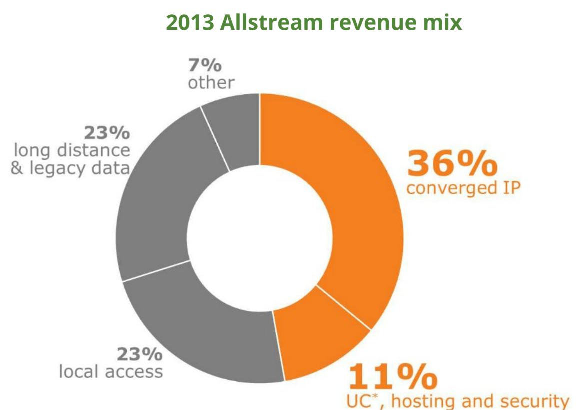
Other services include revenues earned from MTS, the routing and exchange of wholesale long distance network traffic, customer late-payment charges and other miscellaneous items.

ALLSTREAM FINANCIALS

2014 Allstream revenue mix



2013 Allstream revenue mix



*Unified communications

Allstream operating revenues

($ millions)	2014	2013	% variance
Converged IP services	261.3	241.9	8.0
Unified communications, hosting and security services	78.5	76.0	3.3
Local access services	133.7	154.7	(13.6)
Long distance and legacy data services	132.1	155.5	(15.0)
Other services	38.5	45.5	(15.4)
Total Allstream operating revenues	644.1	673.6	(4.4)

Allstream operating revenues *($ millions)*

Year	Revenue
2014	644.1
2013	673.6
2012	758.2
2011	825.7
2010*	864.3

estimated

Allstream EBITDA *($ millions)*

Year	EBITDA
2014	99.5
2013	81.5
2012	109.2

2010 and 2011 EBITDA are not shown as they have not been amended for International Accounting Standard 19 (IAS 19).

EBITDA

In 2014, Allstream EBITDA was up from 2013 due to transaction and restructuring costs which were incurred in 2013. The following table adjusts 2013 EBITDA for transaction and restructuring costs.

($ millions)	2014	2013	% variance
Allstream EBITDA	99.5	81.5	22.1
Add back transaction and restructuring costs	—	25.8	n.a.*
Adjusted Allstream EBITDA for the year	99.5	107.3	(7.3)

not applicable

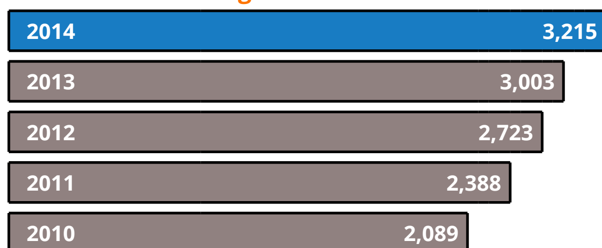
Adjusted Allstream EBITDA was down due to legacy revenue declines, partly offset by growth in converged IP revenues and decreased operations expense due to efficiency programs.

Converged IP services

Converged IP revenues *($ millions)*

Year	Revenue
2014	261.3
2013	241.9
2012	243.6
2011	239.8
2010*	219.5

estimated



Converged IP statistics

($ millions, unless otherwise stated)	**2014**	2013	% variance
Converged IP revenues	**261.3**	241.9	8.0
Cost of goods sold	**70.0**	60.2	(16.3)
Gross margin	**191.3**	181.7	5.3
Gross margin percentage	**73.2%**	75.1%	(1.9) pts
Fibre-fed buildings (#)	**3,215**	3,003	7.1

Converged IP revenues grew over 2013, reflecting an increase in the number of customers connecting to Allstream's IP network. Our Shared Services Canada contract circuit installations are nearly 85% complete. In 2014, the Shared Services Canada contract contributed $8.1 million in revenues, and will eventually represent $1.4 million of monthly recurring revenues once all circuits are fully installed. About half of the decrease in the gross margin percentage in 2014 when compared to 2013, is due to the lower-margin Share Services Canada contract.

We are also having success with installations pertaining to subsequent sales into already-connected buildings, which were up 29.1% in 2014, when compared to last year.

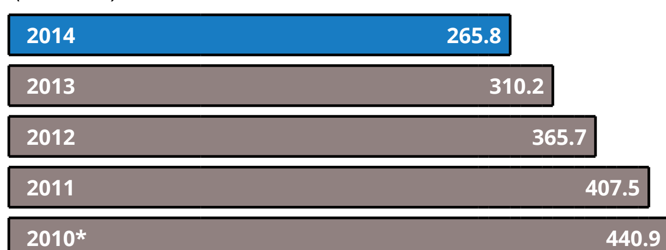
Unified communications, hosting and security services

Unified communications, hosting and security statistics

($ millions, unless otherwise stated)	**2014**	2013	% variance
Unified communications revenues	**55.7**	56.0	(0.5)
Hosting revenues	**18.5**	15.8	17.1
Security revenues	**4.3**	4.2	2.4
Total unified communications, hosting and security revenues	**78.5**	76.0	3.3
Cost of goods sold	**56.7**	55.7	(1.8)
Gross margin	**21.8**	20.3	7.4
Gross margin percentage	**27.8%**	26.7%	1.1 pts

Unified communications, hosting and security service revenues increased mainly due to an increase in hosted cloud and service contract revenue.

Legacy services



*estimated

Local access

($ millions, unless otherwise stated)	2014	2013	% variance
Local access revenues	133.7	154.7	(13.6)
Cost of goods sold	49.5	58.2	14.9
Gross margin	84.2	96.5	(12.7)
Gross margin percentage	63.0%	62.4%	0.6 pt

Local access revenues declined, mainly due to our decision to exit from low-margin resold business lines.

Long distance and legacy data

($ millions, unless otherwise stated)	2014	2013	% variance
Long distance revenues	66.7	76.7	(13.0)
Legacy data revenues	65.4	78.8	(17.0)
Total long distance and legacy data revenues	132.1	155.5	(15.0)
Cost of goods sold	50.7	55.0	7.8
Gross margin	81.4	100.5	(19.0)
Gross margin percentage	61.6%	64.6%	(3.0) pts

Revenues from long distance services decreased, mainly due to reduced volumes and rates. The legacy data revenue decrease was due to a combination of competitive churn, customer migration to IP-based services and re-pricing of services. Allstream continues to implement its strategy of improving profitability by reducing costs and transitioning customers to IP-based service.

SELECTED ANNUAL and QUATERLY FINANCIAL INFORMATION

Selected annual information - consolidated

($ millions, except EPS and cash dividends declared per share)	2014	2013	2012
Operating revenues	1,612.0	1,633.7	1,704.1
Net income (loss)	131.7	(84.4)	144.5
Total assets	2,688.0	2,682.4	2,731.8
Total long-term debt, including current portion	873.1	923.1	921.9
Basic and diluted EPS	$1.70	(1.24)	$2.17
Cash dividends declared per share	$1.70	$1.70	$1.70

Over the past three years, operating revenues have reflected improvements in our strategic growth areas, which include wireless, high-speed Internet, IPTV, converged IP, and information solutions, offset by declines in legacy telecommunications services. Revenues from strategic lines of business now represent 55% of total consolidated revenues.

Net income and EPS for 2013 decreased due to the pension plan decision costs, the write-down of Allstream assets and transaction and restructuring costs.

Total assets for 2013 decreased mostly due to the write-down of Allstream’s long term assets. Long-term debt declined between 2013 and 2014 due to the repayment of a $275 million medium-term note, offset by the issuance of $225 million medium-term note.

The Board declared the quarterly dividends of $0.425 per outstanding common share for each quarter from 2012 to 2014.

Selected quarterly information – consolidated

($ millions, except EPS and weighted average shares outstanding)	**Q4 2014**	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Operating revenues	**404.8**	402.4	403.3	401.5	408.5	408.4	410.1	406.7
EBITDA	**135.7**	140.1	142.5	147.6	128.0	142.7	132.0	148.6
Net (loss) income	**24.2**	36.8	28.8	41.9	(87.8)	25.4	(52.9)	30.9
EPS	**$0.31**	$0.47	$0.37	$0.54	($1.25)	$0.38	($0.78)	$0.46
Weighted average shares outstanding[1] *(in millions)*	**78.1**	77.7	77.4	77.1	70.3	67.7	67.5	67.2

[1] The increase in the number of weighted average shares outstanding since Q4 2013 are due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program. The increase in the number of weighted average shares outstanding in previous quarters is due to participation in our dividend re-investment program.

Our 2014 performance at both MTS and Allstream is reflected in our financial results. Our interim financial results for the last eight quarters (Q4 2014 to Q1 2013) reflect the following significant transactions and trends:

- **SR&ED ITC recovery adjustments** – In Q3 2014 and Q1 2014, we realized positive SR&ED ITC recovery adjustments which impacted EPS by $0.11 in Q3 2014 and by $0.12 in Q1 2014 by reducing depreciation and amortization expense. The Q1 2014 SR&ED ITC recovery constitutes the net adjustment relating to four taxation years, ending December 31, 2011. The Q3 2014 SR&ED ITC adjustment reflects the final asset allocations to which the ITCs relate.

- **700 MHz spectrum** – In Q1 2014, MTS acquired a prime block of 700 MHz spectrum in an Industry Canada 700 MHz auction for $8.9 million in total, enhancing MTS's capability to add more high-speed data capacity and support advanced wireless services.

- **Equity issuance** – On December 6, 2013 (Q4 2013), we announced that we had closed our previously-announced issuance of 8,855,000 common shares, issued at a purchase price of $28.10 per common share, for gross proceeds of $248.8 million. The net proceeds were approximately $238 million, determined after deducting the underwriters' commission and expenses. The Company used a total of $55 million of the net proceeds to make a pre-funded solvency payment into its pension plans. In addition, the Company used $70 million of the proceeds to repay the short-term debt incurred in February 2013 to pre-fund the pension plans.

- **Costs related to SCC's ruling** – In Q4 2013, the Company recorded a $142.1-million non-cash charge against income in Q4 2013, to reflect the total estimated value of pension benefits and other estimated costs related to the SCC's ruling on a lawsuit regarding the administration of one of MTS's pension plans following the Company's 1997 privatization. The SCC's decision negatively impacted Q4 2013 EPS by $1.48. IFRS required that the Company treat this ruling as a past service cost, to be expensed immediately, regardless of the timing of any potential cash flow impact.

- **Allstream** – As a result of the proposed sale of Allstream last year, we recorded after-tax impairment charges of $16.7 million or $0.24 per share and $79.2 million or $1.17 per share in Q3 2013 and Q2 2013, respectively. These accounting adjustments do not affect cash and are required by IFRS. We also incurred a combination of non-recoverable, transaction and restructuring costs associated with the proposed sale of Allstream amounting to $13.5 million, $8.8 million and $12.9 million in Q4 2013, Q3 2013 and Q2 2013, respectively. Additionally, IFRS does not allow assets held for sale to be amortized while classified as held for sale, resulting in lower depreciation and amortization expense of $22.2 million and $9.3 million in Q3 2013 and Q2 2013, respectively.

- **Strategic services revenue growth** – Over the last eight quarters, operating revenues reflected growth in revenues from strategic services and declines in revenues from legacy services. We have seen an increase in demand for wireless data, IP-based services, high-speed Internet and feature-rich MTS Ultimate TV®.

- **Cost structure improvements** – Over the past several years, we have continued to improve our cost structure through headcount reductions, real estate consolidation and supplier negotiations resulting in substantial cost savings that have offset inflationary pressures, and costs associated with the growth of certain lines of business.

Fourth quarter in review

Fourth-quarter financial results – consolidated

($ millions, except EPS)	Q4 2014	Q4 2013	% variance
Revenues	**404.8**	408.5	(0.9)
EBITDA	**135.7**	128.0	6.0
Earnings per share[1]	**$0.31**	$(1.25)	n.a.*
Capital expenditures	**81.8**	87.7	6.7
Free cash flow	**20.1**	3.6	n.a.*

[1] EPS is based on weighted average shares outstanding of 78.1 million and 70.3 million for the three months ended December 31, 2014 and December 31, 2013, respectively. The increase in the number of weighted average shares outstanding is due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program.
**not applicable*

Revenues
Fourth-quarter consolidated revenues were down from 2013. The decline was attributed to declines in legacy lines of business, partially offset by growth in wireless data, broadband, converged IP and information solutions.

EBITDA
Fourth-quarter EBITDA increased from 2013, mainly due to restructuring and transaction-related costs amounting to $13.5 million in Q4 2013.

Net income and EPS
Net income and EPS were up from Q4 2013 due to pension plan decision costs, as well as transaction and restructuring costs.

Capital expenditures
Capital expenditures decreased from Q4 2014 mainly due to the timing of capital projects over the year.

Free cash flow
Free cash flow increased from Q4 2013 mainly due to a combination of higher EBITDA resulting from transaction and restructuring costs relating to the proposed Allstream sale recorded in 2013, and lower capital expenditures and finance costs in 2014.

Consolidated free cash flow

($ millions)	MTS[1]		Allstream		Consolidated		
	Q4 2014	Q4 2013	Q4 2014	Q4 2013	Q4 2014	Q4 2013	% variance
EBITDA	**113.4**	113.6	**22.3**	14.4	**135.7**	128.0	6.0
Add back (deduct):							
Other income (expense)	**1.6**	(0.4)	**(3.3)**	(0.6)	**(1.7)**	(1.0)	(70.0)
Finance costs	**(15.0)**	(17.4)	**(0.4)**	(2.8)	**(15.4)**	(20.2)	23.8
Current cash income tax recovery	**—**	0.4	**—**	0.1	**—**	0.5	n.a.*
Loss on disposal of assets	**0.4**	0.2	**3.2**	1.0	**3.6**	1.2	n.a.*
Deferred wireless costs	**(23.8)**	(21.2)	**—**	—	**(23.8)**	(21.2)	(12.3)
Pension funding and net pension expense	**2.7**	2.6	**0.8**	1.6	**3.5**	4.2	16.7
Other operating activities, net	**(0.3)**	(0.2)	**0.3**	—	**—**	(0.2)	n.a.*
Capital expenditures, net of SR&ED ITCs	**(58.8)**	(61.4)	**(23.0)**	(26.3)	**(81.8)**	(87.7)	6.7
Free cash flow for the period	**20.2**	16.2	**(0.1)**	(12.6)	**20.1**	3.6	n.a.*

[1] MTS includes MTS and Other
**not applicable*

MTS fourth-quarter operating revenues

($ millions)	**Q4 2014**	Q4 2013	% variance
Wireless services	**91.4**	93.6	(2.4)
Broadband and converged IP services	**62.0**	59.0	5.1
Information solutions services	**5.1**	3.4	50.0
Unified communications, security and monitoring services	**9.9**	12.0	(17.5)
Local access services	**59.7**	59.7	—
Long distance and legacy data services	**15.9**	17.4	(8.6)
Other services	**7.0**	6.3	11.1
Total MTS operating revenues	**251.0**	251.4	(0.2)

**not applicable*

MTS fourth-quarter financial highlights

Wireless services

Wireless revenues at MTS decreased from Q4 2013 due to declines in revenues from wireless voice and wholesale wireless, partly offset by strong growth in subscriber data revenues. When you remove the impact of declining wholesale roaming revenues (declined by $3.2 million from Q4 2013), wireless revenues increased by 1.1% which was attributed to strong growth in wireless data.

Broadband and converged IP services

Revenues for broadband and converged IP were up from Q4 last year largely due to higher subscriber counts and price increases.

Information solutions

Revenues for information solutions were up from Q4 last year largely due to increased resale revenues.

Unified communications

The decrease in unified communications in Q4 2014 from Q4 2013 is a result of lower hardware sales.

Allstream fourth-quarter operating revenues

($ millions)	**Q4 2014**	Q4 2013	% variance
Converged IP services	**68.0**	61.6	10.4
Unified communications, hosting and security services	**22.2**	20.0	11.0
Local access services	**31.9**	37.1	(14.0)
Long distance and legacy data services	**31.3**	35.9	(12.8)
Other services	**8.2**	11.7	(29.9)
Total Allstream operating revenues	**161.6**	166.3	(2.8)

Allstream fourth-quarter financial highlights

Converged IP services

Converged IP services revenues increased from 2013 reflecting an increase in the number of customers connecting to Allstream's IP network. We are also having success with installations pertaining to subsequent sales into already-connected buildings, which were up 29.1% in 2014, when compared to last year.

LIQUIDITY and CAPITAL RESOURCES

SUMMARY of CASH FLOWS

($ millions)	2014	2013	% variance
Cash flows from (used in):			
Operating activities	396.9	306.7	29.4
Investing activities	(305.1)	(306.1)	0.3
Financing activities	(146.2)	99.8	n.a.*
Change in cash and cash equivalents for the year	(54.4)	100.4	n.a.*

*not applicable

Operating activities

"Cash flows from operating activities" refers to cash we generate from our business activities.
Cash flows from operating activities increased mainly due to $125.0-million pre-funded pension solvency payments made in 2013, partly offset by decreased cash from working capital in 2014.

Investing activities

"Investing activities" refers to cash used for acquiring, and cash received from disposing of, long-term assets and other long-term investments.
Cash flows used in investing activities decreased slightly from 2013. In 2014 we acquired wireless spectrum, partly offset by the acquisition of EPIC in Q3 2013. Capital expenditures when adjusted for the $23.6-million SR&ED ITCs recorded in 2014 were higher year over year, which is consistent with the Company's 2014 plans to allow for investment in growth and strategic initiatives in both subsidiaries.

Financing activities

"Financing activities" refers to actions we undertake to fund our operations through equity capital and borrowings.
Cash flows used in financing activities increased mainly due to the cash received in 2013 from our share issuance.

In each quarter of 2014 and 2013, cash dividends of $0.425 per common outstanding share were paid to shareholders, as approved by the Board. The cash cost of these dividends increased in 2014 due to the issuance of common shares in December 2013. In the third quarter of 2010, we established a dividend re-investment program ("DRIP") with a 3% discount, which enables eligible holders of the Company's common shares to automatically re-invest their regular quarterly dividends in additional common shares of the Company without incurring brokerage fees. The 2014 participation in our DRIP was 28.6%, which resulted in $37.5 million additional cash available from financing activities.

Consolidated free cash flow	MTS[1]		Allstream		Consolidated		
($ millions)	2014	2013	2014	2013	2014	2013	% variance
EBITDA	466.4	469.8	99.5	81.5	565.9	551.3	2.6
Add back (deduct):							
Other income (expense)	2.1	—	(4.6)	(0.8)	(2.5)	(0.8)	n.a.*
Finance costs	(64.0)	(74.8)	(1.9)	(6.3)	(65.9)	(81.1)	18.7
Current cash income tax (expense) recovery	(0.2)	0.4	—	0.1	(0.2)	0.5	n.a.*
Loss on disposal of assets	1.0	0.9	5.0	2.2	6.0	3.1	(93.5)
Deferred wireless costs	(71.1)	(72.2)	—	—	(71.1)	(72.2)	1.5
Pension funding and net pension expense	11.1	17.5	0.8	(0.6)	11.9	16.9	29.6
Other operating activities, net	(1.3)	(0.4)	—	(0.3)	(1.3)	(0.7)	(85.7)
Capital expenditures, net of SR&ED ITCs	(187.9)	(197.4)	(100.4)	(98.6)	(288.3)	(296.0)	2.6
Free cash flow for the year	156.1	143.8	(1.6)	(22.8)	154.5	121.0	27.7

[1]*MTS includes MTS and Other*
* *not applicable*

Free cash flow

After excluding the impact of the $23.6-million SR&ED ITCs recorded in 2014, consolidated free cash flow was up mainly due to increased EBITDA and lower finance costs.

CAPITAL MANAGEMENT

We have arrangements in place that allow us to access the debt capital markets for funding when required. Borrowings under these facilities typically are used to re-finance maturing debt, to fund new initiatives and to manage cash flow fluctuations.

Credit facilities

($ millions)	Utilized at December 31, 2014	Capacity
Medium-term note program	225.0	500.0
Revolving credit facility	57.9	400.0
Additional credit facilities	298.1	300.0
Accounts receivable securitization	—	110.0
Total	581.0	1,310.0

We renewed our medium-term note ("MTN") program on September 30, 2013 for $500.0 million. On May 26, 2014 we issued $225.0 million of 4.0% MTNs under this program with a maturity date of May 27, 2024. We have a $400.0-million revolving credit facility, of which we had utilized $57.9 million at December 31, 2014 for undrawn letters of credit. We also have two additional credit facilities totalling $300 million, which are used solely for the issuance of letters of credit. As at December 31, 2014, a total of $298.1 million was utilized for undrawn letters of credit. In addition to these programs and facilities, we have a $110.0-million accounts receivable securitization program, which was not utilized as at December 31, 2014.

Capital structure

($ millions)	December 31, 2014	December 31, 2013
Cash and equivalents	(33.4)	(87.8)
Long-term debt, including current portion	873.1	923.1
Net debt	839.7	835.3
Shareholders' equity	1,052.3	1,092.7
Total capitalization	1,892.0	1,928.0
Debt to capitalization	44.4%	43.3%

Our capital structure illustrates the amount of our assets that is financed by debt versus equity. Our debt to total capitalization ratio of 44.4% at December 31, 2014 continues to represent financial strength and flexibility.

Credit ratings

S&P - Senior debentures	BBB (stable)	DBRS - Senior debentures	BBB (stable)
S&P - Commercial paper	A-2	DBRS - Commercial paper	R-2 (high)

Two leading rating agencies, Standard & Poor's ("S&P") and DBRS Limited ("DBRS"), analyze us and assign ratings based on their assessments. We consistently have been assigned solid investment-grade credit ratings. On March 5, 2014, S&P confirmed its credit ratings on our long-term corporate credit and senior unsecured debt at "BBB", and also confirmed our commercial paper rating of "A-2". S&P also confirmed its outlook as stable. DBRS confirmed its ratings on May 27, 2014, with our senior debentures at "BBB" and our commercial paper rating of "R-2 (high)". DBRS's outlook remained stable.

Pensions

Supreme Court of Canada decision

The Company is continuing to implement the settlement agreement reached with its MTS unions and retiree representatives, which was previously announced by the Company on September 24, 2014 and approved by the Manitoba Court of Queen's Bench on November 3, 2014. The settlement agreement provides for the distribution of $140 million plus interest at a rate of 2% per annum from July 1, 2014 to November 3, 2014, with approximately $28 million paid by the Company directly to MTS employees who are members of the Manitoba Telecom Services Inc. and Participating Subsidiaries Employee Pension Plan (the "MTS Plan") and approximately $112 million distributed from the MTS Plan to retirees and other persons with interests in the MTS Plan. In 2014 an initial distribution of $15.0 million was paid by the Company and $39.9 million was paid by the MTS Plan. The remaining distribution to MTS employees will be paid directly from the Company on February 6, 2015, while the remaining payments from the MTS Plan to retirees and the majority of other persons with interests in the MTS Plan are also being distributed during the week of February 6.

Solvency deficiency

During 2014, the Company's pension plans performed strongly and generated an average return exceeding 10%. However, falling interest rates have increased the Company's solvency deficit from $206 million at January 1, 2014 to an estimated $395 million at January 1, 2015.

Outstanding share data

	As at January 26, 2015	As at December 31, 2014
Common shares outstanding	78,490,224	78,123,392
Stock options outstanding	1,919,744	2,176,774
Stock options exercisable	1,848,430	2,105,460

Contractual obligations

($ millions)	Less than one year	1-2 years	2-3 years	3+ years	Total
Long-term debt	—	250.0	—	625.0	875.0
Operating leases	58.2	52.5	48.0	214.0	372.7
Purchase obligations	171.0	160.9	34.5	34.6	401.0
Total	229.2	463.4	82.5	873.6	1,648.7

FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET ARRANGEMENTS and OTHER FINANCIAL ARRANGEMENTS

Foreign currency forward contracts

We use foreign currency forward contracts to manage the foreign currency exposure. These instruments hedge anticipated transactions and are not recorded on our balance sheet. As at December 31, 2014, we did not have any outstanding foreign currency forward contracts. During the year ended December 31, 2014, we did not have any income or expense relating to the adjustment of outstanding foreign currency forward contracts to fair value.

Accounts receivable securitization

Under the terms of our accounts receivable securitization program, we have the ability to sell, on a revolving basis, an undivided interest in our accounts receivable to a securitization trust, to a maximum of $110.0 million. We are required to maintain reserve accounts, in the form of additional accounts receivable over and above the cash proceeds received, to absorb any credit losses on the receivables sold. We are required to maintain certain financial ratios with respect to our accounts receivable, or the cash proceeds must be repaid. We also are subject to certain risks of default which, should they occur, could cause the agreement to be terminated early. As at December 31, 2014, we had no amounts outstanding under our accounts receivable securitization program.

CRITICAL ACCOUNTING ESTIMATES and ASSUMPTIONS

The preparation of our consolidated financial statements in accordance with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We make these estimates and assumptions based on reasonable methodologies, established processes and comparisons to industry standards. We continuously evaluate these estimates and assumptions, which rely on the use of professional judgment. Because professional judgment involves inherent uncertainty, actual results could differ from our estimates. Each of the accounting estimates and assumptions identified below affects both of our operating segments, except for the estimates relating to our deferred tax assets, which affect our company on a consolidated basis only. Our estimates, assumptions and methods have been applied consistently.

Valuation of accounts receivable

As we expect that a certain portion of receivables from customers will not be collected, we maintain an allowance for doubtful accounts. If circumstances related to specific customers change, economic conditions change or actual results differ from expectations, our estimate of the recoverability of receivables could fluctuate from that provided for in the consolidated financial statements. A change in our estimate could impact bad debt expense and accounts receivable.?

Useful lives of property, plant and equipment

Property, plant and equipment are amortized on a straight-line basis over their estimated period of future benefit. We review these estimates on an annual basis, or more frequently if events during the year indicate that a change may be required. Consideration is given to technological obsolescence, competitive pressures and other relevant business factors. A change in our estimate could impact depreciation expense and the carrying value of property, plant and equipment.

Useful lives of definite-life intangible assets
Intangible assets with a definite useful life are depreciated on a straight-line basis over their estimated period of future benefit. We review these estimates on an annual basis, or more frequently, if events during the year indicate that a change may be required. Consideration is given to customer churn, industry standards and other relevant business factors. A change in estimate could impact amortization expense and the carrying value of definite-life intangible assets.

Goodwill and indefinite-life intangible assets
Goodwill and indefinite-life intangible assets are tested for recoverability on an annual basis, or earlier when events or changes in circumstance indicate that the carrying value might not be recoverable. The recoverable amount of each cash-generating unit is determined based on value in use calculations. These calculations require the use of estimates, including our expectations of revenues and operating costs, and assumptions of growth rates. A change in our estimates could impact the carrying value of goodwill and indefinite-life intangible assets.

Non-financial assets with finite useful lives
Non-financial assets with finite useful lives include property, plant and equipment and intangible assets. We test the recoverability of non-financial assets with finite useful lives when events or changes in circumstances indicate that the carrying value might not be recoverable. The recoverable amount of each cash-generating unit to which the asset is allocated is determined based on value in use calculations. These calculations require the use of estimates, including management's expectations of revenues and operating costs, and assumptions on discount and growth rates. A change in estimates could impact the carrying value of property, plant and equipment and intangible assets.

Deferred tax assets
We have deferred tax assets resulting from net operating loss carry-forwards and deductible temporary differences, which, to the extent utilized, will reduce future taxable income. Realization of these deferred tax assets is dependent on our ability to utilize the underlying future deductions against future taxable income. In assessing the carrying value of the deferred tax assets, we make estimates and assumptions of future taxable income using internal management projections, the carry-forward period associated with the deferred tax assets, the nature of income that may be used to realize the deferred tax assets, future tax rates, and ongoing audits by the Canada Revenue Agency ("CRA"). A change in our assessment of any of these factors could affect the value of our deferred tax asset and related income tax expense.

Decommissioning provisions
When recognizing decommissioning provisions, we are required to make estimates of the probability of retiring assets, the timing and amount of retirement costs and the discount factor applied to determine fair value. Our estimates of probability and of the timing and amount of costs are subject to change, and are reviewed annually or more frequently if events during the year indicate that a change may be required.

Employee benefits
We provide pension, supplemental pension and other non-pension post-employment benefits to our employees. The determination of benefit expense and benefit obligation associated with post-employment benefits requires the use of certain actuarial and economic assumptions, such as the discount rate to measure defined-benefit obligations, expected future salary increases and future mortality rates. A change in estimate or assumptions could affect benefit cost and the present value of the defined-benefit obligation.

CHANGES in ACCOUNTING POLICIES

Changes in accounting policies
Our consolidated financial statements have been prepared using the same accounting policies as in the previous year except for the standard adopted in 2014 described below:

IFRIC 21 *Levies*
Effective January 1, 2014, the Company adopted International Financial Reporting Interpretations Committee 21, *Levies*. This standard, which has been adopted and applied in these consolidated financial statements, provides guidance on when to recognize a liability for a levy imposed by a government other than those payments within the scope of another standard. The application of this standard has been implemented retroactively and has not had any impact on the amounts reported for the current or prior period.

ACCOUNTING STANDARDS ISSUED but not yet EFFECTIVE
We have not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but are not effective. The following is an overview of the accounting standards and interpretations that we will be required to adopt in future years:

IFRS 9, *Financial Instruments*
In July 2014, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9, *Financial Instruments,* which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39. The new standard introduces new classification and measurement requirements for asset and liabilities, and a new, expected loss impairment model that will require more timely recognition of expected credit losses for financial instruments. Entities will also be required to have additional disclosure to provide information that explains the basis for their expected credit loss calculations and how they measure expected credit losses and assess changes in credit risk. The standard also introduces a new hedge accounting model that aligns the accounting treatment with risk management activities. IFRS 9 is effective for annual periods beginning on January 1, 2018, and is to be applied retrospectively, with earlier application permitted. We are currently evaluating the impact of the above standard on our financial statements.

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15, *Revenue from Contracts with Customers,* issued by the IASB in May 2014, supersedes IAS 18, *Revenues*, IAS 11, *Construction Contracts* and a number of revenue-related interpretations. The core principle of the new standard is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is applicable to all revenue contracts with customers and also provides a model for the recognition and measurement of gains or losses from sales of some non-financial assets. It also requires enhanced disclosures as to the nature, timing and uncertainty of revenues and cash flows arising from contracts with customers.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017 and is to be applied retrospectively, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. We are currently evaluating the impact of the above standard on our financial statements.

REGULATORY DEVELOPMENTS

BACKGROUND
MTS and Allstream are subject to regulations that materially impact how they can conduct business. The telecommunications and broadcast industries in which we operate are federally regulated, pursuant to both the *Telecommunications Act* and the *Broadcasting Act*. We are also subject to other federal and provincial regulations that shape how we conduct our business.

MTS operates as an incumbent local exchange carrier whose telecommunications business is regulated primarily by the CRTC and by Industry Canada in areas such as spectrum or ownership. MTS's television business is licensed as a broadcasting distribution undertaking (known as a "BDU"), which is subject to a different regulatory regime. Allstream operates as a competitive local exchange carrier, which means it is generally subject to less regulation than MTS. However, as a competitive carrier, Allstream is materially reliant on regulation. This allows Allstream to have mandated access to incumbent carriers' networks in order to complete its "last mile" connections in those customer locations that are some distance from Allstream's own network facilities.

This regulatory section describes recent developments relating to regulatory and policy proceedings that could materially impact both subsidiaries. Several years ago, the regulatory trend was towards more "forbearance" - meaning telecommunications services were subject to less regulation. Recently, we are seeing an accelerated pace of regulation by federal and provincial governments, as well as increasing intervention by the CRTC, Industry Canada and other regulatory bodies. We are facing a more dynamic environment, which is presenting both new risks and opportunities for each subsidiary.

We mitigate our risks and try to maximize opportunities by actively participating in regulatory and policy proceedings. Having both an incumbent and a competitive network provides us with a unique regulatory voice. We leverage this unique position to drive competition for Canadians, while at the same time benefiting our shareholders.

Developments impacting MTS
Wireless roaming
In late 2013 and early 2014, the CRTC initiated various proceedings to evaluate the competitiveness of the Canadian wireless industry including wholesale wireless roaming rates and tower sharing. In June 2014 the federal government adopted legislation that caps the domestic roaming rates that Canadian carriers charge one another at the level that these carriers charge their retail customers. Thereafter, the CRTC held hearings on wholesale wireless and is expected to issue direction on roaming and tower sharing early in 2015. MTS's position supports competition, while asking for recognition of the unique role that regional carriers have in the industry. The upcoming CRTC decision could benefit MTS (by reducing its roaming expenses outside Manitoba) or harm MTS by giving other carriers access to MTS's extensive wireless network in which it has made material investments.

Wireless spectrum auctions
On December 18, 2014 Industry Canada made a series of announcements with respect to several upcoming wireless spectrum auctions as well as spectrum allocation and licensing requirements. In particular, Industry Canada finalized its rules with regards to the AWS-3 auction, now scheduled to begin on March 3, 2015 with results being announced on March 6, 2015. The 2500 MHz spectrum auction will begin on April 14, 2015 and is expected to last four to six weeks.

Spectrum is a valuable and scarce resource for MTS. It not only determines the types of wireless services we can make available to our customers, it also provides to possibility for new competitors to enter our market, or for existing competitors to enhance the services they offer to Manitobans. In addition, auctions rules can impose material new conditions on wireless providers, such as requirements to deploy rurally (which is more expensive and generally less profitable). It can also introduce complexities such as compatibility with our existing network/handsets and our other joint network arrangement with Rogers. In addition, "spectrum caps", in which individual carriers may be limited in the amount of spectrum they can own, or new spectrum they can acquire, may reduce our ability to acquire spectrum and be competitive in future spectrum auctions. Further details on the risks and opportunities associated with spectrum can be found in the section on 'Risks and uncertainties'.

9-1-1 Action Plan
In mid-2014, the CRTC issued an Action Plan for 9-1-1 services, which included two priorities which could potentially increase or advance investments required by MTS. The CRTC's first priority is to improve the accuracy of location information determined for wireless 9-1-1 calls. Information gathering has commenced, but any changes to requirements will not be known for several months. Possible areas of impact include proactively replacing handsets distributed prior to August 2005, which are not capable of using assisted-GPS to determine location, and upgrading processes, systems and databases to provide recorded address information to the 9-1-1 operator. The CRTC's second priority is to improve the reliability and resiliency of 9-1-1 networks. Again information gathering is underway, but a formal Notice of Consultation is not expected until mid-year. MTS's 9-1-1 network has some components that lack geographic diversity, so if the CRTC were to mandate geographic diversity, additional investment to provide it would be required, likely in 2016.

Let's Talk TV
On January 29, 2015, the CRTC issued two separate decisions relating to some of the issues addressed in its Let's Talk TV proceeding. Those decisions specifically addressed free over-the-air television and simultaneous substitution. CRTC rulings on other aspects of the rules applicable to Canadian broadcasting addressed in this proceeding are expected imminently. The major outcome from the CRTC's Let's Talk TV proceeding is expected to be the introduction of more packaging flexibility for consumers, allowing them to choose individual programming services on a pick and pay basis. MTS already offers smaller theme groups than is common in the industry and supports a pick and pay model, although the outcome of this proceeding could be positive or negative to MTS.

All channel emergency alert implementation
By March 31, 2015 broadcasting undertakings will be required to fully participate in Canada's National Public Alerting System and provide all channel emergency alerts that warn Canadians of imminent threats to life, such as tornadoes, floods, forest fires, industrial disasters and tsunamis. MTS is on track to meet this deadline for our Ultimate TV® service, but we have been unable to find or develop a solution that will allow us to provide emergency alerts on our older Classic TV platform. We have requested a one-year extension to the implementation date for customers currently on this platform, to allow us to migrate them to the Ultimate TV® platform. However, if the extension is not granted, there is a risk that we could lose some of these customers because we do not have the ability to migrate them all by the deadline. There is also a risk that MTS could incur regulatory penalties, for example a shorter licence term for our broadcast distribution licence, which is up for renewal in 2015.

Basic telecommunications services
The CRTC has indicated it will initiate a comprehensive review of the Basic Service Objective in 2015. The proceeding, to take place during 2015-16, will determine what services (for example, voice and broadband) are required by all Canadians to fully participate in the digital economy and whether there should be changes to the subsidy regime and national contribution mechanism. The CRTC's eventual decision to continue, discontinue or expand the Basic Service Objective will have impacts on the subsidy regime, a regime in which MTS is both a recipient and a contributor.
A decision on the basic telecommunications services proceeding is not expected until 2017.

Developments impacting MTS and Allstream
Federal Budget Implementation Act (*Bill C-43*)
On December 16, 2014 the Federal Government's budget implementation bill, *Bill C-43*, received royal assent. As a result, the CRTC will have the ability to levy fines, known as administrative monetary penalties ("AMPs"), for contraventions of the *Telecommunications Act* or any regulation or decision made pursuant to it. Depending on factors, such as the nature and scope of the violation or the benefit obtained from the commission of the violation, the fine for a first violation can be up to $10,000,000 for a corporation. The fine for subsequent violations can be as much as $15,000,000 per violation. Industry Canada was also given the ability to levy AMPs for contraventions of certain provisions of the *Radiocommunication Act*, including contraventions of the procedures, standards and conditions applicable to competitive bidding for spectrum licences.

The bill also prohibits telecommunications service providers ("TSPs") and broadcasting undertakings from charging their subscribers to receive a paper bill. Any TSP that does so will be subject to the fines under the new AMP regime, while the *Broadcasting Act* was amended to include provisions for a fine of up to $250,000 for a first offence and up to $500,000 for each subsequent offence.

Essential facilities
The CRTC has concluded its hearings on "essential facilities", which pertain to situations in which third parties can access the networks of others. The Company's view is that residential markets are already very competitive and no further regulation is required where there are less competitive choices in the business market and therefore the government needs to ensure that access remains available. Given the scope of this proceeding, there could be a material changes to the regulatory framework and the terms by which competitors could access MTS's networks, or, conversely, Allstream can access the networks of its competitors. A decision is expected in early Q2 2015, although there could be one or more follow up proceedings required before all the rulings can be implemented.

RISKS and UNCERTAINTIES

Risk evaluation processes
Risk management practices are part of our standard operations, across all of our businesses. Identifying and managing our principal risks forms part of Management's regular business planning process because risks, as well as associated opportunities, form the basis of many aspects of the Company's future business model and plans.

Once we set our strategic objectives, our risk management program undertakes to identify and assess the associated principal risks, and considers the activities being taken to mitigate them. The program is managed through an executive-level strategic risk committee, in conjunction with our enterprise risk management ("ERM") team.

Annual risk assessment
We annually conduct a formal "risk assessment" process that is directly linked to our business plan. Regular updates are performed throughout the year to identify potential emerging or previously unidentified risks. Our ERM team plays a key role in ensuring Management follows appropriate processes in completing these risk assessment reviews. The outcomes are formalized into reports, which are reviewed by executive management. Executive management provides its input, the reports are finalized and the results are presented to the Board. Certain categories of similar risks are often grouped together, forming the basis of what we refer to as "principal risks".

While the formal reports contain considerably more detail and analysis on these principal risks, the table on the next page is an indicative representation of how these principal risks are organized and ranked. It illustrates how Management and the Board perceive our risks.

The constituent elements of these principal risks, as well as other risks we face, are explained in greater detail below and are not necessarily always grouped in the same aggregating format.

Role of the Board and the Audit Committee
The Audit Committee charter requires an annual review of our risk management program for the identification and management of our principal risks and respective mitigation strategies. The Audit Committee must be satisfied with two procedural matters. First, it assesses whether our risk management program is appropriate. Second, with the support of the ERM team, it ensures that each of the key risks and associated mitigations identified by Management is delegated for more detailed review, oversight and monitoring by either the full Board or one of the Board's standing committees.

In addition, the Board charter requires all directors be involved in the monitoring of all of the Company's key risks and their respective mitigation plans. Our directors must have a solid and substantive understanding of the principal risks facing the Company. Consequently, a majority of Board and committee meetings have agenda items devoted to risk discussions. Our Board believes that risks and opportunities are related and need to be considered together. When the Board or a committee is asked to approve key strategic matters (such as budgets, outlook or decisions), a discussion surrounding the associated risks and opportunities also occurs. In that sense, risks and the associated mitigations are an integral and necessary part of normal business planning.

Risks relating to the Company
General
Our primary risks come from our competitors. Like all of our industry peers, both MTS and Allstream operate in highly competitive environments. We have many competitors, and technology changes are making it easier for others to enter our markets. Although MTS and Allstream operate in different competitive markets, they face the same primary risk. This risk is that current or future competitors will provide services comparable or superior to those that the Company provides, at the same or at lower prices, adapt more quickly to evolving industry trends or changing market requirements, introduce competing services or execute their business plans better. The products and services we sell

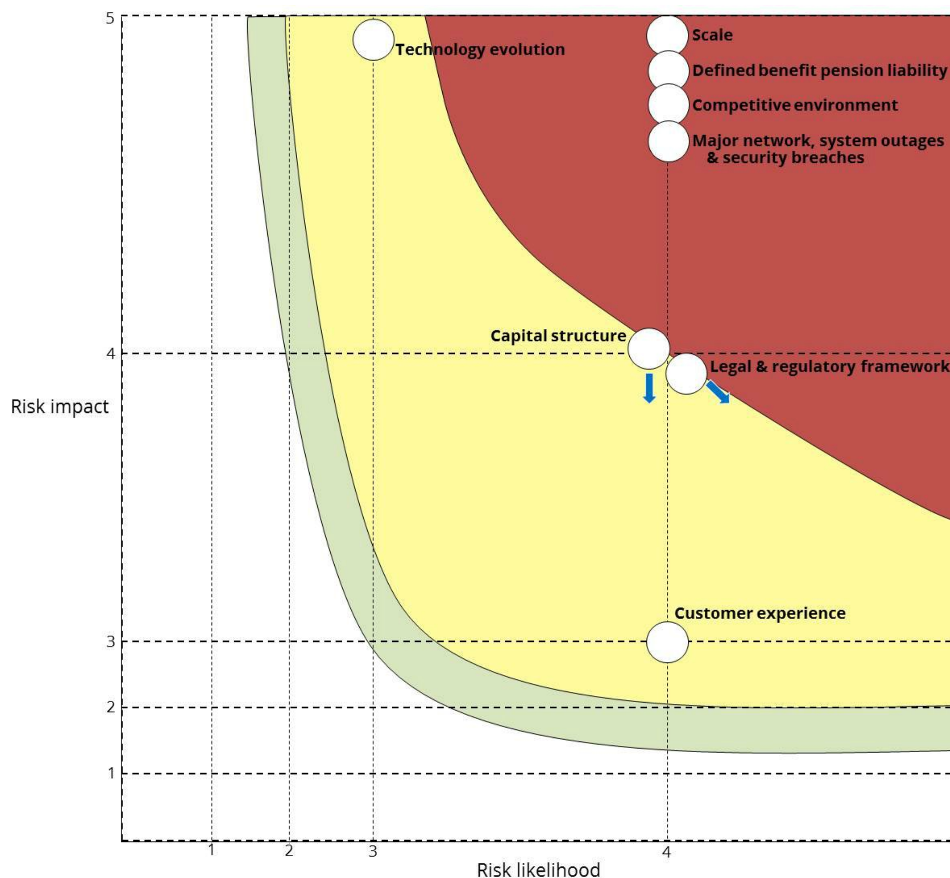
have increasingly short “lifecycles”, meaning that even when we successfully introduce and compete with a particular product or service, its replacement or the next-generation product or service is either in development or just about to be rolled out.

We have always been exposed to strong competition because many of our competitors are significantly larger and therefore possess a scale advantage, have greater access to financial resources and are better able to enter into exclusive or preferred arrangements with suppliers. All of these factors could adversely affect our market share and results.

We spend considerable time strategizing about how we can best mitigate competitive risks. All of our detailed business plans and “go to” market strategies are created with the primary objective of sustaining and growing our businesses, notwithstanding these intense competitive pressures.

Risk factors
The risks and uncertainties summarized below highlight the more important and relevant factors that could significantly affect our financial results and operations. Our executive management has reviewed these risk factors. They believe these factors are a fair and comprehensive summary of principal risks facing the Company and the mitigation plans in place to manage them. Sometimes, however, risks manifest themselves in ways that are not expected. As such, the following is not intended to represent an exhaustive list of all potential issues that could significantly affect our financial results.

Changing competitive markets
In our 2013 annual MD&A, we provided a fulsome disclosure of risks such as “wireless competition” and “exposure to legacy revenues”. These are important risks that can have an impact on our financial results and/or financial position as well as the carrying value of certain assets. The impacts described in the "guidance update" section of our Q3 2014 MD&A are examples of how these risks have manifested themselves: MTS has been experiencing lower than anticipated growth in wireless revenues during 2014 and Allstream has seen higher than expected legacy revenue declines. While the Company has plans in place to mitigate against these risks, they remain important risks to the Company.



COMPETITION – MTS

Wireless competition
We successfully deployed a joint 4G HSPA+ network with Rogers Wireless, which currently remains the most comprehensive mobile wireless network in Manitoba. MTS was the first wireless carrier to deploy 4G LTE in Manitoba. 4G LTE offers faster mobile data speeds than those of our existing 4G HSPA+ network and, over time, is expected to further evolve, to offer even higher data speeds and support for voice services. In June of 2013, we announced that we

had agreed to jointly expand and operate the 4G LTE network in Manitoba with Rogers Wireless, to form part of our shared network.

Our primary competitors in the Manitoba wireless market are Rogers Wireless, TELUS and Bell Mobility, including Fido, Koodo, Virgin Mobile and PC Mobile brands. In the past several years, we have seen significant and aggressively priced wireless plans offered by our competitors in the Manitoba market, specifically aimed at taking market share away from MTS. In 2008, Shaw and Globalive, two “new entrant” companies, acquired spectrum within Manitoba. Shaw has since announced it does not currently intend to deploy mobile wireless services. In January 2013, Shaw announced that Rogers had purchased an option to buy Shaw’s spectrum. To our knowledge, this option purchase has not received regulatory approval. Globalive has not disclosed plans to launch wireless operations in Manitoba. Shaw has deployed a series of wireless “hot spots” in Manitoba, using unlicensed Wi-Fi spectrum. In addition, TELUS continues to expand its network footprint in Manitoba, which it shares with Bell Canada, including a new and large HSPA network. This HSPA network now covers around 70% of the Manitoba population, compared to our coverage of approximately 97%.

The speed and scope of the 4G LTE deployment, as well as the general rapid evolution of mobile wireless technologies, create substantial risks and opportunities for MTS’s wireless business, which is material to our consolidated results.

Deployment of new wireless networks is capital-intensive. Expanding the scope of our wireless services contains risks associated with technological issues, and with access to cost-effective wireless roaming outside Manitoba and to new advanced wireless devices. In addition, the growing number of substitutes for wireless services, with more smartphones operating on Wi-Fi, could have a negative impact on our wireless business.

Demand for wireless data continues to increase at an exponential rate. Our ability to meet this demand in the future is not certain, and even if we can meet it, we cannot predict the cost to do so. The inability to keep up with the demand for wireless data capacity could have an adverse effect on our business and financial results.

Spectrum is a finite and scarce resource that can be expensive to obtain, if it is available at all. The failure to acquire or maintain spectrum could affect our ability to deploy new mobile wireless technologies or to service current customers with existing technologies. All of this could materially affect our operations and consolidated profitability. In Q1 2014, MTS acquired a prime block of 700 MHz spectrum in an Industry Canada 700 MHz auction for $8.9 million in total, enhancing MTS’s capability to add more high-speed data capacity and support advanced wireless services. We have applied and submitted an auction deposit in order to participate in Industry Canada's AWS3 and BRS spectrum auctions. There is no guarantee that the Company will obtain spectrum. Finally, there is also a risk that this spectrum is acquired by a wireless service provider that is currently in our market, or a new market entrant. The acquisition of this spectrum by such party or parties could cause overall competition in the Manitoba wireless market to intensify.

Ensuring our Manitoba wireless consumers have access to wireless devices (such as smartphones) and roaming partners can be challenging. Our roaming partners need to be technologically compatible with our network, the spectrums we use and our wireless devices. In the past, we have been successful in securing such devices and roaming partners. However, if we cannot continue this trend, our wireless business could be negatively affected and existing or future revenue and profitability could be reduced.

Finally, we have seen a growing trend of governments passing “consumer protection” legislation that could impact our flexibility in marketing our services or requiring longer-term contractual commitments from consumers. In 2012, such legislation impacting primarily our wireless line of business was introduced in Manitoba. While we have adapted our plans accordingly, this legislation can always be amended to further limit our flexibility. On June 3, 2013, the CRTC issued a national wireless code of conduct that applied to all wireless service providers as of December 2, 2013. The code generally complements and aligns with Manitoba provincial legislation, under which MTS already operated. MTS was supportive of the national code but joined with some other wireless service providers in appealing, to the Federal Court of Appeal, aspects of the code that would retrospectively amend wireless contracts that are already in place. A decision on this appeal is expected sometime during 2015. MTS has taken all the steps necessary to implement all material aspects of the new Wireless Code within the prescribed time frame. In the fall of 2013, the Government of Manitoba initiated a consultation process on expanding the current wireless service consumer protection legislation to other distance communication services, such as TV, Internet and alarm services. *Bill 62*, which amends *The Consumer Protection Act* of Manitoba and enacts certain rules surrounding distance communication services, received Royal Assent on June 12, 2014, in force on a date to be set by proclamation. The Government of Manitoba has advised they will be working on the regulations to the legislation in the Spring of 2015.

We have the most comprehensive wireless network in Manitoba (including CDMA, 4G HSPA+, 4G LTE and Wi-Fi hotspots) and the largest market share. We are also able to leverage other services in our consumer bundle offers (home phone, Internet, television and home alarm monitoring) as part of our strategy to continue our successes in the wireless market.

Wireline competition
Our primary competitors in the consumer and small business wireline market are the incumbent cable providers in Manitoba – Shaw and Westman Communications Group. Cable competition and ongoing technology substitutions (including increasingly viable wireless solutions, as wireless providers are also competitors here) have contributed to the erosion of our residential network access line. This erosion is expected to continue over time. It creates significant financial pressure that needs to be offset with cost reduction strategies and revenues from other lines of business capable of producing profitable growth. There is no guarantee we will have the ability to continue to successfully implement these strategies in the future.

Broadband competition
Our primary competitors in urban broadband markets are the incumbent cable providers (Shaw and Westman Communications Group) and wireless Internet service providers in smaller communities and rural areas. Shaw now offers some of its customers Internet speeds that are faster than what we currently offer most of our customers. This development could adversely affect our ability to retain our market share. In addition, new wireless technologies, such as 4G LTE, could become increasingly viable substitutions for our wireline broadband offerings, putting further pressure on our business results. Our broadband business continues to perform well, despite these competitive pressures. Our broadband services form an important part of MTS's "bundle" strategy. We are also continuing to deploy more fibre (FTTH and "fibre-to-the-node") to help maintain the competitiveness of our speeds and service offerings. These deployments, however, are very capital-intensive.

Television competition
Our primary competitors in the television market are the incumbent cable providers (Shaw and Westman Communications Group) and satellite television providers (Shaw and Bell TV). There is also a growing base of other new content providers, such as CraveTV, Netflix and shomi that offer substitute products. Streaming of "over-the-top" content via the Internet has now extended to wireless TV distribution platforms over smartphones. It is offered by some of our competitors such as Bell Mobility. Our IPTV is currently available in Winnipeg and Brandon, as well as in 14 other communities. Through our FTTH deployment, we will be increasingly able to provide residents in the largest rural Manitoba communities with our digital television service. While we have an advanced television offering, there are no assurances that our past successes will continue. In addition, our acquisition costs for programming, particularly sports programming, continue to increase. We generally have a limited ability to pass these increasing costs onto our consumers, which could affect our overall profitability. Much of this content is created and/or owned by our competitors (Bell, Rogers and Shaw), who could have conflicting interests when we negotiate for their content. To date, the CRTC has offered broadcasting distributors such as MTS limited protection against attempts by our competitors who own this content (for use in both traditional television and mobile applications) to charge us unfair rates or deny us access to this content altogether. In addition, the Government has suggested passing legislation that could require broadcasting distributors to offer more individual choice and selection of their channels without a requirement to obtain a "package" of channels. It is unclear how this would impact the Company and how this could be achievable, given certain existing contractual arrangements pursuant to which we acquire such content.

Competitive carriers and service providers
Within Manitoba, we operate as the incumbent carrier and as a provider of wholesale services to other competitive carriers and service providers. In this market, we face competition from competitors operating within Manitoba. Some of these competitors, such as Bell and TELUS, while not incumbent network providers within Manitoba, have a national scope and larger incumbent operations in other geographic areas. These competitors have always been much larger than us, with significantly more scale and financial resources. Most, but not necessarily all, of these national competitive carriers target our business customers. Sometimes these national/larger competitors are better positioned to acquire business customers such as banks and other national customers that have some locations in Manitoba but make national purchasing decisions. In addition, there is an increasing number of smaller competitors and competitive network alternatives, ranging from larger competitors such as Westman Communications Group and Manitoba Hydro Telecom to wireless Internet service providers, Voice over Internet protocol service providers and municipal/public dark fibre and wireless networks. Several of these smaller competitors are non-profit cooperatives, crown agencies or publicly funded agencies, or are subsidized by government broadband programs. These smaller competitors primarily compete with MTS in the small and mid-market business and public service organization markets. We also face loss of customers and business revenues when our larger customers (such as public agencies or school boards) seek to acquire dark fibre and build their own networks. As the incumbent carrier within Manitoba, we have the network infrastructure that ensures we are well positioned to compete against both larger national carriers and smaller regional competitors.

Certain dependency on key customers
We have several large government and business customers (such as the Province of Manitoba and the City of Winnipeg) that account for a noticeable percentage of our revenues. The loss of one or more of these key customers could adversely impact our financial results.

COMPETITION – ALLSTREAM
Highly competitive markets
Allstream serves business customers nationally. This market is highly competitive, with both revenues and margins for some of the services we offer declining across the industry. Our largest competitors are the incumbent Canadian

telecommunications companies: Bell and TELUS. We also compete with other telecommunications companies, such as established cable and hydro companies, and smaller companies or re-sellers that have a more limited network.

Few non-incumbent telecommunications companies serving business customers have been successful in generating a sustained record of profitability and taking meaningful market share from the incumbent carriers. Our current strategy aims to mitigate this by focusing on high-growth products such as IP and more on the “mid-market” segment. This segment is subject to competitive pressures, but we believe it is less competitive than the large business customer market. Consumer grade products are substitutes for business services in the small business segment providing another source of competition. The incumbent carriers act aggressively to maintain their existing and substantial customer base in the mid, large and wholesale segment. Customers expect decreasing per unit pricing over time and increasing demand may not offset the price decrease resulting in revenue decline.

Reliance on third parties
Business customers require services in a broad range of geographic locations. Allstream has a national wireline network across Canada that also covers most large urban centres. There are many locations where we rely on third parties (often the incumbent telecommunications company) for “last mile” access. In areas where we offer services using our own network, we believe we face significantly less risk in our ability to offer competitive services to our customers. As a result, we adopted our on-net strategy, where we focus on selling higher margin services to customers that are served utilizing our own network. This reduces the need to rely on the services of other providers. In areas where we offer our services outside of our footprint, we face greater risks because we have limited control over the service levels provided to us by the incumbent carriers, who are also our direct competitors. It is impractical to offer services exclusively on our own network. Mid and large business customers often have multiple locations and it’s rare that all locations could be served on our own network. We are also subject to the risks associated with changes to the regulatory framework, which can alter our rights to access such networks at reasonable prices, if at all. There is also a risk that, where we operate outside of our network footprint, the incumbent carriers will increase the prices they charge us for forborne services or impose other non-price conditions of use that could materially impact our ability to service our customers and affect our profitability. A CRTC decision allowed incumbent carriers to do this for some services commencing in 2011, which resulted in price increases. A number of additional services are now forborne, which we expect to lead to further increases in the rates we pay to other carriers, or even potentially prevent us from acquiring services on terms that meet our customers’ requirements. Some of our contracts also include a clause enabling us to pass on third-party network price increases to our customers, thus providing some protection to Allstream. Our recent network expansion and on-net strategy are expected to reduce our dependency on these carriers and make us less vulnerable to price increases. A large percentage of our services is delivered to our customers using aspects of other carriers’ networks. Our profitability is highly sensitive to such charges. In addition to being vulnerable to price increases by incumbents, we could be entirely denied access to third-party facilities. To reduce this risk, we have expanded our network over the past years and are continuing efforts to sign multi-year agreements with certain incumbent providers.

The CRTC has conducted a large review of these access rights during 2014 and a decision is expected in 2015, which could significantly impact both MTS and Allstream, although in different ways (for example, while Allstream could benefit from the regulatory framework of these access services, the same could increase competition within the Manitoba marketplace for MTS).

Significant exposure to legacy services
Allstream has financial exposure relating to its legacy services, which are operated on our older voice and data infrastructure. These legacy lines of business, such as long distance and private-line data services, are in decline as our customers migrate to integrated telecommunications products, such as converged IP, that offer a wider range of functionalities. As a result, the revenues for legacy services are generally declining and, indeed, saw significant declines through 2014. We work to offset this by focusing on growing the sales of our IP services, which can be sold at attractive margins. Managing the transition away from legacy services can be a complicated and, at times, capital-intensive process. To manage this decline we need to reduce internal resources devoted to operating and maintaining such services. However, we continue to have customers actively using these services and we need to continue to maintain these systems and platforms with fewer resources. Managing this transition is complicated and, if not managed well, could adversely affect our financial position.

Demand generation and market growth
In order to manage the decline in our legacy services, we need to create significant off-setting growth in our IP suite of services. This is a significant challenge, with material operational risk. We have had to change how we focus, motivate our sales force and become more deliberate about what we sell, where we sell it and to whom. We have been successful recently in driving growth. These growth rates may become harder to sustain as the market for IP services becomes more mature and competitive.

Dependency on key customers
We have several large customers that account for a significant percentage of our revenues. This is true for both our IP and legacy services. The loss of one or more of these key customers could adversely impact our financial results. Our recent efforts to focus on sales into the business mid-market will, over time, help to reduce this exposure to one or more larger customers.

Recent history of negative cash flow
Allstream has had negative free cash flow in recent years, which hinders our ability to deliver on the transition from legacy to growth services and make necessary re-investments into our business and infrastructure without using new capital. Management may not be able to sustain the cash neutral results seen in 2014.

CHANGES in REGULATION of the TELECOMMUNICATIONS and BROADCAST INDUSTRIES

The telecommunications and broadcast industries in which we operate are federally regulated. Our business is directly affected by decisions made by various regulatory agencies of the Government, including the CRTC and Industry Canada. The outcome of regulatory reviews, proceedings, appeals and other regulatory and policy developments could have a material impact (positive or negative) on our financial position.

For MTS, changes in the regulatory environment could affect the terms and conditions under which we are able to continue to use our licensed wireless spectrum, obtain new spectrum, alter the terms under which we are required to allow others to interconnect with our networks or change how we are permitted to sell our services to consumers or at what prices. Changes to these regulations could impose new operating or capital costs, or change the competitive dynamic of this market. Our television offering is also subject to broadcasting regulations. There are material active CRTC proceedings underway that may specifically and directly affect the terms under which we provide wholesale access to our wireless network, elements of our fibre network (including our fibre-to-the-home), as well as the manner in which we are able to sell television services to our customers. We are also subject to both federal and provincial consumer protection legislation that create a new set of obligations and limitations will be imposed on many of our lines of business.

For Allstream, changes in the regulatory environment could affect the terms and conditions under which we are permitted to interconnect with others' networks, if at all. This has a significant impact on our profitability, as the amounts we pay to other (often incumbent) carriers are one of the most significant expenses in our business.

For a description of the principal regulatory initiatives and proceedings currently affecting the Company, please see the section entitled "Regulatory developments" which is incorporated herein by reference as they form a significant element of the risks we face. We monitor changes in these regulations carefully and are frequent interveners in the regulatory process to ensure our perspective is understood by the regulators prior to their making decisions that will affect us.

MARKET CONDITIONS

Both MTS and Allstream are affected by general economic conditions, including consumer and business confidence as well as spending on, demand for and prices of products and services. During adverse economic conditions, customers and businesses may delay buying our products and services, reduce purchases, seek greater discounts or even discontinue purchases altogether. Our ability to collect receivables could also be affected and our churn rates could increase. It has been our past experience that Allstream's business customers are more sensitive to changes in market conditions than MTS's Manitoba-based consumers. We continuously monitor markets and proactively take steps to adjust our business plans and marketing efforts in light of general economic conditions.

OTHER

Operational execution/Process risks
The businesses, technologies, processes and systems of both our MTS and Allstream subsidiaries are complex. Failure to properly execute our plans may lead to negative customer experience, network outages and an inability to achieve necessary cost savings, or otherwise impede our ability to effectively carry on our business. We often rely on third parties to help us execute on objectives associated with our business plans. We cannot be assured that such third parties will perform their obligations appropriately. In particular, as both MTS and Allstream operate in very competitive environments, and are constantly required to find new efficiencies and cost savings, there is an increasing amount of operational risk as both subsidiaries are, in effect, forced to do more with significantly less in resources.

Continuous rapid changes in technology
Both our MTS and Allstream subsidiaries operate in markets that are affected by constant and rapid technological change. Network technology continues to evolve at a pace that may enable competitors to enter our markets with increased flexibility, provide more choice for customers and speed up the obsolescence of our core technologies. Some elements of our network and technologies are aging. We periodically face situations in which manufacturers are no longer supporting their technologies. These systems become more prone to failure, which can result in more widespread network failures or operational disruption. At the same time, this provides us with new opportunities to exploit markets that were previously too difficult or costly for us to enter. These changes could result in the displacement of products and services by substitutes, and create a need for accelerated investment in our network evolution. We need to anticipate technological change and continue to invest in or develop new technologies, products and services. We have deployed a joint wireless network with Rogers Wireless. The aspects of this network that are shared introduce new technological complexities as we deploy new services and standards.

Like others in our industry, there can be no assurance that we will be successful in developing, implementing and marketing new technologies, products and services, or fully realize the expected sales, cost savings and efficiencies, or make these necessary investments. Nor can we be assured that we will be able to gain access to such technologies and

other business inputs at reasonable terms or prices. New products or services that use new or evolving technologies could reduce demand for our existing offerings or cause prices for those services to decline.

Similarly, the deployment of new internal IT and network technologies (such as expanded networks, billing systems, back-office tools) often entails expensive and complicated projects, particularly as they need to be designed to work with both legacy and next-generation systems. These technologies are critical for us to collect our revenue, serve customers and remain competitive in the market. There are no assurances that such technologies can be deployed on time or on budget, or without causing significant business interruption.

Scale of our operations
Our MTS subsidiary has always been significantly smaller than most other incumbent telecommunications companies in Canada (for example, Bell and TELUS). It is smaller than some of its direct competitors within Manitoba (for example, Rogers Wireless). Similarly, our Allstream subsidiary is smaller than many of its direct competitors. It is much smaller than the two large incumbent telecommunications companies serving business customers (Bell and TELUS). In turn, these Canadian-based competitors are significantly smaller than many of their global peers.

This means that both of our subsidiaries operate with considerably lower economies of scale and much less purchasing power than do our larger competitors, and our ability to impose custom technological standards on manufacturers and bargaining power with our larger customers is more limited. While MTS continues to benefit from its incumbent position in Manitoba, and both MTS and Allstream can leverage their positions as smaller players to be more effective and closer to their customers, it does place operational and financial pressures on us that may not be experienced by some of our larger competitors. We mitigate this type of risk by partnering with others where appropriate and advantageous (for example, we participate in a joint mobile wireless network with Rogers Wireless) and by leveraging our ability to be more agile or offer our customers a more personalized and customer-focused experience.

Security and network failures/Cyber-risks
Like all others in our industry, the operations of both our MTS and Allstream subsidiaries depend on how well we and our suppliers protect our networks, equipment, IT systems, software and customer information (including personal information) against damage from a number of threats, including, but not limited to, cable cuts, damage to our physical plant, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism, theft and abuse by our own employees. Our operations also depend on the timely maintenance, upgrade and replacement of our network and our suppliers' networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures (such as expenses we incur as a result of the periodic flooding in Manitoba). Any of these and other events could result in network failures, billing errors, delays in customer service and/or increases in capital expenses. The failure of networks or a component of our networks might, in some circumstances, result in a loss of service for our customers and could adversely impact our reputation, goodwill and results of operations. Any of the above events affecting third parties on which we rely may also result in an interruption in service that would last until the outage is fixed or alternative service delivery options are found, and could also harm our customer relationships.

We understand the importance of network integrity. Both our MTS and Allstream subsidiaries spend a significant amount of time and resources to manage this risk, as many of these risks can be prevented through proper network and system design, maintenance and alternate sources of supply. We regularly consider the probability of cyber-incidents and the quantitative and qualitative magnitude of these risks, including the potential costs and other consequences arising from the misappropriation of assets or sensitive information, corruption of data or operational disruption.

To date, our pro-active and ongoing mitigation and planning efforts have allowed us to avoid significant prolonged network failures or "cyber-security" incidents. However, these types of events are becoming increasingly common and are experienced by many companies, across all types of industries. No company is ever immune nor can controls be implemented to guarantee complete security from these types of incidents; and they can have significant impacts. There are no assurances that our ongoing controls will continue to be effective, though we appreciate the importance of managing this risk.

LITIGATION AND LEGAL MATTERS

Litigation
As is the case with any large company, investigations, claims and lawsuits seeking damages and other relief are threatened or pending against us. In addition, plaintiffs within Canada are also able to launch class-action claims on behalf of a large group of persons, with increasing ease. By the nature of its consumer-facing businesses, our MTS subsidiary is more vulnerable to class-action litigation than is our Allstream subsidiary.

By way of indicative examples, we and other major telecommunications service providers are defendants in three large national class action claims. The first involves a claim relating to a class of subscribers for wireless or cellular services who are seeking recovery of fees that the carriers have categorized as system access fees or system licensing charges, and which the plaintiffs allege have been improperly characterized as government related charges. The second major class-action claim relates to allegations that customers for both landline and wireless services have paid extra fees in association with 9-1-1 or emergency service access fees that now ought to be repaid, which is now also subject to an industry-wide regulatory review. In the third major class-action claim, we, along with the wireless carriers operating in

Canada and the manufacturers of wireless devices sold in Canada, were named in a class-action lawsuit alleging adverse health effects incurred by long-term users of cellular devices. We believe we will be successful in defending against these specific claims. We are also seeing other class actions being launched against other, larger companies in our industry that, while we are not named in such proceedings, are indicative of the trend and risk of such actions. The outcome of any such actions, or of new actions that may arise, however, is uncertain. Judges or juries can, at times, deliver unpredictable decisions. Until any particular matter is resolved, there can be no assurance that our financial position will not be negatively impacted, as the costs associated with losing or defending against such claims could be material. We work hard to mitigate these risks by vigorously defending ourselves when appropriate. Negative financial outcomes associated with certain operational and/or legal risks are mitigated through the purchase of appropriate insurance coverage. We also take steps to minimize the risk of being sued or being subject to such proceedings at first instance, such as by implementing appropriate compliance programs and trying, whenever possible, to negotiate favourable contractual terms that limit our liability.

Civil liability in the secondary market

Securities laws impose potential liability for misrepresentations by public companies in written disclosure and oral statements, or for the failure to make timely disclosure of a material change. We have well-documented processes in place, including a corporate disclosure policy that we believe provides reasonable procedures and controls for all of our public disclosure. We believe that we have appropriate insurance coverage in respect of these risks, and rely on the integrity of our officers and directors. However, there can be no assurance that all of our processes and controls will be followed by employees, officers, third parties and directors at all times.

Legal and regulatory compliance

We necessarily rely on our employees, senior management, the Board and key third-party contractors to conduct themselves according to legal and ethical standards. Situations might occur where individuals do not adhere to our policies or where legal requirements are inadvertently breached. Such events could expose us to damages, sanctions and fines, or negatively affect our financial operating results. We are required to handle our employees' and customers' personal information in a way that is compliant with all applicable privacy laws, which is becoming increasingly more onerous. We believe we have reasonable policies, processes and awareness in place for proper compliance, and that these programs reduce the risks associated with some of these complex obligations. All employees, as part of our annual review process, are required to confirm that they have read the company's Guide for Business Conduct and Ethics which outlines the essential rules and guidelines for honest and ethical business conduct.

Applicable legislation and corporate articles

Despite the recent liberalization of foreign ownership requirements applicable to telecommunications companies with less than a 10% market share, we remain subject to foreign ownership requirements that apply to MTS's television business. In addition, the articles of the Company limit the ability of individuals to own and trade our securities. In particular, there are constraints in respect of foreign ownership and ownership by individuals owning more than a specified percentage of our Common Shares. These restrictions could serve to deter a change of control of the Company; limit the market demand, market price or liquidity of our securities, or affect our ability to access capital. Although we support the liberalization of foreign ownership as being in the best interests of our shareholders, this change could result in new foreign competitors or existing competitors benefiting from new foreign investments or partnerships, which could result in increased competition.

Contractual provisions

Technology evolution brings additional legal risks and uncertainties. The intellectual property and proprietary rights of owners and developers of hardware, software, business processes and other technologies may be protected under law, and significant damages may be awarded in property infringement claims advanced by rights holders. In addition, contractual provisions to which we are bound are becoming increasingly complicated and expose us to heightened risks vis-à-vis our customers and vendors, and we are not always able to fully limit our liability in respect of these matters.

Changes to legislation affecting our services

Changes in legislation can affect the ability of customers of both our MTS and Allstream subsidiaries to use the products and services we offer. As an example, in 2010 our Manitoba-based wireless customers became subject to stricter laws limiting the use of handheld wireless devices while driving. Although we supported this change and did not see any adverse effect on our results or on demand for our services, there can be no assurances that this will be the case with future changes in legislation. Similarly, changes to legislation can require us to build new systems or provide functionality that we would not otherwise establish, which could increase our costs. As an example, we may be required to incur unexpected network capital expenses to comply with potential new legislation mandating all telecommunications carriers to provide new methods of "lawful access" to law enforcement agencies.

Additionally, we, from time to time, may become subject to new statutory requirements that effect our day to day operations and which may impose obligations and create potential risks associated with imperfect compliance. As examples, recently, the Government of Canada passed Anti-Spam legislation which places strict restrictions on unsolicited electronic messages and a new copyright regime which imposes a duty on Internet service providers ("ISPs") to send notices it receives from copyright holders regarding alleged infringement of their copyrighted material.

Radiofrequency
Many studies have been conducted on the possible impact on various health concerns of radiofrequency (RF) emissions from wireless devices (such as the ones sold by our MTS subsidiary); however, there have been no definitive reports or studies stating that these health issues are directly attributable to RF emissions. Although all of the wireless devices that MTS sells fall within the RF emission guidelines set by Health Canada, there can be no assurances that public health concerns, future studies or future government regulations relating to RF emissions from wireless devices will not have an adverse effect on our business or expose us to potential litigation. As mentioned above in “Risk factors - Risks relating to the Company - Litigation and legal matters”, we have been named in a class-action lawsuit related to such allegations and we believe that we will be successful in defending against this claim.

HUMAN RESOURCES

Collective agreements
A majority of our employees are covered by collective bargaining agreements. Proportionately, a higher percentage of employees in our MTS subsidiary are unionized, compared to employees of our Allstream subsidiary. Re-negotiating collective bargaining agreements carries the risk of resulting in higher labour costs and work disruptions, including work stoppages or slowdowns. While we have not had a labour disruption in over a decade and have had recent successes in concluding a series of collective agreements with several of our unions, there can be no assurance that, should a labour disruption occur, it would not adversely affect the services that we provide to our customers and our operating results. We periodically develop, review and update contingency plans for labour disruption. Similarly, a labour disruption at one of our suppliers (for example, a service provider who carries portions of our traffic, a roaming partner or a content provider) could also harm our business, damage customer relationships and impact our operational results. Further information about our collective agreements is contained in our 2014 Annual Information Form, which is available on our website at www.mtsallstream.com or on SEDAR at www.sedar.com.

Reliance on key personnel
Our business depends on the efforts, abilities and expertise of our senior executives and employees. The loss of key individuals could impair our business and development until qualified replacements are found. There is no assurance that these individuals could quickly be replaced with persons of equal experience, skills and capabilities. We are smaller than many of our industry peers and, as a result, we sometimes face greater risks associated with employee retention. To manage this risk, our Board and its Human Resources and Compensation Committee take an active role in reviewing compensation levels to ensure we remain competitive within our peer group, and have a strong succession planning program in place. More details of these plans and mitigations are contained in our latest Management Information Circular.

CONTROLS and PROCEDURES

Management is responsible for establishing and maintaining disclosure controls and procedures, and internal control over financial reporting. These terms are defined in National Instrument 52-109, “Certification of Disclosure in Issuers' Annual and Interim Filings”, as adopted by the Canadian securities regulatory authorities.

Disclosure controls and procedures
Under the direction of our Audit Committee, our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we evaluated the design and operation of our disclosure controls and procedures as at December 31, 2014. Based on this evaluation, our CEO and CFO have concluded that, as of the evaluation date, our disclosure controls and procedures were effective to provide reasonable assurance that information that is required to be disclosed in prescribed filings and reports that are filed with the Canadian securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. It is also accumulated and communicated to Management, including the CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting
Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our process includes those policies and procedures that:

i. pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions relating to our assets
ii. provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, and that receipts and expenditures are made only in accordance with authorizations of Management and our directors, and
iii. provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our annual financial statements.

Due to its inherent limitations, internal control over financial reporting can provide only a reasonable assurance and may not prevent or detect misstatements. As well, projections to future periods of an evaluation of the effectiveness of

internal control over financial reporting are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

On December 15, 2014, the Company adopted the "Internal Control – Integrated Framework 2013 ("COSO 2013") from the Committee of Sponsoring Organization of the Treadway Commission, which replaces the previously issued COSO framework, COSO 1992. This new framework necessitated a re-evaluation of the controls that we rely upon to support our conclusions, as well as changes to our testing programs. This new framework, the changes to controls we rely upon, and the additional testing performed does not have a material impact on our conclusions regarding the Company's internal controls over financial reporting and disclosure controls and procedures. There have been no other changes in our internal control over financial reporting during the three-month period ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Under the direction of our Audit Committee and our CEO and CFO, we have evaluated the design and operation of our internal control over financial reporting as at December 31, 2014, based on the criteria set forth in COSO 2013. Based on this evaluation, our CEO and CFO have concluded that, as of the evaluation date, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. No material weaknesses in our internal control over financial reporting were identified.

NON-IFRS PERFORMANCE MEASURES

In this MD&A, we provide information concerning EBITDA and free cash flow because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by IFRS, and are not necessarily comparable to similarly titled measures used by other companies.

EBITDA

We define EBITDA as "earnings before interest, taxes, depreciation and amortization, and other income (expense)". EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with IFRS), as a measure of liquidity.

FREE CASH FLOW

We define free cash flow as "cash flows from operating activities, less capital expenditures and excluding changes in working capital, pre-funded pension solvency payments, pension plan lawsuit payments, spectrum costs and non-cash taxes". Free cash flow is the amount of discretionary cash flow that the Company has for making additional investments, paying dividends, buying back shares and/or retiring debt. The term "free cash flow", as it relates to 2014 and 2013 results prepared using IFRS, does not have any standardized meaning according to IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies.

GLOSSARY

A

ADSL (Asymmetric digital subscriber line)
The technology used to move data quickly on existing copper phone lines.

ARPU (Average revenue per user)
Average revenue per user, expressed as a dollar amount for a given period of measurement. It is used to demonstrate, in part, a telecom service provider's operating performance.

B

Blended
Refers to a combination of both pre-paid and post-paid wireless customers. This term is used when a metric counts all wireless customers (e.g. blended churn).

Broadband
High-speed transmission. The term is commonly used to refer to communications lines or services at T1 rates (1.544 Mbps) and above. Broadband facilities - fibre optic and coaxial cable, for example - may carry numerous voice, data and video channels at the same time.

Bundling
Refers to grouping two or more telecom services together.

C

CRA
Canada Revenue Agency.

CRTC (Canadian Radio-television and Telecommunications Commission)
The agency responsible for regulating Canadian telecommunications and broadcasting services.

CSA (Canadian Securities Administrators)
A forum in which the 13 securities regulators of Canada's provinces and territories are able to coordinate and harmonize regulation of the Canadian capital markets.

CAPEX (Capital expenditures)
Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations.

Cash flow
The movement of cash in and out of a business from day-to-day direct trading and other non-trading or indirect effects, such as capital expenditure, tax, pension plan lawsuit payments and dividend payments.

Churn
The rate at which existing subscribers cancel their services is called "churn". Churn is calculated as the number of subscribers disconnected in a given period divided by the average subscriber base for that period.

CDMA (Code Division Multiple Access)
A method for transmitting multiple digital signals simultaneously over the same carrier frequency (the same channel). Although used in various radio communications systems, the most widely known application of CDMA is for cell phones.

CUSIP (Committee on Uniform Securities Identification Procedures)
A CUSIP number is used to identify most securities and to facilitate clearing and settling of securities transactions.

Common share
A type of security which represents ownership in a company and entitles the holder to voting rights.

CAGR (Compound annual growth rate)
The year-over-year growth rate of an investment over a specified period
of time.

D

DSL (Digital subscriber line)
A technology for bringing high-bandwidth information to homes and small businesses over ordinary copper telephone lines.

Dividend
A distribution of a company's profits to its shareholders, paid in proportion to the number of shares that an individual shareholder owns. The amount and frequency of the dividend payment are approved by the Board. Dividends are normally in the form of cash, but can also be in other forms, such as shares in the issuing company or shares in a subsidiary.

Dividend record date
The date the Board sets as the date of record, to determine which shareholders are eligible to receive a declared dividend. To be eligible to receive a declared dividend, the shareholder must own or have purchased the security at least three market trading days prior to the record date (Trade date +3).

DRIP (Dividend re-investment plan)
A plan in which shareholders of a company can re-invest cash dividend payments into additional shares.

Dividend yield
The return earned on a security, calculated by expressing its dividend, on an annualized basis, as a percentage of the security's market price.

E

EBITDA (Earnings before interest, taxes, depreciation and amortization)
EBITDA is defined as "earnings before interest, taxes, depreciation and amortization, and other income (expense)". EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with International Financial Reporting Standards) as a measure of liquidity.

EPS (Earnings per share)
EPS is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

ESOP (Employee Share Ownership Plan)
MTS employees have the opportunity to share in the success of the Company by investing in shares through the ESOP plan.

EVDO (Evolution data optimized)
A high-speed network protocol used for wireless data communications, primarily Internet access. EVDO is considered a broadband technology, like DSL or cable modem Internet services.

Ex-dividend date
The first date on which a security trades when a purchaser of that security is not entitled to its dividend. The ex-dividend date falls two market trading days prior to the record date.

F

Fibre optic network
The method of transmitting information from one place to another by sending pulses of light through an optical fibre.

FTTH (Fibre-to-the-home)
An arrangement where fibre cable runs all the way into a customer's home, instead of just to a box on the street corner. Because the fibre goes all the way into the house, it can carry more bandwidth, which allows us to offer hi-tech integrated services like MTS Ultimate TV®.

FleetNet 800™
An advanced wireless communication service widely used by contractors, construction crews, transportation and trucking, farming applications, courier/messenger companies, government and public safety organizations. This two-way radio service is available to 98% of Manitoba's population.

Free cash flow
Free cash flow is a non-IFRS measure of performance. We define free cash flow as "cash flows from operating activities, less capital expenditures and excluding changes in working capital, pre-funded pension solvency payments, pension plan lawsuit payments, spectrum costs and non-cash taxes". Free cash flow is the amount of discretionary cash flow that the Company has for making additional investments, paying dividends, buying back shares and/or retiring debt. The term "free cash flow", as it relates to 2014 and 2013 results prepared using IFRS, does not have any standardized meaning according to IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies.

G

Goodwill
Any surplus money paid to acquire a company that exceeds its net tangible assets value.

H

HSPA+ (High-speed packet access)
A mobile telephony technology that allows for data transmission speeds of up to 21 Mbps. HSPA+ (also called Evolved HSPA or 4G) is a further evolution of HSPA that offers data speeds of up to 42 Mbps.

I

IFRS
International financial reporting standards.

Internet Protocol (IP)
IP is the method by which data are transmitted between computers connected to the Internet. Each computer on the Internet has at least one IP address that uniquely identifies it out of all other computers on the Internet, making it possible for data to be transmitted to a particular destination.

IP connectivity
The access network that provides Internet Protocol (IP) connections.

L

LTE (Long Term Evolution)
The MTS LTE wireless network is the next step in wireless technology. LTE is capable of delivering download speeds of up to 75 Mbps and upload speeds of 25 Mbps.

M

MBT
The TSX trading symbol for Manitoba Telecom Services Inc.

MD&A
Management's discussion and analysis.

Market value
The most recent price for a security at which a transaction has occurred.

MPLS (Multi-protocol label switching) network
A multi-protocol label switching (MPLS) network gives telecommunications companies the ability to provide IP and switched Ethernet services.

N

Non-IFRS measures of performance
In this MD&A, we provide information concerning EBITDA and free cash flow because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by IFRS, and are not necessarily comparable to similarly titled measures used by other companies.

P

Penetration rate
The number of customers divided by the population of a given area.

Post-paid wireless customers
Refers to wireless customers who pay after they use the minutes - they get a monthly bill and are on contract.

Pre-paid wireless customers
Refers to wireless customers who pay before they use the service. They are not on contract - they buy minutes as part of pay-as-you-go plans. Typically, they spend less money and are more likely to switch to a competitor.

R

Roaming
Roaming helps ensure that a wireless device (typically a cellphone) stays connected to a wireless network. For example, should you
travel beyond your cell phone provider's network coverage area, your cell phone would automatically move onto another phone provider's network, if available.

S

SEDAR (System for Electronic Document Analysis and Retrieval)
The SEDAR website provides access to public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators (CSA).

Share
A unit of ownership in the equity of a company.

Share transfer agent
See “Transfer agent”.

SR&ED ITC (Scientific research & experimental development investment tax credit)
Scientific research & experimental development investment tax credit. SR&ED ITCs adjustments reflect management's commitment to developing leading-edge products. The ITC will be utilized against future taxable income.

Spectrum
The specific part of the electromagnetic spectrum that can be licensed for use by telecommunications service providers. Telecoms can purchase, usually through an auction, a spectrum license that grants them the sole right to use a portion of the radiofrequency spectrum in a given geographical area for communication purposes.

Stock exchange
An organization which facilitates the exchange of securities through the matching of buy and sell orders.

Stock symbol
A letter-only symbol used to individually identify each company that trades on an exchange or a market.

Strategic services
Strategic services are wireless, broadband and converged IP and information solutions.

Subsidiary
A company in which the Corporation owns more than 50% of the securities.

T

Total shareholder return
The total return on a stock to an investor (capital gain plus dividends).

Transfer agent
A company acting on behalf of a publicly traded company, which maintains a record of its shareholder names and addresses, and the quantities of shares each shareholder holds.

TSX
Toronto Stock Exchange.

U

UC (Unified communications)
The integration of real-time communication services, which can include such services as instant messaging, video conferencing, data sharing, call control and speech recognition with non-real-time communication services such as unified messaging (integrated voicemail, email, SMS and fax). UC is not necessarily a single product, but a set of products that provides a consistent unified user interface and experience across multiple devices and media types.

V

VDSL (Very high-speed digital subscriber line)
VDSL transmits data in the 13-to-55-Mbps range, via twisted pair copper wire, over short distances, usually between 300 and 1,500 meters. The shorter the distance, the faster the data is transmitted.

VOIP (Voice over Internet protocol)
Transmitting voice signals in digital form over the Internet, using the Internet Protocol (IP) method.

W

Wi-Fi (Wireless fidelity)
A term used for a high-frequency wireless local area network (WLAN).

WLAN (Wireless local area network)
A local area network to which a mobile user can connect through a wireless (radio) connection.

Y

Yield
The return that an investment provides to an investor. It is a combination of income received and capital appreciation/ depreciation.

CONSOLIDATED FINANCIAL STATEMENTS and NOTES

RESPONSIBILITY for FINANCIAL REPORTING

The accompanying consolidated financial statements of Manitoba Telecom Services Inc. ("MTS") and the information in Management's Discussion and Analysis are the responsibility of management. The information presented in Management's Discussion and Analysis, and elsewhere in the annual report, is consistent with the information contained in the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards, and necessarily include some amounts that are based on management's best estimates and judgments. In management's opinion, these consolidated financial statements fairly present, in all material respects, MTS's consolidated financial condition, financial performance and cash flows.

In fulfilling its responsibilities, management, under the direction of the Chief Executive Officer and the Chief Financial Officer, is responsible for developing and maintaining a system of internal controls, including systems and processes, policies and procedures, and segregation of duties and responsibilities. The system of internal controls is supported by an internal audit function that reports to the Audit Committee. This system is designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects, that assets are adequately accounted for and safeguarded, transactions are properly authorized and recorded, and that the financial records are reliable for preparing the financial information included in Management's Discussion and Analysis.

MTS also maintains a *Guide for Business Conduct and Ethics*, which requires adherence to high ethical business standards, and *Corporate Disclosure Policy and Practice*s, which requires the public disclosure of all material information in accordance with securities regulations.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and for reviewing and approving the consolidated financial statements. It carries out its responsibility for the consolidated financial statements and Management's Discussion and Analysis principally through its Audit Committee.

The Audit Committee, which is comprised of independent directors, monitors MTS's financial reporting functions and related internal control and management information systems. The Audit Committee has responsibility for establishing a governance process over the engagement of the external auditors; including the establishment of an *Auditor Independence Policy* and the requirement for pre-approval of all audit and non-audit services to be provided by the external auditors. The text of the Audit Committee's Charter and a summary of the *Auditor Independence Policy* are disclosed in MTS's Annual Information Form.

The Audit Committee meets periodically with management, and with the internal and external auditors, to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the consolidated financial statements and other filings. The Audit Committee has recommended the consolidated financial statements and Management's Discussion and Analysis to the Board for approval, and the Board has approved these documents.

The consolidated financial statements have been audited by Ernst & Young LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. The accompanying auditor's report outlines the scope of their examination and their opinion.

Jay Forbes, CPA, FCA
Chief Executive Officer

Wayne Demkey, CA
Chief Financial Officer

Kishore Kapoor, CA
Chair of the Audit Committee

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Manitoba Telecom Services Inc.

We have audited the accompanying consolidated financial statements of **Manitoba Telecom Services Inc.**, which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of net income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

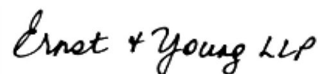
Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Manitoba Telecom Services Inc.** as at December 31, 2014, and its results of its financial position and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other matter
The consolidated financial statements of Manitoba Telecom Services Inc. for the year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on these statements on February 6, 2014.



Toronto, Ontario
February 4, 2015

Charted Professional Accountants
Licensed Public Accountants

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS of INCOME and OTHER COMPREHENSIVE INCOME

Years ended December 31

(in millions of Canadian dollars, except earnings per share)	Note	**2014**	2013
Operating revenues	6	**$ 1,612.0**	$ 1,633.7
Operating expenses			
Operations	7	**1,046.1**	1,047.2
Transaction costs and restructuring	5 & 7	**—**	35.2
Depreciation and amortization	7	**317.1**	309.1
		1,363.2	1,391.5
Operating income		**248.8**	242.2
Other expense		**(2.5)**	(0.8)
Impairment loss	5	**—**	(130.4)
Past service costs	17	**—**	(142.1)
Finance costs	8	**(65.9)**	(81.1)
Income (loss) before income taxes		**180.4**	(112.2)
Income tax expense (recovery)	9	**48.7**	(27.8)
Net income (loss) for the year		**$ 131.7**	$ (84.4)
Other comprehensive income			
Items that will not be reclassified to net income			
Net actuarial (losses) gains from defined benefit plans and other employee benefits	17	**$ (105.8)**	$ 276.7
Deferred income taxes on items in other comprehensive income	9	**28.4**	(74.3)
Other comprehensive (loss) income for the year, net of tax		**(77.4)**	202.4
Total comprehensive income for the year		**$ 54.3**	$ 118.0
Basic and diluted earnings (loss) per share	10	**$ 1.70**	$ (1.24)

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS of CHANGES in EQUITY

(in millions of Canadian dollars)	Note	Share capital	Contributed surplus	Deficit	Total
Balance as at December 31, 2013		**$ 1,608.7**	**$ 21.4**	**$ (537.4)**	**$ 1,092.7**
Net income for the year		**—**	**—**	**131.7**	**131.7**
Other comprehensive loss for the year		**—**	**—**	**(77.4)**	**(77.4)**
Total comprehensive income for the year		**—**	**—**	**54.3**	**54.3**
Share-based compensation	21	**—**	**(0.3)**	**—**	**(0.3)**
Issuance of common shares	19	**37.5**	**—**	**—**	**37.5**
Dividends declared	19	**—**	**—**	**(131.9)**	**(131.9)**
Balance as at December 31, 2014		**$ 1,646.2**	**$ 21.1**	**$ (615.0)**	**$ 1,052.3**
Balance as at December 31, 2012		$ 1,337.2	$ 21.2	$ (536.8)	$ 821.6
Net loss for the year		—	—	(84.4)	(84.4)
Other comprehensive income for the year		—	—	202.4	202.4
Total comprehensive income for the year		—	—	118.0	118.0
Share-based compensation	21	—	0.2	—	0.2
Issuance of common shares	19	271.5	—	—	271.5
Dividends declared	19	—	—	(118.6)	(118.6)
Balance as at December 31, 2013		$ 1,608.7	$ 21.4	$ (537.4)	$ 1,092.7

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS of FINANCIAL POSITION

As at December 31

(in millions of Canadian dollars)	Note		2014		2013
Assets					
Current assets					
Cash and cash equivalents	16	$	33.4	$	87.8
Accounts receivable	16		158.3		147.1
Prepaid expenses			29.1		27.0
Inventories	11		20.3		17.5
			241.1		279.4
Property, plant and equipment	12		1,526.7		1,486.6
Intangible assets	13		377.4		371.8
Other assets	14		82.8		73.4
Deferred tax assets	9		460.0		471.2
Total assets		$	2,688.0	$	2,682.4
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	16	$	307.9	$	293.3
Advance billings and payments			58.3		57.3
Current provisions	15		19.6		41.4
Current portion of long-term debt	16		—		275.0
			385.8		667.0
Long-term debt	16		873.1		648.1
Long-term provisions	15		4.0		2.9
Employee benefits	17		329.4		227.8
Other long-term liabilities	16 & 18		42.5		42.9
Deferred tax liabilities	9		0.9		1.0
Total liabilities			1,635.7		1,589.7
Shareholders' equity					
Share capital	19		1,646.2		1,608.7
Contributed surplus	20		21.1		21.4
Deficit			(615.0)		(537.4)
			1,052.3		1,092.7
Total liabilities and shareholders' equity		$	2,688.0	$	2,682.4

Approved on behalf of the Board

David Leith
Chair, Board of Directors

Kishore Kapoor, CA
Director

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS of CASH FLOWS

Years ended December 31

(in millions of Canadian dollars)	Note	**2014**	2013
Cash flows from operating activities			
Net income (loss)		**$ 131.7**	$ (84.4)
Add (deduct) items not affecting cash			
Depreciation and amortization		**317.1**	309.1
Deferred income tax expense (recovery)	9	**39.5**	(27.3)
Loss on disposal of assets		**6.0**	3.1
Impairment loss		**—**	130.4
Past service costs		**—**	142.1
Deferred wireless costs		**(71.1)**	(72.2)
Pre-funded pension solvency payments		**—**	(125.0)
Pension funding and net pension expense		**11.8**	16.9
Pension plan lawsuit payment		**(15.0)**	—
Other, net		**(1.2)**	(0.7)
Changes in non-cash working capital		**(21.9)**	14.7
Cash flows from operating activities		**396.9**	306.7
Cash flows from investing activities			
Capital expenditures		**(288.3)**	(296.0)
Acquisition of spectrum	13	**(8.9)**	—
Acquisition		**—**	(7.8)
Other, net		**(7.9)**	(2.3)
Cash flows used in investing activities		**(305.1)**	(306.1)
Cash flows from financing activities			
Dividends paid		**(93.9)**	(84.2)
Repayment of notes payable, net		**—**	(54.5)
Issuance of long-term debt	16	**225.0**	—
Repayment of long-term debt	16	**(275.0)**	—
Issuance of share capital		**—**	238.5
Other, net		**(2.3)**	—
Cash flows (used in) from financing activities		**(146.2)**	99.8
Change in cash and cash equivalents		**(54.4)**	100.4
Cash and cash equivalents (bank indebtedness), beginning of year		**87.8**	(12.6)
Cash and cash equivalents, end of year		**$ 33.4**	$ 87.8

MANITOBA TELECOM SERVICES INC.
NOTES to CONSOLIDATED FINANCIAL STATEMENT for the YEARS ended DECEMBER 31, 2014 and 2013
(All amounts are in millions of Canadian dollars, unless otherwise indicated)

1. CORPORATE INFORMATION
Manitoba Telecom Services Inc. (the "Company") is incorporated in Manitoba, Canada, and its Common Shares are listed on the Toronto Stock Exchange ("TSX"). The Company's head and registered office is located at 333 Main Street, P.O. Box 6666, Winnipeg, Manitoba, Canada, R3C 3V6. The principal activities of the Company are described in note 22.

2. SIGNIFICANT ACCOUNTING POLICIES
(a) Statement of compliance
These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and the accounting policies described below. The policies used are based on the standards as issued by the International Accounting Standards Board ("IASB") applicable as at December 31, 2014, and which have been incorporated by the Canadian Accounting Standards Board into current generally accepted accounting principles for publicly accountable enterprises.

The consolidated financial statements were approved by the Board of Directors on February 4, 2015.

(b) Basis of presentation
The consolidated financial statements have been prepared on a historical cost basis, which is generally based on the fair value of the consideration at the time of the transaction. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest million unless otherwise indicated.

(c) Basis of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which includes its principal operating subsidiaries MTS Inc. and Allstream Inc. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The Company has a joint arrangement for the deployment and operation of its high-speed packet access and long-term evolution network, which is accounted for as a joint operation. The Company recognizes its share of assets, liabilities, revenues and expenses related to this arrangement in its consolidated financial statements. All intercompany transactions and balances are eliminated on consolidation.

(d) Revenue recognition
Revenue is recognized when it is probable that the associated economic benefits of the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable from customers for the provision of telecommunications services and sale of equipment, net of discounts and sales taxes collected. More specifically, the Company applies the following revenue recognition policies:

- Revenues from the provision of local voice, wireless, data connectivity, Internet, Internet protocol television ("IPTV"), security and alarm monitoring services are recognized in the period in which services are provided.
- Monthly network access fees, which are billed in advance, are deferred and recognized on a straight-line basis over the contracted period.
- Revenues from long distance, wireless airtime and other pay-per-use services are recognized in the period in which services are delivered.
- Revenues related to interconnection of voice and data traffic between telecommunication operators are recognized in the period in which network usage occurs. These revenues are reported gross of any amounts charged by other telecommunications carriers for interconnection services. The costs of interconnection services received from other carriers are expensed in the period in which services are received.
- Revenues from the provision of maintenance services are recognized on a straight-line basis over the period of the customer contract.
- Revenues from the sale of equipment are recognized when the significant risks and rewards of ownership are transferred to the buyer, which is normally at the time the equipment is delivered to and available for use by the customer, in accordance with contractual arrangements.
- Advance payments received from customers are deferred and recognized in the period in which the services are provided or the goods are delivered.
- Revenues related to contributions from customers for the construction of assets are deferred and recognized as revenue as the related service is provided.
- The Company enters into arrangements with customers in which services and products may be sold together. When the components of these multiple element arrangements have stand-alone value to the customer, the components are accounted for separately, based on the relative selling prices, using the appropriate revenue recognition criteria as described above.
- Revenues are disclosed net of discounts and rebates, as the Company does not receive an identifiable benefit in exchange for the discount given to the customer.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, net of bank overdrafts, and money market instruments, which are readily convertible into known amounts of cash and have a maturity of three months or less.

(f) Inventories

The Company's inventory balance consists of wireless handsets, parts and accessories, and communications equipment held for resale. The Company values its inventory at the lower of cost or net realizable value, with cost being determined on an average cost basis.

(g) Property, plant and equipment

Property, plant and equipment are recorded at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. For construction projects, historical cost includes materials, direct labour, other directly attributable expenditures, and borrowing costs associated with construction projects that take a substantial period of time to get ready for their intended use. Historical cost is presented net of any related investment tax credits, which are recognized when the Company has reasonable assurance that they will be realized. The present value of estimated costs for decommissioning an asset after its intended use, representing a provision, is also included in the historical cost of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. When significant parts of an item of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets and depreciates them over their estimated useful lives. The estimated useful lives are reviewed annually, with any changes in estimate accounted for prospectively. Land is not depreciated. The estimated useful lives of property, plant and equipment are as follows:

	Estimated useful life
Network assets	
Plant assets	5 to 40 years
Wireless site equipment	4 to 12 years
General equipment and other	2 to 20 years
Buildings and leasehold improvements	9 to 40 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated statements of income in the period in which the asset is derecognized.

(h) Intangible assets

Intangible assets are recognized when the Company controls the asset, it is probable that future economic benefits attributable to the asset will flow to the Company, and the cost of the asset can be reliably measured. Intangible assets are initially recognized at cost and subsequently measured at cost less accumulated amortization and impairment. Intangible assets, other than goodwill and indefinite life intangible assets, are amortized on a straight-line basis over their estimated periods of future benefit. The estimated periods of future benefit and amortization methods are reviewed annually, with any changes in estimate accounted for prospectively. The Company's intangible assets include the following:

(i) Computer software

Computer software, which is purchased from third parties, is amortized over the estimated period of benefit ranging from five to 10 years. Internal use software is recorded at historical cost and includes materials, direct labour and other directly attributable costs and is amortized over the estimated period of benefit ranging from five to 10 years.

(ii) Subscriber acquisition costs

Subscriber acquisition costs, comprised of commissions paid to dealers and the costs paid for the handsets less the initial cash consideration paid by the customer, are capitalized and amortized over the average contractual life of the customer, which is currently 24 months for wireless costs and 36 months for alarm costs.

(iii) Spectrum licenses and broadcast certificate

The wireless spectrum licenses and broadcast certificate are indefinite life intangible assets and are therefore not amortized. The Advanced Wireless Spectrum licenses were issued by Industry Canada on December 15, 2008, for an initial 10 year term expiring December 14, 2018. The 700 MHz Wireless Spectrum licenses were issued by Industry Canada on April 3, 2014, for an initial 20 year term expiring April 2, 2034. The broadcast certificate was issued by the Canadian Radio-television Telecommunications Commission for a seven year term expiring on August 31, 2015. The

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Company has determined that there are no legal, regulatory, contractual, economic or other factors which would prevent the renewals or limit the useful lives of its spectrum licenses or broadcast certificate.

(iv) Customer contracts and relationships

Customer contracts and relationships acquired in business combinations are initially recognized at their fair value at the date of acquisition and are amortized on a straight-line basis over the estimated periods of benefit ranging from two to 10 years.

(v) Other

Other intangible assets, which include non-competition agreements and other service contracts, were acquired in business combinations. These items are initially recognized at their fair value at the date of acquisition and are amortized on a straight-line basis over the estimated periods of benefit ranging from two to 10 years. Other intangible assets are subsequently measured at cost less accumulated amortization.

(vi) Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of the identifiable net tangible assets and intangible assets acquired in business combinations at the dates of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

(i) Impairment of property, plant and equipment, and intangible assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment, and intangible assets to determine whether there is any indication that their carrying amount may not be recoverable. If such an indication of impairment exists, the recoverable amount of the asset is estimated and compared to its carrying amount to determine if the asset is impaired. If the recoverable amount of the individual asset cannot be determined, recoverability is tested on the basis of the cash-generating unit to which the asset is allocated.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Value in use is determined using discounted cash flow calculations. Estimated future cash flows of the asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is considered impaired and is reduced to its recoverable amount. An impairment loss is recognized immediately in income. Impairment losses, other than those related to goodwill, are reversed if the reasons for recognizing the original impairment loss no longer apply, and the asset is recognized at a value that would have been applied if no impairment losses had been recognized in prior periods.
Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, an impairment loss is recognized. Goodwill impairment losses cannot be reversed in future periods.

(j) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes reflect the estimated income taxes payable for the current year. Deferred tax assets and liabilities are measured using substantively enacted tax rates, and are based on:

- the differences between the tax base of an asset or liability and its carrying amount for accounting purposes; and
- the benefit of unused tax losses available to be carried forward to future years for tax purposes.

Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the temporary differences are reversed. Deferred tax assets are recognized only to the extent that it is probable that taxable income will be available against which the deductible temporary differences or loss carryforwards can be utilized. Deferred tax assets and liabilities are not discounted.

Current and deferred taxes are recognized in the consolidated statements of income except when the tax relates to items charged or credited to other comprehensive income or equity, in which case the tax is recognized in other comprehensive income or equity, respectively. The Company establishes provisions for uncertain tax positions for possible consequences of audits and differing interpretations by the taxation authorities. These provisions are based upon the likelihood and the best estimate of amounts expected to be paid.

The Company recognizes investment tax credits on its research and development activities using the cost reduction method, under which credits are deducted from the assets or expenses to which they relate. Credits are only recorded when it is probable that they will be realized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Provisions

The Company recognizes a provision when it has a present legal or constructive obligation that is the result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured based on the best estimate of the amount required to settle the obligation. If the effect of the time value of money is material, the amount of the provision is determined using a pre-tax discount rate that reflects the risks specific to the obligation. The Company reviews its provisions at the end of each reporting period and, if required, an adjustment to reflect the current best estimate is made. In instances where it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

The Company recognizes restructuring provisions related to efficiency programs aimed at achieving process improvements and cost reductions. Restructuring provisions are recognized when the Company has announced or implemented a detailed formal plan that changes either the scope of its business or the manner in which the business is conducted. Facility exit costs are recognized as a liability and expensed when the Company exits a lease prior to the lease expiration date. The liabilities recognized are based on the remaining lease rentals reduced by the actual or estimated sublease rentals at the cease-use date. Decommissioning provisions are initially recognized at the best estimate of the amount required to settle the obligation, the resulting costs are added to the carrying amount of the related asset and the cost is amortized over the economic life of the asset. The carrying amount of the provision is adjusted for the passage of time and any changes in the market-based discount rate, amount or timing of the underlying future cash flows required to settle the obligation.

(l) Financial instruments

(i) Recognition and derecognition of financial assets and liabilities

Financial assets and liabilities are recognized on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company's financial assets and liabilities are recorded initially at fair value. Financial assets are derecognized when the Company no longer has rights to the cash flows, risks and rewards of ownership or control of the asset. Financial liabilities are derecognized when the obligation under the liability is discharged or cancelled or expires.

(ii) Financial assets

Cash and cash equivalents

Cash and cash equivalents include cash on hand, net of bank overdrafts, and money market instruments, which are readily convertible into known amounts of cash. Cash and cash equivalents are classified as fair value through profit or loss ("FVTPL"), and represent a financial asset measured at fair value, with changes in fair value recognized in net income.

Accounts receivable

Accounts receivable are classified as loans and receivables, and are measured at amortized cost less any allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts for potential credit losses. This allowance is based on management's best estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

(iii) Financial liabilities

Long-term debt

Long-term debt is classified as other financial liabilities and is measured at amortized cost. The Company accounts for debt issue costs associated with the issuance of long-term debt as a reduction in the carrying value of long-term debt. These costs, which are amortized over the life of long-term debt using the effective interest rate method, are included in debt charges.

Other financial liabilities

Accounts payable, notes payable, securitization borrowings and other long-term liabilities are classified as other financial liabilities and are measured at amortized cost.

(iv) Fair value

The fair value of financial assets and liabilities designated as FVTPL is determined based on quoted prices in active markets for identical assets or liabilities, per Level 1 of the fair value hierarchy.

The fair value of long-term debt, which has fixed interest rates, is estimated by discounting the expected future cash flows using the relevant risk-free interest rate adjusted for an appropriate risk premium for the Company's credit profile.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Accounts receivable securitization

The Company accounts for the transfer of receivables to a securitization trust as a collateralized borrowing. When the receivables are transferred, the Company continues to recognize the receivables on its consolidated statements of financial position because the associated risks and rewards, in particular credit risk, have not been transferred. A corresponding financial liability is recognized for the cash consideration received from the trust. All trade receivables transferred have a maturity of less than 90 days. Under this arrangement, the Company continues to manage and service the receivables transferred.

(vi) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that the carrying value of a financial asset is impaired. If impairment occurs, the loss is recognized in the statement of income and the carrying value is reduced to its fair value. With the exception of long-term debt, the carrying value of the Company's financial assets and liabilities, which are subject to normal trade terms, approximates the fair value due to the short duration to maturity.

(vii) Derivative financial instruments

The Company purchases foreign currency forward contracts in United States ("U.S.") dollars to manage foreign currency exchange exposure, which arises in the normal course of business operations. The Company has elected not to designate any of its foreign currency forward contracts as accounting hedges. Foreign exchange gains and losses on these foreign currency forward contracts are recorded in the consolidated statement of financial position as an asset or a liability, with changes in fair value recognized in the consolidated statements of income. The resulting asset or liability is designated as FVTPL and is valued using observable market data as per Level 2 of the fair value hierarchy.

(m) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and whether the arrangement conveys the right to use that asset.

Leases that do not transfer the risks and rewards of ownership are classified as operating leases. Payments are recorded in the statements of income on a straight-line basis over the lease term.

(n) Employee benefits

The Company's cost of providing benefits under its defined benefit pension plans and other non-pension post-employment benefits is determined annually by independent actuaries using the projected unit credit method. These actuarial valuations require the use of assumptions, including the discount rate and expected future salary increases to measure defined benefit obligations. The discount rate used to calculate the present values of the defined benefit obligation is determined by reference to market interest rates of high quality Canadian corporate bonds at the end of the reporting period. Past service costs arising from plan amendments are recognized immediately in income. The net defined benefit liability (asset) recognized in the Company's consolidated statement of financial position comprises the present value of the defined benefit obligations less the fair value of plan assets. Remeasurements of the net defined benefit liability (asset) are recognized immediately in other comprehensive income. At each interim reporting period, the Company estimates actuarial gains and losses resulting from changes in the discount rate used to calculate the present value of the defined benefit pension obligations, and recognizes the actual return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset). At year-end, all actuarial gains and losses arising from changes in the present value of the defined benefit obligations, and the changes in the fair value of plan assets, are determined in an accounting valuation prepared by an independent actuary. For funded defined benefit plans, when a net defined benefit asset is recognized, it is limited to the present value of the economic benefit in the form of reductions in future contributions to the plan. Any minimum funding requirements are considered in the calculation of the economic benefit. For plans recognized by a net defined benefit liability, minimum funding requirements can also result in an increase in the liability. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities. The Company recognizes any decrease in an asset or increase in a liability as a result of the above in other comprehensive income. The Company recognizes its payments to the defined contribution plans as an expense in the period the employee service is incurred.

(o) Share-based compensation

The Company has a number of share-based compensation plans, whereby the Company receives services from employees or its Board of Directors in exchange for equity-settled or cash-settled share-based compensation. Equity-settled plans include the Company's stock option program. Cash-settled plans include the Company's employee share ownership plan, performance share unit plan, restricted share unit plan and share appreciation plan.

The cost of equity-settled share-based transactions is measured at the fair value of the stock option at the grant date, using the Black-Scholes option pricing model. The fair value of the stock options, which have graded vesting, is expensed over the respective vesting period of each tranche based on the Company's estimate of stock options expected to vest.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company uses a fair value-based methodology to measure the cost of cash-settled share-based transactions. Compensation expense is based on the expected payout amounts net of estimated forfeitures and is recorded over the term of the vesting period. Cash-settled awards are classified as liabilities, which are remeasured at each reporting date. The impact of any changes in the liability as a result of subsequent changes to the estimated payout values for the units expected to vest is recognized in income in the period of change.

(p) Translation of foreign currencies

The Company's consolidated financial statements are presented in Canadian dollars, which is also its functional currency. Foreign currencies have been translated into Canadian dollars at rates of exchange on the following bases:

- monetary assets and liabilities at rates in effect on the date of the consolidated statements of financial position;
- non-monetary assets and liabilities at historical exchange rates; and
- revenues and expenses at rates prevailing at the respective transaction dates.

(q) Adoption of new accounting standards

Effective January 1, 2014, the Company adopted the following IFRS standard:
International Financial Reporting Interpretations Committee 21, *Levies*, provides guidance on when to recognize a liability for a levy imposed by a government other than those payments within the scope of another standard. This standard has been adopted and applied in these consolidated financial statements and has not had any impact on the amounts reported for the current or prior period.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of our consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

(a) Critical accounting estimates and assumptions

Estimates and assumptions are based on reasonable methodologies, established processes and comparisons to industry standards. The Company continuously evaluates these estimates and assumptions, which rely on the use of professional judgment. Because professional judgment involves inherent uncertainty, actual results could differ from the estimates. Areas involving critical estimates and assumptions are described below:

(i) Valuation of accounts receivable

The Company estimates that a certain portion of receivables from customers will not be collected, and maintains an allowance for doubtful accounts. If circumstances related to specific customers change, economic conditions change or actual results differ from expectations, the Company's estimate of the recoverability of receivables could fluctuate from that provided for in the consolidated financial statements. A change in estimate could impact bad debt expense and accounts receivable.

(ii) Useful lives of property, plant and equipment

Property, plant and equipment are amortized on a straight-line basis over their estimated useful lives. The Company reviews these estimates on an annual basis, or more frequently if events during the year indicate that a change may be required, with consideration given to technological obsolescence, competitive pressures and other relevant business factors. A change in management's estimate could impact depreciation expense and the carrying value of property, plant and equipment.

(iii) Useful lives of definite life intangible assets

Intangible assets with a definite useful life are amortized on a straight-line basis over their estimated period of future benefit. The estimated periods of future benefit and amortization methods are reviewed on an annual basis, or more frequently if events during the year indicate that a change may be required, with consideration given to customer churn, industry standards and other relevant business factors. A change in estimate could impact amortization expense and the carrying value of intangible assets.

(iv) Goodwill and indefinite life intangible assets

The Company tests the recoverability of goodwill and indefinite life intangible assets on an annual basis or earlier when events or changes in circumstance indicate that the carrying value might not be recoverable. The recoverable amount of each cash-generating unit to which the asset is allocated is determined based on value in use calculations. These calculations require the use of estimates, including management's expectations of revenues and operating costs, and assumptions on discount and growth rates. A change in management's estimates could impact the carrying value of goodwill and indefinite life intangible assets.

(v) Non-financial assets with finite useful lives

Non-financial assets with finite useful lives include property, plant and equipment and intangible assets. The Company tests the recoverability of non-financial assets with finite useful lives when events or changes in circumstances indicate that the carrying value might not be recoverable. The recoverable amount of each cash-generating unit to

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

which the asset is allocated is determined based on value in use calculations. These calculations require the use of estimates, including management's expectations of revenues and operating costs, and assumptions on discount and growth rates. A change in management's estimates could impact the carrying value of property, plant and equipment and intangible assets.

(vi) Deferred tax assets

The Company has deferred tax assets resulting from net operating loss carryforwards and deductible temporary differences which, to the extent utilized, will reduce future taxable income. Realization of these deferred tax assets is dependent on the Company's ability to utilize the underlying future deductions against future taxable income. In assessing the carrying value of the deferred tax assets, the Company makes estimates and assumptions of future taxable income using internal management projections, the carry forward period associated with the deferred tax assets, the nature of income that may be used to realize the deferred tax assets, future tax rates and ongoing audits by Canada Revenue Agency ("CRA"). A change in the Company's estimates or assumptions of any of these factors could affect the value of the deferred tax asset and related income tax expense.

(vii) Decommissioning provisions

When recognizing decommissioning provisions, the Company makes estimates of the probability of retiring assets, the timing and amount of retirement costs, and the discount factor applied to determine fair value. Management's estimates of probability and the timing and amount of costs are subject to change and are reviewed annually or more frequently if events during the year indicate that a change may be required.

(viii) Employee benefits

The Company provides pension, supplemental pension and other non-pension post-employment benefits to its employees. The determination of defined benefit cost and the defined benefit obligation associated with post-employment benefits requires the use of certain actuarial and economic assumptions, such as the discount rate used to measure the defined benefit obligations, expected future salary increases and future mortality rates. A change in estimate or assumptions could affect defined benefit cost and the present value of the defined benefit obligation.

(b) Critical accounting judgment

In the normal course of operations, the Company enters into arrangements in which services and products are sold together. In the process of applying the Company's accounting policies for this type of revenue recognition, judgment is often necessary to determine when components can be accounted for separately.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but are not yet effective. Many of these updates are not relevant to the Company and are therefore not discussed. The Company expects the following standards and amendments described below to be applicable to its consolidated financial statements at a future date:

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments,* which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39. The new standard introduces new classification and measurement requirements for assets and liabilities, and a new, expected loss impairment model that will require more timely recognition of expected credit losses for financial instruments. Entities will also be required to have additional disclosure to provide information that explains the basis for their expected credit loss calculations and how they measure expected credit losses and assess changes in credit risk. The standard also introduces a new hedge accounting model that aligns the accounting treatment with risk management activities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively, with earlier application permitted. The Company is currently evaluating the impact of the above standard on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers,* issued by the IASB in May 2014, supersedes IAS 18, *Revenues*, IAS 11, *Construction Contracts* and a number of revenue-related interpretations. The core principle of the new standard is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is applicable to all revenue contracts with customers and also provides a model for the recognition and measurement of gains or losses from sales of some non-financial assets. It also requires enhanced disclosures as to the nature, timing and uncertainty of revenues and cash flows arising from contracts with customers.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017 and is to be applied retrospectively, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company is currently evaluating the impact of the above standard on its consolidated financial statements.

5. ALLSTREAM IMPAIRMENT TESTING

Allstream transaction

On May 24, 2013, the Company entered into an agreement with Accelero Capital Holdings ("Accelero") to sell the shares of its wholly owned subsidiaries, Allstream Inc., Allstream Fibre U.S., Inc. and Delphi Solutions Corp. (collectively "Allstream"), subject to certain regulatory approvals. On October 7, 2013, the Federal Government announced that it had rejected the proposed acquisition of Allstream by Accelero. As a result of this announcement the Company was required to remeasure Allstream at the lower of its carrying amount before it was classified as held for sale, and its recoverable amount.

The recoverable amount is based on the higher of the fair value less costs to sell and the value in use calculation for Allstream. The Company prepared the value in use calculation using certain key assumptions. Cash flow projections, which were made over a five-year period, include key assumptions about revenues, expenses and other cash flows. Revenue forecasts were based on management's estimate of growth in the markets served and are not considered to exceed the long-term average growth rates for those markets. Operating expenses were estimated based upon past experience, adjusted for the increase in activity levels supporting the cash flow projections. Discount rates applied to the cash flow forecasts are derived from Allstream's pre-tax weighted average cost of capital, adjusted to reflect management's estimate of the specific risk profiles of the Allstream cash-generating unit. The cash flows related to Allstream were discounted using pre-tax rates of 17.8% to 21.1%.

Based on this analysis, the Company determined that the recoverable amount, which was the fair value less costs to sell, was lower than the carrying value of Allstream before it was classified as held for sale. As a result, the Company's total impairment charge for Allstream during 2013 was $130.4 million for the year ended December 31, 2013, and was reflected as decreases in property, plant and equipment ($122.1 million) and intangible assets ($8.3 million).

As a result of the rejected Allstream transaction, the Company incurred a combination of non-recoverable, transaction-related expenses and restructuring costs totaling $35.2 million for the year ended December 31, 2013.

Allstream impairment testing

At December 31, 2014, the Company completed an updated impairment test for the property, plant and equipment and finite life intangibles of Allstream. The Company determined the recoverable amount based on the estimated fair value less costs to sell of Allstream. The fair value was determined using discounted cash flow calculations and represents a level 3 valuation under IFRS 13, *Fair Value Measurement*.

Cash flow projections, which were made over a five-year period based on financial budgets, include key assumptions about revenues, expenses and other cash flows, including actions to streamline the Allstream operations. Revenue forecasts were based on management's estimates of the growth in converged IP and unified communication services considering the conversion of customers from legacy connectivity services, new contracts and market share growth. Operating expenses were estimated based upon past experience and increases in activity levels supporting revenue growth initiatives. Capital expenditures were estimated based on growth and transformational initiatives in addition to maintenance capital expenditures based upon past experience. Cash flows were discounted at an after-tax discount rate of 10% to 11% reflecting market rates of return, debt to equity ratios and risk premiums. The terminal value, which represents a significant portion of the December 31, 2014 fair value, was determined based on the improved level of cash flows that management estimated can be realized by 2019 and a 2.5% terminal growth rate.

As a result of the impairment test conducted, the Company did not recognize any impairment for Allstream for the year ended December 31, 2014. Management has made certain assumptions regarding cash flows, discount and terminal growth rates in determining the recoverable amount of Allstream. A change in any of these assumptions may have a material impact on the calculation of the recoverable amount, which could result in an impairment charge.

6. OPERATING REVENUES

	2014	2013
Provision of services	**1,549.6**	1,572.8
Sale of goods	**62.4**	60.9
Operating revenues	**1,612.0**	1,633.7

7. OPERATING EXPENSES

	2014	2013
Operations:		
Salaries and benefits expense	396.4	410.7
Bad debt expense	8.0	8.8
Other operations expenses	641.7	627.7
	1,046.1	1,047.2
Transaction costs and restructuring (note 5)	—	35.2
Depreciation and amortization:		
Depreciation of property, plant and equipment	191.3	194.0
Amortization of intangible assets	125.8	115.1
	317.1	309.1
Operating expenses	1,363.2	1,391.5

During the third quarter, the Company adjusted the amortization of its SR&ED investment tax credits ("ITCs") to reflect the final asset allocation to which the ITCs relate. As a result, the Company's depreciation and amortization expense was reduced by $12.0 million for the year with the offset recorded to property, plant and equipment.

8. FINANCE COSTS

	2014	2013
Interest expense on long-term indebtedness	49.4	54.2
Interest expense on short-term indebtedness	4.7	7.1
Net interest cost on the net defined benefit obligation	12.0	18.7
Other finance expense	4.0	3.8
Capitalized borrowing costs	(4.2)	(2.7)
Finance costs	65.9	81.1

During the year ended December 31, 2014, the Company paid short-term interest costs of $5.5 million (2013 - $7.0 million) and interest on long-term debt of $50.5 million (2013 - $54.3 million).

Borrowing costs associated with qualifying projects were capitalized at an average rate of 5.53% (2013 - 5.47%).

9. INCOME TAXES

The major components of income tax expense (recovery) for the years ended December 31 are as follows:

	2014	2013
Current income tax:		
Current income tax expense	6.6	—
Adjustments in respect of current income tax expense of previous years	2.6	(0.5)
	9.2	(0.5)
Deferred income tax:		
Relating to origination and reversal of temporary differences	39.5	(27.3)
Income tax expense (recovery)	48.7	(27.8)

Of the current income taxes of $9.2 million, $9.0 million (2013 - nil) is related to the utilization of SR&ED ITCS and does not require a cash outlay.

9. INCOME TAXES (continued)

Reconciliations between the income tax expense (recovery) recognized and the accounting income multiplied by the applicable tax rate for the years ended December 31 are as follows:

	2014		2013	
	%	$	%	$
Income (loss) before income taxes		180.4		(112.2)
Income tax at combined federal and provincial statutory tax rate	27.0	48.7	27.0	(30.3)
Effect of:				
Other items	—	—	(2.2)	2.5
Income tax reported in the consolidated statements of income	27.0	48.7	24.8	(27.8)

The tax rate used represents the combined federal and provincial statutory rate applicable to the Company's major operating entities.

The major items giving rise to net deferred tax assets and liabilities, as well as their movement, are summarized below.

Net deferred tax assets (liabilities)	Non-capital tax loss carryforwards	Property, plant and equipment	Employee benefits	Other	Total
December 31, 2012	258.3	130.5	133.5	(7.4)	514.9
Income statement	36.3	(15.4)	6.9	(0.5)	27.3
Other comprehensive loss	—	—	(74.3)	—	(74.3)
Business acquisitions and share capital	—	—	—	2.3	2.3
December 31, 2013	294.6	115.1	66.1	(5.6)	470.2
Income statement	(71.7)	15.0	(1.2)	18.4	(39.5)
Other comprehensive income	—	—	28.4	—	28.4
December 31, 2014	**222.9**	**130.1**	**93.3**	**12.8**	**459.1**

During the years ended December 31, 2014 and 2013, the Company paid no cash income taxes.

As at December 31, 2014, the Company, along with its subsidiaries, had non-capital tax loss carryforwards of $828.0 million (2013 - $1,093.4 million). These non-capital tax loss carryforwards expire in varying annual amounts from 2025 and beyond.

In April 2013, the Company received notification that CRA would not accept the Company's proposal to settle all outstanding audit issues related to losses accumulated by Allstream and its predecessor companies prior to its acquisition in 2004.

The Company strongly disagrees with CRA and intends to defend its position through the various options open to it. Therefore, it is not possible to quantify any potential impact at this time. An unfavourable resolution of these issues would not result in any immediate cash tax outlays, but could result in the Company becoming cash taxable earlier than previously forecast and recording a non-cash deferred income tax expense.

10. EARNINGS PER SHARE

The following table provides a reconciliation of the information used to calculate basic and diluted earnings (loss) per share:

	2014	2013
Net income (loss) for the year		
Basic and diluted	131.7	(84.4)
Weighted average number of shares outstanding (in millions)		
Weighted average number of shares outstanding – basic and diluted	77.6	68.2
Earnings (loss) per share ($)		
Basic and diluted earnings (loss) per share	1.70	(1.24)

The diluted earnings (loss) per share calculation excludes the effect of anti-dilutive options. The number of excluded options was 2,816,913 (2013 - 2,950,672).

11. INVENTORIES

The Company performs periodic reviews of its inventory for obsolescence and, during the year ended December 31, 2014, recorded obsolete inventory expense of $0.6 million (2013 - expense of $0.2 million). During the year ended December 31, 2014, the Company expensed $55.8 million of inventory relating to cost of goods sold (2013 - $42.4 million).

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following:

	Network assets	General equipment and other	Buildings and leasehold improvements	Assets under construction	Land	Total
Cost						
December 31, 2012	3,268.1	611.1	297.3	87.1	6.6	4,270.2
Additions	183.6	54.5	7.2	3.8	—	249.1
Additions from business combination	—	1.9	—	—	—	1.9
Transfers	0.1	—	—	—	—	0.1
Disposals	(5.9)	(13.5)	(4.3)	—	—	(23.7)
December 31, 2013	3,445.9	654.0	300.2	90.9	6.6	4,497.6
Additions	139.2	43.9	12.7	42.4	—	238.2
Transfers	—	0.6	(0.3)	—	—	0.3
Other	—	—	1.2	—	—	1.2
Disposals	(31.3)	(37.8)	(5.6)	—	—	(74.7)
December 31, 2014	**3,553.8**	**660.7**	**308.2**	**133.3**	**6.6**	**4,662.6**
Accumulated depreciation and impairment						
December 31, 2012	2,123.8	443.3	143.6	—	—	2,710.7
Additions from business combination	—	1.4	—	—	—	1.4
Depreciation expense	131.3	56.0	10.3	—	—	197.6
Impairment	106.1	8.3	7.7	—	—	122.1
Disposals	(4.9)	(13.4)	(2.5)	—	—	(20.8)
December 31, 2013	2,356.3	495.6	159.1	—	—	3,011.0
Depreciation expense	127.7	55.9	8.5	—	—	192.1
Transfers	—	0.5	(0.2)	—	—	0.3
Other	—	—	1.2	—	—	1.2
Disposals	(26.9)	(37.4)	(4.4)	—	—	(68.7)
December 31, 2014	**2,457.1**	**514.6**	**164.2**	**—**	**—**	**3,135.9**
Net book value						
December 31, 2013	1,089.6	158.4	141.1	90.9	6.6	1,486.6
December 31, 2014	**1,096.7**	**146.1**	**144.0**	**133.3**	**6.6**	**1,526.7**

13. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	Computer software	Subscriber acquisition costs	Spectrum licences and broadcast certificate	Customer contracts and relationships	Other	Goodwill	Total
Cost							
December 31, 2012	479.4	157.9	51.4	10.7	41.6	27.7	768.7
Additions	46.9	73.2	—	—	7.6	—	127.7
Disposals	(0.7)	(56.9)	—	—	(9.5)	—	(67.1)
Transfers	(0.1)	—	—	—	—	—	(0.1)
Additions from business combination	—	—	—	2.0	—	5.5	7.5
December 31, 2013	525.5	174.2	51.4	12.7	39.7	33.2	836.7
Additions	50.1	71.9	8.9	—	8.3	—	139.2
Disposals	(0.3)	(60.2)	—	—	(8.7)	—	(69.2)
Transfers	(0.3)	—	—	—	—	—	(0.3)
December 31, 2014	**575.0**	**185.9**	**60.3**	**12.7**	**39.3**	**33.2**	**906.4**
Accumulated amortization and impairment							
December 31, 2012	308.3	71.4	—	5.6	14.7	—	400.0
Amortization expense	45.5	66.5	—	1.1	2.0	—	115.1
Amortization recorded in operations expense	—	—	—	—	8.4	—	8.4
Impairment	8.3	—	—	—	—	—	8.3
Disposals	(0.5)	(56.9)	—	—	(9.5)	—	(66.9)
December 31, 2013	361.6	81.0	—	6.7	15.6	—	464.9
Amortization expense	47.2	75.4	—	1.2	2.0	—	125.8
Amortization recorded in operations expense	—	—	—	—	7.8	—	7.8
Disposals	(0.3)	(60.2)	—	—	(8.7)	—	(69.2)
Transfers	(0.3)	—	—	—	—	—	(0.3)
December 31, 2014	**408.2**	**96.2**	**—**	**7.9**	**16.7**	**—**	**529**
Net book value							
December 31, 2013	163.9	93.2	51.4	6.0	24.1	33.2	371.8
December 31, 2014	**166.8**	**89.7**	**60.3**	**4.8**	**22.6**	**33.2**	**377.4**

Allocation of goodwill to cash-generating units for impairment testing

For the purposes of its annual goodwill impairment test, the Company allocates its goodwill to the cash-generating units, which are the smallest identifiable groups of assets that generate cash inflows that have goodwill and are largely independent of the cash inflows from other groups of assets.

The Company's $33.2 million of goodwill has been allocated as follows: $20.6 million to the MTS Unit, $7.1 million to AAA Alarms and $5.5 million to Epic Information Solutions ("Epic"). The Company acquired Epic on September 1, 2013 for cash consideration of $9.4 million, of which $5.5 million was allocated to goodwill.

The Company also has indefinite life intangible assets of $60.3 million (2013 - $51.4 million) which have been allocated to the MTS Unit, for purposes of annual impairment testing. The impairment tests performed during the year did not result in the recognition of any impairment losses.

In performing the annual impairment testing for each of the Company's cash-generating units, the Company measured the recoverable amount of each cash-generating unit based on a value in use calculation using certain key management assumptions. Cash flow projections, which were made over a five-year period based on financial budgets, include key assumptions about revenues, expenses and other cash flows. Revenue forecasts were based on management's estimate of growth in the markets served and are not considered to exceed the long-term average growth rates for those markets.

13. INTANGIBLE ASSETS (continued)

Operating expenses were estimated based upon past experience, adjusted for the increase in activity levels supporting the cash flow projections. Discount rates applied to the cash flow forecasts are derived from the cash-generating unit's pre-tax weighted average cost of capital, adjusted to reflect management's estimate of the specific risk profiles of the individual cash-generating units. The cash flows related to the MTS Unit, AAA Alarms and Epic were discounted using pre-tax rates of 8.5% to 9.1%,12.4% to 13.6% and 15.5% to 17.3%, respectively.

Based on the sensitivity analysis performed, the Company has concluded that no reasonably possible changes in the key assumptions on which the recoverable amounts are based would cause any of the carrying amounts of the cash-generating units to exceed their recoverable amounts.

14. OTHER ASSETS

	December 31, 2014	December 31, 2013
Investment tax credits recoverable	61.9	54.3
Long-term prepaid costs	12.3	13.7
Other long-term assets	8.6	5.4
	82.8	73.4

15. PROVISIONS

The composition and changes in provisions are as follows:

	Restructuring	Tax-related	Decommissioning	Other	Total
December 31, 2012	8.3	10.3	7.0	3.8	29.4
Provisions recognized	29.4	3.6	—	7.5	40.5
Provisions utilized	(17.1)	(1.3)	—	(0.9)	(19.3)
Provisions reversed	—	(2.6)	(3.9)	(0.1)	(6.6)
Accretion	—	—	0.3	—	0.3
December 31, 2013	20.6	10.0	3.4	10.3	44.3
Provisions recognized	6.9	4.8	0.2	0.1	12.0
Provisions utilized	(17.9)	(3.5)	—	(5.7)	(27.1)
Provisions reversed	(1.3)	(0.9)	(1.1)	(2.4)	(5.7)
Accretion	—	—	0.1	—	0.1
December 31, 2014	**8.3**	**10.4**	**2.6**	**2.3**	**23.6**
Presented as:					
Current provisions	5.6	10.4	1.5	2.1	19.6
Long-term provisions	2.7	—	1.1	0.2	4.0
Total provisions	**8.3**	**10.4**	**2.6**	**2.3**	**23.6**

(i) Restructuring

Restructuring provisions relate to the Company's efficiency programs aimed at achieving process improvements and expense reductions. Restructuring costs include costs for severance and other employee-related expenses that supported workforce reduction initiatives undertaken throughout the year and facility consolidation of select real estate. These provisions are expected to be settled over periods ranging from one month to 7 years.

(ii) Tax-related

The Company recognizes tax-related provisions for uncertain tax positions related to sales taxes, capital taxes and property taxes. The provisions reflect the potential obligation for the Company to remit additional taxes, penalties and/or interest as a result of decisions by taxation authorities.

(iii) Decommissioning

Decommissioning provisions arise from legal and constructive obligations that exist for the removal of equipment or the restoration of premises upon the termination of certain agreements. These provisions, which are expected to be settled over periods ranging from three months to 37 years, are associated with underground and above ground cable, microwave towers and related structures, building accesses and leased facilities.

15. PROVISIONS (continued)

The undiscounted amount of the estimated cash flows required to settle the decommissioning provisions as at December 31, 2014 is approximately $3 million (2013 - $4 million).

(iv) Other

Other provisions include amounts provided for legal or constructive obligations arising from regulatory decisions and litigation claims.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities

Financial assets and liabilities in the consolidated statements of financial position are as follows:

December 31, 2014	Financial assets at fair value	Loans and receivables at amortized cost	Other financial liabilities at amortized cost	Total
Financial assets				
Cash and cash equivalents	33.4	—	—	33.4
Accounts receivable	—	158.3	—	158.3
	33.4	158.3	—	191.7
Financial liabilities				
Accounts payable and accrued liabilities	—	—	307.9	307.9
Current portion of long-term debt	—	—	—	—
Long-term debt	—	—	873.1	873.1
Other long-term liabilities	—	—	11.9	11.9
	—	—	1,192.9	1,192.9

December 31, 2013	Financial assets at fair value	Loans and receivables at amortized cost	Other financial liabilities at amortized cost	Total
Financial assets				
Cash and cash equivalents	87.8	—	—	87.8
Accounts receivable	—	147.1	—	147.1
	87.8	147.1	—	234.9
Financial liabilities				
Accounts payable and accrued liabilities	—	—	293.3	293.3
Current portion of long-term debt	—	—	275.0	275.0
Long-term debt	—	—	648.1	648.1
Other long-term liabilities	—	—	14.2	14.2
	—	—	1,230.6	1,230.6

Notes payable

As at December 31, 2014, the Company had a $400 million bank credit facility with a syndicate of financial institutions, which is used for cash management purposes, the issuance of letters of credit, and to support the Company's $150 million commercial paper program. As at December 31, 2014, the Company had $57.9 million in undrawn letters of credit outstanding under this facility. The Company also had two additional letter of credit facilities totaling $300 million, which are used solely for the issuance of letters of credit. As at December 31, 2014, the Company had $298.1 million in undrawn letters of credit outstanding under these facilities.

Under the terms of the Company's accounts receivable securitization program, the Company has the ability to transfer, on a revolving basis, an undivided ownership interest in its accounts receivable to a securitization trust, up to a maximum of $110.0 million. The terms of the Company's accounts receivable securitization program require the Company to maintain reserve accounts, in the form of additional accounts receivable over and above the cash proceeds received, to absorb credit losses on the receivables sold. As at December 31, 2014, the Company had not utilized its accounts receivable securitization program (2013 - nil).

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Long-term debt

Long-term debt is comprised of the following as at December 31:

	Interest rate	Maturity	2014	2013
Loan payable	6.59%	May 14, 2014	—	75.0
Medium-term note	6.15%	June 10, 2014	—	200.0
Medium-term note	6.65%	May 11, 2016	250.0	250.0
Medium-term note	4.59%	October 1, 2018	200.0	200.0
Medium-term note	5.625%	December 16, 2019	200.0	200.0
Medium-term note	4.00%	May 27, 2024	225.0	—
			875.0	925.0
Less: debt issue costs			(1.9)	(1.9)
			873.1	923.1
Less: current portion of long-term debt			—	(275.0)
			873.1	648.1

The Company's notes are issued under trust indentures and are unsecured.

Fair value

With the exception of long-term debt, the carrying value of the Company's financial assets and liabilities, which are subject to normal trade terms, approximate fair value. The fair value of long-term debt as at December 31, 2014, including the current portion, was $937.0 million (2013 - $988.5 million).

Financial risk management

Credit risk

The Company's credit risk is primarily attributable to its accounts receivable. This risk is minimized by the Company's large and diverse customer base. The following table provides an aging analysis of the Company's accounts receivable as at December 31:

	2014	2013
0-30 days	122.8	104.8
31-60 days	29.9	33.8
61-90 days	5.3	8.5
Past 90 days	0.3	—
Total	158.3	147.1

The Company maintains an allowance for doubtful accounts for potential credit losses. This allowance is based on management's best estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or should be written off. The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

The Company's allowance for doubtful accounts for large business accounts receivable is calculated as a specific percentage of total large business accounts outstanding plus an additional provision for certain high-risk large business accounts. For all other accounts receivable, the allowance for doubtful accounts represents all accounts over 90 days past due.

The following table provides a continuity of the Company's allowance for doubtful accounts receivable:

	2014	2013
Balance, beginning of the year	4.7	8.5
Charge for the year	8.0	8.8
Accounts written off (net of recoveries)	(9.0)	(12.6)
Balance, end of the year	3.7	4.7

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk

The Company is exposed to liquidity risk from its debt. This risk is minimized by the Company's capital structure management policies and by maintaining bank credit facilities. The following table provides a summary of the maturity dates for various financial liabilities, based on contractual undiscounted payments. The table includes both interest and principal cash flows.

2014	Less than 1 year	1 - 2 years	2 - 3 years	3+ years
Accounts payable and accrued liabilities	307.9	—	—	—
Long-term debt - principal	—	250.0	—	625.0
Interest on long-term debt	46.1	37.7	29.4	90.2
Other long-term liabilities	2.5	2.5	2.5	8.7
	356.5	290.2	31.9	723.9

2013	Less than 1 year	1 - 2 years	2 - 3 years	3+ years
Accounts payable and accrued liabilities	293.3	—	—	—
Long-term debt - principal	275.0	—	250.0	400.0
Interest on long-term debt	44.3	37.0	26.4	49.4
Other long-term liabilities	2.5	2.5	2.5	11.2
Forward contracts	30.3	—	—	—
	645.4	39.5	278.9	460.6

Market risk

The Company is exposed to market risk from interest rates related to its debt and from foreign exchange rates related to normal business operations in foreign currencies.

Interest rate risk is minimized by the Company's capital structure management policies.

The Company enters into foreign currency forward contracts to manage foreign currency exposure, which arises in the normal course of business operations. The Company's accounting policy is to adjust outstanding foreign currency forward contracts from book value to fair value as at the date of the consolidated statements of financial position. As at December 31, 2014, the Company had no outstanding foreign currency forward contracts (2013 - $30.3 million) and a related financial liability recorded in accounts payable and accrued liabilities of nil (2013 - nil). During the year ended December 31, 2014, the Company recognized no amount in other income related to the adjustment of outstanding foreign currency forward contracts to fair value.

Reasonable fluctuations in market interest rates and foreign currency exchange rates would not have a material impact on the Company's net income and comprehensive income.

Capital structure management policies

The Company's objectives when managing capital are: (i) to maintain an acceptable level of liquidity, so that the Company can continue to cover its financial obligations and investment requirements; and (ii) to enhance shareholder value by maintaining an efficient cost of capital.

The Company manages capital through the monitoring of a number of measures, with the primary one being debt to capitalization. This metric illustrates the amount of assets that are financed by debt versus equity. As part of managing the capital structure, the Company will make adjustments based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain an optimal capital structure, the Company may buy back shares to reduce shareholders' equity or sell assets to reduce debt.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The following table provides information on the Company's debt to capitalization ratio:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	(33.4)	(87.8)
Long-term debt, including current portion	873.1	923.1
Total debt	839.7	835.3
Shareholders' equity	1,052.3	1,092.7
Total capitalization	1,892.0	1,928.0
Debt to capitalization ratio	44.4%	43.3%

The Company must comply with two types of covenants regarding capital structure. The first is a debt to earnings before interest, taxes, depreciation and amortization, and other income (expense) ("EBITDA") covenant on the Company's bank credit facility that requires the Company to maintain a ratio of debt to EBITDA below a certain threshold. The second is a level of debt covenant on the Company's medium term notes that requires the Company not to exceed a specified debt to total capitalization ratio. The Company continually monitors these covenants and is in full compliance as at December 31, 2014.

17. EMPLOYEE BENEFITS

Employee benefits liabilities are comprised of the following:

	December 31, 2014	December 31, 2013
Defined benefit pension plans	295.4	195.1
Other non-pension unfunded post-employment benefits	31.1	29.2
Other	2.9	3.5
	329.4	227.8

Pension benefits

The Company and its subsidiaries provide pension benefits through two contributory and one non-contributory defined benefit best average earnings pension plans, which cover the majority of the employees of the Company and its subsidiaries. The pension plans are registered under the *Pensions Benefits Standards Act, 1985* (Canada) ("PBSA"). These plans provide pensions based on length of service and best average earnings. Two of the defined benefit plans have provisions for periodic cost of living adjustments to benefit payments for certain members based on a percentage of the increase in the Consumer Price Index. The Company's policy is to fund the plans as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits. As required by the PBSA, the Company is responsible for making special payments to finance any unfunded liabilities of the plans over a period not exceeding 15 years in the case of a going concern deficiency, and if there is a solvency deficiency, by annual solvency special payments equal to the amount by which the three-year average solvency deficiency divided by five exceeds the amount of going concern special payments that are payable during the plan year. For the two contributory plans, the amount of funding by employees is based on defined formulae.

The defined benefit plans expose the Company to actuarial risks such as longevity risk, currency risk, interest rate risk and investment risk. The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan members. Longevity risk exists because an increase in the life expectancy of plan members will increase the plan liability. A change in the valuation of the plans' foreign assets due to changes in foreign exchange rates exposes the plans to currency risk. A decrease in the bond interest rate used to calculate the present value of the defined benefit obligation will increase the plans' liability. This interest rate risk will be partially offset by an increase in return on the plans' fixed income investments. Investment risk occurs if the return on plan assets is lower than the bond interest rate used to determine the discount rate. Currently the plans have a balanced investment mix of 55% equity, 40% fixed income and 5% real estate. Due to the long term nature of the plans' defined benefit obligations, the Company considers it appropriate that a reasonable portion of the plans' assets should be invested in equities and real estate to generate additional long term return.

The Company also has two defined contribution pension plans which cover certain employees of the Company. One plan requires the Company to contribute, on behalf of each member, an amount equal to 2.5% of the member's earnings. The second plan requires members to contribute a minimum of 1% to a maximum of 9% of earnings. The Company is required to match member contributions, subject to limits that vary by years of continuous service.

The Company also provides supplemental pension benefits to certain current and retired employees. One of the Company's supplemental pension benefit plans has assets set aside in trust to fund benefits.

17. EMPLOYEE BENEFITS (continued)

The Company measures its defined benefit obligations and the fair value of plan assets as at December 31 each year. The most recent actuarial valuations of the defined benefit pension plans for funding purposes was as at January 1, 2014. The next funding valuations are required to be completed as at January 1, 2015. Future funding requirements will depend on the results of annual actuarial funding valuations, which are affected by various factors such as actuarial experience of the plans, return on plan assets and interest rate fluctuations.

Regulations under the PBSA provide that letters of credit may be used to meet solvency special payment requirements. The total face value of the letters of credit that can be issued cannot exceed 15% of the market value of the plan assets as determined on the valuation date. To facilitate solvency special payments, the Company has arranged for $321.7 million (2013 - $272.2 million) in letters of credit to be held by RBC Investor Services Trust, the trustee for the defined benefit pension plans.

Other benefits

The Company provides other non-pension benefits including long term disability and post-employment life, medical and dental insurance, which are unfunded. The Company's costs for medical and dental insurance available for certain retirees are fixed and not subject to changes in medical cost trend rates.

Defined benefit plans

The changes in the net defined benefit liability and its components for the defined benefit pension plans are as follows:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2014	2013	**2014**	2013	**2014**	2013
Balance at January 1	**2,533.7**	2,399.1	**(2,338.6)**	(1,956.8)	**195.1**	442.3
Recognized in net income						
Current service cost	**29.3**	32.7	**—**	—	**29.3**	32.7
Past service cost	**—**	135.1	**—**	—	**—**	135.1
Net interest cost (income)	**122.8**	102.1	**(112.2)**	(84.8)	**10.6**	17.3
Administration cost	**—**	—	**1.5**	1.7	**1.5**	1.7
	152.1	269.9	**(110.7)**	(83.1)	**41.4**	186.8
Recognized in other comprehensive income						
Remeasurement (gain) loss:						
Actuarial loss due to experience adjustments	**2.8**	5.8	**—**	—	**2.8**	5.8
Actuarial loss due to changes in demographic assumptions	**19.0**	133.2	**—**	—	**19.0**	133.2
Actuarial loss (gain) due to changes in financial assumptions	**277.6**	(199.2)	**—**	—	**277.6**	(199.2)
Return on plan assets, excluding amounts included in net interest cost	**—**	—	**(134.7)**	(272.4)	**(134.7)**	(272.4)
Restriction on asset recognized	**(61.2)**	58.4	**—**	—	**(61.2)**	58.4
	238.2	(1.8)	**(134.7)**	(272.4)	**103.5**	(274.2)
Other						
Employee contributions	**10.9**	12.0	**(10.9)**	(12.0)	**—**	—
Employer contributions	**—**	—	**(44.6)**	(159.8)	**(44.6)**	(159.8)
Benefit payments	**(202.1)**	(145.5)	**202.1**	145.5	**—**	—
	(191.2)	(133.5)	**146.6**	(26.3)	**(44.6)**	(159.8)
Balance at December 31	**2,732.8**	2,533.7	**(2,437.4)**	(2,338.6)	**295.4**	195.1

17. EMPLOYEE BENEFITS (continued)

The change in the restriction on asset recognized for the defined benefit pension plans is as follows:

	Restriction on asset recognized	
	2014	2013
Balance at January 1	**58.4**	—
Recognized in net income		
Interest on restriction on asset	**2.8**	—
Recognized in other comprehensive income		
Restriction on asset recognized	**—**	58.4
Change in restriction on asset during the year	**(61.2)**	—
Balance at December 31	**—**	58.4

Settlement Agreement

On January 30, 2014, the Supreme Court of Canada reinstated a lower court ruling on a lawsuit regarding the administration of one of the Company's defined benefit pension plans following the Company's 1997 privatization. As a result, the Company recognized a past service cost of $135.1 million in 2013. To address the court ruling, the Company reached a settlement agreement with its unions and retirees on September 24, 2014 in regards to an implementation plan for distribution of the initial pension surplus. The settlement agreement provides for total enhanced benefits and payments of $140 million plus interest to the court approval date, less distribution and legal fees. On November 3, 2014, court approval of the settlement agreement was obtained and initial settlement payments of $54.9 million were distributed in 2014. Of this amount, $15.0 million was paid directly by the Company to MTS employees and $39.9 million was distributed from the pension plan to retirees and other persons with interests in the plan. Enhanced pension benefits and further payments will be made in 2015.

The changes in the defined benefit obligation and net defined benefit liability for the other non-pension unfunded post-employment benefits are as follows:

	Defined benefit obligation/ net defined benefit liability	
	2014	2013
Balance at January 1	**29.2**	30.9
Recognized in net income		
Current service cost	**1.4**	2.4
Net interest cost	**1.4**	1.4
	2.8	3.8
Recognized in other comprehensive income		
Remeasurement loss (gain):		
Actuarial loss due to experience adjustments	**0.1**	0.6
Actuarial gain due to changes in demographic assumptions	**(0.2)**	(1.0)
Actuarial loss (gain) due to changes in financial assumptions	**2.4**	(2.1)
	2.3	(2.5)
Other		
Benefit payments	**(3.2)**	(3.0)
Balance at December 31	**31.1**	29.2

17. EMPLOYEE BENEFITS (continued)

The major categories of the defined benefit pension plans' assets at fair value are as follows:

	2014	2013
Cash and cash equivalents	**52.4**	72.4
Fixed income investments		
Government guaranteed bonds	**361.4**	301.5
Corporate bonds	**238.4**	208.0
Bond funds	**220.8**	194.8
Mortgage funds	**119.5**	104.5
	940.1	808.8
Equity investments		
Financials	**145.9**	147.7
Energy	**60.0**	76.6
Materials	**59.6**	66.6
Information technology	**116.9**	126.1
Consumer discretionary	**149.7**	147.5
Utilities	**3.6**	3.0
Telecommunication services	**15.1**	27.3
Consumer staples	**51.1**	60.9
Industrials	**116.7**	107.1
Health Care	**101.2**	79.9
Equity funds	**501.4**	499.5
	1,321.2	1,342.2
Real estate investments		
Real estate funds	**123.7**	115.2
	2,437.4	2,338.6

The defined benefit pension plans' assets are valued based on quoted prices in active markets, except for government guaranteed bonds and corporate bonds, which are valued directly or indirectly based on observable market data. Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represents the plans' proportionate share of the underlying net assets at fair value determined using closing market prices. The plans' assets do not include any direct investment in the Company's own financial instruments nor any property occupied or other assets used by the Company.

The Company expects to fund $85 million into the defined benefit pension plans in 2015. In addition, $12.4 million in pension lawsuit settlement payments will be made directly to employees in 2015. The Company also funds benefit payments for non-pension employee defined benefits and supplemental defined benefit pension plans as they occur. The amount of these non-pension and supplemental defined benefit pension payments is expected to be approximately $4.2 million in 2015.

The weighted average duration of the defined benefit obligation at December 31, 2014 was 14.1 years.

Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation is as follows:

	Pension benefits		**Other benefits**	
	2014	2013	**2014**	2013
Discount rate	**4.10%**	4.90%	**4.10%**	4.90%
Future salary increases	**3.25%**	3.25%	**3.25%**	3.25%
Inflation rate	**2.00%**	2.00%	**n.a.***	n.a.

**not applicable*

17. EMPLOYEE BENEFITS (continued)

Assumptions regarding future mortality were based on the RPP 2014 Private Sector Draft Mortality Table (CPM-RPP2014Priv), without adjustments in 2013 and on the RPP 2014 Private Sector Mortality Table (CPM-RPP2014Priv), with size adjustments in 2014. The change to the mortality table increased the defined benefit pension obligation by $19.0 million in 2014.

The following table illustrates the impact on the December 31, 2014 defined benefit obligation for the pension benefits and other benefits of an isolated negative change for each of the significant actuarial assumptions:

Assumption	Change	Increase in pension benefits	Increase (decrease) in other benefits
Discount rate	1% lower	374.1	3.4
Future salary increases	1% higher	64.4	0.4
Inflation rate	1% higher	193.3	n.a.*
Life expectancy	1 year longer	76.2	(0.5)

**not applicable*

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the consolidated statements of financial position. The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that a change in assumptions would occur in isolation of one another.

Defined contribution plans

During 2014, the Company recognized an expense, representing employer contributions to the defined contribution plans, in the amount of $2.9 million (2013 - $3.1 million).

18. OTHER LONG-TERM LIABILITIES

	December 31, 2014	December 31, 2013
Deferred revenue	**20.3**	19.4
Rights-of-way and network access contracts	**2.8**	0.5
Other	**19.4**	23.0
	42.5	42.9

19. SHARE CAPITAL

Authorized

Unlimited number of Preference Shares of two classes
Unlimited number of Common Shares of a single class

Preference Shares

The two classes of Preference Shares are issuable in one or more series, for which the Board of Directors of the Company may fix the number of shares and determine the designation, rights, privileges, restrictions and conditions. One class of Preference Shares of a single series has been designated as Class A Preference Shares. Another class of Preference Shares of a single series has been designated as Class B Preference Shares. There are no Preference Shares outstanding.

Class A Preference Shares

The rights, privileges, restrictions and conditions of the Class A Preference Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Class A Preference Shares are not entitled to vote at meetings of shareholders on resolutions electing directors.
- The Class A Preference Shares are convertible, at any time, into Common Shares, on a one-for-one basis.

Class B Preference Shares

The rights, privileges, restrictions and conditions of the Class B Preference Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Class B Preference Shares are not entitled to vote at meetings of shareholders, and are not entitled to share in the distribution of the assets of the Company upon a liquidation, winding-up or dissolution.
- The Class B Preference Shares are convertible into Common Shares on a one-for-one basis at the option of the holder at any time subject to foreign ownership restrictions, or upon the occurrence of certain events, or at the option of the Company at any time.

19. SHARE CAPITAL (continued)

Dividends on each class of Preference Shares are payable on the same dates as dividends are paid on the Common Shares of the Company, using the same record date for determining holders of Preference Shares entitled to dividends as the record date for Common Share dividends, in an amount per Preference Share equal to the corresponding amount of dividends per Common Share.

Both classes of Preference Shares participate in the earnings of the Company on an equal basis with the Common Shares. Therefore, any shares issued are included in the weighted average number of shares outstanding for purposes of calculating basic and diluted earnings per share.

Common Shares

The holders of the Common Shares have the right to receive notice of, and attend and vote at, meetings of shareholders, to receive such dividends as may be declared by the Board of Directors of the Company, and to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in priority thereto. Common Shares have no par value.

The Company has a Dividend Reinvestment Plan and Share Purchase Plan ("the Plan") which enables eligible holders of its Common Shares to automatically reinvest their regular quarterly dividends in additional Common Shares of the Company. Participants in the Plan also have the option to make cash payments to purchase additional Common Shares. The shares are issued from treasury at a discount rate of 3% from the average market price.

	2014		2013	
Issued	**Number**	**Value**	Number	Value
Common Shares				
Balance, beginning of year	**76,821,497**	**1,608.7**	66,994,852	1,337.2
Issued pursuant to the plan	**1,301,895**	**37.5**	971,645	30.2
Issued pursuant to the offering	**—**	**—**	8,855,000	241.3
Balance, end of year	**78,123,392**	**1,646.2**	76,821,497	1,608.7

During the year ended December 31, 2014, 1,301,895 Common Shares were issued (2013 - 971,645 Common Shares) as a result of participation in the Plan in exchange for $37.5 million (2013 - $30.2 million), which was credited to share capital.

During the year ended December 31, 2013, 8,855,000 Common Shares were issued as part of a "bought deal" financing agreement ("the Offering") issued at a purchase price of $28.10 per Common Share, for gross proceeds of $248.8 million, which was credited to share capital, net of share issuance costs, net of tax, of $7.5 million.

Dividends

On February 4, 2015, the Company's Board of Directors declared a quarterly cash dividend of $0.425 per share. During 2014, the Company paid $1.70 per share to shareholders of record (2013 - $1.70).

20. CONTRIBUTED SURPLUS

Contributed surplus is used to recognize the value of equity-settled share-based payment transactions provided to employees, as part of their remuneration.

21. SHARE-BASED COMPENSATION

The Company has various share-based compensation arrangements, which are described below. During the year, the Company recognized an expense in the amount of $10.4 million (2013 - $9.7 million) related to these plans, of which a recovery of $0.3 million (2013 - $0.2 million of expense) was for equity-settled share-based plans and $10.7 million (2013 - $9.4 million) was for cash-settled share-based plans. As at December 31, 2014, the liability arising from the cash-settled share-based compensation plans is $16.6 million (2013 - $17.1 million). The vested amount of this liability is $6.6 million (2013 - $5.8 million).

Stock options

The Company has a stock option plan under which the Board of Directors may grant options to purchase Common Shares to employees at a price not less than the weighted average of the prices at which the Common Shares traded on the TSX for the five days immediately preceding the date of grant of the option. The options are exercisable during a period not to exceed 10 years. The right to exercise the options accrues over a period of five years of continuous employment at a rate of 20% per year, effective on the anniversary of the date on which the options were granted. The Company has reserved a maximum of $7.0 million (2013 - $7.0 million) Common Shares to meet rights outstanding under the stock option plan. The Company also has reserved 450,000 Common Shares to meet rights outstanding under an additional security-based compensation arrangement. This compensation arrangement has the same terms and conditions as the stock options granted under the stock option plan described above.

21. SHARE-BASED COMPENSATION (continued)

The following tables provide further information on outstanding stock options as at December 31:

	2014		2013	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Outstanding, beginning of year	**2,816,913**	**37.63**	2,950,672	37.61
Forfeited	**(336,109)**	**32.95**	(55,095)	32.81
Expired	**(304,030)**	**42.24**	(78,664)	35.31
Outstanding, end of year	**2,176,774**	**37.70**	2,816,913	37.63
Exercisable, end of year	**2,105,460**	**37.89**	2,137,806	39.09

Range of exercise prices	Options outstanding	Weighted average remaining contractual life (years)
$30.00 - $40.99	**1,701,774**	**3.80**
$41.00 - $50.00	**475,000**	**2.21**
	2,176,774	**3.45**

No stock options were granted in 2014 and 2013.

Employee share ownership plan

The Company has an employee share ownership plan under which eligible employees can purchase Common Shares of the Company. Eligible employees may contribute between 1% and 6% of their salary, with the Company contributing an amount equal to 25% of the employee's contributions. The Company recognizes its contributions as a component of operating expenses. During the year ended December 31, 2014, the Company recognized an expense in the amount of $3.2 million (2013 - $3.4 million) related to this plan. During the year, all Common Shares purchased on behalf of employees under this plan were purchased at fair market value on the open market.

Performance share unit plan

The Company has a performance share unit ("PSU") plan under which the Board of Directors may grant PSUs to specified employees. The performance vesting conditions applicable to PSUs are established each year, with the final payout value subject to the achievement of the predetermined performance objectives. PSUs have a maximum vesting period of three years and require continuous employment throughout the vesting period. Except under certain circumstances requiring Board approval, PSUs that have not vested at the time a participant in the PSU plan ceases to be employed are forfeited. The PSUs, like Common Shares, are entitled to dividend equivalents that are paid in the form of additional PSUs, which are issued at the time dividends are paid on the Company's Common Shares. The vesting of these additional PSUs is subject to the same performance vesting conditions and vesting date as the original grant of the PSUs.

The number of PSUs granted and the accrued dividend equivalents are adjusted as at the vesting date, by a performance factor which takes into account actual performance achieved in relation to specific predetermined corporate objectives. The payout price is calculated based on the market value of the PSUs at the time of vesting and is paid out, at the option of the holder, in cash, in Common Shares of the Company that are acquired on the open market by a trustee on behalf of the Company or a combination thereof. The market value of a PSU is equal to the weighted average of the trading prices of the Company's Common Shares on the TSX on the five trading days preceding the vesting date.

The following table provides further information on outstanding performance share units:

	2014	2013
Outstanding, beginning of year	**229,278**	223,983
Granted	**108,498**	121,002
Dividend equivalents	**11,624**	12,653
Settled in cash	**(89,366)**	(92,351)
Forfeited	**(60,005)**	(36,009)
Outstanding, end of year	**200,029**	229,278

21. SHARE-BASED COMPENSATION (continued)

Restricted share unit plan

The Company has a restricted share unit ("RSU") plan, under which the Board of Directors may grant RSUs to specified employees. RSUs are granted based on individual performance potential and market competitiveness. The vesting of RSUs is not subject to the achievement of performance vesting conditions.

RSUs have a maximum vesting period of three years, and will vest only if there has been continuous employment throughout the vesting period. Except under certain circumstances requiring Board approval, RSUs that have not vested at the time a participant in the RSU Plan ceases to be employed are forfeited. Similar to PSUs, the RSUs attract dividend units equivalent to the dividends paid on the Company's Common Shares.

The number of RSUs granted and the accrued dividend equivalents are multiplied by the payout price at the vesting date. The payout price is calculated based on the market value of the RSUs at the time of vesting and is paid out, at the option of the holder, in cash, in Common Shares of the Company that are acquired on the open market by a trustee on behalf of the Company or a combination thereof. The market value of a RSU is equal to the weighted average of the trading prices of the Company's Common Shares on the TSX on the five trading days preceding the vesting date.

The following table provides further information on outstanding restricted share units:

	2014	2013
Outstanding, beginning of year	365,249	392,970
Granted	145,351	164,014
Dividend equivalents	18,241	19,841
Settled in cash	(171,764)	(166,581)
Forfeited	(45,861)	(44,995)
Outstanding, end of year	311,216	365,249

Directors' share appreciation plan

The Company has a share appreciation plan for its non-executive Directors, requiring Directors to receive a minimum of 25% of their annual compensation in deferred compensation units ("DCU"), which are redeemable only when the Director ceases to be a Board member. Directors may elect to receive up to 100% of their compensation in the form of DCUs. DCUs attract dividends in the form of additional DCUs at the same rate as dividends on the Company's Common Shares.

The following table provides further information on outstanding deferred compensation units:

	2014	2013
Outstanding, beginning of year	185,705	159,519
Granted	25,804	17,155
Dividend equivalents	11,669	9,031
Outstanding, end of year	223,178	185,705

22. SEGMENTED INFORMATION

As at December 31, 2014, the Company had two reportable operating segments: MTS and Allstream. MTS provides a full range of wireless, broadband, high-speed Internet, IPTV, converged IP, unified communications, security, home alarm monitoring, local access and long distance services to residential and business customers in Manitoba. Allstream provides IP-based communications, unified communications, voice and data connectivity, and security services to business customers in Canada.

The Company evaluates performance based on EBITDA. EBITDA, as reported below, includes intersegment revenues and expenses. The Company accounts for intersegment revenues and expenses at either prices that approximate current market prices or cost, depending on the type of service.

22. SEGMENTED INFORMATION (continued)

The following tables provide further segmented information for the year ended December 31:

	MTS		Allstream		Other		Intersegment eliminations		Consolidated	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Operating revenues										
Wireless	**365.7**	375.3	**—**	—	**—**	—	**—**	—	**365.7**	375.3
Broadband and converged IP	**241.9**	228.1	**261.3**	241.9	**—**	—	**—**	—	**503.2**	470.0
Information solutions	**22.4**	4.5	**—**	—	**—**	—	**—**	—	**22.4**	4.5
Unified communications, hosting, security and monitoring	**36.9**	35.8	**78.5**	76.0	**—**	—	**—**	—	**115.4**	111.8
Local access	**241.5**	251.9	**133.7**	154.7	**—**	—	**—**	—	**375.2**	406.6
Long distance and legacy data	**65.8**	71.0	**132.1**	155.5	**—**	—	**—**	—	**197.9**	226.5
Other	**27.6**	28.4	**38.5**	45.5	**—**	—	**(33.9)**	(34.9)	**32.2**	39.0
Total operating revenues	**1,001.8**	995.0	**644.1**	673.6	**—**	—	**(33.9)**	(34.9)	**1,612.0**	1,633.7
EBITDA	**472.0**	477.1	**99.5**	81.5	**(5.6)**	(7.3)	**—**	—	**565.9**	551.3
Depreciation and amortization	**244.1**	257.7	**72.4**	50.8	**0.6**	0.6	**—**	—	**317.1**	309.1
Assets	**1,675.7**	1,627.0	**623.9**	587.8	**(26.2)**	136.3	**(45.4)**	(139.9)	**2,228.0**	2,211.2
Goodwill	**33.2**	33.2	**—**	—	**—**	—	**—**	—	**33.2**	33.2
Capital expenditures	**187.9**	197.4	**100.4**	98.6	**—**	—	**—**	—	**288.3**	296.0

The prior period figures have been reclassified where necessary to conform with 2014 presentation. Reconciliation to consolidated income before income taxes for the year ended December 31 is as follows :

	2014	2013
Income before income taxes		
Total EBITDA	**565.9**	551.3
Depreciation and amortization	**(317.1)**	(309.1)
Other expense	**(2.5)**	(0.8)
Past service costs	**—**	(142.1)
Impairment loss	**—**	(130.4)
Finance costs	**(65.9)**	(81.1)
Income (loss) before income taxes	**180.4**	(112.2)
Assets		
Assets for operating segments	**2,228.0**	2,211.2
Deferred tax assets	**460.0**	471.2
Total assets	**2,688.0**	2,682.4

23. RELATED PARTY TRANSACTIONS

Related parties include the Company's wholly-owned subsidiaries, post-employment benefit plans and key management personnel. Balances and transactions during the year between the Company and its wholly-owned subsidiaries are eliminated on consolidation and, therefore, are not disclosed. Amounts paid to the group's post-employment benefit plans are set out in note 17.

23. RELATED PARTY TRANSACTIONS (continued)

Key management personnel include the members of the Company's Board of Directors and Executive Committee. Compensation expense, related to key management personnel during the year ended December 31 is as follows:

	2014	2013
Short-term employee benefits	**5.3**	6.5
Share-based compensation (1)	**5.9**	6.2
Post-employment benefits	**0.6**	0.7
Termination benefits	**3.5**	2.5
	15.3	15.9

(1) Share-based compensation expense excludes the impact of fluctuations in market values of the Company's Common Shares and changes in the achieved performance vesting conditions (2014 - $0.5 million recovery of expense; 2013 - $1.3 million recovery of expense).

24. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Operating lease commitments

In the normal course of operations, the Company has entered into operating lease agreements for building, operating facilities, construction equipment and other equipment. These leases have an average life of between 1 and 64 years, with renewal options contained within some contracts. The Company recorded rental expense related to operating leases of $48 million in 2014 (2013 - $45 million). The Company's future non-cancellable operating lease commitments as at December 31 are summarized in the following table:

	2014	2013
Not later than 1 year	**58.2**	58.1
Later than 1 year and not later than 5 years	**179.7**	176.9
Later than 5 years	**134.8**	166.3
	372.7	401.3

Capital commitments

The Company has commitments for the purchase of property, plant and equipment in the amount of $20.5 million as at December 31, 2014 (2013 - $9.6 million). These commitments are for the acquisition of property, plant and equipment used in the normal course of operations.

The Company has entered into an arrangement to build a commercial data center in 2015 for approximately $50 million.

Guarantees

In the normal course of business and in connection with the disposition or sale of assets, the Company enters into agreements providing indemnifications that may require the Company to pay for costs or losses incurred by the parties to these agreements. These indemnifications relate to various matters such as intellectual property right infringement, loss or damage to property, claims arising from the provision of services, violation of laws or regulations, and breaches of representations or warranties. The nature of these indemnifications prevents the Company from making reasonable estimates of the maximum potential amount it could be required to pay, and no amount has been recorded in the consolidated financial statements relating to these indemnifications. Historically, the Company has not made significant payments related to these indemnifications.

The Company also indemnifies its directors, officers and certain other employees against claims and damages that are incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance in respect of its directors and officers.

The Company obtains letters of credit with financial institutions for the benefit of third parties. In general, the terms of these letters of credit permit third parties to draw on the letters of credit to recover any loss incurred, as defined in the particular letter of credit. Certain of these letters of credit guarantee future funding of the Company's registered pension plans. As at December 31, 2014, the Company had undrawn letters of credit outstanding in the amount of $356.0 million (2013 - $341.9 million).

24. COMMITMENTS, GUARANTEES AND CONTINGENCIES (continued)

Contingencies

The Company's legal department performs an assessment of the legal proceedings and claims which have occurred as a result of regular business activities during the period. Based on the information and estimates available, the outcomes of these contingent liabilities are uncertain and they do not satisfy the requirements to be recognized in the consolidated statements of financial position as liabilities.

25. PRIOR PERIOD FIGURES

The prior period figures have been reclassified when necessary to conform to 2014 presentation.

FIVE YEARS in REVIEW

FINANCIAL INFORMATION

(Not subject to auditors' report)

*($ millions)**	2014	2013	2012	Shown as not amended for IFRS IAS 19 2011	 2010
Consolidated operations					
Total operating revenues	**1,612.0**	1,633.7	1,704.1	1,765.6	1,782.6
Total operating expenses	**1,363.2**	1,391.5	1,441.7	1,470.1	1,508.5
Operating income	**248.8**	242.2	262.4	295.5	274.1
Finance costs	**65.9**	81.1	78.3	65.5	64.0
Impairment loss	**—**	130.4	—	—	—
Pension plan past service costs	**—**	142.1	—	—	—
Net income (loss)	**131.7**	(84.4)	144.5	167.1	141.3
Basic earnings per share ($)	**1.70**	(1.24)	2.17	2.55	2.18
EBITDA	**565.9**	551.3	585.2	594.4	564.8
Dividends	**131.9**	118.6	113.2	111.5	139.3
Capital expenditures, net	**288.3**	296.0	338.0	288.0	361.9
Free cash flow	**154.5**	121.0	117.6	129.8	34.1
Consolidated balance sheet					
Total assets	**2,688.0**	2,682.4	2,731.8	2,681.0	2,630.1
Property, plant and equipment, net book value	**1,526.7**	1,486.6	1,559.5	1,542.8	1,497.1
Long-term debt and notes payable[1]	**873.1**	923.1	976.4	1,020.8	1,040.6
Shareholders' equity	**1,052.3**	1,092.7	821.6	802.2	860.5
Debt to capitalization (%)	**44.4**	43.3	54.6	55.6	53.5
Operational statistics					
Wireless customers	**506,586**	501,388	497,367	496,432	483,754
High-speed Internet customers	**217,348**	208,331	193,690	189,366	183,571
IPTV customers	**108,096**	104,861	97,232	95,476	89,967
Number of employees[2]	**4,863**	4,849	5,349	5,340	5,418

**In $ millions, except for earnings per share, ratios and number of employees*
[1]Includes current portion of long-term debt
[2]Represents number of regular full-time and regular part-time employees

BOARD of DIRECTORS

Jay Forbes, CPA, FCA
Chief Executive Officer

Director since 2015.

David G. Leith
Chair of the Board and Corporate Director

Director since 2009.

He became Chair of the Board in January 2010.

N. Ashleigh Everett
President and Corporate Secretary, Royal Canadian Securities Limited

Director since 1997.

She is the Chair of the Governance and Nominating Committee and is a member of the Human Resources and Compensation Committee.

The Honourable Gary A. Filmon, P.C., O.C., O.M.
Corporate Director

Director since 2003.

He is a member of the Human Resources and Compensation Committee and the Governance and Nominating Committee.

Barbara H, Fraser
Corporate Director

Director since 2014.

She is a member of the Governance and Nominating Committee and the Human Resources and Compensation Committee.

Judi. A Hand
Corporate Director

Director since 2014.

She is a member of the Audit Committee.

Gregory J. Hanson, FCA, FCIP, FLMI
Corporate Director

Director since 2007.

He is a member of the Audit Committee.

Kishore Kapoor, CA
Corporate Director

Director since 2006.

He is the Chair of the Audit Committee.

H. Sanford Riley, C.M., J.D.
President and Chief Executive Officer, Richardson Financial Group, Ltd.

Director since 2011.

He is a member of the Audit Committee.

D. Samuel Schellenberg
Corporate Director

Director since 1989.

He is a member of the Audit Committee.

Carol M. Stephenson, O.C.
Corporate Director

Director since 2008.

She is the Chair of the Human Resources and Compensation Committee and a member of the Governance and Nominating Committee.

LEADERSHIP TEAM

Jay Forbes, CPA, FCA
*Chief Executive Officer**

Wayne Demkey, CA
Chief Financial Officer

Paul Beauregard, JD
Chief Corporate and Strategy Officer and Corporate Secretary

Kelvin A. Shepherd, P.Eng.
President - MTS

Michael Strople, P.Eng.
President - Allstream

**CEO Pierre Blouin retired in December 2014. Jay Forbes was hired and assumed the CEO role in January 2015.*

Manitoba Telecom Services Inc. officers *(as of March 16, 2015)*

Jay Forbes, CPA, FCA
Chief Executive Officer

Wayne Demkey, CA
Chief Financial Officer

Paul Beauregard, JD
Chief Corporate and Strategy Officer and Corporate Secretary

Kelvin A. Shepherd, P. Eng.
President - MTS

Michael Strople, P.Eng.
President - Allstream

Brenda M. McInnes, CA
Vice-President and Treasurer

SHAREHOLDER and INVESTOR INFORMATION

Here you will find a variety of useful data, such as contact details and other corporate information – everything needed to keep you up-to-date on investing in MTS Allstream.

Head office
P.O. Box 6666 333 Main Street Winnipeg, MB R3C 3V6

Subsidiaries
MTS Inc.
Allstream Inc.
AAA Alarm Systems Ltd.
Delphi Solutions Corp.
EPIC Information Solutions Inc.

Contact information
Investor relations
investor.relations.@mtsallstream.com or visit mtsallstream.com/investors

Media
corporate.communications@mtsallstream.com
(204) 958-3230 or (416) 345-3576

Customer Care MTS customers
(204) 225-5687 (204-CALLMTS) or toll-free outside Manitoba: 1-800-883-2054

Allstream customers
1-888-288-2273 www.allstream.com/customercare

Transfer agent and registrar
For shareholder inquiries or services (including share transfers or dividends, address change, lost certificates), please contact:
Computershare Investor Services Inc.
600, 530 - 8th Avenue SW
Calgary, Alberta T2P 3S8
1-800-564-6253

Share facts
The common shares of Manitoba Telecom Services Inc. are listed on the Toronto Stock Exchange. Our TSX symbol is MBT.

Common shares outstanding
77,121,278 as of December 31, 2014

Expected quarterly earnings release dates*

First quarter	May 7, 2015
Second quarter	July 29, 2015
Third quarter	November 5, 2015
Fourth quarter	February 4, 2016

**Subject to change*

Annual General Meeting
May 7, 2015 11 a.m. central time
MTS corporate office (main lobby), 333 Main Street, Winnipeg, MB

Multiple mailings
If you receive duplicate copies of this annual report, please contact Computershare Investor Services Inc. at 1-800-564-6253.

Auditors
Ernst & Young LLP

Corporate offices

MTS

Winnipeg
P.O. Box 6666
333 Main Street Winnipeg, MB
R3C 3V6

Brandon
517-18th Street
Brandon, MB
R7A 5Y9

Allstream

Toronto
200 Wellington Street
West Toronto, ON
M5V 2G2

Montreal
625 Rue Belmont
Montreal, QC
H3B 2M1

Quebec City
2710 Rue Einstein
Quebec, QC
G1P 4R5

Ottawa
150 Laurier Street West
Suite 400
Ottawa, ON
K1P 5J4

Calgary
255-5th Avenue SW
Calgary, AB
T2P 3G6

Edmonton
10250-101st Street
Suite 410
Edmonton, AB
T5J 3P4

Vancouver
175 West Cordova Street
Vancouver, BC
V6B 1E1

It's the connection that counts

At MTS Allstream, we are proud to give back to the communities we serve.

In 2014 we celebrated the first full-year of MTS *Future First*, a multi-faceted community investment program focused on Manitoba youth. Through the MTS *Future First* program, we have provided $250,000 in direct investment to Manitoba organizations working to improve the lives of young people, scholarships awarded to support post-secondary education, event sponsorships, value-in-kind donations and thousands of hours of volunteerism provided by MTS Allstream employees and retirees. In addition, we donated 1% of our pre-tax profit for charitable purposes in Manitoba – the national standard for excellence in corporate community investment. And, along with our employees, we contributed more than $1 million to the United Way.

Allstream is also pleased to support the Toronto 2015 Pan Am/Parapan Am Games with advanced tools for collaboration and sharing as well as through employee volunteerism.

On the Jantzi Social Index, our company has ranked among the top socially-responsible and environmentally-progressive companies in Canada for more than 14 years. We continue to engage our customers in the "green" potential of innovative communications solutions, such as cell phone recycling and e-billing options. We also offer virtual workplace communication solutions for our business customers to promote teleworking and alternative work arrangements.

At MTS Allstream, we are committed to reducing our impact on the environment and helping our customers, employees and stakeholders do the same. As part of that commitment, the Treefrog paper selected for this report is made completely of sugar cane fibre. This paper is a 100% tree-free paper product as it does not contain any wood-based fibres or post-consumer waste that originates in wood.

Please consider the environment and recycle this report, which can also be viewed online at www.mtsallstream.com/investors/financials.

MAKING CONNECTIONS – RECOGNITIONS and DEISIGNATIONS

MTS Allstream has been the proud recipient of recognitions and designations from several leading companies and national ratings organizations, which include: