



MANITOBA TELECOM
SERVICES INC.
AND PARTICIPATING
SUBSIDIARIES

MTS[®]

2006

ANNUAL REPORT
EMPLOYEE PENSION PLAN

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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:

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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

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e-mail: mtspensionplan@mtsallstream.com

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) 946-3200 or 1-800-432-5134

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2006 ANNUAL REPORT EMPLOYEE PENSION PLAN

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to present the MTS Pension Plan Annual Report for the year ending December 31, 2006. I am writing to you not only as Chief Executive Officer of the company, but also as a fellow member and contributor to the Plan.

A significant milestone was reached in 2006 as the Plan completed 10 years of operation since the Plan's inception in January 1997. Over this period, the Plan earned a 10-year annualized return on assets of 8.5%, which exceeded its objectives. More importantly, the Plan has paid out benefits to retirees and beneficiaries of approximately \$394 million over the past 10 years. The primary purpose of the Plan is to meet its "pension promise" to retirees, employees and their beneficiaries. At the beginning of 1997, the Plan started with assets of \$807 million. After 10 years of operation, the Plan has assets of approximately \$1.3 billion. This growth was achieved through a combination of employer contributions of \$202 million and employee contributions of \$94 million, professional investment management, and diligent administration. The Plan remains well-positioned to continue meeting its pension promise to its members in the future.

In 2006, the Plan's assets produced a strong return of 13.4% for the year. In addition to this positive return, significant funding from the company and employee contributions resulted in a substantial increase in the Plan's assets to a market value of just over \$1.3 billion by year-end. The increase in assets during the year has also led to a significant improvement in the Plan's funded position both on a going concern and solvency basis. Other major highlights of the Plan in 2006 include:

- Employer contributions to the Plan totaled approximately \$73.6 million for the year, complemented by employee contributions of \$10.4 million.
- The Plan's solvency funded ratio improved to 89.1% at January 1, 2007 from 79.3% at January 1, 2006, while the Plan's going concern funded ratio improved to 110.8% from 103.3% last year.
- The Plan's international equities, the top performing asset class in 2006, returned an impressive 29.8%.
- Payments to retirees and beneficiaries were in excess of \$47 million, representing an increase of over \$2.9 million from the previous year.

Defined benefit pension plans have been the subject of many news reports and articles in the past few years. In order to manage funding deficits that have resulted from the low interest rate environment, some plan sponsors have had to reduce pension benefits, and increase employee contributions. This has not been the case for our Plan, where benefits and employee contributions have remained unchanged. In addition, what distinguishes our Plan from others is the valuable annual cost of living increase, which is less common now for corporate pension plans.

The company is committed to ensuring that the Plan remains strong and can meet its obligations to retirees, beneficiaries and employees, now and in the future.

A handwritten signature in blue ink, appearing to read 'P. Blouin', with a stylized flourish at the end.

Pierre Blouin
Chief Executive Officer

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ABOUT YOUR PLAN

Highlights

The Plan is a contributory defined benefit plan providing pension benefits to the employees of Manitoba Telecom Services Inc. and MTS Allstream Inc., its participating subsidiary (collectively the “Company”). 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. The Company contributes the amounts necessary to help ensure that the Plan can meet its obligations. The Company contributed approximately \$73.6 million to the Plan in 2006.
- Plan benefit payments to retirees and beneficiaries were in excess of \$47 million in 2006.
- 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

“I retired in August 2006, and I was fortunate to have enjoyed at least 5 different “Careers” during my 35 years at MTS. Being retired is even better than I imagined it would be, and I am appreciative that MTS continues to provide me with excellent employee discounts and a monthly “pension cheque” to fund my travels and other adventures.”

– Janet Norris
(retiree)



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 equals 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%.
- Members who leave the Company before they are eligible to retire, but after at least two years of continuous service with the Company, are entitled to a deferred pension (which is a pension that is payable when they are eligible to retire). They also may choose to transfer the value of the pension to a locked-in RRSP.

For more details on the Plan, please refer to the MTS Pension Plan Web site at www.mtspensionplan.ca.

It’s a Valuable Plan

In 2006, the Company engaged the services of Watson Wyatt Canada, a division of Watson Wyatt Worldwide, Inc., a global firm focused on human resources and financial management, to conduct an independent review of the Plan. This review assessed the value of the pension benefits provided by the Company under the Plan and the competitiveness of the Company’s contribution relative to pension benefits offered by other companies in our peer group.

The value of the Plan’s benefit was measured as the cost of one year’s pension benefit earned as a percentage of payroll as follows:

Company Cost	8.06%
Employee Paid Portion	5.54%
Total Cost of Plan as a Percentage of Payroll.....	13.60%

Essentially, for every \$100.00 of employee payroll, another \$13.60 is spent on pension benefits for employees. The competitive analysis in the review ranked the Company’s normal pension cost against the pension costs of a peer group of Canadian companies. The Company’s costs ranked third highest out of the 12 companies in the review. The pension benefits provided by the Company through the Plan are indeed among the best in our industry.

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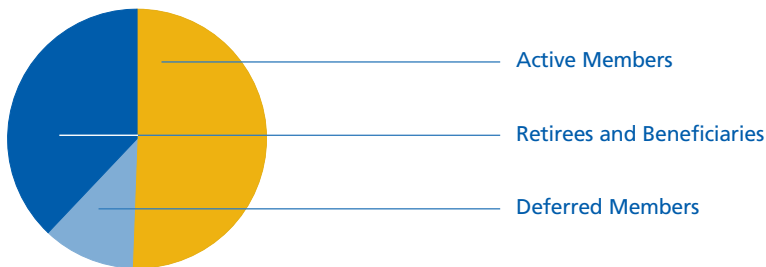
Privacy

The Company is dedicated to protecting your privacy and safeguarding your personal information. The Company collects, uses or discloses personal information for the purpose of administering the Plan. Access to your personal information is limited to certain Company 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 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, 2006 was as follows:



Active Members.....	3,264
Deferred Members.....	741
Retirees and Beneficiaries	2,448
Total Members	6,453

The total number of Plan members decreased by 116 from the end of 2005. There was an increase in the number of retirees (70) and deferred members (106), and a decrease in the number of active members (292).

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:

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

(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 Plan is a defined benefit pension plan. This means that your benefit is a predictable amount determined 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’s investments. Employees contribute to the Plan based on a set formula, and the Company contributes the additional amounts necessary to pay the benefits that you earn. A predictable retirement income is the most desirable feature of a defined benefit pension plan.

Sources of Funding

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

- Employee contributions;
- Company contributions; and
- Investment earnings.

The Company contributes the amount necessary to ensure that benefits earned can be paid when they are due. This does not mean that the Company contributes \$1 at the same time you contribute \$1. The timing of the Company’s contribution is determined by an actuarial valuation completed in accordance with pension legislation. The 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 contribution by the Company is required.

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However, if the liabilities exceed the 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. In 2006, employees contributed \$10.4 million to the Plan, while the Company contributed \$73.6 million (\$14.7 million in normal cost funding and \$58.9 million in deficiency funding).

The last actuarial funding valuation, completed as of January 1, 2007, showed that the Plan was in a surplus position of \$119.2 million on a going concern basis, and in a deficiency position of \$157.3 million on a solvency basis. This is a significant improvement from the January 1, 2006 valuation where the Plan had a surplus of \$35.1 million on a going concern basis, and a deficiency of \$294.9 million on a solvency basis. The solvency valuation assumes that the Plan terminated on the date the valuation was done, while the going concern valuation assumes that the Plan will continue operating indefinitely. The improvement in the Plan's solvency deficiency, and the solvency funded ratio to 89.1% at January 1, 2007 from 79.3% at January 1, 2006, is primarily a result of strong asset returns in 2006 combined with significant company contributions. The Company increased its deficiency contributions to the Plan to approximately \$58.9 million for 2006 from approximately \$47.6 million in 2005. Since inception of the Plan in 1997, the Company has contributed approximately \$202 million in deficiency and normal cost contributions and employees have contributed an additional \$94 million. This level of funding demonstrates the Company's commitment to your secure retirement.

In 2006, the Government of Canada enacted *Solvency Funding Relief Regulations* under the *Pension Benefits Standards Act, 1985* (Canada) which apply to federally-regulated defined benefit pension plans. Pursuant to these regulations, the Company will be able to make its deficiency contributions over a period of 10 years, instead of five. To enable the solvency funding relief for 2006 and 2007, the Company has arranged for \$61.2 million in letters of credit to be held by RBC Dexia Investor Services Trust, the trustee for the Plan. A letter of credit is a guarantee of payment issued by a bank to a third party which, in this case, is the Plan, for a specific amount of money. This arrangement will ensure that the Plan remains secure while it continues to be funded in an orderly fashion.

Investment earnings are typically the largest cash inflow source for the Plan. However, in 2006, the Company's contributions to the Plan exceeded investment earnings. Of the \$154.3 million in total cash inflows in 2006, the Company's contributions accounted for \$73.6 million or 48%, and net investment income accounted for \$70.1 million or 45%. Employee contributions of \$10.6 million represented 7% of cash inflows in 2006.

More information on investments can be found beginning on page 10 of this Annual Report.

Payments from the Plan

In 2006, payments made from the Plan were as follows:

Pension payments to retirees and beneficiaries	\$ 47.1 million
Termination and lump-sum death benefit payments	\$ 16.5 million
Reciprocal transfers	\$ 0.1 million
Administrative expenses	\$ 1.1 million
Total	\$ 64.8 million

Pension payments to retirees were up \$3.0 million or 6.8% from 2005, and termination and lump-sum death benefit payments increased \$7.6 million or 85.4% from 2005.

Buyer Beware

When employees retire or terminate their employment, they are faced with the decision of whether to keep their pension funds in the 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 professional advice, not only from your financial representative, but from someone knowledgeable about income taxes. You also may want to speak to family and 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, the Company and the Plan no longer guarantee, or remain in any way responsible for, your pension. Any financial losses that you may incur due to your investment decisions or those of your financial adviser are entirely your responsibility.

Cost of Living Adjustments

The Plan provides for a guaranteed COLA increase to pension payments each year. This guaranteed COLA is equal to two-thirds of the increase

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in CPI to a maximum CPI increase of 4%. COLA increases are granted each July. In 2006, retirees received a COLA increase of 1.45%, which was two-thirds of the CPI increase of 2.18%. Past COLA increases account for approximately 19% of the pension benefits paid to retirees in 2006.

The guaranteed annual cost of living increase is a valuable benefit that many other pension plans in Canada do not have.

Pension Committee

The Pension Committee reports to the Audit Committee of the Board of Directors. The Pension Committee met twice in 2006. In accordance with its mandate, the Committee reviewed the results of the COLA actuarial valuation report and the funding actuarial valuation report and was briefed on the Plan's investment performance.

The current members of the Pension Committee are as follows:

Rod Pennycook (<i>Chair</i>)	Retired (formerly with The Great-West Life Assurance Company)
Irene Groot-Koerkamp	Director Law, MTS
Brenda McInnes	Vice-President & Treasurer, MTS
Debbie Marantz	CEP Representative
Victor Otto	TEAM Representative
Harry Restall	Retiree Representative
Don Rooney	Director Labour Relations, MTS
Don Senkow	IBEW Representative
Laurie Stewart	Director Financial Planning/Analysis, MTS

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 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 Web Site

The Plan Web site gives Plan members the opportunity to learn more about their 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

Investment Committee

The Investment Committee oversees and directs the investment of the 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 Board of Directors each year.

The current members of the Investment Committee are as follows:

Wayne Demkey (<i>Chair</i>)	Chief Financial Officer, MTS
Brenda McInnes	Vice-President & Treasurer, MTS
Pat Solman	Vice-President Customer Care, MTS Allstream Inc.
John Smith	President, GWL Investment Management Ltd.
Neil Benditt	Retired (former Assistant Deputy Minister of Finance, Province of Manitoba)
Rod Pennycook	Chair, MTS Pension Committee

During 2006, the Investment Committee held four regular quarterly meetings to discuss the performance of the Plan's managers.

Asset Mix

Strong investment returns are important to growing the Plan's assets. However, given the volatile nature of financial markets, it also is important that the Plan has a diversified asset mix that is designed to achieve long-term growth while preserving capital during years of negative performance in financial markets. The policies that govern the Plan are designed to ensure a disciplined and balanced approach to investing which helps achieve both growth and capital preservation.

The Plan's asset mix is the combination of the different types of assets in which the Plan is invested, such as bonds, equities, 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, 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

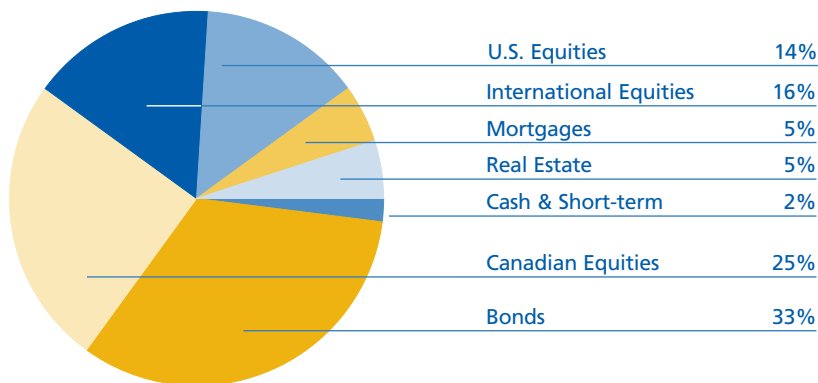
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asset mix is a strategy that minimizes risk and provides more stability in investment returns over time.

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 normally are 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 that currently is being used as a basis for the Plan's investments. The Plan currently is undergoing another asset/liability study, which is expected to be completed by May 2007.

Investments At December 31, 2006

At the end of 2006, the Plan's investments totaled approximately \$1,303 million. The following chart and table show how the Plan's assets were invested.



Investment	Market Value (\$ millions)
Bonds	\$ 422
Canadian Equities	\$ 326
International Equities	\$ 210
U.S. Equities	\$ 188
Real Estate	\$ 70
Mortgages	\$ 60
Cash, Short-term Investments and Accrued Income	\$ 27
Total Funds	\$ 1,303

Asset Types

Short-term Investments: primarily cash and securities 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 market's 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 through interest payments and increases in value. Over the long-term, bonds historically have produced lower rates of return with more stability (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 through dividends and increases in share value. Over the long-term, equity investments historically have produced higher rates of return with more volatility (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.

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

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 Board of Directors. The investment managers and the types of assets that they manage are as follows:

- **AllianceBernstein Institutional Investment Management** (*international equities*)
- **Beutel, Goodman & Company** (*Canadian equities and Canadian bonds*)
- **BonaVista Asset Management** (*Canadian equities*)
- **GWL Investment Management** (*indexed Canadian equities, real estate and mortgages*)

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- **MFS Investment Management** (*international equities*)
- **Natcan Investment Management** (*small capitalization Canadian equities*)
- **Phillips, Hager & North Investment Management** (*Canadian bonds*)
- **Putnam Investments** (*U.S. equities*)
- **TD Asset Management** (*indexed Canadian bonds and indexed U.S. equities*)
- **T. Rowe Price Associates** (*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 were chosen for their complementary investment styles.

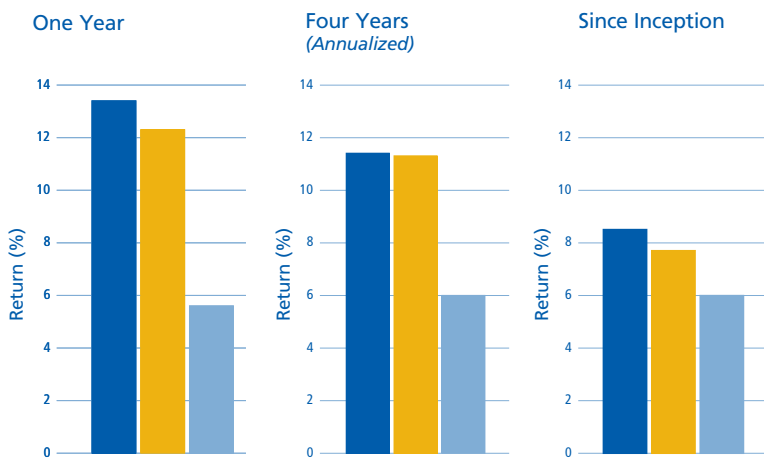
Custodian/Trustee

The custodian/trustee for the Plan is RBC Dexia Investor Services Trust, which operates under the name RBC Dexia Investor Services, a joint venture established in January 2006 that is equally owned by Royal Bank of Canada and Dexia (formerly Royal Trust Corporation of Canada, which operated under the name RBC Global Services). RBC Dexia Investor 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 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 reviewed carefully, it is the Plan's performance over longer periods that best indicate how well the Plan's funds are invested.



	One Year (2006)	Four Years (Annualized) (2003-2006)	Since Inception (Annualized) (January 1997)
■ MTS Pension Plan Return	13.4%	11.4%	8.5%
■ Customized Benchmark	12.3%	11.3%	7.7%
■ Performance Objective (CPI + 4%)	5.6%	6.0%	6.0%

13.4% Investment Return In 2006

The Plan invests in a diversified portfolio of assets including Canadian equities, U.S. equities, international equities, bonds, real estate, mortgages and short-term investments. Overall, the Plan's return of 13.4% resulted from positive returns in each asset class in which it is invested.

The portfolio benefited from its equities exposure during 2006, with strong returns in the Canadian, U.S. and international markets. International equities was the Plan's top performing asset class, returning 29.8% over the one-year time period. The Canadian equities asset class returned 17.7%, while U.S. equities returned 13.2%. 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 2006, the Plan's

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investments outperformed the customized benchmark return by 1.1%. The Plan also has outperformed over longer periods, with the Plan's active managers adding value over the four-year and since inception time periods. This is an indication of the strength of the investment management team assembled by the Investment Committee.

As expected, the Plan's investment return in 2006 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 return over the four-year period and since its inception.

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, 2006, the Plan has incurred less portfolio risk and earned a larger investment return than the Plan's benchmark.

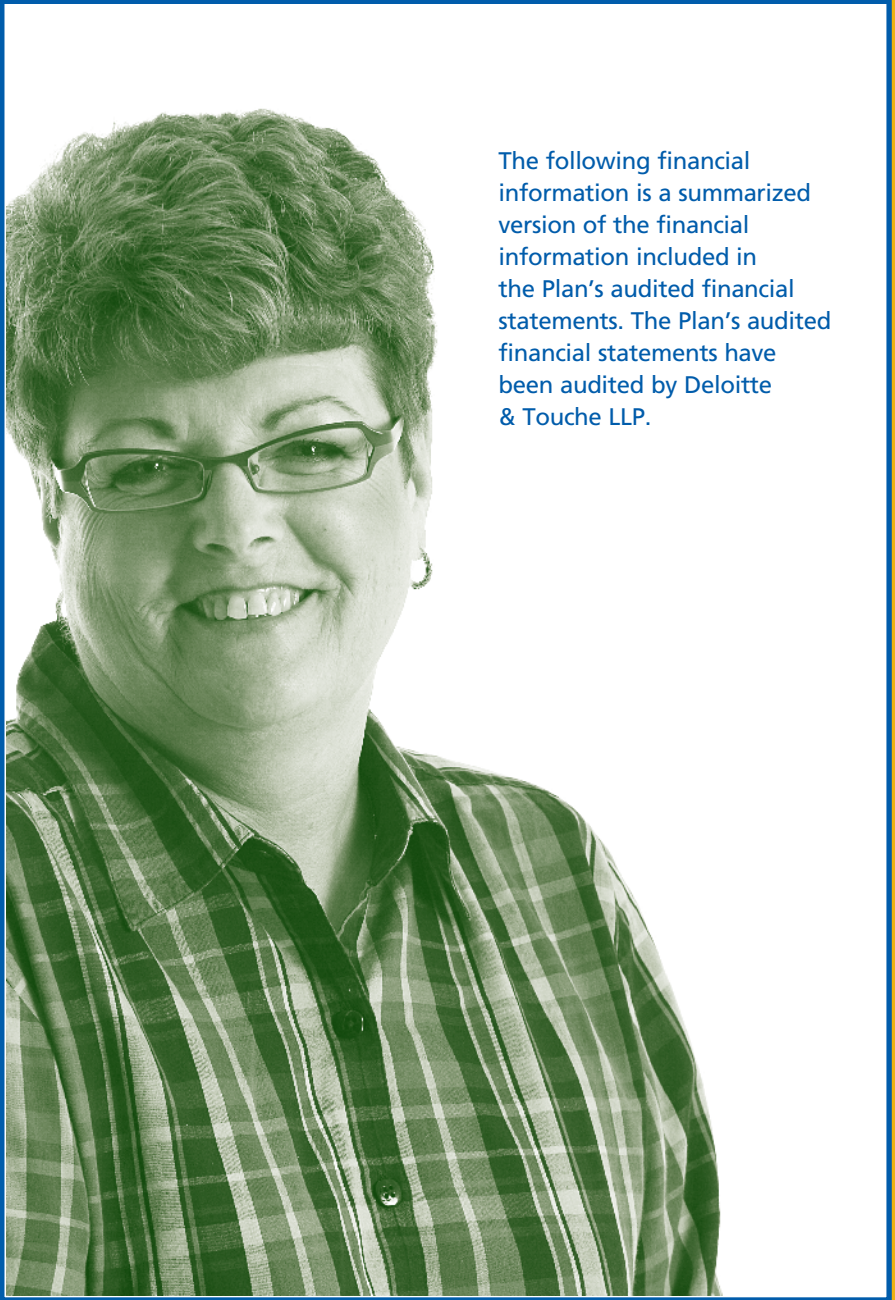
Securing Your Future

In recent years, long-term interest rates have declined considerably. This decline has caused a solvency funding deficiency for many pension plans in Canada. The Company has been working to address this funding deficiency in the Plan. It is the Company's responsibility to ensure that your pension benefits are secure, and this is a responsibility that the Company takes very seriously. The Plan is fully funded on a going concern basis. The Company will continue to make substantial contributions to the Plan to re-establish a fully-funded pension plan on a solvency basis.

"So far my life as a 'retiree' has simply been just great, except maybe for one thing – where does the time go?"

– Liliane Paterson
(retiree)





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.

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STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

<i>(in thousands)</i>	2006	2005
Assets		
Cash	\$ 4,388	\$ 3,282
Investments (Note 3)	1,294,266	1,112,542
Receivables		
Investment income	3,977	3,854
Employee contributions	182	189
Employer contributions	–	15,391
	1,302,813	1,135,258
Liabilities		
Accounts payable & accrued liabilities	977	786
Net Assets Available for Benefits	\$1,301,836	\$1,134,472

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Years Ended December 31

<i>(in thousands)</i>	2006	2005
Increase in Net Assets		
Contributions		
Current:		
Employee	\$ 10,442	\$ 10,555
Employer	73,598	62,972
Past service purchases	148	170
Reciprocal transfers	—	153
Net investment income (Note 4)	70,137	47,480
Current period change in market value of investments	77,811	51,705
	232,136	173,035
Decrease in Net Assets		
Pension benefits	47,065	44,071
Termination benefits	16,499	8,917
Reciprocal transfers	100	220
Administrative expenses	1,108	1,086
	64,772	54,294
Increase in Net Assets for the Year	167,364	118,741
Net Assets Available for Benefits at Beginning of Year	1,134,472	1,015,731
Net Assets Available for Benefits at End of Year	\$1,301,836	\$1,134,472

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 Manitoba employees of Manitoba Telecom Services Inc. ("MTS") and its participating subsidiary. 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, 2006, the participating subsidiary was MTS Allstream 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 in the case of a going concern deficiency, and over a period not exceeding five years (10 years under the temporary Solvency Funding Relief Regulations) in the case of a solvency deficiency. 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, 2006, 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 solvency liability as at January 1, 2006. 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.

In 2006, the Government of Canada implemented Solvency Funding Relief Regulations for defined benefit pension plans regulated under

the PBSA. MTS filed a revised January 1, 2006 actuarial valuation to enable the extension of its solvency funding payments from five years to ten years based on the new Solvency Funding Relief Regulations. To facilitate the solvency funding relief for 2006 and 2007, MTS has arranged for \$61.2 million in letters of credit to be held by RBC Dexia Investor Services Trust, the trustee for the Plan. The letters of credit are not reflected in the Net Assets Available for Benefits of the Plan.

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 Plan 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 values 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>	2006	2005
Short-term investments		
Notes and securities	\$ 8,999	\$ 6,719
Cash equivalent pooled funds	9,868	16,165
Pending trades	(76)	3,343
Total short-term	18,791	26,227
Bonds and debentures		
Government guaranteed	242,496	194,607
Corporate	127,963	116,974
Pooled funds	51,275	49,294
Total bonds and debentures	421,734	360,875
Mortgages		
Pooled funds	60,163	52,501
Total mortgages	60,163	52,501
Equities		
Investment corporations	51,965	47,192
Real estate corporations	3,778	2,910
Resource corporations	54,125	55,959
Other	460,522	376,332
Pooled funds	153,351	131,153
Total equities	723,741	613,546
Real Estate		
Direct investments	3,156	2,939
Pooled funds	66,681	56,454
Total real estate	69,837	59,393
	\$1,294,266	\$ 1,112,542

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4. NET INVESTMENT INCOME

<i>(in thousands)</i>	2006	2005
Investment income	\$ 35,323	\$ 29,831
Realized gains	39,340	21,354
Investment management and custodial expenses	(4,526)	(3,705)
	\$ 70,137	\$ 47,480

5. LETTERS OF CREDIT

Irrevocable letters of credit in the amount of \$61.2 million are held by the Plan's trustee, RBC Dexia Investor Services Trust, on behalf of the Plan. The letters of credit, issued by major Canadian banks, have been arranged by the Plan sponsor to enable the extension of solvency funding from five years to 10 years based on the new Solvency Funding Relief Regulations. The trustee can make a demand for payment on the letters of credit in the event the Plan sponsor does not meet its obligations under the Solvency Funding Relief Regulations or the Trust Agreement. The amount of the letters of credit is amended each year to reflect the most recent actuarial valuation results and ongoing funding under the Solvency Funding Relief Regulations. The letters of credit are not included in the Net Assets Available for Benefits of the Plan.

6. 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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