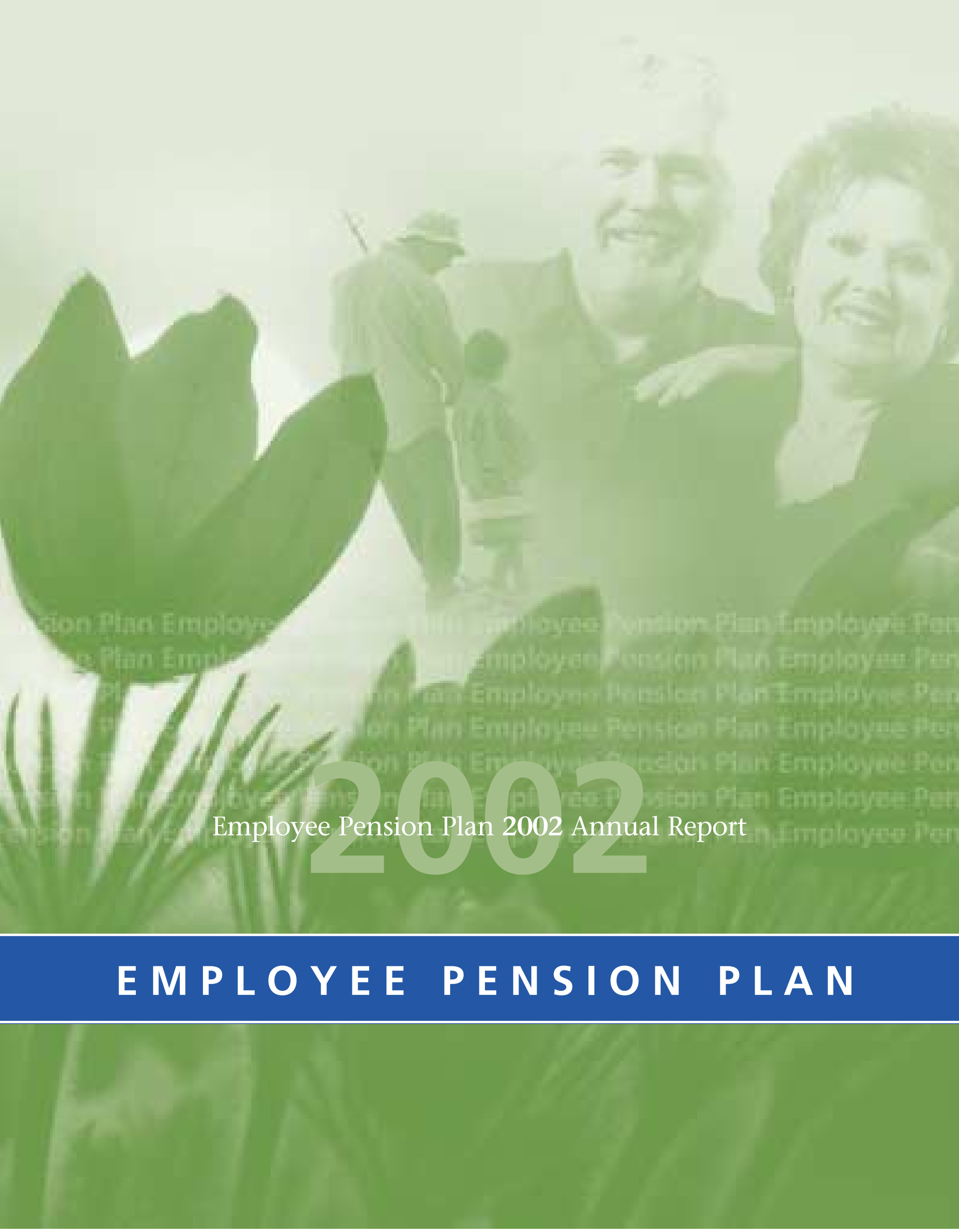

2002

Employee Pension Plan 2002 Annual Report

EMPLOYEE PENSION PLAN

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 if you would like to provide any comments concerning this annual report, please contact:

MTS Pension Plan
Benefits Administration
P.O. Box 6666
MP19B, 333 Main Street
Winnipeg, Manitoba R3C 3V6

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

The first few years of the new millennium will be remembered as a period characterized by uncertainty. The year 2002 saw the erosion of investor confidence, global political conflict, and the looming possibility of international war come to the forefront of our lives. From a financial perspective, all of these factors contributed to lower levels of growth, disappointing economic conditions and depressed capital market conditions around the world.

In 2002, the Canadian, international, and American equity markets, as measured by their associated indices, posted losses of -12.4%, -16.6% and -22.7%, respectively. During the year, the MTS Pension Plan was impacted by the weaker performance of these markets, but because of the Plan's well-diversified asset mix and investment quality, the negative impact was significantly limited. The MTS Pension Plan earned a return of -1.7% which is an impressive achievement indeed in light of the current economic environment. In fact, on a relative basis, the Plan was among the top 25% performing pension plans in Canada.

Despite it being another difficult year in the capital markets, the longer-term performance of the Plan remains strong. Since inception, the Plan has earned a compound annual return of 6.7% – exceeding both its performance objective and customized benchmark. On a risk versus return basis, for the four years ending December 31, 2002, the Plan has incurred less portfolio risk and earned a higher investment return than both the industry average and the Plan's benchmark – a further testament to the appropriateness of the Plan's investment strategy.

As you will see throughout this report, solid progress was made on a number of fronts during the year. I am pleased to note that the Office of the Superintendent of Financial Institutions conducted an extensive review on the operations of the Plan in November 2002, and concluded that the Plan continues to be very well governed and administered.

In addition, I would like to once again take this opportunity to remind you that the MTS Pension Plan is a contributory defined benefit plan. MTS bears the responsibility for ensuring that every dollar that is needed to pay your pension is available when you retire, regardless of the rate of return earned on the Plan's assets in any given year. Fundamentally, this means your pension is backed by the financial strength of the Company – a company with a solid capital structure, strong cash flows and credit ratings, superior financing flexibility, and industry-leading profitability.

MTS has a proven strategy in place and is well positioned for continued success in 2003 and beyond. Going forward, we are committed to maintaining the Company's very high standards of performance, which supports the MTS Pension Plan as a stable source of income during your retirement.

Bill Fraser
President & Chief Executive Officer

ABOUT YOUR PENSION PLAN

HIGHLIGHTS

The MTS Pension Plan is a contributory defined benefit plan providing pension benefits to the employees of Manitoba Telecom Services Inc., MTS Communications Inc., MTS Media 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 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 also may 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.
- The Plan provides for a guaranteed cost of living adjustment ("COLA") equal to two-thirds of the increase in the Consumer Price Index ("CPI") for Canada, to a maximum CPI increase of 4%. Additional cost of living adjustments may be granted if there are sufficient funds in 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.

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.**

MEMBERSHIP

The Plan's membership falls into three categories: active, deferred and retirees/beneficiaries. Active members are those employees who currently contribute to the Plan. Deferred members are former employees who have left their pension benefit credits in the Plan to be paid at a later date. Retirees and beneficiaries are those individuals who currently receive a pension from the Plan.

The membership in the Plan at December 31, 2002 was as follows:

Active Members	3,695
Deferred Members	551
Retirees and Beneficiaries	2,172
Total Members	**6,418**

The total number of members was relatively unchanged from the end of 2001. There was an increase in the number of active members (51) and retirees (20). This was offset by a reduction in the number of deferred members (79).

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 (referred to 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 YMPE (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 federal 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 (which are 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 exceed the Plan's obligations, the Company is responsible for making the contributions necessary to eliminate the shortfall. An actuarial valuation of the Plan is performed at least once every three years.

MTS's contribution to the Plan in 2002 was based on the actuarial valuation performed in January 2002. This valuation showed that employer funding was not required. As a result, MTS did not fund the Plan in 2002.

Investment earnings are typically the largest source of income for the Plan. Of the $37.0 million in total cash inflows in 2002, net investment income accounted for $27.4 million or 74%. More information on investments can be found beginning on page 8 of this report.

PAYMENTS FROM THE PLAN

In 2002, payments made from the Plan were as follows:

Pension payments to retirees and beneficiaries	$	38.5 million
Termination and lump-sum death benefit payments	$	5.9 million
Administrative expenses	$	0.9 million
Total	**$**	**45.3 million**

"The MTS Pension Plan has excellent pension benefits, and I'm looking forward to retiring in about 10 years, knowing that I will be receiving a very good pension."
– Roy Michaluk

Pension payments to retirees were up slightly from 2001 while termination and lump-sum death benefit payments were less than half of last year's total.

BUYER BEWARE

When employees retire or terminate their employment, they are faced with the decision as to whether to keep their pension funds inside the MTS 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 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 investment decisions or those of your financial adviser are completely your responsibility.

COST OF LIVING ADJUSTMENTS (COLA)

The Plan provides for a guaranteed cost of living increase to pension payments 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 from MTS, is allocated to this account. The portion of benefit payments that related to past COLA increases is deducted from the amounts allocated to this account. Each year, an actuarial valuation is performed on this notional account to see if additional COLA increases can be granted.

In 2002, the balance in the COLA account was not sufficient to grant an additional increase beyond the guaranteed two-thirds CPI minimum, so retirees and beneficiaries received a COLA increase of 0.50%, which was two-thirds of the CPI increase of 0.75%. Past COLA increases account for approximately 17% of the pension benefits paid to retirees and beneficiaries in 2002.

"To retire was a major decision, and definitely one of the best."
– Joan Balbon

MATERNITY/PARENTAL LEAVE

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. Pursuant to this new amendment applicable to maternity and parental leaves occurring on or after December 31, 1993, members were able to 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 was October 31, 2002. Forty employees took advantage of this change and decided to buy back their maternity and/or parental leave service.

PENSION COMMITTEE

The Pension Committee reports to the Audit Committee of the MTS Board of Directors. The Pension Committee met twice in 2002. In accordance with their mandate, the Committee reviewed the Plan's funding actuarial valuation results as at January 1, 2002, the COLA actuarial valuation report, and were briefed on the Plan's investment performance.

At the end of 2002, the members of the Pension Committee were:

Rod Pennycook *(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
Brenda McInnes	Treasurer, MTS
Donna Poitras	CEP Representative
Harry Restall	Retiree Representative
Bill Shelest	Compensation & Benefits Manager, MTS
Larry Trach	TEAM Representative

LEGAL PROCEEDING

The lawsuit that was filed by TEAM, CEP, IBEW and certain retiree and employee representatives in September 1999 in relation to the Plan is continuing. As in past years, this lawsuit is not being discussed in this annual 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.

PLAN REVIEW

The Office of the Superintendent of Financial Institutions ("OSFI") which administers the *Pension Benefits Standards Act, 1985* (Canada), the federal legislation that governs the MTS Pension Plan, reviewed the operations of the Plan in November 2002. At the end of their one week visit, the OSFI representatives concluded that the Plan is well run and has an excellent governance structure in place.

MTS PENSION PLAN WEB SITE

The MTS Pension Plan 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. This Web site can be found at ***www.mtspensionplan.ca***.

ABOUT THE INVESTMENTS

THE INVESTMENT COMMITTEE

The Investment Committee oversees and directs the investment of the MTS Pension Plan's funds by establishing investment principles and guidelines, appointing investment managers, and monitoring the performance of the Plan's investments. The Investment Committee reports the performance of the Plan's investments to the Audit Committee of the MTS Board of Directors each year.

At the end of 2002, the members of the Investment Committee were:

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

The Investment Committee met five times in 2002.

ASSET MIX

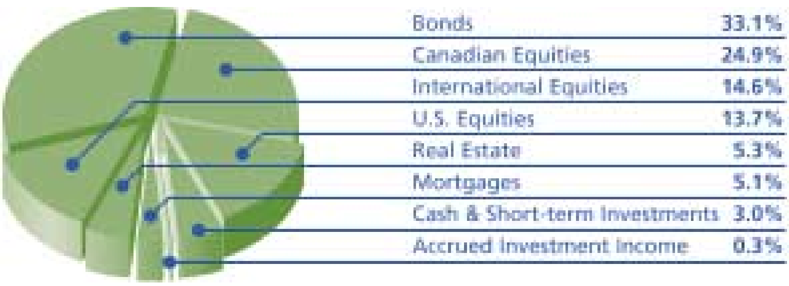
The Plan's "asset mix" is the combination of the different types of assets in which the Plan is invested, such as bonds, equities/stocks, mortgages and real estate. The Plan's funds are invested in a diversified portfolio of different types of assets because diversification - not putting all your eggs in one basket - is a fundamental principle of investing. If one type of asset results in a loss, a gain in another may offset the loss. For example, equity assets have performed poorly in the last couple of years, however, this has been offset by positive gains in bonds, mortgages and real estate assets. Investing in a diversified asset mix is a strategy that minimizes risk, and provides more stability in investment returns over time.

The Investment Committee is responsible for determining the asset mix guidelines for the Plan's investments. 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's funds 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 of this study lead to the adoption of the target asset mix currently being used as a basis for the Plan's investments.

INVESTMENTS AT DECEMBER 31, 2002

At the end of 2002, the Plan's investments totaled just over $856 million. The following graph and table show how the Plan's assets were invested.



Investment	**Market Value ($ millions)**
Bonds	$ 284
Canadian Equities	$ 214
International Equities	$ 125
U.S. Equities	$ 117
Real Estate	$ 45
Mortgages	$ 44
Cash & Short-term Investments	$ 25
Accrued Investment Income	$ 2
Total Funds	**$ 856**

ASSET TYPES

Short-term Investments: primarily cash and securities (loans) that mature within days, weeks, or months (such as Government of Canada treasury bills). These investments generate income by receiving interest payments or by their purchase at a discount to mature at par. Earnings are based on the markets' short-term interest rates.

Bonds: primarily investments in Canadian issued federal, provincial, and corporate bonds having semi-annual interest payments and terms to maturity over one year. Bonds generate income by receiving interest payments and increases in bond values. Over the long-term, bonds have historically produced lower rates of return with more stable rates of returns (smaller differences from year-to-year) relative to equities.

Equities: primarily investments in common shares of Canadian, U.S., and international companies. Equities generate income by receiving dividends and increases in the share values. Over the long-term, equity investments have historically produced higher rates of return with more volatile returns (larger differences from year-to-year) relative to other asset types.

Mortgages: primarily investments in high quality mortgages on Canadian residential and commercial properties. Mortgage investments generate income by receiving mortgage payments and increases in the mortgage values.

Real Estate: primarily investments in buildings and property. Real estate investments generate income from rental income and increases in the value of the assets.

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 investment managers and the types of assets that they manage are as follows:

- **Altamira Management Ltd.** *(small capitalization Canadian equities)*
- **Beutel, Goodman & Company Ltd.** *(Canadian equities and Canadian 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 Advisory Company, L.L.C.** *(international equities and U.S. equities)*
- **TD Asset Management Inc.** *(indexed Canadian bonds and indexed U.S. equities)*

The Plan's investment managers were chosen for the following:

- the quality and experience of their investment management teams;
- their investment approach and style;
- their investment performance track record over several market cycles; and
- the level of fees that they charge.

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

TD Asset Management had been managing a portion of the Plan's U.S. equity assets on an interim basis at the beginning of the year due to the termination of the Plan's global equity investment manager in late 2001. A search for a new active U.S. equity investment manager was completed during 2002. As a result of this search, Putnam Advisory

Company, L.L.C. was appointed as the Plan's active U.S. equity investment manager. Putnam Advisory Company, L.L.C. also manages a portion of the Plan's international equity assets.

CUSTODIAN/TRUSTEE

Royal Trust Corporation of Canada, which operates under the name RBC Global Services, continues to be the custodian/trustee of the MTS Pension Plan. RBC Global Services is responsible for the custody of the investment assets held in the Plan's trust fund. RBC Global Services processes all cash flows on behalf of the Plan for the purpose of paying pension benefits to eligible Plan members.

PLAN PERFORMANCE

The Investment Committee measures the Plan's rate of return against its long-term performance objective of the annual rate of inflation (which is the annual change in the CPI for Canada) plus 4%. In order to measure the success of the Plan's active investment managers, the Investment Committee also compares the Plan's rate of return against the weighted average of the markets' returns for the Plan's target policy mix (the "benchmark").

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

	One Year	Four Years	January 1997
MTS Pension Plan Return	-1.7%	3.9%	6.7%
Customized Benchmark	-5.2%	2.8%	5.5%
Performance Objective (CPI + 4%)	7.9%	6.7%	6.0%

-1.7% INVESTMENT RETURN IN 2002

The Plan's investments are invested in a diversified portfolio of assets including Canadian equities, U.S. equities, international equities, bonds, real estate, mortgages and short-term investments. Although the Plan had a negative return of -1.7% in 2002, this return could have been worse if the Plan had not been prudently diversified. The world equity markets performed poorly again in 2002, contributing significantly to the Plan's negative return for the year. During 2002, the Canadian equity market, as measured by the S&P/TSX Composite Index, posted a negative return of -12.4% for the year. The U.S. equity market, as measured by the S&P 500 Index, also suffered, posting a negative return of -22.7% in Canadian dollars. The international markets in Europe, Australia and the Far East, as measured by the MSCI EAFE Index, returned -16.6% in Canadian dollars. However, these poor returns in the world equity markets were offset by positive returns, ranging from +7% to +9% in the bond, mortgage and real estate markets. Overall, the Plan's -1.7% return resulted from negative returns in the Canadian, U.S., and international equity investments, which were offset by positive returns in the bond, mortgages and real estate investments.

The performance of the Plan's investments is compared to a customized benchmark, which is based on the market returns of the Plan's target asset mix. This comparison measures the active management of the investments versus a passive or indexed approach. In 2002, the Plan's investments outperformed the customized benchmark return by 3.5% as a result of this active management. Over a four-year period, the Plan continues to exceed the benchmark return. This is an indication of the strength of the investment management team assembled by MTS.

As expected, the Plan's investment return in 2002 did not meet the performance objective of the annual change in CPI plus 4%. This is very common in years where equity markets have negative returns. The performance objective is not a short-term objective, but instead, is an objective meant to be achieved over the long-term. Although world equity markets have continued to be disappointing over recent years, the investment of a portion of the Plan's investments in equity assets provides the Plan with the greatest opportunity to achieve the performance objective in the long-term.

The Plan's investments are invested prudently in a diversified portfolio with a focus on investment quality. The Plan's investment decisions factor in different risk elements relating to market volatility and potential returns. One further measure of the success of the Plan's investment strategy is a risk versus return comparison. This measures the Plan's investment return versus the associated risk of the Plan's portfolio. For the four-year period ending December 31, 2002, the Plan has incurred less portfolio risk and earned a larger investment return than both the industry average and the Plan's benchmark.

Although the Plan suffered a negative rate of return in 2002, this return was very good when compared to other pension plans in Canada. In a survey of a number of other pension plans in Canada performed by a national actuarial consulting firm, the Plan's 2002

"The old expression 'don't count your eggs before they hatch' doesn't apply to my pension plan."
– Fay Salkus

performance was better than 75% of the other pensions plans. Over the last five years, the Plan's performance was better than 65% of the other Canadian pension plans included in the survey.

SECURING YOUR FUTURE

Two years of negative returns in the Canadian equity market and three years of negative returns in the U.S. and international equity markets have caused a decrease in the Plan's assets, as is the case for most, if not all, other pension plans in Canada. However, as noted on page 4 under "It's a Defined Benefit Plan," your pension benefit is not affected by the Plan's investment return. During these difficult times, this is one of the advantages of belonging to a defined benefit pension plan. It is the Company's responsibility to ensure your pension benefits are secure, and this is a responsibility that the Company takes very seriously.

FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

(in thousands)	**2002**	2001
Assets		
Cash	**$ 2,949**	$ 873
Investments *(Note 3)*	**851,492**	912,479
Receivables		
Investment income	**2,113**	2,223
Employee contributions	**72**	79
	856,626	915,654
Liabilities		
Accounts payable & accrued liabilities	**687**	644
Net Assets Available for Benefits	**$ 855,939**	$ 915,010

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Years Ended December 31

(in thousands)	2002	2001
Increase in Net Assets		
Contributions		
Current:		
Employees	**$ 9,507**	$ 8,939
Past service purchases	**48**	55
Reciprocal transfers	**–**	96
Investment income *(Note 4)*	**27,407**	6,384
Current period change in market value of investments	**(50,730)**	(12,454)
	(13,768)	3,020
Decrease in Net Assets		
Pension benefits	**38,520**	37,828
Termination benefits	**5,897**	13,307
Reciprocal transfers	**–**	214
Administrative expenses	**886**	870
	45,303	52,219
Decrease in Net Assets for the Year	**(59,071)**	(49,199)
Net Assets Available for Benefits at Beginning of Year	**915,010**	964,209
Net Assets Available for Benefits at End of Year	**$ 855,939**	$ 915,010

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, 2002, 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)		2002		2001
Short-term investments				
Notes and securities	**$**	**22**	$	916
Cash equivalent mutual funds		**21,806**		14,056
Total short-term		**21,828**		14,972
Bonds and debentures				
Government & government guaranteed		**134,220**		168,698
Corporate		**57,661**		60,099
Mutual funds		**92,261**		117,320
Total bonds and debentures		**284,142**		346,117
Mortgages				
Mutual funds		**44,303**		49,810
Total mortgages		**44,303**		49,810
Equities				
Investment corporations		**2,448**		1,931
Real estate corporations		**2,315**		5,715
Resource corporations		**34,589**		33,388
Other		**279,262**		166,028
Mutual funds		**137,186**		235,694
Total equities		**455,800**		442,756
Real Estate				
Direct investments		**2,705**		2,475
Mutual funds		**42,714**		56,349
Total real estate		**45,419**		58,824
	$	**851,492**	$	912,479

4. NET INVESTMENT INCOME

(in thousands)		2002		2001
Investment income	**$**	**28,576**	$	30,191
Realized gains		**2,052**		(20,980)
Investment management and custodial expenses		**(3,221)**		(2,827)
	$	**27,407**	$	6,384

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. .

MTS Pension Plan
Benefits Administration
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