



03



EMPLOYEE PENSION PLAN
2003 ANNUAL REPORT

TABLE OF CONTENTS

- 1** Message From the President
& Chief Executive Officer
- 3** About Your Pension Plan
- 9** About the Investments
- 16** Summary Financial
Statements

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
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.ca

MTS Web Site: www.mtspensionplan.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

I am pleased to present the MTS Pension Plan Annual Report for the fiscal year ending December 31, 2003. It was another year of accomplishment for our Pension Plan, which has now completed its seventh full year of operation.

In 2003, the Canadian economy continued to be confronted by several challenging circumstances – from the SARS outbreak in Toronto and the power blackout in central Canada, to the forest fires and mad cow scare in the Western provinces. Despite these events, from an economic perspective, the highlight of 2003 was certainly the strong rebound in the Canadian and global equity markets. The Canadian, international, and U.S. markets, as measured by their associated indices, posted gains of 26.7%, 13.8%, and 5.3%, respectively, as measured in Canadian dollars.

The exceptional recovery in the equity markets, together with our Pension Plan's diversified asset mix and investment manager styles, minimized volatility and contributed to the Pension Plan earning a solid 13.5% investment return in 2003. Each of the major classes in which the Pension Plan's assets are invested increased in value, which resulted in the fair market value of the Pension Plan's assets climbing to \$934.2 million at December 31, 2003, as compared with \$856.6 million at the end of 2002. This very positive level of performance reflects the appropriateness of our Pension Plan's prudent investment approach and ongoing focus on investment quality.

Aside from the 2003 results, the most important measure of any pension plan's success is its long-term results. I am pleased to highlight that the performance of our Pension Plan has been consistently strong since its inception. With a seven-year compound annual return of 7.6%, the Pension Plan continues to exceed both its performance objective and customized benchmark.

I would like to take this opportunity to reiterate MTS's belief that planning for your future financial security is a shared responsibility. As is detailed in this report, the Pension Plan's funds are sourced from contributions made by employees, the Company, and investment earnings. MTS contributes the amounts necessary to ensure that benefits can be paid when they are due. Funding requirements are determined on the basis of actuarial valuations performed at least once every three years. Based on the 2002 actuarial valuation, MTS was not required to fund the Pension Plan in 2003. However, we decided that it would be prudent to resume contributions, and consequently, we voluntarily recommenced funding effective May 1, 2003.

This decision demonstrates our ongoing commitment to ensuring your financial security.

On a relative basis, the MTS Pension Plan is a solid plan that is conservatively invested. Because our Pension Plan is a contributory defined benefit plan, MTS bears the sole responsibility of ensuring that every dollar that is needed to pay your pension is available when you retire, regardless of the return earned on the Pension Plan's assets in any given year. In effect, this means that your Pension Plan is supported by the financial strength of MTS – which is characterized by its superior financing flexibility and long tradition of delivering predictable and profitable growth in earnings and cash flows.

The Pension Plan's performance in 2003, together with its seven-year track record of success, is a testament to how well the Pension Plan is governed, managed and administered. In 2004 and beyond, we will continue to ensure that the Pension Plan can meet its obligations to all retirees and employees. Maintaining the strength and resiliency that has underpinned our Pension Plan since its inception will always remain a top priority.



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. and MTS Media 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 benefit 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 Canadian Consumer Price Index ("CPI") 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.

PRIVACY

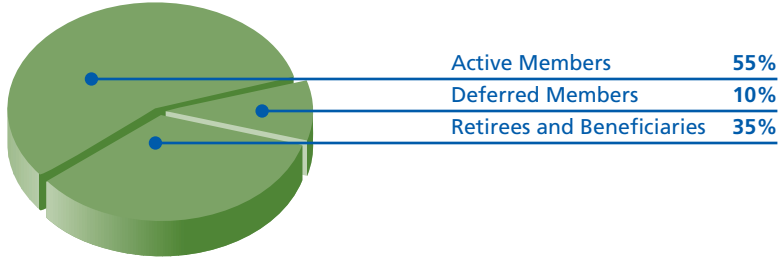
MTS is dedicated to protecting your privacy and safeguarding your personal information. MTS collects, uses or discloses personal

information for the purpose of administering the Plan. Access to your personal information is limited to MTS staff, The Civil Service Superannuation Board which provides administrative services in respect of the Plan, the Plan's actuary, persons to whom you have authorized access, and persons authorized by law.

MEMBERSHIP

The Plan's membership falls into three categories: active, deferred and retiree/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, 2003 was as follows:



Active Members	3,575
Deferred Members	616
Retirees and Beneficiaries	2,244
Total Members	6,435

The total number of members was relatively unchanged from the end of 2002. There was an increase in the number of retirees (72) and deferred members (65). This was partially offset by a reduction in the number of active members (120).

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:

$$\begin{aligned} & 2.0\% \text{ of your Best Average Earnings} \\ & \quad \textit{multiplied by} \\ & \quad \text{Your Credited Service} \\ & \quad \textit{less} \\ & 0.6\% \text{ of the average YMPE (for the same five years of earnings)} \\ & \quad \textit{multiplied by} \\ & \quad \text{Your Credited Service} \end{aligned}$$

(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 provide adequate funding for the Plan's obligations, the Company is responsible for making the contributions necessary to eliminate the shortfall in accordance with pension legislation. An actuarial valuation of the Plan is performed at least once every three years.

The last actuarial valuation performed in January 2002 showed that employer funding is not required. However, despite this, MTS decided to resume making regular contributions to the Plan effective May 2003 to ensure that the Plan remains strong. MTS contributed \$9.6 million to the Plan in 2003.

Investment earnings are typically the largest source of income for the Plan. Of the \$53.6 million in total cash inflows in 2003, net investment income accounted for \$34.3 million or 64%. More information on investments can be found beginning on page 9 of this report.

PAYMENTS FROM THE PLAN

In 2003, payments made from the Plan were as follows:

Pension payments to retirees and beneficiaries	\$ 40.6 million
Termination and lump-sum death benefit payments	\$ 6.7 million
Reciprocal transfers	\$ 0.3 million
Administrative expenses	\$ 0.8 million
Total	\$ 48.4 million

Pension payments to retirees and termination and lump-sum death benefit payments were up slightly from 2002.

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)

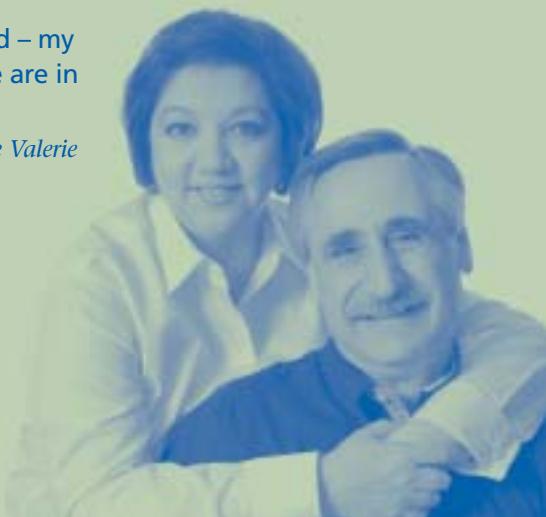
The Plan provides for a guaranteed cost of living increase to pension payments each year. The guaranteed COLA is equal to two-thirds of the increase in CPI to a maximum CPI increase of 4%. COLA increases are granted each July.

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 2003, 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 2.56%, which was two-thirds of the CPI increase of 3.84%. Past COLA increases account for approximately 18% of the pension benefits paid to retirees in 2003.

"I'm just not worried – my pension and future are in good hands."

– Bill Shelest with wife Valerie



PENSION COMMITTEE

The Pension Committee reports to the Audit Committee of the MTS Board of Directors. The Pension Committee met twice in 2003. In accordance with its mandate, the Committee reviewed the results of the COLA actuarial valuation report, and were briefed on the Plan's investment performance.

At the end of 2003, the members of the Pension Committee were:

Rod Pennycook (<i>Chair</i>)	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
Larry Trach	TEAM Representative
Donna Poitras	CEP Representative
Harry Restall	Retiree Representative
Brad Woods	Director Investor Relations, MTS

In May 2003, Harry Restall was re-elected by acclamation for another three-year term as the retiree representative on the Pension Committee. Effective January 1, 2004, Victor Otto is the new TEAM representative on the Pension Committee.

LEGAL PROCEEDING

The lawsuit that was filed by the unions 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.

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 to the Audit Committee of the MTS Board of Directors.

At the end of 2003, the members of the Investment Committee were:

Wayne Demkey <i>(Chair)</i>	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 2003.

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

"Retirement is another step of life, and I enjoy meeting different people as I go about my day."

– *Connie McKay*

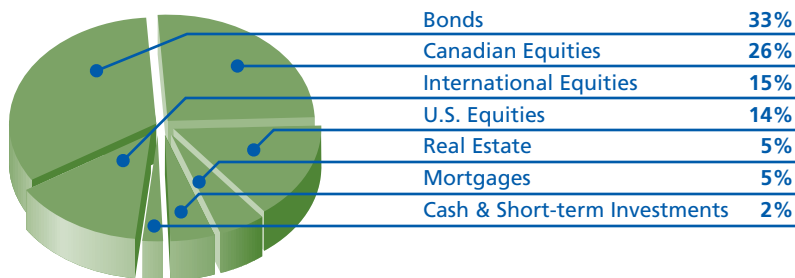


different types of assets because diversification - not putting all your eggs in one basket – is a fundamental principle of investing. If one type of asset results in a loss, a gain in another may offset the loss. For example, if Canadian equities perform poorly during the year, this may be offset by positive gains in bonds 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 and is based on 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 led to the adoption of the target asset mix currently being used as a basis for the Plan’s investments.

INVESTMENTS AT DECEMBER 31, 2003

At the end of 2003, the Plan’s investments totaled just over \$934 million. The following chart and table show how the Plan’s assets were invested.



Investment	Market Value (\$ millions)
Bonds	\$ 306
Canadian Equities	\$ 238
International Equities	\$ 140
U.S. Equities	\$ 134
Real Estate	\$ 48
Mortgages	\$ 46
Cash, Short-term Investments and Accrued Income	\$ 21
Total Funds	\$ 934



“Receiving a pension cheque has allowed us to enjoy the little extras”

– Marie-Anne McCrae with husband Roy

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 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 through changes in value. Over the long-term, bonds have historically produced lower and more stable rates of return (smaller differences from year-to-year) than equities.

Equities: primarily investments in common shares of Canadian, U.S. and international companies. Equities generate income by receiving dividends and through changes in 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 through changes in 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:

- **Natcan Investment 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.

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

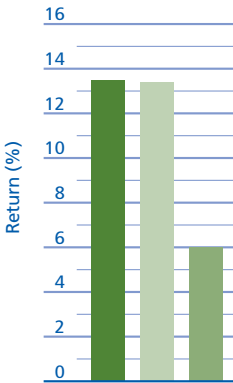
assets held in the Plan's trust fund. RBC Global Services processes all cash flows on behalf of the Plan for the purpose of paying pension benefits to eligible Plan members.

PLAN PERFORMANCE

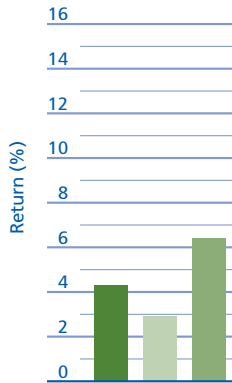
The Investment Committee measures the Plan's rate of return against its long-term performance objective of the annual rate of inflation (which is the annual change in the CPI for Canada) plus 4%. In order to measure the success of the Plan's active investment managers, the Investment Committee also compares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

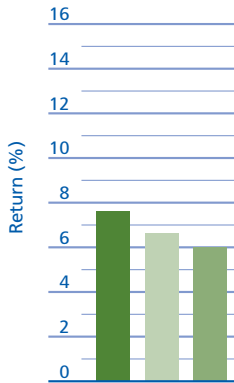
One Year
(2003)



Four Years
(Annualized)
(2000-2003)



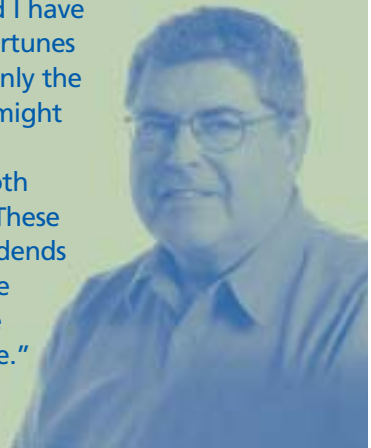
Since Inception
(Annualized)
(January 1997)



	One Year (2003)	Four Years (Annualized) (2000-2003)	Since Inception (Annualized) (January 1997)
■ MTS Pension Plan Return	13.5%	4.3%	7.6%
■ Customized Benchmark	13.4%	2.9%	6.6%
■ Performance Objective (CPI + 4%)	6.0%	6.4%	6.0%

"As an MTS Employee, my wife and I have a high degree of interest in the fortunes of MTS. Our interest reflects not only the monetary value of any stocks we might hold, but also the intellectual and emotional investments that we both made during my years of service. These are the investments that bear dividends for us now seeing MTS's impressive year after year fiscal performance and acceptance in the marketplace."

– *Cliff Durston*



13.5% INVESTMENT RETURN IN 2003

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 world's equity markets detracted from the Plan's performance over the last few years, these markets performed exceptionally well during 2003, contributing significantly to the Plan's 13.5% return in 2003. The Canadian equity market, as measured by the S&P/TSX Composite Index, posted a positive return of 26.7% for the year. The international markets in Europe, Australasia and the Far East, as measured by the MSCI EAFE Index, returned 13.8% in Canadian dollars. The U.S. equity market, as measured by the S&P 500 Index, provided a positive return of 5.3% in Canadian dollars during the year. The Canadian dollar's appreciation relative to the U.S. dollar during 2003 detracted from the Plan's U.S. equity returns. Overall, the Plan's 13.5% return resulted from positive returns in each asset class in which the Plan is invested. Although more volatile over the short-term, the investment of a portion of the Plan's investments in equity assets provides the Plan with the greatest opportunity to achieve its performance objective in the long-term.

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 2003, the Plan's investments outperformed the customized benchmark return by 0.1% as a result of this active management. The Plan continues to exceed the benchmark return over the four-year period and since inception. This is an indication of the strength of the investment management team assembled by MTS.

As expected, the Plan's investment return in 2003 exceeded the performance objective of the annual change in the CPI plus 4%. The performance objective is not a short-term objective, but instead, is an objective meant to be achieved over the long-term. The Plan continues to exceed this performance objective since the inception of the Plan in 1997.

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 five-year period ending December 31, 2003, the Plan has incurred less portfolio risk and earned a larger investment return than both the industry average and the Plan's benchmark.

SECURING YOUR FUTURE

In recent years, the world's equity markets have been extremely volatile. This volatility has caused significant changes in the Plan's assets, as it has for most, if not all, other pension plans in Canada. However, as noted on page 5 under "It's a Defined Benefit Plan", your pension benefit is not affected by the Plan's investment return. Belonging to a defined benefit pension plan is a great advantage during these challenging times. It is MTS's responsibility to ensure your pension benefits are secure, and this is a responsibility that the Company takes very seriously.



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

<i>(in thousands)</i>	2003	2002
Assets		
Cash	\$ 3,216	\$ 2,949
Investments (Note 3)	928,516	851,492
Receivables		
Investment income	2,425	2,113
Employee contributions	101	72
	934,258	856,626
Liabilities		
Accounts payable & accrued liabilities	832	687
Net Assets Available for Benefits	\$ 933,426	\$ 855,939

**STATEMENT OF CHANGES IN NET ASSETS
 AVAILABLE FOR BENEFITS**

For the Years Ended December 31

<i>(in thousands)</i>	2003	2002
Increase in Net Assets		
Contributions		
Current:		
Employees	\$ 9,583	\$ 9,507
Employers	9,600	–
Past service purchases	136	48
Investment income (Note 4)	34,253	27,407
Current period change in market value of investments	72,357	(50,730)
	125,929	(13,768)
Decrease in Net Assets		
Pension benefits	40,583	38,520
Termination benefits	6,743	5,897
Reciprocal transfers	268	–
Administrative expenses	848	886
	48,442	45,303
Increase (Decrease) in Net Assets for the Year	77,487	(59,071)
Net Assets Available for Benefits at Beginning of Year	855,939	915,010
Net Assets Available for Benefits at End of Year	\$ 933,426	\$ 855,939

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, 2003, the participating subsidiaries included MTS Communications Inc., MTS Media 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, as the Plan sponsors, to fund the benefits determined under the Plan together with the employees. The amount of funding by employees is based on a defined formula. The determination of 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 can 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 also are 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 also may 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 and Investment-Related Receivables and Liabilities*

Investments and investment-related receivables and liabilities are recorded at market value where quoted prices are readily available. Real estate values are estimated based upon external appraisals conducted throughout the year. Investment transactions are recorded as of the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

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

<i>(in thousands)</i>	2003	2002
Short-term investments		
Notes and securities	\$ 2,060	\$ 22
Cash equivalent mutual funds	11,888	21,806
Pending trades	1,492	-
Total short-term	15,440	21,828
Bonds and debentures		
Government guaranteed	143,741	134,220
Corporate	72,130	57,661
Mutual funds	90,333	92,261
Total bonds and debentures	306,204	284,142
Mortgages		
Mutual funds	46,386	44,303
Total mortgages	46,386	44,303
Equities		
Investment corporations	40,362	2,448
Real estate corporations	3,536	2,315
Resource corporations	44,397	34,589
Other	274,450	279,262
Mutual funds	149,425	137,186
Total equities	512,170	455,800
Real Estate		
Direct investments	2,612	2,705
Mutual funds	45,704	42,714
Total real estate	48,316	45,419
	\$ 928,516	\$ 851,492

4. NET INVESTMENT INCOME

<i>(in thousands)</i>	2003	2002
Investment income	\$ 28,275	\$ 28,576
Realized gains	9,193	2,052
Investment management and custodial expenses	(3,215)	(3,221)
	\$ 34,253	\$ 27,407

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. These financial statements have been audited by Deloitte & Touche LLP.

SURVEY

Tell us what you think! Please complete the following short survey on this Annual Report and return it to us as soon as possible. Just drop it in the mail – the postage has already been paid. Thank you for taking the time to help us improve. Survey results will be reported in a future newsletter.

1. When I receive the MTS Pension Plan Annual Report, I read:

- all of it most of it
 some of it none of it

2. I am most interested in information on:

(check as many as apply)

- how our Plan works
 membership statistics
 the pension committee
 investment returns for our Plan
 asset mix of our Plan
 summary financial statements
 the investment committee
 other *(please specify)*
-

3. Please check the column that best describes your opinion of the MTS Pension Plan Annual Report:

1= strongly agree – 5 = strongly disagree

- | | 1 | 2 | 3 | 4 | 5 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a. is easy to read | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b. is interesting | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c. helps me understand my pension plan | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d. keeps me up-to-date on my pension plan | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

4. Are you a:

- retired member active member
 deferred member other

Use this space for your questions/comments on the Annual Report or the Pension Plan:



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