



News release

Learn more about Manitoba Telecom Services Inc.'s Q2 2014 results by visiting www.mtsallstream.com/investors.

Manitoba Telecom Services Inc. reports second-quarter 2014 results

Consolidated

- Free cash flow increased \$9.6 million to \$34.0 million
- Revenues of \$403.3 million, EBITDA of \$142.5 million and earnings per share ("EPS") of \$0.37, trending at low end of 2014 financial guidance
- Achieved annualized cost reductions of \$21.7 million
- Actuarial valuation confirms pension solvency deficit of \$235 million at January 1, 2014, an improvement of over \$400 million compared to the prior year
- Board of Directors declares \$0.425 per share Q3 2014 cash dividend

MTS

- Operating revenues increase 1.1% to \$250.2 million
- Internet revenues up 12.1% and IPTV revenues up 2.0%; high-speed Internet subscribers up 6.4% and IPTV subscribers up 7.0%
- Wireless data revenues up 17.3%, subscriber growth of 1.3% and industry-leading post-paid churn of 0.94%; wireless subscriber revenues down 1.9%
- Customers with bundled services up 4.9%; 57.8% of bundled customers choose four-service bundles
- LTE coverage expands to reach 74% of Manitobans
- Data centre pre-sales funnel already exceeds 50% of capacity, confirming strong demand in Manitoba

Allstream

- Allstream converged Internet Protocol ("IP") revenue growth of 7.2%; 1.8% growth in Q2 sales wins
- Added 45 buildings to IP fibre network, now totalling 3,114 buildings Canada-wide
- EBITDA up \$11.4 million to \$24.7 million; EBITDA margin reached 15.3%

WINNIPEG, MB, July 31, 2014 - (TSX:MBT) Manitoba Telecom Services Inc. ("the Company"), including its two primary operating subsidiaries, MTS Inc. ("MTS") and Allstream Inc. ("Allstream"), today reported results for the period ended June 30, 2014.

"Our second-quarter performance reflects strong broadband growth at MTS and strong IP performance at Allstream. We continued to see improvement and progress towards past performance levels at Allstream. Despite an active competitive wireless market in Manitoba over the past few months, MTS has maintained its wireless market share and delivered one of the lowest post-paid churn rates in the country while generating solid growth in subscribers. Wholesale wireless revenues continued to decline as expected and wireless subscriber revenues declined, impacting overall MTS performance," said Pierre Blouin, Chief Executive Officer.

"We continue to deliver steady cash flow in support of our dividend while maintaining market share in our strategic services. We are excited about our customers' positive reaction to our entry into the Manitoba data centre market, with a pre-sales funnel now exceeding 50% of our new Data Centre capacity."

Consolidated

Free cash flow increased \$9.6 million to \$34.0 million, in line with expectations for the year. The higher than expected declines in wireless wholesale and voice revenues and Allstream legacy revenues in the second quarter of 2014 are anticipated to continue through the balance of the year. Accordingly, revenues, EBITDA and EPS are trending at the low end of the 2014 financial guidance provided on November 7, 2013.

Consolidated financial results (\$ millions, except EPS)	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Revenues	403.3	401.5	408.5	408.4	410.1
EBITDA ¹	142.5	147.6	128.0	142.7	132.0
EPS ²	\$0.37	\$0.54	\$0.23	\$0.62	\$0.39
Free cash flow ³	34.0	72.8	3.6	45.4	24.4
Capital expenditures	78.2	43.6	87.7	68.6	73.0

¹ The Company 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 77.4 million for the three months ended June 30, 2014; 77.1 million for the three months ended March 31, 2014; 70.3 million for the three months ended December 31, 2013; 67.7 million for the three months ended September 30, 2013; and 67.5 million for the three months ended June 30, 2013. 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. EPS excludes pension plan decision-related costs of \$1.48 in Q4 2013, and IFRS-required Allstream impairment losses of \$0.24 and \$1.17 in Q3 2013 and Q2 2013, respectively.

³ The Company defines 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". See the "Notes" section of this news release for further information.

- **Revenues: \$403.3 million**, down \$6.8 million or 1.7% from Q2 2013. This was mostly due to Allstream legacy revenue declines, along with wireless wholesale declines and lower wireless voice revenues, partly offset by strong revenues from broadband, converged IP, wireless data and EPIC Information Solutions ("EPIC").
- **EBITDA: \$142.5 million**, up \$10.5 million or 8.0% from Q2 2013. Cost reductions, reduced restructuring costs and growth in strategic lines of business were partly offset by declines in Allstream legacy services and lower wireless wholesale revenues.
- **EPS: \$0.37**, up \$1.15 from Q2 2013. This increase was mostly due to an accounting asset impairment review of Allstream in Q2 2013, which resulted in an after-tax non-cash impairment loss of \$79.2 million, or \$1.17 per share.
- **Free cash flow: \$34.0 million**, up \$9.6 million over Q2 2013, mostly due to transaction and restructuring costs incurred in Q2 2013 at Allstream and lower deferred wireless costs in Q2 2014, partly offset by higher capital expenditures in Q2 2014.
- **Capital expenditures: \$78.2 million**, up \$5.2 million from Q2 2013, resulting from the timing of capital projects.
- **Annualized cost savings: \$21.7 million** in Q2 2014, resulting from current year operational efficiency initiatives.

MTS

MTS delivered overall growth in revenues from strategic services (wireless, broadband and converged IP, and information solutions), up 2.8% over Q2 2013, which offset expected declines in legacy lines of business. MTS achieved higher average revenue per user ("ARPU") for Internet and added subscribers in all lines of business. Lower wireless pricing in the Manitoba market has negatively affected wireless revenues over the first half of 2014. Despite a competitive four-player wireless market, MTS is maintaining its market share. MTS's strong wireless data revenues, post-paid subscriber growth and very low churn reflect the underlying strength of its competitive market position in facing some of the most aggressive wireless price competition in Canada. In Q2 2014, MTS added 10 LTE locations in Manitoba and provided seasonal coverage during two music festivals. By the end of 2014, MTS expects to add 40 LTE locations, expanding its LTE coverage to 80% of Manitobans. In Q2 2014, MTS added 8,169 post-paid wireless subscribers, 12,929 high-speed Internet subscribers and 7,002 IPTV customers since Q2 2013. This strong growth in subscribers is reflected in MTS's increased number of customers with bundled services, which grew 4.9%, to 104,252 since Q2 2013. 57.8% of MTS's bundle mix is

made up of four-service bundles. The strength of MTS's bundle offering resulted in a net gain in new home phone subscribers from cable over 10 of the past 14 months.

MTS operating revenues (\$ millions)	Q2 2014	Q2 2013	%	YTD	YTD	%
				2014	2013	
Wireless	90.4	95.0	(4.8)	180.8	186.5	(3.1)
Broadband and converged IP	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	8.9	7.3	21.9	17.4	15.4	13.0
Local access	61.9	64.2	(3.6)	123.1	128.2	(4.0)
Long distance and legacy data	16.6	17.8	(6.7)	33.5	35.9	(6.7)
Other	6.7	6.3	6.3	13.9	13.9	—
Total operating revenues	250.2	247.4	1.1	498.7	490.9	1.6

^{*}not applicable

MTS wireless revenues (\$ millions)	Q2 2014	Q2 2013	%	YTD	YTD	%
				2014	2013	
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 revenues:** \$87.1 million, down \$1.7 million from Q2 2013 due to wireless pricing in Manitoba. Wireless results benefited from a 17.3% increase in wireless data revenues, offset by a decline in voice revenues. MTS has been impacted by a more competitive Manitoba wireless market, resulting in wireless subscriber revenues decreasing 1.9% in Q2 2014, or 0.8% year to date. Currently, 71% of MTS's growing post-paid subscriber base now has data plans, driven by increasing demand for smartphones and data usage. Since Q2 2013, subscribers with data plans increased by almost 42,000, reflecting the value of MTS's feature-rich data plan offering and contributing to industry-leading post-paid churn of 0.94%. Q2 2014 also saw a 2.0% increase in wireless post-paid subscribers since Q2 2013. At \$59.73, MTS's blended wireless ARPU is one of the highest in Canada.
- **Wireless wholesale revenues:** Down as expected, 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 about \$9 million in 2014.

MTS broadband and converged IP revenues (\$ millions)	Q2 2014	Q2 2013	%	YTD	YTD	%
				2014	2013	
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 revenues:** \$32.5 million, up \$3.5 million over Q2 2013, resulting from a 6.4% increase in the high-speed Internet subscriber base and ARPU growth, which reflects the increasing popularity of MTS's competitive Internet offering.
- **IPTV revenues:** \$20.9 million, up \$0.4 million over Q2 2013, driven by strong IPTV subscriber growth of 7.0%, reflecting the quality of MTS's feature-rich television offering. As at June 30, 2014, 88.3% of MTS's increasing IPTV subscriber base subscribed to its premium IPTV service - MTS Ultimate TV®.

- **Converged IP revenues: \$7.0 million**, down \$0.3 million from Q2 2013, 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.

Information solutions

- **EPIC revenues: \$5.3 million**. EPIC was acquired in September 2013 and provides a new source of revenue for MTS and a trusted source for IT services for its customers. EPIC services include IT infrastructure, application development, managed services, networking services and unified cloud services, and will operate our new data centre in Manitoba.

Unified communications, security and monitoring: \$8.9 million, up \$1.6 million from Q2 2013.

- **Unified communications revenues: \$5.7 million**, up \$1.6 million or 39.0% over Q2 2013, driven by greater hardware sales.
- **Security and monitoring revenues: \$3.2 million**, consistent with Q2 2013, reflecting increased alarm monitoring revenue, offset by decreased security system installation revenue.

Local access

- **Local access revenues: \$61.9 million**, down \$2.3 million from Q2 2013, due to line losses, mostly resulting from wireless substitution. The success of MTS's bundle continues to be a factor in retaining more local access lines than do MTS's competitors.

Long distance and legacy data

- **Long distance and legacy data revenues: \$16.6 million**, down \$1.2 million from Q2 2013.
 - **Long distance revenues: \$9.3 million**, down \$0.9 million or 8.8% from Q2 2013, mainly due to decreased long distance rates and customers replacing long distance calling with email, text messaging and social networking.
 - **Legacy data revenues: \$7.3 million**, down \$0.3 million or 3.9% from Q2 2013, as a result of customers continuing to migrate towards converged IP services.

Allstream

Allstream's Q2 2014 performance reflects continued growth in on-net IP-based services along with an improving cost structure, partly offset by declining legacy services revenues. Revenues from IP services in Q2 2014 were up 7.2% and IP sales wins were up 1.8% over Q2 2013. IP revenues now represent 40% of Allstream's total operating revenues. Allstream is making good progress toward past performance levels, as IP sales in the first half of the year were strong and circuit installations for Shared Services Canada are ongoing. Allstream is on track to deliver high single-digit IP revenue growth in 2014. IP growth, benefits of past cost reductions and lower restructuring costs contributed to Allstream's improved EBITDA of \$24.7 million in Q2 2014. On a year-to-date basis, Allstream free cash flow was \$0.9 million, up \$13.5 million over the same period in 2013.

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

Allstream converged IP statistics (revenues in \$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Converged IP revenues	64.2	59.9	7.2	126.9	120.0	5.8
Converged IP gross margin %	73.7%	74.6%	(0.9 pt)	73.8%	74.9%	(1.1 pt)
Fibre-fed buildings				3,114	2,870	8.5

Converged IP

- **Converged IP revenues:** **\$64.2 million**, up \$4.3 million or 7.2% over Q2 2013. Revenues from converged IP services continued to show improving momentum, established in the fourth quarter of 2013. Sales efforts are proving to be successful as new sales are being earned from a diversity of new customers. Solid IP sales contributed to a 1.8% increase in Q2 2014 sales wins, as compared to Q2 2013. Revenues from these new contracts should provide momentum for IP revenues to grow in line with Allstream's 2014 plan. Shared Services Canada circuit installations are ramping up and are expected to be substantially complete by the end of 2014. To-date this year, the Shared Services Canada contract has contributed \$2.1 million in revenues, and will eventually represent \$1.4 million of monthly recurring revenues once all circuits are fully installed.
- **National IP network expansion:** Added 45 buildings to Allstream's national IP fibre network in Q2 2014, which totaled 3,114 fibre-fed buildings as at June 30, 2014, an increase of 244 buildings over Q2 2013. Allstream also achieved an increase in installations pertaining to subsequent sales into already-connected buildings, which were up by 43.6% over Q2 2013.

Unified communications, hosting and security

- **Unified communications, hosting and security revenues:** **\$19.2 million**, down \$1.8 million from Q2 2013, mainly due to a decrease in one-time product sales, partly offset by an increase in cloud hosting and service contracts.

Legacy services

- **Local access revenues:** **\$34.0 million**, down \$5.3 million from Q2 2013, partly due to Allstream's decision to exit from low-margin resold business lines.
- **Long distance and legacy data revenues:** **\$33.2 million**, down \$6.5 million from Q2 2013.
 - **Long distance revenues:** **\$16.8 million**, down \$2.5 million or 13.0% from Q2 2013, mainly due to decreased volumes as customers replace long distance calling with alternative forms of communication, and often migrating to IP-based services.
 - **Legacy data revenues:** **\$16.4 million**, down \$4.0 million or 19.6% from Q2 2013, largely due to a combination of churn, re-pricing of services and customer migration to IP-based services.

Pensions

The Company announced on January 30, 2014 that the Supreme Court of Canada ("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. The Company estimated the total value of the judgment to be \$135.1 million as at December 31, 2013, plus legal and actuarial costs. MTS continues to work with plan members to finalize details of the implementation plan for delivering these enhanced benefits. Negotiations are ongoing.

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. This includes the full amount of the SCC decision.

Dividend

The Company's Board of Directors declared a quarterly cash dividend of \$0.425 per share for the third quarter of 2014, payable on October 15, 2014 to shareholders of record at the close of business on September 15, 2014.

The third-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 will hold its second-quarter 2014 results conference call with the investment community on **Thursday, July 31 at 8:30 a.m.** (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 Thursday, August 7, 2014 by dialing 1-855-859-2056 and entering passcode 63638519.

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 the Company’s website (www.mtsallstream.com/investors) or by entering <http://event.on24.com/r.htm?e=811831&s=1&k=B822F69E079F5F9A0AB15B79C3CE7069>.

A replay of the conference call will be available on the Company’s website for one year.



Pierre Blouin, Chief Executive Officer



Wayne Demkey, Chief Financial Officer

Notes

- (1) The Company defines EBITDA as “earnings before interest, taxes, depreciation and amortization, and other income (expense)”. The term “EBITDA”, as it relates to 2014 and 2013 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 (\$ millions)	Q2 2014	Q2 2013	% variance	YTD 2014	YTD 2013	% variance
Operating revenues	403.3	410.1	(1.7)	804.8	816.8	(1.5)
Operating expenses	(344.1)	(342.0)	(0.6)	(671.5)	(685.3)	2.0
Transaction and restructuring costs	—	(12.9)	n.a.*	—	(12.9)	n.a.*
Depreciation and amortization	83.3	76.8	8.5	156.8	162.0	(3.2)
EBITDA	142.5	132.0	8.0	290.1	280.6	3.4

*not applicable

- (2) The Company defines 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.

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 year	34.0	24.4	39.3	106.8	72.0	48.3

* not applicable

- (3) More information can be found in the Company's second-quarter 2014 interim Management's Discussion and Analysis ("MD&A"), interim condensed consolidated financial statements for the three and six months ended June 30, 2014, 2013 annual MD&A, 2013 audited consolidated financial statements and 2013 Annual Information Form, which are available on the Company's website at www.mtsallstream.com/investors and will be available on the SEDAR website.

Forward-looking statements disclaimer

This news release includes 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 LTE wireless network expansion, fibre-to-the-home deployment, national IP fibre network expansion, pension funding, the outcome of the negotiations, the time, method, quantum and implementation of any payment obligations, the Company's future cash flows, liquidity, credit ratings and profitability, and other events that could occur as a result of the SCC's decision, 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 news release 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 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.

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 2013 annual MD&A, which is available on the Company's website at www.mtsallstream.com/investors and on the SEDAR website.

About 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 approximately 5,000 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 is 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 kilometers. MTS Allstream has spent 13 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 for 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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