



Stock symbol: MBT

## NewsRelease

### MTS Allstream reports third-quarter 2012 results

Learn more about MTS Allstream's Q3 2012 results by visiting the [MTS Allstream "Investors" section](#).

**WINNIPEG, MB, November 8, 2012** – Manitoba Telecom Services Inc. (“the Company” or “MTS Allstream”), including its two operating divisions, MTS and Allstream, today reported net earnings of \$40.8 million for the three months ended September 30, 2012, compared with \$37.0 million for the three months ended September 30, 2011. Earnings per share (“EPS”) were \$0.61 in the third quarter of 2012, up 8.9% over the prior year. Third-quarter results position the Company to meet its financial guidance ranges on all metrics.

#### Q3 2012 highlights

- **EPS of \$0.61, up 8.9%**
- **Consolidated EBITDA grew 3.3% to \$151.7 million**
- **Allstream achieves eighth consecutive quarter of year-over-year EBITDA growth, to \$27.8 million**
- **Allstream added 90 buildings to its IP fibre network; fibre-fed buildings now total 2,644**
- **Revenues from MTS wireless data were up 29.4%**
- **Annual cost reduction target reached**
- **Board of Directors declares \$0.425 per share Q4 2012 cash dividend**

“We are satisfied with the overall results for the third quarter 2012,” said Pierre Blouin, MTS Allstream’s Chief Executive Officer. “The continuing focus on our strategy to maintain our industry-leading position in Manitoba and drive growth in IP-based services in the national business market has delivered another quarter of solid growth in profitability.”

“Our unmatched bundling capability in key growth services resulted in MTS’s solid third-quarter EBITDA growth of 1.6%. At Allstream, an EBITDA increase of 1.1% marks the eighth straight quarter of year-over-year growth, led by our continuing improvement in margins. On a consolidated level, we have again met our annual cost savings target for the eighth consecutive year, which speaks to our commitment to aggressively improving our cost structure while continuing to provide leading customer service.”

## **MTS Allstream**

MTS Allstream's solid third-quarter financial performance reflects ongoing strategic focus on increasing profits and cash flows by investing in MTS's wireless and broadband networks in Manitoba, and Allstream's converged Internet protocol ("IP") nationally.

### Consolidated financial results

<i>(in millions \$, except EPS)</i>	<b>Q3 2012</b>	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Revenues	<b>424.3</b>	431.6	435.1	439.4	443.2
EBITDA <sup>1</sup>	<b>151.7</b>	153.5	154.0	146.9	146.9
EPS <sup>2</sup>	<b>\$0.61</b>	\$0.67	\$0.80	\$0.56	\$0.56
Free cash flow <sup>3</sup>	<b>17.3</b>	27.1	36.1	18.3	29.3
Capital expenditures	<b>94.5</b>	93.0	76.9	84.6	81.1

<sup>1</sup> 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.

<sup>2</sup> EPS is based on weighted average shares outstanding of 66.7 million for the three months ended September 30, 2012; 66.4 million for the three months ended June 30, 2012; 66.2 million for the three months ended March 31, 2012; 65.9 million for the three months ended December 31, 2011 and 65.7 million for the three months ended September 30, 2011. The increase in the number of weighted shares outstanding is mainly due to participation in the Company's dividend reinvestment program.

<sup>3</sup> 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.

- Consolidated EBITDA grew 3.3% over Q3 2011, due to strong revenue growth from strategic services at MTS, Allstream's continued focus on converged IP revenues and improving margins, and cost management, partly offset by declining revenues from legacy business lines.
- The Company generated strong revenue growth of 29.4% in wireless data, 6.9% in high-speed Internet and 7.7% in IPTV services, offset by an increase in planned legacy revenue declines, resulting in a 4.3% year-over-year consolidated revenue decrease.
- For the eighth year in a row, the Company attained its annual cost savings target, having achieved \$26.3 million in annualized cost savings at September 30, 2012, against a guidance range of \$25 million to \$35 million for 2012.
- Capital expenditures were higher than those in Q3 2011, mainly due to the timing of investments in capital projects, such as upgrades to the wireless billing system and Long Term Evolution ("LTE") deployment at MTS, and adding more on-net buildings at Allstream. The Company's 2012 financial guidance included an increase in capital spending; a large proportion of capital spending is complete in the first nine months of 2012. The Company is on track for its 2012 financial guidance for capital spending and free cash flow.
- Free cash flow was \$17.3 million, down \$12.0 million over Q3 2011, mainly due to the timing of certain capital projects and to higher required pension funding, partly offset by EBITDA growth.
- The 8.9% increase in EPS over Q3 2011 is mostly attributable to EBITDA growth and lower finance costs, partly offset by lower other income.

## MTS

MTS produced EBITDA growth of 1.6%, while maintaining a leading EBITDA margin of 50.2% in the third quarter of 2012. Wireless data, high-speed Internet and IPTV services generated strong revenue growth, which offset declines in local, long distance and legacy data revenues. MTS increased the number of customers with bundled services by 10.5%, to almost 96,000, in the third quarter of 2012.

### MTS operating revenues

<i>(in millions \$)</i>	<b>Q3 2012</b>	Q3 2011	% change	<b>YTD 2012</b>	YTD 2011	% change
Wireless	<b>91.5</b>	91.5	-	<b>272.2</b>	263.5	3.3
Broadband and converged IP	<b>53.5</b>	50.1	6.8	<b>159.6</b>	144.6	10.4
Unified communications, security and monitoring	<b>8.9</b>	8.3	7.2	<b>27.0</b>	25.5	5.9
Local access	<b>66.9</b>	69.1	(3.2)	<b>201.1</b>	208.7	(3.6)
Long distance and legacy data	<b>18.9</b>	20.8	(9.1)	<b>57.2</b>	63.6	(10.1)
Other	<b>6.9</b>	7.0	(1.4)	<b>20.0</b>	21.2	(5.7)
Total MTS operating revenues	<b>246.6</b>	246.8	(0.1)	<b>737.1</b>	727.1	1.4

MTS maintained its leadership position in Manitoba's wireless market, with market share at 53% in Q3 2012.

- On September 14, 2012, MTS announced that it would offer the iPhone 5 in Canada beginning Friday, September 28. The iPhone 5 launch was positively received by customers.
- Year-to-date wireless revenue growth was 3.3%, driving a 2.4% increase in year-to-date blended wireless average revenue per user ("ARPU"), to \$60.58. Wireless revenues increased 1.8% in Q3 2012, when one-time retroactive revenues from wholesale customers received in Q3 2011 are excluded.
- Wireless data revenues grew 29.4% in Q3 2012, driving a 31.2% increase in year-to-date wireless data ARPU, to \$19.18. At September 30, 2012, 53.5% of all postpaid wireless subscribers had data plans – up from 39.9% at Q3 2011.
- MTS's extensive wireless network, with LTE technology currently available in Winnipeg and Brandon and 4G HSPA coverage to over 97% of Manitoba's population, is expected to drive continued strong demand for wireless data services.
- Q3 2012 postpaid subscribers totaled 400,442, up 3.5% over Q3 2011. Postpaid wireless subscriber growth was partly offset by a decrease in lower-ARPU prepaid and wholesale customers. As a result, wireless subscribers were stable over Q3 2011 and totaled 494,564 at September 30, 2012.
- Postpaid wireless churn was a leading 0.89% in Q3 2012, in line with postpaid churn of 0.87% in Q3 2011, reflecting the loyalty of MTS's bundled customers. Total customers subscribing to MTS's unique bundles were up 10.5% over Q3 2011.

Internet and IPTV delivered strong performance, with both revenues and ARPU up in Q3 2012.

- Internet revenues grew 6.9% to \$27.7 million in Q3 2012, due to a growing subscriber base and price increases. Year-to-date high-speed residential ARPU was up 8.6% over Q3 2011, to \$41.59.
- IPTV revenues grew 7.7% to \$19.5 million in Q3 2012, driven by increased ARPU and subscriber growth. Year-to-date IPTV ARPU was up 9.0% over Q3 2011, to \$66.79.
- At September 30, 2012, MTS had a total of 102,039 television customers, of which 95,374 are IPTV subscribers, representing a year-over-year increase of 2.3% in IPTV customers. A growing customer base shows there is continued demand for flexibility in theme groups, high-quality digital picture and sound, and the innovative features that make MTS's television service unique.

MTS remains disciplined in finding the right balance between financial performance and maintaining market share in local access, legacy data and long distance services.

- Local access revenues declined in Q3 2012, mainly due to wireless substitution and local competition.
- Long distance revenues declined in Q3 2012, mainly due to customers replacing long distance calling with email, text messaging and social networking.
- Legacy data revenues declined in Q3 2012, mainly due to a decrease in wholesale data services.

### Allstream

Allstream's performance in the third quarter of 2012 demonstrated continued progress on its strategic objective: to drive growth in on-net IP-based services and improve profitability. EBITDA increased by \$0.3 million in the third quarter of 2012, compared to the same period of 2011, marking the eighth straight quarter of year-over-year EBITDA growth. Allstream revenue for the period reflected a year-over-year increase in high-margin on-net IP revenues, which were offset by legacy revenue declines. The continuing focus on on-net services improved gross margins to 58.6% in the third quarter of 2012 and, along with diligent cost management, contributed to overall EBITDA growth.

### Allstream operating revenues

<i>(in millions \$)</i>	<b>Q3 2012</b>	Q3 2011	% change	<b>YTD 2012</b>	YTD 2011	% change
Converged IP	<b>60.7</b>	60.4	0.5	<b>182.6</b>	178.7	2.2
Unified communications and security	<b>18.4</b>	22.2	(17.1)	<b>59.4</b>	66.0	(10.0)
Local access	<b>43.6</b>	48.6	(10.3)	<b>138.1</b>	147.9	(6.6)
Long distance and legacy data	<b>45.1</b>	51.5	(12.4)	<b>141.7</b>	162.1	(12.6)
Other	<b>18.4</b>	23.1	(20.3)	<b>58.1</b>	72.2	(19.5)
<b>Total Allstream operating revenues</b>	<b>186.2</b>	205.8	(9.5)	<b>579.9</b>	626.9	(7.5)

Revenues from converged IP and wins in IP sales were both up in Q3 2012, reflecting Allstream's continued focus on improving profitability.

- Allstream's converged IP revenue growth continues to be partially offset by an increase in disconnects related to a decision by a Government of Ontario department to change its procurement policy on telecommunications services for individual doctors' offices and clinics. Adjusting for the impact of this contract, converged IP revenues would have grown 5.5% over Q3 2011 and 7.1% in the first nine months of the year. The Company now expects that IP revenues from this customer will be down about \$12 million in 2012, which represents about half of the revenues reported for this customer in 2011. IP revenues will continue to be affected by this contract in 2013.
- Allstream added a total of 90 buildings to its national IP fibre network in Q3 2012, raising its total number of fibre-fed buildings to 2,644 at September 30, 2012, for an increase of 14.3% when compared to September 30, 2011.
- New customers to be connected to Allstream's 30,000-kilometre IP fibre network include Syneron Canada Corporation; Metalogix; Apex Public Relations Inc.; Grey Advertising; Prospero Learning Solutions; Skyworks Solutions, Inc.; a.p.i. alarm Inc.; BSTREET Communications Inc.; Fidus Systems Inc. and First Affiliated Holdings Inc.
- Demand for IP services continues to drive sales at the same pace as in 2011, when Allstream achieved its best-ever year for IP sales wins. This success has contributed to converged IP revenue growth of \$0.3 million, to \$60.7 million in Q3 2012.
- Growth in converged IP gross margins also continued, reaching 73.5% in Q3 2012, up from 71.0% in Q3 2011.

“The expansion of our IP fibre network in major urban centres across Canada is a key driver of our success in the IP market,” said Dean Prevost, President of Allstream. “We continue to cost-effectively grow the numbers of both fibre-fed buildings and on-net customers, to drive growth in on-net revenues and margins.”

Allstream continues to focus on IP revenue growth, by exiting low-margin legacy services and transitioning existing customers to IP-based services.

- Revenues from local access services and other services declined in Q3 2012, as per Allstream’s decision to exit low-margin business lines.
- Long distance revenues declined by 15.6% to \$22.1 million in Q3 2012, mainly due to decreased volumes and lower rates.
- Legacy data revenues declined by 9.1% to \$23.0 million in Q3 2012, reflecting customers’ continued transition to broadband and other IP-based services.

### **Strategic review**

MTS Allstream and its Board of Directors announced that the Company would undertake a wide-ranging strategic review of its Allstream business, on September 13, 2012. The Company does not intend to disclose any developments with respect to this strategic review process until such time as the Board approves a particular course of action or otherwise determines that further disclosure is appropriate or required. There is no assurance or expectation that any changes will be made as a result of this process.

The Company is obtaining the assistance of Stikeman Elliott LLP as external legal advisors during this exploratory process, as well as of CIBC World Markets and Morgan Stanley as financial advisors. The Board of Directors has formed a Strategic Committee to oversee this review. Kishore Kapoor has been named Chair of the Strategic Committee and will serve on the committee along with David Leith and H. Sanford Riley.

### **Dividend**

The Company’s Board of Directors declared a quarterly cash dividend of \$0.425 per share for the fourth quarter of 2012, payable on January 15, 2013 to shareholders of record at the close of business on December 14, 2012.

The fourth-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 third-quarter 2012 results conference call with the investment community on **Thursday, November 8, 2012 at 8:30 a.m.** (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 November 22, 2012, by dialing 1-855-859-2056 and entering passcode 34377963.

Investors, media and the public are invited to participate, on a listen-only basis, by logging in to the live audio webcast of the conference call on the [MTS Allstream “Investors” page](http://event.on24.com/r.htm?e=521453&s=1&k=AF07ECB0B7741885B4C8472551C75911) or by entering:  
<http://event.on24.com/r.htm?e=521453&s=1&k=AF07ECB0B7741885B4C8472551C75911>

A replay of the conference call will be available on MTS Allstream's website for one year.



Pierre Blouin, Chief Executive Officer



Wayne Demkey, Chief Financial Officer

### 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>	<b>Q3 2012</b>	Q3 2011	% change	<b>YTD 2012</b>	YTD 2011	% change
Operating revenues	<b>424.3</b>	443.2	(4.3)	<b>1,291.0</b>	1,326.2	(2.7)
Operating expenses	<b>(353.1)</b>	(376.7)	6.3	<b>(1,070.1)</b>	(1,098.2)	2.6
Depreciation and amortization	<b>80.5</b>	80.4	0.1	<b>238.3</b>	219.5	8.6
<b>EBITDA</b>	<b>151.7</b>	146.9	3.3	<b>459.2</b>	447.5	2.6

- (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>	<b>Q3 2012</b>	Q3 2011	\$ change	<b>YTD 2012</b>	YTD 2011	\$ change
Cash flows from operating activities	<b>145.8</b>	157.8	(12.0)	<b>337.1</b>	260.0	77.1
Changes in non-cash working capital	<b>(34.0)</b>	(47.4)	13.4	<b>7.8</b>	54.9	(47.1)
Capital expenditures	<b>(94.5)</b>	(81.1)	(13.4)	<b>(264.4)</b>	(203.4)	(61.0)
<b>Free cash flow for the period</b>	<b>17.3</b>	29.3	(12.0)	<b>80.5</b>	111.5	(31.0)

- (3) More information can be found in MTS Allstream’s third-quarter 2012 interim Management’s Discussion and Analysis (“MD&A”), third-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](http://www.mtsallstream.com) and will be available on SEDAR at [www.sedar.com](http://www.sedar.com).

Supplementary information for the three and nine months ended September 30, 2012 is also available in the “Investors” section of the MTS Allstream website at [www.mtsallstream.com](http://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](http://www.mtsallstream.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

Please note that forward-looking statements reflect Management’s expectations as at November 7, 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](http://www.mtsallstream.com). For more information about MTS’s products and services, please visit [www.mts.ca](http://www.mts.ca). For more information about Allstream’s products and services, please visit [www.allstream.com](http://www.allstream.com).

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