



NewsRelease

Manitoba Telecom Services Inc. reports first-quarter 2014 results

Learn more about Manitoba Telecom Services Inc.'s Q1 2014 results by visiting www.mtsallstream.com/investors.

- **Board of Directors declares \$0.425 per share Q2 2014 cash dividend**
- **Earnings per share ("EPS") increased \$0.08 or 17.4%, to \$0.54**
- **Free cash flow increased \$25.2 million to \$72.8 million, due to lower capital expenditures and SR&ED ITC***
- **Consolidated EBITDA down 0.7% to \$147.6 million**
- **Achieved annualized cost reductions of \$13.6 million**
- **Pension solvency ratio estimated at 90%, including liabilities related to pension lawsuit**
- **May 6 ground-breaking for new, state-of-the-art data centre in Winnipeg**
- **MTS wins prime block of spectrum in 700 MHz auction**
- **Wireless revenues up 1.7%, excluding wireless wholesale and one-time equipment sale**
- **Wireless data revenues up 17.9%**
- **Internet revenues up 10.1% and IPTV revenues up 6.0%**
- **Allstream converged IP revenue growth of 4.3%, Q1 sales wins up 7.4%**
- **Added 66 buildings to IP fibre network, now totalling 3,069 buildings Canada-wide**

* Scientific research and experimental development investment tax credit ("SR&ED ITC")
(Q1 2014 highlights as compared to Q1 2013)

WINNIPEG, MB, May 13, 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 three months ended March 31, 2014.

"MTS Allstream delivered solid results and made progress on our 2014 strategic plan in Q1," said Chief Executive Officer Pierre Blouin. "We are regaining momentum at Allstream, where IP revenue grew 4.3% during the quarter. At MTS, we exceeded 100,000 bundled customers. This is a major milestone that reflects one of our key strategic advantages and which contributed to our strong broadband results."

"Last week, we broke ground for a new 64,000-square-foot data centre, designed from the ground up to be Manitoba's most advanced and environmentally friendly commercial data centre. Following our acquisition of EPIC Information Solutions, this is an important step in providing increased growth and profitability for MTS."

Consolidated

The Company's first-quarter financial performance reflects management's focus on increasing cash flows by leveraging investments in MTS's wireless and broadband networks in Manitoba, and Allstream's Internet protocol ("IP") fibre network nationally.

Consolidated financial results <i>(\$ millions, except EPS)</i>	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenues	401.5	408.5	408.4	410.1	406.7
EBITDA ¹	147.6	128.0	142.7	132.0	148.6
EPS ²	\$0.54	\$0.23	\$0.62	\$0.39	\$0.46
Free cash flow ³	72.8	3.6	45.4	24.4	47.6
Capital expenditures	43.6	87.7	68.6	73.0	66.7

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 77.1 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; 67.5 million for the three months ended June 30, 2013; and 67.2 million for the three months ended March 31, 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: \$401.5 million**, down \$5.2 million or 1.3% from Q1 2013. This was mostly due to Allstream legacy revenue declines, lower wireless voice revenues and wireless wholesale declines, partly offset by strong revenues from broadband, converged IP, wireless data and EPIC Information Solutions ("EPIC").
- **EBITDA: \$147.6 million**, down \$1.0 million or 0.7% from Q1 2013. Solid cost reductions and growth in strategic lines of business were offset by lower margins from Allstream legacy services and lower wireless wholesale revenues.
- **EPS: \$0.54**, up \$0.08 or 17.4% from Q1 2013. This increase was mostly due to decreased depreciation and amortization expense resulting from a large SR&ED ITC recovery.
- **Free cash flow: \$72.8 million**, up \$25.2 million or 52.9% over Q1 2013, mostly due to lower capital expenditures.
- **Capital expenditures: \$43.6 million**, down \$23.1 million or 34.6% from Q1 2013, resulting from a \$21.7-million SR&ED ITC recorded in Q1 2014.
- **Annualized cost savings: \$13.6 million** in Q1 2014, resulting from current year operational efficiency initiatives.

MTS

MTS delivered growth in revenues from strategic services (wireless, broadband and converged IP, and information solutions), up 6.2% over Q1 2013, which offset declines in legacy lines of business. In Q1 2014, MTS surpassed the 100,000 bundled customer milestone, as the number of customers with bundled services increased by 4.9%, to 102,553. MTS also delivered increased average revenue per user ("ARPU") from wireless subscribers and Internet, and added subscribers in wireless, Internet and IPTV.

MTS operating revenues

<i>(\$ millions)</i>	Q1 2014	Q1 2013	% variance
Wireless	90.4	91.5	(1.2)
Broadband and converged IP	58.6	54.2	8.1
Information solutions	5.7	-	n.a.*
Unified communications, security and monitoring	8.5	8.1	4.9
Local access	61.2	64.0	(4.4)
Long distance and legacy data	16.9	18.1	(6.6)
Other	7.2	7.6	(5.3)
Total operating revenues	248.5	243.5	2.1

*not applicable

MTS wireless revenues

<i>(\$ millions)</i>	Q1 2014	Q1 2013	% variance
Subscriber revenues	85.9	85.6	0.4
Wholesale revenues	4.5	5.9	(23.7)
Total wireless revenues	90.4	91.5	(1.2)

- **Wireless subscriber revenues: \$85.9 million**, up \$0.3 million over Q1 2013, driven by a 17.9% increase in wireless data revenues. Excluding a one-time equipment sale of \$1.1 million in Q1 2013, wireless subscriber revenues in Q1 2014 were up \$1.4 million, or 1.7%. Currently, 69.2% of MTS's growing post-paid subscriber base now has data plans, driven by increasing demand for smartphones and data usage. Since Q1 2013, subscribers with data plans increased by over 45,000, reflecting the value of MTS's feature-rich data plan offering and contributing to industry-leading post-paid churn of 0.87% in Q1 2014. The first quarter of 2014 also saw a 1.6% increase in wireless post-paid subscribers and a 16.9% increase in wireless data ARPU. At \$59.70, 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 HSPA networks. Excluding wireless wholesale revenues and a one-time Q1 2013 FleetNet 800™ equipment sale, wireless revenues were up \$1.4 million, or 1.7%.

MTS broadband and converged IP revenues

<i>(\$ millions)</i>	Q1 2014	Q1 2013	% variance
Internet revenues	30.6	27.8	10.1
IPTV revenues	21.1	19.9	6.0
Converged IP revenues	6.9	6.5	6.2
Total broadband and converged IP revenues	58.6	54.2	8.1

- **Internet revenues: \$30.6 million**, up \$2.8 million over Q1 2013, resulting from a 7.2% increase in the high-speed Internet subscriber base and ARPU growth, which reflects the increasing popularity of MTS's competitive Internet offering.
- **IPTV revenues: \$21.1 million**, up \$1.2 million over Q1 2013, driven by strong subscriber growth of 8.2%, reflecting the quality of MTS's feature-rich television offering. As at March 31, 2014, 87.0% of MTS's increasing IPTV subscriber base subscribed to its premium IPTV service – MTS Ultimate TV®.
- **Converged IP revenues: \$6.9 million**, up \$0.4 million over Q1 2013, driven by continued demand for IP services from Manitoba's business community and migration from legacy data services.

Information solutions

- **EPIC revenues: \$5.7 million**, which 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.

Unified communications, security and monitoring

- **Unified communications revenues: \$5.4 million**, up 8.0% over Q1 2013, driven by greater hardware sales, which overcame the market trend of softer government and enterprise spending on unified communications.
- **Security and monitoring revenues: \$3.1 million**, consistent with Q1 2013, reflecting increased alarm monitoring revenue, offset by decreased security system installation revenue.

Local access

- **Local access revenues: \$61.2 million**, down \$2.8 million from Q1 2013, due to line losses, the majority 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 cable competitors.

Long distance and legacy data

- **Long distance and legacy data revenues: \$16.9 million**, down \$1.2 million from Q1 2013.
 - **Long distance revenues: \$9.4 million**, down \$1.0 million or 9.6% from Q1 2013, mainly due to decreased long distance rates and customers replacing long distance calling with email, text messaging and social networking.
 - **Legacy data revenues: \$7.5 million**, down \$0.2 million or 2.6% from Q1 2013, as a result of customers continuing to migrate towards converged IP services.

Allstream

Allstream's Q1 2014 performance reflects improvements in its operations and continued growth in on-net IP-based services while improving profitability. Revenues from IP services in Q1 2014 were up 4.3% and IP sales wins were up 7.4% over Q1 2013. This momentum is expected to continue based on strong March IP sales and ongoing circuit installations for Shared Services Canada. Allstream is on track to deliver high single-digit IP revenue growth in 2014. IP growth, continuing cost reductions and lower capital expenditures contributed to Allstream's improved free cash flow of \$6.6 million in Q1 2014.

Allstream operating revenues

<i>(\$ millions)</i>	Q1 2014	Q1 2013	% variance
Converged IP	62.7	60.1	4.3
Unified communications, hosting and security	18.2	17.7	2.8
Local access	35.3	40.6	(13.1)
Long distance and legacy data	35.6	41.8	(14.8)
Other	10.1	11.5	(12.2)
Total operating revenues	161.9	171.7	(5.7)

Allstream converged IP statistics

<i>(revenues in \$ millions)</i>	Q1 2014	Q1 2013	% variance
Converged IP revenues	62.7	60.1	4.3
Converged IP gross margin percentage	73.8%	75.0%	(1.2 pts)
Fibre-fed buildings	3,069	2,811	9.2

Converged IP

- **Converged IP revenues: \$62.7 million**, up \$2.6 million or 4.3% over Q1 2013. Revenues from converged IP services continued the growth trajectory 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. Strong March IP sales contributed to a 7.4% increase in Q1 2014 sales wins, as compared to Q1 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.
- **National IP network expansion:** Added 66 buildings to Allstream's national IP fibre network in Q1 2014, which totaled 3,069 fibre-fed buildings as at March 31, 2014, an increase of 258 buildings over Q1 2013.

Allstream also achieved an increase in installations pertaining to subsequent sales into already-connected buildings, which were up by 49.2% over Q1 2013.

Unified communications, hosting and security

- **Unified communications, hosting and security revenues: \$18.2 million**, up \$0.5 million over Q1 2013, mainly due to an increase in cloud hosting and service contracts, partly offset by a decrease in one-time product sales as Allstream increased its focus on network-related sales in unified communications.

Legacy services

- **Local access revenues: \$35.3 million**, down \$5.3 million from Q1 2013, mainly due to Allstream's decision to accelerate its exit from low-margin wholesale resold business lines.
- **Long distance and legacy data revenues: \$35.6 million**, down \$6.2 million from Q1 2013.
 - **Long distance revenues: \$18.1 million**, down \$2.7 million or 13.0% from Q1 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: \$17.5 million**, down \$3.5 million or 16.7% from Q1 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 at that time, plus legal and actuarial costs. MTS continues to work with plan members to finalize details of the implementation plan for delivering these enhanced benefits.

Strong asset returns in 2013 and an increase in long-term interest rates have significantly improved the MTS pension plan's solvency deficit to an estimated \$220 million as at January 1, 2014 based on MTS's preliminary actuarial report. This includes the impact of the new mortality tables and the full amount of the SCC decision. The MTS plan's solvency funded ratio is now estimated at 90%, a substantial improvement over last year.

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

700 MHz spectrum auction

MTS announced on February 19, 2014 that it had secured a prime block of 700 MHz wireless spectrum in the recent Industry Canada auction for \$8.8 million. MTS plans to use this spectrum in its Manitoba network to support advanced wireless services for both existing and new customers over the next few years. MTS's immediate plan is to use its existing AWS and 850 MHz spectrum to further expand its LTE network. MTS's 700 MHz spectrum will be turned up in communities across Manitoba as additional handsets and wireless services are offered.

Dividend

The Company's Board of Directors declared a quarterly cash dividend of \$0.425 per share for the second quarter of 2014, payable on July 15, 2014 to shareholders of record at the close of business on June 16, 2014.

The second-quarter dividend is designated an "eligible" dividend under the *Income Tax Act* (Canada) and any corresponding provincial legislation. Under this legislation, individuals resident in Canada may be entitled to enhanced dividend tax credits that reduce income tax otherwise payable.

Investment community conference call

MTS will hold its first-quarter 2014 results conference call with the investment community on **Tuesday, May 13, 2014 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 Tuesday, May 20, 2014 by dialing 1-855-859-2056 and entering passcode 17217565.

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=768034&s=1&k=2C30BB013D4A887AEF3B28487408B9B6>. 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

<i>(\$ millions)</i>	Q1 2014	Q1 2013	% variance
Operating revenues	401.5	406.7	(1.3)
Operating expenses	(326.3)	(343.3)	5.0
Restructuring costs	(1.1)	-	n.a.*
Depreciation and amortization	73.5	85.2	13.7
EBITDA	147.6	148.6	(0.7)

*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

<i>(\$ millions)</i>	Q1 2014	Q1 2013	% variance
Cash flows from operating activities	77.0	1.7	n.a.
Add back (deduct):			
Pre-funded pension solvency	-	70.0	n.a.
Changes in non-cash working capital	39.4	42.6	(7.5)
Capital expenditures	(43.6)	(66.7)	(34.6)
Free cash flow for the period	72.8	47.6	52.9

*not applicable

- (3) More information can be found in the Company's first-quarter 2014 interim Management's Discussion and Analysis ("MD&A"), interim condensed consolidated financial statements for the three months ended March 31, 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 time, method, quantum and implementation of any payment obligations that could occur as a result of the SCC's decision, or the impact that this decision may have on future cash flows, liquidity, credit ratings and profitability, as well as other statements that are not historical facts. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "should", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", "see", "set", "pending" and other similar terms. All forward-looking statements are made pursuant to the safe harbour provisions of applicable Canadian securities legislation.

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

Please note that forward-looking statements in this news release reflect Management's expectations as at May 13, 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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For further information, please contact:

Investors: **Paul Peters**, Investor Relations
204-941-6178
investor.relations@mtsallstream.com

Media: **Selena Hinds**, Corporate Communications
204-941-8576
media.relations@mtsallstream.com