

## **Q2 2014**

### Management's Discussion and Analysis

For the period ended June 30, 2014

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## Management's Discussion and Analysis

### July 31, 2014

This interim Management's Discussion and Analysis ("MD&A") of our financial results comments on our operations, performance and financial condition for the three and six months ended June 30, 2014 and 2013. This MD&A is based on financial statements prepared under International Financial Reporting Standards ("IFRS"). All financial amounts, unless otherwise indicated, are in Canadian dollars and in accordance with IFRS. MTS Allstream implemented changes to its organizational structure on January 1, 2012. Accordingly, segmented information for 2011 has been re-stated.

Unless otherwise indicated, this MD&A for the three and six months ended June 30, 2014 is as at July 31, 2014.

In preparing this MD&A, we have taken into account information available to us up to July 31, 2014. In this MD&A, "we", "our" and "us" refer to Manitoba Telecom Services Inc. ("the Company"). This MD&A should be read in conjunction with our interim condensed consolidated financial statements for the three and six months ended June 30, 2014.

### About us

For more information about our company, including our Annual Information Form, audited consolidated financial statements and annual MD&A for the year ended December 31, 2013, dated February 6, 2014, please visit our website at [www.mtsallstream.com](http://www.mtsallstream.com) or visit SEDAR at [www.sedar.com](http://www.sedar.com).

### Risks and uncertainties

In conjunction with our second quarter 2014 interim condensed consolidated financial statements and this interim MD&A, we urge you to read the important risks and uncertainties that are detailed on page 23 of this MD&A, in addition to those outlined in our audited consolidated financial statements and annual MD&A for the year ended December 31, 2013.

### Non-IFRS measures of performance (EBITDA and free cash flow)

In this MD&A, we provide information concerning earnings before interest, taxes, depreciation and amortization ("EBITDA") and free cash flow because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by IFRS, and are not necessarily comparable to similarly titled measures used by other companies. Please refer to page 23 of this MD&A for a discussion of these terms.

### Regarding forward-looking statements

This interim MD&A and, in particular, but not limited to, the "Risks and uncertainties" section of this interim MD&A, include forward-looking statements and information (collectively, "statements") including, but not limited to, statements pertaining to the Company's corporate direction, business opportunities, operations, financial objectives, future financial results and performance, 4G Long Term Evolution ("LTE") wireless network expansion, fibre-to-the-home ("FTTH") deployment, national IP fibre network expansion, pension funding, the time, method, quantum and implementation of any payment obligations that could occur as a result of the Supreme Court of Canada ("SCC") decision, or the impact that this decision may have on future cash flows, liquidity, credit ratings and profitability, as well as other statements that are not historical facts. 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. All forward-looking statements are made pursuant to the safe harbour provisions of applicable Canadian securities legislation.

Forward-looking statements are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any forward-looking conclusion, forecast or projection, whether expressed or implied. Therefore, forward-looking statements should be considered carefully and undue reliance should not be placed on them.

Please note that forward-looking statements in this interim MD&A reflect Management's expectations as at July 31, 2014, and thus, are subject to change thereafter. 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 interim MD&A and the financial information contained herein have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors ("the Board"). 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 of this interim MD&A.

## Business overview

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### The COMPANY

Manitoba Telecom Services Inc. is the market leader in Manitoba and a leading national communications provider in Canada. We provide innovative communications solutions for the way Canadians live and work today, serving all market segments in Manitoba through our MTS Inc. subsidiary ("MTS") and business customers across Canada through our Allstream Inc. subsidiary ("Allstream"). Our common shares are listed on the TSX (trading symbol: MBT). Our company is headquartered in Winnipeg, with eight other corporate offices across Canada. Our website is [www.mtsallstream.com](http://www.mtsallstream.com).

### MTS - the UNDISPUTED MARKET LEADER in MANITOBA

MTS is the leading full-service telecommunications provider for residential and business customers. We have strong in-region distribution and the richest bundling capabilities among our peers, all supported by our pervasive infrastructure and exceptional brand recognition. A technology leader, MTS operates advanced wireless networks delivering the best coverage for Manitobans with its 4G, (LTE and HSPA+) CDMA and Wi-Fi wireless networks. Our advanced fibre and VDSL2+ network brings up to 50 Mbps high-speed Internet and IPTV to 69% of Manitoba homes and world-class services to local businesses. We also continue to invest to build out our extensive FTTH network with 14 Manitoba communities along with various areas of new urban development within Winnipeg now being served with FTTH coverage.

Services	501,678	213,561	111,349
• Wireless (4G LTE, 4G HSPA+, CDMA and Wi-Fi)	Wireless subscribers 53% MB market share	High-speed Internet subscribers 54% MB market share	Television subscribers 34% Winnipeg market share
• High-speed Internet			
• IPTV			
• Wireline voice	210,226	274,831	42,818
• Home and commercial security	Business network access lines	Residential network access lines	Security and monitoring customers
• Information solutions*			
• Business services (Data, converged IP and unified communications)			

\*Information solutions currently includes IT infrastructure, application development, managed services, networking services and unified cloud services provided by EPIC Information Solutions ("EPIC") and will include our new EPIC data centre once it is open. The data centre is currently under construction with an expected 2015 opening date.

We offer a full suite of wireless, high-speed Internet, Internet Protocol television ("IPTV"), wireline voice and home security services together with a complete package of business telecommunications services. To view more information on our services, visit [www.mts.ca](http://www.mts.ca).

### ALLSTREAM - the LEADING COMPETITOR in the CANADIAN BUSINESS SECTOR

Allstream is the only Canadian-owned national communications provider that works exclusively with business customers. An industry leader in innovative IP-based solutions, Allstream leverages its nationwide high-performance IP network to help businesses of all sizes unify the many ways they connect - to better serve their customers, and to improve efficiency and productivity. All our services run on our secure national network, which is built and managed using advanced IP and fiber technologies.

IP-based solutions	1 of only 3	3,114	30,000 km+
• IP connectivity • Unified communications • Security and hosting services	Truly national providers in business markets	IP fibre-connected buildings	National IP fibre network with 9 U.S. network access points
	Over 38,000 customers across Canada	Nearly 600,000 customer connections	

Allstream is a strong competitor in the Canadian telecommunications market, with converged IP revenues growing at 7.2% in Q2 2014. With our extensive national IP network, we connect businesses across our nation with state-of-the-art telecommunication services. As at June 30, 2014, this IP-network spans over 30,000 kilometers with connections to a total of 3,114 buildings (up 244 buildings from Q2 2013). To view our IP network map, go to [www.allstream.com/about-us/ipnetwork/](http://www.allstream.com/about-us/ipnetwork/).

## Performance highlights – Q2 2014

Core strategic objectives for MTS and Allstream were described in the executive summary of our 2013 annual MD&A. Included below are the Q2 2014 achievements and efforts that support, in part, our strategic initiatives.

### Strategic objectives – MTS

#### Bring the latest technology to Manitoba

MTS has long been recognized as an industry innovator, often being the first to introduce services in areas such as digital television, high-speed Internet, electronic commerce and other telecommunications advancements.

- **EPIC Data Centre - strong demand for IT services** – Pre-sales funnel now exceeding 50% of our new Data Centre capacity, thereby validating the demand for data centre services in Manitoba and positioning MTS to become a leading IT services provider. Information solutions (EPIC) revenues for the first-half of 2014 were \$11.0 million.
- **LTE wireless network expansion and first to deploy small-cell wireless technology in Manitoba** – In Q2 2014, we added 10 LTE locations in Manitoba. By the end of 2014, we expect to add 40 LTE locations, expanding its LTE coverage to 80% of Manitobans. Permanent installation of small-cell wireless service at two large summer festivals allowed us to differentiate our service capabilities to an important customer segment, while providing summer event goers with an improved 4G LTE cellular experience, on par with service in such centers as Winnipeg and Brandon.
- **Launches My Network Feedback App** – Released in June, this free, easy-to-use wireless app gives our customers the ability to tell us about their MTS wireless service. For added accuracy, users can map their location and indicate whether they are indoors, outdoors or travelling. MTS will use this information to prioritize future network enhancements.
- **First in Canada to launch province-wide Text with 9-1-1** – Members of the deaf, deafened, hard of hearing or speech impaired community now have the ability to communicate with 9-1-1 call centres in Manitoba using wireless through the Text with 9-1-1 service (T9-1-1). Information on the many ways MTS offers improved access to services can be found at [www.mts.ca/accessibility](http://www.mts.ca/accessibility).

#### Expand our network reach

Expanding the MTS FTTH network into additional communities allows us to provide more customers with the most advanced telecommunications services, including our innovative MTS Ultimate TV® service. The MTS Ultimate TV® service is currently available to 94% of Winnipeg households, to 99% of Brandon households, to 97% of Portage la Prairie households and to a growing number of homes in connected communities. Customers on the MTS FiON® Network have exclusive access to the newest and fastest high-speed Internet plans which offer download speeds of up to 250 Mbps.

- **4G LTE network technology** – Since its introduction in 2012, MTS has doubled 4G LTE wireless network speeds and now supports lab-verified peak download speeds of up to 150 Mbps. Expansion of our 4G LTE network continues with 11 communities added in 2014, and a total of 19 communities now having 4G LTE access across the province.
- **Delivering the best coverage to Manitobans** – Our HSPA+ wireless network covers over 97% of Manitoba's population and our LTE wireless network has expanded to 74% of Manitobans. MTS also provides high-speed Internet coverage to over 85% of homes.
- **MTS Ultimate TV® channel flexibility** – MTS customers can choose from smaller, more flexible channel groups to build a package of television channels that's right for them. Users can also login into MyAccount, where they can add and remove channel groups online, anytime. Since Q2 2013, we increased MTS Ultimate TV® subscribers by 12,815, for a 15.6% increase.
- **Wi-Fi hotspots are growing** – With close to 700 Wi-Fi hotspots across the province, MTS provides high-speed Internet access where customers need it the most - at businesses, schools, community and health care centres, cafes and restaurants. To locate our Wi-Fi hotspots, go to [www.mts.ca/mts/services/wifi+hotspot+locator](http://www.mts.ca/mts/services/wifi+hotspot+locator).

#### Continue to offer an industry-leading bundling service mix

MTS customers can select an assortment of services from some of our most popular plans, which includes wireless, IPTV, Internet, home phone and home security services. We then bundle our customers' selections, a MyBundle® option which provides the best value and is recognized as the gold standard in Manitoba. 57.8% of MTS's bundle mix is made up of four-service bundles.

- **MyBundle® - more bundle options available** – Bundle customers can now get an even bigger bundle discount when they bundle five or six services and can include up to five MTS post-paid wireless plans. Historically, our bundling service has contributed to very low churn and higher data average revenue per user ("ARPU"). In Q2 2014 we had a total of 104,252 bundled customers, a 4.9% increase over Q2 2013.

## **Strategic objectives – Allstream**

### **Improve our profitability and margins**

By focusing our sales efforts on our growing high-margin IP based products that are delivered on our network and managing our lower-margin legacy lines of business to maximize cash flow while migrating to IP, Allstream achieved an EBITDA margin percentage of 15.3% in Q2 2014.

- **First major national Canadian carrier to be MEF 2.0 Certified** – Allstream recently earned the industry's highest level of certification for the design and delivery of Carrier Ethernet ("CE") network services. Telecommunications companies that are CE 2.0 certified are capable of connecting a patchwork of individual carrier networks into a seamless experience for customers.

### **Expand our on-net footprint**

Allstream is a national communications provider focused on serving Canadian business. We are able to leverage our multi-billion dollar investment in our extensive IP network, along with the popularity of IP-based products in the Canadian business marketplace.

- **Consistent improvement in IP sales** – For the second consecutive quarter, we achieved an increase in year-over-year IP sales wins. IP sales wins for Q2 2014 increased by 1.8% over Q2 last year. IP revenues were 7.2% higher in Q2 2014 versus Q2 2013.
- **Strength of our national IP fibre network** – This network is a competitive differentiator and as of June 30, 2014 we had 3,114 buildings connected, an increase of 244 since Q2 2013. We have also achieved an increase in installations into already-connected buildings, which were up 43.6% over Q2 last year.
- **TORONTO 2015 Pan Am/Parapan Am Games** – Work has started on the managed unified communications platform that will deliver collaboration services for Pan Am/ParaPan Am Games, with 400 hosted collaboration users already online. When the games commence in July 2015, more than 1,500 hosted end points will be deployed. Over 400 Allstream staff recently created a "Sea of Orange" in Toronto, parading from the Allstream office through the downtown streets in celebration of the one-year countdown kick-off.

### **Ongoing focus on improving cost efficiencies**

In carefully managing our costs we can increase our overall profitability.

- **Streamlined organization** – We have consolidated our senior management positions, creating a more accountable, experienced team that is about half its former size. Allstream operations expense is over \$7.5 million lower than that of Q2 last year. And we continue to rationalize our cost structure at Allstream with annualized cost savings of \$14.6 million achieved as at June 30, 2014.

## Q2 2014 consolidated financial scorecard

Revenues, EBITDA and earnings per share ("EPS") are trending at the low end of 2014 financial guidance.

### Revenues (\$ millions)

<b>Q2 2014</b>	<b>403.3</b>
<b>Q2 2013</b>	<b>410.1</b>

### Q2 2014 revenues

- Consolidated revenues down by 1.7% in comparison to Q2 2013, mostly due to revenue declines in legacy revenues at both Allstream and MTS, along with a decline in wholesale wireless revenues, partly offset by strong revenues from broadband, converged IP, wireless data and information solutions services.
- Strategic lines of business revenues<sup>1</sup> were up \$8.6 million, or 4.1%.
- Legacy lines of business revenues<sup>2</sup> were down \$15.3 million, or 9.5%.
- Wholesale wireless revenues were down \$2.9 million, or 46.8%.

### EBITDA (\$ millions)

<b>Q2 2014</b>	<b>142.5</b>
<b>Q2 2013</b>	<b>132.0</b>

### Q2 2014 EBITDA

- Consolidated EBITDA was up \$10.5 million, or 8.0% year over year, mainly due to reduced transaction and restructuring costs.

### EPS (\$)

<b>Q2 2014</b>	<b>\$0.37</b>
<b>Q2 2013</b>	<b>\$0.78</b>

### Q2 2014 EPS

- EPS up by \$1.15, as Q2 2013 EPS was negatively impacted by a write-down of Allstream's long-term assets, as well as transaction and restructuring costs, partly offset by lower depreciation and amortization expense in Q2 2013. IFRS did not allow amortization of Allstream assets while they were classified as held for sale.

### Capital expenditures (\$ millions)

<b>Q2 2014</b>	<b>78.2</b>
<b>Q2 2013</b>	<b>73.0</b>

### Q2 2014 capital expenditures

- Capital expenditures increased by \$5.2 million as a result of project timing.

### Free cash flow (\$ millions)

<b>Q2 2014</b>	<b>34.0</b>
<b>Q2 2013</b>	<b>24.4</b>

### Q2 2014 free cash flow ("FCF")

- Consolidated free cash flow up \$9.6 million over Q2 2013, mostly due to transaction and restructuring costs associated with the proposed Allstream sale in Q2 2013.

<sup>1</sup>Strategic lines of business consist of wireless, broadband and converged IP and information solutions services

<sup>2</sup>Legacy lines of business consist of local access, long distance and legacy data services

## Discussion of operations - consolidated results

### Consolidated statements of net income and comprehensive income

(\$ millions, except EPS and weighted average shares outstanding)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
MTS operating revenues	250.2	247.4	1.1	498.7	490.9	1.6
Allstream operating revenues	161.9	171.5	(5.6)	323.8	343.2	(5.7)
Intersegment eliminations	(8.8)	(8.8)	—	(17.7)	(17.3)	(2.3)
<b>Total consolidated operating revenues</b>	<b>403.3</b>	410.1	(1.7)	<b>804.8</b>	816.8	(1.5)
Operations expense	260.8	265.2	(1.7)	514.7	523.3	(1.6)
MTS EBITDA before transaction costs	117.3	121.6	(3.5)	237.4	242.1	(1.9)
Allstream EBITDA before transaction and restructuring costs	24.7	23.7	4.2	52.6	52.0	1.2
Other EBITDA before transaction costs	0.5	(0.4)	n.a.*	0.1	(0.6)	n.a.*
<b>Consolidated EBITDA before transaction and restructuring costs</b>	<b>142.5</b>	144.9	(1.7)	<b>290.1</b>	293.5	(1.2)
MTS transaction costs	—	—	—	—	—	—
Allstream transaction and restructuring costs	—	10.4	n.a.*	—	10.4	n.a.*
Other transaction costs	—	2.5	n.a.*	—	2.5	n.a.*
Total transaction and restructuring costs	—	12.9	n.a.*	—	12.9	n.a.*
MTS EBITDA	117.3	121.6	(3.5)	237.4	242.1	(1.9)
Allstream EBITDA	24.7	13.3	85.7	52.6	41.6	26.4
Other EBITDA	0.5	(2.9)	n.a.*	0.1	(3.1)	n.a.*
<b>Consolidated EBITDA</b>	<b>142.5</b>	132.0	8.0	<b>290.1</b>	280.6	3.4
Depreciation and amortization	83.3	76.8	8.5	156.8	162.0	(3.2)
Other (expense) income	(1.6)	0.6	n.a.*	0.2	0.4	(50.0)
Impairment loss - Allstream	—	(107.7)	n.a.*	—	(107.7)	n.a.*
Finance costs	(17.5)	(20.3)	13.8	(35.1)	(40.5)	13.3
Income before income taxes	40.1	(72.2)	n.a.*	98.4	(29.2)	n.a.*
Income tax expense	11.3	(19.3)	n.a.*	27.7	(7.2)	n.a.*
<b>Net income for the period</b>	<b>28.8</b>	(52.9)	n.a.*	<b>70.7</b>	(22.0)	n.a.*
Other comprehensive (loss) income for the year, net of tax	(35.8)	120.6	n.a.*	(42.1)	163.0	n.a.*
<b>Total comprehensive income for the period</b>	<b>(7.0)</b>	67.7	n.a.*	<b>28.6</b>	141.0	(79.7)
Weighted average shares outstanding <sup>1</sup> (in millions)	77.4	67.5	14.7	77.2	67.4	14.5
EPS	\$0.37	\$(0.78)	n.a.*	\$0.92	\$(0.33)	n.a.*

\*not applicable

<sup>1</sup>The increase in the number of weighted average shares outstanding is due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program.

### Q2 2014 discussion of consolidated operations

#### Operating revenues

Total operating revenues were down by \$6.8 million in Q2 2014 and \$12.0 million year-to-date when compared to the same periods in 2013, due to legacy revenue declines and a decrease in wireless voice feature and wireless wholesale revenues, partly offset by strong revenue growth from wireless data, broadband and converged IP services as well as the addition of EPIC revenues. A more thorough review of MTS and Allstream operating revenues can be found on pages 8 through 16.

#### Operations expense

Our operations expense decreased \$4.4 million in Q2 and \$8.6 million year-to-date, reflecting the impact of efficiency programs initiated in previous quarters. In our continuing efforts to improve our operating cost structure, we achieved annualized cost savings of \$21.7 million due to efficiency programs undertaken in 2014.

## **EBITDA**

Consolidated second-quarter and year-to-date 2014 EBITDA increased \$10.5 million and \$9.5 million, respectively, reflecting transaction and restructuring costs incurred in Q2 2013 at Allstream.

## **Depreciation and amortization expense**

Our depreciation and amortization expense increased by \$6.5 million in the second quarter of 2014 resulting from Allstream being held for sale during Q2 2013. IFRS does not allow amortization of assets while classified as held for sale. Depreciation and amortization expense decreased by \$5.2 million in the first half of 2014, mainly from the scientific research and experimental development investment tax credit ("SR&ED") ITC recovery recorded in Q1 2014.

## **Finance costs**

The Company's finance costs decreased \$2.8 million in the second quarter and \$5.4 million year-to-date mainly a result of decreased pension plan non-cash interest expense, which improved because of a significant reduction in our pension solvency deficit.

## **Other income (expense)**

Our other income (expense) decreased over the second quarter of 2013 by \$2.2 million and \$0.2 million on a year-to-date basis, mainly due to foreign exchange losses.

## **Income tax expense**

Income tax expense was up in Q2 2014 and in the first half of 2014, mainly due to a write-down of Allstream's long-term assets, and the transaction and restructuring costs, partly offset by lower depreciation and amortization expense, all of which were recorded in Q2 2013.

The Company continues to have substantial capital cost allowance pools, tax losses and investment tax credits, which we expect will fully offset our taxable income and eliminate cash income taxes until 2020 at the earliest. The present value of these available tax assets is approximately \$285 million.

## **Net income and EPS**

Net income and EPS were up in Q2 2014 and in the first half of 2014, mainly due to a write-down of Allstream's long-term assets, and the transaction and restructuring costs, partly offset by lower depreciation and amortization expense, all of which were recorded in Q2 2013. For clarification purposes, a reconciliation of 2013 net income and EPS is provided below. IFRS does not allow assets held for sale to be amortized while classified as held for sale.

### **Net income and EPS adjusted for one-time items**

(in millions, except EPS)	Before taxes		After taxes		Impact on EPS	
	Q2	YTD	Q2	YTD	Q2	YTD
2013 net loss/EPS for the period	(72.2)	(29.2)	(52.9)	(22.0)	<b>\$ (0.78)</b>	<b>\$ (0.33)</b>
Add back:						
Transaction and restructuring costs	12.9	12.9	9.5	9.5	<b>\$ 0.14</b>	<b>\$ 0.14</b>
Impairment loss - Allstream	107.7	107.7	79.2	79.2	<b>\$ 1.17</b>	<b>\$ 1.18</b>
Deduct:						
Depreciation and amortization expense variance	(9.3)	(9.3)	(6.8)	(6.8)	<b>\$ (0.10)</b>	<b>\$ (0.10)</b>
2013 adjusted income and EPS for the period	39.1	82.1	29.0	59.9	<b>\$ 0.43</b>	<b>\$ 0.89</b>
2014 income before taxes, net income and EPS for the period	40.1	98.4	28.8	70.7	<b>\$ 0.37</b>	<b>\$ 0.92</b>

\*not applicable

## **Other comprehensive (loss) income**

Other comprehensive (loss) income represents net actuarial gains and losses arising from changes in the present value of our defined-benefit pension liabilities and in the fair value of our defined-benefit pension assets. These items are recognized in other comprehensive income net of tax, and therefore, do not have an impact on net income or EPS.

The decreases in other comprehensive income in Q2 2014 and year-to-date were due to a decrease in long-term interest rates partly offset by a solid return on pension assets.

## **MTS LINES OF BUSINESS**

Described below are MTS's seven business lines. The following pages then provide an analysis of the results for each line of business, on an interim basis.

### **Wireless services**

#### ***Steady, constant demand for high-speed wireless data***

MTS's wireless portfolio for residential and business customers consists of cellular, wireless data and group communications. Our market share and combined 4G LTE, 4G HSPA+, CDMA-EVDO and Wi-Fi hotspot networks demonstrate that we are the market leader, with the best wireless network reach in the province. Our 4G HSPA+ network coverage is available to 97% of Manitobans and our 4G LTE network covers 74% of Manitobans. We were the first 4G LTE provider in Manitoba - this advanced network is currently capable of delivering download speeds of up to 150 Mbps and upload speeds of 50 Mbps, ensuring our customers can use their smartphones to the fullest. To view the map of our wireless network coverage, please visit [www.mts.ca/coverage](http://www.mts.ca/coverage).

### **Broadband and converged IP services**

#### ***Top priority to grow broadband***

Broadband and converged IP services include revenues earned from providing high-speed Internet and IPTV services to residential customers, as well as IP-based connectivity to business customers. Our high-speed Internet service provides fast, reliable speeds with the most comprehensive Internet service in Manitoba. MTS has an extensive VDSL2+ and fibre-to-the-home network that covers more than 69% of Manitoba households including 97% of the seven biggest communities, with 70% of Manitoba homes eligible for MTS Internet speeds up to 50 Mbps on VDSL2+ and 250 Mbps on FTTH, with access to the most-advanced IPTV service in Manitoba. To find out more about our Internet plans, please visit [www.mts.ca/internetoffer](http://www.mts.ca/internetoffer). MTS has a multi-year program to expand our FTTH network to a growing base of communities in Manitoba. Since 2010, we have launched the MTS FiON Network in 14 communities. To learn more about our customized TV viewing experience, please visit [www.mts.ca/tvchannels](http://www.mts.ca/tvchannels).

### **Information solutions**

#### ***Connecting the dots between technology, business and people***

Revenues from this line of business include revenues earned by EPIC, which specializes in customized information technology solutions for business customers in Manitoba and Saskatchewan. EPIC services include IT infrastructure, application development, managed services, networking services and unified cloud services. This line of business will include our new EPIC data centre once it is open. The data centre is currently under construction with an expected 2015 opening date. To learn more about EPIC, please visit [www.epic.ca](http://www.epic.ca).

### **Unified communications, security and monitoring services**

#### ***Seamless integration***

Revenues for this line of business are earned from the sale of IP telephony products and services to business customers in Manitoba, along with our IP-based security offerings to national business customers. For certain customers, the ability to offer integrated security and equipment services is important for winning their business. This business line also includes revenues earned by AAA Alarms, which involves the installation and monitoring of alarm services to residential, business and industrial customers. To learn more about AAA Alarms, please visit [www.aaaalarms.ca](http://www.aaaalarms.ca).

### **Local access services**

#### ***Quality sets us apart***

Our local access services include revenues earned from the sale of residential and business voice connectivity, including calling features (such as call answer, call display, call waiting and 3-way calling), payphone revenue, wholesale revenues from services provided to third parties and contribution revenues. The quality of our local wireline connection remains a competitive differentiator in the success of our voice service operations.

### **Long distance and legacy data services**

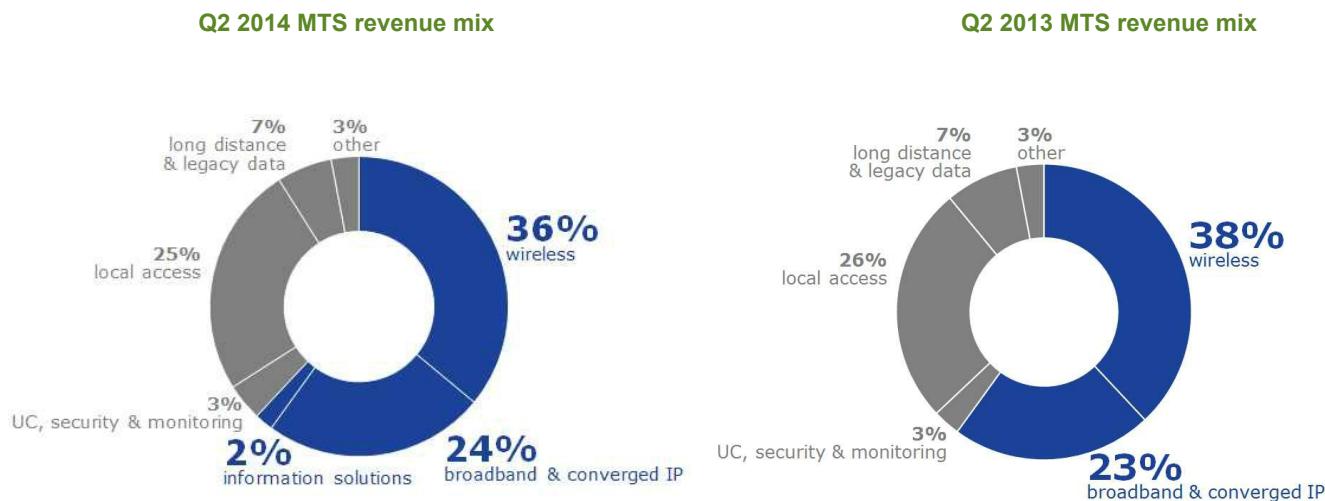
#### ***Enhanced services and features***

Long distance and legacy data services include revenues earned from long distance calling charges, along with the marketing of networking and related products and services to our business customers. Long distance services enable residential and business customers in Manitoba to communicate with destinations outside their local exchange, and include services such as outbound long distance, toll-free services, calling cards, audio conferencing, and other services and features. Legacy data services support businesses in sharing information between multiple office locations by providing them with, and connecting them to, a local area network.

### **Other**

Other services include revenues earned from intersegment transactions, customer late-payment charges, charges from the routing and exchange of long distance network traffic nationally and the sale and maintenance of terminal equipment such as telephone switches and hardware to business customers, both in Manitoba and nationally.

## MTS FINANCIALS



### MTS operating revenues

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Wireless services	90.4	95.0	(4.8)	180.8	186.5	(3.1)
Broadband and converged IP services	60.4	56.8	6.3	119.0	111.0	7.2
Information solutions	5.3	—	n.a.*	11.0	—	n.a.*
Unified communications, security and monitoring services	8.9	7.3	21.9	17.4	15.4	13.0
Local access services	61.9	64.2	(3.6)	123.1	128.2	(4.0)
Long distance and legacy data services	16.6	17.8	(6.7)	33.5	35.9	(6.7)
Other services	6.7	6.3	6.3	13.9	13.9	—
Total MTS operating revenues	250.2	247.4	1.1	498.7	490.9	1.6

\*not applicable

### MTS operating revenues (\$ millions)

Q2 2014	250.2
Q2 2013	247.4
Q2 2012	246.8
Q2 2011	243.0
Q2 2010	232.8

### MTS EBITDA (\$ millions)

Q2 2014	117.3
Q2 2013	121.6
Q2 2012	125.3

2010 and 2011 EBITDA are not shown as it has not been amended for IFRS International Accounting Standard 19 (IAS 19).

## EBITDA

During the second quarter 2014 and on a year-to-date basis, respectively, MTS EBITDA was down \$4.3 million and \$4.7 million, as compared to 2013. These decreases were due to a decline in legacy revenues, wireless wholesale and voice revenues, partly offset by growth in Internet, IPTV, and wireless data revenues, as well as the impact of EPIC.

## Wireless services

Wireless revenues were down \$4.6 million, or 4.8%, in Q2 2014 and down \$5.7 million or 3.1% year-to-date. These decreases were due to a reduction in wholesale roaming revenues, lower voice revenues largely due to lower pricing in the Manitoba market, partly offset by a 17.3% increase in wireless data revenues. MTS has been impacted by a more competitive Manitoba wireless market, resulting in a 1.9% decrease in wireless subscriber revenues, or 0.8% year to date. Currently, 71.2% of our growing post-paid subscriber base now has data plans, driven by strong demand for smartphones and corresponding data usage, which contributed to a 16.5% increase in wireless data ARPU. Since Q2 2013, subscribers with data plans increased by almost 42,000, reflecting the value of our feature-rich data plan offering and contributing to industry-leading post-paid churn of 0.94% in Q2 2014. We also saw a 2.0% increase in wireless post-paid subscribers since Q2 2013. Wireless results continue to be dampened by a reduction in wholesale roaming revenues, as other carriers move their customers from MTS's legacy CDMA network to their own networks. Revenues from CDMA roaming were \$16.7 million in 2013 and are expected to be approximately \$9 million in 2014.

### Wireless revenues (\$ millions)

Q2 2014	90.4
Q2 2013	95.0
Q2 2012	90.9
Q2 2011	88.0
Q2 2010	80.8

### Wireless customers and ARPU

Q2 2014	501,678	\$59.73	ARPU
Q2 2013	495,303	\$61.83	ARPU
Q2 2012	490,498	\$60.34	ARPU
Q2 2011	489,722	\$58.05	ARPU
Q2 2010	469,744	\$55.99	ARPU

### Wireless revenues

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Voice and other revenues	51.2	58.2	(12.0)	102.2	114.2	(10.5)
Data revenues	35.9	30.6	17.3	70.8	60.2	17.6
Subscriber revenues	87.1	88.8	(1.9)	173.0	174.4	(0.8)
Wholesale revenues	3.3	6.2	(46.8)	7.8	12.1	(35.5)
Total wireless revenues	90.4	95.0	(4.8)	180.8	186.5	(3.1)

#### Wireless subscriber statistics

	<b>YTD 2014</b>	YTD 2013	% variance
Post-paid subscribers with data plans	<b>292,947</b>	251,287	16.6
Total post-paid subscribers	<b>411,395</b>	403,226	2.0
Pre-paid subscribers	<b>65,777</b>	66,010	(0.4)
Total subscribers	<b>477,172</b>	469,236	1.7
Other customers	<b>24,506</b>	26,067	(6.0)
Total wireless customers	<b>501,678</b>	495,303	1.3

#### Wireless ARPU statistics

	<b>YTD 2014</b>	YTD 2013	% variance
Subscriber data ARPU	<b>\$23.60</b>	\$20.25	16.5
Subscriber cellular ARPU	<b>\$33.53</b>	\$37.49	(10.6)
Subscriber ARPU	<b>\$57.13</b>	\$57.74	(1.1)
Other ARPU	<b>\$2.60</b>	\$4.09	(36.4)
Blended wireless ARPU	<b>\$59.73</b>	\$61.83	(3.4)

#### Other wireless statistics

(percentage)	<b>YTD 2014</b>	YTD 2013
Post-paid churn (excluding wholesale)	<b>0.91</b>	1.00
Blended churn	<b>1.63</b>	1.72
Penetration rate	<b>75.0</b>	74.0

#### Broadband and converged IP services

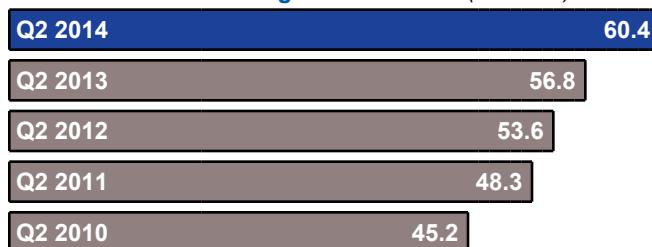
Strong growth from high-speed Internet and IPTV services drove the increase in broadband and converged IP revenues.

Internet revenues increased \$3.5 million or 12.1% in Q2 2014 and \$6.3 million or 11.1% year to date, due to 6.4% growth in high-speed Internet subscribers and greater ARPU resulting from price increases and customers taking higher-speed Internet services, partly offset by a higher proportion of subscribers receiving promotional pricing.

IPTV revenues increased \$0.4 million or 2.0% in Q2 2014 and \$1.6 million or 4.0% year to date, resulting from a 7.0% increase in new IPTV customers, Classic TV subscribers migrating to higher-ARPU MTS Ultimate TV® and a price increase, partly offset by a greater number of customers receiving promotional pricing. Subscriber statistics include a 15.6% increase in higher-ARPU MTS Ultimate TV® subscribers, mostly due to lower-ARPU Classic TV subscribers migrating to MTS Ultimate TV®. Despite operating in a continued competitive environment, our superior product enables us to maintain our market share and industry-leading low churn rates. As at June 30, 2014, 88.3% of our increasing IPTV subscriber base subscribed to our premium IPTV service - MTS Ultimate TV®.

Revenues from converged IP decreased \$0.3 million in Q2 2014 and increased \$0.1 million year-to-date, due to lower one-time installation revenues, partially offset by continued demand for IP services from Manitoba's business community and migration from legacy data services.

#### Broadband and converged IP revenues (\$ millions)



### Residential HSI customers and ARPU

<b>Q2 2014</b>	<b>197,623</b>	<b>\$44.88</b>	<b>ARPU</b>
Q2 2013	185,701	\$42.03	ARPU
Q2 2012	176,044	\$42.52	ARPU
Q2 2011	173,771	\$38.58	ARPU
Q2 2010	172,062	\$35.36	ARPU

### IPTV customers and ARPU

<b>Q2 2014</b>	<b>107,293</b>	<b>\$64.61</b>	<b>ARPU</b>
Q2 2013	100,291	\$66.90	ARPU
Q2 2012	94,743	\$66.74	ARPU
Q2 2011	91,633	\$59.99	ARPU
Q2 2010	89,574	\$51.90	ARPU

### Broadband and converged IP revenues

<b>(\$ millions)</b>	<b>Q2 2014</b>	Q2 2013	% variance	<b>YTD 2014</b>	YTD 2013	% variance
Internet revenues	32.5	29.0	12.1	63.1	56.8	11.1
IPTV revenues	20.9	20.5	2.0	42.0	40.4	4.0
Converged IP revenues	7.0	7.3	(4.1)	13.9	13.8	0.7
Total broadband and converged IP revenues	60.4	56.8	6.3	119.0	111.0	7.2

### Internet statistics

	<b>YTD 2014</b>	YTD 2013	% variance
Dial-up Internet subscribers	5,676	7,597	(25.3)
Business high-speed Internet subscribers	15,938	14,931	6.7
Residential high-speed Internet subscribers	197,623	185,701	6.4
Total Internet subscribers	219,237	208,229	5.3

### Television statistics

	<b>YTD 2014</b>	YTD 2013	% variance
Ultimate TV subscribers	94,780	81,965	15.6
Classic TV subscribers	12,513	18,326	(31.7)
Total IPTV subscribers	107,293	100,291	7.0
Other TV subscribers	4,056	4,267	(4.9)
Total TV subscribers	111,349	104,558	6.5
IPTV ARPU	\$64.61	\$66.90	(3.4)

## Information solutions

EPIC contributed revenues of \$5.3 million in Q2 2014 and \$11.0 million on a year-to-date basis. EPIC was acquired in September 2013 and has performed as expected, providing a new source of revenue for the Company and a trusted source for IT services for our customers.

## Unified communications, security and monitoring services

The increases in unified communications revenues in Q2 2014 and year to date reflect greater hardware sales.

Security and monitoring service revenues in Q2 2014 and year to date remained consistent over the same periods in 2013, as increased monitoring revenue was offset by decreased installation revenue.

### Unified communications, security and monitoring revenues

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Unified communications revenues	5.7	4.1	39.0	11.1	9.1	22.0
Security and monitoring revenues	3.2	3.2	—	6.3	6.3	—
Total unified communications, security and monitoring revenues	8.9	7.3	21.9	17.4	15.4	13.0

## Local access services

Local access service revenues were down in Q2 2014 and year to date, reflecting a 5.0% decline in residential local access lines resulting from wireless substitution and customers upgrading from dial-up Internet to high-speed Internet, and a 2.7% reduction in business local access lines. Although some customers are choosing a wireless-only household, MTS is maintaining its share of home phone customers. On the competitive front, our offering is resonating with customers who choose a home phone. In 10 of the past 14 months, the strength of our bundle offering has resulted in a net gain in new home phone subscribers from cable.

### Local access revenues

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Local access revenues	61.9	64.2	(3.6)	123.1	128.2	(4.0)

### Local access statistics

	Q2 2014	Q2 2013	% variance
Residential network access services lines	274,831	289,336	(5.0)
Business network access services lines	210,226	216,064	(2.7)

## Long distance and legacy data services

Long distance revenues were down, 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. This ongoing trend is expected to continue, but with only 3.7% of MTS revenues being generated by long distance services, this decline is having an increasingly negligible impact on the Company.

Legacy data revenues decreased as customers continue to migrate towards MTS's converged IP services.

### Long distance and legacy data revenues

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Long distance revenues	9.3	10.2	(8.8)	18.7	20.6	(9.2)
Legacy data revenues	7.3	7.6	(3.9)	14.8	15.3	(3.3)
Total long distance and legacy data revenues	16.6	17.8	(6.7)	33.5	35.9	(6.7)

#### **Other services**

Other service revenues declined slightly by \$0.4 million in Q2 2014 and remained consistent year-over-year.

#### **Other revenues**

(\$ millions)	<b>Q2 2014</b>	Q2 2013	% variance	<b>YTD 2014</b>	YTD 2013	% variance
Other revenues	<b>6.7</b>	6.3	6.3	<b>13.9</b>	13.9	—

### **ALLSTREAM LINES OF BUSINESS**

Allstream has five lines of business, each of which is described below. The following pages then provide an analysis of the results for each line of business on an interim basis.

#### **Converged IP services**

##### ***Demand for on-net IP services continues to drive sales. It is the core of what we do for Canadian businesses***

Converged IP services include revenues earned from the provision of IP-based networking and related products and services to business customers nationally. Allstream's Business IP virtual private network ("VPN") service provides business organizations with a connectivity solution that enables growth and expansion to any location, while reducing costs and increasing productivity. Our IP network allows us to offer a full suite of secure, reliable IP connectivity options, which include IP-VPN, Wavelength, Switched Ethernet, IP Trunking, Dedicated Internet Access and Managed Network Services. To read more about our national IP fibre network services, please visit <http://www.allstream.com/products/ip-connectivity/>.

#### **Unified communications, hosting and security services**

##### ***Helping customers share vital data and expertise***

Unified communications, hosting and security services include revenues earned from the provision of IP-related telephony products and services, along with revenues from IP-based security offerings to national business customers.

#### **Local access services**

##### ***Keeping your business properly connected***

Local access services include revenues earned for the provision of business voice connectivity, including calling features, to national business and wholesale customers.

#### **Long distance and legacy data services**

##### ***Providing telecommunications links to the people you need to stay in touch with - wherever they are***

Long distance and legacy data services include revenues earned from the provision of long distance calling, along with legacy data services such as private line networks, to business customers nationally.

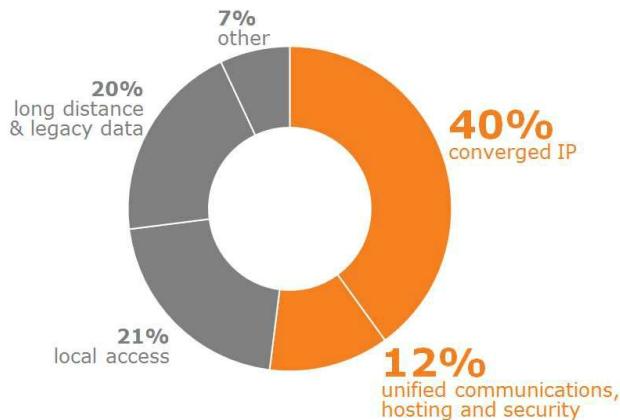
#### **Other**

##### ***Offering easy access and reliable service***

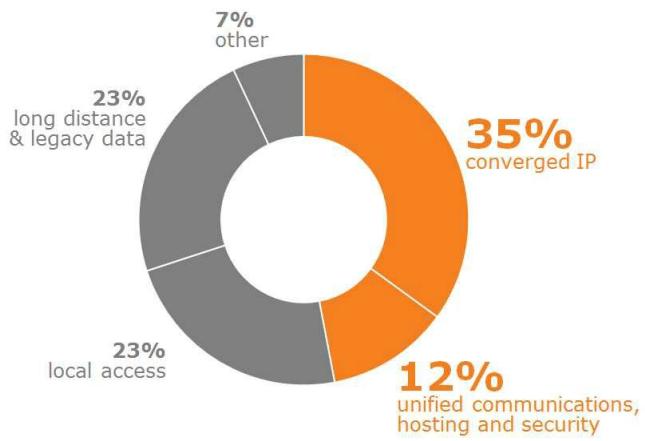
Other services include revenues earned from MTS, the routing and exchange of wholesale long distance network traffic, customer late-payment charges and other miscellaneous items.

## ALLSTREAM FINANCIALS

Q2 2014 Allstream revenue mix



Q2 2013 Allstream revenue mix



### Allstream operating revenues

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Converged IP services	<b>64.2</b>	59.9	7.2	<b>126.9</b>	120.0	5.8
Unified communications, hosting and security services	<b>19.2</b>	21.0	(8.6)	<b>37.4</b>	38.7	(3.4)
Local access services	<b>34.0</b>	39.3	(13.5)	<b>69.3</b>	79.9	(13.3)
Long distance and legacy data services	<b>33.2</b>	39.7	(16.4)	<b>68.8</b>	81.5	(15.6)
Other services	<b>11.3</b>	11.6	(2.6)	<b>21.4</b>	23.1	(7.4)
Total Allstream operating revenues	<b>161.9</b>	171.5	(5.6)	<b>323.8</b>	343.2	(5.7)

### Allstream operating revenues (\$ millions)

Q2 2014	<b>161.9</b>
Q2 2013	<b>171.5</b>
Q2 2012	<b>193.5</b>
Q2 2011	<b>210.3</b>
Q2 2010	<b>210.1</b>

### Allstream EBITDA (\$ millions)

Q2 2014	<b>24.7</b>
Q2 2013	<b>13.3</b>
Q2 2012	<b>28.8</b>

2010 and 2011 EBITDA are not shown as it has not been amended for IFRS International Accounting Standard 19 (IAS 19).

## EBITDA

Q2 EBITDA was \$24.7 million, up 85.7% from Q2 2013. On a year-to-date basis, EBITDA was \$52.6 million, up \$11.0 million from 2013. These increases reflect transaction and restructuring costs of \$10.4 million incurred in the second quarter of 2013. Allstream's EBITDA margin percentage is now 15.3% in Q2 2014, up from 7.8% in the same period last year.

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Allstream EBITDA	24.7	13.3	85.7	52.6	41.6	26.4
Add back transaction and restructuring costs	—	10.4	n.a.*	—	10.4	n.a.*
Adjusted Allstream EBITDA for the period	24.7	23.7	4.2	52.6	52.0	1.2

\*not applicable

## Converged IP services

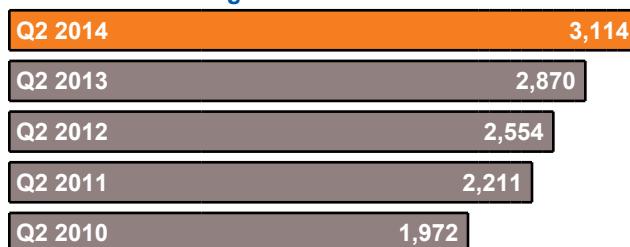
Converged IP revenues grew by \$4.3 million or 7.2% in Q2 2014 and \$6.9 million or 5.8% on a year-to-date basis, as the impact of improved sales in the latter part of last year are now contributing to revenue growth, while the negative impact of the Government of Ontario disconnects is finally behind us.

Most important, IP sales wins continue to be strong with a 1.8% increase in Q2 2014 compared to Q2 last year. Allstream added 45 buildings to its fibre network in Q2 2014, bringing its on-net total to 3,114 buildings as at June 30, 2014. We are also having success with installations pertaining to subsequent sales into already-connected buildings, which were up 43.6% in Q2 2014 compared to Q2 last year.

### Converged IP revenues (\$ millions)



### IP fibre-fed buildings



### Converged IP statistics

(\$ millions, unless otherwise stated)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Revenues	64.2	59.9	7.2	126.9	120.0	5.8
Cost of goods sold	16.9	15.2	11.2	33.3	30.1	10.6
Gross margin	47.3	44.7	5.8	93.6	89.9	4.1
Gross margin percentage	73.7%	74.6%	(0.9 pt)	73.8%	74.9%	(1.1 pt)
Fibre-fed buildings (#)				3,114	2,870	8.5

## Unified communications, hosting and security services

Unified communications, hosting and security service revenues decreased mainly due to a decrease in one-time hardware-only sales.

### Unified communications, hosting and security statistics

(\$ millions, unless otherwise stated)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Unified communications revenues	14.1	15.9	(11.3)	27.2	28.6	(4.9)
Hosting revenues	4.1	4.0	2.5	8.2	7.9	3.8
Security revenues	1.0	1.1	(9.1)	2.0	2.2	(9.1)
Total unified communications, hosting and security revenues	19.2	21.0	(8.6)	37.4	38.7	(3.4)
Cost of goods sold	13.7	15.2	(9.9)	27.1	28.1	(3.6)
Gross margin	5.5	5.8	(5.2)	10.3	10.6	(2.8)
Gross margin percentage	28.6%	27.6%	(1.0 pt)	27.5%	27.4%	(0.1 pt)

## Local access services

Local access revenues declined, mainly due to our decision to exit from low-margin resold business lines. Strategic price increases of low-margin lines resulted in a higher local gross margin percentage, which positively impacted Allstream EBITDA.

### Local access statistics

(\$ millions, unless otherwise stated)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Revenues	34.0	39.3	(13.5)	69.3	79.9	(13.3)
Cost of goods sold	12.7	14.7	(13.6)	25.9	30.6	(15.4)
Gross margin	21.3	24.6	(13.4)	43.4	49.3	(12.0)
Gross margin percentage	62.6%	62.6%	—	62.6%	61.7%	0.9 pt

## Long distance and legacy data services

Revenues from long distance services decreased, mainly due to reduced volumes and rates. The legacy data revenue decrease was due to a combination of competitive churn, customer migration to IP-based services and re-pricing of services. Allstream continues to implement its strategy of improving profitability by reducing costs and transitioning customers to IP-based service.

### Long distance and legacy data statistics

(\$ millions, unless otherwise stated)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Long distance revenues	16.8	19.3	(13.0)	34.9	40.1	(13.0)
Legacy data revenues	16.4	20.4	(19.6)	33.9	41.4	(18.1)
Total long distance and legacy data revenues	33.2	39.7	(16.4)	68.8	81.5	(15.6)
Cost of goods sold	13.3	14.6	(8.9)	26.6	28.7	(7.3)
Gross margin	19.9	25.1	(20.7)	42.2	52.8	(20.1)
Gross margin percentage	59.9%	63.2%	(3.3 pts)	61.3%	64.8%	(3.5 pts)

## Local access, long distance & legacy data revenues

(\$ millions)



## SELECTED QUARTERLY FINANCIAL INFORMATION

### Selected quarterly financial results - consolidated

(\$ millions, except EPS and weighted average shares outstanding)	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Operating revenues	<b>403.3</b>	401.5	408.5	408.4	410.1	406.7	413.1	424.3
EBITDA	<b>142.5</b>	147.6	128.0	142.7	132.0	148.6	144.2	145.7
Net (loss) income	<b>28.8</b>	41.9	(87.8)	25.4	(52.9)	30.9	29.3	33.2
EPS	<b>\$0.37</b>	\$0.54	(\$1.25)	\$0.38	(\$0.78)	\$0.46	\$0.44	\$0.50
Weighted average shares outstanding <sup>1</sup> (in millions)	<b>77.4</b>	77.1	70.3	67.7	67.5	67.2	67.0	66.7

<sup>1</sup> The Q1 2014 and Q4 2013 increases in the number of weighted average shares outstanding are due to the December 2013 issuance of 8,855,000 common shares and participation in the Company's dividend re-investment program. The increase in the number of weighted average shares outstanding in other quarters is due to participation in our dividend re-investment program.

Our performance in the second quarter of 2014 at both MTS and Allstream is reflected in our financial results. Below are our consolidated and subsidiary financial summaries.

Our interim financial results for the last eight quarters (Q2 2014 to Q3 2012) reflect the following significant transactions and trends:

- In Q1 2014, MTS acquired a prime block of 700 MHz spectrum in an Industry Canada 700 MHz auction for \$8.9 million in total, enhancing MTS's capability to add more high-speed data capacity and support advanced wireless services.
- In Q1 2014, we realized a positive \$21.7-million SR&ED ITC recovery adjustment, which impacted EPS by \$0.12. This SR&ED ITC recovery constitutes the net adjustment relating to four taxation years, ending December 31, 2011.
- On December 6, 2013, we announced that we had closed our previously-announced financing agreement of 8,855,000 common shares, issued at a purchase price of \$28.10 per common share, for gross proceeds of \$248.8 million. The net proceeds were approximately \$238 million, determined after deducting the underwriters' commission and expenses. The Company has used a total of \$55 million of the net proceeds to make a pre-funded solvency payment into its pension plans. In addition, the Company used \$70 million of the proceeds to repay the short-term debt incurred in February 2013 to prefund the pension plans.
- In Q4 2013, the Company recorded a \$142.1-million non-cash charge against income in Q4 2013, to reflect the total estimated value of pension benefits and other estimated costs related to the SCC's reinstatement of a lower court ruling on a lawsuit regarding the administration of one of MTS's pension plans following the Company's 1997 privatization. The SCC's decision negatively impacted Q4 2013 EPS by \$1.48. IFRS required that the Company treat this ruling as a past service cost, to be expensed immediately, regardless of the timing of any potential cash flow impact.
- On May 24, 2013, we announced the sale of Allstream to Accelero Capital Holdings S.à r.l. On October 7, 2013, the Government denied the transaction. Transaction and restructuring costs associated with the transaction amounted to \$35.2 million in 2013. An IFRS-required write-down of Allstream's long-term assets resulted in an impairment loss of \$130.4 million in 2013. This amount was recognized in Q2 and Q3 of 2013, which negatively impacted EPS by \$0.24 and \$1.17 in Q3 2013 and Q2 2013, respectively.
- Over the last eight quarters, operating revenues reflected growth in revenues from strategic services and declines in revenues from legacy services. We have seen an increase in demand for wireless data, IP-based services, high-speed Internet and feature-rich MTS Ultimate TV®.
- Over the past several years, we have continued to improve our cost structure through operational efficiencies and restructuring initiatives. Since 2005, MTS and Allstream have achieved nearly \$490 million in combined cost savings. Restructuring costs related to these ongoing cost reduction initiatives resulted in in-year decreases in EBITDA, offset by the annualized savings from these initiatives.

## Liquidity and capital resources

### SUMMARY of CASH FLOWS

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Cash flows from (used in):						
Operating activities	85.2	93.5	(8.9)	162.2	95.2	70.4
Investing activities	(88.9)	(74.4)	(19.5)	(156.3)	(142.1)	(10.0)
Financing activities	0.4	(24.8)	n.a.*	(99.3)	41.6	n.a.*
Change in cash and cash equivalents for the period	(3.3)	(5.7)	n.a.*	(93.4)	(5.3)	n.a.*

\*not applicable

#### Operating activities

*“Cash flows from operating activities” refers to cash we generate from our business activities.*

Cash flows from operating activities decreased \$8.3 million in Q2 2014, mainly due to an increase in the use of cash from working capital, partly offset by decreased wireless cost of acquisition.

The \$67.0-million increase in cash flows from operating activities for the first half of 2014 was mainly due to a \$70.0-million pre-funded pension solvency payment in Q2 2013, partly offset by an increase in the use of cash from working capital.

#### Investing activities

*“Investing activities” refers to cash used for acquiring, and cash received from disposing of, long-term assets and other long-term investments.*

Cash flows used in investing activities increased by \$14.5 million in the second quarter of 2014 and \$14.2 million a year-to-date basis, mostly due to a spectrum purchase of \$8.9 million in April 2014 and higher capital expenditures due to the timing of capital projects.

#### Financing activities

*“Financing activities” refers to actions we undertake to fund our operations through equity capital and borrowings.*

Cash flows from financing activities increased in Q2 2014 due to the \$225-million issuance of long-term debt, partly offset by a \$200-million repayment of long-term debt. On a year-to-date basis, cash flows used in financing activities increased due to a net long-term debt repayment of \$50 million in 2014 (a \$275-million repayment of long-term debt, partly offset by a \$225-million issuance of long-term debt), compared to an \$82.0-million issuance of notes payable in 2013.

In the first and second quarters of 2014 and each quarter of 2013, cash dividends of \$0.425 per common outstanding share were paid to shareholders, as approved by the Board. The cash cost of these dividends increased in 2014 due to the issuance of common shares in December 2013.

#### Free cash flow

Free cash flow increased \$9.6 million in Q2 2014 and \$34.8 million year to date. These increases were mainly due to lower 2013 EBITDA resulting from transaction and restructuring costs incurred in Q2 2013 at Allstream. Transaction and restructuring costs amounted to \$12.9 million in Q2 2013. Reduced capital spending resulting from a \$21.7-million SR&ED ITC credit recorded in Q1 2014 also contributed to the year-to-date increase in free cash flow.

#### Consolidated free cash flow

(\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Cash flows from operating activities	85.2	93.5	(8.9)	162.2	95.2	70.4
Add back (deduct):						
Pre-funded pension solvency	—	—	—	—	70.0	n.a.*
Changes in non-cash working capital	27.0	3.9	n.a.*	66.4	46.5	42.8
Capital expenditures	(78.2)	(73.0)	(7.1)	(121.8)	(139.7)	12.8
Free cash flow for the period	34.0	24.4	39.3	106.8	72.0	48.3

\*not applicable

#### Second-quarter free cash flow

(\$ millions)	MTS <sup>1</sup>		Allstream		Consolidated		
	Q2 2014	Q2 2013	Q2 2014	Q2 2013	Q2 2014	Q2 2013	% variance
EBITDA	<b>117.8</b>	118.7	<b>24.7</b>	13.3	<b>142.5</b>	132.0	8.0
Add back (deduct):							
Other income (expense)	(0.5)	0.5	(1.1)	0.1	(1.6)	0.6	n.a.*
Finance costs	(16.9)	(18.9)	(0.6)	(1.4)	(17.5)	(20.3)	(13.8)
Current income tax recovery (expense)	—	(0.1)	—	0.1	—	—	—
Loss on disposal of assets	0.1	0.3	0.9	(0.1)	1.0	0.2	n.a.*
Deferred wireless costs	(15.0)	(22.9)	—	—	(15.0)	(22.9)	(34.5)
Normal pension funding and net pension expense	1.5	6.0	(1.3)	(0.3)	0.2	5.7	(96.5)
Other non-cash items	1.9	2.5	0.7	(0.4)	2.6	2.1	23.8
Capital expenditures	(49.2)	(47.1)	(29.0)	(25.9)	(78.2)	(73.0)	7.1
Free cash flow for the period	<b>39.7</b>	<b>39.0</b>	(5.7)	(14.6)	<b>34.0</b>	<b>24.4</b>	<b>39.3</b>

<sup>1</sup> MTS includes MTS and Other

\*not applicable

#### Year-to-date free cash flow

(\$ millions)	MTS <sup>1</sup>		Allstream		Consolidated		
	YTD 2014	YTD 2013	YTD 2014	YTD 2013	YTD 2014	YTD 2013	% variance
EBITDA	<b>237.5</b>	239.0	<b>52.6</b>	41.6	<b>290.1</b>	280.6	3.4
Add back (deduct):							
Other income (expense)	0.2	1.0	—	(0.6)	0.2	0.4	(50.0)
Finance costs	(34.0)	(37.6)	(1.1)	(2.9)	(35.1)	(40.5)	(13.3)
Current income tax recovery (expense)	(0.1)	(0.1)	—	0.1	(0.1)	—	n.a.*
Loss on disposal of assets	0.4	0.4	0.3	1.0	0.7	1.4	(50.0)
Deferred wireless costs	(30.0)	(36.4)	—	—	(30.0)	(36.4)	(17.6)
Normal pension funding and net pension expense	5.3	9.0	(0.7)	(0.8)	4.6	8.2	(43.9)
Other non-cash items	(1.5)	(1.0)	(0.3)	(1.0)	(1.8)	(2.0)	(10.0)
SR&ED adjustment	<b>21.7</b>	—	—	—	<b>21.7</b>	—	n.a.*
Capital expenditures	(93.6)	(89.7)	(49.9)	(50.0)	(143.5)	(139.7)	2.7
Free cash flow for the period	<b>105.9</b>	84.6	0.9	(12.6)	<b>106.8</b>	72.0	48.3

<sup>1</sup> MTS includes MTS and Other

\*not applicable

## CAPITAL MANAGEMENT

We have arrangements in place that allow us to access the debt capital markets for funding when required. Borrowings under these facilities typically are used to re-finance maturing debt, to fund new initiatives and to manage cash flow fluctuations.

### Credit facilities

(\$ millions)	Utilized at June 30, 2014	Capacity
Medium-term note program	225.0	500.0
Revolving credit facility	46.1	400.0
Additional credit facility	265.4	300.0
Accounts receivable securitization	—	110.0
Total	536.5	1,310.0

We renewed our medium-term note ("MTN") program on September 30, 2013 for \$500.0 million. On May 26, 2014 we issued \$225.0 million of 4.0% MTNs under this program with a maturity date of May 27, 2024. We also have a \$400.0-million revolving credit facility, of which we had utilized \$46.1 million at June 30, 2014 for undrawn letters of credit. We also have one \$300.0-million credit facility, which is used solely for the issuance of letters of credit. As at June 30, 2014, a total of \$265.4 million was utilized for undrawn letters of credit. In addition to these programs and facilities, we have a \$110.0-million accounts receivable securitization program, which was not utilized as at June 30, 2014.

### Capital structure

(\$ millions)	June 30, 2014	December 31, 2013
Bank indebtedness (cash and equivalents)	5.6	(87.8)
Long-term debt, including current portion	872.6	923.1
Net debt	878.2	835.3
Shareholders' equity	1,073.8	1,092.7
Total capitalization	1,952.0	1,928.0
Debt to capitalization	45.0%	43.3%

Our capital structure illustrates the amount of our assets that is financed by debt versus equity. Our debt-to-total-capitalization ratio of 45.0% at June 30, 2014 continues to represent financial strength and flexibility.

### Credit ratings

S&P - Senior debentures	BBB (stable)	DBRS - Senior debentures	BBB (stable)
S&P - Commercial paper	A-2	DBRS - Commercial paper	R-2 (high)

Two leading rating agencies, Standard & Poor's ("S&P") and DBRS Limited ("DBRS"), analyze us and assign ratings based on their assessments. We consistently have been assigned solid investment-grade credit ratings. On March 5, 2014, S&P confirmed its credit ratings on our long-term corporate credit and senior unsecured debt at "BBB", and also confirmed our commercial paper rating of "A 2". S&P also confirmed its outlook as stable. DBRS confirmed its ratings on May 27, 2013, with our senior debentures at "BBB" and our commercial paper rating of "R 2 (high)". DBRS's outlook remained stable.

### Pensions

We announced on January 30, 2014 that the SCC reinstated a lower court ruling on a lawsuit regarding the administration of one of MTS's pension plans following the Company's privatization in 1997. As at December 31, 2013, the estimated total value of the judgment was \$135.1 million, plus legal and actuarial costs. MTS continues to work with plan members to finalize details of the implementation plan for delivering these enhanced benefits.

Strong asset returns in 2013 and an increase in long-term interest rates have significantly improved the pension plans' solvency deficits. An actuarial valuation was completed and confirmed the solvency deficits of all plans was \$235 million at January 1, 2014, an improvement of over \$400 million compared to the prior year. This includes the full amount of the SCC decision. The MTS plan's solvency funded ratio is now 90%, a substantial improvement over last year.

The solvency funded ratio of the Allstream pension plans is 98% as at January 1, 2014 and, accordingly, estimated solvency funding requirements in the foreseeable future are expected to be minimal.

#### **Outstanding share data**

	As at July 21, 2014	As at June 30, 2014
Common shares outstanding	77,761,052	77,443,778
Stock options outstanding	2,639,198	2,639,198
Stock options exercisable	2,286,270	2,286,270

### **FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET ARRANGEMENTS and OTHER FINANCIAL ARRANGEMENTS**

#### **Foreign currency forward contracts**

We use foreign currency forward contracts to manage the foreign currency exposure. Foreign exchange gains and losses on these foreign currency forward contracts are recorded in the consolidated statement of financial position as an asset or a liability, with changes in fair value recognized in the consolidated statement of net income. As at June 30, 2014, we had outstanding foreign currency forward contracts to purchase \$13.0 million U.S.

#### **Accounts receivable securitization**

Under the terms of our accounts receivable securitization program, we have the ability to sell, on a revolving basis, an undivided interest in our accounts receivable to a securitization trust, to a maximum of \$110.0 million. We are required to maintain reserve accounts, in the form of additional accounts receivable over and above the cash proceeds received, to absorb any credit losses on the receivables sold. We are required to maintain certain financial ratios with respect to our accounts receivable, or the cash proceeds must be repaid. We also are subject to certain risks of default which, should they occur, could cause the agreement to be terminated early. As at June 30, 2014, the Company had no amounts outstanding under its accounts receivable securitization program.

### **Critical accounting estimates and accounting**

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In our 2013 annual audited consolidated financial statements and notes, as well as in our 2013 annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results of operations. Our critical accounting estimates and assumptions remain substantially unchanged from those disclosed in our 2013 annual audited consolidated financial statements and notes and 2013 annual MD&A.

Note 5 to the 2013 annual audited consolidated financial statements describes the critical estimates used in determining the impairment charge for Allstream, based on the higher of fair value less costs to sell and value in use calculations. We are required to monitor whether indicators of impairment or impairment reversal arise and, if so, to re-evaluate changes to these fair value measures.

### **Changes in accounting policies**

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#### **Changes in accounting policies**

Our second quarter 2014 interim condensed consolidated financial statements have been prepared using the same accounting policies as in the previous year except for the standard described below:

#### **IFRIC 21 Levies**

Effective January 1, 2014, the Company adopted International Financial Reporting Interpretations Committee 21, *Levies*. This standard, which has been adopted and applied in these interim condensed consolidated financial statements, provides guidance on when to recognize a liability for a levy imposed by a government other than those payments within the scope of another standard. The application of this standard has been implemented retroactively and has not had any impact on the amounts reported for the current or prior period.

### **ACCOUNTING STANDARDS ISSUED but not yet EFFECTIVE**

We have not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date of later than January 1, 2014. Many of these updates are not relevant to us and are therefore not discussed. We expect the following standards and amendments described below to be applicable to its consolidated financial statements at a future date:

### **IFRS 9, Financial Instruments**

IFRS 9, *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and liabilities. The mandatory effective date has not yet been determined by the International Accounting Standards Board ("IASB"). The adoption of this standard is not expected to have a material impact on our results and financial position.

### **IFRS 15, Revenue from Contracts with Customers**

IFRS 15, *Revenue from Contracts with Customers*, issued by the IASB in May 2014, is applicable to all revenue contracts and provides a model for the recognition and measurement of gains or losses from sales of some non-financial assets. The core principle is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017 and is to be applied retrospectively, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach. The Company is currently evaluating the impact of the above standard on its financial statements.

## **Regulatory developments**

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### **BACKGROUND**

MTS and Allstream are subject to regulations that materially impact how they can conduct business. The telecommunications and broadcast industries in which we operate are federally regulated, pursuant to both the *Telecommunications Act* and the *Broadcasting Act*. We are also subject to other federal and provincial regulations that shape how we conduct our business. Our regulatory environment is as described in our 2013 annual MD&A, and is updated for material developments every quarter. In the past quarter, there have been the following material developments:

#### **9-1-1 services and lawful request requirements**

The Canadian Radio-television and Telecommunications Commission ("CRTC") has indicated that by March 2015 it will initiate a review of the robustness and resilience of networks and systems used to support 9-1-1 services. This review could establish standards for reliability and redundancy, and depending on the standards, MTS may be required to invest in certain upgrades, which would likely be funded through changes to the existing monthly per-line 9-1-1 charge. The CRTC expects to rule in the near future on industry proposals to improve the precision of wireless location data on 9-1-1 calls, but will not review potential next generation 9-1-1 services until 2016.

#### **Copyright Act Notice-and-Notice Obligations**

The federal government announced that it would bring into force a "notice-and-notice" regime regarding complaints of online copyright infringement. These provisions, part of the *Copyright Modernization Act* passed in 2012, will be in force in early 2015. Internet service providers, such as MTS and Allstream, will be required on receipt of a compliant notice to forward the notice to the applicable subscriber and notify the sender of the notice that it has been so forwarded, or where applicable, why it was not possible to forward. The law will also impose certain record keeping obligations. We will work to ensure that our current voluntary practices are updated as necessary to ensure compliance with the new legal obligations.

#### **Wireless roaming**

The CRTC has initiated various proceedings to evaluate the competitiveness of the Canadian wireless industry including wireless roaming rates and tower sharing. It is reviewing whether some wireless service providers are unjustly discriminating or unduly preferring themselves to the detriment of other carriers. In March 2014, the Government tabled Bill C-31, the federal Budget Bill, introducing legislation that caps the domestic roaming rates that Canadian carriers charge one another at the level that these carriers charge their retail customers. Bill C-31 received royal assent on June 19, 2014. It is unclear how these proceedings and legislation will impact MTS. Mandating either higher or lower roaming rates could benefit MTS (by reducing its roaming expenses outside Manitoba). It could also harm MTS by giving other carriers access to MTS's wireless network. As MTS has the largest wireless network in Manitoba, as well as a material HSPA+/LTE network sharing agreement with Rogers, these developments could materially impact MTS's wireless business.

#### **Manitoba government introduces new consumer protection legislation**

In June 2014, the Manitoba government passed Bill 62, the *Consumer Protection Amendment Act* which seeks to increase transparency of wireline phone, TV, Internet and alarm services contracts as well as limit termination charges. Over the next year, the Manitoba government will develop the appropriate regulations before the new rules will be put in force in 2015. MTS continues to work

with the Manitoba government to provide its views on the new consumer protection laws. MTS believes most of its practices are already in line with the new rules and will work towards being fully compliant before they are implemented.

#### **Deferral accounts**

MTS completed a rural expansion of high-speed Internet access service to 16 communities when service was made available in Sunset Bay, Manitoba at the end of June.

## **Risks and uncertainties**

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There have been no changes in our risk and uncertainties profile during our most recent interim period (ended June 30, 2014) that have materially affected or are reasonably likely to materially affect, our risk and uncertainties profile. Our risks and uncertainties are described in our 2013 annual MD&A.

## **Controls and procedures**

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There have been no changes in our internal control over financial reporting during our most recent interim period (ended June 30, 2014) that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting. Internal control over financial reporting is described in our 2013 annual MD&A.

## **Non-IFRS measures of performance**

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In this MD&A, we provide information concerning EBITDA and free cash flow because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by IFRS, and are not necessarily comparable to similarly titled measures used by other companies.

#### **EBITDA**

We define EBITDA as "earnings before interest, taxes, depreciation and amortization, and other income (expense)". EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with IFRS), as a measure of liquidity.

#### **FREE CASH FLOW**

We define free cash flow as "cash flows from operating activities, less capital expenditures, and excluding changes in working capital, pre-funded pension solvency payments and spectrum costs". Free cash flow is the amount of discretionary cash flow that we have for purchasing additional assets beyond our annual capital expenditure program, paying dividends, buying back shares and/or retiring debt.

## Glossary

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### A

**ADSL (Asymmetric digital subscriber line)**

The technology used to move data quickly on existing copper phone lines.

**ARPU (Average revenue per user)**

Average revenue per user, expressed as a dollar amount for a given period of measurement. It is used to demonstrate, in part, a telecom service provider's operating performance.

### B

**Blended**

Refers to a combination of both pre-paid and post-paid wireless customers. This term is used when a metric counts all wireless customers (e.g., blended churn).

**Blog**

A website on which an individual or a group of users records opinions, information, etc., usually on a regular basis.

**Broadband**

High-speed transmission. The term is commonly used to refer to communications lines or services at T1 rates (1.544 Mbps) and above. Broadband facilities - fibre optic and coaxial cable, for example - may carry numerous voice, data and video channels at the same time.

**Bundling**

Refers to grouping two or more telecom services together.

### C

**CRA**

Canada Revenue Agency.

**CRTC (Canadian Radio-television and Telecommunications Commission)**

The agency responsible for regulating Canadian telecommunications and broadcasting services.

**CSA (Canadian Securities Administrators)**

A forum in which the 13 securities regulators of Canada's provinces and territories are able to coordinate and harmonize regulation of the Canadian capital markets.

**CAPEX (Capital expenditures)**

Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. This type of outlay is made by companies to maintain or increase the scope of their operations.

**Cash flow**

The movement of cash in and out of a business from day-to-day direct trading and other non-trading or indirect effects, such as capital expenditure, tax and dividend payments.

**Churn**

The rate at which existing subscribers cancel their services is called "churn". Churn is calculated as the number of subscribers disconnected in a given period divided by the average subscriber base for that period.

**CDMA (Code Division Multiple Access)**

A method for transmitting multiple digital signals simultaneously over the same carrier frequency (the same channel). Although used in various radio communications systems, the most widely known application of CDMA is for cell phones.

**CUSIP (Committee on Uniform Securities Identification Procedures)**

A CUSIP number is used to identify most securities and to facilitate clearing and settling of securities transactions.

**Common share**

A type of security which represents ownership in a company and entitles the holder to voting rights.

**CAGR (Compound annual growth rate)**

The year-over-year growth rate of an investment over a specified period of time.

### D

**DSL (Digital subscriber line)**

A technology for bringing high-bandwidth information to homes and small businesses over ordinary copper telephone lines.

**Dividend**

A distribution of a company's profits to its shareholders, paid in proportion to the number of shares that an individual shareholder owns. The amount and frequency of the dividend payment are approved by the Board. Dividends are normally in the form of cash, but can also be in other forms, such as shares in the issuing company or shares in a subsidiary.

**Dividend record date**

The date the Board sets as the date of record, to determine which shareholders are eligible to receive a declared dividend. To be eligible to receive a declared dividend, the shareholder must own or have purchased the security at least three market trading days prior to the record date (Trade date +3).

**DRIP (Dividend re-investment plan)**

A plan in which shareholders of a company can re-invest cash dividend payments into additional shares.

**Dividend yield**

The return earned on a security, calculated by expressing its dividend, on an annualized basis, as a percentage of the security's market price.

### E

**EBITDA (Earnings before interest, taxes, depreciation and amortization)**

EBITDA is defined as "earnings before interest, taxes, depreciation and amortization, and other income (expense)". EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with International Financial Reporting Standards) as a measure of liquidity.

**EPS (Earnings per share)**

EPS is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

**ESOP (Employee Share Ownership Plan)**

MTS employees have the opportunity to share in the success of the Company by investing in shares through the ESOP plan.

**EVDO (Evolution data optimized)**

A high-speed network protocol used for wireless data communications, primarily Internet access. EVDO is considered a broadband technology, like DSL or cable modem Internet services.

**Ex-dividend date**

The first date on which a security trades when a purchaser of that security is not entitled to its dividend. The ex-dividend date falls two market trading days prior to the record date.

**F****Fibre optic network**

The method of transmitting information from one place to another by sending pulses of light through an optical fibre.

**FTTH (Fibre-to-the-home)**

An arrangement where fibre cable runs all the way into a customer's home, instead of just to a box on the street corner. Because the fibre goes all the way into the house, it can carry more bandwidth, which allows us to offer hi-tech integrated services like MTS Ultimate TV®.

**FleetNet 800™**

An advanced wireless communication service widely used by contractors, construction crews, transportation and trucking, farming applications, courier/messenger companies, government and public safety organizations. This two-way radio service is available to 98% of Manitoba's population.

**Free cash flow**

Free cash flow is a non-IFRS measure of performance. We define free cash flow as "cash flows from operating activities, less capital expenditures and excluding changes in working capital, pre-funded pension solvency payments and spectrum costs". 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 2014 and 2013 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.

**G****Goodwill**

Any surplus money paid to acquire a company that exceeds its net tangible assets value.

**H****HSPA+ (High-speed packet access)**

A mobile telephony technology that allows for data transmission speeds of up to 21 Mbps. HSPA+ (also called Evolved HSPA or 4G) is a further evolution of HSPA that offers data speeds of up to 42 Mbps.

**I****IFRS**

International financial reporting standards.

**Internet Protocol (IP)**

IP is the method by which data are transmitted between computers connected to the Internet. Each computer on the Internet has at least one IP address that uniquely identifies it out of all other computers on the Internet, making it possible for data to be transmitted to a particular destination.

**IP connectivity**

The access network that provides Internet Protocol (IP) connections.

**L****LTE (Long Term Evolution)**

The MTS LTE wireless network is the next step in wireless technology. LTE is capable of delivering download speeds of up to 75 Mbps and upload speeds of 25 Mbps.

**M****MBT**

The TSX trading symbol for Manitoba Telecom Services Inc.

**MD&A**

Management's discussion and analysis.

**Market value**

The most recent price for a security at which a transaction has occurred.

**MPLS (Multi-protocol label switching) network**

A multi-protocol label switching (MPLS) network gives telecommunications companies the ability to provide IP and switched Ethernet services.

**N****Non-IFRS measures of performance**

In this MD&A, we provide information concerning EBITDA and free cash flow because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by IFRS, and are not necessarily comparable to similarly titled measures used by other companies.

**P****Penetration rate**

The number of customers divided by the population of a given area.

**Post-paid wireless customers**

Refers to wireless customers who pay after they use the minutes - they get a monthly bill and are on contract.

**Pre-paid wireless customers**

Refers to wireless customers who pay before they use the service. They are not on contract - they buy minutes as part of pay-as-you-go plans. Typically, they spend less money and are more likely to switch to a competitor.

**R****Roaming**

Roaming helps ensure that a wireless device (typically a cellphone) stays connected to a wireless network. For example, should you travel beyond your cell phone provider's network coverage area, your cell phone would automatically move onto another phone provider's network, if available.

## S

**SEDAR (System for Electronic Document Analysis and Retrieval)**  
The SEDAR website provides access to public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators (CSA).

### Share

A unit of ownership in the equity of a company.

### Share transfer agent

See "Transfer agent".

### SR&ED ITC (Scientific research & experimental development investment tax credit)

Scientific research & experimental development investment tax credit. SR&ED ITC recovery adjustments reflect management's commitment to developing leading-edge products. The ITC will be utilized when the Company becomes taxable in future years.

### Spectrum

The specific part of the electromagnetic spectrum that can be licensed for use by telecommunications service providers. Telecoms can purchase, usually through an auction, a spectrum license that grants them the sole right to use a portion of the radiofrequency spectrum in a given geographical area for communication purposes.

### Stock exchange

An organization which facilitates the exchange of securities through the matching of buy and sell orders.

### Stock symbol

A letter-only symbol used to individually identify each company that trades on an exchange or a market.

### Strategic services

Strategic services are wireless, broadband and converged IP and information solutions.

### Subsidiary

A company in which the Corporation owns more than 50% of the securities.

## T

### Total shareholder return

The total return on a stock to an investor (capital gain plus dividends).

### Transfer agent

A company acting on behalf of a publicly traded company, which maintains a record of its shareholder names and addresses, and the quantities of shares each shareholder holds.

### TSX

Toronto Stock Exchange.

## U

### UC (Unified communications)

The integration of real-time communication services, which can include such services as instant messaging, video conferencing, data sharing, call control and speech recognition with non-real-time communication services such as unified messaging (integrated voicemail, email, SMS and fax). UC is not necessarily a single product, but a set of products

that provides a consistent unified user interface and experience across multiple devices and media types.

## V

### VDSL (Very high-speed digital subscriber line)

VDSL transmits data in the 13-to-55-Mbps range, via twisted pair copper wire, over short distances, usually between 300 and 1,500 meters. The shorter the distance, the faster the data is transmitted.

### VOIP (Voice over Internet protocol)

Transmitting voice signals in digital form over the Internet, using the Internet Protocol (IP) method.

## W

### Wi-Fi (Wireless fidelity)

A term used for a high-frequency wireless local area network (WLAN).

### WLAN (Wireless local area network)

A local area network to which a mobile user can connect through a wireless (radio) connection.

## Y

### Yield

The return that an investment provides to an investor. It is a combination of income received and capital appreciation/depreciation.