



Stock symbol: MBT

NewsRelease

MTS Allstream reports first-quarter 2013 results

Learn more about MTS Allstream's Q1 2013 results by visiting www.mtsallstream.com/investors.

WINNIPEG, MB, May 8, 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 results for the three months ended March 31, 2013.

Q1 2013 highlights

(Q1 2013 highlights as compared to Q1 2012)

MTS Allstream

- Free cash flow increased 31.9%, up \$11.5 million, to \$47.6 million
- Achieved annualized cost reductions of \$17.0 million
- Consolidated EBITDA up 0.5% to \$148.6 million
- Revenues down by 6.5% to \$406.7 million, mostly due to legacy declines, including planned reductions
- Earnings per share (“EPS”) of \$0.46, down \$0.08 excluding a positive tax adjustment in Q1 2012
- Board of Directors declares \$0.425 per share Q2 2013 cash dividend

MTS

- Wireless revenues up 1.9%, or 6.8% excluding wireless wholesale
- Wireless subscriber data revenues up 26.5%
- High-speed Internet revenues up 4.9%
- IPTV revenues up 2.6%
- ARPU growth in wireless, IPTV and Internet

Allstream

- Achieved positive free cash flow of \$2.0 million
- 10th consecutive quarter of year-over-year EBITDA growth
- Increased EBITDA margin percentage to 16.5%
- Converged IP revenues up 2.8%, excluding impact of Government of Ontario disconnects

“MTS Allstream’s first-quarter results show that we continue to make progress on our strategy, with a 32% increase in free cash flow and annualized cost savings of \$17.0 million,” said Pierre Blouin, Chief Executive Officer. “Our ability to move quickly to take costs out of the business in response to changing market conditions helped offset declines from our MTS wholesale wireless revenues, and legacy revenues at Allstream. The first quarter marked Allstream’s tenth consecutive quarter of year-over-year EBITDA growth and its return to generating positive free cash flow. Allstream continues to win major new contracts while reducing capital expenditures. MTS maintained its leading position in Manitoba, where our wireless business achieved growth at 6.8%, excluding wholesale. The observation we would make is that, while we have had some headwinds in certain product lines, we are now starting to reap the free cash flow benefits of the recent large capital investments we have made. This positions us to sustainably grow cash flows, which bodes well for the future.

“On May 6, 2013, MTS celebrated 25 years as Manitoba’s leading wireless provider. MTS launched cellular service on May 6, 1988, with a phone call between then-Mayor of Winnipeg Bill Norrie and local businessman Don Reimer.

From those very humble beginnings, MTS's wireless network has grown to become the largest in Manitoba and, with over 200 cell sites, the most extensive 4G LTE wireless network in the province. We are proud of this legacy of innovation and service across Manitoba."

MTS Allstream

MTS Allstream's first-quarter financial performance reflects our strategic focus on increasing cash flows by leveraging investments in MTS's wireless and broadband networks in Manitoba, and Allstream's Internet protocol ("IP") fibre network nationally. We remain on track to achieve our financial guidance for the full year.

Consolidated financial results

(in millions \$, except earnings per share)

	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenues	406.7	413.1	424.3	431.6	435.1
EBITDA ¹	148.6	144.2	145.7	147.4	147.9
EPS ²	\$0.46	\$0.44	\$0.50	\$0.55	\$0.69
Free cash flow ³	47.6	37.1	17.3	27.1	36.1
Capital expenditures	66.7	73.6	94.5	93.0	76.9

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 based on weighted average shares outstanding of 67.2 million for the three months ended March 31, 2013; 67.0 million for the three months ended December 31, 2012; 66.7 million for the three months ended September 30, 2012; 66.4 million for the three months ended June 30, 2012; and 66.2 million for the three months ended March 31, 2012. The increase in the number of weighted 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 and pre-funded pension solvency payments".

- **Revenues: \$406.7 million**, down 6.5% from Q1 2012, mostly due to legacy revenue declines, including \$14.1 million in planned reductions at Allstream, and a \$4.8-million reduction in MTS wireless wholesale revenues as other carriers move their customers from our CDMA network to their own HSPA networks, partly offset by revenue growth from most strategic lines of business. Revenues from strategic lines of business increased by 1.2% over Q1 2012, on the strength of increased ARPU and subscriber growth across these lines of business.
- **EBITDA: \$148.6 million**, up 0.5% over Q1 2012, reflecting the positive impact of cost reductions and improving margins at Allstream, partly offset by legacy and wireless wholesale declines.
- **EPS: \$0.46**, down 33.3% from Q1 2012, due to a positive \$0.15 tax adjustment recorded in Q1 2012 as a result of the change in expected tax rate applicable to deferred tax assets, and a greater depreciation and amortization expense resulting from an increase in depreciable assets from previous investments in MTS's wireless billing system, in Allstream's network upgrade and in MTS's 4G Long Term Evolution ("LTE") network build, partially offset by EBITDA growth. Excluding the Q1 2012 tax benefit, EPS decreased 15% in Q1 2013.
- **Free cash flow: \$47.6 million**, up 31.9% over Q1 2012, mainly due to lower capital expenditures, EBITDA growth and decreased wireless cost of acquisition.
- **Capital expenditures: \$66.7 million**, down 13.3% from Q1 2012, mostly due to decreased spend from previously-completed projects such as investments in upgrades to the wireless billing system and LTE wireless technology in Winnipeg and Brandon, and the completion of the 100-GB core network upgrade initiative at Allstream.
- **Annualized cost savings: \$17.0 million** in Q1 2013, approximately half resulting from staff reductions at both MTS and Allstream. Q1 cost savings are in line with our 2013 target of \$30 to \$40 million.

MTS

MTS delivered growth in revenues from strategic services, while maintaining an industry-leading EBITDA margin of 49.5% in Q1 2013. Wireless, high-speed Internet and IPTV services generated 2.6% revenue growth in Q1 2013, which offset declines in wireless wholesale, local, long distance and legacy data revenues. In Q1 2013, MTS increased the number of customers with bundled services by 6.6%, to 97,797, and had average revenue per user ("ARPU")

growth in all strategic product lines (wireless, IPTV and Internet). Excluding declines in wireless wholesale revenues and the impact of one-time gains, Q1 2013 MTS wireless statistics show that 58.9% of post-paid subscribers now have data plans, post-paid subscribers increased 2.7%, subscriber revenues grew 6.8%, data subscriber revenues increased 26.5% and data ARPU was up 17.9% over Q1 2012.

MTS operating revenues (<i>in millions \$</i>)	Q1 2013	Q1 2012	% change
Wireless	91.5	89.8	1.9%
Broadband and converged IP	54.2	52.5	3.2%
Unified communications, security and monitoring	8.1	8.6	(5.8%)
Local access	64.0	66.9	(4.3%)
Long distance and legacy data	18.1	19.1	(5.2%)
Other	7.6	6.8	11.8%
Total MTS operating revenues	243.5	243.7	(0.1%)

Wireless statistics (<i>revenues in millions \$</i>)	Q1 2013	Q1 2012	% change
Wireless subscriber revenues	85.6	79.1	8.2%
Wireless wholesale revenues	5.9	10.7	(44.9%)
Total wireless revenues	91.5	89.8	1.9%
Total wireless subscribers	493,216	488,571	1.0%
Post-paid subscribers	402,571	391,997	2.7%
Post-paid subscribers with data plans	237,256	187,263	26.7%
Wireless ARPU – blended	\$60.25	\$59.78	0.8%
Wireless data ARPU	\$21.32	\$18.09	17.9%
Wireless churn – post-paid	0.90%	0.91%	(1.1%)
Wireless churn – blended	1.74%	1.99%	(12.6%)

Wireless

- **Subscriber revenues: \$85.6 million**, up 6.8% over Q1 2012, after adjusting for one-time equipment sales of \$1.1 million in Q1 2013, driven by a 26.5% increase in wireless subscriber data revenues.
- **Wholesale revenues:** Down as other carriers move their customers from our CDMA network to their own HSPA networks. Based on the trend over the last few months, the migration of wholesale traffic from our CDMA network to competitors' HSPA networks continues; however, it is expected to be at a slower pace as compared to what we saw in Q1 2013. We expect sequential quarterly declines of 3% to 5%, or around \$0.2 million per quarter in wholesale wireless revenues for the remainder of the year.

Broadband and converged IP statistics	Q1 2013	Q1 2012	% change
High-speed Internet subscribers	196,643	190,247	3.4%
High-speed residential ARPU	\$41.57	\$40.01	3.9%
Total television customers	102,568	100,087	2.5%
Total IPTV subscribers	98,289	95,695	2.7%
Ultimate IPTV subscribers	78,777	64,363	22.4%
IPTV ARPU	\$66.63	\$66.35	0.4%

Broadband and converged IP

- **Broadband and converged IP revenues: \$54.2 million**, up 3.2% over Q1 2012.
 - **Internet revenues: \$27.8 million**, up 4.9% over Q1 2012, resulting from a growing subscriber base and higher ARPU.
 - **IPTV revenues: \$19.9 million**, up 2.6% over Q1 2012, driven by subscriber growth and increased ARPU.
 - **Converged IP revenues: \$6.5 million**, in line with Q1 2012.

Unified communications, security and monitoring

- **Unified communications, security and monitoring revenues: \$8.1 million**, down 5.8% from Q1 2012 due to fewer equipment sales.

Local access

- **Local access revenues: \$64.0 million**, down 4.3% from Q1 2012, mainly due to lower revenues from features and line losses from wireless substitution and local competition.

Long distance and legacy data

- **Long distance and legacy data revenues: \$18.1 million**, down 5.2% from Q1 2012.
 - **Long distance revenues: \$10.4 million**, down 7.1% from Q1 2012, mainly due to decreased long distance rates and customers replacing long distance calling with email, text messaging and social networking.
 - **Legacy data revenues: \$7.7 million**, down 2.5% from Q1 2012, mainly due to a decrease in wholesale data services.

Allstream

Allstream's Q1 2013 performance reflected our continued progress in driving growth in on-net IP-based services and improving profitability, as proven by our tenth consecutive quarter of year-over-year EBITDA growth. This strategic focus on on-net services improved our gross margin percentage, raising it to 62.8% in Q1 2013 from 56.7% in Q1 2012, and, along with diligent cost management, contributed to our overall EBITDA growth.

In April 2013, Allstream incurred about \$10 million in restructuring costs associated with organizational changes and further staff reductions as part of an ongoing effort to structure Allstream for future growth and reflecting legacy decline impact. The resulting annualized cost savings are expected to be about \$14 million with approximately \$9 million in savings through the balance of 2013. As a result, while restructuring costs will reduce Allstream's EBITDA and free cash flow in Q2 2013, the net impact will be almost neutral for the full year.

Allstream operating revenues <i>(in millions \$)</i>	Q1 2013	Q1 2012	% change
Converged IP	60.1	61.1	(1.6%)
Unified communications, hosting and security	17.7	21.8	(18.8%)
Local access	40.6	47.6	(14.7%)
Long distance and legacy data	41.8	49.6	(15.7%)
Other	11.5	20.1	(42.8%)
Total Allstream operating revenues	171.7	200.2	(14.2%)

Allstream converged IP statistics <i>(revenues in millions \$)</i>	Q1 2013	Q1 2012	% change
Converged IP revenues	60.1	61.1	(1.6%)
Converged IP gross margin	75.0%	72.5%	2.5 points
Fibre-fed buildings	2,811	2,487	13.0%

Converged IP

- **Converged IP revenues: \$60.1 million**, down 1.6% from Q1 2012. IP revenues now account for 35% of Allstream's total operating revenues. Allstream's converged IP revenues continue to be impacted by disconnects related to the Government of Ontario's decision to change its telecommunications procurement policy. The majority of this contract reduction will flow through Q2 2013, with the last half of 2013 marking the return to stronger IP revenue growth. Excluding the impact of this contract, converged IP revenues would have grown 2.8% in Q1 2013. Allstream also became the Government of Canada's largest telecommunications data provider with the signing of a three-year, \$55-million contract late in the fourth quarter of 2012. Due to Allstream's record sales in Q4 2012, we expect converged IP revenues will return to solid growth in the second half of 2013, as Shared Services Canada circuit installation progresses and first bills are issued.
- **Government of Ontario department's decision impact on converged IP revenues:** IP revenues from this contract are expected to be down about \$11.7 million in 2013, representing approximately 75% of the revenues reported for this customer in 2012. IP revenues throughout the first half of 2013 will reflect the majority of this contract reduction.
- **National IP network expansion:** added 88 buildings to our national IP fibre network in Q1 2013, which totaled 2,811 fibre-fed buildings at March 31, 2013, for increases of 13.0% over Q1 2012 and 3.2% over the previous quarter.
- **IP sales wins increase:** IP sales for Q1 2013 were up 1.3% over Q1 2012, including significant contract wins with Hewlett-Packard (Canada) Co., SunGard Availability Services, Bank of Nova Scotia, Thomson Reuters and BDI Canada Inc.

Unified communications, hosting and security

- **Unified communications, hosting and security revenues: \$17.7 million**, down 18.8% from Q1 2012, mainly due to decreases in one-time enterprise product sales and re-pricing of services.

Legacy services

- **Local access revenues: \$40.6 million**, down 14.7% from Q1 2012, mainly due to Allstream's decision to accelerate its exit from low-margin wholesale resold business lines. Excluding deliberate exits, local access revenues were down 5.6%.
- **Long distance and legacy data revenues: \$41.8 million**, down 15.7% from Q1 2012.
 - **Long distance revenues: \$20.8 million**, down 16.8% from Q1 2012, mainly due to decreased volumes and lower rates.
 - **Legacy data revenues: \$21.0 million**, down 14.6% from Q1 2012, due largely to a combination of the exiting of low-margin off-net business as well as additional churn due to aggressive pricing from the industry leader that we did not match.

Corporate update

The strategic review process announced on September 13, 2012 remains active and ongoing. As previously stated, the Company does not intend to disclose any developments with respect to this 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.

Dividend

The Company's Board of Directors declared a quarterly cash dividend of \$0.425 per share for the second quarter of 2013, payable on July 15, 2013 to shareholders of record at the close of business on June 14, 2013.

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 2013 results conference call with the investment community on May 8, 2013 at 5:30 pm (Eastern Time). Participants 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 22, 2013 by dialing 1-855-859-2056 and entering passcode 32860477.

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 on our website (www.mtsallstream.com/investors) or by entering <http://event.on24.com/r.htm?e=605855&s=1&k=E3FE03BEF39AFE32093D32DD06373B6C>. A replay of the conference call will be available on our 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 2013 and 2012 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.

EBITDA (in millions \$)	Q1 2013	Q1 2012	\$ change
Operating revenues	406.7	435.1	(28.4)
Operating expenses	(343.3)	(365.7)	22.4
Depreciation and amortization	85.2	78.5	6.7
EBITDA	148.6	147.9	0.7

- (2) MTS Allstream defines free cash flow as “cash flows from operating activities, less capital expenditures and excluding changes in working capital and pre-funded pension solvency payments”. 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 2013 and 2012 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.

Free cash flow <i>(in millions \$)</i>	Q1 2013	Q1 2012	\$ change
Cash flows from operating activities	1.7	77.3	(75.6)
Pre-funded pension solvency	70.0	-	70.0
Changes in non-cash working capital	42.6	35.7	6.9
Capital expenditures	(66.7)	(76.9)	10.2
Free cash flow for the period	47.6	36.1	11.5

- (3) More information can be found in MTS Allstream's first-quarter 2013 interim Management's Discussion and Analysis ("MD&A"), condensed interim audited consolidated financial statements for the three months ended March 31, 2013, 2012 annual MD&A, 2012 audited consolidated 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 quarter ended March 31, 2013 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 on our website at www.mtsallstream.com/investors and on SEDAR at www.sedar.com.

Please note that forward-looking statements reflect Management's expectations as at May 8, 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 12 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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