

MANITOBA TELECOM SERVICES INC.
AND PARTICIPATING SUBSIDIARIES



EMPLOYEE PENSION PLAN
2004 ANNUAL REPORT

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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
19th Floor, 333 Main Street
Winnipeg, Manitoba R3C 3V6

Phone No.: (204) 941-7347 or 1-800-635-4973
Fax No.: (204) 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.: (204) 957-8722 or 1-800-432-5134
Fax No.: (204) 945-0237

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to present the MTS Pension Plan Annual Report for the fiscal year ending December 31, 2004.

In its eighth year of operation, our Pension Plan continued with its solid track record of performance, delivering yet another year of positive returns. The Plan produced a return of 8.7% for the year, resulting in a strong increase in assets to a market value of just over \$1 billion by year-end.

In 2004, as in previous years, the Pension Plan benefited from our commitment to maintaining a prudent, investment strategy and diversified asset mix. It is an approach focused on the goals of stability, low volatility, capital preservation and security – but also on long-term growth opportunities. The Pension Plan also was well positioned to take advantage of the continuing global economic recovery, which, in turn, also has driven growth in the capital markets in the past two years.

Ultimately, the most important measure of our success is long-term results. We have been consistently strong in this area, with an eight-year compound annual return of 7.8% since the Pension Plan's inception, which exceeds our internal targets for financial performance as well as external benchmarks. Last year, all the major asset classes in the Plan had positive returns. Other highlights included:

- In the major equity markets our returns were: Canada, 14.5%; U.S., 3.8%; and International, 11.9% (all as measured in Canadian dollars).
- MTS contributed nearly \$44 million to the Plan during the year, complemented by employee contributions of \$9.8 million.
- The Pension Plan paid out in excess of \$42 million to retirees and beneficiaries, a 3.5% increase from the previous year.

As the results of the Pension Plan indicate, the Canadian equity market outperformed many of the equity markets in the developed world. In the coming year, barring an unforeseen downturn, we expect that Canada again will perform strong economically. The Plan is also invested to ensure that it benefits from the expected growth in Asia and parts of Europe and the Americas.

As the CEO of MTS, it is my belief that planning for your future financial security is a shared responsibility. The Pension Plan's funds are sourced from contributions made by employees, the Company, and investment earnings. As we have mentioned many times over the past eight years, 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 and, as a result, the Company's contributions will fluctuate greatly from year to year. It is our expectation that the Company will contribute another \$44 million into the Plan in 2005. These are significant contributions to ensure that MTS lives up to its obligation of providing secure pension benefits.

As you may know, MTS took a major step toward securing its long-term future in 2004 by acquiring Allstream Inc., a recognized innovator in the Canadian industry that has strong competitive positions in business markets nationally. This \$1.6 billion transaction positions us for long-term growth as the third largest national provider in Canada today. With Allstream on board, we have broadened our reach, while preserving the values of financial prudence and investment discipline that have always characterized the strategies of MTS. Our balance sheet, cash flows, earnings and dividends for 2004, and our forecast for 2005, clearly indicate that MTS remains a strong company financially, and a leader in the markets in which we compete.

Allstream has many employees and retirees who have pension benefits that will continue to be provided by Allstream's pension plans. For you, the members of the MTS Pension Plan, I want to assure you that there have been no changes to your pension plan. MTS continues to be responsible for ensuring that every dollar 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. As always, your Pension Plan is supported by the financial strength of MTS.

MTS remains committed to ensuring that the Pension Plan meets its obligations to all retirees and employees of MTS. Maintaining the strength of our Pension Plan to ensure your secure retirement will always be a top priority.



Bill Fraser

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. and its participating subsidiaries. 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 help ensure that the Plan can meet its obligations. MTS contributed nearly \$44 million to the Plan in 2004.
- 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 55 if they have completed at least two years of continuous service, or as early as age 45 if their age plus years of continuous service is at least 70.

“Although I am enjoying my time at MTS I look forward to retiring.”

– Margaret Ouellette
(employee)



- 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%.
- 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.

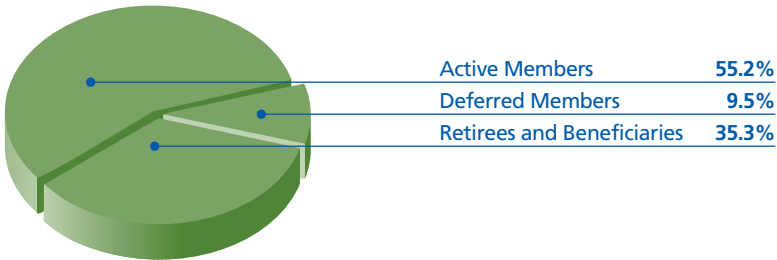
Privacy

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 Pension Plan. Access to your personal information is limited to MTS staff, The Civil Service Superannuation Board which provides administrative services in respect of the Pension 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 retirees and their 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, 2004 was as follows:



Active Members	3,574
Deferred Members	615
Retirees and Beneficiaries	2,287
Total Members	6,476

The total number of members was relatively unchanged from the end of 2003. There was an increase in the number of retirees (43), and a slight reduction in deferred members (1) and in active members (1).

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:

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

(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 liabilities exceed assets, 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.

The last actuarial valuation performed as at January 1, 2004 showed that the Plan was in a deficit position of \$120.8 million for funding purposes. MTS resumed funding normal contributions to the Plan in May 2003 in advance of the completion of this actuarial valuation. Starting in 2004, MTS began making special contributions to the Plan to eliminate the deficit over the next five years. This resulted in MTS increasing its contribution to the Plan to approximately \$44.0 million in 2004.

Investment earnings are typically the largest source of income for the Plan. Of the \$107.4 million in total cash inflows in 2004, net investment income accounted for \$53.5 million or 50% and Company contributions accounted for \$44.0 million or 41%. Employee contributions were 9% of cash inflows in 2004. More information on investments can be found beginning on page 9 of this report.

Payments from the Plan

In 2004, payments made from the Plan were as follows:

Pension payments to retirees and beneficiaries	\$ 42.0 million
Termination and lump-sum death benefit payments	\$ 6.4 million
Reciprocal transfers	\$ 0.2 million
Administrative expenses	\$ 1.0 million
Total	\$ 49.6 million

Pension payments to retirees were up \$1.4 million or 3.5% from 2003, while termination and lump-sum death benefit payments were down slightly from 2003.

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

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. In 2004, retirees received a COLA increase of 1.34%, which was two-thirds of the CPI increase of 2.01%. Past COLA increases account for approximately 19% of the pension benefits paid to retirees in 2004.

The guaranteed annual cost of living increase is a valuable benefit. Pension plans without this guarantee can choose not to give cost of living increases in any given year. This was the case in 2004 for many other pension plans in Canada.

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 2004, the balance in the COLA account was not sufficient to grant an additional increase beyond the minimum of two-thirds of CPI.

Pension Committee

The Pension Committee reports to the Audit Committee of the MTS Board of Directors. The Pension Committee met twice in 2004. In accordance with its

mandate, the Committee reviewed the results of the COLA actuarial valuation report, the funding actuarial valuation report and was briefed on the Plan's investment performance.

At the end of 2004, the members of the Pension Committee were:

Rod Pennycook (<i>Chair</i>)	Retired (formerly with The Great-West Life Assurance Company)
Irene Groot-Koerkamp	Director Law, MTS
Bryan Luce	Executive Vice-President Human Resources, MTS
Carl Martz	IBEW Representative
Brenda McInnes	Treasurer, MTS
Victor Otto	TEAM Representative
Donna Poitras	CEP Representative
Harry Restall	Retiree Representative
Brad Woods	Director Investor Relations, MTS

Legal Proceeding

The lawsuit that was filed by the unions and certain retiree and employee representatives in September 1999 in relation to the Pension 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, recommending 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 2004, 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, a division of MTS Allstream Inc.

The Investment Committee met four times in 2004.

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.

"I have enjoyed getting lots of exercise and meeting new people during retirement."

– Norma Howell
(retiree)

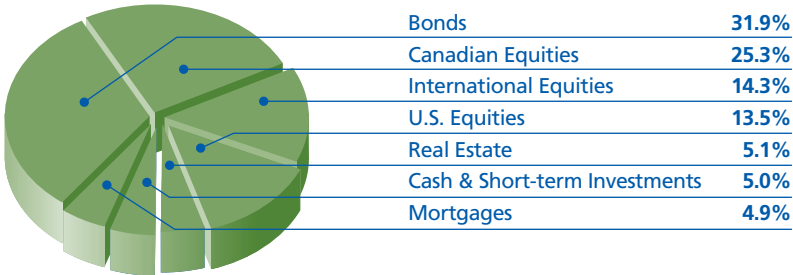


The Plan's funds are invested in a diversified portfolio of different types of assets because diversification – not putting all your eggs in one basket – is a fundamental principle of investing. If one type of asset results in a loss, a gain in another may offset the loss. For example, if Canadian equities 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 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 led to the adoption of the target asset mix currently being used as a basis for the Plan's investments.

Investments At December 31, 2004

At the end of 2004, the Plan's investments totaled just over \$1,016 million. The following chart and table show how the Plan's assets were invested.



Investment	Market Value (\$ millions)
Bonds	\$ 324
Canadian Equities	\$ 257
International Equities	\$ 145
U.S. Equities	\$ 137
Real Estate	\$ 52
Mortgages	\$ 50
Cash, Short-term Investments and Accrued Income	\$ 51
Total Funds	\$ 1,016

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. Income is 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 value. Over the long-term, bonds have historically produced lower rates of return with more stable rates of return (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 through interest payments on mortgages.

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:

- **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*)
- **Natcan Investment Management Ltd.** (*small capitalization Canadian equities*)

- **Phillips, Hager & North Investment Management Ltd.** (*Canadian bonds*)
- **The 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 reasons:

- 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 also 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.

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

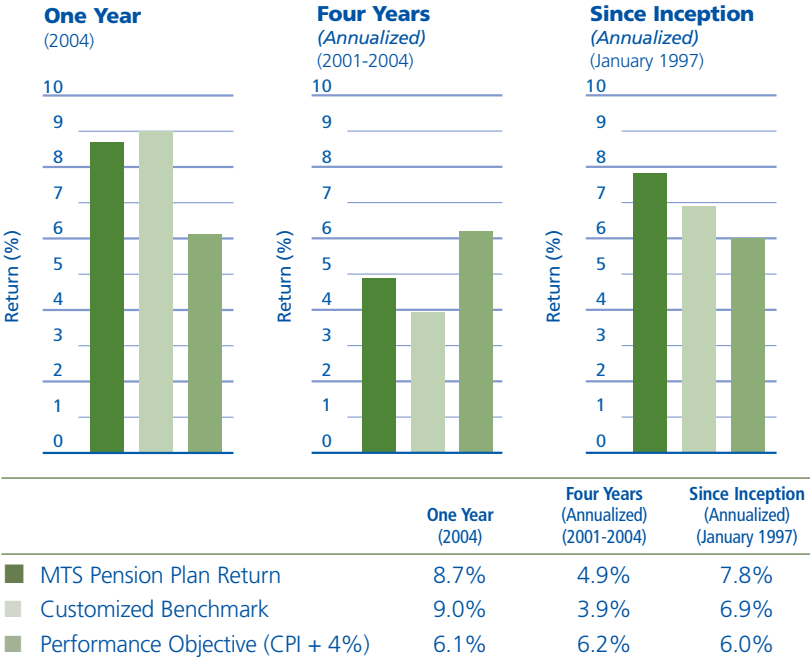
“There really is life after work and it is terrific.”

– Roy Bruckshaw
(retiree)



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.



8.7% Investment Return In 2004

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 2004, contributing significantly to the Plan's 8.7% return. The Canadian equity market, as measured by the S&P/TSX Composite Index, posted a positive return of 14.5% for the year. The international markets in Europe, Australia and the Far East, as measured by the MSCI EAFE Index, returned 11.9% in Canadian dollars. The U.S.

equity market, as measured by the S&P 500 Index, provided a positive return of 3.8% in Canadian dollars during the year. The Canadian dollar's appreciation relative to the U.S. dollar during 2004 detracted from the Plan's U.S. equity returns. Overall, the Plan's 8.7% 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 2004, the Plan's investments underperformed the customized benchmark return by 0.3%. The Plan's active managers typically use strategies that focus on quality companies that exhibit long-term growth, stable earnings and dividends, and have less debt. 2004 was an unusual year, in that lower quality, highly leveraged and distressed companies outperformed, particularly in the U.S. and international markets. The stocks that fared the best were those with significant leverage to falling interest rates and the economic rebound. However, when measured over longer periods, the Plan's active managers continue to add value for the Plan by investing in less economically sensitive companies. The Plan continues to exceed the benchmark return over the four-year period and since its inception. This is an indication of the strength of the investment management team assembled by MTS.

As expected, the Plan's investment return in 2004 exceeded the performance objective of the annual change in the CPI plus 4%. This 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, 2004, the Plan has incurred less portfolio risk and earned a larger investment return than the Plan's benchmark.

Securing Your Future

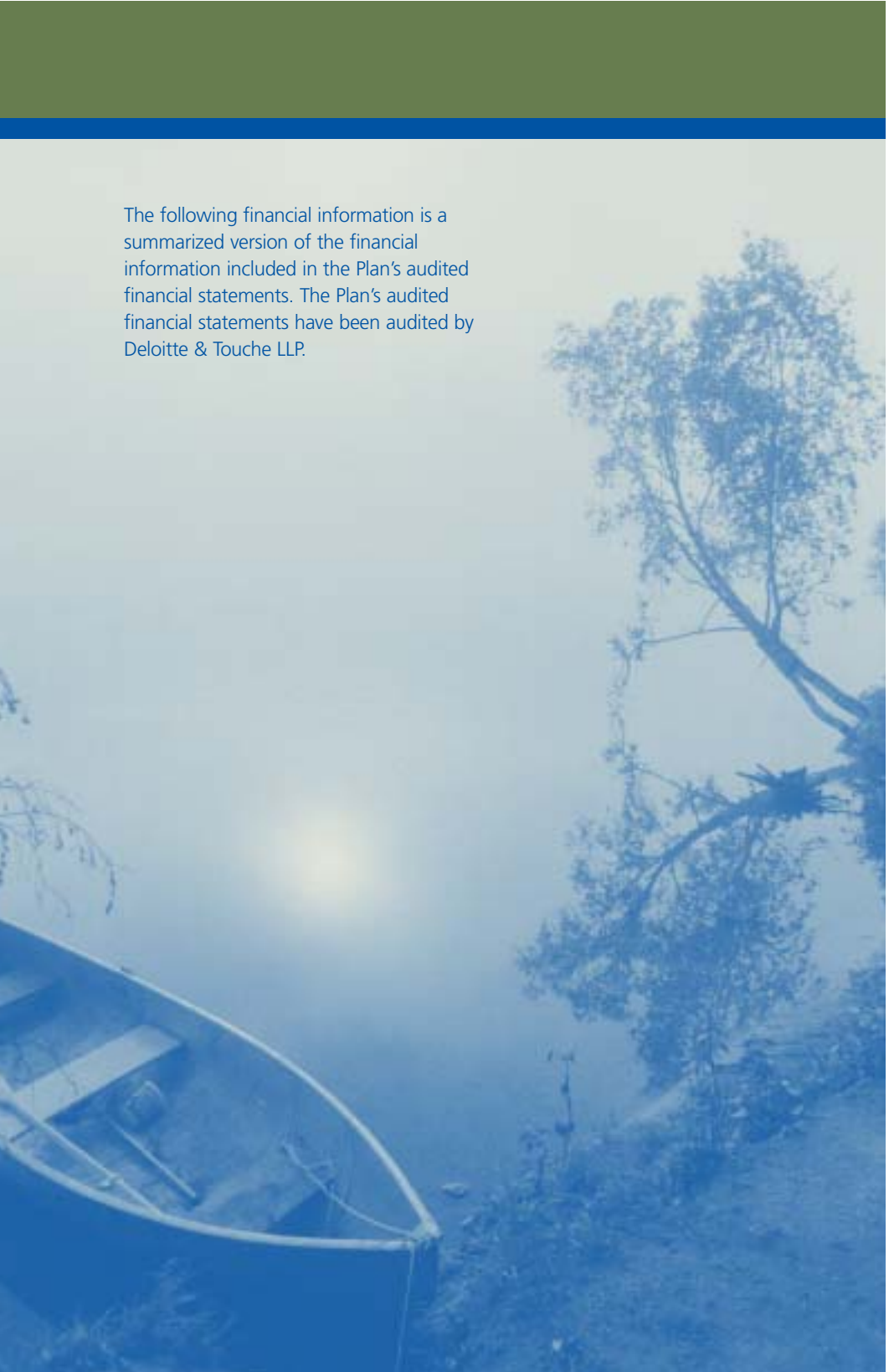
In recent years, the world's equity markets have been extremely volatile. This volatility has caused significant changes in the Plan's assets, as it has for most, if not all, other pension plans in Canada. However, as noted on page 5 under "It's a Defined Benefit Plan", your pension benefit is not affected by the Plan's investment return. Belonging to a defined benefit pension plan is a great advantage during 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.

"I think MTS is a great employer and it's a pleasure to work here."

– Marilyn Grayston
(employee)



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



**STATEMENT OF NET ASSETS
AVAILABLE FOR BENEFITS**

As at December 31

<i>(in thousands)</i>	2004	2003
Assets		
Cash	\$ 5,051	\$ 3,216
Investments (Note 3)	1,008,501	928,516
Receivables		
Investment income	2,856	2,425
Employee contributions	178	101
	1,016,586	934,258
Liabilities		
Accounts payable & accrued liabilities	855	832
Net Assets Available for Benefits	\$1,015,731	\$ 933,426

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Years Ended December 31

<i>(in thousands)</i>	2004	2003
Increase in Net Assets		
Contributions		
Current:		
Employees	\$ 9,801	\$ 9,583
Employers	43,979	9,600
Past service purchases	87	136
Reciprocal transfers	66	–
Investment income <i>(Note 4)</i>	53,460	34,253
Current period change in market value of investments	24,525	72,357
	131,918	125,929
Decrease in Net Assets		
Pension benefits	42,026	40,583
Termination benefits	6,353	6,743
Reciprocal transfers	206	268
Administrative expenses	1,028	848
	49,613	48,442
Increase in Net Assets for the Year	82,305	77,487
Net Assets Available for Benefits at Beginning of Year	933,426	855,939
Net Assets Available for Benefits at End of Year	\$1,015,731	\$ 933,426

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, 2004, the participating subsidiaries included MTS Communications Inc. and MTS Media 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. For a going concern deficiency, the payments are made over a period not exceeding 15 years. In the case of a solvency deficiency, the period cannot exceed 5 years. Conversely, if the Plan is in a surplus position, MTS's contributions may be reduced to zero.

The most recent actuarial valuation for funding purposes was prepared by Watson Wyatt & Company as of January 1, 2004, and a copy of this valuation was filed with the Office of the Superintendent of Financial Institutions and the Canada Revenue Agency. This valuation disclosed an unfunded liability as at January 1, 2004 which, in accordance with the PBSA, is being funded by MTS making special annual payments of \$29.8 million ending December 31, 2008. While a solvency deficit exists, completion of an annual actuarial funding valuation is required, and as a result, the amount of the special annual payment is subject to change.

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

The Plan's financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies:

a) Basis of Presentation

The Plan's 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>	2004	2003
Short-term investments		
Notes and securities	\$ 31,076	\$ 2,060
Cash equivalent pooled funds	14,499	11,888
Pending trades	(2,576)	1,492
Total short-term	42,999	15,440
Bonds and debentures		
Government guaranteed	172,850	143,741
Corporate	104,124	72,130
Pooled funds	47,254	90,333
Total bonds and debentures	324,228	306,204
Mortgages		
Pooled funds	49,628	46,386
Total mortgages	49,628	46,386
Equities		
Investment corporations	43,130	40,362
Real estate corporations	4,348	3,536
Resource corporations	38,668	44,397
Other	290,870	274,450
Pooled funds	162,358	149,425
Total equities	539,374	512,170
Real Estate		
Direct investments	2,852	2,612
Pooled funds	49,420	45,704
Total real estate	52,272	48,316
	\$1,008,501	\$ 928,516

4. NET INVESTMENT INCOME

<i>(in thousands)</i>	2004	2003
Investment income	\$ 29,133	\$ 28,275
Realized gains	27,909	9,193
Investment management and custodial expenses	(3,582)	(3,215)
	\$ 53,460	\$ 34,253

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 Plan's audited financial statements have been audited by Deloitte & Touche LLP.



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