Q2 2013

Management's discussion and analysis

For the period ended June 30, 2013

Manitoba Telecom Services Inc.

Table of contents

Management's discussion and analysis

August 1, 2013

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, 2013 and 2012. 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.

Unless otherwise indicated, this interim MD&A for the three and six months ended June 30, 2013 is as at August 1, 2013. In preparing this MD&A, we have taken into account information available to us up to August 1, 2013. In this MD&A, "we", "our" and "us" refer to Manitoba Telecom Services Inc. ("the Company" or "MTS"). This MD&A should be read in conjunction with our interim condensed consolidated financial statements for the three and six months ended June 30, 2013.

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, 2012, dated February 13, 2013, please visit our website at www.mtsallstream.com or visit SEDAR at www.sedar.com.

Risks and uncertainties

In conjunction with our second-quarter 2013 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 17, in addition to those outlined in our audited consolidated financial statements and annual MD&A for the year ended December 31, 2012.

Discontinued operations

Starting in this interim MD&A, Allstream operations will be reported as discontinued operations. Revenue and expenses relating to Allstream are no longer reflected in our financial results.

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

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. Please refer to pages 19 and 20 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 MD&A, includes forward looking statements and information (collectively, "statements") including, but not limited to statements pertaining to the agreement to sell Allstream, the Company's corporate direction, business opportunities, operations, financial objectives, future financial results and performance, 4G LTE wireless network expansion and fibre-to-the-home ("FTTH") deployment, and 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 MD&A reflect Management's expectations as at August 1, 2013, 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 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.

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 MD&A, as well as the "Risks and uncertainties" section and elsewhere in the Company's 2012 annual MD&A, which is available on our website at www.mtsallstream.com/investors and on SEDAR at www.sedar.com.

Allstream strategic review process

Following legislative amendments passed by the Federal Government allowing increased foreign investment into certain telecommunications companies, the Company announced, on September 13, 2012, that it would undertake a wide-ranging strategic review of its Allstream business. On May 24, 2013, the Company announced that it had entered into a share purchase agreement (the "Agreement") with inter alia 8312168 Canada Inc. (the "Purchaser") and Accelero Capital Holdings S.à r.l. pursuant to which the Purchaser has agreed to acquire from the Company all of the issued and outstanding shares of Allstream Inc. ("Allstream") and Allstream Fiber U.S., Inc. (together with Allstream and its wholly-owned subsidiary Delphi Solutions Corp., the "Allstream Group"). The planned transaction (the "Transaction") values the Allstream Group at approximately $520 million, subject to certain customary adjustments, based on normalized working capital, net debt, capital expenditure levels and certain pension related obligations. The Transaction has been approved by the Board of Directors and is expected to close in the second half of 2013. Closing is subject to receipt of certain regulatory approvals, including approval under the Investment Canada Act, and other customary closing conditions. There can be no assurance that the Transaction will be completed, that it will be completed on the terms and conditions currently contemplated, or that any anticipated benefits from the Transaction will be realized.

A deposit of $55 million, together with all interest earned thereon, is being held in escrow pending consummation of the transactions under the Agreement or the termination of the Agreement. On closing of the Transaction, the deposit will be applied towards the purchase price. If the Agreement is terminated prior to the closing of the Transaction, the deposit will be returned to the Purchaser, unless the Agreement was terminated in certain specific circumstances, being (a) a termination by MTS under certain provisions of the Agreement as a result of a failure by the Purchaser to fulfill any of its covenants and agreements relating to its obligation to obtain the required regulatory approvals, which such failure was the primary cause of the failure of the closing to occur by the Outside Date (as defined in the Agreement) or was the primary cause of certain specific conditions of closing not being satisfied, or (b) a termination by MTS under certain provisions of the Agreement in circumstances where the Purchaser has failed to pay the purchase price on closing when required to do so in accordance with the terms of the Agreement. In either such event, the deposit, together with all interest or proceeds thereof, shall be transferred to MTS promptly upon the termination of the Agreement.

As a result of the Transaction, revenue and expenses relating to the Allstream Group are no longer reflected in the Company's financial results. The Allstream Group's operations are now reported as discontinued operations. For more details regarding the accounting treatment, readers are encouraged to review the discontinued operations note disclosure in the Company's condensed consolidated financial statements for the second quarter of 2013, which can be found on the Company's website at www.mtsallstream.com/investors.

Additional information with respect to the Company's sale of the Allstream Group is provided in the May 31, 2013 Material Change Report and Share Purchase Agreement, both of which can be found on SEDAR at www.sedar.com.

Transaction details

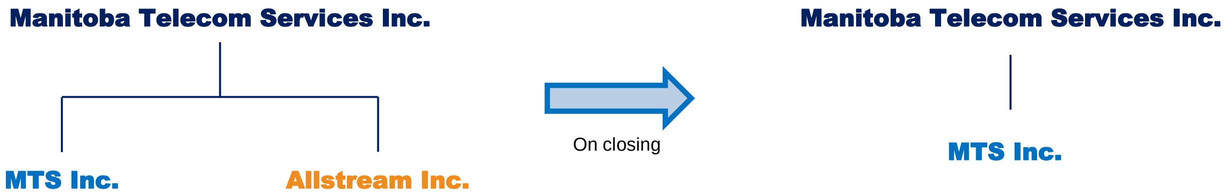
After closing costs, MTS expects to realize net proceeds of approximately $405 million. In addition, and as part of this transaction, MTS has agreed to retain the pension obligations, and related pension plan assets, in respect of retirees and other former employees of Allstream under Allstream's current defined benefit pension plans. Allstream will retain such benefit obligations and related assets in respect of current employees. MTS has also agreed to reimburse Allstream for the solvency funding payments that may become payable in respect of employees of Allstream as they relate to pre-closing service (i.e. as determined by the employee's years of service and salary at the time of closing). These are existing liabilities of the Company, and will not be increased as a result of this transaction.

Of these proceeds, MTS expects to contribute an additional $130 million into the MTS pension plan, $40 million into the Allstream pension plan, and to repay $70 million in short-term indebtedness incurred in February 2013 to pre-fund the Company's pension obligations. The Company believes these prepayments into the MTS pension plan should eliminate all pension solvency funding until 2016, assuming no change in long-term interest rates. Assuming an approximate 1% increase in long-term interest rates by 2016, the Company would expect to have no further cash solvency funding requirements for either the MTS or Allstream plans. The Transaction will enable us to have sufficient capital to invest in wireless spectrum and to continue bringing FTTH, 4G LTE wireless technology and other products and services to more communities across Manitoba, further solidifying our position as the undisputed market leader in the province. We expect to provide more detail regarding the $165 million balance of proceeds after the transaction closes.

As a result of the sale announcement, an accounting asset impairment review was required for Allstream, which resulted in an after-tax non-cash impairment loss of $79.2 million being recorded in MTS's Q2 2013 results as part of discontinued operations. This amount has been updated from our initial loss estimate disclosed upon signing, primarily to reflect a refinement in the pension accounting estimates. The final amount will be adjusted, up until such time as the sale transaction is complete. These non-cash accounting amounts do not affect the expected net proceeds of $405 million previously announced.

MTS IMPACT

The Transaction is expected to make MTS a stronger, more focused and more stable company. MTS moves forward as a pure-play telecom with a strong consumer franchise and significant free cash flow that could be used to support its dividend.



FORWARD-LOOKING STATEMENTS DISCLAIMER

Readers are cautioned that there are risks associated with the sale of Allstream. We urge you to read the “Risks and uncertainties” section on page 17 of this MD&A, along with the May 31, 2013 Material Change Report, which can be found on SEDAR at www.sedar.com.

MTS overview

THE COMPANY

The Company, through its primary subsidiary MTS Inc. is the leading full-service communications provider for customers across Manitoba. For more than 100 years now, MTS has been at the heart of Manitoba's economic growth and community life. Through our full suite of services, our major investments in our network and workforce and our many community activities, MTS is well-positioned to remain now and in the future, a productive and economic force province wide.

Our common shares are listed on the TSX (trading symbol: MBT). The Company’s office is headquartered in Winnipeg. To learn more about investing in MTS, please visit www.mtsallstream.com/investors.

MTS – THE UNDISPUTED MARKET LEADER IN MANITOBA

MTS has the strongest in-region distribution networks, offers a wide range of services and provides the richest bundling capabilities among its peers. Our operations rank among the most profitable in the industry, with a Q2 2013 EBITDA margin of 49.1%. Listed below are the services we offer and key subscriber statistics.

LINES OF BUSINESS

MTS has six business lines, each of which is described below. The following pages then provide an analysis of the results for each line of business on a Q2-2013 basis.

Wireless services

Steady, constant demand for high-speed wireless data should support wireless revenues growth

MTS’s wireless portfolio for residential and business customers consists of cellular, wireless data, paging 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 network coverage is available to 97% 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, visit www.mts.ca/mts/personal/wireless/coverage+and+roaming.

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.

Broadband network reach	84% of Manitoba homes have access to MTS high-speed Internet services
2013 FTTH market schedule	Three more communities planned, for a total of 14
FTTH coverage	Over 30,000 Manitoba homes passed by FTTH

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 from the installation and monitoring of alarm services to residential, business and industrial customers.

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 services 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, a dial-around service and audio conferencing, and other services and features. Legacy data services support businesses in sharing information between multiple office locations by providing and connecting to a local area network.

Other

Other services include revenues earned from Allstream, customer late payment charges, facilities rental and other miscellaneous items.

SERVICES

- Wireless
- High-speed Internet
- IPTV
- Wireline voice
- Home security
- Business services (Converged IP/unified communications)

495,303
Wireless subscribers
53% MB market share

200,632
High-speed Internet subscribers
52% MB market share

104,558
Television subscribers
33% Wpg market share

216,064
Business network access lines

289,336
Residential network access lines

43,506
Security and monitoring customers

Second quarter in review

Q2 2013 PERFORMANCE HIGHLIGHTS

Core strategic objectives for MTS were described in the executive summary of our 2012 annual MD&A. Included below are the Q2 2013 achievements and efforts that support, in part, our strategic initiatives.

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 wireless, digital television, the Internet and electronic commerce.

- Wireless device lineup expanded with the addition of the Samsung Galaxy S4 ™ smartphone.
- New MTS mobile app and charging station along with a temporary cellular tower provided Dauphin Countryfest fans a more positive experience connecting with rural wireless services during the June festival.

Expand our network reach

As part of our overall 2013 network spending program, more than $40 million will be invested in upgrades and enhancements in our rural telecommunications infrastructure. Along with normal operating investments to add capacity and service new customers, part of the 2013 network program includes investments to make the latest wireless and broadband technology available to more Manitobans living in rural areas of the province.

Broadband networks

- Expanding the MTS FTTH network into additional communities allows us to provide more customers with the most advanced MTS telecommunications services, including our innovative MTS Ultimate TV service. In 2013, we plan to bring our FTTH network to an additional 5,000 homes in Manitoba. Nine communities outside of Winnipeg and Brandon are already connected to FTTH, with another three planned for 2013. The MTS Ultimate TV service is currently available to 96% of Winnipeg households, to 98% of Brandon households, to 94% of Portage la Prairie households and to a growing number of homes in connected communities.

- Partly through the continued use of our deferral account rebate, we plan to provide our DSL-based high-speed Internet service – a technology that transforms a regular telephone line into a high-capacity data highway – to 20 new rural communities in 2013. Twelve new communities have already been launched in 2013, eight of which were in the second quarter. When this latest expansion is completed by the end of 2013, MTS will be providing 215 communities across Manitoba with access to high-speed Internet service using DSL technology.

Wireless networks

- MTS was the first carrier in Manitoba to launch a 4G LTE wireless network, initially supporting download speeds of up to 75 Mbps, and introduced a selection of LTE-capable devices. Our 4G LTE wireless network is now available in Winnipeg, Brandon, Portage la Prairie, Victoria Beach, Grand Beach and Selkirk, with plans to expand to another two communities later in 2013. We also plan to augment the capacity of our extensive 4G HSPA+ wireless network throughout the province in 2013.
- Building on the success of the 4G LTE launch and the June 13, 2013 announcement of the extension of the strategic wireless network sharing arrangement with Rogers, MTS has upgraded the 4G LTE network to provide maximum download speeds of up to 150 Mbps. As demand for the LTE network increases, these enhancements will assist in maintaining network performance for our customers. The strategic wireless network sharing arrangement with Rogers will offer MTS and its customers a number of benefits, including:
  - Expanding MTS's 4G LTE network reach to approximately 90% of Manitoba's population over the next five years.
  - 4G LTE roaming capabilities across Canada before the end of 2013.
  - 4G LTE international roaming at a future date.
  - Cost-effective sharing of deployment and operating costs related to 4G LTE technology in Manitoba.
  - Cost-effective roaming rates for HSPA in Canada.
  - Access to, and lower volume requirements for a broader range of handsets, with the ability to launch these handsets within a similar timeframe as other Canadian carriers.

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 security services. We then bundle our customers' selections, an option which provides them with the best value, such as wireless plans with unlimited data.

- The flexibility and variety of our bundles are attractive to our customers as shown by the 5.1% increase in bundled customers in Q2 2013 as compared to Q2 2012.

Q2 2013 MTS FINANCIAL SCORECARD

Revenues *(in millions $)*

Q2 2013	247.4
Q2 2012	246.8

Q2 2013 revenues

- Revenues were up $0.6 million, or 0.2%, in comparison to Q2 2012
- Revenues from strategic lines of business (wireless, broadband and converged IP) up 5.1%
- Wholesale wireless revenues decreased by 36.1%
- Wireless revenues, excluding wholesale, up 9.4%

EBITDA *(in millions $)*

Q2 2013	121.4
Q2 2012	120.8

Q2 2013 EBITDA

- Continued EBITDA growth
- Industry-leading EBITDA margin of 49.1%
- EBITDA impacted by lower wholesale wireless revenues as a result of carriers moving their customers from our CDMA network to their own HSPA networks

EPS *($)*

Q2 2013	$0.42
Q2 2012	$0.49

Q2 2013 EPS

- Earnings per share from continuing operations reflect increased amortization from previous investments in our wireless billing system and our 4G LTE network, and from higher amortization of wireless cost of acquisition

Capital expenditures *(in millions $)*

Q2 2013	47.1
Q2 2012	61.0

Q2 2013 capital expenditures

- Capital expenditures decreased by $13.9 million
- Lower capital expenditures due to the 2012 completion of such projects as our wireless billing system upgrades and our 4G LTE network build in Winnipeg and Brandon
- Capital intensity ratio declining to more historical levels

Free cash flow *(in millions $)*

Q2 2013	41.2
Q2 2012	32.2

Q2 2013 free cash flow

- Free cash flow up $9.0 million over Q2 2012
- FCF increases significantly in 2013 as capital intensity ratios decrease to more historical levels

Discussion of operations

CONSOLIDATED STATEMENTS OF NET INCOME AND OTHER COMPREHENSIVE INCOME

(in millions $, except EPS and weighted average shares outstanding)	Q2 2013	Q2 2012	% change	YTD 2013	YTD 2012	% change
Operating revenues	**247.4**	246.8	0.2	**490.8**	490.4	0.1
Operations expense	**126.0**	126.0	-	**248.8**	249.1	(0.1)
EBITDA	**121.4**	120.8	0.5	**242.0**	241.3	0.3
Depreciation and amortization	**64.0**	58.5	9.4	**127.2**	116.7	9.0
Other income (expense)	**0.5**	0.1	n.a.*	**1.0**	(0.1)	n.a.
Finance costs	**(19.7)**	(18.8)	4.8	**(39.3)**	(38.1)	3.1
Income before income taxes	**38.2**	43.6	(12.4)	**76.5**	86.4	(11.5)
Income tax expense	**10.0**	11.3	(11.5)	**20.4**	12.8	59.4
Income from continuing operations	**28.2**	32.3	(12.7)	**56.1**	73.6	(23.8)
(Loss) income from discontinued operations, net of tax	**(81.1)**	4.3	n.a.	**(78.1)**	8.4	n.a.
Net (loss) income for the period	**(52.9)**	36.6	n.a.	**(22.0)**	82.0	n.a.
Other comprehensive income (loss) for the period, net of tax	**120.6**	(37.3)	n.a.	**163.0**	13.6	n.a.
Total comprehensive income for the period	**67.7**	(0.7)	n.a.	**141.0**	95.6	47.5
EPS from continuing operations	**$0.42**	$0.49	(14.3)	**$0.83**	$1.11	(25.2)
EPS	**($0.78)**	$0.55	n.a.	**($0.33)**	$1.24	n.a.
Weighted average shares outstanding[1] (in millions)	**67.5**	66.4	1.7	**67.4**	66.3	1.7

[1] *Increases in the number of weighted average shares outstanding are mainly due to participation in our dividend re-investment program.*
** not applicable*

Operating revenues
Total operating revenues were up by $0.6 million and $0.4 million in Q2 2013 and on a year-to-date basis, respectively, when compared to the same periods of 2012, mostly due to revenue gains from strategic lines of business (wireless, broadband and converged IP), partly offset by declines in wireless wholesale and legacy lines of business. A more thorough review of operating revenues can be found on pages 8 through 11.

Operations expense
Comparing Q2 2013 to Q2 2012, our operations expense was consistent in quarter, and decreased $0.3 million in the first half of 2013. This decrease was due to operational efficiency initiatives completed in previous periods.

As of June 30, 2013, we achieved annualized cost savings of $19.0 million due to operational savings, reflecting operational efficiency initiatives from prior quarters and lower salaries and benefits resulting from retirements.

EBITDA
MTS's second-quarter and year-to-date EBITDA increased over the same periods in 2012, as a result of increased revenues and consistent expenses. MTS continued to achieve an industry-leading EBITDA margin percentage of 49.1% in the second quarter of 2013.

Depreciation and amortization expense
Our depreciation and amortization expense increased by $5.5 million in the second quarter of 2013 and by $10.5 million in the first half of 2013, mainly from previous investments in our wireless billing system and our 4G LTE network, and from higher amortization of wireless cost of acquisition, reflecting increased wireless customer acquisition and device activation.

Other income (expense)
Other income increased over the second quarter of 2012 and $1.1 million on a year-to-date basis, mainly due to a gain in forward exchange contracts.

Finance costs

MTS's finance costs increased $0.9 million and $1.2 million in the second quarter and year to date, respectively, primarily due to higher short-term interest resulting from increased short-term borrowing, when compared to the same periods of 2012.

Income tax expense

In Q2 2013, our income tax expense decreased by $1.3 million mainly due to lower income resulting from higher amortization. Year-to-date income tax expense increased by $7.6 million, mainly due to a favourable $10.2-million impact recorded in the first quarter of 2012, as a result of a change in the expected tax rate applicable to deferred tax assets, partly offset by the effect of higher amortization expense.

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 at least 2019. The present value of our tax asset is approximately $290 million.

Income and EPS from continuing operations

Income and EPS from continuing operations were down in Q2 2013 and year to date, mainly due to greater amortization and a favourable $10.2-million income tax impact recorded in the first quarter of 2012.

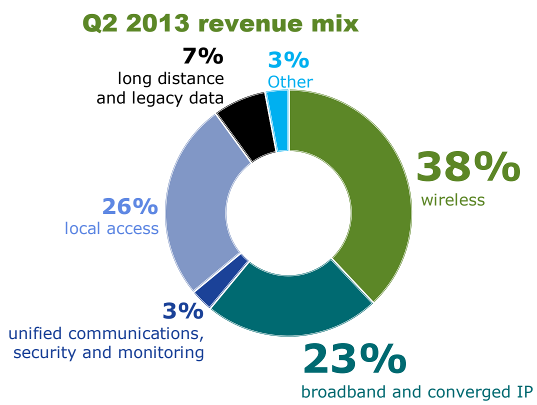
Discontinued operations

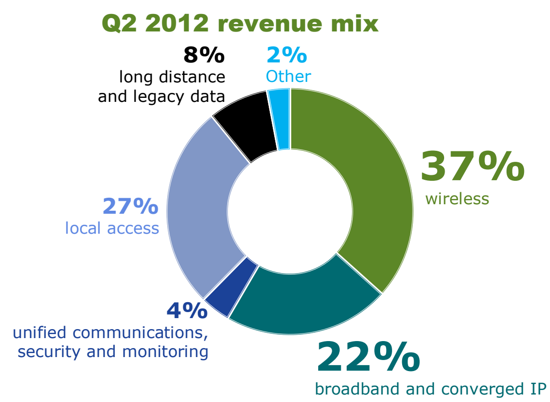
The assets and liabilities pertaining to Allstream have been reclassified as discontinued operations with the non-current assets being recorded at the lower of the carrying amount or the fair value less costs to sell. As a result of the sale announcement, an accounting asset impairment review was required for Allstream, which resulted in an after-tax non-cash impairment loss of $79.2 million being recorded in MTS's Q2 2013 results as part of discontinued operations. For more details regarding the accounting treatment, readers are encouraged to review the discontinued operations note disclosure in the Company's condensed consolidated financial statements for the second quarter of 2013, which can be found on the Company's website at www.mtsallstream.com/investors.

Other comprehensive income (loss)

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

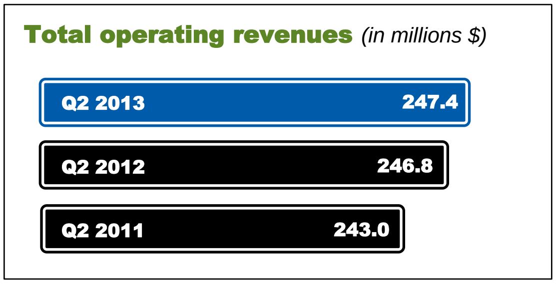
RESULTS FROM OPERATIONS





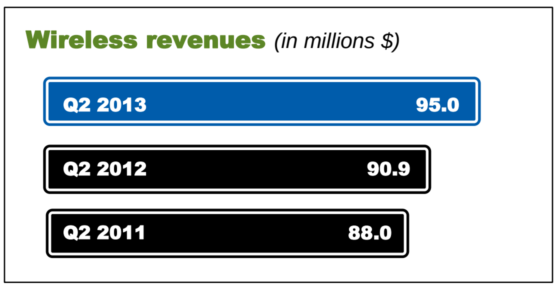
Operating revenues

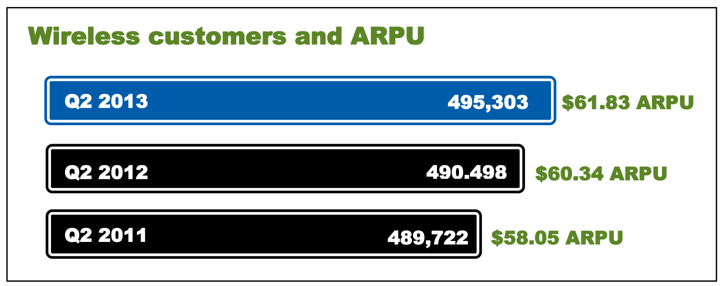
(in millions $)	Q2 2013	Q2 2012	% change	YTD 2013	YTD 2012	% change
Wireless services	**95.0**	90.9	4.5	**186.5**	180.7	3.2
Broadband and converged IP services	**56.8**	53.6	6.0	**111.0**	106.1	4.6
Unified communications, security and monitoring services	**7.3**	9.5	(23.2)	**15.4**	18.1	(14.9)
Local access services	**64.2**	67.3	(4.6)	**128.2**	134.2	(4.5)
Long distance and legacy data services	**17.8**	19.2	(7.3)	**35.9**	38.3	(6.3)
Other services	**6.3**	6.3	-	**13.8**	13.0	6.2
Total operating revenues	**247.4**	246.8	0.2	**490.8**	490.4	0.1



Wireless services

Wireless subscriber revenues were up $7.6 million in Q2 2013 and $14.1 million year to date, when compared to the same periods in 2012. 62% of our growing post-paid subscriber base now has data plans, driven by demand for smartphones and data usage. An increase of 6,308 post-paid customers, or 1.6%, was partly offset by the industry trend of declining pre-paid subscribers. Wireless results were also dampened by the reduction in wholesale roaming revenues, as other carriers move their customers from MTS's CDMA network to their own HSPA networks. Revenues from CDMA roaming were $28.6 million in 2012 and are expected to be $18.4 million in 2013. We expect more moderate declines over the next three to five years.





Wireless revenues *(in millions $)*	Q2 2013	Q2 2012	% change	YTD 2013	YTD 2012	% change
Voice and other revenues	**58.2**	56.1	3.7	**114.2**	111.8	2.1
Data revenues	**30.6**	25.1	21.9	**60.2**	48.5	24.1
Subscriber revenues	**88.8**	81.2	9.4	**174.4**	160.3	8.8
Wholesale revenues	**6.2**	9.7	(36.1)	**12.1**	20.4	(40.7)
Total wireless revenues	**95.0**	90.9	4.5	**186.5**	180.7	3.2

Wireless subscriber statistics

	YTD 2013	YTD 2012	% change
Post-paid subscribers with data plans	251,287	200,579	25.3
Total post-paid subscribers	403,226	396,918	1.6
Pre-paid subscribers	66,010	69,273	(4.7)
Total subscribers	469,236	466,191	0.7
Other customers	26,067	24,307	7.2
Total wireless customers	495,303	490,498	1.0

Wireless ARPU statistics

	YTD 2013	YTD 2012	% change
Subscriber data ARPU	$20.25	$16.46	23.0
Subscriber cellular ARPU	$37.49	$36.95	1.5
Subscriber blended ARPU	$57.74	$53.41	8.1
Other ARPU	$4.09	$6.93	(41.0)
Wireless blended ARPU	$61.83	$60.34	2.5

Other wireless statistics

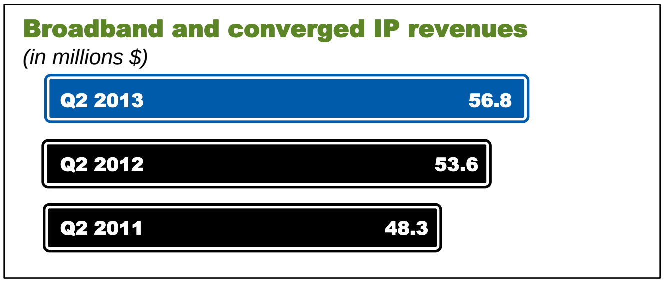
	YTD 2013	YTD 2012
Post-paid churn (excluding wholesale)	1.0%	0.9%
Blended churn	1.7%	1.8%
Penetration rate	74.1%	73.4%

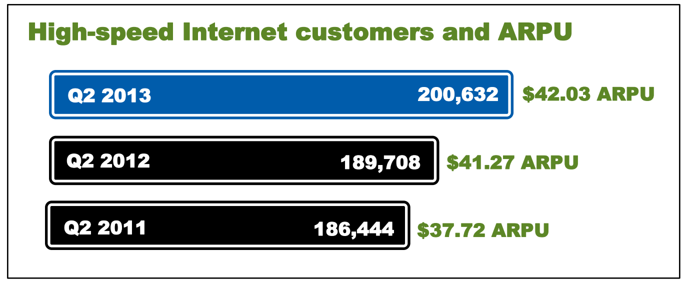
Broadband and converged IP services

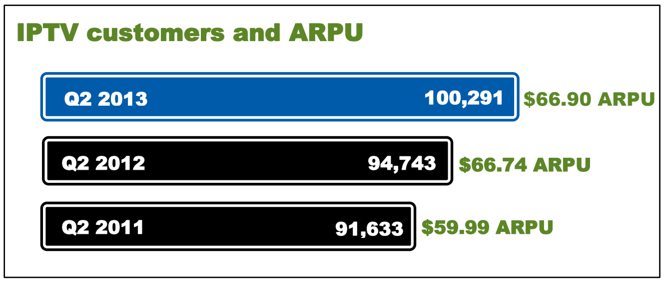
Strong growth from our IPTV, high-speed Internet and converged IP services drove the increase in broadband and converged IP revenues.

Revenues from high-speed Internet were higher in the second quarter of 2013, due to an increase in subscribers. This revenue increase was partially offset by lower average revenue per user ("ARPU"), resulting from more subscribers on promotional pricing plans. On a year-to-date basis, revenues from high-speed Internet were higher due to a growing subscriber base and higher ARPU resulting from previous price increases. As of June 30, 2013, our high-speed Internet subscriber base increased 5.8% over Q2 2012.

Year over year, IPTV revenues increased $0.8 million in Q2 2013 and $1.3 million year to date, as a result of an increase in new customers, Classic TV subscribers migrating to higher-ARPU Ultimate TV and a price increase, partly offset by an increase in subscribers on promotional pricing plans. Subscriber statistics include a 23.6% increase in higher-APRU Ultimate TV subscribers, partly due to lower-ARPU Classic TV subscribers migrating to 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, 2013, 82% of our increasing IPTV subscriber base subscribed to our premium IPTV service – Ultimate TV.







Broadband and converged IP revenues *(in millions $)*	Q2 2013	Q2 2012	% change	YTD 2013	YTD 2012	% change
Internet revenues	**29.0**	28.0	3.6	**56.8**	54.5	4.2
IPTV revenues	**20.5**	19.7	4.1	**40.4**	39.1	3.3
Converged IP revenues	**7.3**	5.9	23.7	**13.8**	12.5	10.4
Total broadband and converged IP revenues	**56.8**	53.6	6.0	**111.0**	106.1	4.6

Internet statistics	YTD 2013	YTD 2012	% change
Dial-up Internet subscribers	**7,597**	10,399	(26.9)
High-speed Internet subscribers	**200,632**	189,708	5.8
Residential high-speed Internet ARPU	**$42.03**	$41.27	1.8

Television statistics	YTD 2013	YTD 2012	% change
Ultimate TV subscribers	**81,965**	66,305	23.6
Classic TV subscribers	**18,326**	28,438	(35.6)
Total IPTV subscribers	**100,291**	94,743	5.9
Other TV subscribers	**4,267**	4,334	(1.5)
Total TV subscribers	**104,558**	99,077	5.5
IPTV ARPU	**$66.90**	$66.74	0.2

Unified communications, security and monitoring services

The second-quarter and year-to-date decreases in unified communications revenues reflect fewer hardware sales. Outright sales terminal revenue is lower because we have had fewer and smaller sales. This has been a market trend for unified communications in general, and the effect is most felt for Cisco products such as routers and video conferencing equipment, which in the past have generated most of our top sales.

Security and monitoring services revenues for the second quarter and first half of 2013 remained consistent when compared to the same periods of the prior year, reflecting loyalty from our 43,506 customers.

Unified communications, security and monitoring revenues

(in millions $)	**Q2 2013**	Q2 2012	% change	**YTD 2013**	YTD 2012	% change
Unified communications revenues	**4.1**	6.4	(35.9)	**9.1**	11.9	(23.5)
Security and monitoring revenues	**3.2**	3.1	3.2	**6.3**	6.2	1.6
Total unified communications, security and monitoring revenues	**7.3**	9.5	(23.2)	**15.4**	18.1	(14.9)

Local access services

Local access services revenues were down in Q2 2013 and year to date, mainly due to decreased revenues, reflecting a 5.6% decline in residential local access lines resulting mainly from wireless substitution, along with local competition, and a 1.9% reduction in business local access lines.

Local access revenues

(in millions $)	**Q2 2013**	Q2 2012	% change	**YTD 2013**	YTD 2012	% change
Local access revenues	**64.2**	67.3	(4.6)	**128.2**	134.2	(4.5)

Local access statistics

	YTD 2013	YTD 2012	% change
Residential network access services lines	**289,336**	306,510	(5.6)
Business network access services lines	**216,064**	220,303	(1.9)

Long distance and legacy data services revenues

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.

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

Long distance and legacy data revenues

(in millions $)	**Q2 2013**	Q2 2012	% change	**YTD 2013**	YTD 2012	% change
Long distance revenues	**10.2**	11.2	(8.9)	**20.6**	22.4	(8.0)
Legacy data revenues	**7.6**	8.0	(5.0)	**15.3**	15.9	(3.8)
Total long distance and legacy data revenues	**17.8**	19.2	(7.3)	**35.9**	38.3	(6.3)

Other services

Other services revenues were consistent quarter over quarter, and up $0.8 million year to date, mostly due to increased late-payment charges and surcharges.

Other revenues

(in millions $)	**Q2 2013**	Q2 2012	% change	**YTD 2013**	YTD 2012	% change
Other revenues	**6.3**	6.3	-	**13.8**	13.0	6.2

Selected quarterly financial information

Eight quarters in review

(in millions $, except EPS and weighted average shares outstanding)	**Q2 2013**	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011*	Q3 2011*
Operating revenues	**247.4**	243.4	243.5	246.5	246.8	243.6	249.1	246.7
EBITDA	**121.4**	120.6	116.4	119.5	120.8	120.5	124.9	121.4
Income from continuing operations	**28.2**	27.9	26.4	30.8	32.3	41.3	37.3	34.9
Net income (loss)	**(52.9)**	30.9	29.3	33.2	36.6	45.4	36.9	37.0
EPS from continuing operations	**$0.42**	$0.42	$0.39	$0.46	$0.49	$0.62	$0.57	$0.53
EPS	**($0.78)**	$0.46	$0.44	$0.50	$0.55	$0.69	$0.56	$0.56
Weighted average shares outstanding[1] (in millions)	**67.5**	67.2	67.0	66.7	66.4	66.2	65.9	65.7

[1] The increase in the number of weighted average shares outstanding is mainly due to participation in our dividend re-investment program.
** 2011 information has not been restated to reflect the implementation of International Accounting Standard 19 ("IAS 19"), Employee Benefits, which was adopted on January 1, 2013. For comparative purposes, 2012 information reflects implementation of IAS 19. For 2012, the impact to EBITDA and EPS from continuing operations averaged approximately $4.6 million and $0.08 per quarter, respectively.*

Our consolidated financial results for the last eight quarters (Q2 2013 to Q3 2011) reflected the following significant transactions and trends:

- On May 24, 2013, we announced the sale of Allstream to Accelero Capital Holdings S.à r.l. An after-tax impairment loss of $79.2 million has been recognized in MTS's Q2 2013 results as part of discontinued operations.
- Since Q3 2012, wireless results have been negatively affected by a reduction in wholesale roaming revenues, as other carriers move their customers from MTS's CDMA network to their own HSPA networks. Revenues from CDMA roaming were $28.6 million in 2012 and are expected to be $18.4 million in 2013. We expect more moderate declines over the next three to five years.
- Over the last eight quarters, operating revenues reflected growth in strategic services and declines in total legacy services revenues. We have seen an increase in demand for wireless data, faster high-speed Internet and feature-rich Ultimate TV.
- Over the past several years, we have continued to improve our cost structure through operational efficiencies and restructuring initiatives. Since 2005, MTS has achieved approximately $130 million in 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.
- In the first quarter of 2012, a change in the expected tax rate applicable to deferred tax assets resulted in a one-time $10.2-million decrease in income tax expense.

Liquidity and capital resources

Summary of cash flows

(in millions $)	**Q2 2013**	Q2 2012	% change	**YTD 2013**	YTD 2012	% change
Cash flows from (used in):						
Operating activities	**80.6**	79.2	1.8	**90.7**	158.1	(42.6)
Investing activities	**(47.9)**	(61.7)	(22.4)	**(91.2)**	(113.8)	(19.9)
Financing activities	**13.2**	(91.4)	n.a.*	**41.6**	(111.4)	n.a.
Change in cash and cash equivalents from continuing operations	**45.9**	(73.9)	n.a.	**41.1**	(67.1)	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 increased $1.4 million in Q2 2013, mainly due to a decrease in the use of working capital, partly offset by increased wireless cost of acquisition, reflecting increased hardware upgrades as customers are opting for faster HSPA and LTE handsets, fuelling demand for data.

The $67.4 million decrease in cash flows from operating activities for the first half of 2013 was mainly due to a $70.0 pre-funded pension solvency payment.

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 decreased by $13.8 million in the second quarter of 2013 and $22.6 million on a year-to-date basis, when compared to the same periods of 2012. These decreases were primarily due to reduced capital spending resulting from the completion in 2012 of such projects as our wireless billing system upgrades and our 4G LTE network build in Winnipeg and Brandon.

Financing activities

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

Cash flows from financing activities in Q2 and year to date 2013 increased from cash flows used in financing activities in 2012, mainly due to the Company's $100-million repayment of long term debt in Q2 2012 and the issuance of $82.0 million in notes payable year to date, of which $70.0 million was used for pension solvency pre-funding.

In the first and second quarters of 2013, a cash dividend of $0.425 per common outstanding share was paid to shareholders, as approved by the Board. In the second quarter of 2010, we established a dividend re-investment program ("DRIP") with a 3% discount, which enables eligible holders of the Company's common shares to automatically re-invest their regular quarterly dividends in additional common shares of the Company without incurring brokerage fees. The second-quarter participation in our DRIP was 26.5%, which resulted in $7.6 million additional cash available from financing activities.

Free cash flow

Free cash flow increased $9.0 million in the second quarter of 2013 and $19.5 million year to date, due to reduced capital spending resulting from the completion of major capital projects in 2012 such as our wireless billing system upgrades and our 4G LTE network build in Winnipeg and Brandon, partly offset by higher wireless cost of acquisition relating to increased smartphone adoption. A successful wireless promotion, which spanned the month of April, caused wireless cost of acquisition to be significantly higher than usual in the second quarter of 2013.

Free cash flow *(in millions $)*	**Q2 2013**	Q2 2012	% change	**YTD 2013**	YTD 2012	% change
Cash flows from operating activities	**80.6**	79.2	1.8	**90.7**	158.1	(42.6)
Pre-funded pension solvency	**-**	-	-	**70.0**	-	-
Changes in non-cash working capital	**7.7**	14.0	(45.0)	**15.3**	21.2	(27.8)
Capital expenditures	**(47.1)**	(61.0)	(22.8)	**(89.7)**	(112.5)	(20.3)
Free cash flow for the period	**41.2**	32.2	28.0	**86.3**	66.8	29.2

Free cash flow *(in millions $)*	**Q2 2013**	Q2 2012	% change	**YTD 2013**	YTD 2012	% change
EBITDA	**121.4**	120.8	0.5	**242.0**	241.3	0.3
Add back (deduct):						
Other (expense) income	**0.5**	0.1	n.a.*	**1.0**	(0.1)	n.a.
Finance costs	**(19.7)**	(18.8)	4.8	**(39.3)**	(38.1)	3.1
Current income taxes	**(0.1)**	(0.1)	-	**(0.1)**	(0.1)	-
Loss on disposal of assets	**0.3**	0.4	(25.0)	**0.4**	0.5	(20.0)
Deferred wireless costs	**(22.9)**	(14.4)	59.0	**(36.4)**	(30.7)	18.6
Other pension funding and net pension expense	**6.3**	4.2	50.0	**9.4**	8.7	8.0
Capital expenditures	**(47.1)**	(61.0)	(22.8)	**(89.7)**	(112.5)	(20.3)
Other operating	**2.5**	1.0	n.a.	**(1.0)**	(2.2)	(54.5)
Free cash flow for the period	**41.2**	32.2	28.0	**86.3**	66.8	29.2

** 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 refinance maturing debt, to fund new initiatives, and to manage cash flow fluctuations.

Credit facilities

(in millions $)	**Utilized at June 30, 2013**	Capacity
Medium-term note program	**200.0**	500.0
Revolving credit facility	**224.0**	400.0
Additional credit facility	**149.3**	150.0
Accounts receivable securitization	**46.5**	110.0
Total	**619.8**	1,160.0

We renewed our medium-term note program on August 23, 2011 for $500.0 million and we utilized $200.0 million of this facility to issue debt in September 2011. We also have a $400.0-million revolving credit facility, of which we had utilized $224.0 million at June 30, 2013 for undrawn letters of credit and notes payable. We also have a $150.0-million credit facility, which is used solely for the issuance of letters of credit. As at June 30, 2013, we utilized $149.3 million of this facility for undrawn letters of credit. In addition to these programs and facilities, we have a $110.0-million accounts receivable securitization program, of which we had utilized $46.5 million as at June 30, 2013.

Pension solvency funding – letters of credit

Of the $283.3 million in total letters of credit outstanding, $251.9 million represents letters of credit issued in accordance with the *Pension Benefits Standards Act, 1985* (Canada), which permits the use of letters of credit in lieu of cash funding for solvency special payments to our defined-benefit pension plans, up to 15% of pension plan assets. For 2013, Allstream pension plans will be funded using letters of credit. The Company pre-funded $70 million into the MTS pension plan utilizing existing credit facilities. Following the close of the Transaction, MTS expects to contribute an additional $130 million into the MTS pension plan and $40 million into the Allstream pension plan. Assuming an approximate 1% increase in long-term interest rates by 2016, the Company would expect to have no further cash solvency funding requirements for either the MTS or Allstream plans.

Capital structure

(in millions $)	**As at June 30, 2013**	As at December 31, 2012
Bank indebtedness	**17.9**	12.6
Notes payable	**136.5**	54.5
Long-term debt, including current portion	**922.5**	921.9
Total debt	**1,076.9**	989.0
Shareholders' equity	**922.1**	821.6
Total capitalization	**1,999.0**	1,810.6
Debt to capitalization	**53.9%**	54.6%

Our capital structure illustrates the amount of our assets that are financed by debt versus equity. Our debt-to-total-capitalization ratio of 53.9% at June 30, 2013 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 May 29, 2013, S&P confirmed their 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.

Outstanding share data

	As at July 26, 2013	As at June 30, 2013
Common shares outstanding	**67,749,591**	67,525,962
Stock options outstanding	**2,876,232**	2,876,232
Stock options exercisable	**2,142,890**	2,142,890

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. These instruments hedge anticipated transactions and the notional value of the forward contracts is not recorded on our balance sheet. As at June 30, 2013, we had outstanding foreign currency forward contracts to purchase $13.5 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, 2013, the Company had $46.5 million outstanding under its accounts receivable securitization program.

Critical accounting estimates and assumptions

In our 2012 annual audited consolidated financial statements and notes, as well as in our 2012 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 2012 annual MD&A.

Changes in accounting policies

Our second-quarter 2013 interim condensed consolidated financial statements have been prepared using the same accounting policies as in the previous year except for the standards described below, which were adopted on January 1, 2013. Please refer to our 2012 Annual Report and second-quarter 2013 interim condensed consolidated financial statements for a brief description of each new standard.

- *IFRS 10, Consolidated Financial Statements*
- *IFRS 11, Joint Arrangements*
- *IFRS 12, Disclosure of Interests in Other Entities*
- *IFRS 13, Fair Value Measurement*

These standards have been adopted and applied in this interim MD&A. The application of the above standards has not had any impact on the amounts reported for the current or prior year.

AMENDED IAS 19, EMPLOYEE BENEFITS

Effective January 1, 2013, the Company adopted the amended version of IAS 19, *Employee Benefits*, which amends the accounting for pensions and other post-employment benefits. It changes the method of calculating the net-interest component of pension expense and also expands disclosure requirements for defined-benefit plans, providing additional information about the characteristics and associated risks of defined-benefit plans.

This change in accounting policy has been implemented retrospectively and, as a result, net income and EPS decreased by $15.6 million and $0.23, respectively, with a corresponding increase in other comprehensive income of $15.6 million, for the six months ended June 30, 2012. The amended standard did not affect the Company's statement of financial position.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has 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, 2013. With the exception of IFRS 9, *Financial Instruments*, many of these updates are not relevant to the Company and are therefore not discussed. IFRS 9, issued by the IASB in November 2009 and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and liabilities. IFRS 9 requires all financial assets within the scope of IAS 39, *Financial Instruments – Recognition and Measurement*, to be subsequently measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. IFRS 9 also requires an entity choosing to measure a financial liability at fair value to present the portion of the change in its fair value, due to changes in the entity's own credit risk in the "Other comprehensive income" section of the income statement, rather than within the statement of net income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. The adoption of this standard is not expected to have a material impact on the Company's results and financial position.

Regulatory developments

The telecommunications and broadcast industries in which we operate are federally regulated, pursuant to both the *Telecommunications Act* and the *Broadcasting Act*. The primary regulatory agency we are subject to is the Canadian Radio-television and Telecommunications Commission ("CRTC"). The Government, through the Departments of Industry and Canadian Heritage, exercises legislative oversight of the CRTC. We are subject to policy decisions taken by the Government from time to time, as well as any amendments to applicable legislation or regulatory instruments. We operate as an incumbent local exchange carrier and wireless carrier in Manitoba. In addition, we operate as a licensed broadcasting distribution undertaking in parts of Manitoba, including Winnipeg and its surrounding areas. Decisions made by the CRTC may affect our operations and performance.

The following describes significant developments relating to regulatory and policy proceedings:

Deferral account

The CRTC has approved MTS Allstream's request to use the funds remaining in our deferral account to improve accessibility of telecommunications services for persons with disabilities, roll out broadband to 16 rural Manitoba communities by the end of August 2014 and rebate the remaining deferral account amount to residential urban customers in Manitoba. The customer rebate was completed in early 2011. As of the end of 2012, broadband service had been rolled out to 11 of the 16 communities. On March 27, 2013, MTS filed an application asking the CRTC to approve minor changes to the communities slated for broadband roll-out due to the unforeseen high costs associated with broadband roll-out to one of the original communities. On July 3, 2013 the CRTC issued a decision denying MTS's request to modify the communities slated for broadband roll-out stating that changes to the roll-out plan at this juncture would diminish the regulatory certainty the CRTC tried to establish for communities through the approval of the roll-out plan in 2010. In light of the decision, MTS will pursue the least cost roll-out of broadband to this and other rural communities as originally planned. MTS is also awaiting CRTC approval of our proposals to invest the remainder of the deferral account funds for website enhancements, Internet Protocol Relay Service start-up and texting with 9-1-1 service development and implementation.

Industry Canada radio spectrum consultations

On March 7, 2013, following on a series of consultations in 2011 and 2012, the Government announced the framework that will govern the wireless spectrum auction for the 700-MHz spectrum band.

The auction was scheduled to be held on November 19, 2013. On June 4, 2013 the Government announced it was delaying the auction which will now commence on January 14, 2014. The spectrum held by Verizon (upper C) and AT&T (lower B and C) in the United States is considered prime spectrum. Large carriers, including MTS in Manitoba, will be limited to one paired block of prime spectrum and carriers who have access to two or more blocks of paired prime spectrum will be required to deploy in rural areas.

In addition to final auction rules, the Government introduced new license conditions for roaming and tower sharing, extending its mandatory roaming and tower sharing conditions to all carriers, and shortening the timelines for negotiations and triggering arbitration.

On March 7, 2013 Industry Canada also announced a consultation and review of the process for approving spectrum license transfers. On June 28, 2013 Industry Canada announced the results of the review and a new framework for spectrum transfers and related matters. The Government reiterated its commitment to competition and concern around concentration of spectrum in Canada and indicated that it will now review all transfers, deemed transfers, prospective transfers and subordinate licensing of all commercial mobile spectrum. Government approval of any such arrangement will now be required. MTS is reviewing the implications of the consultation decision and will take any steps which may be determined as necessary to ensure that the Company is compliant.

CRTC proceeding to consider a National Code for Wireless Services

In October 2012, after an initial public consultation in April examining whether there was a need for a national code for wireless services, the CRTC initiated a consultation seeking proposals to improve the clarity and transparency of information available to consumers, and whether and how the national code should coexist with existing provincial wireless consumer protection legislation. There is such provincial legislation in force in Manitoba, with which MTS is compliant. MTS participated in the consultation and hearing held in February 2013. On June 3, 2013 the CRTC issued a national wireless code of conduct that will apply to all wireless service providers as of December 2, 2013. The code generally complements and aligns with the Manitoba provincial legislation under which MTS already operates with some additional components. MTS supports a prevailing national code but has joined with some other wireless service providers in appealing to the Federal Court of Appeal aspects of the code that would retroactively amend wireless contracts that are already in place. The request for leave to appeal was made on July 2, 2013. However, MTS is in the process of taking all the steps necessary with the goal of implementing all aspects of the new wireless code within the prescribed timeframe.

CRTC inquiry into 9-1-1 services

On December 17, 2012, the CRTC launched an inquiry into 9-1-1 services to investigate the performance and adequacy of the technology currently employed, the issues related to the provision of 9-1-1 services on next-generation networks, and any associated policy considerations.

The proceeding was initiated to explore how the evolution to Internet Protocol standards will impact the system architecture and arrangements currently used to provide 9-1-1 service to Canadians. The inquiry will also examine how much money is currently collected and spent on 9-1-1 services by the industry, governments and others. We are participating in the inquiry. The CRTC is expected to issue a report on the inquiry later in 2013.

Risks and uncertainties

Risk management practices are part of our standard operations, across all of our businesses. Identifying and managing our principal risks form part of our management's regular business planning process because risks, as well as associated opportunities, form the basis of many aspects of the Company's future business model and opportunities.

Once we set our strategic objectives, our risk management program undertakes to identify and assess the associated principal risks, and considers the activities being taken to mitigate them. The program is managed through an executive-level strategic risk committee, in conjunction with our enterprise risk management team.

For more information about our risk management program, please refer to our 2012 annual MD&A. The risks and uncertainties summarized below highlight certain changes to those disclosed in our 2012 annual MD&A.

Allstream transaction

Conditions precedent and required approvals

The Transaction is subject to customary closing conditions, including the receipt of approval under the Investment Canada Act, the performance in all material respects of our covenants under the Agreement to be fulfilled or complied with at or prior to the closing, the delivery of certain certificates, resignations and releases and the entering into of certain agreed ancillary agreements, and the absence of any "Material Adverse Effect", as defined in the Agreement, since the date of the Agreement. There can be no assurance that the Transaction will be completed, that it will be completed on the terms and conditions currently contemplated, or that any anticipated benefits from the Transaction will be realized. If the Transaction is not completed, the Company's business, financial condition or results of operations could also be subject to a variety of material adverse consequences, including but not limited to, legal, financial, restructuring and other expenses.

Uncertainty surrounding the Transaction

As the Transaction is dependent upon receipt, among a variety of other things, of certain required regulatory approvals and the satisfaction of certain other conditions, the completion of the Transaction remains uncertain. In response to this uncertainty, the Company's customers and business partners may delay or defer decisions concerning the Company, which could adversely affect the Company's business, operations and opportunities. This uncertainty may also adversely affect the Company's ability to attract or retain key personnel.

Collective agreement

The collective agreement with the Association of Manitoba–International Federation of Professional and Technical Engineers, Local 161 ("TEAM-IFPTE") expired on February 19, 2013. TEAM-IFPTE represents over 1,200 managers and professional employees working in Manitoba. MTS announced, on July 16, 2013, that it had reached a new three-year tentative collective agreement with TEAM-IFPTE. On July 29, 2013, the TEAM-IFPTE membership ratified this tentative collective agreement. The new collective agreement is in effect until February 19, 2016. We believe the new collective agreement is a fair agreement for our employees and MTS.

Pension litigation

We announced, in early 2010, that we had received a court decision relating to one of our Manitoba pension plans, obligating us to make a material one-time payment retroactive to 1997. Our appeal on this ruling was heard in December 2010. On February 11, 2012, the unanimous panel of the Manitoba Court of Appeal had ruled in our favour on the lawsuit. The Court of Appeal has ruled against the plaintiffs and for the Company, and has dismissed all cross-appeals raised by the plaintiffs. In dismissing all of the plaintiffs' claims, Manitoba's highest court confirmed that the Company complied with all of its legal obligations and has no liability to the plaintiffs. The Supreme Court of Canada heard the appeal of this decision on May 16, 2013 and its decision is expected before the end of 2013. There will be no expected cash or accounting impact on the Company during such period.

Litigation

As described in our 2012 Annual MD&A, plaintiffs within Canada are also able to launch class-action claims on behalf of a large group of persons with increasing ease and we, along with other major telecommunications service providers become defendants in national class actions. This quarter, we, along with the wireless carriers operating in Canada and the manufacturers of wireless devices sold in Canada, were named in a class-action lawsuit alleging adverse health effects incurred by long-term users of cellular devices. Similar to the other two national class actions brought against the Company, no liability has been recorded for this contingency.

Recent CRTC decisions

As described in our "Regulatory Developments" section above, the CRTC's new wireless code of conduct is expected to cause the Canadian wireless industry to move away from three-year service contracts to two-year contracts. This move could change the cost of customer acquisition, could change the rate at which our customers "churn" or could otherwise affect the marketplace. Manitoba is already a very competitive wireless marketplace, and the recent announcements regarding spectrum ownership and the anticipated auction rules for the 700-MHz wireless spectrum auction could, over time, further increase the competitive intensity in the Canadian wireless sector. We continue to evaluate our options regarding the 700-MHz wireless spectrum auction scheduled to start on January 14, 2014. The deadline to file applications to participate in the wireless spectrum auction has been set for September 17, 2013.

Controls and procedures

Internal control over financial reporting

There have been no changes in our internal control over financial reporting during our most recent interim period, ended June 30, 2013, which 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 2012 annual MD&A.

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.

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 and pre-funded pension solvency payments". 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.

Social and environmental responsibility

At MTS, we believe that companies have a responsibility to contribute to the welfare of the communities in which they operate. Corporate citizenship is very important to us. We strive to have a positive impact on the lives of our employees, on our customers, on other stakeholders and in the community. Year after year, we achieve this goal by engaging with our employees, leading by example in our communities and having a positive environmental impact. Please refer to our 2012 annual MD&A for a discussion of our social and environmental initiatives.

Glossary

A

Asymmetric digital subscriber line (ADSL)
The technology used to move data quickly on existing copper phone lines.

ARPU
Average return 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 record 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.

Canadian Radio-television and Telecommunications Commission (CRTC)
The agency responsible for regulation of the Canadian telecommunications and broadcasting services.

Capital expenditures (CAPEX)
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.

Code Division Multiple Access (CDMA)
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.

Compound annual growth rate (CAGR)
The year-over-year growth rate of an investment over a specified period of time.

Committee on Uniform Securities Identification Procedures (CUSIP)
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.

Canadian Securities Administrators (CSA)
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.

D

Digital subscriber line (DSL)
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 shareholders who 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).

Dividend re-investment plan (DRIP)
A plan in which shareholders of a company can reinvest 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

Earnings before interest, taxes, depreciation and amortization (EBITDA)
EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and other income. 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.

Earnings per share (EPS)
Earnings per share (EPS) are 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.

Glossary continued

Employee Share Ownership Plan (ESOP)
MTS employees have the opportunity to share in the success of the Company by investing in shares through the ESOP plan.

Evolution data optimized (EVDO)
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

Free cash flow
Free cash flow is a non-IFRS measure of performance. MTS defines free cash flow as "cash flows from operating activities, less capital expenditures and excluding changes in working capital and pre funded pension solvency payments". Free cash flow is the amount of discretionary cash flow that the Company has for purchasing additional assets beyond its annual capital expenditure program, paying dividends, buying back shares and/or retiring debt. The term "free cash flow", as it relates to 2013 and 2012 results prepared using IFRS, does not have any standardized meaning according to IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies.

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

Fibre-to-the-home (FTTH)
When 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.

G

GAAP
Generally accepted accounting principles.

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
The MTS LTE (Long Term Evolution) 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 network
A multi-protocol label switching (MPLS) network allows telecommunications companies the ability to provide Internet Protocol (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

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.

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

Glossary continued

S

System for Electronic Document Analysis and Retrieval (SEDAR)
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
Scientific Research & Experimental Development investment tax credit.

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 radio-frequency spectrum in a given geographical area for communication purposes. A Canadian spectrum auction is expected to take place in January 2014.

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 growth services
MTS strategic growth services are wireless and broadband.

T

Total shareholder return
The total return of 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

Unified communications (UC)
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

Very high speed digital subscriber line (VDSL)
VDSL transmits data in the 13-to-55-Mbps range over short distances, usually between 300 and 1,500 meters, of twisted-pair copper wire. The shorter the distance, the faster the data are transmitted.

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

W

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

Wireless local area network (WLAN)
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.