



September 25, 2014

Pension Lawsuit Settlement Implementation

We are writing to you as you are a current or former member of the Manitoba Telecom Services Inc. and Participating Subsidiaries Employee Pension Plan (the “Plan”) or you are a beneficiary or executor of the estate of a deceased member of the Plan. As such, you may be eligible to receive a portion of the surplus distribution arising from the settlement of the pension lawsuit, which is explained in detail below.

There is a lot of important information in this letter and attached statement that you will need to read carefully. Before you start, these are the most important things you need to know:

Estimated Payment - The attached statement applicable to you is only an estimate based on some important assumptions. Your final distribution amount will be different and could be higher or lower. Importantly, the information in this letter is subject to Court approval, as well as some other regulatory approvals. There are no assurances these approvals will be obtained.

Payment Options - You may need to make a choice as to how to receive your portion of the surplus distribution. **If you don’t make this election by October 27, 2014, you will be deemed to have selected a pre-determined option. Given the importance of this decision, you should take the time to make the decision that is right for you, and you may want to seek your own financial and tax advice before making any decisions.**

Information Sessions - In October, we are holding a series of information sessions to deliver the information contained in this letter in respect of this settlement. See your personal statement included with this letter for details on where and when these sessions are being held. If you can’t personally attend one of these information sessions, a video of them will be posted online and available for anyone to view. Starting on October 10, 2014, the video will be available to view at www.mtspensionplan.ca. A copy of the settlement agreement is also available on the website.

Questions - We have set up a toll-free number and e-mail address for any further questions you may have – 1-844-380-2474 or pensionsettlementquestions@mtsallstream.com.

Comments – The parties are expected to appear before the Trial Judge at the Manitoba Court of Queen’s Bench on **November 3, 2014** in order to permit the Court to consider the agreement that has been reached as the agreement requires Court approval. If there is any aspect of this settlement in respect of which you would like to make comments (positive or negative) they will be delivered to the Trial Judge prior to obtaining any approval. Please provide your comments to pensionsettlementfeedback@mtsallstream.com by **no later than October 27, 2014**. In addition, subject to approval of the Court or subject to any limitations the Court may impose in its discretion, you or your representative may address the Court with respect to any aspect of the settlement.



What is the pension lawsuit?

In 1999, a lawsuit was filed against Manitoba Telecom Services Inc. and MTS Inc. (“MTS”) in respect of the Plan. This claim was based on events that had occurred at the time of privatization of the Manitoba Telephone System in 1997 and related to a surplus that existed at the time of privatization. This matter proceeded to trial in 2008, and in 2010 the trial court ruled that the Company was obligated to distribute the surplus by providing additional pension benefits equal to \$43.3 million plus interest at the Plan rate of return on investments. On January 30, 2014, the Supreme Court of Canada confirmed the ruling of the Trial Judge. By this time, the surplus had grown to over \$135 million. In addition, solicitor-client costs of approximately 4.5 million were recovered from the Plan.

Who decided how to distribute the surplus?

A large group of people have been working hard since the Supreme Court decision to find the best way to implement the decision of the Supreme Court and the trial judge in a manner that is compliant with the Court’s direction, the legislation governing pension plans and with Canada Revenue Agency rules. This group includes:

- TEAM representatives, advised by their independent counsel
- IBEW representatives, advised by their independent counsel
- Unifor representatives, advised by their independent counsel
- TRAM representatives (representing the retirees), advised by their independent counsel who also represent TEAM
- An independent actuary with experience in pension matters, retained by the above groups to represent their interests
- Towers Watson, the Plan’s actuaries
- MTS representatives

Finally, the Plan, with the consent of all of these parties, have retained the services of Mr. Ari Kaplan, who is a well-known expert in Canadian pension law and who has significant expertise in cases such as this where surplus is being distributed out of pension plans. Mr. Kaplan acted independently of all the parties and his role was to facilitate these discussions, and he will be available to speak to members and the Trial Judge to answer any questions they may have and to confirm that this settlement is reasonable and appropriate. Mr. Kaplan will be attending all of the information sessions and will be available to answer any questions people may have.

All of MTS’s unions, retiree representatives and MTS reached an agreement that is the subject of this letter.

Who is eligible to share in the surplus?

Every member of the Plan at January 1, 1997, as well as any member who joined the Plan after January 1, 1997, will be eligible to receive a share of the surplus distribution, regardless of whether the member is still a member today. Therefore, members who subsequently died or left the Plan by transferring their pension benefits out of the Plan would still be eligible to receive a



share of the surplus. As a result, there are approximately 9,300 people who are eligible to receive a surplus distribution. This number is made up of several different groups as follows:

- Current Employees
- Retirees and Beneficiaries
- Deferred Plan Members
- Exited Members
 - Deceased Members (where benefits ceased at time of death or where benefits were paid to an estate)
 - Cashed-Out Members (who transferred benefits out of the Plan)
 - Non-Vested Members (who worked less than 2 years at MTS)
 - Former spouses (who were a party to a marriage separation agreement and transferred their benefits out of the Plan)

How will the surplus be allocated among the different groups?

After significant work and analysis, it was agreed to allocate the surplus proportionately to all participants in the surplus distribution group (using January 1, 2014 information) based on the following criteria:

<i>Current Employees</i>	Based on the value of the employee's pension benefits earned in the Plan.
<i>Retirees and Beneficiaries</i>	Based on the value of the pension benefits currently being paid from the Plan and the total pension benefit payments received from the later of January 1, 1997 and retirement date.
<i>Deferred Plan Members</i>	Based on the value of the former employee's pension benefits earned in the Plan.
<i>Exited Members:</i>	
<i>Deceased Members</i>	Based on the total pension benefit payments received from the later of January 1, 1997 or date of retirement to date of death.
<i>Cashed-Out Members</i>	Based on the value of the pension benefit at date of termination or death.
<i>Non-Vested Members</i>	A total pool of \$200,000 of the surplus is allocated to Non-Vested Members with each person eligible to receive a maximum payment of \$500. Individual payments will be reduced if more than 400 Non-Vested Members come forward.



Former Spouses

Based on the value of the pension benefit from the Plan assigned to the former spouse under the separation agreement. The surplus distribution allocation will reduce the employee's or retiree's surplus distribution allocation.

What happens to the surplus share if you can't find an Exited Member?

It is expected that some Exited Members will be impossible to locate. The Plan will make reasonable efforts to locate all Exited Members who are not Non-Vested Members and will take the steps that all the parties have agreed are reasonable, including the conducting of searches and placing ads in both the Winnipeg Free Press and the Globe and Mail. The Plan will retain the Exited Members' benefits (excluding Non-Vested Members) for a period of two (2) years from the date in which the proceeds have been substantially distributed, (i.e. the benefits will only be retained by the Plan until a future date that is estimated to be some time in the spring of 2017.) After this time, the Exited Members who have not been located will not be eligible to a surplus share. The specific date upon which the rights of Exited Members will expire will be in accordance with a court order and posted on the Plan's website at www.mtspensionplan.ca.

Amounts remaining on account of unlocated Exited Members will be distributed as agreed to by the Parties, who have formed a committee to ensure this is done in a fair and equitable way. In no event will this money be returned to MTS.

How much is available for distribution?

The surplus with accrued interest totaled \$140.0 million at June 30, 2014. The \$140.0 million is growing at a rate of return equal to 2% per year until the court approval is obtained. The surplus will stop growing at this time on the basis that distribution is about to begin, unless MTS has failed to act diligently in causing these amounts to be distributed. Note that no person is entitled to any share of surplus and no payments will be made until such time as all Court approvals are obtained and no appeals are possible. Therefore, if Court approval is not obtained, or somehow the order is contested (notwithstanding that all of the parties have come to a unanimous agreement on how to distribute the surplus), then payments may not be made until the matter is resolved, if at all.

The amount available for distribution will be reduced by the costs incurred to implement the settlement (other than certain costs that MTS, TEAM, Unifor and IBEW have agreed to pay directly). The settlement implementation costs are currently estimated at \$3.1 million, and all of the parties (including the union representatives) have formed a committee to regularly monitor and track these costs to ensure they remain reasonable. In addition, D'Arcy & Deacon LLP will ask the Court to reduce the amount available for distribution to some parties by \$2.0 million as a "success fee" to D'Arcy & Deacon LLP.



What is the D'Arcy & Deacon LLP "Success Fee"?

D'Arcy & Deacon LLP is the law firm that won the trial and the Supreme Court of Canada Appeal. It had responsibility for conducting this litigation since its inception 16 years ago. Part of the retainer arrangement negotiated by the plaintiffs with D'Arcy & Deacon LLP involved D'Arcy & Deacon LLP agreeing to cap their fees in the Court of Appeal and the Supreme Court of Canada. There was also a provision that D'Arcy & Deacon LLP could request that it be paid a special bonus fee (commonly known as a "counsel fee") if successful. The payment of such a fee was subject to agreement by the unions and TRAM to pay any counsel fee.

IBEW and Unifor have agreed to take no position on the counsel fee, which does not affect current IBEW Members and Unifor Members, on the basis that the counsel fee is being disclosed to members at this time and members will have an opportunity to make representations about it should they wish. This aspect of the Agreement is made by TEAM, TRAM, the Representatives and MTS who each endorse the payment of the counsel fee. The counsel fee is subject to approval by the Court.

As part of the decision of the Supreme Court awarding solicitor and client costs against MTS, D'Arcy & Deacon LLP has been paid in full for its hourly fees, including a topping up of the amounts previously capped except for the amount of \$94,464.85 which represents the difference between actual time spent and the capped amount, for conducting the appeal at the Court of Appeal. MTS, TEAM, Unifor and IBEW are contributing an additional amount totaling (in the aggregate) \$700,000 to D'Arcy & Deacon LLP toward the counsel fee and this amount will not reduce the distributions contemplated under the settlement.

D'Arcy & Deacon LLP requests that the total counsel fee be \$2.7 million and will therefore request that the Court approve payment of an additional sum of \$2 million. If approved, this amount will be deducted on a pro rata basis from all members, who were not unionized employees as of January 1, 2014, (i.e., employees represented by TEAM, IBEW or Unifor). This means that unionized employees as of January 1, 2014 are not affected by this agreement, as their payments will not be impacted by this arrangement. For all others, including non-unionized employees and retirees/beneficiaries as at January 1, 2014, it is estimated, if the counsel fee is approved, their payments will be reduced by approximately 1.82%. By way of mathematical examples, this means that:

If your lump sum distribution is then your payment is reduced by ...
\$1,000.00	\$18.20
\$10,000.00	\$182.00
\$20,000.00	\$368.00

All legal costs incurred by the Unions and Retirees during the litigation, which were paid to D'Arcy & Deacon LLP, Deeley Fabbri Sellen Law Corporation and the actuarial firms during the course of the litigation, were recovered from the Plan and have been paid back to the Unions and TRAM (totaling approximately \$4.5 million), which, when coupled with the counsel fee, would be roughly equivalent to MTS' own costs of litigation.



The settlement agreed to by the parties is not dependent on approval of the counsel fee which is subject to separate approval by the Court. Subject to approval of the Court or subject to any limitations the Court may impose in its discretion, you or your representative may address the Court with respect to any aspect of the settlement, including the counsel fee. If you intend to make any comment to the Court with respect to the settlement, please provide your comments to pensionsettlementfeedback@mtsallstream.com by **no later than October 27, 2014**. In addition, if you or your representative intend to appear to speak to the Court on November 3, 2014, you are requested to notify the parties by e-mail at the above address and include a summary of the comments you intend to make by **no later than October 27, 2014**.

Is there a Minimum Distribution?

Yes, except for Non-Vested Members who will receive a maximum of \$500, there is a minimum distribution of \$1000. However, where a participant is a former spouse entitled to a portion of a member's benefit under the Plan, the minimum distribution of \$1000 will be shared between the spouse and the member based on the proportion of the member's pension benefit to which the spouse was entitled under a court order, separation agreement or applicable legislation, as the case may be.

How much may I receive?

Attached to this letter is a statement showing the **estimated** amount you may personally receive if court approval is obtained. Please be advised that this amount is expected to change, and could be higher or lower, once the Plan's actuaries have finalized the calculations and the settlement distribution is approved by the Court.

What are my options for receiving my distribution amount?

Some people will have options, depending on their category. The distribution method options for each group are as follows:

Current Employees:

A choice of one of the following:

- a) A lump-sum payment paid directly by MTS on a payday, or
- b) A transfer to a personal RRSP or the MTS Group RRSP, or
- c) A combination of a) and b)

Please note that the employee must show proof of RRSP contribution room prior to the distribution date for amounts to be transferred into an RRSP.

If an employee does not make an election prior to October 27, 2014, he or she will be deemed to have elected option a).



Retirees and Beneficiaries: A choice of either:

- a) A lump-sum payment made from the Plan on a pensioner payroll date, or
- b) If retired before July 1, 2013, an increase in the monthly pension being paid plus a reduced lump sum payment made from the Plan

If a retiree or beneficiary does not make an election prior to October 27, 2014, he or she will be deemed to have elected option a).

Deferred Plan Members: A lump-sum payment made from the Plan

Exited Members: A lump-sum payment made from the Plan

All distributions are subject to the normal statutory deductions, including income tax.

The attached statement lists your personal distribution options.

When will I receive my payment or enhanced benefits?

This entire process is subject to Court approval. No person is legally or equitably entitled to any payments under the settlement until we have a final, non-appealable order. Our Court hearing date is currently scheduled to be November 3, 2014. If all goes smoothly, we could get the first set of payments processed within a few months. However, even though all the parties have come to a unanimous agreement and are prepared to move quickly, the Court approval process is outside of our control. Given that the total amount of the surplus distribution is very large, it is possible that the payment of the cash portion of the surplus distribution will be made in more than one instalment.

What if I have any comments on this arrangement?

All of the parties involved support this settlement and feel that this settlement is a tremendous outcome for Plan members. After the Supreme Court decision, everyone has worked very hard and diligently to ensure we created a distribution mechanism that was fair to everyone involved, and the Court will be asked to release all of the parties from further liability in respect of the issues being dealt with by this agreement. At the same time, we know that your views are important. This agreement is subject to Court approval, and the parties are expected to appear before the Trial Judge at the Manitoba Court of Queen's Bench on November 3, 2014.

When we go before the Court, we will be providing the Trial Judge with all of the correspondence we receive – without censor or edit. These comments may be either positive or negative. Therefore, to the extent that you feel you have something to say about this settlement agreement, the parties will include your perspective in the Court materials to be considered by the Trial Judge prior to any approval being granted.



Subject to approval of the Court or subject to any limitations the Court may impose in its discretion, you or your representative may also address the Court with respect to any aspect of the settlement, including the counsel fee. If you intend to make any comment to the Court with respect to the settlement, please provide your comments to pensionsettlementfeedback@mtsallstream.com by no later than October 27, 2014. In addition, if you or your representative intend to appear to speak to the Court on November 3, 2014, you are requested to notify the parties by e-mail at the above address and include a summary of the comments you intend to make by no later than October 27, 2014.

In addition, should there be aspects of this settlement that you wish to dispute, you may wish to consult with your own legal advisor to assess what legal remedies may be available to you.

What if this settlement is not approved by the Court?

As stated, this settlement is subject to Court approval. If the Court does not approve this settlement and if the parties are unable to resolve the distribution, this may result in further litigation in order to implement the Supreme Court of Canada judgment. Further litigation could result in you receiving a greater benefit enhancement, or a similar benefit enhancement, or a lesser benefit enhancement, or in some cases, no distribution at all.

Other Important Information

Information Sessions:

You are invited to attend one of the several information sessions that have been scheduled in October. Information contained in this letter will be presented, followed by an opportunity to ask questions. Further details on the sessions can be found in the information package attached to this letter, or on the Plan website at www.mtspensionplan.ca.

We strongly encourage everyone to join these sessions in person, by conference call or view them online afterwards. Some sessions will be recorded and available on the Plan's website at www.mtspensionplan.ca starting on October 10, 2014. After watching this recording, members will be able to submit further questions they may have by e-mail or by phone.

If you are unable to attend, and do not have access to the Internet, please call 1-844-380-2474 or email pensionsettlementquestions@mtsallstream.com with any questions you may have.

Financial Advice:

As you may be receiving a substantial cash payment, you may wish to seek financial and/or tax advice. If you are being provided with an option as to how to receive your payment, the decision you make is solely your responsibility. MTS, the Plan, the unions and all of their respective advisors are not responsible or in any way liable for the decisions you make regarding your share of the surplus distribution.



Marriage Breakdown:

If you are divorced or separated, your surplus distribution amount will be reduced if your former spouse received a payment or continues to receive payments from the Plan as, under this settlement, your former spouse will also be eligible for a surplus distribution based on the value of the portion of your pension benefit payable to him or her. If the Plan did not make a payment to your former spouse for any reason including your pension benefits were not split between you and your former spouse or you have yet to settle the financial arrangements with your former spouse, then you are fully responsible for notifying your former spouse regarding the surplus distribution payment you are receiving. You may wish to seek legal advice on how your surplus distribution payment may affect your particular circumstances.

Contact Information:

If you have any questions regarding the contents of this letter and the attached personal statement, please do not hesitate to contact your union or association, or phone or email directly as follows:

By phone:

Dedicated phone number: 1-844-380-2474

By email:

pensionsettlementquestions@mtsallstream.com

Also please review the Plan website at www.mtspensionplan.ca for up-to-date information on the surplus distribution.