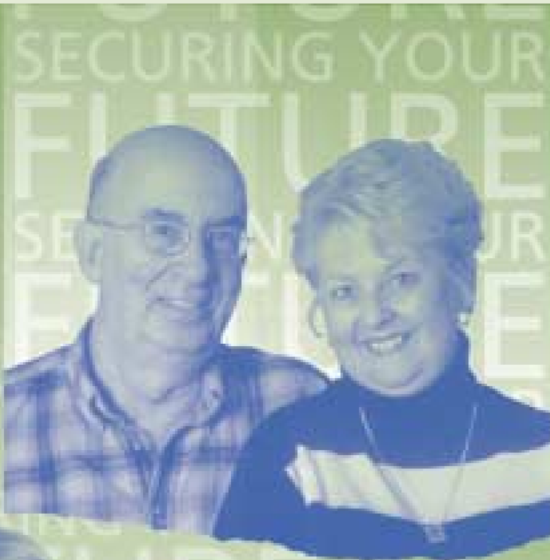
EMPLOYEE PENSION PLAN

Employee Pension Plan **2001** Annual Report



Manitoba Telecom Services Inc. and Participating Subsidiaries

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FOR MORE INFORMATION

If you have any questions about the information contained in this annual report or would like to provide your comments concerning the annual report, please contact:

MTS Pension Plan
Benefits Administration
P.O. Box 6666
19th Floor, 333 Main Street
Winnipeg, Manitoba R3C 3V6

Phone No.: **941-7347** or **1-800-635-4973**
Fax No.: **774-3163**
e-mail: **mtspensionplan@mts.mb.ca**

If you would like more information on your personal retirement or termination benefits, please contact the MTS Pension Plan's administrative services provider:

The Civil Service Superannuation Board
1200 - 444 St. Mary Avenue
Winnipeg, Manitoba R3C 3T1

Phone No.: **957-8722** or **1-800-432-5134**
Fax No.: **945-0237**

MESSAGE FROM THE PRESIDENT

2001 was a year unlike any other, as the tragic events of September 11th in the United States made clear. Despite the global economic uncertainties that followed, it was another year of solid accomplishment for our Pension Plan, which has now completed its fifth full year of operation.

The relative performance of MTS's Pension Plan was good. The Plan's investments earned a return of –0.1%. This ranked well against other pension plans and major indices like the TSE 300 Index or the MSCI World Index for example, which posted losses just under –13% and –12% respectively. Importantly, it is the Plan's performance over longer periods that best indicates how well the funds are invested. I am pleased to note that the Plan's five-year annual return is 8.4%, which exceeds both the performance goal and benchmark return. This achievement reflects the appropriateness of the Plan's asset mix, as well as the prudent approach of its investment policy.

The list of 2001 highlights continues. Retirees received a cost of living increase of 2.15%. Sixty-three new retirees began receiving their pensions. The number of Plan members increased by 166. Both the Investment Committee and the Pension Committee continue to work hard to ensure that every member can look to the Plan as a source of stable income during retirement – an objective that is, and will remain, a top priority. In addition, the MTS Pension Plan continues to be fully funded. This means that the assets of the Plan exceed the estimated amount necessary to pay the promised benefits. Should the Plan become unfunded in the future, it is the Company's sole responsibility to cover these obligations. Essentially, this means that Plan members' pensions are completely secure, regardless of the investment return earned in any given year.

In addition to this report, we now have an MTS Pension Plan Web site up and running as another vehicle to enhance our communication. Please visit ***www.mtspensionplan.ca***. If you have any questions about Plan provisions, feel free to contact us at the numbers listed on the inside front cover of this report.

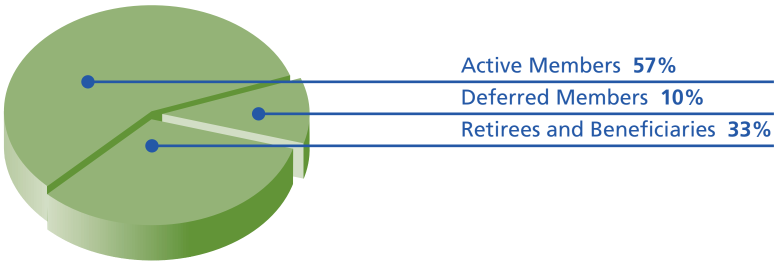
The performance of the MTS Pension Plan over the past several years has been consistently strong – evidence that it continues to be very well managed and administered. You, as Plan members, are assured of an excellent benefit that contributes to your retirement years, and you can be extremely confident in the security of that benefit going forward.

Bill Fraser
President & Chief Executive Officer

HIGHLIGHTS

The MTS Pension Plan is a contributory defined benefit plan providing benefits to the employees of Manitoba Telecom Services Inc., MTS Communications Inc., MTS Advanced Inc. and Manitoba Telecom Services International Inc. Here are some highlights of the Plan:

- Eligible employees contribute to the Plan by payroll deduction each pay period. These contributions are fully tax deductible. MTS contributes the amounts necessary to ensure that the Plan can meet its obligations.
- Members' eligibility to contribute to an RRSP is reduced each year by the value of the pension they earn from the MTS Pension Plan.
- At retirement, members are eligible for a pension based on a formula using their average earnings during the five years of employment when their earnings were the highest and their years of credited service as a member of the Plan.
- Members may retire with an unreduced pension at any time after age 55 if their age plus years of continuous service total at least 80. Members may also retire with an unreduced pension at age 60 if they have at least 10 years of continuous service. Members may retire with a reduced pension at any time after age 45 if their age plus years of continuous service is at least 70.
- There is a guaranteed cost of living adjustment (COLA) in the Plan equal to two-thirds of the increase in the Canadian Consumer Price Index (CPI) to a maximum CPI increase of 4%. Additional cost of living adjustments may be granted if there is sufficient funding available from the COLA account.
- Members who leave MTS before they are eligible to retire but after at least two years of continuous service with the Company are entitled to a deferred pension (a pension payable when they are eligible to retire). They may also choose to transfer the value of the pension to a locked-in RRSP.



Active Members	3,641
Deferred Members	630
Retirees and Beneficiaries	2,152
Total Members	**6,423**

For more details on the Plan, please refer to your copy of the MTS Pension Plan booklet or the MTS Pension Plan Web site at *www.mtspensionplan.ca*.

Active members are those currently contributing to the Plan. Deferred members are former employees who have left their entitlement in the MTS Pension Plan to be paid at a later date. Retirees and beneficiaries are those currently receiving a pension from the Plan.

The total number of members increased by 166 from the end of 2000. The majority of the increase is due to an increase in active members.

"To retire is a major decision, I've never regretted it, not a single day."

Rowland Crothers

YOUR PENSION BENEFIT

Your pension benefit is calculated using the average of your best five years of earnings (Best Average Earnings), a defined benefit formula and the number of years you have contributed to the Plan (known as Credited Service). The formula is as follows:

2.0% of your Best Average Earnings
multiplied by
Your Credited Service

less

0.6% of the average YPME (for the same five years of earnings)
multiplied by
Your Credited Service

(YMPE, or Year's Maximum Pensionable Earnings, is the limit set by the federal government each year to determine the maximum Canada Pension Plan contributions and benefits.)

IT'S A DEFINED BENEFIT PLAN

The MTS Pension Plan is a "contributory defined benefit" pension plan. This means that your benefit is a predictable amount – defined by a formula based on your earnings during the five years when they were the highest and your years of participation in the Plan. Your benefit does not depend on the rate of return earned by the Plan. You contribute to the Plan based on a set formula. MTS contributes the additional amounts necessary to pay the benefits that you earn as required by pension legislation. This does not mean that MTS contributes $1 at the same time you contribute $1. The timing of MTS's contribution is determined by pension legislation as described below.

SOURCES OF FUNDING

The money necessary to pay the benefits promised by the MTS Pension Plan comes from three sources:

- Employee contributions
- Company contributions
- Investment earnings

In accordance with pension legislation, the Company contributes the amount necessary to ensure that benefits earned can be paid when they are due. The amount of the Company's contribution is determined by an actuarial valuation. An actuarial valuation calculates the benefits earned (the liabilities of the Plan) and compares those liabilities to the assets in the Plan's trust fund. If the assets exceed the liabilities, no Company contribution is required. But if the assets do not provide adequate funding for the Plan's obligations, the Company is responsible for making the contributions necessary to eliminate the shortfall. Actuarial valuations are performed on the Plan at least once every three years.

The MTS contribution to the Plan in 2001 was based on the actuarial valuation performed in 2000. This valuation showed that the Plan's assets exceeded the benefit obligations and that employer funding was not required. As a result, MTS did not fund the Plan in 2001. The Plan remains fully funded as of January 1, 2002.

Investment earnings are typically the largest source of income for the Plan. Of the $15.5 million in total cash inflows in 2001, investment income accounted for $6.4 million (41%). However, in 2001, cash inflows to the Plan were significantly lower (versus $68.4 million in 2000). The reduction of cash inflows was the result of the poor equity markets in 2001. This resulted in less income being earned for the Plan as a whole. More information on investments can be found beginning on page 8 of this report.

PAYMENTS FROM THE PLAN

In 2001, payments made from the Plan were as follows:

Pension payments to retirees and beneficiaries	$ 37.8 million
Termination and lump-sum death benefit payments	$ 13.5 million
Administrative expenses	$ 0.9 million
Total	**$ 52.2 million**

Pension payments to retirees were up slightly from 2000 while termination and lump-sum death benefit payments were less than half of last year's total.

BUYER BEWARE

When employees terminate their employment or retire, they are faced with the decision about whether to keep their pension funds inside the Pension Plan or to transfer the funds to a locked-in RRSP. This is always a difficult decision to make and one that should not be made without receiving some sound advice.

It may or may not be in your best interests to transfer your money out of the MTS Pension Plan once you are no longer an active employee. Everyone's situation is different. However, before making this decision, we strongly suggest that you seek advice not only from your financial representative, but from someone knowledgeable about income taxes. You also should seek advice from family and other former co-workers who may have been through a similar situation.

If you decide to transfer your pension funds out of the Plan, it is important that you be absolutely sure of your decision. Once the funds have been transferred out of the Plan, MTS and the MTS Pension Plan no longer guarantee or remain in any way responsible for your pension. Any financial losses that you might incur due to your or your financial adviser's investment decisions are completely your responsibility.

"Retirement provides the freedom for me to do what I want to do, when I want to do it!"

Dave Sloane

COST OF LIVING ADJUSTMENTS (COLA)

The Plan provides for a guaranteed cost of living increase to pensions in payment each year. The guaranteed COLA is equal to two-thirds of the increase in CPI to a maximum CPI increase of 4%. COLA increases are granted each July.

The Plan maintains a notional COLA account to determine if additional increases to pensions can be made. Each month, 10.2% of employee contributions, plus a matching amount, is credited to this account. The portion of benefit payments that related to past COLA increases is deducted from this account. Each year an actuarial valuation is performed on this account to see if additional COLA increases can be granted.

In 2001, the balance in the COLA account was not sufficient to grant an additional increase beyond the two-thirds CPI minimum, so retirees received a COLA increase of 2.15%, which was two-thirds of the CPI increase of 3.22%. Past COLA increases account for approximately 17% of the pension benefits paid to retirees in 2001.

"Every day is a weekend, the freedom to do what you want."

Brian Logan

BENEFIT CHANGES

In 2001, the Plan was amended to reduce the contribution required for purchasing service during maternity and parental leave. Previously, members had to contribute at two times the normal rate to buy back this service. With the new amendment for maternity and paternal leaves on or after December 31, 1993, members may buy back service at the regular contribution rate. In addition, any member who paid two times the normal rate to purchase this service in the past received a refund of the excess payment.

The deadline for employees to apply to buy back maternity and/or parental leave service from December 31, 1993 to April 22, 2001 is **October 31, 2002.** If you did not receive information on this buyback opportunity and you are affected by this change (that is you were on maternity and/or parental leave between December 31, 1993 and April 22, 2001), please call MTS Benefits Administration at the number shown on the inside front cover of this report.

PENSION COMMITTEE

The Pension Committee reports to the Audit Committee of the MTS Board of Directors. The Pension Committee met twice in 2001. In accordance with their mandate, the Committee reviewed the results of the COLA actuarial valuation and the administration audit performed by the Plan's actuarial consultants, reviewed the results of the 2000 Annual Report survey, and were briefed on the Plan's investment performance.

At the end of 2001, the members of the Pension Committee were:

Rod Pennnycook *(Chair)*	Retired, The Great-West Life Assurance Company
Irene Groot-Koerkamp	Director Law, MTS
Bryan Luce	Vice-President Human Resources, MTS
Carl Martz	IBEW Representative
Harry Restall	Retiree Representative
Bill Shelest	Compensation & Benefits Manager, MTS
Pat Solman	Treasurer, MTS
Iris Taylor	CEP Representative
Larry Trach	TEAM Representative

LEGAL PROCEEDING

Over the past two years, several employees and retirees have asked why the lawsuit that has been filed by the unions and certain retiree and employee representatives in relation to the Plan has not been mentioned in this report. The reasons for this are simple. First, the MTS Pension Plan is not being sued; MTS and certain of its subsidiaries are named in the lawsuit, and not the Plan. Second, this lawsuit does not have a negative financial impact on the Plan.

WHAT'S NEW

In December 2001, the MTS Pension Plan Web site was launched. This Web site gives Plan members the opportunity to learn more about their Pension Plan, keep up-to-date on what's new, and even view this annual report. The Web site can be found at *www.mtspensionplan.com* and *www.mtspensionplan.ca.*

THE INVESTMENT COMMITTEE

The Investment Committee oversees and directs the investment of the Pension Plan's funds. It establishes investment principles and guidelines for the Plan, monitors investment performance and selects the investment managers. In addition, it reports to the Audit Committee of the MTS Board of Directors on the performance of the Plan each year.

At the end of 2001, the members of the Investment Committee were:

Wayne Demkey *(Chair)*	Executive Vice-President Finance & Chief Financial Officer, MTS
Neil Benditt	Retired Assistant Deputy Minister of Finance, Province of Manitoba
Rod Pennycook	Chair, Pension Committee
Andy Pernal	Vice-President Finance, MTS Communications Inc.
John Smith	President, GWL Investment Management Ltd.
Pat Solman	Treasurer, MTS

The Committee met five times in 2001.

ASSET MIX

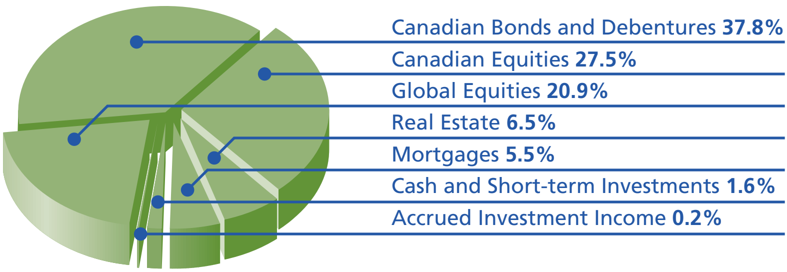
The MTS Pension Plan is invested in a diversified portfolio of stocks, bonds, and other assets because diversification – not putting all your eggs in one basket – is a fundamental principle of investing. If one type of investment performs poorly, a gain in another asset type can offset the loss. Over time, a diversified mix of equities, bonds and short-term investments is a strategy with an excellent opportunity of providing good returns while minimizing risk.

The portion of the fund invested in each type of asset (such as Canadian equities, Canadian bonds, global equities and real estate, etc.) is referred to as the "asset mix". In some economic times – such as the recent past – it is better to have a portfolio that is weighted toward equities. During other times in the economic cycle – such as during 2001 – better returns are achieved with a diversified portfolio weighted toward bonds.

The Investment Committee is responsible for determining the asset mix guidelines for the MTS Pension Plan. This is done in conjunction with an actuarial consultant during a process called an asset/liability study. The purpose of this study is to determine the most appropriate asset mix for the Plan for the long-term. These studies are normally conducted every four to six years. The last asset/liability study for the Plan was completed in 2000, and the result was the target asset mix that is currently being used today as a basis for the Plan's investments.

INVESTMENTS AT DECEMBER 31, 2001

At the end of 2001, the assets of the MTS Pension Plan totalled just over $915 million. The following chart and table show how the assets were invested.



Investment	Market Value ($ millions)
Canadian Bonds and Debentures	$ 346
Canadian Equities	$ 252
Global Equities (U.S. and International)	$ 191
Real Estate	$ 59
Mortgages	$ 50
Cash and Short-term	$ 15
Accrued Income	$ 2

ASSET TYPES

Bonds and Debentures: investments in federal, provincial and corporate bonds. These typically have semi-annual interest payments. Bonds have more stable rates of return than equities, but also produce lower rates of return over longer periods of time.

Equities: primarily common shares in Canadian and foreign companies. Equity income is generated by an increase in the share value or dividends paid. Over long periods of time, equities have historically had the highest returns, but with the greatest year-to-year differences in returns (volatility).

Mortgages: primarily high quality mortgages on Canadian residential and commercial properties. Mortgage investments generate income from interest payments.

Real Estate: investment in buildings and property. Investment earnings come from lease and rental income as well as capital appreciation if property values increase.

Short-term Investments: securities (loans) that mature within days, weeks or months (such as Government of Canada treasury bills). These investments generate income from interest payments and their returns go up and down with inflation over the long term.

INVESTMENT MANAGERS

The responsibility for investing the Plan's assets rests with external investment managers under the direction of the Investment Committee and the Audit Committee of the MTS Board of Directors. The current managers and the types of investments they manage are:

- **Altamira Management Ltd.** *(small capitalization Canadian equities)*
- **Beutel, Goodman & Company Ltd.** *(Canadian equities and bonds)*
- **BonaVista Asset Management Ltd.** *(Canadian equities)*
- **GWL Investment Management Ltd.** *(indexed Canadian equities, real estate and mortgages)*
- **MFS Institutional Advisors Inc.** *(international equities)*
- **Phillips, Hager & North Investment Management Ltd.** *(Canadian bonds)*
- **Putnam Institutional Management Inc.** *(international equities)*
- **TD Quantitative Capital Inc.** *(indexed Canadian bonds and indexed U.S. equities)*

These managers were chosen for:

- the quality and experience of their principals
- their approach to investing
- their investment performance track record over several market cycles
- the level of fees they charge

Where more than one manager directs the investment of a single asset type (such as Canadian equities), the managers were chosen for their different investment styles.

During 2001, changes were made to the number and composition of investment managers who manage assets for the Plan. Two new international equities investment managers were hired, and the Plan's previous global equities investment manager was terminated. These changes were made to address concerns about the global equities investment manager and to allow the Plan's foreign content to be increased to the amount recommended in the 2000 asset/liability study referred to under "Asset Mix". The U.S. equities previously managed by the global equities investment manager have been placed with TD Quantitative Capital Inc. until a new active U.S. equities investment manager can be appointed.

CUSTODIAN/TRUSTEE

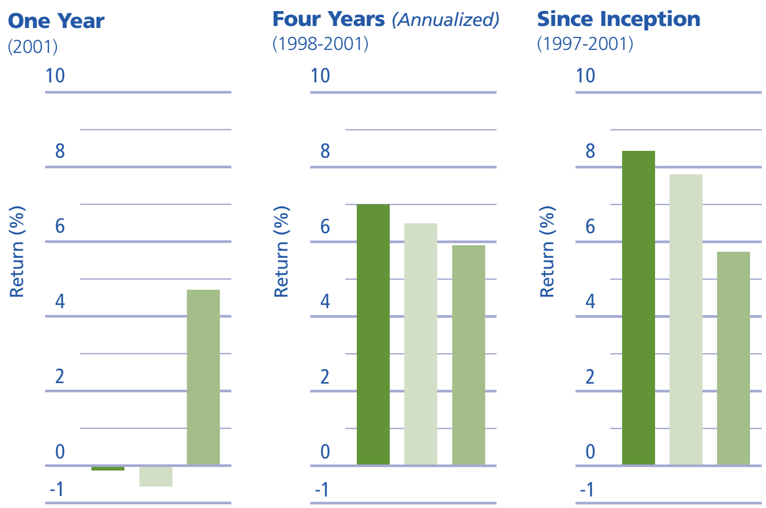
Royal Trust Corporation of Canada is the custodian/trustee of the MTS Pension Plan. It is responsible for the custody of the investments held in the Plan's trust fund. Royal Trust receives all cash inflows on behalf of the Plan for the purpose of paying pension benefits to eligible Plan members.

PENSION PLAN PERFORMANCE

The Investment Committee has two objectives for the Plan's rate of return:

- to exceed the annual rate of inflation by 4%, and
- to exceed the weighted average of the markets' returns for the Plan's various investments (the "benchmark").

Although annual returns are carefully reviewed, it is the Plan's performance over longer periods – three to five years – that best indicates how well the Plan's funds are invested.



	One Year	Four Years	Since Inception (January 1997)
MTS Pension Plan Return	-0.1%	7.0%	8.4%
Benchmark	-0.6%	6.5%	7.8%
Performance Goal (CPI + 4%)	4.7%	5.9%	5.7%

-0.1% INVESTMENT RETURN IN 2001

The Plan's investments earned a slightly negative rate of return of -0.1% in 2001. As was shown in the "Investments at December 31, 2001" section on page 8 of this annual report, the Plan is invested in a variety of assets including Canadian equities, global equities, Canadian bonds, real estate, mortgages and short-term investments. It is this diversity of investments that reduces the risk of the Plan performing poorly. Although the Plan did have a slightly negative return in 2001, this could have been much worse if the Plan had not been properly diversified. In 2001, the Canadian stock market, as measured by the TSE 300 Index, posted a significant negative return of -12.6% for the year. The U.S. stock market, as measured by the S&P 500 Index, also posted a negative return of -6.5% (in Canadian dollars). The international (Europe and Asia) markets, as measured by the MSCI EAFE Index, also suffered with a –16.6% (in Canadian dollars) return. The poor returns on the world's stock markets can be largely attributed to the economic slowdown that has occurred around the world.

These negative stock market returns contributed significantly to the Plan's slightly negative return in 2001. However, the Canadian bond, mortgage and real estate markets performed very well with returns ranging from 8.0% to 12%. The Plan's -0.1% return resulted from the Plan's positive returns in Canadian bonds, mortgages and real estate being offset by negative returns in the Canadian, U.S. and international equity markets. The Plan was able to outperform its benchmark return by 0.5% in 2001 because of the performance of the Plan's investment managers. The Plan's active Canadian equity and real estate managers exceeded their respective benchmark returns.

As expected, the Plan's return in 2001 did not meet its performance goal of CPI plus 4%. This is very common in a year where equity markets have negative returns. The performance goal is not a short-term objective, but instead, is meant to be achieved over a period of at least three to five years. Over four years and since its inception, the Plan continues to exceed both the performance goal as well as the benchmark return. This is an indication of the strength of both the Plan's asset mix and the investment management team put together by MTS.

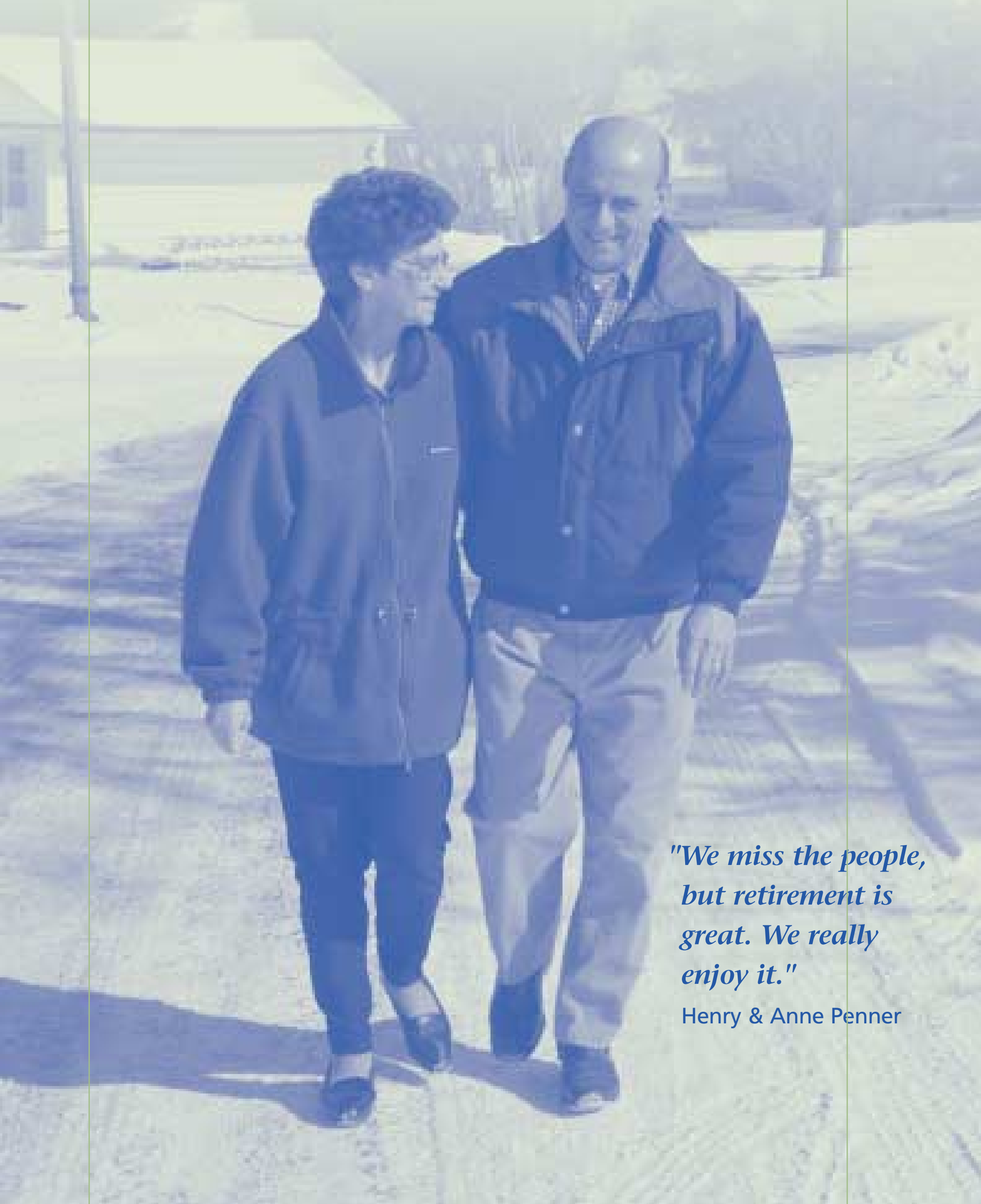
One further measure of the success of the Plan's investment strategy is a risk versus return comparison. This measures risk associated with the Plan investment returns and compares it to an industry average portfolio for a four-year period. For the four years ending December 31, 2001, the Plan has incurred less risk to earn a larger return than the industry average.

"We are grateful to MTS for allowing us to spend our retirement years traveling and spending time with family and friends."

Donna Wainikka

FINANCIAL STATEMENTS

The following financial information is a summarized version of the financial information included in the Plan's audited financial statements. The financial statements have been audited by Deloitte & Touche LLP.



"We miss the people, but retirement is great. We really enjoy it."

Henry & Anne Penner

MANITOBA TELECOM SERVICES INC. AND PARTICIPATING SUBSIDIARIES
EMPLOYEE PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

(in thousands)	2001	2000
Assets		
Cash	**$ 873**	$ 403
Investments *(Note 3)*	**912,479**	962,533
Receivables		
Investment income	**2,223**	1,916
Employee contributions	**79**	2
	915,654	964,854
Liabilities		
Accounts payable & accrued liabilities	**644**	645
Net Assets Available for Benefits	**$ 915,010**	$ 964,209

MANITOBA TELECOM SERVICES INC. AND PARTICIPATING SUBSIDIARIES
EMPLOYEE PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Years Ended December 31

(in thousands)	**2001**	2000
Increase in Net Assets		
Contributions		
Current:		
Employees	**$ 8,939**	$ 8,566
Past service purchases	**55**	174
Reciprocal transfers	**96**	6
Investment income *(Note 4)*	**6,384**	59,653
Current period change in market value of investments	**(12,454)**	(1,420)
	3,020	66,979
Decrease in Net Assets		
Pension benefits	**37,828**	37,117
Termination benefits	**13,307**	28,136
Reciprocal transfers	**214**	54
Administrative expenses	**870**	917
	52,219	66,224
Increase (decrease) in Net Assets for the Year	**(49,199)**	755
Net Assets Available for Benefits at Beginning of Year	**964,209**	963,454
Net Assets Available for Benefits at End of Year	**$ 915,010**	$ 964,209

MANITOBA TELECOM SERVICES INC. AND PARTICIPATING SUBSIDIARIES
EMPLOYEE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF PLAN

The following description of the Manitoba Telecom Services Inc. and Participating Subsidiaries Employee Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan document.

a) General

The Plan is a contributory defined benefit pension plan covering substantially all current and former employees of Manitoba Telecom Services Inc. ("MTS") and its participating subsidiaries. The Plan came into effect on January 1, 1997 in accordance with *The Manitoba Telephone System Reorganization and Consequential Amendments Act*. All current and former employees of The Manitoba Telephone System and its subsidiaries who were members of the Civil Service Superannuation Fund became members of the Plan on January 1, 1997. At December 31, 2001, the participating subsidiaries included MTS Communications Inc., MTS Advanced Inc. and Manitoba Telecom Services International Inc. The Plan is registered under the *Pension Benefits Standards Act, 1985 (Canada)* ("PBSA").

b) Funding Policy

The Plan document sets out the arrangements for MTS and its participating subsidiaries, being the Plan sponsors, to fund the benefits determined under the Plan together with the employees. The amount of the funding by employees is based on a defined formula. The determination of the funding by the Plan sponsors is made on the basis of an actuarial valuation performed on at least a triennial basis. As required by the PBSA, MTS is responsible for making special payments to finance any unfunded liabilities of the Plan over a period not exceeding 15 years. Conversely, if the Plan is in a surplus position, MTS's contributions could be reduced to zero.

c) Retirement Pensions

A retirement pension is based on the number of years of pensionable service and the highest five year average earnings. A retirement pension is payable to members who retire after completion of at least one year of membership in the Plan and who have attained age 65. Unreduced pensions are also payable to members who have reached at least age 55 and the sum of their age plus continuous service equals 80. With certain restrictions, reduced early retirement benefits are available to members with at least two years of membership in the Plan, who retire on or after age 55 with the sum of their age plus continuous service totaling less than 80, and to members who retire before age 55.

d) Disability Benefits

Members who are on long term disability after January 1, 1997 may be credited with pensionable service while disabled without making contributions to the Plan. Members may also be able to retire immediately and receive a disability pension from the Plan.

e) Termination Benefits

Subject to lock-in provisions, refunds and commuted value transfers are available when an active member ceases employment.

f) Death Benefits

Death benefits are available upon the death of an active member or deferred member and may be available upon the death of a retired member depending on the pension option chosen. The benefit may take the form of a lump-sum payment or a survivor pension.

g) Cost of Living Adjustments

The Plan provides for a guaranteed cost of living increase each year equal to 2/3 of the increase in the Consumer Price Index ("CPI") for Canada to a maximum CPI increase of 4.0%.

h) Income Taxes

The Plan is a Registered Pension Plan as defined in the *Income Tax Act* (Canada). The MTS Pension fund is not subject to income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies:

a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Plan sponsor and Plan members.

b) Investments

Investments are recorded at market value where quoted prices are readily available. Real estate values are estimated based upon external appraisals conducted throughout the year.

c) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars at rates of exchange prevailing at the dates of the transactions. At year end, the market value of investments denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income or current period change in market value.

3. INVESTMENTS

(in thousands)	2001	2000
Short-term investments		
Notes and securities	**$ 916**	$ 1,953
Cash equivalent mutual funds	**14,056**	37,798
Total short-term	**14,972**	39,751
Bonds and debentures		
Government & government guaranteed	**168,698**	144,518
Corporate	**60,099**	60,488
Mutual funds	**117,320**	143,660
Total bonds and debentures	**346,117**	348,666
Mortgages		
Mortgage loans	**–**	143
Mutual funds	**49,810**	46,864
Total mortgages	**49,810**	47,007
Equities		
Investment corporations	**1,931**	946
Real estate corporations	**5,715**	4,211
Resource corporations	**33,388**	33,006
Other	**166,028**	261,992
Mutual funds	**235,694**	173,559
Total equities	**442,756**	473,714
Real Estate		
Direct investments	**2,475**	2,475
Mutual funds	**56,349**	50,920
Total real estate	**58,824**	53,395
	$ 912,479	$ 962,533

4. NET INVESTMENT INCOME

(in thousands)	2001	2000
Investment income	**$ 30,191**	$ 33,143
Realized gains	**(20,980)**	29,463
Investment management and custodial expenses	**(2,827)**	(2,953)
	$ 6,384	$ 59,653

5. AUDITORS' REPORT

The financial information presented in these statements is an excerpt of the financial information included in the Plan's audited financial statements. The financial statements have been audited by Deloitte & Touche LLP.

NOTES

MTS Pension Plan
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