



Stock symbol: MBT

NewsRelease

MTS Allstream reports fourth-quarter and full-year results, and announces 2013 financial outlook

Learn more about MTS Allstream's 2012 results by visiting the "Investors" section of our website at www.mtsallstream.com.

WINNIPEG, MB, February 13, 2013 – Manitoba Telecom Services Inc. ("the Company" or "MTS Allstream"), including its two primary operating subsidiaries, MTS Inc. ("MTS") and Allstream Inc. ("Allstream"), today reported fourth-quarter and full-year results. MTS Allstream met 2012 financial guidance on all metrics and its 2013 financial guidance demonstrates continued progress.

Highlights

- **MTS Allstream**
 - Consolidated EBITDA up 2.5% to \$609.5 million
 - EPS up 3.1% to \$2.63
 - Annual cost reduction target reached, with \$33.6 million in cost savings
 - Prefunded \$70 million into MTS pension plan
 - Board of Directors declares \$0.425 per share Q1 2013 cash dividend

- **MTS**
 - Wireless data revenues up 29.7%
 - Wireless data ARPU up 28.9%
 - IPTV revenues up 11.2%
 - IPTV ARPU up 7.3%
 - High-speed Internet revenues up 8.4%
 - High-speed Internet ARPU up 8.0%

- **Allstream**
 - Ninth consecutive quarter of year-over-year EBITDA growth
 - Increased EBITDA margin to 15.2%
 - Best-ever quarter for IP sales wins, including \$55-million contract to provide IP services to Shared Services Canada

- **Outlook**
 - Continued strength at MTS and Allstream
 - Significant increase in free cash flow expected from EBITDA growth and lower capital expenditures

"MTS Allstream continued to advance its strategy and market position in 2012 by launching the first and only 4G LTE wireless network in Manitoba, extending Allstream's national fibre network to another 335 buildings, and achieving our annual cost reduction target for the eighth consecutive year," said Pierre Blouin, Chief Executive Officer. "We are proud of what we have accomplished and the value we are creating for shareholders. With increasing EBITDA and EPS, nine quarters in a row of profitability improvement at Allstream and several strategic projects completed, we expect to deliver continued performance gains and increased free cash flow in 2013."

MTS Allstream – annual results

MTS Allstream’s increased profits and 2012 performance are the result of diligent execution and investments the Company has made in MTS’s wireless and broadband networks in Manitoba, and Allstream’s converged Internet protocol (“IP”) network nationally.

Consolidated financial results

<i>(in millions \$, except earnings per share and capital expenditures)</i>	2012 results	2012 outlook	2011 results
Revenues	1,704.1	1,675 to 1,775	1,765.6
EBITDA ¹	609.5	590 to 630	594.4
EPS ²	\$2.63	\$2.20 to \$2.65	\$2.55
Free cash flow ³	117.6	110 to 150	129.8
Capital expenditures/revenues	19.8%	18% to 20%	16.3%

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 is defined as “earnings per share” and is based on weighted average shares outstanding of 66.6 million and 65.5 million for the twelve months ended December 31, 2012 and December 31, 2011, respectively. The increase in the number of weighted average shares outstanding is mainly due to participation in the Company’s dividend reinvestment program.

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.

- **Revenues: \$1,704.1 million**, down 3.5% in 2012, mostly due to legacy revenue declines, including \$33.3 million in planned legacy reductions at Allstream, partly offset by strong revenues from most strategic lines of business. Excluding declines from legacy lines of business, revenue increased by 2.2 % over 2011 on the strength of increased revenues across most strategic lines of business.
- **EBITDA: \$609.5 million**, up 2.5% in 2012 due to improving margins, particularly at Allstream, which achieved a \$62.4-million decrease in direct costs and an \$11.9-million decrease in operating expenses.
- **EPS: \$2.63**, up 3.1% in 2012, mostly attributable to EBITDA growth and lower income tax expense.
- **Free cash flow: \$117.6 million**, down 9.4% in 2012, mainly due to higher capital expenditures for strategic 2012 investments, partly offset by EBITDA growth and lower pension funding.
- **Capital expenditures: \$338.0 million**, up 17.4% in 2012, mostly due to our investment in Long Term Evolution (“LTE”) wireless technology and the favourable one-time \$20.7-million impact of the scientific research and experimental development investment tax credit recorded in 2011.
- **Annual cost savings: \$33.6 million**, marking the eighth consecutive year in which the Company achieved its annual cost savings target.

MTS – annual results

MTS produced EBITDA growth of 1.1%, while maintaining a leading EBITDA margin of 50.5% in 2012. Wireless data, high-speed Internet and IPTV services generated strong revenue growth, which offset declines in local, long distance and legacy data revenues. In 2012, MTS increased the number of customers with bundled services by 8.5%, to 96,503, and had average revenue per user (“ARPU”) growth in all strategic product lines.

Operating revenues

<i>(in millions \$)</i>	2012	2011	% change
Wireless	362.1	356.3	1.6%
Broadband and converged IP	212.9	195.3	9.0%
Unified communications, security and monitoring	36.2	35.0	3.4%
Local access	266.5	277.3	(3.9%)
Long distance and legacy data	76.1	84.1	(9.5%)
Other	26.8	28.3	(5.3%)
Total MTS operating revenues	980.6	976.3	0.4%

Wireless services

- **Wireless revenues: \$362.1 million**, up 1.6%, driven by a 1.2% increase in year-to-date blended wireless ARPU, partly offset by a decline in wholesale wireless revenues.
- **Wireless data revenues: \$116.3 million**, up 29.7%, driven by a 28.9% increase in wireless data ARPU.
- Handset expansion: iPhone 5 on September 28, 2012, Sony Xperia™ T on November 23, 2012 and Samsung Galaxy S III on December 13, 2012.
- First to launch LTE technology in Winnipeg and Brandon, on August 28, 2012.
- 4G LTE/HSPA+ coverage: Over 97% of Manitoba’s population – is expected to drive continued strong demand for wireless data services.

Wireless statistics

	2012	2011	% change
Total wireless subscribers	497,367	496,432	0.2%
Post-paid subscribers	402,824	390,889	3.1%
Post-paid subscribers with data plans	229,478	173,837	32.0%
Wireless ARPU – blended	\$60.35	\$59.66	1.2%
Wireless data ARPU	\$19.69	\$15.28	28.9%
Wireless churn – blended	1.66%	1.59%	.07 pts

Internet and IPTV services

- **Internet revenues: \$110.1 million**, up 8.4%, due to a growing subscriber base and higher ARPU.
- **IPTV revenues: \$78.5 million**, up 11.2%, driven by increased ARPU and subscriber growth.
- In 2012, MTS deployed MTS fibre-to-the-home (“FTTH”) in four more communities: IPTV service is now available to 95% of Winnipeg households, to 98% of Brandon households, to 94% of Portage La Prairie households and to a growing number of homes in nine other communities.
- 77% of IPTV customers subscribe to the higher-ARPU Ultimate TV service, up from 64% in 2011.

Internet and IPTV statistics

	2012	2011	% change
High-speed Internet subscribers	193,690	189,366	2.3%
High-speed residential ARPU	\$41.65	\$38.56	8.0%
Total television customers	101,550	99,865	1.7%
Total IPTV subscribers	97,232	95,476	1.8%
Ultimate IPTV subscribers	75,008	60,667	23.6%
IPTV ARPU	\$66.92	\$62.38	7.3%

Unified communications, security and monitoring

- **Unified communications revenues: \$23.9 million**, up 5.3%, due to increased equipment sales.
- **Security and monitoring revenues: \$12.3 million**, in line with the prior year.

Local access, legacy data and long distance services

- **Local access revenues: \$266.5 million**, down 3.9%, mainly due to price changes on features and to line losses from wireless substitution and some local competition.
- **Long distance revenues: \$44.4 million**, down 11.4%, mainly due to customers replacing long distance calling with email, text messaging and social networking.
- **Legacy data revenues: \$31.7 million**, down 6.8%, mainly due to a decrease in wholesale data services.

Allstream – annual results

Allstream's performance in 2012 demonstrated continued progress on its strategic objective to drive growth in on-net IP-based services and improve profitability, as demonstrated by nine consecutive quarters of year-over-year EBITDA growth and a \$6.8-million increase in EBITDA as compared to 2011. Allstream revenue for the year reflected a 1.6% increase in high-margin on-net IP revenues, which was offset by legacy revenue declines. The continuing focus on on-net services improved gross margins to 59.5% in 2012 and, along with diligent cost management, contributed to strong overall EBITDA growth.

Operating revenues

<i>(in millions \$)</i>	2012	2011	% change
Converged IP	243.6	239.8	1.6%
Unified communications, hosting and security	78.3	86.7	(9.7%)
Local access	179.7	196.6	(8.6%)
Long distance and legacy data	186.0	210.9	(11.8%)
Other	70.6	91.7	(23.0%)
Total Allstream operating revenues	758.2	825.7	(8.2%)

Converged IP

- **Converged IP revenues: \$243.6 million**, up 1.6%.
- 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. Excluding the impact of this contract, **converged IP revenues would have grown 6.5% in 2012**.
- Converged IP gross margins: 73.5%, up from 71.3% in 2011.
- 335 buildings added to national IP fibre network – totalling 2,723 fibre-fed buildings at December 31, 2012, for an increase of 14.0% over 2011.
- IP sales for the year were up 15.8% over the prior year with significant contract wins with Shared Services Canada and Loblaw Companies Ltd.

Unified communications, hosting and security

- **Unified communications, hosting and security revenues: \$78.3 million**, down 9.7%, due to decreases in one-time product sales and management's shift away from stand-alone low-margin security product sales, partly offset by a 5.1% increase in hosting revenue.

Legacy services

- **Local access revenues: \$179.7 million**, down 8.6%, due to Allstream's decision to accelerate its exit of low-margin wholesale resold business lines.
- **Long distance revenues: \$91.8 million**, down 14.0%, mainly due to decreased volumes and lower rates.
- **Legacy data revenues: \$94.2 million**, down 9.6%, reflecting customers' continued transition to broadband and other IP-based services.

Corporate update

The strategic review process announced on September 13, 2012 is ongoing. As previously stated, the Company does not intend to disclose any developments with respect to this strategic review process until such time as the Board of Directors 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.

Pension funding

As the strategic review is ongoing, the Company prefunded \$70 million into the MTS pension plan from short-term debt. Allstream pension solvency requirements will continue to be funded from letters of credit. As a result, we expect no further impact on free cash flow in 2013.

Dividend

The Company's Board of Directors declared a quarterly cash dividend of \$0.425 per share for the first quarter of 2013, payable on April 15, 2013 to shareholders of record at the close of business on March 15, 2013.

The first-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.

2013 Outlook

MTS Allstream's 2013 financial guidance reflects continued improvement on its strategic objectives. MTS Allstream expects to deliver significant increases in free cash flow and growth across the Company's strategic product lines in 2013. The company's financial guidance for 2013 is as follows:

2013 financial outlook

<i>(in millions \$, except earnings per share and capital expenditures)</i>	2013 outlook	2012 adjusted results ¹	2012 results	2012 outlook
Revenues	1,630 to 1,730	1,704.1	1,704.1	1,675 to 1,775
EBITDA	590 to 630	585.1	609.5	590 to 630
EPS	\$1.75 to \$2.15	\$2.19	\$2.63	\$2.20 to \$2.65
Capital expenditures/revenues	17% to 19%	19.8%	19.8%	18% to 20%
Free cash flow ²	160 to 200	117.6	117.6	110 to 150

¹ The non-cash impact of International Accounting Standard ("IAS") 19 on reporting of defined-benefit pension plans as described in our 2012 MD&A, in note 4 of our 2012 consolidated financial statements, and with quarterly adjustments in our supplementary information package.

² Free cash flow excludes the \$70 million prefunded MTS pension solvency payment. Allstream's 2013 pension solvency funding requirement will be met using letters of credit.

MTS Allstream expects consolidated revenues in 2013 to be slightly lower than 2012, as revenue growth from strategic services such as wireless, broadband and converged IP will not fully offset the expected and planned reductions in legacy services.

EBITDA growth in 2013 will come from a combination of cost savings achieved during the prior year and gross margin improvement. The Company plans additional cost reductions in 2013 in the range of \$30 million to \$40 million, having achieved \$33.6 million in cost savings in 2012.

MTS Allstream is anticipating 2013 EPS to be lower than that in 2012 as the favourable impact of EBITDA improvements will be more than offset by higher fixed asset amortization. For comparison purposes, 2012 EPS included \$0.15 for a non-cash tax rate adjustment. When normalized for this tax impact and the effect of IAS 19 changes, 2012 EPS would have been \$2.04.

Total capital spending is expected to be lower in 2013 compared to 2012, due to the completion of several significant capital projects, such as the 4G LTE wireless network launch and improvements to billing systems. The Company's 2013 capital program includes FTTH deployment to three more Manitoba communities and Allstream's success-based IP fibre expansion nationally.

The expected significant increase in 2013 free cash flow over the prior year can be attributed to planned EBITDA increases and lower capital expenditures as noted above.

A discussion of the material risks and assumptions associated with this outlook can be found in our 2012 annual MD&A.

Investor Day & 2013 Outlook Event

MTS Allstream will hold an Investor Day & 2013 Outlook Event for the investment community on February 14, 2013 at 8:00 am (Eastern Time) in Toronto, in lieu of a quarterly results conference call. Investors, media and the public are invited to participate on a listen-only basis by dialing 1.888.231.8191 or 1.647.427.7450. A replay will be available until midnight (Eastern Time) on February 28, 2013, and can be accessed by dialing 1.855.859.2056 and entering access code 85365835.

There will also be a live audio webcast of the presentation, available on MTS Allstream's website www.mtsallstream.com or at <http://event.on24.com/r.htm?e=582602&cs=1&k=7D0BABA15BC1E036CC45BE0DD4C14CD7>. A replay of the audio webcast will be available following the event on www.mtsallstream.com for a period of one year.



Pierre Blouin, Chief Executive Officer



Wayne Demkey, Chief Financial Officer

Fourth-quarter financial information

MTS Allstream – fourth-quarter results

Consolidated financial results

<i>(in millions \$, except earnings per share)</i>	Q4 2012	Q4 2011	% change
Revenues	413.1	439.4	(6.0%)
EBITDA	150.3	146.9	2.3%
EPS ¹	\$0.55	\$0.56	n.a. ²
Free cash flow	37.1	18.3	102.7%
Capital expenditures	73.6	84.6	(13.0%)

¹ EPS is based on weighted average shares outstanding of 67.0 million and 65.9 million for the three months ended December 31, 2012 and December 31, 2011, respectively. The increase in the number of weighted average shares outstanding is mainly due to participation in the Company's dividend reinvestment program.

² n.a. is defined as not applicable.

MTS – fourth-quarter results

Operating revenues

<i>(in millions \$)</i>	Q4 2012	Q4 2011	% change
Wireless	89.9	92.8	(3.1%)
Broadband and converged IP	53.3	50.7	5.1%
Unified communications, security and monitoring	9.2	9.5	(3.2%)
Local access	65.4	68.6	(4.7%)
Long distance and legacy data	18.9	20.5	(7.8%)
Other	6.8	7.1	(4.2%)
Total MTS operating revenues	243.5	249.2	(2.3%)

Allstream – fourth-quarter results

Operating revenues

<i>(in millions \$)</i>	Q4 2012	Q4 2011	% change
Converged IP	61.0	61.1	(0.2%)
Unified communications, hosting and security	18.9	20.7	(8.7%)
Local access	41.6	48.7	(14.6%)
Long distance and legacy data	44.3	48.8	(9.2%)
Other	12.5	19.5	(35.9%)
Total Allstream operating revenues	178.3	198.8	(10.3%)

- New customers to be connected to Allstream’s 30,000-kilometre IP fibre network include: Artifex Studios Ltd, Ceratec, Dialogic Corporation, Ehvert Engineering, Gree Canada Inc, Inluitive Corporation, Keller Williams VIP Realty, Kernaghan Adjusters Ltd, Novarex Canada Inc, Pulse Energy Inc and The Suburban.
- Adjusting for the impact of the Government of Ontario contract reduction, converged IP revenues would have grown 4.9% over Q4 2011.

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>	Q4 2012	Q4 2011	\$ change	2012	2011	\$ change
Operating revenues	413.1	439.4	(26.3)	1,704.1	1,765.6	(61.5)
Operating expenses	(347.3)	(371.9)	24.6	(1,417.4)	(1,470.1)	52.7
Depreciation and amortization	84.5	79.4	5.1	322.8	298.9	23.9
EBITDA	150.3	146.9	3.4	609.5	594.4	15.1

- (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>	Q4 2012	Q4 2011	\$ change	2012	2011	\$ change
Cash flows from operating activities	102.3	126.6	(24.3)	439.4	386.6	52.8
Changes in non-cash working capital	8.4	(23.7)	32.1	16.2	31.2	(15.0)
Capital expenditures	(73.6)	(84.6)	11.0	(338.0)	(288.0)	(50.0)
Free cash flow for the period	37.1	18.3	18.8	117.6	129.8	(12.2)

- (3) More information can be found in MTS Allstream’s 2012 Management’s Discussion and Analysis (“MD&A”), 2012 Financial Statements and 2012 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 year ended December 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, “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 2012 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 February 13, 2013. 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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