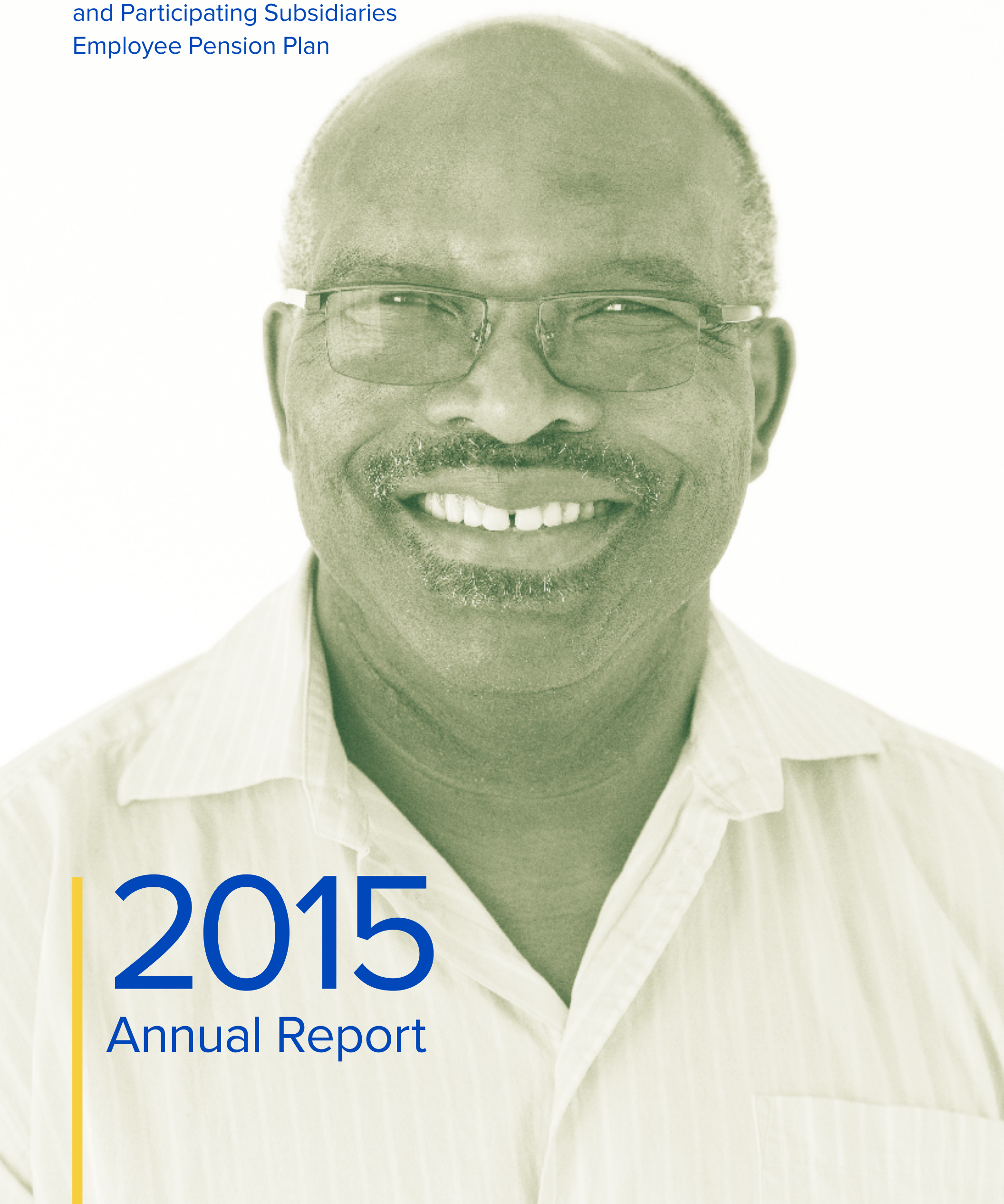
MTS
We're with you.

Manitoba Telecom Services Inc.
and Participating Subsidiaries
Employee Pension Plan



2015
Annual Report

For More Information

If you have any questions about the information contained in this Annual Report, if you would like to receive a copy of the MTS Pension Plan's Statement of Investment Policies and Goals, 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) 946-3200 or 1-800-432-5134
Fax No.: (204) 945-0237
e-mail: askus@cssb.mb.ca

Cover photo: Lloyd Dawes (retiree)

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Message From The President & CEO

I am pleased to provide you with the MTS Pension Plan Annual Report for the year ending December 31, 2015.

The Plan continued its trend of delivering strong investment returns in 2015, marking the seventh year in a row of positive performance following the market crash of 2008. The MTS Pension Plan produced a return of 9.9% during the year, generating positive performance in 8 out of 9 asset classes in which it invested. Despite a year characterized by slowing global growth and plummeting commodity prices, equity and fixed income markets achieved healthy returns and the Plan benefitted from its diversified investment structure. Over longer time periods, the MTS Pension Plan continues to perform well, returning 12.4% over the four-year period and 7.7% since inception.

Strong investment returns are one component of a healthy pension plan; the other is funding. Since 1997, MTS has contributed $715 million in cash funding to the Plan, while employees have contributed another $193 million. The positive investment returns of the past several years combined with the substantial employer and employee funding means that the Plan's assets now exceed $1.96 billion. The Plan is also supported by $271.1 million in letters of credit arranged by MTS and held in trust for the Plan.

As an update to the January 30, 2014 Supreme Court of Canada ruling regarding the administration of the Plan following the Company's privatization in 1997, MTS paid $58.1 million from the Plan to its members in 2015. I am pleased to say that of the $135.5 million to be paid, only $6.3 million remained outstanding as of December 31, 2015. The outstanding amounts are owed to estates and former members that have yet to be located.

LOOKING AHEAD

For 2016, the Plan remains focused on its long-term investment strategy and continues to be well diversified. This puts it in a position to weather any storms that the markets may bring. The Plan is supported by the full strength of MTS, the leading telecommunications provider in Manitoba, which provides the security of your retirement benefits going forward. In addition, as announced on May 2, 2016, BCE Inc. entered into an agreement to purchase MTS. Having the strength of BCE Inc. behind your pension plan will provide even greater financial stability in the future.

Jay Forbes
PRESIDENT & CEO

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. and its participating subsidiary, MTS 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 approximately $137.9 million in cash and letters of credit to the Plan and the employees contributed $9.2 million in 2015.
- Plan benefit payments to retirees and beneficiaries were $71.8 million in 2015.
- 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 as early as age 45 if their age plus years of continuous service equals at least 70, or as early as age 50 if they have at least 10 years of continuous service.
- 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 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.
- Effective January 1, 2010, membership in the Plan is limited to individuals who became employees prior to that date.

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

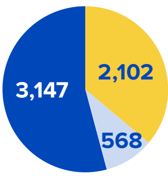
PRIVACY

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.

At December 31, 2015, Plan membership of 5,817 was comprised as follows:



Active Members	2,102
Deferred Members	568
Retirees and Beneficiaries	3,147
Total Members	**5,817**

The total number of Plan members decreased by 128 from the end of 2014. There was a decrease in the number of active members (298), and an increase in the number of deferred members (19) and retirees (151).

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 or partial years you have contributed to the Plan (referred to as "Credited Service"). The formula is as follows:

> **2.0%** of your Best Average Earnings
> *Multiplied by*
> Your years of Credited Service
> *Less*
> **0.6%** of the average YMPE (for the same five years of earnings)
> *Multiplied by*
> Your years of Credited Service

(YMPE, or Year's Maximum Pensionable Earnings, is the limit set by the federal government each year to determine the maximum Canada Pension Plan contributions and benefits.)

- Terry Lamorte (retiree)

BENEFIT CALCULATION EXAMPLE

Consider an employee who retires from the Plan at age 55 on December 31, 2015. The employee has Best Average Earnings of $62,500 and 30 years of Credited Service. The average YMPE in this example is $51,120.

2.0% x $62,500 (Best Average Earnings)	$1,250
Multiplied by	
30 years Credited Service	X 30
	$ 37,500
Less	
0.6% x $51,120 (average YMPE)	$ 307
Multiplied by	
30 years Credited Service	X 30
	$ 9,210
Annual Benefit*	**$ 28,290**

*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 2015, retirees received a COLA increase of 0.98%, which was two-thirds of the 2014 CPI increase of 1.47%. Past COLA increases account for approximately 20% of the pension benefits paid to retirees in 2015. In 2016, retirees will receive a COLA increase of 1.07% which is two-thirds of the 2015 CPI increase of 1.61%. 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

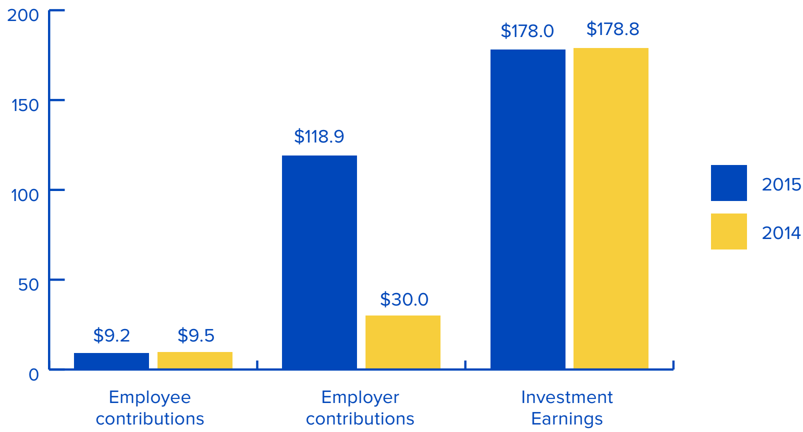
The Plan is a defined benefit pension plan. This means that your benefit is a predictable amount determined by a formula based on your earnings during the five years when they were the highest and your years of participation in the Plan. Your benefit does not depend on the rate of return earned by the 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.

The inflows to the Plan (in millions) in 2015 and 2014 were as follows:



In 2015, investment earnings were the largest source of funding for the Plan. Of the $306.1 million in total inflows in 2015, investment earnings (comprised of investment income and current period change in fair value of investments) accounted for $178.0 million or 58%, the Company's cash contributions accounted for $118.9 million or 39%, and employee contributions accounted for $9.2 million or 3%.

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. In 2015, the Company contributed $118.9 million in cash funding, consisting of $19.5 million in normal cost funding and $99.4 million in additional contributions, as well as $19.0 million in letters of credit. This equates to a $15 contribution for every $1 contributed by employees. Since the inception of the Plan in 1997, the Company has contributed $714.7 million in cash funding and $271.1 million in letters of credit to the Plan. This level of funding demonstrates the Company's commitment to your secure retirement.

The actuarial funding valuation completed as at January 1, 2016, showed that the Plan had a $264.1 million surplus on a going concern basis (including prepayments), and a $104.7 million deficit on a solvency basis (including prepayments). 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 going concern liabilities were $1,560.2 million as at January 1, 2016. On a solvency basis the liabilities were $2,336.6 million. The Plan's going concern funded ratio was 117%, while the Plan's solvency funded ratio was 96% as at January 1, 2016. The solvency ratio has increased from the January 1, 2015 valuation primarily due to employer prepayments and return on assets. Until the Plan is fully funded on both a solvency and a going concern basis, the Company will continue to make additional contributions either in cash or by letters of credit. The next actuarial funding valuation will be completed as at January 1, 2017.

LETTERS OF CREDIT

Regulations under the *Pension Benefits Standards Act*, 1985 ("PBSA") provide that letters of credit to be used, up to a maximum of 15% of plan assets, to meet solvency special payment requirements for federally regulated pension plans. A letter of credit is essentially a guarantee issued by a financial institution. It provides security to the pension plan up to its face value in the event the plan sponsor defaults in their obligations to the pension plan. The letters of credit held by the trustee, RBC Investor Services Trust, on behalf of the MTS Pension Plan automatically renew each year and cannot be withdrawn or reduced by the Company unless they are either replaced with cash funding or it is determined in an actuarial valuation that the letters of credit, or a portion thereof, are no longer required. In addition, PBSA regulations require that the letters of credit be issued by a financial institution which has a credit rating of A or higher. The letters of credit held by the Plan, totaling $271.1 million as at December 31, 2015, have been issued by the Canadian Imperial Bank of Commerce, Royal Bank of Canada, Bank of Montreal, National Bank and Bank of Nova Scotia. These letters of credit, in combination with the Plan's investments in short-term investments, bonds, mortgages, equities and real estate, provide security for the benefit obligations to Plan members.

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

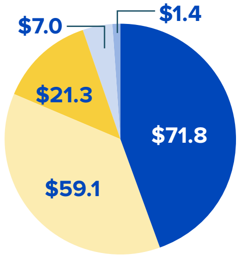
Employee contributions totaled $9.2 million in 2015, and since the inception of the Plan in 1997, employees have contributed $193.1 million.

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 12 of this Annual Report.

PAYMENTS FROM THE PLAN

In 2015, payments in the amount of $160.6 million were made from the Plan as follows:



- Pension payments to retirees and beneficiaries $71.8 million
- Distributions pursuant to Supreme Court decision $59.1 million
- Termination and lump sum death benefit payments $21.3 million
- Investment expenses $7.0 million
- Administrative expenses $1.4 million

Pension payments to retirees increased by $3.7 million, distributions pursuant to Supreme Court decision increased by $14.8 million, termination and lump-sum death benefit payments increased by $3.5 million, investment expenses remained at $7.0 million and administrative expenses increased by $2.6 million from 2014 due to a reversal of a legal cost accrual in the prior year.

ON RETIREMENT

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.

PENSION COMMITTEE

The Pension Committee reports to the Audit Committee of the Board of Directors. The Pension Committee met twice in 2015. In accordance with its mandate, the Committee reviewed the results of the funding actuarial valuation and the COLA actuarial valuation, and other administrative aspects of the Plan. They also reviewed the Plan's investment performance.

The members of the Pension Committee as at December 31, 2015 were:

Rod Pennycook (Chair)	Retired (formerly with The Great-West Life Assurance Company)
Paul Beauregard	Chief Corporate and Strategy Officer & Corporate Secretary
Bob Linsdell	TEAM Representative
Debbie Marantz	Unifor Representative
Brenda McInnes	Vice-President & Treasurer
Don Rooney	Director, Labour Relations, Environment Health & Safety
Don Senkow	IBEW Representative
Laurie Stewart	Director, Residential Customer Field Services Winnipeg Area
Larry Trach	Retiree Representative

At the end of 2015, Rod Pennycook retired from the Pension and Investment Committees. Rod originally joined the Committees in 1997 and made many significant contributions to the Committees' work. We thank Rod for his many years of service to the Plan.

LEGAL PROCEEDING

An update on the lawsuit is provided in Note 12 to the Financial Statements on page 27 of this Annual Report.

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.

- James Urchenko (retiree)

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:

Paul Cadieux (Chair)	Chief Financial Officer
Brenda McInnes	Vice-President & Treasurer
Pat Solman	Senior Vice-President, Network and Field Services
John Smith	Investment Advisor, John Smith Wealth and Investment Management

During 2015, the Investment Committee held four regular quarterly meetings to discuss the performance of the Plan's managers.

ASSET MIX

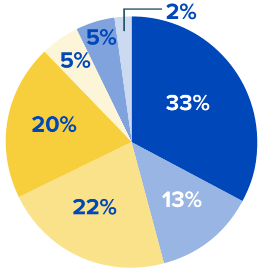
Strong investment returns are important to growing the Plan's assets. To achieve this in volatile financial markets, it is important that the Plan has a diversified asset mix that is designed to achieve long term growth, while preserving capital during years of negative performance in financial markets. 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 a risk management 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. A risk management study was completed for the Plan in 2012 which confirmed the Plan's current asset mix.

INVESTMENTS AT DECEMBER 31, 2015

At the end of 2015, the Plan's investments (excluding cash and accrued income) totaled $1,946.3 million. The following chart and table show how the Plan's assets were invested.



- Bonds 33%
- Canadian Equities 13%
- International Equities 22%
- U.S. Equities 20%
- Real Estate 5%
- Mortgages 5%
- Short-Term 2%

INVESTMENT	MARKET VALUE ($ MILLIONS)
Bonds	$ 641.4
Canadian Equities	$ 262.8
International Equities	$ 422.8
U.S. Equities	$ 390.8
Real Estate	$ 101.3
Mortgages	$ 98.5
Short-term Investments	$ 28.8
Total Funds	**$ 1,946.3**

Following table shows the ten largest investment holdings held directly by the Plan and their percentage of the total portfolio market value:

MTS PENSION PLAN
TOP 10 DIRECT HOLDINGS[1]

Canada Housing Trust[1]	$ 142,742,152	7.3%
Province of Ontario[1]	$ 143,144,948	7.3%
Government of Canada[1]	$ 72,516,332	3.7%
CIBC[1,2]	$ 31,742,535	1.6%
Royal Bank of Canada[1,2]	$ 31,717,178	1.6%
Bank of Nova Scotia[1,2]	$ 25,743,064	1.3%
Toronto Dominion Bank[1,2]	$ 25,519,612	1.3%
Amazon.com[2]	$ 20,936,997	1.1%
Province of British Columbia[1]	$ 18,187,150	0.9%
Province of Quebec[1]	$ 12,988,149	0.7%

[1]Bond Investment [2]Equity Investment

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:

- **Beutel, Goodman & Company Ltd**. (Canadian equities and Canadian bonds)
- **BonaVista Asset Management Ltd**. (Canadian equities)
- **Fiera Capital Corporation** (small capitalization Canadian equities)
- **GLC Asset Management Group Ltd**. (real estate and mortgages)
- **Mawer Investment Management Ltd**. (International equities)
- **MFS Institutional Advisors**, **Inc**. (International equities)
- **Phillips**, **Hager & North Investment Management Ltd**. (Canadian long bonds)
- **Sprucegrove Investment Management Ltd**. (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.

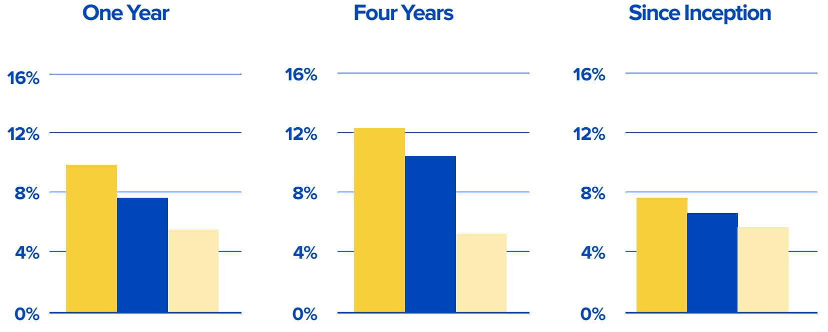
CUSTODIAN/TRUSTEE

The custodian/trustee for the Plan is RBC Investor Services Trust. They are responsible for the custody of the investment assets and letters of credit held in the Plan's trust fund.

PLAN PERFORMANCE

The Investment Committee measures the Plan's rate of return against the 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 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 (2015)	Four Years (Annualized) (2012-2015)	Since Inception (Annualized) (January 1997)
MTS Pension Plan Return	9.9%	12.4%	7.7%
Customized Benchmark	7.8%	10.5%	6.7%
Performance Objective (CPI +4%)	5.6%	5.3%	5.8%

9.9% INVESTMENT RETURN IN 2015

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.

2015 delivered another strong year for equity investors, with most markets around the globe generating positive performance. This was led by the U.S., which was the strongest performing developed market over the year when measured in Canadian dollars and benefitted from steady economic growth, strong corporate earnings, slow and measured interest rate increases from the U.S. Federal Reserve Bank, and an appreciating U.S. dollar. This positive performance was in spite of increased volatility caused by several significant market developments, including a disappointing global growth outlook, and plummeting commodity prices due to increased supply and dwindling demand due to slowing global growth. In response to this market volatility the fixed income market saw yields decline as investors sought out safe haven investments such as Canadian bonds, which propelled bond prices higher. In this environment, the Plan generated positive performance in eight out of the nine asset classes in which it invested, with significant performance coming from its exposure to the U.S. and international equities, returning 32.5% and 21.7% respectively. Canadian equities returned -6.4 due to the collapse of commodities but did outperform their benchmark which returned -8.3%. The Plan's allocations to bonds and mortgages generated returns of 3.2% and 3.8% respectively, while the allocation to real estate generated a return of 4.6%, primarily due to rental income. 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, whereas the fixed income and mortgage components provide downside risk protection. Because of its diversified nature, the Plan generated a return of 9.9% in 2015 and 12.4% over the four-year time period. As compared to its peers, the Plan's four-year performance ranked in the top 25% of pension plans in Canada, meaning it outperformed the average Canadian pension plan return and outperformed the majority of other large pension plans.

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 2015, the Plan's investments outperformed the customized benchmark return by a notable 2.1%. The Plan has outperformed over longer periods, with the Plan's active managers adding 1.9% in value over the four-year time period and 1.0% since inception of the Plan.

The Plan's investment return outperformed the performance objective of the annual change in the CPI plus 4% over the four-year time period, benefitting from strong equity and real estate returns over the four-year time period. This performance objective is not a short-term goal; instead, it is an objective meant to be achieved over the long term.

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. Manitoba Telecom Services Inc. is a profitable, leading edge company with a solid capital structure and strong cash flow. It is this strength that ensures the Company's continued support for the Plan.

The Plan has a conservative approach and has put comprehensive risk management and governance policies in place. This has guided the Plan through financial turmoil and has helped us to avoid speculative investment strategies.

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 financial statements have been audited by Deloitte LLP.

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(in thousands)	2015	2014
Assets		
Cash	$ 13,405	$ 7,772
Investments (Note 4)	1,946,314	1,795,672
Receivables		
Investment income	3,980	4,099
Employee contributions	1,020	937
Employer contributions	1,557	12,527
	1,966,276	1,821,007
Liabilities		
Benefits payable	1,161	1,047
Accounts payable & accrued liabilities	2,732	1,471
Distribution payable pursuant to Supreme Court decision	106	1,707
	3,999	4,225
Net Assets Available for Benefits	1,962,277	1,816,782
Pension Obligations	1,977,037	2,008,501
Deficit	$ (14,760)	$ (191,719)

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31

(in thousands)	2015	2014
Increase in Net Assets		
Contributions (Note 5)		
Employee	$ 9,194	$ 9,548
Employer	118,912	30,047
Investment income (Note 6)	45,846	50,763
Current period change in fair value of investments (Note 7)	132,187	127,976
	306,139	218,334
Decrease in Net Assets		
Benefit payments (Note 8)	93,130	85,867
Distribution pursuant to Supreme Court decision (Note 13)	59,105	44,333
Administrative expenses (Note 9)	8,409	5,791
	160,644	135,991
Change in Net Assets	145,495	82,343
Net Assets Available for Benefits, Beginning of Year	1,816,782	1,734,439
Net Assets Available for Benefits, End of Year	$ 1,962,277	$ 1,816,782

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

FOR THE YEAR ENDED DECEMBER 31

(in thousands)	2015	2014
Increase (Decrease) in Pension Obligations:		
Current service cost	$ 28,991	$ 22,773
Past service cost - curtailments	17,094	-
Interest cost	80,804	87,321
Remeasurement (gain) loss:		
Actuarial (gain) loss due to experience adjustments	7,288	(3,126)
Actuarial loss due to changes in demographic assumptions	-	19,833
Actuarial (gain) loss due to changes in financial assumptions	(23,318)	210,461
Employee contributions	9,114	9,553
Benefit payments	(91,921)	(85,770)
Distribution pursuant to Supreme Court decision	(63,404)	(43,815)
Transfer from payable pursuant to Supreme Court decision to benefit obligation	3,888	-
Change in Pension Obligations	(31,464)	217,230
Pension Obligations, Beginning of Year	2,008,501	1,791,271
Pension Obligations, End of Year	$ 1,977,037	$ 2,008,501

NOTES TO THE 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 certain current and former Manitoba employees of Manitoba Telecom Services Inc. ("MTS") and its participating subsidiary (collectively the "Company"). The Plan came into effect on January 1, 1997 in accordance with *The Manitoba Telephone System Reorganization and Consequential Amendments Act*. On January 1, 1997, all employees 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. Effective January 1, 2010, MTS adopted a new registered pension plan to provide retirement benefits on a defined contribution basis (the "DC Plan") for Manitoba employees hired by MTS and its participating subsidiary after December 31, 2009 and Plan members who elect to participate in the DC Plan for future service. At December 31, 2013, the only participating subsidiary was MTS 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 the Company 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, the Company 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 if there is a solvency deficiency, by annual solvency special payments equal to the amount by which the three-year average solvency deficiency divided by five exceeds the amount of going concern special payments that are payable during the plan year.

The most recent actuarial valuation for funding purposes was prepared by Willis Towers Watson Canada Inc. as at January 1, 2015, and a copy of this valuation will be 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, 2015. In accordance with the PBSA, unless the Plan has a solvency ratio of 120% or greater, completion of an annual actuarial funding valuation is required, and as a result, the amount of the special annual payment is subject to change. The actuarial valuation used to record the Pension Obligations is as described in Note 10.

Regulations under the PBSA provide that letters of credit may be used to meet solvency special payment requirements. The total face value of the letters of credit that can be issued cannot exceed 15% of the market value of the assets as determined on the valuation date. To facilitate solvency special payments, MTS has arranged for $271.1 million (2014 - $252.2 million) in letters of credit to be held by RBC 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) Investments

The Plan's capital is its net assets available for benefits. The Plan's objective when managing assets is to safeguard the Plan's ability to continue to provide pension and related payments to its members. The administrator manages the net assets of the Plan in accordance with the Statement of Investment Policies and Goals which specifies allocation limits for each asset class. There has been no change to the Statement of Investment Policies and Goals during the year (2014 – No change). In addition, as a federally regulated pension plan, the investments must be in accordance with the PBSA regulations.

d) 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, members can retire with reduced pension benefits as early as age 45.

e) 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.

f) Termination Benefits

Subject to lock-in provisions, refunds and commuted value transfers are available when an active member ceases employment.

g) 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.

h) 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%.

i) 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 Canadian accounting standards for pension plans and include the following significant accounting policies:

a) Basis of Presentation

These financial statements are prepared on a 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.

Accounting Standards for Private Enterprises as set out in Part II of the Chartered Professional Accountants (CPA) Handbook has been chosen for accounting policies that do not relate to the Plan's investment portfolio or pension obligations, to the extent that those standards do not conflict with the requirements of Section 4600.

b) Investments and Investment-Related Receivables and Liabilities

Investments and investment-related receivables and liabilities are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Bonds and debentures and equities are valued at the year-end closing market price where quoted prices are readily available. Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represents the Plan's proportionate share of underlying net assets at fair value determined using year-end closing market prices. 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 fair value of investments.

d) Investment Income

Income from investments is recorded on an accrual basis and includes interest income, dividends, securities lending revenue and other income.

e) Investment Transaction Costs

Investment transaction costs in the form of brokerage commissions are reflected in the statement of changes in net assets available for benefits as administrative expenses.

f) Current Period Change in Fair Value of Investments

The change in the difference between the fair value and cost of investments, at the beginning and end of each fiscal year, adjusted for realized gains and losses in the year, is reflected in the statement of changes in net assets available for benefits as a current period change in fair value of investments.

g) Use of Estimates

In preparing these financial statements, management must make certain estimates and assumptions, such as the inflation rate, the discount rate to measure pension obligations, and expected future salary increases, that affect the reported amount of pension obligations at the date of the financial statements. A change in an estimate or assumption could affect the present value of the pension obligation.

3. FINANCIAL RISKS

The Plan actively manages the risks that arise from its use of financial instruments, including liquidity, credit and market risk. The Plan adheres to an investment policy that outlines the objectives, constraints, and parameters related to its investing activities. This policy prescribes limits around the quality and concentration of investments held by the Plan. Management regularly reviews the Plan's investments to ensure all activities adhere to the investment policy. The Plan's exposure to and management of these risks has not changed materially since December 31, 2014.

4. INVESTMENTS

(in thousands)	2015	2014
Short-term investments		
Notes and securities	$ 21,761	$ 33,796
Cash equivalent pooled funds	10,731	8,400
Pending trades	(3,658)	(1,633)
Total short-term investments	28,834	40,563
Bonds and debentures		
Government guaranteed	409,719	357,428
Corporate	231,637	238,893
Total bonds and debentures	641,356	596,321
Mortgages		
Pooled funds	98,520	88,986
Total mortgages	98,520	88,986
Equities		
Investment corporations	72,731	80,217
Real estate corporations	8,278	7,787
Resource corporations	41,113	46,798
Other Canadian and Foreign corporations	606,156	551,524
Pooled funds	348,057	292,704
Total equities	1,076,335	979,030
Real Estate		
Pooled funds	101,269	90,772
Total real estate	101,269	90,772
	$ 1,946,314	$ 1,795,672

5. CONTRIBUTIONS

(in thousands)	2015	2014
Employee		
Current service	$ 9,167	$ 9,491
Past service	27	57
	$ 9,194	$ 9,548
Employer		
Current service	$ 19,529	$ 20,280
Special contributions	99,383	9,767
	$ 118,912	$ 30,047

6. INVESTMENT INCOME

(in thousands)	2015	2014
Interest		
Bonds	$ 19,737	$ 18,437
Mortgages	3,491	3,315
Deposits and short-term notes	292	526
Dividends		
Canadian equities	6,731	6,494
Foreign equities	15,359	21,828
Securities lending	236	163
	$ 45,846	$ 50,763

7. CURRENT PERIOD CHANGE IN FAIR VALUE OF INVESTMENTS

(in thousands)	2015	2014
Net realized gains on sale of investments	$ 142,136	$ 117,247
Net unrealized market gains	(9,949)	10,729
	$ 132,187	$ 127,976

8. BENEFIT PAYMENTS

(in thousands)	2015	2014
Retirement benefits	$ 71,685	$ 68,024
Disability benefits	72	79
Termination benefits	19,640	17,343
Death benefits	1,733	421
	$ 93,130	$ 85,867

9. ADMINISTRATIVE EXPENSES

(in thousands)	2015	2014
Administrative expenses		
Administrative expenses – Manitoba Telecom Services Inc.	$ 505	$ 504
External administration fees	459	419
Actuarial	341	185
Audit	14	13
Legal	3	(2,427)
Other	75	87
	1,397	(1,219)
Investment expenses		
Investment management	6,295	5,991
Custodial	325	462
Transactions costs	392	557
	7,012	7,010
	$ 8,409	$ 5,791

10. PENSION OBLIGATIONS

The Plan's pension obligations were determined in an actuarial valuation as at December 31, 2015 by Willis Towers Watson Canada Inc. The next actuarial valuation is required to be completed as at December 31, 2016. The valuation of the pension obligations was determined using the projected unit credit method as prescribed by IAS 19(2011). The assumptions used in the valuation were based on the Plan Administrator's best estimate of future events with the exception of the discount rate which was determined by reference to market interest rates of high quality corporate bonds at the measurement date. Future experience will differ from those assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations.

The major long term economic assumptions used in the actuarial valuation are:

	2015	2014
Discount rate	4.00%	4.10%
Future salary increases	3.00%	3.25%
Inflation rate	1.75%	2.00%

11. IRREVOCABLE LETTERS OF CREDIT

Irrevocable letters of credit in the amount of $271.1 million (2014 - $252.2 million) are held by the Plan's trustee, RBC 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 satisfy solvency funding requirements under the PBSA. The trustee can make a demand for payment on the letters of credit in the event the Plan sponsor does not meet its solvency funding obligations under the PBSA or the Trust Agreement. The letters of credit are not included in the net assets available for benefits of the Plan.

12. PENSION LAWSUIT

On January 30, 2014, the Supreme Court of Canada reinstated the lower court ruling regarding the administration of the Plan following the Company's 1997 privatization. To address the court ruling, the Company reached a settlement agreement with its unions and retirees on September 24, 2014 in regards to an implementation plan for distribution of the initial pension surplus. On November 3, 2014 court approval of the settlement agreement was obtained.

The settlement agreement provides for total distribution of $140.0 million with interest to the court approval date for a total distributable amount of $140.9 million. $5.4 million was set aside from this amount to pay for expected distribution and legal fees. The remaining $135.5 million would be paid to current and former members of the Plan as outlined in the settlement agreement. $27.4 million was required to be paid directly by the Company to MTS employees, and $108.1 million was required to be distributed from the Plan to retirees and other persons with interests in the Plan.

The $135.1 million settlement liability recognized in 2013 was remeasured in 2014 to reflect that a portion of the settlement would be paid directly by the Company to active MTS employees in accordance with the settlement agreement. The remeasurement gain is included in the 2014 actuarial (gain) loss due to experience adjustments in the Statement of Changes in Pension Obligations. The adjusted settlement liabilities are included in the Plan's actuarial valuation and are being funded by the Company in accordance with pension regulations.

In 2015, $12.4 million (2014 - $15.0 million) was distributed by the Company to MTS employees. The Company's distribution obligations under the settlement agreement are now complete.

In 2015, $58.1 million (2014 - $39.9 million) was distributed from the Plan to retirees and other persons with interests in the Plan and is included in the "Distribution pursuant to Supreme Court decision" in the Statement of Changes in Net Assets Available for Benefits. Distribution of enhanced benefits began in 2015 and the $3.9 million present value of the enhanced benefits has been removed from the settlement liabilities and are now accounted for as a regular pension benefit obligation. In addition, $1.0 million in legal and post judgment implementation costs have been distributed by the Plan in 2015 (2014 - $4.4

million) which are also included in the “Distribution pursuant to Supreme Court decision” in the Statement of Changes in Net Assets Available for Benefits. Remaining settlement payments of approximately $6.3 million are being held in the Plan for distribution to estates and unlocated members.

13. SUBSEQUENT EVENT

On May 2, 2016 MTS entered into a binding agreement with BCE Inc. (BCE) that will see BCE purchase all the issued and outstanding common shares of MTS at a transaction value of $3.9 billion. The transaction is expected to close in late 2016 or early 2017, subject to customary regulatory approvals and closing conditions.

14. 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 LLP.

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