MANAGEMENT'S DISCUSSION AND ANALYSIS

February 12, 2015

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Pages Limited, formerly Yellow Media Limited and its subsidiaries for the years ended December 31, 2014 and 2013 and should be read in conjunction with our Audited Consolidated Financial Statements and accompanying notes for the years ended December 31, 2014 and 2013. Quarterly reports, the annual report and Supplemental Disclosure can be found under the "Financial Reports" section of our corporate web site: http://corporate.yp.ca. Additional information, including our annual information form (AIF), can be found on SEDAR at www.sedar.com.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards (IFRS) for financial statements and is expressed in Canadian dollars, unless otherwise stated.

The audited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and effective at the end of our reporting period, December 31, 2014.

In this MD&A, the words "we", "us", "our", the "Company", the "Corporation", "Yellow Pages" and "YP" refer to Yellow Pages Limited (formerly Yellow Media Limited) and its subsidiaries (including Yellow Pages Digital & Media Solutions Limited, which is the amalgamated entity resulting from the vertical short-form amalgamation of Yellow Pages Group Corp. and YPG Financing Inc., wholly-owned subsidiaries of the Company, on January 1, 2015, 411 Local Search Corp. (411), Yellow Pages Homes Limited (formerly Wall2Wall Media Inc.) (YP Next Home), YPG (USA) Holdings, Inc. and Yellow Pages Digital & Media Solutions LLC (formerly Yellow Pages Group, LLC) (the latter two collectively YP USA), and 4400348 Canada Inc. (Bookenda)).

FORWARD-LOOKING INFORMATION

Our reporting structure reflects how we manage our business and how we classify our operations for planning and for measuring our performance. This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YP. These statements are considered "forward-looking" because they are based on current expectations of our business, on the markets we operate in, and on various estimates and assumptions.

Forward-looking information and statements are based on a number of assumptions which may prove to be incorrect. In making certain forward-looking statements, we have made the following assumptions:

- that we will succeed in continuing to implement our business plan;
- that we will be able to attract and retain key personnel in key positions;
- that we will be able to introduce, sell and provision new products and services;
- that the directories, digital media and advertising industries into which we sell our products and services will demonstrate strong demand for our products and services;
- that we will be able to grow traffic across our owned and operated digital properties at the currently anticipated rate;
- that the decline in print revenues will not materially accelerate beyond what is currently anticipated;
- that digital growth will not be materially slower than what is currently anticipated;
- that we will be able to acquire new customers at the currently anticipated rate; and
- that general economic conditions will not deteriorate beyond currently anticipated levels.

Forward-looking information and statements are also based upon the assumption that none of the identified risk factors that could cause actual results to differ materially from the anticipated or expected results described in the forward-looking information and statements will occur.

When used in this MD&A, such forward-looking statements may be identified by words such as "aim", "anticipate", "believe", "could", "estimate", "expect", "goal", "intend", "objective", "may", "plan", "predict", "seek", "should", "strive", "target", "will", "would" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as at the date of this MD&A. The Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities laws. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future results or performance, and will not necessarily be accurate indications of whether or not such results or performance will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements and could have a material adverse effect on the Corporation, its business, results from operations and financial condition, including, but not limited to, the following risk factors discussed under the "Risks and Uncertainties" section of this MD&A, and those described in the "Risk Factors" section of our AIF:

- Substantial competition could reduce the market share of the Corporation;
- A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits;
- The inability of the Corporation to successfully enhance and expand its offering of digital and new media products;
- The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions;
- The Corporation's substantial indebtedness could adversely affect its efforts to refinance ;
- Incremental contributions by the Corporation to its pension plans;
- Failure by either the Corporation or the Telco Partners (as defined herein) to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners;
- Failure by the Corporation to adequately protect and maintain its brands and trademarks, as well as third party infringement of such;
- Work stoppages and other labor disturbances;
- Challenge by tax authorities of the Corporation's position on certain income tax matters;
- The loss of key relationships or changes in the level or service provided by digital portals, search engines, individual websites, mobile manufacturers and Operating Systems providers;
- The failure of the Corporation's computers and communications systems;
- The Corporation's inability to attract and retain key personnel;
- The inability of the Corporation to develop information and technology systems and platforms required to execute the Corporation's Return to Growth Plan;
- The inability of the Corporation to realize operational efficiencies and costs savings across its operations;
- The Corporation might be required to record additional impairment charges;
- The inability of the Corporation to attract and retain customers;
- A higher than anticipated proportion of revenues coming from the Corporation's digital products with lower margin, such as websites, search engine optimization (SEO) and search engine marketing (SEM); and
- The Corporation's business depends on the usage of its online and mobile properties and failure to grow traffic across the Corporation's digital properties could impair its ability to grow revenues and expand its business.

Additional risks and uncertainties not currently known to management or that are currently deemed to be immaterial may also have a material adverse effect on the Corporation's business, financial position or financial performance. The Corporation assumes no obligation to update or revise them to reflect new events or circumstances, except as may be required pursuant to securities laws.

DEFINITIONS RELATIVE TO UNDERSTANDING OUR RESULTS

Income from Operations before Depreciation and Amortization, Impairment of Goodwill, Intangible Assets and Property, Plant and Equipment and Restructuring and Special Charges (EBITDA)

We report on our EBITDA (Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment and restructuring and special charges). EBITDA is not a performance measure defined under IFRS and is not considered an alternative to income (loss) from operations or net earnings in the context of measuring Yellow Pages' performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, taxes, interest payments, capital expenditures, business acquisitions, debt principal reductions and other sources and uses of cash, which are disclosed on page 21 of this MD&A.

Free cash flow

Free cash flow is a non-IFRS measure generally used as an indicator of financial performance. It should not be seen as a substitute for cash flow from operating activities. Free cash flow is defined as cash flow from operating activities, as reported in accordance with IFRS, less an adjustment for capital expenditures. Free cash flow is not a standardized measure and is not comparable with that of other public companies.

This MD&A is divided into the following sections:

1. Our Business, Mission, Strategy and Capability to Deliver Results
2. Results
3. Liquidity and Capital Resources
4. Free Cash Flow
5. Critical Assumptions
6. Risks and Uncertainties
7. Controls and Procedures

1. OUR BUSINESS, MISSION, STRATEGY AND CAPABILITY TO DELIVER RESULTS

OUR BUSINESS

Yellow Pages is a Canadian digital and print media company, offering businesses media solutions to meet their key marketing objectives and providing consumers with platforms to access reliable local business information.

Through its sales force of 1,100 media account consultants (MACs) and sales support staff, the Company currently serves approximately 256,000 local businesses across Canada. This large and primarily face-to-face sales force is broken down into various customer segments in order to provide customers with a more targeted and specialized level of service. Yellow Pages offers small-and-medium sized businesses (SMEs) access to one of the country's most comprehensive suites of digital and traditional marketing solutions, which include products such as online and mobile priority placement on Yellow Pages' owned and operated media, search engine solutions, website fulfillment, social media campaign management, digital display advertising, video production and print advertising. Through its Mediative division, the Company also provides national-scale businesses with high-end, customizable digital marketing and performance media services.

Yellow Pages' database of local merchant information currently contains 1.8 million business listings, making it one of the largest in Canada. This content reaches Canadian audiences via a variety of digital and print media, which include YP.ca™, Canada411.ca™ (now C411), RedFlagDeals.com™, 411.ca, Bookenda.com and dine.TO desktop websites, the YP, YP Shopwise™, RedFlagDeals, C411 and 411.ca mobile search applications as well as the Yellow Pages™ print directories.

- YP – Available both online and as a mobile application, YP.ca provides users access to current and comprehensive information on local Canadian businesses.
- YP Shopwise – Mobile application offering geo-localized deals and flyers, alongside access to a catalogue of over 7 million products and information on over 600 local and national retailers.
- RedFlagDeals.com – Canada's leading provider of online and mobile deals, coupons and shopping tools.
- C411 – One of Canada's most frequented and trusted online destinations for personal contact information.
- Bookenda.com – Online digital properties offering a leading online transaction platform for users and merchants to easily interact and manage bookings.
- dine.TO – Provides users in the Greater Toronto Area with an extensive database of online local restaurant listings, reviews, deals, playlists and events, as well as real-time online ordering capabilities.

In addition to Yellow Pages™ print directories, Yellow Pages is the official directory publisher for Bell Canada (Bell), TELUS Communications Inc. (TELUS), Bell Aliant Regional Communications LP (Bell Aliant), MTS Allstream Inc. and a number of other incumbent telephone companies that have a leading share in their respective markets. In 2014, the Company published approximately 335 print telephone directories with a total circulation of approximately 16 million copies.

MISSION

We exist to champion the local neighbourhood economy by enabling Canada's businesses and its consumers to connect, interact and build relationships.

STRATEGY AND CAPABILITY TO DELIVER RESULTS

Our objective is to become the leading local digital media company in Canada. We will accomplish this by fostering strong business relationships between Canadian SMEs and local consumers, and by developing an unparalleled local media presence across the country.

Yellow Pages introduced the Return to Growth Plan (the Plan) in early 2014 to accelerate its digital transformation and help it gain a leadership position within Canada's local digital advertising market. The Plan sets out to accomplish these objectives by strengthening the Company's brand perception, media properties and customer value proposition, elements which are fundamental in promoting growth in the Company's customer count, and ultimately, growth in revenues and profitability. The Plan is also designed to help realize operational efficiencies and costs savings across the organization, while delivering the financial flexibility required to materially deleverage the balance sheet over the next four years. Successful completion of the Plan will enhance Yellow Pages' competitive positioning in the Canadian market, improve its relationship with Canadian SMEs and consumers, and provide the Company with a strengthened platform onto which it can develop new businesses and enter new markets.

Yellow Pages achieved numerous corporate milestones since the launch of the Plan. In its first year of implementation, the Company succeeded in meeting key operational and financial targets, which included:

- Customer Acquisition – For the twelve-month period ended December 31, 2014, the Company acquired 22,100 new customers. This compares favourably to the acquisition of 15,200 customers in 2013 and surpassed Yellow Pages' 2014 customer acquisition target of 20,000 customers;

- Digital Visits – Total digital visits across Yellow Pages' owned and operated properties grew 6.8% year-over-year to reach 424.1 million in 2014;
- Digital Revenues – Consolidated digital revenues grew 9% year-over-year to reach $442.8 million in 2014. A key milestone was reached in 2014, as digital revenues exceeded print revenues for the first time in the Company's history. For the fourth quarter ended December 31, 2014, digital revenues represented 54.3% of consolidated revenues; and
- Debt Repayment – Yellow Pages repaid $139.6 million of its 9.25% senior secured notes in 2014, exceeding the minimum aggregate mandatory redemption requirement of $125 million for 2014 and 2015 combined.

In 2015, Yellow Pages will leverage these achievements to properly execute upon the core pillars underlying its Return to Growth Plan. These include:

Extending its Brand Promise

Branding and promotion are aimed at strengthening the Company's brand image among users and merchants, with a focus on improving digital perceptions and boosting recognition of its digital media platforms and solutions. In 2015, the Company will continue to invest in national and local mass media advertising campaigns to promote the download and use of the YP and YP Shopwise mobile applications among Canadian users. Campaigns will also be launched to support the adoption and use of Yellow Pages' new verticals as they are rolled out over the course of the year.

In an effort to raise awareness of Yellow Pages' digital solutions and grow customer acquisition and retention, the Company will increase the frequency and visibility of its radio, digital and out-of-home advertising campaigns. We will also grow involvement in the Company's Shop The Neighbourhood™ (STN) event, promoting local shopping and celebrating the importance of SMEs in thriving neighbourhoods. In 2014, STN attracted the participation of over 8,000 Canadian SMEs, as well as notable media, celebrities, athletes and political figures, in support of the growth of local economies.

Strengthening its Media Assets

Priority placement products sold on Yellow Pages' digital owned and operated properties currently represent approximately 60% of digital revenues and remain the most profitable of the Company's digital product suite. Deploying engaging online and mobile properties is critical to growing traffic, providing customers with improved return on investment (ROI) and promoting digital revenue growth and profitability. In 2015, the Company will deliver enhanced content and user experiences across its network of digital properties to improve overall consumer engagement. More complete and relevant content will be published, including richer merchant information, deals, ratings and reviews, as well as local editorial content in the form of playlists, business stories and recommendations. Aligned with its media verticalization strategy, Yellow Pages will also introduce online and mobile properties in the dining, home services and leisure verticals in 2015 to offer users a differentiated local shopping experience and access to new search and transactional capabilities. The Company will leverage Bookenda's leading online booking engine to integrate transactional capabilities across its existing and upcoming digital properties. In conjunction, Yellow Pages will utilize dine.TO's digital restaurant guides and extensive database of local restaurant listings, reviews, deals, playlists and events to fast-track the development of its new dining vertical.

Enhancing its Customer Value Proposition

Increasing the size of its customer base is critical in ensuring Yellow Pages achieves revenue and profitability growth. In 2015, Yellow Pages is targeting total customer acquisition of 30,000 new customers, which will be supported by the ongoing deployment of a new customer relationship management platform (Salesforce.com) to optimize lead assignment, management and conversion across sales channels. The Company will also deliver enhanced selling tools, digital product fulfillment processes and customer service levels to promote higher customer satisfaction and retention. In conjunction, new self-serve functionalities will be introduced on the Yellow Pages™ 360º Business Center (360º Business Center), providing customers with the ability to better manage their profiles and purchase digital solutions via the online portal.

Yellow Pages' digital product suite will continue to evolve to best meet the changing needs of local businesses. In 2015, the Company will introduce an entry-level content management and syndication solution to help current and prospective customers build and maintain a more complete and consistent digital presence. Through this new service, Yellow Pages will fully manage and optimize SMEs' presence on the web by ensuring their business listing and merchant information is made available and appears in a consistent manner across a vast network of digital properties with high traffic, outside those owned and operated by YP.

Gaining Efficiencies

Operational excellence will continue to be promoted across the organization to support long-term profitability and the efficient delivery of the Plan. To address declining print revenues, the Company is actively optimizing print manufacturing and distribution expenses. A more targeted print distribution model is currently being implemented to align directory delivery with usage and demand, while a portion of Yellow Pages' distribution efforts have been insourced to support improved cost flexibility. Initiatives are also in place to decommission and replace Yellow Pages' network of legacy publishing and information system and information technology (ISIT) platforms, while process improvements are being implemented to deliver costs savings across the sales, customer service and digital fulfillment functions.

OUTLOOK

The Company maintains its long-term financial outlook relative to the Return to Growth Plan. The Plan will serve to accelerate the Company's digital transformation, targeting customer count growth in 2017 and consolidated revenue and EBITDA growth in 2018.

- Digital revenue growth is anticipated to be maintained in the high single-digits for 2015 and thereafter.
- As additional investments are made to accelerate the Company's digital transformation, 2015 EBITDA will remain under pressure relative to 2014; EBITDA margins will, however, be maintained between 30% and 35% for 2015 and thereafter.
- Capital expenditures are projected to reach between $70 and $75 million in 2015, focusing on the development of ISIT systems and platforms to support growth in digital audiences, customer acquisition, customer retention, new product introduction and the optimization of business efficiencies. Thereafter, capital expenditures, as a percentage of consolidated revenues, will gradually decline to stabilize at approximately 5% by 2018.
- Yellow Pages will also maintain a strong focus on debt repayment, and continue generating sufficient cash flow from its operations to support required capital expenditures and service all future debt obligations. In 2015, the Company anticipates redeeming approximately $100 million of its 9.25% senior secured notes.

As part of establishing the above guidance, the Company made a number of assumptions, including those described in the section Forward-Looking Information of this MD&A as well as the following assumptions:

- Economic conditions in Canada remain stable;
- Exposure to foreign exchange risk arising from foreign currency transactions remains insignificant. Annual operating costs, net of revenue, denominated in U.S. dollars, are approximately $50 million;
- Canadian local digital advertising market experiences growth of 10% per year;
- Print decline rates stabilize;
- Investments in branding will evolve legacy perceptions and boost awareness of our digital media platforms;
- Investments in new content and digital experiences across our owned and operated properties will attract and grow digital audiences;
- The introduction of performance-based solutions will leverage the power of our owned and operated digital properties and protect profitability;
- The Company will be able to further accelerate customer acquisition levels and, over time, retain and upsell newly acquired customers; and
- The Company will be able to realize efficiency gains to support profitability and cash flow generation.

The Company cautions that the assumptions used to prepare the Outlook provided above, although currently reasonable, may prove to be incorrect or inaccurate. Accordingly, our actual results may differ materially from our expectations as set forth in this section. The Outlook provided above should be read in conjunction with the section Forward-Looking Information beginning on page 1 of this MD&A.

2. RESULTS

This section provides an overview of our financial performance in 2014 compared to 2013 and 2012. We present several metrics to help investors better understand our performance. Some of these metrics are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 3 of this MD&A and are important aspects which should be considered when analyzing our performance.

OVERALL

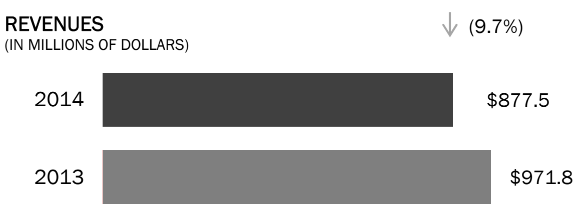
- Revenues decreased by $94.2 million or 9.7% to $877.5 million compared to the previous year.
- Income from operations before depreciation and amortization and restructuring and special charges (EBITDA) decreased by $100.1 million or 24.1% to $316 million compared to the previous year.
- Digital revenues represented 50.5% of consolidated revenues for the year ended December 31, 2014, up from 41.8% for the same period in 2013.

HIGHLIGHTS

(IN THOUSANDS OF CANADIAN DOLLARS– EXCEPT PER SHARE INFORMATION)

	Years ended December 31,	
	2014	2013
Revenues	$ 877,528	$ 971,761
Income from operations before depreciation and amortization, and restructuring and special charges (EBITDA)	$ 315,976	$ 416,112
EBITDA margin	36%	42.8%
Net earnings	$ 188,540	$ 176,530
Basic earnings per share attributable to common shareholders	$ 6.95	$ 6.34
Cash flows from operating activities	$ 156,507	$ 340,680
Free cash flow[1]	$ 72,557	$ 274,551

[1] *Please refer to Section 4 for a reconciliation of free cash flow.*



PERFORMANCE RELATIVE TO BUSINESS STRATEGY

To promote successful implementation of Yellow Pages' Return to Growth Plan, the Company identified the following key areas of focus for 2014:

- Extend the Brand Promise – Launch targeted advertising campaigns to increase digital brand awareness and perception among consumer audiences and SMEs, as well as underscore the brand's digital transformation;
- Attract Valuable Audiences – Deliver an enhanced user experience, improve the quality, completeness and relevance of content, and provide attractive digital properties for local neighbourhood discovery to promote growth in digital audiences;
- Respond to Customer Needs – Provide valuable digital solutions, an improved sales experience, superior execution of clients' marketing campaigns, as well as enhanced customer service to accelerate customer acquisition and protect customer retention;
- Invest in Employees – Support the Company's digital transformation by attracting and retaining the required expertise in information technology, digital media, sales and customer service, while providing the necessary training to increase digital skillsets across the organization; and
- Improve Efficiencies – Implement technologies that will optimize processes, streamline business operations and promote profitability.

Extend the Brand Promise

In 2014, the Company invested in local and national branding campaigns dedicated to increasing digital brand awareness and perception among consumer audiences and SMEs, as well as underscore the brand's digital transformation and grow traffic on its flagship YP mobile application. A television advertising campaign ran nationally from April to June 2014, introducing Canadians to the improved content and user functionalities available on the YP mobile application. This was followed by an extensive out-of-home and digital advertising campaign in Toronto, Montreal, Calgary and Vancouver in the summer and fall of 2014 to promote a more targeted adoption within Canada's most populated urban centers. Both the national and local campaigns yielded favourable results, having contributed positively to increasing traffic on the YP mobile application and improving the Company's digital brand recall and perception.

In conjunction, Yellow Pages rebranded its "yellowpages.ca" and "ShopWise" digital properties to "YP.ca" and "YP Shopwise," respectively. The introduction of the YP acronym is modern, digital-oriented and easier to remember, and will also be used in the branding of Yellow Pages' upcoming digital properties to further enhance brand recognition.

Following a 2013 launch in Toronto, Yellow Pages extended its corporate social responsibility campaign, STN to Montreal, Vancouver, Calgary and Ottawa in 2014. To celebrate small businesses and encourage Canadians to shop locally, STN was held during a weekend when many Canadians shop at U.S. retailers to take advantage of Black Friday and Cyber Monday deals. In 2014, STN attracted significant support from local media and celebrities, in addition to the participation of 200 Canadian business associations. Over 8,000 local SMEs also participated in the event, having uploaded 6,000 deals exclusive to YP's digital properties for event day.

Lastly, as the "Yellow Pages" brand remains highly recognized, respected and reflective of the Company's 100-year heritage of connecting businesses and consumers nationwide, the Company officially changed its holding name to "Yellow Pages Limited" on December 31, 2014.

Attract Valuable Audiences

To increase traffic across its network of digital properties, attract more business to current and prospective customers, and ultimately, improve ROI, Yellow Pages remains committed to delivering users with richer content and an enhanced search experience. Total digital visits, which measures the number of visits made across the YP, RedFlagDeals, YP Shopwise and C411 desktop and mobile properties, grew to 424.1 million in 2014. This represents a year-over-year growth of 6.8% relative to 397.1 million visits in 2013. For the three-month period ended December 31, 2014, total digital visits reached 117.4 million, growing 14.2% over the same period last year.

The Company aims to raise engagement and the frequency of use of its digital properties by offering shoppers more relevant and differentiated local content. In an effort to improve the accuracy of its business information, the Company has eliminated close to all stale, obsolete and duplicate business listings published across its media. In addition, Yellow Pages' database of merchant information continues to rapidly expand. The Company's properties now contain 1.8 million listings and over 480,000 merchant profiles containing pictures, videos, website links, mapping functionalities, deals, ratings and reviews. Editorial content is also being published to promote local neighbourhood discovery and extend users' experience beyond business search. YP.ca now offers shoppers the ability to discover top-ranked merchants in and around their area, as well as consult a series of articles (Smart Tips) to help them make more informed decisions in such areas as health, personal finance, home renovation, travel, shopping and others.

In 2014, the Company launched new versions of YP.ca and the YP mobile application, YP Shopwise and C411, providing users with an easier-to-navigate interface, more dynamic search functionalities, and quicker response times. These enhancements were well recognized by the digital community, with the YP Shopwise and C411 applications each awarded the titles of "Best New App" by the Canadian App Store. The YP mobile application was also selected as one of Apple's "Best New Apps of 2014" and included in Google Play's "Best of 2014" editor's list. In December 2014, Yellow Pages completed the acquisitions of 4400438 Canada Inc., doing business as Bookenda, and the business of Candia Digital Group Inc. (dine.TO), to acquire the talent and technologies required to accelerate the development of new media properties. With a strong presence in the restaurant industry within the Greater Montreal Area, Bookenda's digital properties offer a leading online transaction platform for users and merchants to easily interact and manage bookings. dine.TO owns and operates local digital restaurant guides for the Greater Toronto Area, providing users with an extensive database of local restaurant listings, reviews, deals, playlists and events, as well as real-time online ordering capabilities.

Responding to Customer Needs

Yellow Pages must return to a growth in the customer count to ultimately deliver long-term, sustainable revenue and EBITDA growth. As at December 31, 2014, the Company's customer count totalled 256,000, as compared to 276,000 customers for the same period last year. This represents a decrease in the customer count of 20,400 customers in 2014, relative to 33,100 customers the year prior. The acquisition of new customers continued to accelerate during the fourth quarter of 2014, fuelled by an expanding sales team, the launch of entry-level digital product offerings and the introduction of new sales incentive programs. For the twelve-month period ended December 31, 2014, YP acquired 22,100 new customers, exceeding its 2014 target of 20,000 new customers. Customer acquisition also remained stronger relative to prior periods, up from 15,200 for the same period last year and 20,200 for the twelve-month period ended September 30, 2014. For the twelve-month period ended December 31, 2014, customer renewal among YP's customers reached 84%, down slightly when compared to 85% for the same period last year. Customer penetration of the Yellow Pages™ 360º Solution (360º), defined as customers who purchase three product categories or more, grew to 36.6% as at December 31, 2014, up from 27.1% at the same time last year, and continues to protect retention. Renewal among 360º Solution customers reached 90% for the twelve-month period ended December 31, 2014 as compared to 82% among non-360º customers. The Company continued to expand its 360º value proposition to local SMEs in 2014, having launched new Smart Digital Display and Facebook Solutions throughout 2014. Smart Digital Display helps local businesses build an online presence by exposing their digital banner ads to local online audiences, while Facebook Solutions allows SMEs to establish and maintain strong visibility across the leading social media property.

Recent efforts to improve the end-to-end customer experience have also played a key role in protecting customer retention levels. In 2014, YP launched its redesigned business-to-business (B2B) online 360º Business Centre (http://businesscentre.yp.ca/), now offering SMEs self-serve functionalities such as the ability to register and claim business listings, update and add content to their merchant profiles, track the performance of their marketing campaigns and pay their invoices. Technologies are also being rolled out across the organization to offer SMEs quality digital solutions and improved customer satisfaction. In the fourth quarter of 2014, Yellow Pages implemented a new business process management system, providing its digital fulfillment teams with improved content management capabilities and a more robust order management procedure to promote the timely delivery of website solutions. The Company is also expanding its customer service teams and currently providing them with better tools to enhance the speed and quality of issue resolution.

CUSTOMER RENEWAL AND ACQUISITION

	For the years ended December 31,	
	2014	2013
Customer count[1]	256,000	276,000
Customer renewal rate[2]	84%	85%
New customers[2]	22,100	15,200

1 *Excludes the contribution of 411 and YP Next Home.*

2 *YP core only, excludes Mediative, 411 and YP Next Home.*

Invest in Employees

Yellow Pages' employees are a key success factor to its digital transformation. Over the course of 2014, the Company hired over 300 digital media and ISIT professionals to help execute upon the Plan. Employees were given access to a larger, more comprehensive catalogue of courses and training programs to foster digital literacy within the organization. In conjunction, Yellow Pages held conferences to promote mobilization across departments, offering employees an improved understanding of the objectives and initiatives underlying the Plan, as well as their roles as change agents of the Company's digital transformation. Feedback received from these events was positive, with employees having expressed appreciation for the openness, transparency and interaction received from the executive team, as well as greater confidence in the Company's ability to execute upon the Plan.

Improve Efficiencies

The Company continues to actively streamline operations to generate cost savings and protect long-term profitability and cash flow generation. Yellow Pages is currently operating under a new print directory distribution model, insourcing a portion of efforts while better aligning directory distribution with consumer usage. Cost savings will also be realized through the ongoing decommissioning and replacement of legacy print publishing systems and ISIT datacentres, and through the optimization of various customer service and digital fulfilment processes.

CONSOLIDATED OPERATING AND FINANCIAL RESULTS

(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT PER SHARE INFORMATION)

For the years ended December 31,	2014	2013	2012
Revenues	$ 877,528	$ 971,761	$ 1,107,715
Operating costs	561,552	555,649	538,335
Income from operations before depreciation and amortization, impairment of goodwill, intangible assets and property, plant and equipment, and restructuring and special charges (EBITDA)	315,976	416,112	569,380
Depreciation and amortization	78,076	60,164	104,293
Impairment of goodwill, intangible assets and property, plant and equipment	–	–	3,267,847
Restructuring and special charges	18,359	23,338	44,923
Income (loss) from operations	219,541	332,610	(2,847,683)
Financial charges, net	72,116	93,357	155,968
Gain on settlement of debt	–	–	(978,589)
Earnings (loss) before dividends on Preferred shares, series 1 and 2, income taxes and earnings from investments in associates	147,425	239,253	(2,025,062)
Dividends on Preferred shares, series 1 and 2	–	–	17,694
(Recovery of) provision for income taxes	(40,937)	63,421	(78,809)
Earnings from investments in associates	(178)	(698)	(1,893)
Net earnings (loss)	$ 188,540	$ 176,530	$ (1,962,054)
Basic earnings (loss) per share attributable to common shareholders	$ 6.95	$ 6.34	$ (70.95)
Diluted earnings (loss) per share attributable to common shareholders	$ 5.81	$ 5.46	$ (70.95)
Total assets	$ 1,749,560	$ 1,794,034	$ 1,756,476
Long-term debt (including current portion, excluding exchangeable debentures)	$ 507,911	$ 647,468	$ 801,831
Exchangeable debentures	$ 88,959	$ 87,934	$ 86,667

ANALYSIS OF CONSOLIDATED OPERATING AND FINANCIAL RESULTS

FISCAL 2014 VERSUS 2013

Revenues

Revenues decreased by 9.7% to $877.5 million during 2014 compared with $971.8 million for 2013. Revenues remain mostly impacted by the overall loss of customers. To offset existing trends and return to a growth in customer count by 2017, Yellow Pages continues to invest in accelerating the annual run-rate of customer acquisition and delivering an improved experience to current and prospective customers.

Albeit declining, print revenue decline rates are stabilizing. In 2014, consolidated print revenues decreased 23.1% year-over-year to reach $434.7 million. To support print revenues, the Company launched the Print Product Simplification (PPS) initiative in 2014 in select rural markets. By increasing print advertisement sizes at little to no incremental cost to the customer, PPS protects customer renewal while preserving content and promoting usage of the print directory. PPS also simplifies the selling process for our MACs by reducing the number of print offers available to customers. Following its success in rural markets, PPS will be expanded to nearly all rural and urban markets as well as select large urban markets throughout 2015.

Consolidated digital revenues reached $442.8 million in 2014 representing an increase of 9%. A key milestone was achieved during 2014 as consolidated digital revenues exceeded 50% of revenues. For the year ended December 31, 2014, consolidated digital revenues represented 50.5% of consolidated revenues, up from 41.8% for the same period last year. Digital revenues across the Company's core YP operations, which exclude the impact of Mediative, 411 and YP Next Home, increased by 9.1% year-over-year. This growth remains driven by the ongoing migration of customers' print spend towards digital solutions, as well as accelerated customer acquisition, as the majority of new customers only purchase digital products. As at December 31, 2014, digital-only customers grew to 37,000, compared to 23,900 as at the same date last year. Digital-only customers represented 14.5% of YP's customer base as at December 31, 2014, up from 8.7% as at the same time last year.

As at December 31, 2014, 57.3% of YP's customers were purchasing our owned and operated online priority placement products, compared to 47.1% as at the same date last year. Adoption of our mobile priority placement products also saw growth, with customer penetration reaching 24.1% as at December 31, 2014, as compared to 14.9% for the prior year. Yellow Pages continues to invest in growing traffic across its network of digital solutions to promote customer adoption, retention and ROI across its owned and operated priority placement products. Further supported by the continued adoption of the YP 360° Solution across the Company's sales channels, Revenue Generating Units[1,2] (RGU) per customer also continued to experience growth, increasing from 1.81 as at December 31, 2013 to 1.87 as at December 31, 2014.

CUSTOMER PENETRATION[2]

	As at December 31,	
	2014	2013
Print	85%	91%
Owned and Operated Digital Media[3]	63%	61%
Online priority placement	57%	47%
Mobile priority placement	24%	15%
Legacy	4%	14%
Digital Services[4]	10%	9%

SPENDING DYNAMICS

	For the years ended December 31,	
	2014	2013
Amongst Renewing Customers[2]		
Increase in spending[5]		
Customer distribution	31%	26%
% of revenues	30%	29%
Stable spending[6]		
Customer distribution	51%	55%
% of revenues	30%	27%
Decrease in spending[7]		
Customer distribution	18%	19%
% of revenues	40%	44%
Average Revenue per Customer (ARPC)[8]	$ 3,189	$ 3,259

OPERATIONAL INDICATORS

	As at December 31,	
	2014	2013
YP 360° Solution Penetration[2]	36.6%	27.1%
RGU per customer[2]	1.87	1.81
Digital-only customers[2]	37,000	23,900
Digital revenues (in thousands of Canadian dollars)[9]	$ 442,830	$ 406,311
Consolidated digital revenues as a percentage of total revenues[9]	50.5%	41.8%

1 *Revenue Generating Units measures the number of product groups selected by YP customers.*

2 *YP core only, excludes Mediative, 411 and YP Next Home.*

3 *Percentage of YP customers purchasing at least one Online Priority Placement, Mobile Priority Placement, Virtual Business Profile, HD Video, and/or Legacy product.*

4 *Percentage of YP customers purchasing at least one Website, SEO, SEM, Facebook Solution, and/or Smart Digital Display product.*

5 *Renewing YP customers experiencing an increase in spending over 5%, on a year-over-year basis.*

6 *Renewing YP customers experiencing an increase in spending between 0% and 5%, on a year-over-year basis.*

7 *Renewing YP customers experiencing a decrease in spending on a year-over-year basis.*

8 *Excludes the contribution of 411 and YP Next Home.*

9 *For the years ended December 31.*

EBITDA

EBITDA decreased by $100.1 million to $316 million during 2014 compared with $416.1 million in 2013. The decrease in EBITDA is due mainly to lower revenues combined with a lower EBITDA margin. Our EBITDA margin for 2014 was 36% compared to 42.8% for 2013. Lower revenues and incremental investments related to the Return to Growth Plan were the main contributors to the decrease in EBITDA margin for 2014.

Cost of sales decreased by $10.7 million to $306.9 million during 2014 compared with $317.6 million for 2013. The decrease for the year results from lower sales costs associated with lower revenues, lower print manufacturing costs and workforce reductions associated with our declining legacy business. These cost savings were partly offset by an increase in provisioning and fulfillment costs of our digital products and services as well as expenses related to 411, a company acquired in 2014.

Gross profit margin decreased to 65% for 2014 compared to 67.3% for 2013. The decrease is primarily due to a decline in print revenues.

General and administrative expenses increased by $16.6 million to $254.7 million during 2014 compared with $238.1 million for the same period in 2013. The increase is mainly attributable to investments related to the digital transformation, partially offset by lower bad debts as well as a non-recurring benefit associated with the positive outcome of a litigation.

Depreciation and amortization

Depreciation and amortization increased to $78.1 million during 2014 from $60.2 million in 2013. The increase is due to higher capital expenditures in connection with the deployment of systems and platforms as the Company executes its digital transformation.

Restructuring and special charges

In 2014, we recorded restructuring and special charges of $18.4 million associated primarily with internal reorganizations and workforce reductions, partially offset by a curtailment gain related to workforce reductions. In 2013, we recorded restructuring and special charges of $23.3 million associated with a workforce reduction of approximately 300 employees, the termination and renegotiation of certain contractual obligations and the departure of the former President and Chief Executive Officer.

Financial charges

Financial charges decreased by $21.2 million to $72.1 million during 2014 compared with $93.4 million for 2013. The decrease for the year ended December 31, 2014 is mainly attributable to a lower level of indebtedness and higher interest income on the defined benefit plan's assets. As at December 31, 2014, the effective average interest rate on our debt portfolio was 9% compared to 9.1% for 2013.

(Recovery of) provision for income taxes

The combined statutory provincial and federal tax rates were 26.56% and 26.46% for the years ended December 31, 2014 and 2013, respectively. The Company recorded a recovery of $40.9 million for the year compared to an expense of $63.4 million in 2013.

The difference between the effective and the statutory rates in 2014 is primarily due to a recovery of incomes taxes of $84.8 million related to the cancellation of certain income tax liabilities in the fourth quarter of 2014 following the settlement of tax assessments with the Canada Revenue Agency.

The difference between the effective and the statutory rates in 2013 is due to the non-deductibility of certain expenses for tax purposes.

Earnings from investments in associates

On June 1, 2014, we acquired the remaining 70% interest in 411. During 2014, we recorded earnings of $0.2 million for the period from January 1, 2014 up to the acquisition date as compared to $0.7 million for the year ended December 31, 2013. Our earnings from our investments in associates for the year ended December 31, 2013 included the amortization of intangible assets in connection with this equity investment.

Net earnings

We recorded net earnings of $188.5 million during 2014 compared with $176.5 million for 2013. This was principally explained by lower EBITDA, more than offset by a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities in the fourth quarter of 2014 following the settlement of tax assessments.

FISCAL 2013 VERSUS 2012

Revenues

Revenues decreased by 12.3% to $971.8 million during 2013 compared with $1,107.7 million for 2012. On a comparable basis, when adjusting for the discontinuation of Canpages directories in 2012, revenues decreased by 10.7% during 2013. Revenues remained adversely impacted by lower print revenues, as larger customers reduced their print advertising spend, as well as a lower customer count amongst smaller, low-spend customers.

Digital revenues reached $406.3 million in 2013, representing a growth of 10.6%. On a comparable basis, when adjusting for the discontinuation of Canpages directories in 2012, digital revenues increased by 12.5% during 2013 when compared to the same period in 2012. During the fourth quarter of 2013, digital revenues represented 45.1% of total revenues, up from 37.7% during the same period in 2012.

Growth in digital revenues in 2013 resulted from the ongoing migration of traditional media customers towards digital products and services and continued adoption of the YP 360º Solution across YP's sales channels. These factors also led to an improvement in RGU per advertiser from 1.74 as at December 31, 2012 to 1.81 as at December 31, 2013.

The Company had 276,000 customers as at December 31, 2013, compared to 309,000 as at December 31, 2012. Customer renewal rate decreased from 86% for the twelve-month period ended December 31, 2012 to 85% for the same in 2013. During 2013, YP acquired approximately 15,200 new customers, compared to 17,300 for 2012.

For the year ended December 31, 2013, 81% of renewing customers increased or maintained their level of spending compared to 82% in 2012. Customers who experienced a decrease in spending were mainly larger customers that represented approximately 44% of YP's revenues for the year ended December 31, 2013.

EBITDA

EBITDA decreased by $153.3 million to $416.1 million during 2013 compared with $569.4 million in 2012. The decrease in EBITDA was due to print revenue pressure, as revenue growth from our digital products did not compensate for the loss in print revenues, combined with a lower EBITDA margin. Our EBITDA margin for 2013 was 42.8% compared to 51.4% for 2012. In addition to lower revenues, changes in product mix, investments in the business transformation and employee related expenses were the main contributors to the decrease in EBITDA margin. During 2013, we also recorded provisions associated with sales tax assessments.

Cost of sales decreased by $21.2 million to $317.6 million during 2013 compared with $338.8 million for 2012. The decrease in 2013 resulted mainly from lower sales costs associated with lower revenues and lower manufacturing costs associated with lower print revenues. These cost savings were partly offset by an increase in provisioning and fulfillment costs of our digital services.

Gross profit margin decreased to 67.3% for 2013 compared to 69.4% for 2012. The decrease was mainly due to a change in product mix which includes lower margins associated with some of our digital service offerings such as websites, SEO and SEM.

General and administrative expenses increased by $38.6 million to $238.1 million during 2013 compared with $199.5 million for 2012. The increase for the year ended December 31, 2013 was attributable to higher employee-related expenses, investments in branding associated with our Meet the New Neighbourhood advertising campaign, non-recurring provisions related to sales tax assessments and lower non-cash benefits resulting from the amendment to our employees' pension and post-retirement benefit plans. This was partly offset by lower bad debts.

Depreciation and amortization

Depreciation and amortization decreased from $104.3 million to $60.2 million during 2013. The decrease was mainly attributable to lower amortization of certain intangible assets related to the acquisition of Canpages in 2010. These intangible assets resulted in a higher amortization expense in 2012 and were fully written off during the previous year. In addition, certain intangible assets and property, plant and equipment had a lower cost base in 2013 due to the impairment of $300 million recorded in the fourth quarter of 2012.

Impairment of goodwill, intangible assets and property, plant and equipment

During the first quarter of 2012, indicators that the Company's assets may have been impaired were identified, requiring the Company to perform an impairment test. Also, as a result of the closing of the recapitalization during the fourth quarter of 2012, and the issuance of new debt, shares and warrants pursuant to the recapitalization, and in the context of its annual impairment testing, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes. Consequently, we recorded charges of $3,267.8 million in 2012, related to the impairment of goodwill and certain of our intangible assets and property, plant and equipment. No such charge was recorded during 2013.

Restructuring and special charges

In 2013, we recorded restructuring and special charges of $23.3 million associated with a workforce reduction of approximately 300 employees, the termination and renegotiation of certain contractual obligations and the departure of the former President and Chief Executive Officer. In 2012, we incurred restructuring and special charges of $44.9 million associated with a workforce reduction, a relocation of certain centres of excellence, as well as the termination and renegotiation of certain contractual obligations.

Financial charges

Financial charges decreased by $62.6 million to $93.4 million during 2013 compared with $156 million for 2012. The decrease for the year ended December 31, 2013 was mainly attributable to a lower level of indebtedness and lower deferred financing costs as a result of the December 2012 recapitalization transaction. During 2013, we incurred interest on long-term debt of $79 million and deferred financing costs of $0.1 million compared to interest on long-term debt of $119.3 million and deferred financing costs of $8.4 million for the preceding year. During 2013, the Company purchased on the open market $8 million of senior secured notes for a total cash consideration of $8.3 million and exercised its option to redeem $27 million of senior secured notes for a total cash consideration of $28.4 million. A total loss of $1.7 million was recorded in net earnings in financial charges. In 2012, we incurred a charge of $18.5 million related to an option associated with our investment in an associate. No such charge was recorded in 2013. As at December 31, 2013 and 2012, the effective average interest rate on our debt portfolio was 9.1%.

Gain on settlement of debt

During the fourth quarter of 2012, we recorded a gain of $978.6 million on the settlement of debt pursuant to the recapitalization, net of related fees of $69.5 million, write-off of deferred financing costs of $16.3 million, deferred gains of $5.5 million, an equity component of $7.2 million and a derivative component of $0.6 million, associated with our previous debt instruments.

Dividends on Preferred shares, series 1 and 2

Dividends on two series of redeemable preferred shares amounted to $17.7 million for the year ended December 31, 2012. Pursuant to the December 2012 recapitalization transaction, these preferred shares were cancelled.

Provision for (recovery of) income taxes

The combined statutory provincial and federal tax rate was 26.46% and 26.31% for the years ended December 31, 2013 and 2012, respectively. The Company recorded an expense of $63.4 million for the year compared to a recovery of $78.8 million in 2012. The Company recorded an expense of 26.51% on earnings for the year ended December 31, 2013.

The Company recorded a recovery of 3.9% on the loss for the year ended December 31, 2012. The difference between the effective and the statutory rates in 2012 was due to the gain on settlement of debt offset by the unrecognized capital losses on its investment in subsidiaries and to the impairment charge of $3,267.8 million, which was not fully deductible for tax purposes. Excluding these items, the effective tax rate in 2012 would have been in line with the statutory rate.

Earnings from investments in associates

During 2013, we recorded earnings from our investment in an associate in the amount of $0.7 million compared with $1.9 million for the same period in 2012. Effective January 1, 2012, we no longer account for our investment in Acquisio using the equity method and we recorded a gain of $2.1 million in 2012 on the revaluation of this investment. Our earnings from our investments in associates included the amortization of intangible assets in connection with these equity investments.

Net earnings (loss)

During 2013, we recorded net earnings of $176.5 million compared with a net loss of $1,962.1 million in 2012. The increase in earnings was mainly due to the impairment of goodwill, certain intangible assets and property, plant and equipment of $3,267.8 million recorded in 2012, offset by the gain on settlement of debt of $978.6 million recorded in 2012, lower depreciation and amortization of $44.1 million, lower restructuring and special charges of $21.6 million, and lower financial charges of $62.6 million, partly offset by a higher provision for income taxes of $142.2 million and lower EBITDA of $153.3 million.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

QUARTERLY RESULTS

(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT PER SHARE INFORMATION)

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	$ 215,319	$ 218,427	$ 220,579	$ 223,203	$ 237,951	$ 237,350	$ 243,183	$ 253,277
Operating costs	150,487	143,165	139,318	128,582	146,698	135,203	135,949	137,799
Income from operations before depreciation and amortization, and restructuring and special charges (EBITDA)	64,832	75,262	81,261	94,621	91,253	102,147	107,234	115,478
EBITDA margin	30.1%	34.5%	36.8%	42.4%	38.3%	43%	44.1%	45.6%
Depreciation and amortization	22,003	19,723	18,146	18,204	16,106	15,589	14,779	13,690
Restructuring and special charges	5,714	2,746	6,784	3,115	13,134	4,011	–	6,193
Income from operations	37,115	52,793	56,331	73,302	62,013	82,547	92,455	95,595
Net earnings	95,225	26,542	27,551	39,222	30,964	41,775	50,326	53,465
Basic earnings per share attributable to common shareholders	$ 3.53	$ 0.98	$ 1.01	$ 1.43	$ 1.11	$ 1.51	$ 1.81	$ 1.91
Diluted earnings per share attributable to common shareholders	$ 2.88	$ 0.84	$ 0.87	$ 1.22	$ 0.97	$ 1.30	$ 1.55	$ 1.64

Revenues decreased throughout the quarters due to the overall loss of customers and the reduction of print advertising spend amongst larger customers, partially offset by an increase in revenues of our digital products. Revenues for the fourth quarter of 2013 were favourably impacted by non-recurring print revenues.

In the first and second quarters of 2013, operating costs were positively impacted by non-cash benefits of $2.6 million and $4.6 million, respectively, related to amendments to our pension and post-retirement benefit plans. The fourth quarter of 2013 was negatively impacted by non-recurring legal provisions and a sales tax assessment while the first quarter of 2014 was impacted by a non-recurring benefit associated with the positive outcome of a litigation. Our EBITDA margin decreased throughout 2013 and 2014, with the exception of the first quarter of 2014, primarily reflecting lower print revenues, the loss of margin from a change in product mix and investments made to support our digital transformation, partly offset by improvements in the collection experience of our trade receivables resulting from lower bad debts.

Workforce reductions and cost containment initiatives resulted in restructuring and special charges impacting certain of our quarterly results presented above. The increase in depreciation and amortization quarter-over-quarter is due to increased capital expenditures in connection with the deployment of platforms as the Company continues its digital transformation.

Our net earnings for the fourth quarter of 2014 were positively impacted by a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities following the settlement of tax assessments.

ANALYSIS OF FOURTH QUARTER 2014 RESULTS

Revenues

Revenues decreased by 9.5% to $215.3 million during the fourth quarter of 2014 compared with $238 million for the same period last year. Revenues remain mostly impacted by the overall loss of customers.

Albeit declining, print revenue decline rates are stabilizing. Print revenues decreased 24.6% year-over-year to reach $98.4 million during the fourth quarter of 2014. During the fourth quarter of 2013, print revenues were favourably impacted by non-recurring transactions, and excluding these non-recurring revenues, print revenues declined 22.4% year-over-year.

Consolidated digital revenues reached $116.9 million in the fourth quarter of 2014 representing a growth of 8.9% compared to the same period last year. For the fourth quarter ended December 31, 2014, consolidated digital revenues represented 54.3% of consolidated revenues, up from 45.1% for the same period last year. Digital revenues across the Company's core YP operations, which exclude the impact of Mediative, 411 and YP Next Home, increased by 6.5% year-over-year for the fourth quarter of 2014.

EBITDA

EBITDA decreased by $26.4 million to $64.8 million during the fourth quarter of 2014 compared with $91.3 million for the same period in 2013. The decrease in EBITDA is due mainly to lower revenues combined with a lower EBITDA margin. Our EBITDA margin for the fourth quarter of 2014 was 30.1% compared to 38.3% for the same period in 2013. Lower revenues and investments related to the Return to Growth Plan were the main contributors to the decrease in EBITDA margin for the fourth quarter of 2014. The Company significantly increased spending during the fourth quarter of 2014 to promote timely and successful execution of its Return to Growth Plan. These included investments in branding and promotion, customer acquisition, and digital media development, in addition to program management expenses related to the launch of new products, delivery of enhanced customer service and realization of operational efficiencies.

Cost of sales decreased by $1.2 million to $79.5 million during the fourth quarter of 2014 compared with $80.7 million for the same period in 2013. The decrease for the fourth quarter of 2014 results mainly from lower sales costs associated with lower revenues, lower print manufacturing costs and workforce reductions associated with our declining legacy business. These cost savings were partly offset by an increase in provisioning and fulfillment costs of our digital products and services as well as expenses related to the newly acquired company, 411.

Gross profit margin decreased to 63.1% for the fourth quarter of 2014 compared to 66.1% for the same period in 2013. The decrease is mainly due to a decline in revenues.

General and administrative expenses increased by $5 million to $71 million during the fourth quarter of 2014 compared with $66 million for the same period in 2013. The increase is primarily due to investments in our digital transformation, partially offset by lower bad debts and employee-related expenses as well as a non-recurring provision related to a legal dispute recorded in the fourth quarter of 2013.

Depreciation and amortization

Depreciation and amortization increased to $22 million during the fourth quarter of 2014 from $16.1 million in the fourth quarter of 2013. The increase is due to capital expenditures in connection with software development and ISIT equipment as the Company executes its digital transformation.

Restructuring and special charges

During the fourth quarter of 2014, we recorded restructuring and special charges of $5.7 million associated primarily with internal reorganizations and workforce reductions, partially offset by a curtailment gain related to a workforce reduction. During the fourth quarter of 2013, we recorded restructuring and special charges of $13.1 million, which was mainly composed of a workforce reduction of approximately 300 employees and the termination and renegotiation of certain contractual obligations.

Financial charges

Financial charges decreased by $6.7 million to $17.2 million during the fourth quarter of 2014 compared with $24 million for the same period in 2013. The decrease for the fourth quarter of 2014 is mainly attributable to a lower level of indebtedness.

(Recovery of) provision for income taxes

The combined statutory provincial and federal tax rates were 26.56% and 26.46% for the three-month periods ended December 31, 2014 and 2013, respectively. The Company recorded a recovery of 379.2% for the fourth quarter of 2014 compared to an expense of 19% of earnings for the same period last year.

The difference between the effective and the statutory rates for the fourth quarter of 2014 is primarily due to a recovery of incomes taxes of $84.8 million related to the cancellation of certain income tax liabilities in the fourth quarter of 2014 following the settlement of tax assessments with the Canada Revenue Agency.

The difference between the effective and the statutory rates for the fourth quarter in 2013 is due to the de-recognition of previously recognized tax attributes on assets of our foreign subsidiaries as well as non-taxable and non-deductible items.

Earnings from investments in associates

On June 1, 2014, we acquired the remaining 70% interest in 411. Consequently, as of June 1, 2014, 411's results are consolidated within YP. During the fourth quarter of 2013, we recorded earnings in 411 of $0.2 million.

Net earnings

We recorded net earnings of $95.2 million during the fourth quarter of 2014 compared with $31 million for the same period last year. This was principally explained by lower EBITDA, more than offset by a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities following the settlement of tax assessments.

3. LIQUIDITY AND CAPITAL RESOURCES

This section examines the Company's capital structure, sources of liquidity and various financial instruments including its debt instruments.

FINANCIAL POSITION

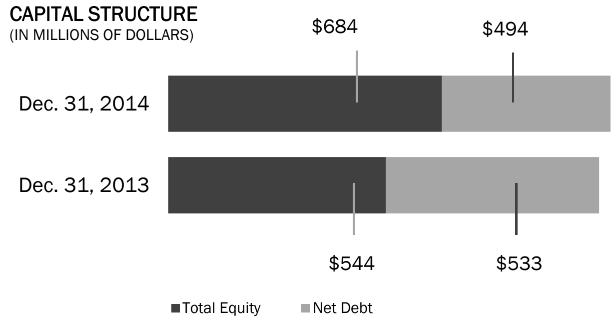
CAPITAL STRUCTURE

(IN THOUSANDS OF CANADIAN DOLLARS)

	As at December 31, 2014	As at December 31, 2013
Cash and cash equivalents	$ 102,776	$ 202,287
Senior secured notes	$ 507,014	$ 646,577
Exchangeable debentures	88,959	87,934
Obligations under finance leases	897	891
Net debt, net of cash and cash equivalents[1]	$ 494,094	$ 533,115
Equity attributable to the shareholders	684,180	544,495
Total capitalization	$ 1,178,274	$ 1,077,610
Net debt to total capitalization	41.9%	49.5%

NET DEBT TO LATEST TWELVE MONTH EBITDA RATIO[1,2]

CAPITAL STRUCTURE
(IN MILLIONS OF DOLLARS)



As at December 31, 2014, Yellow Pages had $494.1 million of net debt, compared to $533.1 million as at December 31, 2013.

The net debt to Latest Twelve Month EBITDA[1,2] ratio as at December 31, 2014 was 1.6 times compared to 1.3 times as at December 31, 2013. The increase is due to lower EBITDA.

Asset-Based Loan

In August 2013, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, entered into a five-year $50 million asset-based loan (ABL) expiring in August 2018. The ABL is used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance (BA) equivalent loans or letters of credit. The ABL is secured by a first priority lien over the receivables of the Company. The ABL is subject to an availability reserve of $5 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2014, the fixed charge coverage ratio was below 1.1 times and the Company had $4.2 million of letters of credit issued and outstanding. As such, $40.8 million of the ABL was available as at December 31, 2014. Interest is calculated based either on the BA Rate or the Canadian Prime Rate plus an applicable margin.

As at December 31, 2014, the Company was in compliance with all covenants under the loan agreement governing the ABL.

1 *Net debt is a non-IFRS measure defined as long-term external debt, net of cash and cash equivalents, as reported in accordance with IFRS.*

2 *Latest twelve month income from operations before depreciation and amortization and restructuring and special charges, (Latest Twelve Month EBITDA). Latest Twelve Month EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 3 for a definition of EBITDA.*

Senior Secured Notes

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued $800 million of 9.25% senior secured notes (the Senior Secured Notes) maturing November 30, 2018. Interest on the Senior Secured Notes is payable in cash, quarterly in arrears, in equal instalments on the last day of February, May, August and November of each year.

To date, the Company repaid $293 million of its Senior Secured Notes, of which $153.4 million was repaid in 2013 and $139.6 million in 2014.

As at December 31, 2014, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

Mandatory Redemption

Pursuant to the indenture governing the Senior Secured Notes, the Company is required to use an amount equal to 75% of its consolidated Excess Cash Flow for the immediately preceding six-month period ending March 31 or September 30, as applicable, to redeem on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, the Senior Secured Notes at a redemption price equal to 100% of the principal amount thereof from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance of $75 million immediately following the mandatory redemption payment. The $75 million minimum cash balance condition is subject to a reduction in certain cases provided in the indenture governing the Senior Secured Notes. Excess Cash Flow, as defined in the indenture governing the Senior Secured Notes, means the aggregate cash flow from operating activities adjusted for, among other things, payments relating to interest, taxes, long-term employee compensation plans, certain pension plan contribution payments and the acquisition of property, plant and equipment and intangible assets. For purposes of determining the consolidated Excess Cash Flow, deductions for capital expenditures and information systems/ information technology expenses are each subject to an annual deduction limit of $50 million. Under other circumstances, the Company may also have to make additional repayments on the Senior Secured Notes (refer to the indenture governing the Senior Secured Notes).

The Company was required to make minimum annual aggregate mandatory redemption payments of $75 million in 2014. In 2015, the minimum annual aggregate mandatory redemption payments was set at $50 million, or if the redemption payments made in 2014 exceeded $75 million, $50 million less such excess redemption payments. The Company made mandatory redemption payments of $139.6 million in 2014 (2013 - $118.4 million), thereby exceeding the $75 million minimum aggregate mandatory redemption payment for 2014 by $64.6 million. As such, the Company completed its minimum aggregate mandatory redemption payments for 2014 and 2015 combined. The Company is also required to use an amount equal to 75% of its consolidated Excess Cash Flow to redeem on a semi-annual basis the Senior Secured Notes.

Optional Redemption

The Company may redeem all or part of the Senior Secured Notes at its option, upon not less than 30 nor more than 60 days prior notice, at a redemption price equal to:

- In the case of a redemption occurring prior to May 31, 2017, 105% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring on or after May 31, 2017, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

During the year ended December 31, 2013, the Company purchased on the open market $8 million of Senior Secured Notes for a total cash consideration of $8.3 million and exercised its option to redeem $27 million of Senior Secured Notes for a total cash consideration of $28.4 million. A loss of $1.7 million was recorded in net earnings in financial charges.

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued $107.5 million of senior subordinated exchangeable debentures (Exchangeable Debentures) due November 30, 2022.

Interest on the Exchangeable Debentures accrues at a rate of 8% per annum if, for the applicable interest period, it is paid in cash or 12% per annum, for the applicable interest period, if the Company makes a Payment in Kind (PIK) election to pay interest in respect of all or any part of the then outstanding Exchangeable Debentures in additional Exchangeable Debentures. Interest on the Exchangeable Debentures is payable semi-annually in arrears in equal instalments on the last day of May and November of each year.

As at December 31, 2014, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

Exchange Option

The Exchangeable Debentures are exchangeable at the holder's option into common shares at any time at an exchange price per common share equal to $19.04, subject to adjustment for specified transactions.

During the year ended December 31, 2014, $0.4 million of Exchangeable Debentures at face value were exchanged for 21,584 common shares of Yellow Pages Limited with a fair value of $0.5 million (2013 –nil).

Optional Redemption

The Company may, at any time on or after the date on which all of the Senior Secured Notes have been repaid in full, redeem all or part of the Exchangeable Debentures at its option, upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to:

- In the case of a redemption occurring prior to May 31, 2021, 110% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring on or after May 31, 2021, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

CREDIT RATINGS

DBRS LIMITED	STANDARD AND POOR'S RATING SERVICES
B (low)/Issuer rating – positive trend	B/Corporate credit rating – stable outlook
B (low)/Credit rating for Senior Secured Notes	BB-/Credit rating for Senior Secured Notes
CCC/Credit rating for Exchangeable Debentures	CCC+/Credit rating for Exchangeable Debentures

On November 21, 2014, Standard & Poor's Rating Services raised the rating on our Senior Secured Notes from B+ to BB-. On August 29, 2014, DBRS Limited raised the rating on our Senior Secured Notes from CCC (high) to B (low). All other ratings remained unchanged.

Liquidity

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity to fund capital expenditures, working capital requirements and current obligations, including the mandatory repayments on the Senior Secured Notes. As at February 11, 2015, the Company had approximately $114.6 million of cash and cash equivalents and $40.8 million available under the ABL.

Share data

As at February 12, 2015, outstanding share data was as follows:

OUTSTANDING SHARE DATA

	As at February 12, 2015	As at December 31, 2014	As at December 31, 2013
Common shares outstanding	**27,976,661**	27,976,661	27,955,077
Exchangeable Debentures outstanding[1]	**5,624,422**	5,624,422	5,646,008
Common share purchase warrants outstanding	**2,995,506**	2,995,506	2,995,506

[1] *As at February 12, 2015, Yellow Pages had $107.1 million principal amount of Exchangeable Debentures outstanding, which amount is exchangeable into 5,624,422 common shares of Yellow Pages Limited at an exchange price of $19.04, subject to adjustment for specified transactions pursuant to the indenture governing the Exchangeable Debentures.*

Options

On December 20, 2012, as part of the implementation of Yellow Pages' recapitalization transaction, a new stock option plan (the Stock Option Plan) was adopted. The Stock Option Plan is intended to attract and retain the services of selected employees (the Participants) of Yellow Pages who are in a position to make a material contribution to the successful operation of the business, provide meaningful incentive to management to lead Yellow Pages through the transition and transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Pages Limited. A maximum of 1,290,612 options may be granted under the Stock Option Plan.

On May 6, 2013, 376,000 options were granted to the Participants. The options have an exercise price of $10.12 and vest 50% in February 2015, 25% in February 2016 and 25% in February 2017.

On February 25, 2014, 183,200 options were granted to the Participants. The options have an exercise price of $24.65 and vest 50% in February 2016, 25% in February 2017 and 25% in February 2018.

During the second quarter of 2014, a total of 12,600 options was granted to certain Participants. The options have a weighted average exercise price of $19.89 and vest 50% in February 2016, 25% in February 2017 and 25% in February 2018. During the year ended December 31, 2014, 91,600 options were forfeited with a weighted average exercise price per option of $14.42. These options were expected to vest between February 2015 and February 2018.

The options expire seven years after the grant date and Participants are required to hold 25% of the common shares received pursuant to the exercise of the options until the Participants meet the ownership guidelines which apply to their respective levels.

Contractual Obligations and Other Commitments

Contractual obligations

(in thousands of Canadian dollars)

		Payments due for the years following December 31, 2014			
	Total	1 year	2 – 3 years	4 – 5 years	After 5 years
Long-term debt[1,2]	$ **507,014**	$ 102,795	$ —	$ 404,219	$ —
Obligations under finance leases[1]	**897**	357	342	198	—
Exchangeable Debentures[1]	**107,089**	—	—	—	107,089
Operating leases	**166,434**	20,698	38,397	13,693	93,646
Other	**77,057**	49,496	20,653	4,570	2,338
Total contractual obligations	$ **858,491**	$ 173,346	$ 59,392	$ 422,680	$ 203,073

1 *Principal amount.*

2 *The repayment of the Senior Secured Notes may vary subject to the Excess Cash Flow under the indenture governing the Senior Secured Notes.*

Obligations under finance leases

We enter into finance lease agreements for office equipment and software. As at December 31, 2014, minimum payments under these finance leases up to 2019 totalled $0.9 million.

Operating leases

We rent our premises and office equipment under various operating leases. As at December 31, 2014, minimum payments under these operating leases up to 2034 totalled $166.4 million.

Purchase obligations

We use the services of outside suppliers to distribute and print our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2015 and 2038. We also have purchase obligations under service contracts for both operating and capital expenditures. As at December 31, 2014, we have an obligation to purchase services for $76.8 million over the next five years and thereafter. Cash from operations will be used to fund these purchase obligations.

Pension Obligations

YP sponsors a pension plan registered with the Canada Revenue Agency and the Financial Services Commission of Ontario with defined benefit (DB) for employees hired prior to January 1, 2006, and defined contribution (DC) components for the non-Québec based employees hired on or after January 1, 2006 (the YP Pension Plan) as well as a DC plan registered with the Régie des Rentes du Québec (the YP Québec Plan), for the Québec based employees hired on or after January 1, 2006. Both plans together cover substantially all employees of the Company.

As at December 31, 2014, the DB component of the YP Pension Plan's assets totalled $473.6 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. Its rate of return on assets was 12.4% for 2014, 0.1% below our benchmark portfolio.

The most recent actuarial valuation of the defined benefit component of the YP Pension Plan for funding purposes was performed as at May 31, 2014. The May 2014 valuation resulted in a solvency deficit of $144.6 million to be funded over a five-year period. The next actuarial valuation will be due no later than May 31, 2015.

In 2014, the Company made annual contributions equivalent to the current service cost (the Annual Employer Cost) of $35.6 million, including $21.3 million to fund the deficit. Total cash payments are expected to amount to $47.4 million for 2015, of which $32 million will be to fund the deficit.

SOURCES AND USES OF CASH

(IN THOUSANDS OF CANADIAN DOLLARS)

	Years ended December 31,	
	2014	2013
Cash flows from operating activities		
Cash flows from operations	$ 151,302	$ 302,218
Change in operating assets and liabilities	5,205	38,462
	$ 156,507	$ 340,680
Cash flows used in investing activities		
Additions to intangible assets	$ (69,179)	$ (54,584)
Acquisition of property, plant and equipment	(14,771)	(11,743)
Business acquisitions, net of cash acquired	(33,504)	(3,581)
Proceeds from the settlement of a note receivable	14,100	—
Other	(116)	359
	$ (103,470)	$ (69,549)
Cash flows used in financing activities		
Repayment of long-term debt	$ (140,098)	$ (118,984)
Purchase of restricted shares	(12,450)	(6,630)
Optional redemption of long-term debt	—	(36,670)
Recapitalization costs	—	(6,641)
Deferred consideration	—	(5,624)
Other	—	(1,102)
	$ (152,548)	$ (175,651)

Cash flows from operating activities

Cash flows from operations

Cash flows from operations decreased by $150.9 million from $302.2 million for the year ended December 31, 2013 to $151.3 million for the same period in 2014, mainly due to lower cash EBITDA of $102.8 million, higher income taxes paid of $35.3 million as Yellow Pages was not required to pay income tax installments in 2013 and higher restructuring and special charges payments of $10.7 million primarily related to the November 2013 workforce realignment.

Change in operating assets and liabilities

The change in operating assets and liabilities for the year ended December 31, 2014 generated an inflow of $5.2 million compared with $38.5 million for the same period last year. During the year ended December 31, 2013, an improved collection experience of our trade receivables contributed mainly to the inflow. During the year ended December 31, 2014, operating assets and liabilities remained relatively stable.

Cash flows used in investing activities

Cash used in investing activities amounted to $103.5 million for the year ended December 31, 2014 compared with $69.5 million for the same period last year. During the year ended December 31, 2014, we invested in software development and ISIT equipment in the amount of $69.2 million and $14.8 million, respectively, as compared to $54.6 million and $11.7 million, respectively, spent during the same period last year. The increase year-over-year is due to the increased level of transformation expenses associated to the Return to Growth Plan. During 2014, we acquired the remaining interest in 411 for a net consideration of $22.7 million, as well as the shares of Bookenda Inc. and the assets of dine.TO for a total cash consideration of $10.8 million. These investing activities were partly offset by cash proceeds of $14.1 million received resulting from the settlement of a note receivable which had a carrying value of $15.3 million. During 2013, we acquired the remaining 40% of Mediative G.P. Inc. and Mediative Performance L.P. in exchange for cash consideration of $3.6 million.

ACQUISITION OF PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS, NET OF LEASE INDUCEMENTS

(IN THOUSANDS OF CANADIAN DOLLARS)

	Years ended December 31,	
	2014	2013
Sustaining	**$ 17,084**	$ 15,973
Growth	**68,489**	44,562
Total	**$ 85,573**	$ 60,535
Adjustment to reflect expenditures on a cash basis	**(1,623)**	4,907
Acquisition of property, plant, equipment and intangible assets, net of lease inducements	**$ 83,950**	$ 65,442

Sustaining capital expenditures are related to the ongoing operations required to maintain the integrity of the infrastructure. It also includes investments in leasehold improvements during 2013 as we reconfigured certain premises to accommodate our growing digital fulfillment teams. Sustaining capital expenditures amounted to $17.1 million for the year ended December 31, 2014, compared to $16 million for the same period last year.

Growth capital expenditures relate to the development and implementation of new technology and software aimed at new initiatives as we continue our transformation to become a leading local digital company in Canada. During the year ended December 31, 2014, these amounted to $68.5 million compared to $44.6 million for the same period last year. In 2014, our capital expenditures were mainly composed of investments in our sales and media platforms, in the consolidation of our legacy print publishing platforms, in key infrastructure projects, such as our new datacentres, as well as in the automation and streamlining of our digital fulfillment operations.

The total capital expenditures for 2014 amounted to $85.6 million. Total capital expenditures for 2015 are expected to range between $70 and $75 million.

Cash flows used in financing activities

Cash used in financing activities amounted to $152.5 million during the year ended December 31, 2014 compared to $175.7 million for the same period last year. During the year, we repaid $139.6 million of the Senior Secured Notes compared to a repayment of $119 million and a repurchase of $35 million during the same period last year. During the year ended December 31, 2014, we purchased common shares of Yellow Pages Limited on the open market to fund the Restricted Share Unit and Performance Share Unit Plan at a cost of $12.5 million compared to $6.6 million during the same period last year. During the year ended December 31, 2013, we paid $6.6 million of costs associated with our 2012 recapitalization and $5.6 million relative to earn-outs to former owners of acquired businesses.

FINANCIAL AND OTHER INSTRUMENTS

(See Note 22 of the audited Consolidated Financial Statements of the Company for the year ended December 31, 2014).

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, long-term debt and Exchangeable Debentures.

Derivative Instruments

There is no carrying value of embedded derivatives as at December 31, 2014. The carrying value is calculated, as is customary in the industry, using discounted cash flows based on quarter-end market rates.

4. FREE CASH FLOW

FREE CASH FLOW

(IN THOUSANDS OF CANADIAN DOLLARS)

	Three-month periods ended December 31,		Years ended December 31,	
	2014	2013	**2014**	2013
Cash flow from operating activities	**$ 30,566**	$ 88,444	**$ 156,507**	$ 340,680
Capital expenditures, net of lease inducements	**34,435**	14,294	**83,950**	66,129
Free cash flow	**$ (3,869)**	$ 74,150	**$ 72,557**	$ 274,551

5. CRITICAL ASSUMPTIONS

When we prepare our consolidated financial statements in accordance with IFRS, we must make certain estimates and assumptions about our business. These estimates and assumptions in turn affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements.

In this section, we provide detailed information on these important estimates and assumptions which are under continuous evaluation by the Company.

Intangible assets, goodwill and property, plant and equipment

The values associated with identifiable intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These significant estimates require considerable judgment which could affect Yellow Pages' future results if the current estimates of future performance and fair values change. These determinations may affect the amount of amortization expense on identifiable intangible assets recognized in future periods and impairment of goodwill, intangible assets and property, plant and equipment.

Yellow Pages assesses impairment by comparing the recoverable amount of an identifiable intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant management judgment. During 2012, it was determined that the recoverable amount of goodwill was $nil. As such, its carrying value was written-off in its entirety.

Yellow Pages performed its annual test for impairment of indefinite life intangible assets in accordance with the policy described in Note 3.12 of the Audited Consolidated Financial Statements of Yellow Pages Limited for the year ended December 31, 2014.

The recoverable amount of the cash generating units (CGUs) was determined based on the value-in-use approach using a discounted cash flow model which relies on significant key assumptions, including after-tax cash flows forecasted over an extended period of time, terminal growth rates and discount rates. We use published statistics or seek advice where possible when determining the assumptions we use. Details of Yellow Pages' impairment reviews are disclosed in Note 4 of the Audited Consolidated Financial Statements of Yellow Pages Limited for the years ended December 31, 2014 and 2013.

Employee future benefits

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of the benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results may differ from results which are estimated based on assumptions.

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of Yellow Pages' ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Pages' assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Pages' ability to utilize the underlying future tax deductions changes, Yellow Pages would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

Yellow Pages is subject to taxation in numerous jurisdictions. Significant judgement is required in determining the consolidated provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Yellow Pages maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Yellow Pages reviews the adequacy of these provisions at each statement of financial position date. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

ACCOUNTING STANDARDS

The following revised standards are effective for annual periods beginning on January 1, 2014 and their adoption has not had any impact on the amounts reported in our Audited Consolidated Financial Statements for the years ended December 31, 2014 and 2013, but may affect the accounting for future transactions or arrangements:

IFRIC 21 — Levies

On May 20, 2013, the International Accounting Standards Board (IASB) issued IFRIC 21 — *Levies*, an interpretation on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation includes guidance illustrating how the interpretation should be applied. IFRIC 21 requires retrospective application.

IAS 32 — Financial Instruments: Presentation in respect of Offsetting

On December 16, 2011, the IASB and Financial Accounting Standards Board (FASB) issued common disclosure requirements that are intended to help investors and other users better assess the effect or potential effect of offsetting arrangements on a company's financial position. As part of this project, the IASB clarified aspects of IAS 32 — *Financial Instruments: Presentation*. IAS 32 amendments require retrospective application.

Amendments to IAS 36 — Impairment, Recoverable Amount Disclosures for Non-Financial Assets

On May 29, 2013, the IASB issued *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36*). These narrow-scope amendments to IAS 36 — *Impairment of Assets*, address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These amendments require retrospective application.

Amendments to IAS 39 — Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting

On June 27, 2013, the IASB issued *Amendments to IAS 39 — Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting*. These narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). Similar relief is included in IFRS 9 — *Financial Instruments*. The amendments require retrospective application.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE ISSUED BUT NOT YET EFFECTIVE

Amendments to IAS 16 — Property, Plant and Equipment, and IAS 38 — Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization

In May 2014, the IASB issued Amendments to IAS 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* to clarify that the use of revenue-based methods to calculate depreciation is not appropriate as revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the related asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption may be rebutted in certain limited circumstances. These amendments must be applied prospectively for annual periods beginning on or after January 1, 2016.

The Amendments to IAS 16 and IAS 38 are not expected to have a significant impact on the consolidated financial statements of Yellow Pages Limited.

IFRS 15 — Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 — *Revenue from Contracts with Customers*. This new standard outlines a single comprehensive model for companies to use when accounting for revenue arising from contracts with customers. It supersedes the IASB's current revenue recognition standards, including IAS 18 — *Revenue* and related interpretations. The core principle of IFRS 15 is that revenue is recognized at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services, applying the following five steps:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the company satisfies a performance obligation.

This new standard also provides guidance relating to the accounting for contract costs as well as for the measurement and recognition of gains and losses arising from the sale of certain non-financial assets. Additional disclosures will also be required under the new standard, which is effective for annual reporting periods beginning on or after January 1, 2017 with earlier adoption permitted. For comparative amounts, companies have the option of using either a full retrospective approach or a modified retrospective approach as set out in the new standard. Yellow Pages Limited continues to evaluate the impact this standard will have on its consolidated financial statements.

IFRS 9 — Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 — *Financial Instruments*. IFRS 9 replaces the requirements in IAS 39 — *Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets and liabilities. The new standard introduces a single classification and measurement approach for financial instruments, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements and results in a single impairment model being applied to all financial instruments. IFRS 9 also modified the hedge accounting model to incorporate the risk management practices of an entity.

Additional disclosures will also be required under the new standard. The new standard will come into effect for annual periods beginning on or after January 1, 2018 with early adoption permitted. Yellow Pages Limited continues to evaluate the impact this standard will have on its consolidated financial statements.

6. RISKS AND UNCERTAINTIES

The following section examines the major risks and uncertainties that could materially affect YP's future business results.

Understanding and managing risks are important parts of YP's strategic planning process. The Board requires that our senior management identify and properly manage the principal risks related to our business operations. To understand and manage risks at YP, our Board and senior management analyze risks in three major categories:

1. Strategic risks - which are primarily external to the business;
2. Financial risks - generally related to matters addressed in the Financial Risk Management Policy and in the Pension Statement of Investment Policy and Procedures; and
3. Operational risks - related principally to risks across key functional areas of the organization.

YP has put in place certain guidelines in order to seek to manage the risks to which it may be exposed. Please refer to the "Risk Factors" section of our AIF for a complete description of these risk factors. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful.

Substantial competition could reduce the market share of the Corporation and could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation competes with other directory, advertising media and classified advertising businesses and across various media and platforms. This includes the internet, newspapers, television, radio, mobile telecommunication devices, magazines, billboards and direct mail advertising. In particular, the directories business faces substantial competition due to increased online penetration, through the use of online search engines and social networking organizations. The Corporation may not be able to compete effectively with these online competitors, some of which may have greater resources. The Corporation's internet strategy and its directories business may be adversely affected if major search engines build local sales forces or otherwise begin to more effectively reach local businesses for local commercial search services. These competitors may reduce their prices to increase their market share or may be able to offer their services at lower costs than the Corporation can.

The Corporation may be forced to reduce its prices or offer and perform other services in order to remain competitive. The Corporation's failure to compete effectively with its current or future competitors could have a number of impacts such as a reduction in its advertiser base, lower rates and increased costs. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

We actively monitor and assess our competition and determine our competitiveness within each of our markets. We address this competition by ensuring we best meet customer needs through targeted offers and pricing.

We continuously enhance our value proposition with initiatives targeting the following objectives:

- Enhancement of our product offerings and extension of our services to customers;
- Improvement of user experience; and
- Growth of traffic to our network of properties.

We also use multimedia campaigns to promote our brand and deliver our message to the market reinforcing the value our segments offer.

A higher than anticipated rate of decline in print revenue resulting from changes in preferences and consumer habits could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation could be materially adversely affected if the usage of print telephone directories declines at a rate higher than anticipated. The development of new technologies and the widespread use of internet is causing changes in preferences and consumer habits. The usage of internet-based products providing information, formerly exclusively available in print directories, has increased rapidly. The internet has become increasingly accessible as an advertising medium for businesses of all sizes. Further, the use of the internet, including as a means to transact commerce through mobile devices, has resulted in new technologies and services that compete with traditional advertising mediums. In particular, this has a significant influence on print products, and the decrease in usage gradually leads to lower advertising revenues. References to print business directories may decline faster than expected as users increasingly turn to digital and interactive media delivery devices for local commercial search information.

The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The transition from print to digital causes uncertainties surrounding whether and when new product introductions will compensate for the declining trend in print revenues. If revenue from the Corporation's digital products does not increase significantly, the Corporation's cash flow, results of operations and financial condition will be materially adversely affected.

The Corporation expects to derive a greater portion of its total revenue from its digital and other new media products, as directory usage continues to shift from print directories to digital and other new media products.

The Corporation's transformational expansion towards digital and new media products is subject to a variety of challenges and risks, including the following:

- the Corporation may not continue to grow internet usage on its own sites at the same rate as other providers or may grow at a slower rate than currently anticipated;
- internet usage as a source of information and a medium for advertising may not continue to grow, or may grow at a slower rate than currently anticipated, as a result of factors that the Corporation cannot predict or control;
- the Corporation may incur substantial additional costs and expenses related to investments in its information technology, modifications to existing products and development of new products and this may reduce profit margins in the future;
- the Corporation may be unable to develop and market new products in a timely and efficient manner, as the Corporation's markets are characterised by rapidly changing technology, introductions and enhancements to existing products and shifting advertising customer and end-user demands, including technology preferences;
- the Corporation may be unable to improve its information technology systems so as to efficiently manage increased levels of traffic on the Corporation's websites and provide new services and products;
- the Corporation's focus on its digital and new media products may distract or deter advertising customers from pursuing advertising opportunities in the Corporation's print products;
- the Corporation may be unable to keep apprised of changes to search engines' terms of service or algorithms, which could cause the Corporation's websites, or its advertising customers' websites, to be excluded from or ranked lower in search results or make it more difficult or more expensive for the Corporation to provide search engine marketing and search engine optimisation solutions to its advertising customers;
- the Corporation's advertising customers may be unwilling to pay for digital advertising at the same rates as they had paid for printed directory advertising; and
- the Corporation may be unable to increase the prices of its products and services in the future.

If any of the above-mentioned risks were to occur, the Corporation's digital revenue, as well as its business, results from operations and financial condition could be materially adversely affected.

The continuing transition in the media and publishing industries towards more digital and targeted content is driving us to develop new products that leverage the demand for new media while ensuring that our print products remain a key component of our advertisers' media mix.

The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The ability of the Corporation to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance. There can be no assurance that the Corporation will be able to generate sufficient cash from its operations to pay its debt obligations. Each of these factors is, to a large extent, subject to economic, financial, competitive, operational and other factors, many of which are beyond the Corporation's control.

There can be no assurance that the Corporation will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to the Corporation to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome the challenges associated with the transformation of its business and support its business strategy if cash flows from operations and cash on hand are insufficient.

Failure to generate sufficient funds, whether from operations or debt or equity financings or refinancing transactions, could require the Corporation to delay or abandon some of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on the Corporation, its business, results from operations and financial condition. Furthermore, competitors with greater liquidity or their ability to raise money more easily and on less onerous terms could create a competitive disadvantage for the Corporation.

The Corporation's substantial indebtedness could adversely affect its efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's substantial amount of debt could have material adverse effects on the Corporation, its business, results from operations and financial condition. For example, it could:

- increase the Corporation's vulnerability to adverse economic and industry conditions;
- require the Corporation to dedicate a substantial portion of its cash flows from operations to make payments on its debt, thereby reducing funds available for operations, future business opportunities or other purposes;
- limit the Corporation's flexibility in planning for, or reacting to, changes in its business and its industry;
- place the Corporation at a competitive disadvantage compared to its competitors that have less debt; and
- limit the Corporation's ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes.

In addition, the indenture governing the Senior Secured Notes, the indenture governing the Exchangeable Debentures and the ABL contain a number of financial and other restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, investments, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates and its business activities. A failure to comply with such obligations could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the indenture governing the Senior Secured Notes, the indenture governing the Exchangeable Debentures or the ABL, as the case may be, were to be accelerated, there can be no assurance that the Corporation would have sufficient liquidity to repay in full that indebtedness.

Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation is currently and may be required to make incremental contributions to its pension plans in the future depending on various factors including future returns on pension plan assets, long-term interest rates and changes in pension regulations, which may have a negative effect on the Corporation's liquidity and results from operations. The Corporation is currently making incremental contributions to its pension plans to reduce its actuarial solvency deficits.

The funding requirements of the Corporation's pension plans, resulting from valuations of its pension plan assets and liabilities, depend on a number of factors, including actual returns on pension plan assets, long-term interest rates, plan demographic and pension regulations. Changes in these factors could cause actual future contributions to significantly differ from the Corporation's current estimates and could require the Corporation to make incremental contributions to its pension plans in the future and, therefore, could have a negative effect on the Corporation's liquidity, business, results from operations and financial condition.

There is no assurance that the Corporation's pension plans will be able to earn their assumed rate of return. A material portion of the Corporation's pension plans' assets is invested in public equity securities. As a result, the ability of the Corporation's pension plans to earn the rate of return that management has assumed depends significantly on the performance of capital markets. The market conditions also impact the discount rate used to calculate the Corporation's solvency obligations and thereby could also significantly affect the Corporation's cash funding requirements.

Failure by either the Corporation or the Telco Partners to fulfill the obligations set forth in the agreements between the Corporation and the Telco Partners could result in a material adverse effect on the Corporation, its business, results from operations and financial condition

We have a Billing and Collection Services Agreement with Bell Canada (up to 2017), with TELUS (up to 2031), with MTS Allstream Inc. (up to 2036) and with Bell Aliant (up to 2037). Through these agreements, our billing is included as a separate line item on the telephone bills of Bell, TELUS, MTS Allstream Inc. and Bell Aliant customers who use our services. Bell Canada, TELUS, MTS Allstream Inc. and Bell Aliant (the Telco Partners) contract with third parties to conduct monthly billing of customers who use them as their local telephone service providers. In addition, the Telco Partners provide collection services for YP with those customers who are also their customers. Additionally, YP has entered into publishing agreements with each Telco Partner. If YP fails to perform its obligations under these agreements and the agreements are consequently terminated by such Telco

Partner, other agreements with such Telco Partners may also be terminated, including the Bell Canada Trademark License Agreement, the TELUS Trademark License Agreement, the MTS Allstream Inc. Branding and Trademark Agreement and the Bell Aliant Branding and Trademark Agreement, as well as non-competition covenants we benefit from with such Telco Partners.

We have agreements with outside service suppliers to print and distribute our directories and publications. These agreements are for services that are integral to our business.

The failure of the Telco Partners or any of the other suppliers to fulfill their contractual obligations under these agreements (including in the event that any of them seek protection under Canadian bankruptcy laws), could result in a material adverse effect on our business.

Customers who do not use the Telco Partners as their local telephone provider are billed directly by YP. Our internal billing and collection services are cost-effective and can be grown as our customer base expands.

Failure by the Corporation to adequately protect and maintain its brands and trade-marks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition

YP relies heavily on its existing brands and trademarks for a significant portion of its revenues. Failure to adequately maintain the strength and integrity of these brands and trademarks, or to develop new brands and trademarks, could adversely affect our results from operations and our financial condition.

It is possible that third parties could infringe upon, misappropriate or challenge the validity of YP's trademarks or our other intellectual property rights. This could have a material adverse effect on our business, our financial condition or our operating results. The actions that YP takes to protect its trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce or protect YP's intellectual property rights, its trade secrets or to determine the validity and scope of the proprietary rights of others. We cannot ensure that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information.

Any such infringement or misappropriation could harm any competitive advantage we currently derive, or may derive, from our proprietary rights. Third parties may assert infringement claims against YP. Any such claims and any resulting litigation could subject YP to significant liability for damages. An adverse judgement arising from any litigation of this type could require YP to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend against and could result in the diversion of YP's time and resources. Any claims from third parties may also result in limitations on YP's ability to use the intellectual property subject to these claims.

We devote significant resources to the development and protection of our trademarks and take a proactive approach to protecting our brand exclusivity.

Work stoppages and other labor disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition

Certain non-management employees of YP are unionized. Current union agreements range between one to five years in duration and are subject to expiration at various dates in the future. One of these agreements has expired and is being renegotiated. If YP is unable to renew these agreements as they come up for renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on our business. Additionally, if a greater percentage of the Corporation's workforce becomes unionized, this could have a material adverse effect on its business, results from operations and financial condition.

We manage labour relations risk by ensuring that collective agreements' expiration dates are strategically positioned to minimize potential disruptions on both a regional (geographic) or on a functional (sales and clerical) basis. Also, every negotiation process to renew a collective agreement includes a cross-functional team in which all business units are represented. This team has the responsibility to develop and ultimately implement an effective contingency plan that would allow YP to continue its day to day operations with minimal disruptions in the event of a labour dispute.

Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition

In the normal course of the Corporation's activities, the tax authorities are carrying out ongoing reviews. In that respect, the Corporation is of the view that all expenses claimed by the different entities of the group are reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties have been correctly determined. There is no assurance that the tax authorities may not challenge these positions. Such challenge, if successful, may have an adverse effect on our earnings and may affect the return to shareholders.

The loss of key relationships or changes in the level or service provided by internet portals, search engines and individual websites could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation has entered into agreements with several internet portals, search engines and individual websites to promote its online directories. These agreements make the Corporation's content and customer advertising more easily accessible by these portals, search engines and individual websites. These agreements allow the Corporation to generate a higher volume of traffic than it would on its own as well as generate business leads for its advertisers, while retaining the client relationship. In return, the portals, search engines and individual websites obtain business through the Corporation from advertisers who would not otherwise transact with them. Loss of key relationships or changes in the level of service provided by these internet portals, search engines and individual websites could impact performance of the Corporation's internet marketing solutions. In addition, internet marketing services are provided by many other competitors within the markets the Corporation serves and its clients could choose to work with other, sometimes larger providers of these services, or with other search engines directly.

The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's business activities rely significantly on the efficient and uninterrupted operation of computers and communications systems as well as those of third parties. The Corporation's media properties, sales and advertising processing, data storage, production, billing, collection and day-to-day operations could be adversely impaired by the failure of such technology, which could in turn have a material adverse effect on the Corporation, its business, results from operations and financial condition.

In addition, the Corporation's computer and ISIT systems are vulnerable to damage or interruption from a variety of sources and its disaster recovery systems may be deemed ineffective. Any failure of these systems could impair the Corporation's business. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The Corporation has in place redundant facilities as well as a disaster recovery plan designed to restore the operability of the target system, application, or computer facility infrastructure at an alternate site after an emergency.

The Corporation's inability to attract and retain key personnel could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The success of the Corporation depends on the abilities, experience and personal efforts of senior management of the Corporation, including their ability to retain and attract skilled employees. The Corporation is also dependent on the number and experience of its sales representatives. The loss of the services of such key personnel could have a material adverse effect on the Corporation, its results from operations and financial condition.

We continually invest in our workforce to develop a strong digital culture. We offer training programs, tools and resources to elevate digital literacy and promote change management across all facets of the organization.

The Corporation might be required to record additional impairment charges

In the first quarter of 2012, the Corporation recorded an additional $2,967.8 million goodwill and intangible assets impairment charge. In the fourth quarter of 2012, the Corporation recorded an additional $300 million impairment charge related to certain of its intangible assets and property, plant and equipment. The Corporation may be subject to impairment losses that would reduce its reported assets and earnings. Economic, legal, regulatory, competitive, contractual and other factors may affect the value of identifiable intangible assets. If any of these factors impair the value of these assets, accounting rules would require the Corporation to reduce their carrying value and recognize an additional charge, which would reduce the reported assets and earnings of the Corporation in the year the impairment charge is recognized.

7. CONTROLS AND PROCEDURES

As a public entity, we must take every step to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of YP. Responsibility for this resides with management, including the President and Chief Executive Officer and the Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures (DC&P)

The evaluation of the design and effectiveness of DC&P (as defined in National Instrument 52-109) was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They concluded that the Company's DC&P were effective, as at December 31, 2014.

Internal Control over Financial Reporting (ICFR)

The design and effectiveness of ICFR (as defined in National Instruments 52-109) were evaluated under the supervision of the President and Chief Executive Officer and Chief Financial Officer. Based on the evaluations, they concluded that the Company's ICFR was effective, as at December 31, 2014.

During the quarter beginning on October 1, 2014 and ended on December 31, 2014, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.