# Q3 2015 | Management's discussion and analysis

For the period ended September 30, 2015

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# Management's Discussion and Analysis

**November 4, 2015**

*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 nine months ended September 30, 2015. 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 nine months ended September 30, 2015 is as at November 4, 2015.*

*In preparing this MD&A, we have taken into account information available to us up to November 4, 2015. In this MD&A, "we", "our" and "us" refer to Manitoba Telecom Services Inc. (the Company). This MD&A should be read in conjunction with our interim condensed consolidated financial statements for the three and nine months ended September 30, 2015.*

### 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, 2014, dated February 4, 2015, please visit our website at mtsallstream.com or visit SEDAR at sedar.com.

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

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

**Regarding forward-looking statements**

This interim MD&A 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* 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.

Actual events and results can be substantially different from what is expressed or implied by forward-looking information as a result of risks, uncertainties, and other factors, many of which are beyond our control, including but not limited to: the competitive environments at MTS and at Allstream, regulatory changes, market conditions, technological changes, security and network failures and/or cyber-risks, litigation and tax matters, and the MTS transformation program.

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

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

Factors that could cause anticipated opportunities and actual results to differ materially include, but are not limited to, matters identified in the *Risks and uncertainties* section of this interim MD&A.

# Business overview

## The COMPANY

Manitoba Telecom Services Inc. provides a wide array of information and communication technology services throughout Canada. Headquartered in Winnipeg, we serve all telecommunication market segments in Manitoba through our MTS Inc. subsidiary (MTS) as well as business customers across Canada through our Allstream Inc. subsidiary (Allstream). Our common shares are listed on the TSX (trading symbol: MBT) and our website is mtsallstream.com.

MTS offers a full suite of wireless and wireline communications services including voice, data, Internet and IPTV services to consumer customers in the province of Manitoba.

MTS provides a wide array of business solutions including information solutions and business telecommunications services. Information solutions includes information and technology infrastructure, application development, managed services, networking services and unified cloud services provided by both EPIC Information Solutions (EPIC) and The Technology Consortium (TTC).

MTS also provides residential and business security systems and products through its AAA Alarms Systems Ltd. subsidiary (AAA Security).

Allstream is Canada's only national telecommunications provider focused exclusively on business customers. Allstream provides a leading suite of converged IP, unified communications and related solutions that help businesses unify the many ways they connect, to better serve customers, and improve efficiency and productivity. All our services run on the Allstream secure national network, which is built and managed using advanced converged IP and fiber technologies.

## Strategic review progress

### MTS Allstream

Recognizing that MTS Allstream was not meeting the expectations of its shareholders, we 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, we have launched the turnaround/exit of Allstream and the repositioning of MTS. While we will measure success on a number of dimensions, one over-arching metric is free cash flow. To date, we have:

- 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 and 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 our 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.

### Beginning the transformation

We have completed a full diagnostic of the 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 our capital intensity, improve economic returns on capital investments, and ensure investments are relevant to our 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. We anticipate reductions of between 200 to 250 employees, with annualized cost savings in the range of $20 million to $25 million. We anticipate 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, we are 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***

We are 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.

We plan 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.

We will provide additional information on our Phase II and Phase III 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 our 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.

The following table provides further information on free cash flow from our Manitoba operations.

| *($ millions)* | **Q3 2015** | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 |
|---|---|---|---|---|---|
| EBITDA before restructuring costs | **111.8** | 115.2 | 121.0 | 113.4 | 115.5 |
| Investing activities[1] | **(42.2)** | (44.8) | (43.2) | (43.8) | (54.4) |
| Deferred wireless costs | **(26.5)** | (20.6) | (17.9) | (23.8) | (17.3) |
| Finance costs | **(17.3)** | (14.8) | (14.6) | (15.0) | (15.0) |
| Other items, net | **7.7** | 1.7 | 2.8 | 4.4 | 4.0 |
| **Free cash flow** | **33.5** | 36.7 | 48.1 | 35.2 | 32.8 |

*1 Excludes spectrum costs and the acquisition of TTC*

## 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, we are 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.

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.

The following table provides further information on Allstream's free cash flow.

| *($ millions)* | **Q3 2015** | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 |
|---|---|---|---|---|---|
| EBITDA before restructuring costs | **25.8** | 26.3 | 21.8 | 22.3 | 24.6 |
| Investing activities | **(15.5)** | (17.6) | (17.8) | (23.1) | (27.5) |
| Other items, net | **1.3** | — | (0.8) | 0.6 | 0.5 |
| **Free cash flow** | **11.6** | 8.7 | 3.2 | (0.2) | (2.4) |

# Q3 2015 Discussion of operations – consolidated results

## CONSOLIDATED

### Consolidated statements of net income and other comprehensive income (loss)

| *($ millions, except EPS [1] and weighted average shares outstanding)* | **Q3 2015** | Q3 2014 | % variance | **YTD 2015** | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| MTS operating revenues | **250.9** | 252.1 | (0.5) | **757.4** | 750.8 | 0.9 |
| Allstream operating revenues | **153.9** | 158.7 | (3.0) | **468.7** | 482.5 | (2.9) |
| Intersegment eliminations | **(6.4)** | (8.4) | 23.8 | **(21.4)** | (26.1) | 18.0 |
| **Total consolidated operating revenues** | **398.4** | 402.4 | (1.0) | **1,204.7** | 1,207.2 | (0.2) |
| Operations expense | **260.8** | 262.3 | 0.6 | **782.8** | 777.0 | (0.7) |
| MTS EBITDA before restructuring costs | **112.5** | 120.4 | (6.6) | **346.7** | 357.8 | (3.1) |
| Allstream EBITDA before restructuring costs | **25.8** | 24.6 | 4.9 | **73.9** | 77.2 | (4.3) |
| Other EBITDA before restructuring costs | **(0.7)** | (4.9) | 85.7 | **1.3** | (4.8) | n.a.* |
| **Consolidated EBITDA before restructuring costs** | **137.6** | 140.1 | (1.8) | **421.9** | 430.2 | (1.9) |
| MTS restructuring costs | **1.3** | — | n.a. | **4.1** | — | n.a. |
| Allstream restructuring costs | **(0.4)** | — | n.a. | **16.1** | — | n.a. |
| Other restructuring costs | **1.6** | — | n.a. | **4.3** | — | n.a. |
| **Total consolidated restructuring costs** | **2.5** | — | n.a. | **24.5** | — | n.a. |
| MTS EBITDA | **111.2** | 120.4 | (7.6) | **342.6** | 357.8 | (4.2) |
| Allstream EBITDA | **26.2** | 24.6 | 6.5 | **57.8** | 77.2 | (25.1) |
| Other EBITDA | **(2.3)** | (4.9) | 53.1 | **(3.0)** | (4.8) | 37.5 |
| **Consolidated EBITDA** | **135.1** | 140.1 | (3.6) | **397.4** | 430.2 | (7.6) |
| Depreciation and amortization | **82.0** | 73.0 | (12.3) | **267.8** | 229.8 | (16.5) |
| Other Income (expense) | **1.3** | (1.0) | n.a. | **5.1** | (0.8) | n.a. |
| Finance costs | **(18.0)** | (15.4) | (16.9) | **(49.1)** | (50.5) | 2.8 |
| Income before income taxes | **36.4** | 50.7 | (28.2) | **85.6** | 149.1 | (42.6) |
| Income tax expense | **9.7** | 13.9 | 30.2 | **21.8** | 41.6 | 47.6 |
| **Net income for the period** | **26.7** | 36.8 | (27.4) | **63.8** | 107.5 | (40.7) |
| Other comprehensive income (loss) for the period, net of tax | **20.5** | 25.3 | (19.0) | **147.1** | (16.8) | n.a. |
| **Total comprehensive income for the period** | **47.2** | 62.1 | (24.0) | **210.9** | 90.7 | n.a. |
| Weighted average shares outstanding (in millions) | **79.2** | 77.7 | 1.9 | **78.8** | 77.4 | 1.8 |
| EPS | **$0.34** | $0.47 | (27.7) | **$0.81** | $1.39 | (41.7) |
| EPS excluding restructuring costs | **$0.36** | $0.47 | (23.4) | **$1.04** | $1.39 | (25.2) |

[1] *Earnings per share*
**not applicable*

Subsidiary-specific operating revenues details can be found in the MTS and Allstream discussion of operations sections.

**Operations expense**
Consolidated operations expense was down 0.6% in Q3 2015 as we continue to realize the benefits of Allstream's cost reduction initiatives. 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 operations from TTC (which was acquired in June of this year) and higher pension expense.

Year to date consolidated operations expense was up 0.7%. MTS (including other) operations expense increased by $11.7 million mainly the result of increased pension expense ($5.3 million), cost of goods sold driven by higher equipment sales ($5.1 million), and TTC operations ($3.5 million). Allstream operations expense decreased by $10.5 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.

**EBITDA before restructuring**

During the third quarter MTS (including other) EBITDA before restructuring was down 3.2% in quarter due to increased pension expense and slight revenue declines. On a year to date basis MTS (including other) EBITDA before restructuring was down 1.4% mainly due to increased pension expense and higher cost of goods sold, partially offset by increased revenues. See our Q3 2015 Supplemental for additional EBITDA information.

Allstream's EBITDA before restructuring costs increased 4.9% in quarter due to continued benefits from restructuring activities. Year to date EBITDA before restructuring decreased 4.3% due primarily to overall revenue declines.

**Restructuring costs**

Our restructuring costs ($24.5 million) mainly represent costs associated with Allstream's workforce reduction ($16.1 million) and also include costs associated with the sale of Allstream and MTS transformation activities. Allstream's workforce reductions have contributed $11.1 million in salaries and benefits cost savings year to date representing an annualized cost savings of approximately $33.6 million (approximately two-thirds of the planned $50 million of total cost savings).

**Depreciation and amortization expense**

Our depreciation and amortization expense increased by $9.0 million in the third quarter largely as a result of a higher recovery of Scientific Research and Experimental Development Investment Tax Credits (SR&ED ITCs) recorded in Q3 2014. On a year to date basis, depreciation and amortization expense increased by $38.0 million mainly as a result of two factors. Firstly, increased amortization of deferred wireless costs ($18.3 million), largely as a result of the cessation of three-year contracts. The remaining increase is associated with higher SR&ED ITCs recorded in 2014.

**Other income (expense)**

Our other income increased $2.3 million in the third quarter due mainly to a higher loss on disposal of assets in Q3 2014. On a year to date basis other income increased $5.9 million largely due to a non-cash gain recorded in Q2 2015 as a result of our increased ownership interest in TTC, and the resulting remeasure of our previously held ownership interest, and a higher loss on disposal of assets in Q3 2014.

**Finance costs**

Our finance costs increased $2.6 million in the third quarter due mainly to costs associated with the MTS Data Centres' finance lease ($1.2 million) and higher short-term borrowing costs relating to the acquisition of WIND Mobile spectrum. Year to date finance costs decreased $1.4 million mainly a result of a lower interest rate on long-term debt financed in 2014, partially offset by the MTS Data Centres' finance lease costs.

**Income tax expense**

We continue 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 2023 at the earliest. The present value of these available tax assets is approximately $298.0 million. These tax assets have a book value of $452.0 million and are comprised of tax losses, the difference between the book value of fixed assets and their undepreciated capital cost for tax purposes, and unused SR&ED ITCs. See our Q3 2015 Supplemental for additional tax information.

**Net income and EPS**

Net income was down $10.1 million in Q3 2015 and $43.7 million year to date, and EPS was down $0.13 in Q3 2015 and $0.58 year to date. This was largely the result of 2015 restructuring costs and increased depreciation and amortization expense.

**Other comprehensive income (loss)**

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

The increase in other comprehensive income year to date was due to a solid return on pension assets and changes to the discount rate used to value the pension liabilities.

## MTS

***Operating revenues detail***

| *($ millions)* | **Q3 2015** | Q3 2014 | % variance | **YTD 2015** | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Wireless | **88.1** | 91.0 | (3.2) | **263.3** | 264.0 | (0.3) |
| Broadband and converged IP | **62.5** | 60.9 | 2.6 | **189.4** | 179.9 | 5.3 |
| Information solutions | **8.4** | 6.3 | 33.3 | **26.6** | 17.3 | 53.8 |
| Security and monitoring | **3.3** | 3.4 | (2.9) | **9.5** | 9.7 | (2.1) |
| Unified communications | **5.3** | 6.2 | (14.5) | **18.7** | 17.3 | 8.1 |
| Local access | **58.0** | 58.7 | (1.2) | **175.7** | 181.8 | (3.4) |
| Long distance and data | **15.0** | 16.4 | (8.5) | **45.2** | 49.9 | (9.4) |
| Other | **10.3** | 9.2 | 12.0 | **29.0** | 30.9 | (6.1) |
| **Total MTS operating revenues** | **250.9** | 252.1 | (0.5) | **757.4** | 750.8 | 0.9 |

### Multi-product customers

MTS customers can select an assortment of services including wireless, IPTV, Internet, home phone and home security services, and then package these selections to create meaningful savings. In Q3 2015 we saw significant improvement in our multi-product customer penetration which grew to 112,517, an increase of 7.7% over Q3 2014. Of our customers who subscribe to multi-product services, 73.9% have home Internet and wireless services which is especially important as no other competitor in the market can offer this combination of services.

### Wireless

MTS' vast and reliable wireless networks keep our customers connected across Manitoba. The combined power of our network coverage and Wi-Fi hotspots ensures that our customers can use their smartphones and devices to their fullest. For our business wireless customers we also offer Fleetnet 800™ and paging services.

***Wireless revenues detail***

| *($ millions)* | **Q3 2015** | Q3 2014 | % variance | **YTD 2015** | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Voice | **43.9** | 49.1 | (10.6) | **132.2** | 145.6 | (9.2) |
| Data | **41.3** | 38.9 | 6.2 | **122.1** | 109.7 | 11.3 |
| Other | **2.9** | 3.0 | (3.3) | **9.0** | 8.7 | 3.4 |
| **Total wireless revenues** | **88.1** | 91.0 | (3.2) | **263.3** | 264.0 | (0.3) |

**Voice:** Revenues decreased in Q3 2015 and year to date, as a result of lower pricing on feature-rich plans in the Manitoba market and lower airtime, toll and pre-paid revenues. The latter has been in steady decline, in part from a lack of dedicated focus and/or resources. A new strategy has been adopted and has shown early but promising results.

**Data:** Driven by strong demand for smartphones and corresponding data usage, revenues increased in Q3 2015 and year to date. Subscribers on data plans increased in Q3 2015 to 79% from 73% in Q3 2014.

Post-paid subscriber churn increased from 0.98% in Q3 2014 to 1.18% in Q3 2015. This increased churn is mainly attributed to the impact of the wireless double cohort. As we noted in our Q2 2015 results, the Federal Court of Appeal ruling on May 19, 2015 dismissed the challenge of a consortium of wireless service providers, that the Canadian Radio-television and Telecommunications Commission (CRTC) did not have the authority to apply the provisions of the Wireless Code to contracts that were already in place before the Code took effect. As a result of this decision, as of June 3, 2015, a large cohort of our customers were eligible to exit out of their wireless contracts. On this date our post-paid customers without contracts increased significantly which has created heightened competition in the market. While we have taken steps to mitigate the impact of this decision, which now includes our TMO program with its renewed customer-first strategy, our wireless churn has still been negatively impacted. See our Q3 2015 Supplemental for additional subscriber statistics.

### Broadband and converged IP

Broadband services include revenues earned from providing high-speed Internet and IPTV services to residential customers, as well as converged IP connectivity to business customers. Our high-speed Internet service provides fast, reliable speeds with the most comprehensive Internet coverage in Manitoba. IPTV service, branded as MTS Ultimate TV® is available in 16 communities in the province.

***Broadband and converged IP revenue detail***

| *($ millions)* | **Q3 2015** | Q3 2014 | % variance | **YTD 2015** | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Internet | **35.3** | 32.7 | 8.0 | **103.9** | 95.8 | 8.5 |
| IPTV | **21.8** | 21.3 | 2.3 | **66.6** | 63.3 | 5.2 |
| Converged IP | **5.4** | 6.9 | (21.7) | **18.9** | 20.8 | (9.1) |
| **Total broadband and converged IP revenues** | **62.5** | 60.9 | 2.6 | **189.4** | 179.9 | 5.3 |

**Internet:** Q3 2015 saw revenue growth of 8.0% from strong subscriber growth of 2.9% and higher ARPU (resulting from price increases and customers taking higher-speed Internet services).

**IPTV:** Revenues increased in Q3 2015 from strong migrations to the higher-ARPU MTS Ultimate TV®, a lower number of customers receiving promotional pricing and price increases.

While we continue to achieve strong sales and activations, our retention efforts have not kept pace, resulting in higher churn in both Internet and IPTV. We have put in place an improved retention focus throughout our operations. Our TMO program with its renewed customer-first strategy is part of the process we are using to mitigate this churn. See our Q3 2015 Supplemental for additional subscriber statistics.

### Information solutions

Revenues from this line of business include revenues earned by EPIC, TTC (as of June 1, 2015) and the MTS Data Centres. Information solutions revenues were up $2.1 million quarter over quarter due primarily to TTC. Year to date revenues were up $9.3 million due to a combination of one-time equipment sales at EPIC and a full-quarter of TTC revenues.

### Security and monitoring

Provided by AAA Security, these services include the installation and monitoring of alarm services to residential customers.

### Unified communications

Unified communications revenues are earned from the sale of IP telephony products and services. Revenues decreased in Q3 2015 due to lower hardware installations and associated services.

### Local access

Our local access services includes revenues earned from the sale of residential and business voice connectivity, including calling features, payphone revenue, wholesale revenues from services provided to third parties and contribution revenues. Local revenues were down, reflecting a combination of competitive losses and wireless substitution.

### Long distance and data

This business line includes residential and business long distance services, business data services and wholesale data services provided to third parties.

***Long distance and data revenues detail***

| *($ millions)* | **Q3 2015** | Q3 2014 | % variance | **YTD 2015** | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Long distance | **8.3** | 9.3 | (10.8) | **24.8** | 28.0 | (11.4) |
| Data | **6.7** | 7.1 | (5.6) | **20.4** | 21.9 | (6.8) |
| **Total long distance and data revenues** | **15.0** | 16.4 | (8.5) | **45.2** | 49.9 | (9.4) |

**Long distance:** Revenues declined, 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.

**Data:** Revenues were down in Q3 2015 and year to date, reflecting reprice, migration to converged IP and competitive losses.

### Other

Other services include wholesale revenues earned from wireless carriers, sales and maintenance revenues for terminal equipment such as telephone switches to business customers, other miscellaneous consumer fees and intersegment transactions.

***Other revenues detail***

| *($ millions)* | Q3 2015 | Q3 2014 | % variance | YTD 2015 | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Wholesale | **2.0** | 2.5 | (20.0) | **5.7** | 10.3 | (44.7) |
| Intersegment revenues | **3.7** | 3.7 | n.a.* | **10.9** | 11.1 | (1.8) |
| Other | **4.6** | 3.0 | 53.3 | **12.4** | 9.5 | 30.5 |
| **Total other revenues** | **10.3** | 9.2 | 12.0 | **29.0** | 30.9 | (6.1) |

**not applicable*

**Wholesale**: Revenues were down as carriers move their customers from our CDMA network to their own networks.

## ALLSTREAM

***Operating revenues detail***

| *($ millions)* | Q3 2015 | Q3 2014 | % variance | YTD 2015 | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Converged IP | **72.3** | 66.4 | 8.9 | **211.7** | 193.3 | 9.5 |
| Unified communications, hosting and security | **19.4** | 18.9 | 2.6 | **61.6** | 56.3 | 9.4 |
| Local access | **28.8** | 32.5 | (11.4) | **88.9** | 101.8 | (12.7) |
| Long distance and data | **27.9** | 32.0 | (12.8) | **86.1** | 100.8 | (14.6) |
| Other | **5.5** | 8.9 | (38.2) | **20.4** | 30.3 | (32.7) |
| **Total Allstream operating revenues** | **153.9** | 158.7 | (3.0) | **468.7** | 482.5 | (2.9) |

### Converged IP

Converged IP revenues are earned from the sale of converged IP-based networking and related products and services to business customers across Canada. Allstream's converged IP virtual private network service provides business organizations with a connectivity solution that enables growth and expansion to any location, while reducing costs and increasing productivity. Converged IP revenues grew in Q3 2015 and on a year to date basis as a result of both new converged IP installations and expansion of existing converged IP connections. There were 864 converged IP contract wins in Q3 2015 and, on a year to date basis, there are 36 more converged IP contract wins than the same period in 2014. The Shared Services Canada contract awarded in 2012 is significantly completed.

### Unified communications, hosting and security

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

***Unified communications, hosting and security revenues detail***

| *($ millions)* | Q3 2015 | Q3 2014 | % variance | YTD 2015 | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Unified communications | **12.9** | 13.4 | (3.7) | **41.5** | 40.6 | 2.2 |
| Hosting | **5.6** | 4.2 | 33.3 | **16.5** | 12.4 | 33.1 |
| Security | **0.9** | 1.3 | (30.8) | **3.6** | 3.3 | 9.1 |
| **Total unified communications, hosting and security revenues** | **19.4** | 18.9 | 2.6 | **61.6** | 56.3 | 9.4 |

**Unified communications:** Revenues decreased in Q3 2015 due to lower hardware installations and associated services.

**Hosting:** Revenues were up in Q3 2015 and year to date as a result of an increased emphasis on the sale of cloud services.

**Local access:** Revenues earned for the provision of business voice connectivity, including calling features to national business and wholesale customers were down in Q3 2015 and year to date, reflecting declines in rates and line counts.

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

***Long distance and data revenues detail***

| *($ millions)* | **Q3 2015** | Q3 2014 | % variance | **YTD 2015** | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Long distance | **14.6** | 16.4 | (11.0) | **45.0** | 51.3 | (12.3) |
| Data | **13.3** | 15.6 | (14.7) | **41.1** | 49.5 | (17.0) |
| **Total long distance and data revenues** | **27.9** | 32.0 | (12.8) | **86.1** | 100.8 | (14.6) |

**Long distance:** Revenues were down due to customer migration to lower-priced long distance plans and reduced volumes as customers continue to seek out alternative methods of communication.

**Data:** Revenue declines were due to a combination of competitive churn, customer migration to converged IP-based services and repricing of services.

### Other

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

***Other revenues detail***

| *($ millions)* | **Q3 2015** | Q3 2014 | % variance | **YTD 2015** | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Intersegment revenues | **2.7** | 4.7 | (42.6) | **10.6** | 15.0 | (29.3) |
| Other | **2.8** | 4.2 | (33.3) | **9.8** | 15.3 | (35.9) |
| **Total other revenues** | **5.5** | 8.9 | (38.2) | **20.4** | 30.3 | (32.7) |

**Other:** Revenue declines were mainly due to lower international and cross-border volumes for global hubbing, a low-margin wholesale voice service.

## SELECTED QUARTERLY FINANCIAL INFORMATION

### Selected quarterly financial results – consolidated

| *($ millions, except EPS and weighted average shares outstanding)* | **Q3 2015** | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
|---|---|---|---|---|---|---|---|---|
| Operating revenues | **398.4** | 398.3 | 408.0 | 404.8 | 402.4 | 403.3 | 401.5 | 408.5 |
| EBITDA before restructuring costs | **137.6** | 141.5 | 142.8 | 135.7 | 140.1 | 142.5 | 147.6 | 128.0 |
| Free cash flow | **45.1** | 45.4 | 51.3 | 35.0 | 30.4 | 32.2 | 49.0 | 3.0 |
| Capital investments | **48.3** | 62.1 | 60.5 | 81.8 | 84.7 | 78.2 | 43.6 | 87.7 |
| Net income (loss) | **26.7** | 10.4 | 26.7 | 24.2 | 36.8 | 28.8 | 41.9 | (87.8) |
| EPS | **$0.34** | $0.13 | $0.34 | $0.31 | $0.47 | $0.37 | $0.54 | ($1.25) |
| EPS excluding restructuring costs | **$0.36** | $0.31 | $0.36 | $0.31 | $0.47 | $0.37 | $0.54 | ($1.25) |
| Weighted average shares outstanding[1] *(in millions)* | **79.2** | 78.6 | 78.4 | 78.1 | 77.7 | 77.4 | 77.1 | 70.3 |

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

Our interim financial results for the last eight quarters (Q3 2015 to Q4 2013) reflect the following significant transactions and trends:

- **Workforce reduction plan and restructuring costs** – In the first, second and third quarters of 2015 we expensed $11.5 million, $8.0 million and $5.0 million, respectively in salaries and benefits costs related to staff who will be leaving Allstream and recorded restructuring expense of $1.7 million, $14.8 million and an expense recovery of $0.4 million, respectively. Narrowing Allstream's strategic focus has created the opportunity to quickly address our cost structure; 340 employees have left the business and a further 169 have received working notice and will exit the business throughout the remainder of 2015 and into 2016. Year to date salaries and benefits cost savings were $11.1 million, representing an annualized cost reduction of approximately $33.6 million. With the additional 55 in scheduled employee departures by year end, we expect the annualized run-rate savings to grow to approximately $37.9 million by year end.

  In the second and third quarters of 2015 our restructuring expense at MTS (including other) were $5.5 million and $2.9 million, respectively. These costs are associated with the sale of Allstream and MTS transformation activities.

- **Spectrum purchases** – On July 31, 2015 we acquired 15 MHz of paired AWS-1 spectrum from Wind Mobile for $45 million. We intend to use this spectrum to upgrade our wireless network, significantly increasing the network speed and customer experience. In Q2 2015, MTS acquired a block of 2500 MHz spectrum in the Industry Canada 2500 MHz (BRS) auction for $2.4 million. This is in addition to the 700 MHz spectrum which was acquired in Q2 2014 for $8.9 million.

- **SR&ED ITC recovery adjustments** – In Q3 2015, we realized positive SR&ED ITC recovery adjustments (relating to the 2012 taxation year) which increased EPS by $0.05 by reducing depreciation and amortization expense. In Q3 2014 and Q1 2014, we realized positive SR&ED ITC recovery adjustments which increased EPS by $0.11 in Q3 2014 and by $0.12 in Q1 2014 by reducing depreciation and amortization expense. The Q1 2014 SR&ED ITC recovery constitutes the net adjustment relating to four taxation years, ending December 31, 2011. The Q3 2014 SR&ED ITC adjustment reflects the final asset allocations to which the SR&ED ITC relate.

- **Wireless double cohort** - As a result of the May 19, 2015 CRTC decision, in the second quarter of 2015 we have fully amortized any outstanding deferred wireless costs related to the now invalid three-year wireless contracts. With this accelerated amortization we recognized $9.9 million of additional expense in Q2 2015, of which $5.0 million and $3.4 million would have otherwise been expensed in Q3 and Q4 2015, respectively, with the remaining $1.5 million expensed in 2016. The EPS impact of this accelerated amortization in Q2 2015 was $0.09.

- **Pension plan pre-funding** – On May 6, 2015 we completed the pre-funding of $120 million into our pension plans using our existing credit facilities. This one-time pre-funding eliminates the need for solvency payments for 2015 and 2016 under any reasonable economic scenario with the expectation of enhancing the stability and predictability of free cash flows.

- **Equity issuance** – On December 6, 2013, we announced that we had issued 8,855,000 common shares, at a purchase price of $28.10 per common share, for gross proceeds of $248.8 million. The net proceeds were approximately $238 million, after deducting the underwriters' commission and expenses.

- **Costs related to Supreme Court of Canada's (SCC) ruling** – In Q4 2013, we recorded a $142.1-million non-cash charge against income to reflect the total estimated value of pension benefits and other estimated costs related to the SCC's ruling on a lawsuit regarding the administration of one of MTS's pension plans following the Company's 1997 privatization. The SCC's decision negatively impacted Q4 2013 EPS by $1.48.

## Liquidity and capital resources

### SUMMARY of CASH FLOWS

| *($ millions)* | **Q3 2015** | Q3 2014 | % variance | **YTD 2015** | YTD 2014 | % variance |
|---|---|---|---|---|---|---|
| Cash flows from (used in): | | | | | | |
| Operating activities | **119.6** | 149.8 | (20.2) | **116.5** | 312.0 | (62.7) |
| Investing activities | **(102.9)** | (81.9) | (25.6) | **(234.0)** | (238.2) | 1.8 |
| Financing activities | **(13.0)** | (23.8) | 45.4 | **77.5** | (123.1) | n.a.* |
| **Change in cash and cash equivalents for the period** | **3.7** | 44.1 | (91.6) | **(40.0)** | (49.3) | 18.9 |

**not applicable*

**Operating activities**
*"Cash flows (used in) from operating activities" refers to cash we generate from our business activities.*
Cash flows from operating activities decreased $30.2 million in Q3 2015 mainly due to decreased cash from working capital of $20.7 million and increased deferred wireless costs of $9.2 million. On a year to date basis, cash flows from operating activities decreased $195.5 million mainly due to a combination of the pension solvency pre-payment of $120.0 million, one-time pension lawsuit payments of $12.4 million, an increase in restructuring costs of $24.5 million and deferred wireless costs of $17.7 million.

**Investing activities**
*"Investing activities" refers to cash used for acquiring, and cash received from disposing of, long-term assets and other long-term investments.*
Cash flows used in investing activities increased $21.0 million in quarter due to spectrum acquisition costs of $45.2 million, partly offset by planned reductions in capital investments of $36.4 million. On a year to date basis, the planned reductions in capital investments, were mostly offset by higher spectrum acquisition costs and the acquisition of the remaining 50% ownership in TTC, resulting in decreased cash flows used in investing activities of $4.2 million.

**Financing activities**
*"Financing activities" refers to actions we undertake to fund our operations through equity capital and borrowings.*
Cash flows used in financing activities decreased $10.8 million in Q3 2015 due to decreased dividends paid of $6.6 million and cash from the issuance of notes payable of $4.2 million. Year to date cash flows from financing activities increased $200.6 million mainly due to the issuance of notes payable in 2015, the 2014 net repayment of long-term debt of $50 million and the decrease in dividends paid in 2015.

In the second and third quarters of 2015, cash dividends of $0.325 per common share were paid out to shareholders. In the first quarter of 2015 and each quarter of 2014, cash dividends of $0.425 per common share were paid to shareholders, as approved by the Board. During the nine months ended September 30, 2015, 1,139,077 Common Shares were issued as a result of participation in our Dividend Reinvestment Plan. These shares were issued for net proceeds of $28.9 million. The Company is no longer issuing shares as a result of participation in our dividend reinvestment program. All shares are now purchased on the open market.

**Free cash flow**
Our free cash flow definition 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. The following table provides a reconciliation of free cash flow from EBITDA by subsidiary to consolidated results.

| **Third-quarter free cash flow** | **MTS[1]** | | **Allstream** | | **Consolidated** | | |
|---|---|---|---|---|---|---|---|
| *($ millions)* | **Q3 2015** | Q3 2014 | **Q3 2015** | Q3 2014 | **Q3 2015** | Q3 2014 | % variance |
| EBITDA before restructuring costs | **111.8** | 115.5 | **25.8** | 24.6 | **137.6** | 140.1 | (1.8) |
| Add back (deduct): | | | | | | | |
| Deferred wireless costs | **(26.5)** | (17.3) | **—** | — | **(26.5)** | (17.3) | (53.2) |
| Finance costs | **(17.3)** | (15.0) | **(0.7)** | (0.4) | **(18.0)** | (15.4) | (16.9) |
| Other operating activities, net | **1.7** | 0.5 | **0.3** | — | **2.0** | 0.5 | n.a.* |
| Current cash income tax expense | **(0.1)** | (0.1) | **—** | — | **(0.1)** | (0.1) | n.a. |
| Pension funding and net pension expense | **5.3** | 3.1 | **1.0** | 0.7 | **6.3** | 3.8 | 65.8 |
| Other income | **0.8** | 0.3 | **0.5** | (1.3) | **1.3** | (1.0) | n.a. |
| Loss on disposal of assets | **—** | 0.2 | **0.2** | 1.5 | **0.2** | 1.7 | (88.2) |
| Total | **75.7** | 87.2 | **27.1** | 25.1 | **102.8** | 112.3 | (8.5) |
| Investing activities[2] | **(42.2)** | (54.4) | **(15.5)** | (27.5) | **(57.7)** | (81.9) | 29.5 |
| **Free cash flow for the period** | **33.5** | 32.8 | **11.6** | (2.4) | **45.1** | 30.4 | 48.4 |

[1] *MTS includes MTS and other*
[2] *Excluding spectrum and TTC*
**not applicable*

| **Year to date free cash flow** | **MTS[1]** | | **Allstream** | | **Consolidated** | | |
|---|---|---|---|---|---|---|---|
| *($ millions)* | **YTD 2015** | YTD 2014 | **YTD 2015** | YTD 2014 | **YTD 2015** | YTD 2014 | % variance |
| EBITDA before restructuring costs | **348.0** | 353.0 | **73.9** | 77.2 | **421.9** | 430.2 | (1.9) |
| Add back (deduct): | | | | | | | |
| Deferred wireless costs | **(65.0)** | (47.3) | **—** | — | **(65.0)** | (47.3) | (37.4) |
| Finance costs | **(46.7)** | (49.0) | **(2.4)** | (1.5) | **(49.1)** | (50.5) | 2.8 |
| Gain on revaluation of TTC | **(5.6)** | — | — | — | **(5.6)** | — | n.a.* |
| Other operating activities, net | **(1.5)** | (1.0) | **(0.3)** | (0.3) | **(1.8)** | (1.3) | (38.5) |
| Current income tax expense | **(0.4)** | (0.2) | **—** | — | **(0.4)** | (0.2) | n.a. |
| Pension funding and net pension expense | **14.7** | 8.4 | **2.4** | — | **17.1** | 8.4 | n.a. |
| Other income | **4.5** | 0.5 | **0.6** | (1.3) | **5.1** | (0.8) | n.a. |
| Loss on disposal of assets | **0.5** | 0.6 | **0.2** | 1.8 | **0.7** | 2.4 | (70.8) |
| Total | **248.5** | 265.0 | **74.4** | 75.9 | **322.9** | 340.9 | (5.3) |
| Investing activities[2] | **(130.2)** | (152.0) | **(50.9)** | (77.3) | **(181.1)** | (229.3) | 21.0 |
| **Free cash flow for the period** | **118.3** | 113.0 | **23.5** | (1.4) | **141.8** | 111.6 | 27.1 |

[1] *MTS includes MTS and other*
[2] *Excluding spectrum and TTC*
**not applicable*

Consolidated free cash flow was up both in quarter $14.7 million or 48.4%, and year to date $30.2 million or 27.1%, mainly due to our recent efforts to improve both the intensity and effectiveness of our capital investment decision-making within both organizations, partially offset by increased deferred wireless costs ($9.2 million for the quarter and $17.7 million year to date).

## CAPITAL MANAGEMENT

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

### Credit facilities

| *($ millions)* | **Utilized at September 30, 2015** | Capacity |
|---|---|---|
| Medium-term note program | **225.0** | 500.0 |
| Revolving credit facility | **128.5** | 400.0 |
| Additional credit facilities | **299.3** | 300.0 |
| Accounts receivable securitization | **102.2** | 110.0 |
| **Total** | **755.0** | 1,310.0 |

We renewed our medium-term note (MTN) program on October 2, 2015 for $500-million for a further two-year period. We have a $400-million revolving credit facility, of which we had utilized $128.5 million at September 30, 2015 for undrawn letters of credit and to partially fund the pension pre-payment and spectrum purchase. We also have two additional credit facilities totalling $300 million, which are used solely for the issuance of letters of credit. As at September 30, 2015, a total of $299.3 million was utilized for undrawn letters of credit. In addition to these programs and facilities, we have a $110-million accounts receivable securitization program, of which $102.2 million was utilized as at September 30, 2015.

### Capital structure

| *($ millions)* | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Bank indebtedness (Cash and equivalents) | **6.6** | (33.4) |
| Notes payable | **147.2** | — |
| Finance lease obligations, including current portion | **54.5** | — |
| Long-term debt, including current portion | **873.8** | 873.1 |
| Net debt | **1,082.1** | 839.7 |
| Shareholders' equity | **1,207.2** | 1,052.3 |
| Total capitalization | **2,289.3** | 1,892.0 |
| Debt to capitalization | **47.3%** | 44.4% |

Our capital structure illustrates the amount of our assets that is financed by debt versus equity. Our debt to total capitalization ratio of 47.3% at September 30, 2015 continues to represent financial strength and flexibility.

### Credit ratings

| | | | |
|---|---|---|---|
| S&P - Senior debentures | BBB (negative) | 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 8, 2015, S&P confirmed its credit ratings on our long-term corporate credit and senior unsecured debt at "BBB", and also confirmed our commercial paper rating of "A-2". However, S&P revised its outlook to negative from stable. DBRS confirmed its ratings on May 7, 2015, 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 October 26, 2015 | As at September 30, 2015 |
|---|---|---|
| Common shares outstanding | **79,262,469** | 79,262,469 |
| Stock options outstanding | **1,831,770** | 1,831,770 |
| Stock options exercisable | **1,808,525** | 1,808,525 |

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

**Foreign currency forward contracts**
We use foreign currency forward contracts to manage the foreign currency exposure. Foreign exchange gains and losses on these foreign currency forward contracts are recorded in the consolidated statement of financial position as an asset or a liability, with changes in fair value recognized in the consolidated statement of net income. As at September 30, 2015, we had outstanding foreign currency forward contracts to purchase $14.6 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 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 September 30, 2015, we had $102.2 million outstanding under our accounts receivable securitization program.

## Critical accounting estimates and assumptions

In our 2014 annual audited consolidated financial statements and notes, as well as in our 2014 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 2014 annual audited consolidated financial statements and notes and 2014 annual MD&A.

## Changes in accounting policies

Our third-quarter 2015 interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of application as those used in our audited consolidated financial statements for the year ended December 31, 2014.

We have not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but are not yet effective. We expect the following standards and amendments described below to be applicable to our consolidated financial statements at a future date. The following standards and interpretations are currently being reviewed to determine the potential impact:

**IFRS 9, *Financial Instruments***
The final version of IFRS 9, *Financial Instruments*, was issued in July 2014, and replaces earlier versions of IFRS 9 and completes the International Accounting Standards Board's project to replace IAS 39. The new standard introduces new classification and measurement requirements for assets and liabilities, and a new, expected loss impairment model that will require more timely recognition of expected credit losses for financial instruments. Entities will also be required to have additional disclosure to provide information that explains the basis for their expected credit loss calculations and how they measure expected credit losses and assess changes in credit risk. The standard also introduces a new hedge accounting model that aligns the accounting treatment with risk management activities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively, with earlier application permitted.

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

IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and establishes a five-step revenue recognition model that applies to revenue arising from contracts with customers. IFRS 15 requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to customers at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This standard also provides guidance on the accounting treatment for contract acquisition and contract fulfillment costs and requires enhanced disclosures as to the nature, timing and uncertainty of revenues and cash flows arising from contracts with customers. This standard supersedes IAS 18, *Revenues*, IAS 11, *Construction Contract*s and a number of revenue-related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with earlier adoption permitted. Entities will transition following either a full or modified retrospective approach.

We expect the application of this new standard to impact the reported results in our consolidated financial statements. The expected impacts include a change in the allocation of contract revenues between services and equipment, and a shift in the timing over which those revenues are recognized. We also expect a shift in the timing of recognition for contract acquisition and fulfillment costs.

**Amendments to IAS 1, *Presentation of Financial Statements***

Amendments to IAS 1, *Presentation of Financial Statements*, was issued in December 2014. These amendments provide guidance on the application of professional judgement in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier adoption permitted.

## Regulatory developments

MTS and Allstream are subject to regulations that materially impact how they can conduct business. The telecommunications and broadcast industries in which we operate are federally regulated, pursuant to both the *Telecommunications Act* and the *Broadcasting Act*. We are also subject to other federal and provincial regulations that shape how we conduct our business. Our regulatory environment is as described in our 2014 annual MD&A and is updated for material developments every quarter. In Q3 2015, there have been the following material developments:

**Wireless spectrum auctions**

An auction of residual spectrum licences in the 700 MHz and AWS-3 bands was held by Industry Canada on August 25, 2015, although MTS did not acquire any licenses.

**Pick-and-pay television services**

As a follow-up to the Let's Talk TV decision, on September 24, 2015 the CRTC published the Wholesale Code which, effective January 22, 2016, will govern aspects of commercial arrangements between broadcast distribution undertakings (BDUs) and programming undertakings. MTS does not expect this decision to have a material impact on programming fees or MTS TV packaging (as our current packaging is already in material compliance with the new Wholesale Code). This decision means that MTS will need to expedite negotiations with several programmers.

**Emergency alerting system**

As of March 31, 2015, licensed BDUs were required to be ready to distribute emergency alert messages to all their customers as part of the National Public Safety Alerting System. While MTS was able to implement a solution for its MTS Ultimate TV® service, MTS, similar to other BDUs, it was unable to do so for its Classic TV service. As of September 30, 2015, MTS still has approximately 2,900 customers on Classic TV. On September 23, 2015, MTS filed for relief from the CRTC. Other BDUs have also filed for similar relief from the CRTC.

## 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 risk, as well as associated opportunities, are important considerations in our current and future business strategy.

Once we set our strategic objectives, our risk management program is used 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, together with our enterprise risk management team.

Our risks and uncertainties are described in our 2014 annual MD&A and is updated for material developments every quarter.

The MTS transformation program information summarized below is the only new material item for the quarter that has not been disclosed in the *Risks and uncertainties* section of either our Q1 2015 and Q2 2015 MD&As or our 2014 annual MD&A.

The announced intention to transform MTS will introduce many new and exciting opportunities for MTS, its customers and its shareholders. However, there are associated risks inherent within any transformation initiative of this size and scope. Although the TMO initiatives are expected to rejuvenate and rebuild MTS, the benefits of the TMO initiatives may not be fully realized and some of the activities undertaken (capital investment overhaul and organizational streamlining) could be disruptive to the organization and its ability to serve customers, which, in turn, could negatively impact different aspects of MTS' operating results. In addition, the brand rejuvenation initiative is expected to be very-well received by Manitobans, though the process of rebranding a company with a long history in the province could similarly adversely impact operating results. The TMO is carefully managing these risks to help ensure the expected benefits are realized.

## Controls and procedures

There have been no changes in our internal control over financial reporting during our most recent interim period (ended September 30, 2015) that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting. Internal control over financial reporting is described in our 2014 annual MD&A.

## Non-IFRS measures of performance

In this interim Q3 2015 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 investing activities and excluding changes in working capital, pension solvency funding and lawsuit payments, spectrum costs, restructuring costs, the acquisition of TTC and non-cash taxes".