



Stock Symbol: MBT

NewsRelease

MTS Allstream reports first quarter 2012 results

WINNIPEG, MB, May 10, 2012 – Manitoba Telecom Services Inc. (“the Company” or “MTS Allstream”), including its two operating divisions, MTS and Allstream, today reported net earnings of \$53.1 million for the three months ended March 31, 2012, compared with \$43.4 million for the three months ended March 31, 2011. Earnings per share (“EPS”) were \$0.80 in the first quarter of 2012, compared with \$0.67 in the same period last year.

Q1 2012 highlights:

- MTS Allstream results align with all 2012 financial guidance ranges
- Free cash flow grew by \$11.7 million to \$36.1 million
- EPS were \$0.80, up from \$0.67 in Q1 2011
- MTS wireless data revenues up 45.1%, driving wireless revenues up 6.9%, ARPU up 5.4%
- MTS IPTV revenues up 19.0% to \$19.4 million; high-speed Internet revenues up 9.1% to \$26.5 million
- Allstream delivered year-over-year EBITDA growth for the sixth quarter in a row
- Allstream added 99 buildings to its IP fibre network; fibre-fed buildings now total 2,487
- Board of Directors declares \$0.425 per share Q2 2012 cash dividend

“The first quarter of 2012 was a solid start to the year. MTS delivered excellent results, proving once again we are the telecom provider of choice in Manitoba. Nationally, Allstream continues to drive growth and improve profitability with its focus on on-net converged IP services – adding 99 more fibre-fed buildings to its national IP network,” said Pierre Blouin, MTS Allstream’s Chief Executive Officer. “Our performance in the first three months of the year positions us well to meet our 2012 financial guidance ranges.”

MTS Allstream

MTS Allstream delivered solid financial performance in the first quarter as management continues to focus on improving cash flows and profitability by growing wireless, IPTV and high-speed Internet in Manitoba, and converged Internet protocol (“IP”) nationally.

- Strong revenue growth generated by the Company’s wireless, high-speed Internet, and IPTV services was offset primarily by the planned reductions in Allstream legacy revenues, resulting in a 1.0% year-over-year revenue decrease.
- Consolidated EBITDA grew 2.8% when compared to the prior year due to growth in MTS revenues, Allstream’s continued focus on converged IP revenues and improving margins, and strong cost management.
- The increase in EPS over the prior year is attributable to EBITDA growth and reduced income tax expense, which was partly offset by higher depreciation and amortization expense. Income tax expense was reduced by \$10.2 million due to a one-time change in the expected tax rate applicable to deferred tax assets.
- Free cash flow was up \$11.7 million, to \$36.1 million, due to lower pension funding requirements stemming from the use of letters of credit, and to EBITDA growth, partly offset by higher capital expenditures and higher wireless costs of acquisition. In the first quarter of 2011, wireless costs of acquisition were lower than normal due to lower demand for smartphones in anticipation of the 4G wireless network launch on March 31, 2011.
- Capital expenditures were higher in the first quarter of 2012, compared to last year, due to the timing of various capital projects.
- The Company achieved \$18.0 million in annualized cost savings in the first quarter of 2012 and is well-positioned to meet its guidance range of \$25 million to \$35 million in annualized cost savings for the year.

Consolidated financial results

<i>(in millions \$, except EPS and capital expenditures/revenues)</i>	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues	435.1	439.4	443.2	443.7	439.3
EBITDA ¹	154.0	146.9	146.9	150.8	149.8
EPS ²	\$0.80	\$0.56	\$0.56	\$0.76	\$0.67
Free cash flow ³	36.1	18.3	29.3	57.8	24.4
Capital expenditures/revenues	17.7%	19.3%	18.3%	12.3%	15.4%

¹ MTS Allstream defines EBITDA as “earnings before interest, taxes, depreciation and amortization, and other income (expense)”. See the “Notes” section of this news release for further information.

² EPS are based on weighted average shares outstanding of 66.2 million for the three months ended March 31, 2012; 65.9 million for the three months ended December 31, 2011; 65.7 million for the three months ended September 30, 2011; 65.4 million for the three months ended June 30, 2011; and 65.2 million for the three months ended March 31, 2011. The increase in the number of weighted shares outstanding is mainly due to participation in the Company’s dividend reinvestment plan.

³ MTS Allstream defines free cash flow as “cash flows from operating activities less capital expenditures, and excluding changes in working capital”. See the Notes section of this news release for further information.

MTS

MTS delivered another strong quarterly performance with revenue growth of 2.7% and EBITDA growth of 2.9%, while maintaining an EBITDA margin of 51.4% in the first quarter of 2012. Wireless, high-speed Internet and IPTV services generated 8.9% revenue growth, which offset declines in local, long distance and legacy data services. MTS increased the number of customers with bundled services by 6.9%, to almost 92,000, in the first quarter of 2012.

MTS operating revenues

<i>(in millions \$)</i>	Q1 2012	Q1 2011	% change
Wireless	89.8	84.0	6.9
Broadband and converged IP	52.5	46.2	13.6
Unified communications, security and monitoring	8.6	8.3	3.6
Local access	66.9	69.6	(3.9)
Long distance and legacy data	19.1	21.9	(12.8)
Other	6.8	7.3	(6.8)
Total MTS operating revenues	243.7	237.3	2.7

Wireless services continued to generate strong revenue growth in the first quarter of 2012.

- Wireless data revenues grew 45.1% in the first quarter of 2012, driving a 5.4% increase in wireless ARPU. Wireless data ARPU for the first quarter of 2012 was \$18.09, an increase of 42.9% over the prior year. At March 31, 2012, 48% of all postpaid wireless subscribers had data plans – up from 31% as of March 31, 2011.
- MTS's extensive 4G wireless network, together with the planned deployment of Long Term Evolution ("LTE") technology in Winnipeg and Brandon later in 2012, is expected to drive continued strong demand for wireless data services.
- Postpaid subscribers totaled 391,997, up 4.0% over the prior year. Wireless subscribers totaled 488,571 as of March 31, 2012, up 1.0% over the prior year.
- Postpaid wireless churn remained consistent year over year at 0.91%, while blended wireless churn was 1.99% in the first quarter of 2012.

Broadband and converged IP lines of business delivered strong performance in the first quarter of 2012, driven by demand for high-speed Internet and premium IPTV services.

- Internet revenues grew 9.1% to \$26.5 million in the first quarter due to subscriber growth and an increase in high-speed residential ARPU. High-speed residential ARPU was up 8.5%, to \$40.01, due to fewer customers on promotional plans and price increases. High-speed Internet subscribers increased 2.7%, to 190,247, as at March 31, 2012.
- IPTV revenues grew 19.0% to \$19.4 million in the first quarter, driven by fewer customers on promotional plans, subscriber growth and price increases.
- MTS announced it had reached the 100,000th TV customer level and, by March 31, 2012, had a total of 100,087 television customers, including 95,695 IPTV subscribers which grew 5.8% year over year.

MTS maintained its industry-leading low network access line erosion rate in the first quarter of 2012.

- Local access revenues declined by 3.9% to \$66.9 million, mainly due to a 5.6% decline in residential local access lines resulting from wireless substitution and local competition, and a 3.0% decrease in business local access lines.
- Long distance revenues declined by 14.5% to \$11.2 million in the first quarter, mainly due to customer migration to lower-priced long distance plans and reduced volumes, as customers continue to replace long

distance calling with alternative methods of communication, such as email, text messaging and social networking.

- Legacy data revenues declined 10.2% to \$7.9 million in the first quarter of 2012, mainly due to a decrease in wholesale data services and the decommissioning of legacy products.

Allstream

Allstream achieved its sixth consecutive quarter of year-over-year EBITDA growth in the first three months of 2012. EBITDA was up 1.7% to \$29.3 million in the first quarter, due to Allstream's continued focus on its strategy of growing on-net converged IP services and reducing costs. Allstream reduced direct costs by 10.4% and increased its gross margin to 56.7% in the first quarter of 2012. As part of the Company's strategic plan to transition away from low-margin legacy products and services, Allstream revenues declined 5.0% to \$200.2 million in the first quarter of 2012.

Allstream operating revenues

<i>(in millions \$)</i>	Q1 2012	Q1 2011	% change
Converged IP	61.1	58.7	4.1
Unified communications and security	21.8	22.0	(0.9)
Local access	47.6	49.8	(4.4)
Long distance and legacy data	49.6	56.6	(12.4)
Other	20.1	23.7	(15.2)
Total Allstream operating revenues	200.2	210.8	(5.0)

Allstream showed solid year-over-year converged IP revenue growth of 4.1% in the first quarter of 2012.

- The revenue increase generated by strong IP sales wins was partly offset by an increase in disconnects related to a decision, by a Government of Ontario department, to change its policy on the procurement of telecommunications services for individual doctors' offices and clinics. Adjusting for the impact of this contract, converged IP revenues would have grown 8.7% year over year in the first quarter of 2012. The Company expects further disconnects related to this government contract in 2012.
- Allstream's EBITDA performed well due to an increase in IP revenues, improvements in the proportion of services delivered on our network and diligent cost management, which resulted in operating costs that were 6.1% lower than those of the prior year.
- Allstream's free cash flow improved mainly due to improved EBITDA, lower pension funding requirements and lower capital expenditures.
- Allstream added a total of 99 buildings to its national IP fibre network in the first quarter of 2012, increasing Allstream's total number of fibre-fed buildings to 2,487 at March 31, 2012 – an increase of 14.9% when compared to March 31, 2011.

Allstream's decline in local access revenues was primarily due to decreases in resold voice lines, as per Allstream's strategy of focusing on services delivered on its network and exiting low-margin lines of business.

Allstream continues to implement its strategy: to improve profitability of legacy services by exiting low-margin long distance and legacy data services, reducing costs, and transitioning legacy customers to IP-based services.

- Long distance revenues declined by 13.2% to \$25.0 million, mainly due to decreased volumes.
- Legacy data revenues declined by 11.5% to \$24.6 million, as expected, reflecting Allstream's customers' continued transition to broadband and other IP-based services.

Dividend

The Company's Board of Directors declared a quarterly cash dividend of \$0.425 per share for the second quarter of 2012, payable on July 16, 2012 to shareholders of record at the close of business on June 15, 2012.

The second-quarter dividend is designated an "eligible" dividend under the *Income Tax Act* (Canada) and any corresponding provincial legislation. Under this legislation, individuals resident in Canada may be entitled to enhanced dividend tax credits that reduce income tax otherwise payable.

Investment Community Conference Call

MTS Allstream will hold its first-quarter 2012 results conference call with the investment community on May 10, 2012 at 9:00 am (Eastern time). Participants will include Pierre Blouin, Chief Executive Officer and Wayne Demkey, Chief Financial Officer.

To participate, please dial toll-free 1-888-231-8191 or 647-427-7450. A replay will be available until May 24, 2012 by dialing 1-855-859-2056 and entering passcode 69612602.

Investors, media and the public are invited to participate on a listen-only basis by logging into the live audio webcast of the conference call at the "Investors" page of the Company's website (www.mtsallstream.com) or by entering <http://event.on24.com/r.htm?e=451204&s=1&k=475E57EE2E9446A901A2C665F0ED6258>. A replay of the conference call will be available on MTS Allstream's website for one year.

Notes

- (1) MTS Allstream defines EBITDA as "earnings before interest, taxes, depreciation and amortization and other income (expense)". The term "EBITDA", as it relates to 2012 and 2011 results prepared using International Financial Reporting Standards ("IFRS"), does not have any standardized meaning according to IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies.

<i>(in millions \$)</i>	Q1 2012	Q1 2011	% change
Operating revenues	435.1	439.3	(1.0)
Deduct: Operating expenses	(359.6)	(364.3)	(1.3)
Add: Depreciation and amortization	78.5	74.8	4.9
EBITDA	154.0	149.8	2.8

- (2) MTS Allstream defines free cash flow as "cash flows from operating activities, less capital expenditures, and excluding changes in working capital". Free cash flow is the amount of discretionary cash flow that the Company has for purchasing additional assets beyond its annual capital expenditure program, paying dividends, buying back shares and/or retiring debt. The term "free cash flow", as it relates to 2012 and 2011 results prepared using IFRS, does not have any standardized meaning according to IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies.

<i>(in millions \$)</i>	Q1 2012	Q1 2011	\$ change
Cash flows from operating activities	77.3	27.4	49.9
Add: Changes in non-cash working capital	35.7	64.8	(29.1)
Deduct: Capital expenditures	(76.9)	(67.8)	(9.1)
Free cash flow for the period	36.1	24.4	11.7

- (3) More information can be found in MTS Allstream’s First Quarter 2012 interim MD&A, First Quarter 2012 Financial Statements, 2011 Annual MD&A and 2011 Annual Information Form, which are available in the “Investors” section of the MTS Allstream website at www.mtsallstream.com and will be available on SEDAR at www.sedar.com.

Supplementary information for the three months ended March 31, 2012 is also available in the “Investors” section of the MTS Allstream website at www.mtsallstream.com.

Forward-looking statements disclaimer

This news release includes forward-looking statements and information (collectively, “the statements”) about the Company’s corporate direction, business opportunities, operations, financial objectives and future financial results and performance that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking statements. Therefore, forward-looking statements should be considered carefully and undue reliance should not be placed on them. Examples of statements that constitute forward-looking information may be identified by words such as “believe”, “expect”, “project”, “should”, “anticipate”, “could”, “target”, “forecast”, “intend”, “plan”, “outlook”, “see”, “set”, “pending” and other similar terms.

Factors that could cause anticipated opportunities and actual results to differ materially include, but are not limited to, matters identified in the “Risks and uncertainties” section and elsewhere in the Company’s 2011 Annual MD&A, which is available in the “Investors” section of the MTS Allstream website at www.mtsallstream.com and on SEDAR at www.sedar.com.

Please note that forward-looking statements reflect Management’s expectations as at May 9, 2012. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. This news release and the financial information contained herein have been reviewed by the Company’s Audit Committee and approved by the Company’s Board of Directors.

Manitoba Telecom Services Inc. (MTS Allstream)

MTS Allstream is one of Canada's leading national communication solutions companies, providing innovative communications for the way Canadians live and work today. The Company has more than 100 years of experience, with 5,500 employees across Canada. MTS Allstream's business is dynamic and consists of two operating divisions. In Manitoba, MTS is the leading full-service telecommunications provider for residential and business customers. MTS's suite of services includes the latest in wireless technology, broadband services, IPTV, voice services, home security and an extensive range of business solutions. Across Canada, Allstream is a leader in IP communications and the only national provider that focuses exclusively on the business telecommunications market. MTS Allstream has nearly two million customer connections spanning business customers across Canada and residential consumers throughout the province of Manitoba. The Company's extensive national fibre optic network spans more than 30,000 kilometres. MTS Allstream has spent 11 consecutive years on the Jantzi Social Index for leadership in social responsibility, and is the recipient of the 2011 Governance Gavel Award from the Canadian Coalition of Good Governance, recognizing clear and effective public disclosure and leading governance practices. MTS Allstream's common shares are listed on the TSX (trading symbol: MBT). Customers, stakeholders and investors who want to learn more about MTS Allstream are encouraged to visit www.mtsallstream.com. For more information about MTS's products and services, please visit www.mts.ca. For more information about Allstream's products and services, please visit www.allstream.com.

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