

A portrait of a middle-aged man with short, light brown hair and glasses, smiling slightly. He is wearing a dark brown sweater. The background is a solid light blue color.

MTSallstream

Manitoba Telecom Services Inc.
and Participating Subsidiaries
Employee Pension Plan

08
Annual Report

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

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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

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to present to you the MTS Pension Plan Annual Report for the year ended December 31, 2008.

2008 was a very challenging year for the global financial markets, a fact clearly illustrated by the performance of key North American indices. For example, The Toronto Stock Exchange (TSX Composite) Index declined by 33% and the US S&P 500 Index declined by 37.0%. Against this backdrop, our Pension Plan was one of the best performing pension plans in Canada in 2008.

The assets of the MTS Pension Plan produced an annual return of -12.6%, and ended the year with a market value of approximately \$1.094 billion. This compares favourably to the average Canadian pension plan return of -16.5% in 2008. The Pension Plan's portfolio is more defensively invested than many comparable company pension plans, and we continue to believe that our robust risk management and governance policies enable us to make prudent investment decisions and avoid unnecessary risk. As an example, 35% of the Pension Plan's investments typically are invested in Canadian bonds, which was the top performing asset class in 2008 and returned a positive 7.3%.

Long-term returns are the most important measure of the performance of a pension plan. The MTS Pension Plan has had an above average annual return of 5.9% since its inception in 1997. In addition, the Pension Plan is 100% funded on a long-term going concern basis. Despite the market events over the past 12 months, our Pension Plan remains strong, sustainable and fully capable of serving as a stable source of retirement income for our employees and retirees.

In 2008, the Company continued its strong support of the Pension Plan by contributing \$46.6 million for the year, which was complemented by employee contributions of \$10.0 million. In total, the Company has funded \$205 million and employees have funded \$40.9 million to the Pension Plan over the last four years. Payments to retirees and beneficiaries were \$52.8 million in 2008, representing an increase of over \$2.2 million from the previous year.

The most important attribute of any defined benefit pension plan is the strength of the plan sponsor. In 2008, MTS achieved its objectives for all key financial metrics with increases in revenue, free cash flow and earnings. Despite a challenging economic environment, the Company maintains one of the strongest balance sheets in the Canadian telecommunications sector.

Looking ahead, we are confident in our ability to continue supporting the Pension Plan and providing you with a stable source of income during your retirement years.

Sincerely,



Pierre Blouin
CHIEF EXECUTIVE OFFICER

ABOUT YOUR PLAN

HIGHLIGHTS

The MTS Pension Plan (the “Plan”) is a contributory defined benefit plan that provides pension benefits to certain employees and retirees of Manitoba Telecom Services Inc. (“MTS”) and its participating subsidiary, MTS Allstream Inc. (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 ensure that the Plan can meet its obligations. The Company contributed \$46.6 million to the Plan in 2008.
- Plan benefit payments to retirees and beneficiaries were \$52.8 million in 2008.
- 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 or 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 or 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.

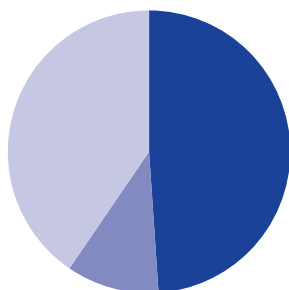
PRIVACY

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 benefits 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, 2008 was as follows:



● Active Members	3,155
● Deferred Members	684
● Retirees and Beneficiaries	2,609
Total Members	6,448

The total number of Plan members increased by 47 from the end of 2007. There was an increase in the number of active members (74) and retirees (39), and a decrease in the number of deferred members (66).

YOUR PENSION BENEFIT

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

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

(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.)



"I am amazed when having conversations with non MTS people that many will not have pensions when they retire. I am very grateful that MTS provides such good pension benefits."

- Emily Gervais (employee)

BENEFIT CALCULATION EXAMPLE

Consider an employee who retires from the Plan at age 55 on December 31, 2008. The employee has Best Average Earnings of \$60,000 and 30 years of Credited Service. The average YMPE in this example is \$42,460.

2.0% x \$60,000 (Best Average Earnings)	\$	1,200
<i>Multiplied by</i>		
30 years Credited Service	X	<u>30</u>
		<u>\$ 36,000</u>
<i>Less</i>		
0.6% x \$42,460 (average YMPE)	\$	255
<i>Multiplied by</i>		
30 years Credited Service	X	<u>30</u>
		<u>\$ 7,650</u>
Annual Benefit*		<u>\$ 28,350</u>

*The actual benefit you receive will be affected by a number of factors, including your earnings, your age at retirement, your years of Credited Service, future COLA increases to pension payments and the survivor benefit option that you choose.

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 in CPI to a maximum CPI increase of 4%. COLA increases are granted each July. In 2008, retirees received a COLA increase of 1.59%, which was two-thirds of the CPI increase of 2.38%. Past COLA increases account for approximately 18% of the pension benefits paid to retirees in 2008.

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

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:

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

In 2008, the Company's contributions were the largest cash inflow source for the Plan. Of the \$58.7 million increase in net assets available for benefits in 2008, the Company's contributions accounted for \$46.6 million, employee contributions accounted for \$10.0 million and reciprocal transfers accounted for \$7.8 million. These cash inflows were partially offset by a realized net investment loss of \$5.7 million.

COMPANY CONTRIBUTIONS

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, contributions by the Company may not be required. 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 2008, employees contributed \$10.0 million to the Plan, while the Company contributed \$46.6 million, consisting of \$14.4 million in normal cost funding and \$32.2 million in additional contributions.

The last actuarial funding valuation, which was completed as at January 1, 2009, showed that the Plan was in a surplus position of \$0.7 million on a going concern basis, and in a deficiency position of \$203.3 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 Plan's solvency funded ratio decreased slightly to 85.5% at January 1, 2009 from 86.9% at January 1, 2008, primarily as a result of lower asset returns in 2008, which was offset partially by Company contributions. Until the solvency deficiency is resolved, the Company will continue to make additional contributions to the Plan. Since the inception of the Plan in 1997, the employees have contributed \$114 million, while the Company has contributed \$270 million to the Plan. 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 is making certain deficiency contributions over a period of 10 years. To enable continued solvency funding pursuant to these regulations in 2009, the Company has arranged for \$78.3 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.

In 2009, the Federal Government is engaging in a public stakeholder consultation process regarding the rules that govern federally regulated pension plans and the Company is participating in this consultation process. In addition, in 2009, the Federal Government once again enacted temporary *Solvency Funding Relief Regulations*, which will enable companies to fund any new solvency deficiency over a period of 10 years. Depending on the outcome of the public consultation process, the Plan's future funding may be impacted.

EMPLOYEE CONTRIBUTIONS

Employee contributions to the Plan are based on the employee's earnings as follows:

- 5.1% of earnings up to the YMPE, and
- 7.0% of earnings over the YMPE

Employee contributions totaled \$10.0 million in 2008, and since the inception of the Plan in 1997, employees have contributed \$114 million.

INVESTMENT EARNINGS

The third source of funds for the Plan is earnings on the investments held in the Plan's trust fund. Further information on the Plan's investment earnings is available beginning on page 16 of this Annual Report.

PAYMENTS FROM THE PLAN

In 2008, payments made from the Plan were as follows:

Pension payments to retirees and beneficiaries	\$ 52.8 million
Termination and lump-sum death benefit payments	\$ 14.2 million
Reciprocal transfers	\$ 0.8 million
Administrative expenses	\$ 1.2 million
Total	\$ 69.0 million

Pension payments to retirees were up \$2.2 million or 4.3% from 2007, and termination and lump-sum death benefit payments decreased by \$11.8 million or 45.4% from 2007.



“MTS is a great place to work and I look forward to a day in the future when I will have the freedom that the MTS Pension Plan will give me.”

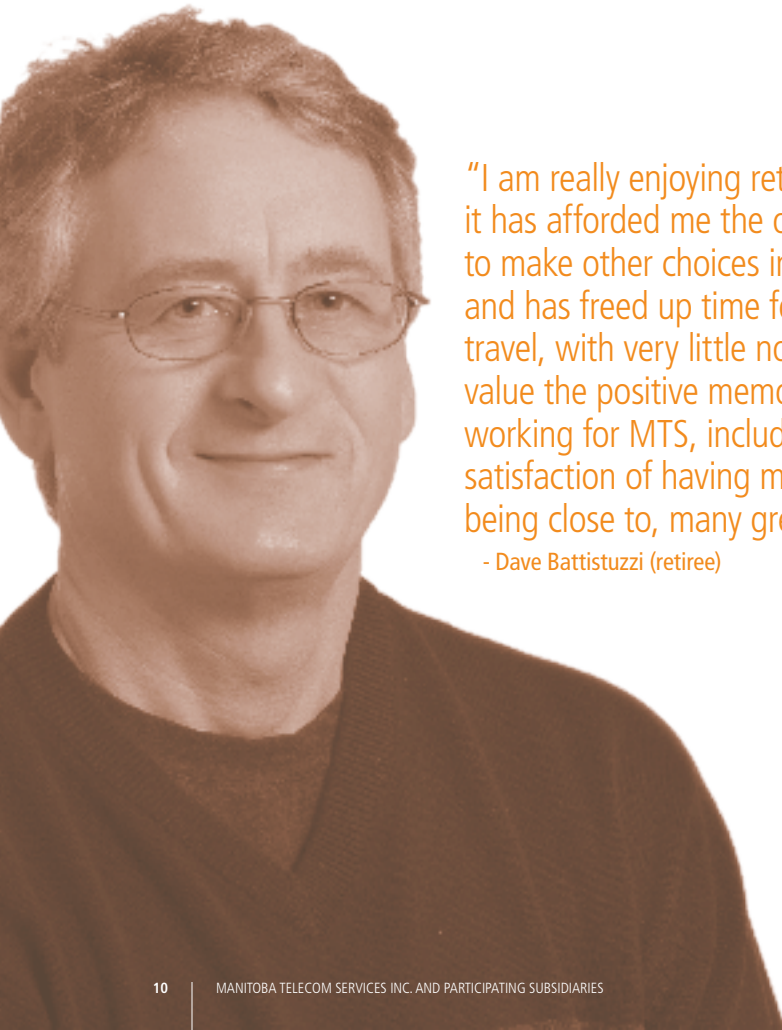
- Shelley Litke (employee)

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 advisor, 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 advisor are entirely your responsibility.



“I am really enjoying retirement, as it has afforded me the opportunity to make other choices in my life and has freed up time for us to travel, with very little notice. And I value the positive memories I have working for MTS, including the satisfaction of having met, and still being close to, many great people”

- Dave Battistuzzi (retiree)

PENSION COMMITTEE

The Pension Committee reports to the Audit Committee of the Board of Directors. The Pension Committee met twice in 2008. In accordance with its mandate, the Committee reviewed the results of the funding actuarial valuation and the COLA actuarial valuation reports, and reviewed the Plan's investment performance and other administrative aspects of the Plan.

The current members of the Pension Committee are as follows:

Rod Pennycook (Chair)	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 to 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 on 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 (Chair)	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 (formerly Assistant Deputy Minister of Finance, Province of Manitoba)
Rod Pennycook	Chair, MTS Pension Committee

During 2008, the Investment Committee held four regular quarterly meetings to discuss the performance of the Plan's managers.

ASSET MIX

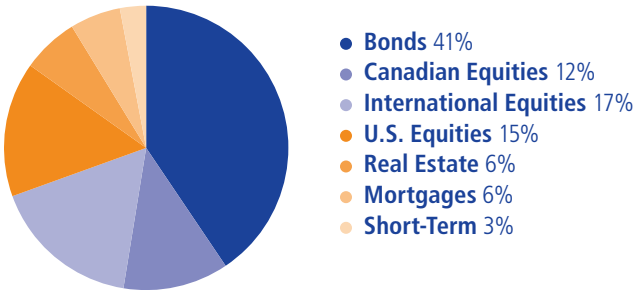
Strong long-term investment returns are important to growing the Plan's assets. To achieve this in volatile financial markets, it is important that the Plan has a diversified asset mix that is designed to achieve long-term growth, while preserving capital during years of negative performance in financial 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 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 typically conducted every four to six years. An asset/liability study was completed for the Plan in 2007, 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.

INVESTMENTS AT DECEMBER 31, 2008

At the end of 2008, the Plan's investments (excluding cash and accrued income) totaled \$1,075 million. The following chart and table show how the Plan's assets were invested.



INVESTMENT	MARKET VALUE (\$ MILLIONS)
Bonds	\$ 436
Canadian Equities	\$ 129
International Equities	\$ 182
U.S. Equities	\$ 165
Real Estate	\$ 69
Mortgages	\$ 62
Short-term Investments	\$ 32
Total Funds	\$ 1,075

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.

A portrait of Bill Kaminski, an older man with short, light-colored hair, wearing glasses and a light-colored blazer over a dark shirt. He is smiling slightly and looking directly at the camera. The background is a plain, light color.

“The decision to leave the workforce is never an easy one, but knowing the benefits available helps in the planning.”

- Bill Kaminski (employee)

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 Ltd.** (Canadian equities and Canadian bonds)
- **BonaVista Asset Management Ltd.** (Canadian equities)
- **The Great-West Life Assurance Company** (real estate and mortgages)
- **MFS Institutional Advisors, Inc.** (international equities)
- **Natcan Investment Management Inc.** (small capitalization Canadian equities)
- **Phillips, Hager & North Investment Management Ltd.** (Canadian bonds)
- **Sprucegrove Investment Management Ltd.** (U.S. and international equities)
- **T. Rowe Price Associates, Inc.** (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.

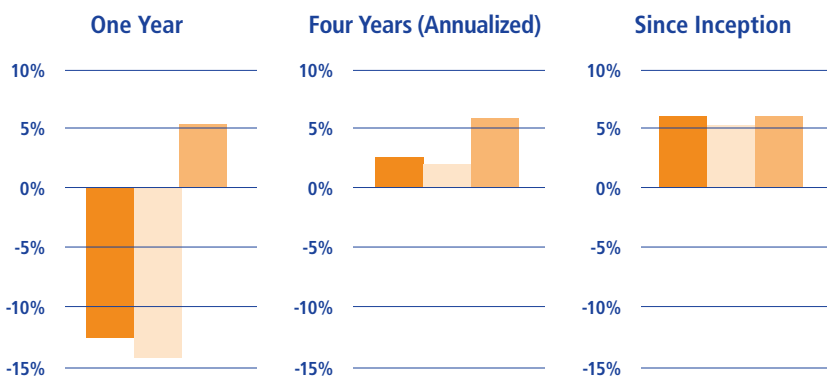
CUSTODIAN/TRUSTEE

The custodian/trustee for the Plan is RBC Dexia Investor Services Trust, a joint venture that is equally owned by Royal Bank of Canada and Dexia. 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 (2008)	Four Years (Annualized) (2005–2008)	Since Inception (Annualized) (January 1997)
● MTS Pension Plan Return	-12.6%	2.4%	5.9%
● Customized Benchmark	-14.1%	1.9%	5.2%
● Performance Objective (CPI + 4%)	5.2%	5.8%	6.0%

-12.6% INVESTMENT RETURN IN 2008

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.

The portfolio was impacted significantly by the economic recession, which began in the U.S. and spread to global markets during the second half of 2008. This had the largest impact on the Plan's Canadian equities, U.S. equities and international equities returns. Despite the challenges of 2008, the Plan outperformed its benchmark over the one-year period, and was one of the best performing pension plans in Canada, ranking in the top 20%.

Although the Plan was impacted by the negative returns in equities, other investment decisions helped to offset this impact. For example, the Canadian dollar weakened during the year and was down 18.6% against the U.S. dollar year-over-year, which had a positive impact on assets held in foreign currencies. The Plan also benefited from the strength of its fixed income and mortgage allocations, which returned 7.3% and 5.3% respectively, for the year. Real estate, which has been the Plan's top performing asset class over the long-term, had a slightly negative return in 2008. 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 over 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 2008, the Plan's investments outperformed the customized benchmark return by 1.5%. The Plan outperformed the benchmark's return by 0.5% over the four-year period and has outperformed over longer periods, with the Plan's active managers adding value since the inception of the Plan.

The Plan's investment return underperformed the performance objective of the annual change in the CPI plus 4% over the one-year period. However, this performance objective is not a short-term objective, but instead, is an objective meant to be achieved over the long-term. The Plan has underperformed the performance objective return over the four-year period, but has performed in line with the objective since inception of the Plan.

SECURING YOUR FUTURE

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. We are pleased to report that the Plan is fully funded on a going concern basis. We believe that the going concern basis is the most reasonable valuation method to assess the health of the Plan given the financial strength and longevity of the Company which now is in its second century of operations.

Pension legislation requires that pension plan sponsors also fund on a solvency basis, which assumes that the plan sponsor is insolvent. Although this assumption is unrealistic in view of the Company's strong balance sheet, we are committed to funding on this basis in accordance with pension legislation, and we have made substantial contributions in the amount of \$270 million to the Plan since its inception in 1997.

The Plan has a conservative approach and is more defensive in nature than many pension plans in Canada. Well-developed risk management and governance policies are in place, which has guided us through the financial turmoil and has helped us to avoid speculative investment strategies. Despite the troubles experienced in global markets, the Company has a solid capital structure with strong cash flows. It is this strength that ensures the Company's continued support for the Plan.



SUMMARY FINANCIAL STATEMENTS

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

(in thousands)	2008	2007
Assets		
Cash	\$ 4,969	\$ 5,385
Investments (Note 3)	1,074,507	1,243,166
Receivables		
Investment income	4,491	4,524
Employee contributions	283	201
Employer contributions	11,679	8,103
	1,095,929	1,261,379
Liabilities		
Accounts payable & accrued liabilities	1,888	1,125
Net Assets Available for Benefits	\$ 1,094,041	\$ 1,260,254

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31

(in thousands)	2008	2007
Increase in Net Assets		
Contributions		
Current:		
Employee	\$ 9,885	\$ 9,494
Employer	46,646	21,954
Past service purchases	68	143
Reciprocal transfers	7,816	-
Net investment income (loss) (Note 4)	(5,704)	180,709
	58,711	212,300
Decrease in Net Assets		
Pension benefits	52,848	50,614
Termination benefits	14,177	25,958
Reciprocal transfers	824	290
Administrative expenses	1,244	1,329
Current period unrealized losses on investments	155,831	175,691
	224,924	253,882
Decrease in Net Assets for the Year	(166,213)	(41,582)
Net Assets Available for Benefits		
at Beginning of Year	1,260,254	1,301,836
Net Assets Available for Benefits		
at End of Year	\$ 1,094,041	\$ 1,260,254

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, 2008, 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 Canada as at January 1, 2008, 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, 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.

In 2006, the Government of Canada enacted *Solvency Funding Relief Regulations* for defined benefit pension plans regulated under the PBSA, which enabled the extension of solvency funding payments from five years to 10 years. MTS filed a January 1, 2008 actuarial valuation to enable continued funding under the *Solvency Funding Relief Regulations*. To facilitate the solvency funding relief, MTS has arranged for \$78.3 million (2007 - \$51.0 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 are payable to members who have reached at least age 55 and the sum of their age plus continuous service equals 80, or have reached age 60 with 10 years of service. With certain restrictions, reduced early retirement benefits are available to members as early as age 45.

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 net investment income (loss) or current period unrealized gains (losses) on investments.

3. INVESTMENTS

(in thousands)	2008	2007
Short-term investments		
Notes and securities	\$ 25,293	\$ 4,412
Cash equivalent pooled funds	5,760	12,455
Pending trades	5	(512)
Total short-term	31,058	16,355
Bonds and debentures		
Government guaranteed	246,732	270,549
Corporate	189,376	164,571
Total bonds and debentures	436,108	435,120
Mortgages		
Pooled funds	61,556	62,317
Total mortgages	61,556	62,317
Equities		
Investment corporations	36,023	47,157
Real estate corporations	1,163	5,559
Resource corporations	35,872	49,882
Other	315,486	438,999
Pooled funds	87,765	112,000
Total equities	476,309	653,597
Real Estate		
Direct investments	-	3,173
Pooled funds	69,476	72,604
Total real estate	69,476	75,777
	\$ 1,074,507	\$ 1,243,166

4. NET INVESTMENT INCOME (LOSS)

(in thousands)	2008	2007
Investment income	\$ 41,792	\$ 47,275
Realized gains (losses)	(42,381)	139,082
Investment management and custodial expenses	(4,642)	(4,962)
Transaction costs	(473)	(686)
	\$ (5,704)	\$ 180,709

5. LETTERS OF CREDIT

Irrevocable letters of credit in the amount of \$78.3 million (2007 - \$51.0 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 continued funding under the *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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