News release

Manitoba Telecom Services Inc. shares plans and progress arising from its strategic assessments

Identified and actioned $90 million to $110 million in annualized free cash flow improvements
Third-quarter consolidated free cash flow grew 48%

WINNIPEG, MB, November 4, 2015 – (TSX:MBT) Manitoba Telecom Services Inc. (the Company), including its two primary operating subsidiaries, MTS Inc. (MTS) and Allstream Inc. (Allstream), today provided additional insights as to its plans and progress arising from the strategic assessments completed in the first-half of 2015 as part of its financial results release for the quarter ended September 30, 2015.

"The Company is making solid progress on all three of its strategic imperatives," said Jay Forbes, President & CEO. "Allstream's turnaround is well underway, we have launched the transformation of MTS into a customer-first organization, and the planned exit of Allstream is proceeding in line with expectations. To date, we have identified and actioned $90 to $110 million in annualized free cash flow improvements, and have line-of-sight to an additional $60 to $70 million."

MTS Allstream
Recognizing that MTS Allstream was not meeting the expectations of its shareholders, the Company undertook an exhaustive strategic review of both operating entities and concluded that:

- A $120 million pre-funding to the pension plans was required to eliminate the expected need for pension solvency payments in 2015 and 2016 (and possibly in 2017 and beyond);
- A reset of the dividend was needed to establish a stable and appropriate payout level;
- A complete turnaround of Allstream's operations was required to allow it to become financially self-sustainable;
- An exit from Allstream was the preferred course of action given the lack of strategic fit; and
- Repositioning MTS as a customer-first organization needed to be a key priority.

Having completed the $120 million in pension plan pre-funding and the dividend reset, the Company has launched the turnaround/exit of Allstream and the repositioning of MTS. While the Company will measure success on a number of dimensions, one over-arching metric is free cash flow. To date, the Company has:

- Identified and actioned $60 to $70 million in annual free cash flow improvements at Allstream; and
- Identified another $100 million at MTS, $30 to $40 million of which is being actioned in Q4 2015.

Consolidated free cash flow

($ millions)	Q1	Q2	**Q3**	Q4
2014	49.0	32.2	30.4	35.0
2015	**51.3**	**45.4**	**45.1**	

MTS
MTS is a great company with even greater potential.

MTS has an enviable position in the residential marketplace:

- More than half of Manitoba's post-paid wireless and Internet subscribers choose MTS;
- Nearly one-third of Manitoba's TV subscribers in the communities MTS serves choose the MTS Ultimate TV® service;
- Nearly two-thirds of Manitobans rely on MTS for local services;
- MTS has 112,517 multi-product customers;
- MTS has the most extensive, full-service dealer channel in the province; and
- MTS is the only company in Manitoba that can offer a complete wireless and wireline customer experience.

MTS also has a strong and wide-ranging relationship with its business customers:

- More than 85% of businesses in the province have an MTS service;
- Nearly two-thirds of small businesses choose MTS for their wireless and Internet service;
- More than 80% of small businesses choose MTS for local services;
- EPIC Information Solutions and The Technology Consortium (TTC) provide complete information and communications technology solutions for businesses in Manitoba; and
- The newly-opened MTS Data Centre offers the only Tier lll design-certified commercial data centre in the province.

Against this backdrop of strong customer connectivity, a strategic review undertaken in the first-half of 2015, identified several areas of opportunity for MTS to be both more efficient, and more customer-centric:

- *Organization effectiveness* – MTS' organizational structure has grown to become large and bureaucratic, with too many layers, ineffective spans of control and too many decisions being made by those who are furthest from the Company's customers;
- *Operating efficiency* – MTS has not evolved its processes and systems to capture operational efficiencies;
- *Capital deployment* – Capital investment can benefit from more rigorous reviews of economic merit and strategic fit, lowering capital intensity ratios and increasing returns on investment;
- *Customer experience* – MTS' customer experience has remained static through a period where the needs and expectations of the customer have changed dramatically; and
- *Marketing and sales agility* – MTS' marketing and sales activities need to be more agile in the face of greater competition within the Manitoba market.

"While MTS has tremendous assets - not the least of which are its employees, customer connectivity and brand - it has not made the necessary investments to keep these assets as relevant or as valuable as they might otherwise be," said Forbes. "If we are to reverse current trends, we will need to undertake a wholesale transformation of the way we conduct business and, in particular, the quality of our customer experience."

Beginning the transformation

The Company has completed a full diagnostic of its Manitoba operations and determined that there is significant opportunity to improve the performance of the company. To realize this opportunity, MTS has developed a holistic three-year transformation program - led by a newly established Transformation Management Office (TMO) - and has launched workstreams to fund the journey while it plans other initiatives to remake MTS into a customer-first organization.

The program consists of three phases:

- ***Phase I*** – which has already started, unlocks funding to invest in building a market-leading customer experience;
- ***Phase II*** – transforms operations, simplifying products and processes, and improving our customer experience; and
- ***Phase III*** – focuses on revenue retention and an improved growth profile.

The Company expects this program will deliver annualized free cash flow improvements of approximately $100 million, with the vast majority of the improvements realized by the end of 2017, and one-time costs associated with achieving these improvements of roughly the same amount, incurred over the next 36 months.

Phase I: Funding the journey

Improved capital investment

MTS is rebuilding the end-to-end process for assessing, prioritizing and overseeing capital investments, with the new process in place for the 2016 capital program. The capital investment program overhaul should lower the Company's capital intensity, improve economic returns on capital investments, and ensure investments are relevant to the Company's strategic priorities. Upon completion, it is anticipated that there will be $20 million to $25 million in capital investment reductions, which should bring the Company to an annual capital investment envelope (excluding spectrum) of approximately $180 million, with an expected ongoing capital intensity target of 18%. The expectation is that this will be accomplished with one-time associated costs of less than $1 million.

Streamline back-office support functions and management structure

As part of this transformation program, MTS has initiated a voluntary workforce reduction program for certain employees in back-office support functions who are not customer-facing. The Company anticipates reductions of between 200 to 250 employees, with annualized cost savings in the range of $20 million to $25 million. The Company anticipates the reductions will be completed by the end of Q1 2016 with an expected cost of approximately $10 million to $15 million.

Refresh the brand
MTS enjoys strong brand awareness in Manitoba, but the strength of the brand has been slowly eroding. Through the transformation program, the Company is rejuvenating the MTS brand and in October 2015 had an internal launch of a new customer-driven brand strategy. All employees are participating in brand training, with over 200 brand ambassadors engaged throughout the province. MTS plans to launch the refreshed brand messaging to customers in Q1 2016. The expectation is that brand equity can be considerably strengthened through the transformation program's Phase II investment in the customer experience.

Remaining funding initiatives
The Company is finalizing three more initiatives to improve our core functionality while generating an immediate lift in free cash flow:

1. Rationalizing pricing, promotions and discounts;
2. Enhancing the online customer experience; and
3. Upgrading procurement and working capital management.

The Company plans to launch and complete these three initiatives in 2016. It is expected that these three initiatives combined with Phase II and Phase III of the transformation program will deliver between $60 to $70 million in annual free cash flow improvement.

The Company will provide additional information on our Phase ll and Phase lll programs throughout 2016.

Notable Q3 2015 events
MTS had a number of notable events in Q3 2015:

- *Purchased additional spectrum* – MTS acquired 15 MHz of paired AWS-1 spectrum in Manitoba from WIND Mobile on July 31, 2015 for $45 million. This valuable spectrum acquisition - coupled with the spectrum acquired in the Federal government auction earlier this year - will allow MTS to significantly leverage the depth of its network speeds, enhance the customer experience and accommodate the rapid increase in wireless data and video traffic, creating the potential to enhance the customer experience;
- *Opened one-of-a-kind data centre in Manitoba* – The MTS Data Centres' facility is the most advanced commercial data centre in Manitoba, offering customers a sophisticated suite of colocation, managed hosting and cloud services. The new facility is also a hallmark of MTS' brand, providing the fundamental strength for the Company's competitive information and communications technology services advantage. Designed to meet the highest standards in reliability and security, this data centre hosts and supports customers' critical IT infrastructure requirements;
- *Early demand for Total Internet* – This plan, though new to the marketplace, is finding strong take-up. Since its launch in June of 2015, nearly 3,300 subscribers have chosen this offering, many of them representing new customers for one or both of these broadband and wireless services; and
- *Strong adoption of MyPlan* – Nearly 108,000 subscribers were added within the first six months of launching this new wireless plan.

"Manitobans expect - and deserve - the very best from MTS," said Forbes. "And we at MTS are committed to providing our fellow Manitobans with a truly unique and unparalleled customer experience."

ALLSTREAM
Allstream continues to make great progress in the turnaround of its business. New strategies identified in Q1 2015 are well underway and are delivering the desired outcomes:

- *Laser focus on converged IP products* – Allstream has sharpened its customer focus, delivered targeted converged IP solutions to mid-market and enterprise customers in five major geographies. Third-quarter converged IP revenues reflected this focus with a revenue increase of $5.9 million or 8.9% compared to Q3 2014;
- *Competitive carrier cost structure* – Allstream is ahead of its targets in reducing its headcount and operating cost structure. At the end of Q3 2015, 340 or approximately 65% of exiting employees have left the business. Allstream remains on track to have approximately 75% of the targeted employees leaving the business by the end of 2015;
- *Revitalized marketing and sales function* – Allstream has successfully lowered churn as evidenced by the slower decline in legacy revenues in Q3 2015; and
- *Rigorous capital investments discipline* – Allstream's new capital investment discipline has reduced 2015 capital spending from $27.5 million in Q3 2014 to $15.5 million for Q3 2015 and reduced the Q3 2015 capital intensity by more than 7.2 percentage points to 10.1%. This reduction has been achieved without any drawbacks to revenue growth or customer care.

This progress in turning around its business has seen Allstream generate $11.6 million in free cash flow in the third quarter of 2015 compared to $(2.4) million in Q3 2014. Specifically, the improvement in free cash flow results from operating cost savings from headcount reductions ($7.4 million) and reduced capital spending ($12.0 million), partially offset by revenue churn in its legacy business.

In addition to stabilizing Allstream's financial position, the Company is in the midst of a comprehensive process to facilitate a timely exit of this business, an exit that will maximize value while promoting deal certainty. This process is progressing well and as expected.

"Allstream is demonstrating great progress as it successfully shifts its strategic focus," said Forbes. "We are growing our Internet-protocol revenues, reducing our costs and generating strong free cash flow, validating the new strategy and building a strong financial foundation."

Further details on Allstream's turnaround and path to financial self-sufficiency can be found in the Q3 2015 Supplemental at mtsallstream.com/investors/financial.

THIRD-QUARTER 2015 RESULTS

"Our third-quarter results reflect an organization in transition as we turnaround and exit Allstream, while launching the transformation of MTS into a customer-first communications services provider," said Forbes. "That said, the 48% increase in free cash flow in the third quarter is illustrative of the opportunities we see for continued value creation," said Forbes.

Consolidated financial results

($ millions, except EPS)	**Q3 2015**	Q3 2014	% variance
Revenues	**398.4**	402.4	(1.0)
Operations expense	**260.8**	262.3	0.6
EBITDA before restructuring costs	**137.6**	140.1	(1.8)
Restructuring costs	**2.5**	—	n.a.*
EBITDA[1]	**135.1**	140.1	(3.6)
EPS[2]	**$0.34**	$0.47	(27.7)
EPS excluding restructuring costs	**$0.36**	$0.47	(23.4)
Capital investments	**48.3**	84.7	43.0
Free cash flow[3]	**45.1**	30.4	48.4

[1] EBITDA is earnings before interest, taxes, depreciation and amortization and other income (expense)
[2] Earnings per share (EPS) is based on weighted average shares outstanding of 79.2 million for the three months ended September 30, 2015, 77.7 million for the three months ended September 30, 2014
[3] Free cash flow includes cash flows from operating activities less investing activities and excludes changes in working capital, pension solvency funding and lawsuit payments, spectrum costs, restructuring costs, the acquisition of TTC and non-cash taxes
** not applicable*

Free cash flow

In Q3 2015, consolidated free cash flow increased $14.7 million from Q3 2014, mainly due to recent efforts to improve both the intensity and effectiveness of the capital investment decision-making within both organizations, partially offset by increased deferred wireless costs of $9.2 million.

The following provides further insight into the operating results variances for the quarter:

- **Revenues:** MTS saw a $1.2 million decrease in revenues from Q3 2014, a result of lower wireless voice and long distance revenues, partly offset by growth in wireless data, Internet, information solutions and IPTV revenues. Allstream revenues decreased by $4.8 million compared to Q3 2014 due to declines in local, long distance and other data revenues, partly offset by strong growth in converged IP revenues which were up $5.9 million or 8.9%.

- **Operations expense:** Consolidated operations expense was down 0.6% in Q3 2015 as the benefits of Allstream's cost reduction initiatives continue to be realized. Allstream's operations expense decreased by $6.0 million mainly due to savings from headcount reductions, lower cost of goods sold and other cost reduction measures, partially offset by increased variable pay expense and lower capitalized labour. MTS (including other) operations expense increased by $2.5 million mainly the result of a full-quarter of TTC operations (which was acquired in June of this year) and higher pension expense.

- **Restructuring costs:** Restructuring costs of $2.5 million mainly represent costs associated with the sale of Allstream and MTS transformation activities.

- **EBITDA before restructuring costs:** During the third quarter MTS (including other) EBITDA before restructuring was down 3.2% due to increased pension expense and slight revenue declines. Allstream's EBITDA before restructuring costs increased 4.9% in quarter due to continued impacts from restructuring activities.

- **Net income and EPS:** Net income and EPS were down $10.1 million and $0.13, respectively in Q3 2015. This was mainly the result of lower EBITDA and increased depreciation and amortization expense.

- **Capital investments**: The capital investment overhaul at both MTS and Allstream have continued to show positive results with overall capital investments declining 43% when compared to Q3 2014.

The following table provides further free cash flow disclosure.

($ millions)	**Q3 2015**	Q3 2014	% variance
EBITDA before restructuring costs	**137.6**	140.1	(1.8)
Add back (deduct):			
Deferred wireless costs	**(26.5)**	(17.3)	(53.2)
Finance costs	**(18.0)**	(15.4)	(16.9)
Current cash income tax expense	**(0.1)**	(0.1)	—
Pension funding and net pension expense	**6.3**	3.8	65.8
Other operating activities, net	**2.0**	0.5	n.a.*
Other income	**1.3**	(1.0)	n.a.
Loss on disposal of assets	**0.2**	1.7	(88.2)
Total	**102.8**	112.3	(8.5)
Investing activities[1]	**(57.7)**	(81.9)	29.5
Free cash flow for the period	**45.1**	30.4	48.4

[1] *Excludes spectrum costs and TTC acquisition*
** not applicable*

DIVIDEND

The Company's Board of Directors declared a quarterly cash dividend of $0.325 per share for the fourth quarter of 2015, payable on January 15, 2016 to shareholders of record at the close of business on December 15, 2015.

The fourth-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 and webcast

MTS will hold its third-quarter 2015 earnings results conference call with the investment community on **Wednesday, November 4, at 5 p.m**. (Eastern time). Participants include Jay Forbes, Chief Executive Officer; Paul Cadieux, Chief Financial Officer and Heather Tulk, Chief Customer Officer.

To participate, please dial toll-free 1-888-231-8191 or 647-427-7450. A replay will be available until November 14, 2015 by dialing 1-855-859-2056 and entering passcode 56612106.

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 at mtsallstream.com/investors or by entering mtsallstream.com/investors/q32015results.

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

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, sale of Allstream, restructuring plans, strategic processes, pension plans funding including assumptions about future interest rates, the declaration of any future dividends and the amount thereof, the intention that surplus cash would be used for such things as share repurchases, the expectation of not having to pay cash income taxes until 2023; and the ability to reduce capital spending and operating expenses, 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*, *eliminate, line-of-sight, actioned* and other similar terms.

Our forward-looking information includes forecasts and projections related to the following items, among others: revenues, property, plant and equipment additions, free cash flow, dividend payments, expected growth in subscribers and the services to which they subscribe, the cost of acquiring subscribers and the deployment of new services, continued cost reductions and efficiency improvements, the growth of new products and services and all other statements that are not historical facts.

We base our conclusions, forecasts, and projections on the following factors, among others: general economic and industry growth rates, currency exchange rates and interest rates, product pricing levels and competitive intensity, subscriber growth, pricing, usage and churn rates, government regulation changes, technology deployment, devices availability, the timing of new product launches, content and equipment costs, the integration of acquisitions and industry structure and stability.

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 November 4, 2015, 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 2014 annual MD&A, which is available on the Company’s website at mtsallstream.com/investors and at sedar.com.

About Manitoba Telecom Services Inc. (MTS Allstream)

MTS Allstream (trading symbol: MBT) is one of Canada’s leading communications solutions companies. We provide full-service telecommunications support for residential and business customers in Manitoba through MTS, and IP communications through Allstream, the only national provider focused exclusively on the business telecommunications market. We are proud to be widely recognized for our leadership in corporate social responsibility and governance practices. For more information about the MTS Allstream group of companies, visit mtsallstream.com.

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