

A photograph of two men in black athletic wear performing a human pyramid on a golden, textured background. One man is sitting on the ground, supporting the other man who is standing on his hands with his legs raised and feet resting on the first man's shoulders. The background is a soft, golden-brown gradient with a subtle, painterly texture.

# INDIVIDUAL STRENGTH Annual Report 2000 TEAM PERFORMANCE



# The metaphor of modern dance

A strong, successful team thrives through the efforts of a group of individuals who are working at the peak of their performance. By working together they achieve more than would have been possible individually.

Aliant is such a team. We are companies performing together to achieve stronger results for our shareholders, stronger service for our customers and stronger futures for our more than 10,000 employees.

This annual report will be your programme — illustrated with images of artistry and athleticism to reflect our approach to innovation, interactivity and collaboration. Aliant's choreography is based on our unique approach — the Aliant *Premium*<sup>™</sup> model — which is how we integrate leading individual performers and meld them together to create a greater return on the world stage.



**The troupe:** Dancers featured in the annual report are from the DancEast Young Company, Canada's original youth dance ensemble. From its studio in Moncton, New Brunswick, the company has appeared to critical acclaim in Canada, the United States and overseas. Led by artistic director Harriet Gratian, DancEast has been described as Canada's premier showcase for young dance talent. *(For more on the troupe, see the back cover.)*

# Annual report programme

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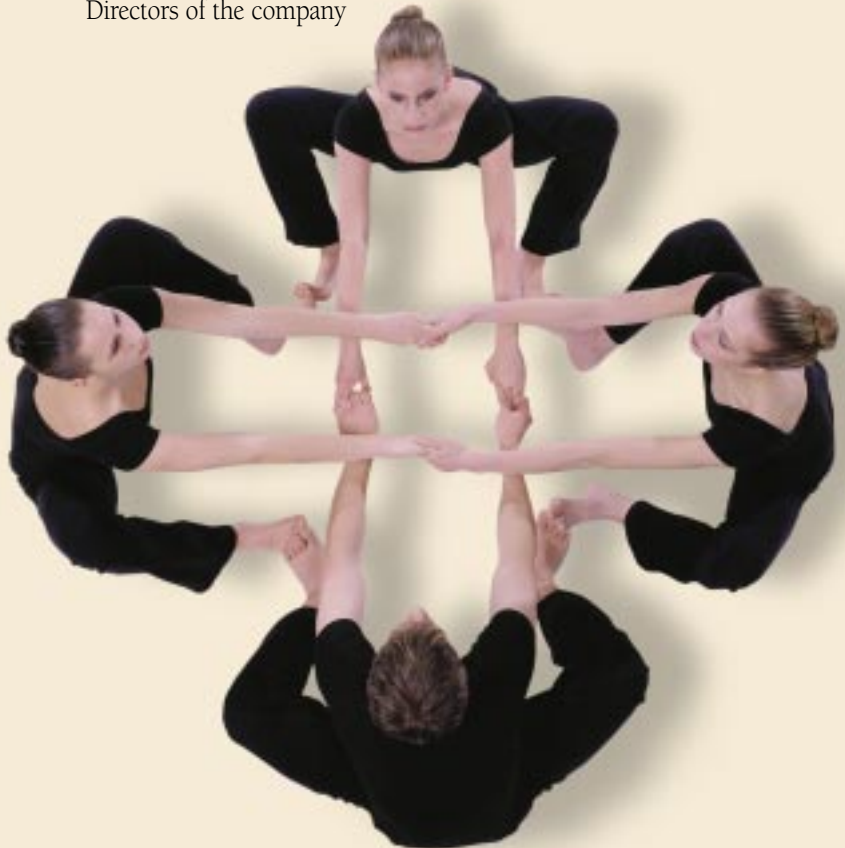
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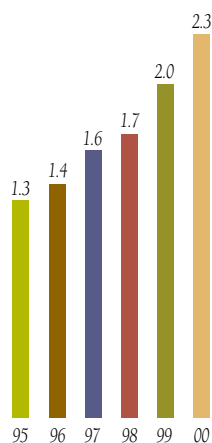


# Aliant delivers a strong performance

Growth continued in 2000.

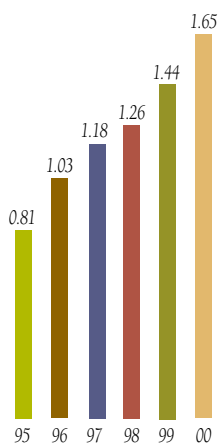
Revenues jumped 12% to

\$2.3 billion. Net income grew a remarkable 18.9%. Earnings per common share increased to \$1.65, up 14.3%, while your share price finished the year at \$33.35. Growth in the number of cellular and Internet customers remained strong, up 30.5% and 27.3%, respectively.



## Operating revenues

Strong growth in our emerging and information technology businesses, as well as in wireless services, helped drive operating revenues to \$2.3 billion, up 12% from last year.



## Earnings per common share (dollars)

Evidence of the Aliant Premium model at work can be seen in our earnings per share, up 14.3% this year to \$1.65.

(Dollars in millions, except per share amounts)	2000	1999 (1)	% change
<b>Operations</b>			
Operating revenues	\$ 2,274	\$ 2,031	12.0
Operating expenses (2)	\$ 1,778	\$ 1,662	7.0
EBITDA (2)	\$ 856	\$ 788	8.6
Net income (2)	\$ 217	\$ 183	18.9
Earnings per common share (2)	\$ 1.65	\$ 1.44	14.3
Return on common equity (2)	17.7%	13.1%	35.1
<b>Financial position</b>			
Total assets	\$ 3,730	\$ 2,887	29.2
Long-term debt (including current portion)	\$ 1,568	\$ 1,188	32.0
Common shareholders' equity	\$ 1,343	\$ 1,096	37.7
Operating cash flow per share	\$ 4.15	\$ 3.87	7.2
<b>Shareholder statistics</b>			
Year-end stock price	\$ 33.35	\$ 25.00	33.4
Price/earnings ratio (December 31)	20.2	17.4	16.1
Average number of common shares outstanding (thousands)	131,662	126,550	4.0
<b>Other information</b>			
Capital expenditures	\$ 438	\$ 378	15.8
Network access services – landlines (thousands)	1,555	1,539	1.1
Network access services – cellular (thousands)	390	298	30.5
Internet subscribers (thousands)	212	167	27.3
Long-distance conversation minutes (millions)	3,290	2,856	15.2
Employees (December 31)	10,486	9,419	11.3

(1) 1999 figures restated for Stratos Global adjustment, see note 23 (page 66) to the consolidated financial statements.  
 (2) 1999 figure excludes a one-time restructuring charge of \$78 million (\$42.5 million after taxes)

# Four acts, one show

Aliant is a group of advanced technology companies strong in telecommunications, information technology, remote communications and emerging new business

opportunities. Our 10,000 professionals, knowledge workers and business leaders are experienced in delivering integrated solutions, skilled in the newest technologies and focused on innovation. Welcome to Aliant.

Services	Corporate brands	Customers	Competitors	2000 growth
<b>Telecommunications</b>				
Local telephone (including local data access)	Island Tel, MTT, NBTel, NewTel	1.6 million network accesses 98% of the market in Atlantic Canada	EastLink, Group Telecom, AT&T Canada	0.3% revenue growth, 1.1% network access growth
Long distance	Island Tel, MTT, NBTel, NewTel	116 call centres 88% of the long-distance market in Atlantic Canada	Over 30 long-distance competitors including Sprint, AT&T and EastLink	0.9% revenue growth, 15.2% conversation minute growth
Wireless (cellular, paging, mobile)	Island Tel Mobility, MTT Mobility, NBTel Mobility, NewTel Mobility, Ocean Cell, WireFree™	Almost 390,000 cellular and 63,000 paging customers in Atlantic Canada	Rogers/AT&T, Clearnet	16.5% revenue growth, 30.5% cellular customer growth
Internet and interactive television	Island Tel, MTT, NBTel, NewTel, Sympatico™, Vibe™, VibeVision™, Mpowered™, NBNet™	Over 176,000 dial-up and 36,000 high-speed Internet customers and 2,000 interactive TV customers	Sprint, AOL, Rogers Cable, Shaw Cable, EastLink	Dial-up customers increased 16.0%, high-speed customers up 141.8%
<b>Information technology</b>				
Systems integration and infrastructure services	<b>xwave</b>	Corporate and government customers in Canada, United States and Europe	CDC, CGI, Cognicase, DMR, EDS, IBM Global Services, MDA, Sierra Systems	38.4% revenue growth, three acquisitions
Fulfilment	<b>xwave</b>	Corporate and government customers primarily in Canada	G.E. Capital, Metafore, MicroAge, OnX, Microwarehouse, Insight Canada, KTI Kanatek, HyperTec Group	17.7% revenue growth
<b>Remote communications</b>				
Remote communications	Stratos Global Corporation (TSE:SGB)	High-volume industrial customers around the world	Station 12/Telstra, Telenor, COMSAT	26.7% revenue growth, four acquisitions
<b>Emerging business</b>				
Online government services	Innovatia, eWorld Solutions, NterWeb	Governments around the world	IVR and web-based service providers such as Edify, Telera and Vignette	New division in 2000
Interactive television software	Innovatia, GENIUM	Interactive television service providers around the world	Competitors offering TV and PC portals including Microsoft, Liberate, AOL	New division in 2000
Research and development	Innovatia, LivingLAB™	Companies around the world including Nortel Networks, iMagicTV, Exigen and Alcatel	No direct comparable businesses exist	LivingLAB revenues grew more than 60%
Interactive learning	Innovatia	Nortel Networks	Hundreds of companies including traditional learning and e-learning institutions – DigitalThink, Click2Learn, SmartForce, Fuel, Global Knowledge Networks, Front Line	New five-year contract valued at approximately \$175 million
Internet-based local services	Prexar	Almost 30,000 Internet customers in Maine and New Hampshire	Many local, state, regional and national competitors including AOL, Time Warner, Great Works, Mid Maine, Adelphia	Four acquisitions in 2000
Technical services, supply chain management, instrumentation and control systems, contract manufacturing	AMI Offshore, K&D Pratt, SEA Systems, NewTech Instruments, ATSCo	Offshore oil and gas industry, primarily in Eastern Canada, other industrial customers	Bren/Kir Industrial Supply, Acklands Grainger, DPL, Avalon Controls, Litton Systems, Primetech	Revenue up 122.1%

# FRONT ROW CENTRE



## Letter to shareholders

The year 2000 has been an important transition time for Aliant. We have moved from a merger focus to honing our external business operations and growth plans.

Our strategy is two pronged. First, we emphasize the leadership of our individual lines of business. Second, we create additional opportunities through the integration of their capabilities to deliver a premium for customers and shareholders, the Aliant Premium™ model.

Our four lines of business – wireline and wireless telecommunications, information technology, remote communications services, and emerging business – are each at the forefront of their respective industries. Together they offer formidable packages of services tailored to the needs of customers in specific vertical markets. Through this strategic and integrated approach, our individual companies are greater than the sum of their parts, working to deliver richer, more specialized services and products to new and different areas outside our traditional boundaries.

I am pleased to report that in 2000, we achieved earnings per share of \$1.65 – an increase of 14% with net income up by 19% over 1999. These results indicate our determination to aim higher and perform better. Our employees are flexible, creative and focused.

To perform as a team, each line of business must first excel at what it does best.

**Stephen Wetmore,**  
President and Chief Executive Officer

Aliant achieved significant financial gains in 2000 and undertook initiatives that laid the groundwork for continued growth. We are driving our aggressive growth through the Aliant *Premium* model, a business strategy that focuses our efforts on providing fully integrated, end-to-end solutions to key vertical markets. Through this approach we will deliver added value to our customers and increased returns to our shareholders.

Aliant Telecom, representing over \$1.7 billion of Aliant's consolidated revenues, is the engine of our growth. It continues to outperform any incumbent telecommunications provider in Canada in terms of market share, innovation and application service development. Revenues in our wireless division increased by 16.5% this year. Revenues in our Internet portfolio increased by 39% for the year, and high-speed Internet customers grew by 142%, validating our goal of becoming the broadband network provider of choice in Atlantic Canada. This demonstrates that Aliant Telecom is well down the path to becoming the broadband communications company it needs to be.

Aliant's IT subsidiary, **xwave**, is pivotal to the Aliant *Premium* strategy, providing our other three lines of business and their customers with systems integration, software engineering, infrastructure services, and fulfilment solutions. With revenues up over 31%, **xwave** is at the leading edge of growth in the IT industry and by 2003 is expected to be one of the largest contributors to Aliant's bottom line. During 2000, **xwave** completed three acquisitions and a merger, all while continuing to focus on its customers and the other Aliant lines of business.

Companies included in our Emerging Business unit are Innovatia, Prexar, AMI Offshore, and a number

of minority investments.

Capitalizing on the steady growth of Internet Protocol networks, and developing applications for use on these networks is the *raison d'être* of Innovatia. Its business strategy is to anticipate, research, and partner where necessary, to commercialize IP-based applications and capabilities for use on broadband networks. Innovatia reported growth in revenues of 53% over 1999.

Prexar, our US-based Internet Services Provider, ended the year with approximately 30,000 customers obtained in 2000 through acquisitions and organic growth. In addition to having CLEC status in Maine, Prexar is our *LivingLAB* innovations partner in New England.

We are very pleased with the performance of AMI Offshore during 2000. Revenues were up by 122% year over year.

Stratos Global, our remote communications company, had its challenges in 2000. However, the Stratos board of directors took a strong governance role and the appropriate steps to place the company on a sound footing, culminating with the appointment of Carmen Lloyd as CEO of the company. Mr. Lloyd will continue to lead an aggressive growth strategy for Stratos, which became the second largest worldwide supplier of INMARSAT services during the year. Growth in 2000 was driven by

## INDIVIDUAL STRENGTH TEAM PERFORMANCE



acquisitions, which included Shell Offshore Services Company, Seven Seas Communications Inc., Datacom and British Telecom's Aeronautical and Maritime division.

In 2001, you'll see the Aliant *Premium* strategy crystallized building on our success with this model in 2000.

Our telecommunications, IT, and remote communications skills have been combined to serve the oil and gas sector. In 2000, we formed Aliant Energy Services (AES) – our first customer-facing example of the Aliant *Premium*. AES has one goal – to deliver integrated, end-to-end communications expertise to customers in the offshore oil and gas sector – in Atlantic Canada, the North Sea, and the Gulf of Mexico.

Earlier this year, we announced a number of changes in the senior leadership team.

We are very pleased to report that we have appointed a new executive vice-president and chief financial officer, Jay Forbes, to our executive team. Jay will provide us with strong, visionary counsel. With Jay's strategic guidance, I am confident Aliant will continue to outperform in each of our lines of business.

Colin Latham, president of Aliant Telecom, announced he will retire during 2001. Colin is a recognized leader in the telecommunications business, and over the past three decades has been at the forefront of many of the changes in the industry. Colin has played a key role in Aliant Inc. and in Aliant Telecom's growth and development. Our Company has benefited from his intimate knowledge of the communications and technology sectors. While Colin stepped down from his telecom role on March 1, 2001, he will be working with me on

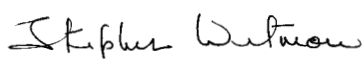
the development of the Aliant *Premium* program over the coming months.

Effective March 1, Gerry Pond became president, Aliant Telecom, in addition to his current position of executive vice-president, Aliant Inc., and president, Emerging Business. Now, with both telecom and the emerging business units reporting through a single leader, Gerry will be able to complete the transition of Aliant Telecom to a totally Internet-centric company recognized as a world leader in customer service and market innovation.

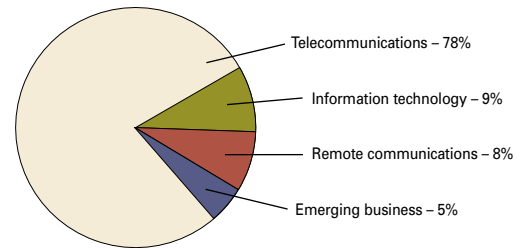
Aliant and our 10,000 employees located around the world, will continue to shape the industry. We'll engineer innovative products and services for our customers. We'll provide new and better ways for people to communicate, work, and live. And we'll explore new opportunities to deliver value to our shareholders.

The Aliant family of companies will continue to work with and support our communities throughout Atlantic Canada. Through our support of the arts, health, education and sports sectors as well as our involvement with community and charitable organizations, Aliant will continue to give back to the communities where our employees, customers and shareholders live and work.

Join with us now as we move forward with new ideas and new ways of doing business. We're thriving on individual strength and team performance.

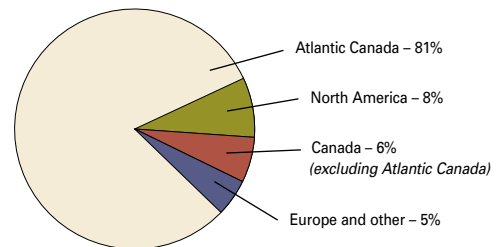


Stephen Wetmore,  
President and Chief Executive Officer  
March 5, 2001



**Revenue contribution by line of business — 2000**

Representing close to 78% of Aliant's consolidated revenues, Aliant Telecom continues to be the engine of our growth.



**Revenue contribution by geography — 2000**

The majority of Aliant's revenues (81%) are derived from Atlantic Canada — this is expected to be reduced over the coming years as we continue with aggressive geographic expansion in North America and Europe.

A man in a black tank top and pants is performing a handstand on a golden, textured background. He is balanced on one hand, with his legs extended vertically. The background is a soft, golden-brown gradient with a subtle, painterly texture. The man's expression is focused, and his body is in a strong, controlled position.

# INDIVIDUAL STRENGTH

Each company in our  
four lines of business will  
remain an industry leader.

# telecommunications

What is Aliant Telecom? Many people know us in different ways.

We are Island Tel, MTT, NBTel and NewTel. We are the only company in Atlantic Canada that provides its customers with dial tone, data, long distance, Internet, wireless and, beginning in 2000, interactive digital television services.

We have leading market share in all our portfolios – local service (98%), long distance (88% – up two percentage points over 1999), Internet (68%), wireless (75%), and interactive digital television (5.4% of homes passed in the areas we serve). All of these demonstrate, through strong relationships with our customers, that we are the communications provider of choice in Atlantic Canada.

Our customer knowledge, reach, and the strength of our existing brands in the Atlantic Canadian market will be what continue to differentiate us.

Not only do we support our Aliant partners, but the strength of

our balance sheet also enables us to fund the \$400 million expansion of our Internet Protocol networks. By year-end we served 100% of the metropolitan areas of the region with all-fibre, all-digital Internet Protocol-based technology. Throughout Atlantic Canada, our broadband network reached about 60% of homes and 90% of businesses.

Our future lies in high-speed Internet, data, interactive digital television and wireless.

In 2000, our wireless customer base grew to 390,000 or by 30.5%. Digital wireless network coverage increased to 36% of the region and is expected to reach 48% by the end of 2001. The number of

**Aliant Telecom achieved a 27% increase in its number of Internet customers during the past year, bringing its total to 212,000. Internet revenues climbed to \$55 million, an increase of 38% over 1999.**



**Mobile Merchant** is one of the innovative products launched last year as part of our **WireFree** suite of solutions. It enables customers to pay for purchases with a debit or credit card on their doorsteps, in taxicabs or while sitting in restaurants.



customers subscribing to digital wireless increased to 16.4% of the base.

In October we launched **WireFree** services, a new suite of wireless solutions. **WireFree** enables customers to connect to the Internet, access e-mail and their businesses from laptop computers and small hand-held computing devices. And through **Mobile Merchant**, our wireless point-of-sale device, customers can get credit and debit card authorizations from almost anywhere.

Overall, Internet customers grew by 27% year over year, with a spectacular increase of 142% in high-speed Internet customers. Aliant is keeping more Atlantic Canadians connected than ever before. Internet revenues were up 39% year over year, to \$55 million.

Atlantic Canadians were among the first in the world to receive commercially available television services over a broadband network

when we launched **VibeVision** in Moncton last January. **VibeVision**, Aliant Telecom's interactive digital TV service currently serves 2,000 customers in Moncton and Saint John. Our plans call for the further deployment of **VibeVision** in Halifax in 2001. With an average revenue per subscriber of \$32, and more than 20% of our customers using pay-per-view services at \$13 a month, we are confident about both the growth and the revenue potential of **VibeVision**.

We view the local market as critically important, both from an existing revenue perspective, and because it represents our gateway to the customer for future growth.

Overall, consumer network access services (NAS) growth of 0.1% was marginal compared to previous years because of a number of factors, including increased competition, customer migration to wireless services and a slowing of demand for

second lines generally used for dial-up Internet services. To mitigate against losses, we have aggressively launched bundles within our marketplace, strategically targeting high-value customers, customers most subject to competitive pressure, and those customers who we believe have the greatest potential for growth. These efforts delivered growth in consumer bundles of 92% year over year, significantly strengthening our competitive position. 20% of our residential customers are now purchasing bundled packages.

Business NAS grew 2.7% driven primarily by our aggressive call centre activity and a strong Atlantic economy. With 116 call centres in Atlantic Canada, this business represents more than \$70 million and is growing yearly, with 12 call centres added in 2000.

Aliant Telecom also delivered strong growth in business bundles.

Our Newfoundland outbound call centre realized very positive results in the small-to-medium enterprise (SME) market with a 52% closure rate. As a result, business bundles grew to almost 10,000 during the year. This initiative clearly demonstrates both a synergy savings and a focus on growth and retention of a key customer segment that has long been under served.

We are leveraging these relationships to build growth in other areas. As a leading example, we also experienced strong revenue growth in features – call waiting, call display and others. Within the consumer market, we recorded a 171% increase in feature subscriptions year over year. We will, through very aggressive marketing campaigns, continue this growth even further.

Data revenues, which include data access, long distance and Internet, grew by \$31 million over 1999.

Long-distance revenues were stable year over year, and in fact our market share stands at 88% at the end of 2000, an increase of 2% over the fourth quarter of 1999. Long-distance minutes grew a strong 15% for the year due primarily to call centre activity. Excluding the effect of a new revenue settlement plan, revenue growth was in the area of 2.5%, a rate we anticipate for 2001.

The telecommunications industry is in transition and Aliant Telecom is creating an organization

that focuses our people and our resources on the growth areas of our business. To significantly grow and continue to generate funds for the future, Aliant Telecom must fundamentally change. We are assessing new business models that will incorporate four elements:

- Accelerating growth through superior customer service, most particularly in customer self-service;
- Continuing to improve our cost profile by improving our productivity;
- Leveraging our partnerships and strategic alliances, especially within the Bell Canada partnership; and
- Continuing to foster innovation and market leadership.

Our customers are experiencing our online, self-service expertise. Already 20% of our customers use our *Internet in a Box* product – enabling them to personally install high-speed Internet. We expect this number to grow to half of our Internet customer base in 2001. This product provides cost-savings to our company and convenience to our customers.

We will ensure that our contribution to the bottom line is unwavering while not losing sight of our own plans for growth. By 2003, Aliant Telecom will account for half of Aliant's total revenues. Aliant Telecom may be changing the way it does business, but there will be no change to the important role it plays in Aliant.

Aliant Telecom delivered tremendous gains in wireless sales, accelerated the rollout of its broadband network across Atlantic Canada and launched the employee trial of its digital television service, *VibeVision*, in Halifax following its successful commercial rollout in Moncton and Saint John.

## INDIVIDUAL STRENGTH TEAM PERFORMANCE



# information technology

As Aliant Telecom faced a year of transition, so too did our Information Technology line of business. **xwave** collaborated with other Aliant companies to assist them in strengthening their network systems and IT infrastructure. **xwave** also focused on growth through a series of targeted acquisitions.

**xwave** provides a full range of IT services – from systems integration and software engineering to infrastructure services and fulfilment solutions. We differentiate ourselves by focusing on industries where we have proven expertise, such as telecommunications, energy, and selected areas of the public sector. In less than two years, **xwave** has grown to be one of the largest Canadian-owned IT service companies, with more than 2,400 professionals in locations across Canada and now into the US and Ireland.

In 2000, **xwave** had a dual focus – to operate as the IT provider of choice for other Aliant companies

and to focus on growth in key sectors and geographic regions. As Aliant's IT partner, **xwave** worked with Aliant Telecom to develop and deliver our broadband roll-out. In addition, Prexar and **xwave** implemented a new IP billing platform for clients in New England. This same solution will be put in place for Aliant Telecom customers in 2001. By working closely with other Aliant companies, **xwave** builds expertise in the telecommunications and Internet industry. This expertise can, in turn, be supplied to other industry members around the world.

The key to **xwave's** success in 2000 and in the future will be our



Information systems made by **xwave** give pilots critical arrival and departure information. Air traffic controllers use **xwave's** real-time four-dimensional models to keep aircraft safely separated, managing air traffic beyond radar coverage.

approach to market – *co-integration*.™ Organizations typically have two systems at work in their environment: corporate systems and operational systems. **xwave** has a unique capability – to work with both systems. It is increasingly important to clients to have these two traditionally disparate systems blend into a net-centric model. Organizations with this capability are better able to analyse and evaluate information and enable transactions across the entire company.

**xwave** focuses on large regional and national clients just below the level of the Global 1000. We work with them as partners to ensure that as they grow and expand, their IT systems and infrastructure will support and enhance their success. We develop customized offerings to help clients attain goals of efficiency, growth and profit, which in turn provides **xwave** the capability to grow organically.

To build on existing competencies, **xwave** acquired PRIOR Data Sciences Ltd. in February. PRIOR brings enhanced capabilities in communications and energy applications and specialized systems such as air traffic control. PRIOR's skills will support **xwave**'s ability to deliver new products and services in the corporate and operational systems areas. **xwave** also acquired MCW Business Systems Limited with strength in the fulfilment business, and TechKnowledge Inc. which establishes our market presence in the New England area.

In addition to these acquisitions, MITI and **xwave** became fully integrated as Aliant's IT line of

business, bringing together two strong and established IT providers in the Canadian market, with a focus on local, national and international markets.

Our innovation can be seen in our work with clients such as Cougar Helicopters. Together we developed an Internet-based tracking system to send and receive vital information about the movement of people to and from oil rigs. Cougar and **xwave** have signed an agreement to market the system to energy companies. We also renewed and extended our contract with NB Power to provide IT products and help desk services to the utility. We began work with Accenture (formerly Andersen Consulting) in the US to provide database design expertise for a large multi-national energy client. **xwave** signed e-business contracts with Jager Industries in Calgary and the Irish government's Department of Enterprise Trade and Employment, and continued other e-business initiatives like Southam's online career recruiting and the Canadian Transport Development Centre's flight data monitoring services.

**xwave**'s revenues grew by 31% in 2000 to \$331 million for the year. This growth exceeds the industry average and by 2003 will represent 24% of Aliant's total projected \$4.6 billion in revenues. External revenues increased by 18.7% over 1999, including a 27% increase in service revenues to \$113 million and a 9% increase in fulfilment revenues to \$83 million. Organic revenues grew by \$23 million, up 9.2% for the year.

**xwave is now one of the largest Canadian-owned IT service companies. It works with clients around the world including Cougar Helicopters in Newfoundland, Jager Industries in Calgary, Accenture in Phoenix, and the government of Ireland.**

# emerging business

One of Aliant's biggest success stories this year is the work of Innovatia, its e-business research

and development company. Innovatia is focused on the development and sale of Internet Protocol-based applications.

**Our** Emerging Business companies include Innovatia, Prexar, AMI Offshore, and minority investments accounted for as equity investments or on a cost basis. These companies recognize revenue through: licensing, transactions and consulting, software and investment sales, joint developments, contract manufacturing, and supply chain management.

Innovatia's business strategy is to anticipate, research, and partner where necessary to commercialize Internet Protocol applications and capabilities for use on broadband networks. For example, GENIUM is an IP-based software solution that provides seamless integration of streaming media, broadcast TV, the Web and telephony services to service providers' customers via TV or PC. We are marketing GENIUM and our experience in the deployment of broadband technology to other service providers to enable them to improve consumer appeal and the business case associated with their broadband investment.

Innovatia reported 53% revenue growth in 2000. This was principally because of Innovatia's e-learning contract with Nortel Networks.

Innovatia's growth was also driven by the *LivingLAB* and *eWorld Solutions*. We have six partners working in the *LivingLAB* and plan to double this in 2001. Several partnerships are leading to equity positions in promising new developments, creating a stream of intellectual property and future licensing agreement opportunities.

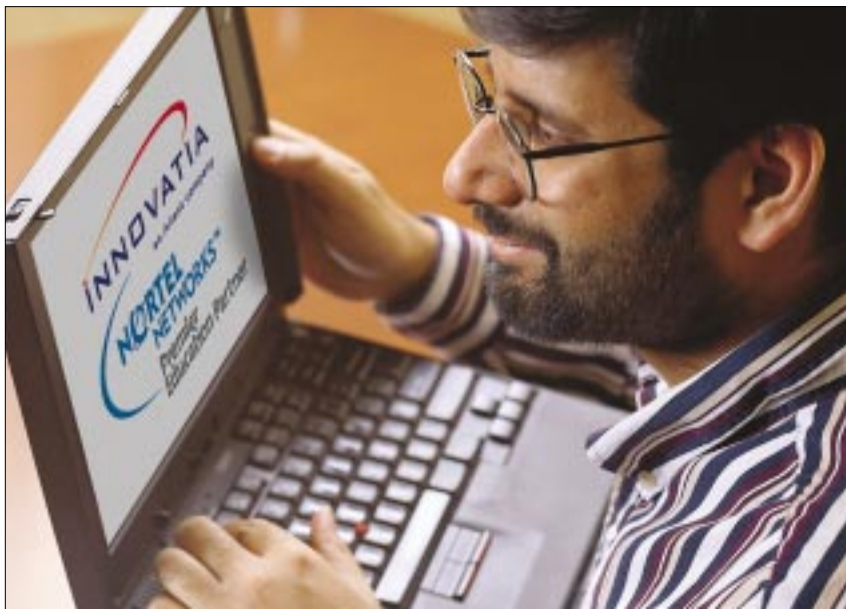
*eWorld Solutions* provides government online services to telecom providers such as SBC Communications, earning revenue by consulting, licensing software, and transactions. Our 2001 revenue target is \$9 million, three times that of 2000.

Prexar, our US-based ISP ended 2000 with almost 30,000 customers obtained through acquisitions and organic growth. **xwave** and Prexar collaborated in the development and deployment

of an IP billing system. This product will be used in Aliant Telecom and, through **xwave's** sales channels, taken to market – another example of the *Aliant Premium*.

AMI Offshore grew revenues by 122%, increasing from \$37 million to \$81 million. This reflects the full years' impact of the SEA Systems acquisition in November 1999, and improved sales by NewTech to customers like Nortel Networks. \$16 million of the growth was organic, with \$29 million from the 1999 acquisitions.

iMagicTV, an Aliant minority holding, undertook its initial public offering in November. Shares are trading on the Nasdaq and Toronto Stock Exchanges. Using the intellectual property developed and tested in the Aliant environment, iMagicTV is marketing its DTV Manager to service providers around the world. iMagicTV expanded early in 2001 by establishing an office in Singapore and is now positioned to serve customers in North America, Europe and the Asia-Pacific.



**Innovatia reported a 53% growth in revenues in 2000 driven by a contract signed with Nortel Networks with an estimated value of \$175 million. Anu Gupta is one-of-100 Innovatia employees working on the project that is helping to deliver knowledge services for Nortel's DMS portfolio.**



Through its acquisition of British Telecom's Aeronautical and Maritime (A&M) division, Stratos Global secured a major contract in 2000 with British Airways. British Telecom A&M provides the airline with its Skyphone satellite communications system for passenger and operations use. Stratos acquired British Telecom A&M in 2000 for approximately \$350 million.

## remote communications

Stratos Global pursued an aggressive growth plan in 2000 extending the reach of its service offerings to key oil and gas markets in the North Sea and the Gulf of Mexico. Stratos is now the second largest supplier of INMARSAT services in the world.

**Stratos** Global demonstrated its individual strength in 2000 as it completed four significant acquisitions, which doubled the size of the company and will nearly triple its revenues. These acquisitions not only grew Stratos financially but also in influence.

The company took a strong step forward early in January, 2001 when it announced the appointment of Carmen Lloyd as the company's new president and CEO. Mr. Lloyd has substantial management and technology experience. He was president, corporate and regional aircraft engine division, at Rolls-Royce plc, in addition to having served as a member of Stratos' board of directors, chairman of its corporate governance and compensation committee and a member of the strategic direction and acquisition committee.

In his new role, Mr. Lloyd will continue to lead an aggressive growth strategy for Stratos, which became the second largest worldwide supplier of

INMARSAT services during 2000.

Growth in 2000 was driven by acquisitions, which included Shell Offshore Services Company, Seven Seas Communications Inc., Datacom and the INMARSAT, VSAT, and aeronautical assets of British Telecom. These acquisitions have enabled Stratos to establish a significant presence in the oil and gas sector in the Gulf of Mexico, the North Sea as well as Atlantic Canada.

These strategic acquisitions by Stratos support and complement the Aliant *Premium* model, particularly in terms of the oil and gas vertical. The strategies going forward in 2001 are to focus on optimizing profitability and driving efficiencies and synergies in the business, and continuing the aggressive approach to growth. Success for Stratos will be in the delivery of complete customized solutions.

Total revenues in 2000 were \$177.5 million, an increase of 26.7% over 1999, when year-end revenues were \$140.1 million.

# TEAM PERFORMANCE

We will combine our capabilities to provide unique solutions for customers and extra value for shareholders.



# unique solutions for customers

Through Aliant Energy Services, our first dedicated Aliant *Premium* division, we are

able to provide a host of services to the energy sector — from remote communications to IT, from supply chain management to control and automation. The revenue potential from these specialized customers is substantial.

We've told you we have a team – a team of individual companies each with their specialized strengths. But by working together, our team achieves more. This is how we've achieved more in 2000 and have delivered value through the Aliant *Premium*.

We formed Aliant Energy Services as the first customer-facing business model of our Aliant *Premium* strategy with offices operating in Halifax and St. John's. Stratos team members have established a strong presence in the Gulf of Mexico –

we're in Houston, New Orleans and Lafayette. We're ready to serve the energy sector in these key geographic regions.

By working with other members of Aliant, including the AMI Group, **xwave** and Stratos, AES is building relationships with key international energy companies. We listened to their needs. We explained our strengths. They have expressed a strong interest in Aliant providing service wherever they are in the world.

For example, Aliant Telecom

followed its customers offshore, establishing reliable wireless facilities on Sable Island. Now customers can use their wireless devices on the island and on the surrounding ocean.

In addition, Stratos and Aliant Telecom completed a C-band satellite teleport in Halifax. The teleport gives offshore customers direct access to Aliant Telecom's Nova Scotia network for local and international calls. As a result of this evident commitment to the energy sector, PanCanadian Petroleum Limited signed a contract with Stratos



Aliant Telecom expanded its cellular coverage in a unique way during 2000 by installing a cell tower on Sable Island. We are now able to deliver wireless services to Nova Scotia offshore customers.

By leveraging the industry specific capabilities of Aliant's four lines of business, Aliant Energy Services delivers fully integrated IT, telecommunications, controls and automation and remote communications solutions to the oil and gas industry.



for communications and monitoring of PanCanadian's offshore platforms.

In 2001, the AES team will continue to build on these existing strengths. We will assess new opportunities with our existing contacts provided by Stratos, the AMI Group, **xwave** and Aliant Telecom.

Other Aliant family members also provide Aliant *Premium* added-value. We deliver this value to customers in many different markets.

Aliant Telecom partnered with **xwave** on a new Internet help-desk solution targeted to Internet service providers in the North American marketplace. We signed a \$60 million three-year agreement with Bell ActiMedia to provide Internet help-

desk support to Bell *Sympatico* Internet dial-up customers in Quebec and Ontario. **xwave** operates two Internet help-desk centres in Moncton and Shippagan, New Brunswick.

**xwave** and Innovatia collaborated on Interactive Knowledge's significant contract win – together providing second-to-none service and e-learning application expertise to our partner and customer, Nortel Networks. This demonstrates how different parts of Aliant working together can deliver a complete package to a customer. We are adding value. The customer can ask for and receive a total solution.

That's the Aliant *Premium*. A complete package. A package that better fits the customers' needs.

## INDIVIDUAL STRENGTH TEAM PERFORMANCE



# extra value for shareholders

The essence of the Aliant *Premium* model is to draw on industry-specific

expertise, such as we have with AMI Offshore, and combine it with the capabilities in our four lines of business to create innovative solutions for customers.

Part of the benefit of the Aliant *Premium* is the way it streamlines operations within Aliant.

Aliant Telecom and **xwave** have an established working relationship. In 2000, we realized the full power of this partnership as **xwave** played a role in integrating Aliant Telecom's operational and corporate systems and becoming the single IT help desk for all Aliant Telecom employees. **xwave** is serving their internal clients and enabling Aliant Telecom to function more efficiently and effectively.

Stratos also benefited from **xwave**'s expertise during their recent acquisition of BT's mobile satellite division. **xwave** evaluated BT's IT systems and led the development of the transition plan. As a result, the operating systems of BT and Stratos

will be integrated easily and effectively. The up-front consultation will save Stratos time as they work to achieve their synergy targets.

The Aliant *Premium* is evident in the work of Aliant Telecom, Innovatia and iMagicTV. Aliant Telecom uses Innovatia's interactive TV software – now known as GENIUM – in concert with iMagicTV's DTV Manager to bring interactive television – *VibeVision* – to life in Atlantic Canada. GENIUM converges on-demand streaming video and audio, broadcast TV, the Internet, and telephony services. Our continuous learning ensures customers in Atlantic Canada will enjoy the latest developments in interactive TV and enables us to bring these unique offerings to the market. Using our combination of proven technology,

experience and knowledge, iMagicTV and Innovatia offer a unique interactive TV solution for service providers around the world.

Aliant Telecom is capitalizing on the experience of the AMI Group in Newfoundland. SEA Systems is a member of the AMI Group and specializes in instrumentation, controls, and systems integration. SEA will act as the general contractor and construction manager for Aliant Telecom's critical power system replacement project in Newfoundland. SEA will replace the old emergency distribution systems with a new power system and install larger generators. As a result of SEA's knowledge, we are keeping Aliant-based work within the Aliant family, another example of the Aliant *Premium*.



What do you get when you combine the skills and talents of employees from Aliant Telecom, Innovatia and iMagicTV? An industry-leading interactive TV selling proposition for service providers around the world. Pictured at left is Aliant Telecom employee Stephanie Culliton, Todd Price of Innovatia and iMagicTV employee Doug Myles.

# COMMUNITY BENEFITS

We believe that, regardless of where our businesses are located and where our people are working, we have an important role to play in our communities. Our strong support for community events and charities is part of the reason people do business with us.

The Aliant companies have a long history of community support. Through our association with the arts, health, education and sports sectors and community organizations, we have been able to give back to the people who have endorsed us. In 2000, Aliant companies donated cash and in-kind services to community-based organizations valued at more than \$1.8 million. Our sponsorship program has provided opportunities for our customers to experience our products, our people and our brand. The stories that follow are but a sample of the remarkable organizations and events that we have been privileged to support.

## TALL SHIPS 2000

In July, we welcomed the tall ships to the shores of Nova Scotia when Halifax became the official Canadian race port for Tall Ships 2000. The stop in Halifax was part of a four-month voyage across the Atlantic Ocean, featuring almost 150 world-class tall ships from around the globe. The event made Nova Scotia the envy of sailing enthusiasts worldwide. Throughout the Tall Ships 2000 four-day festival, our customers and guests looked to us for information, direction and guidance, seeking out Ask Me employee volunteers on the waterfront and in the information tents. The Lost Kids Program, which reunited lost



Photo courtesy of Gary Nymark

More than 750,000 spectators attended Tall Ships 2000 which took place in Halifax in July. Aliant was a major sponsor and the telecommunications provider of choice for this prestigious event which contributed \$75 million to the province's economy.

Photo courtesy of Gary Nymark



children with their families, provided reassurance to many and reunited more than 60 families. More than 400 Aliant employees volunteered their personal time to make Tall Ships 2000 a fun, memorable, and safe experience.

**LORIE KANE ISLAND CHALLENGE**

Aliant swung its support behind Prince Edward Island's golf tourism industry by signing on as a major sponsor of the Lorie Kane Island Challenge in August. The two-day game brought out more than 8,000 spectators to watch PEI's own Lorie Kane, one of the best players on the LPGA Tour. The 18-hole event, broadcast on US and Canadian television, showcased PEI as a popular tourism and golfing destination.

Aliant, through Island Tel, supported the event with its telecommunications expertise and took the opportunity to showcase consumer products.

**CORPORATE DONATIONS**

Walk through the offices at any telecom location in Nova Scotia during late spring and you will see the signs of employee fundraising for the IWK Grace Telethon. Aliant employees donated \$50,000 to the IWK Grace Telethon in 2000, moving our employees into the top supporters category.

Across Canada, **xwave** employees saw the way. The United Way that is. In 2000, **xwave** employees across Canada raised close to \$60,000. **xwave** employees in Nova Scotia met their goal on the first day of a two-week campaign. So they set a higher goal – and met that one too! Aliant Telecom employees were equally successful, raising close to \$300,000. The United Way truly benefited from the success that can be generated from the Aliant *Premium*.

**ALIANTELECOM PIONEERS**

The Aliant Telecom Pioneers are known for their outstanding commitment to people, charities, and communities. Both provincially and nationally, our Pioneers were recognized in 2000 with numerous awards including four Heart of



**More than 200 Maritime Pioneers continued the tradition of supporting the Christmas Daddies Telethon by volunteering their time to answer phones and take pledges. In Newfoundland, more than 800 volunteer hours were spent to ensure 375 children received filled stockings at Christmas. Pictured above is Fred Coxworthy, Aliant Pioneers and Bridget Foster, Association for New Canadians.**



**Aliant was a major sponsor of the Lorie Kane Island Challenge which attracted 8,000 spectators to Prince Edward Island.**



**Aliant Pioneers helped put almost 6,000 computers in Atlantic Canadian schools in 2000 as part of the Computers for Schools program. Pictured at left is Frank Fagan, Aliant Telecom's senior vice president of customer services who has been nominated for the presidency of the Telephone Pioneers of America. At right is Derm Powell, Computers for Schools Program, NFLD.**

Pioneering awards for their work with various programs such as Heart Pillows, Hug-A-Bear, and ESIS – a Junior Achievement program that encourages grade nine students to stay in school. Industry Canada also recognized them for Exceptional Contribution to Connecting Canadians through Computers for Schools.

**MONCTON WILDCATS**

The Moncton Wildcats of the Quebec Major Junior Hockey League have brought competitive and entertaining hockey back to the city. Aliant Telecom is a key supporter of Wildcat team initiatives including the player visitation programs to schools to promote education and teamwork and to hospitals to visit sick children. The relationship with the Wildcats is an example of our desire to provide support for organizations that make a positive contribution to the community.

**LET THE GAMES BEGIN**

Amateur sport is intrinsic to the social fabric of Newfoundland and Labrador and 2000 was a big year for athletic competitions. Aliant teamed up to support the Labrador Winter Games in March in Happy Valley-Goose Bay and the Newfoundland and Labrador Summer Games in Mount Pearl in August.

A popular attraction at each location was the Cyber Café, which

provided athletes with unlimited access to surf the Internet and e-mail friends and family during their stay at the Athletes' Village. The Summer Games also premiered the use of high-speed Internet service to collect Games results and provide faster tracking of the athletes' performances.

**SUPPORTING THE ARTS**

Aliant is an avid supporter of the arts community by providing financial contributions and exposure to many organizations and festivals. In Newfoundland and Labrador, Aliant has been associated with Rising Tide Theatre for 10 years. It is the largest festival dedicated to the Newfoundland repertoire and continues to expand the works of some of Newfoundland's best-known playwrights, actors and artistic creators.

In recognition of our cultural diversity, Aliant also sponsors Le Pays de la Sagouine located at Bouctouche, NB. Le Pays de la Sagouine is an island of legends, music and theatre created from the work of renowned novelist and playwright, Antonine Maillet.

**SOFTWORLD 2000**

Aliant, along with IBM and the city of Aberdeen, Scotland, partnered with Softworld 2000 to deliver a global, on-line business development forum that matched technology companies with strategic



**The Aliant Pioneers have made a commitment to enhancing self-concept and the reading skills of children. Through the I Like Me! book, they are able to reach children during their formative years. Pictured at right is Michael Sears, Pioneer Manager, Chapter 49 (NS and PEI), enjoying the book with a student from Joseph Howe School in Halifax.**

and international partners from around the globe. Softworld 2000 was the largest event in its history and included 854 subscribers from 34 countries. Aliant was instrumental in the development of the unique and interactive Softworld 2000 Web site, setting new standards for future Softworld events. During the show, Aliant showcased technology from our telecommunications, IT and Internet-based lines of business.

**ALIAN T BRINGS STUDENTS TO NEW HEIGHTS**

Robert Cyr, an **xwave** employee, realized a life-long dream when he climbed Mount Kilimanjaro. And the students from Devon Middle School in Fredericton were with him every step of the way. Aliant companies Stratos Global, **xwave**, and Aliant Telecom worked together to capture this remarkable trek. Through the transmission of digital media including voice, photos and video via satellite, the students were able to track the team's daily progress on the Internet.

**Robert Cyr (pictured below at right), an xwave employee, climbed 19,400 feet to Uhuru Peak on Mount Kilimanjaro, the highest point on the African continent. The climb to the top of the mountain took seven days and was transmitted via live Webcast to NB students. Shown with Robert is Hon. Judge Alfred Brien (left) and Romley Mshenka, mountain guide.**



**PREXAR LINKS CHILDREN TO THE INTERNET**

Prexar understands the importance and power of connecting kids to the Internet. As the official technology partner of the Maine Discovery Museum, which opened in February 2001, Prexar built and hosts the museum's Web site. It also placed computers in the museum and hooked them up to the Internet. Prexar employees are also getting involved by offering courses about how to build Web sites.

**iMAGICTV SUPPORTS HARBOUR LIGHTS**

iMagicTV did a favour for the Harbour Lights campaign and fellow employees in Saint John this Christmas. Using an innovative idea – a Favour Exchange – staff submitted favours they thought fellow staff members might like to purchase. These favours ranged from a pie a month for a year to canoe excursions and voice lessons. Employees bid on the favours and raised more than \$6,000 for the campaign.

The Aliant family of companies will continue to work with and support our communities and employees. Our employees and companies are an integral part of the common social fabric and we are proud to be based in Atlantic Canada.



**Aliant has supported the Rising Tide Theatre in Newfoundland for the past 10 years. It is the largest festival dedicated to promoting and preserving Newfoundland's heritage and culture.**

**Aliant and the environment**

Protecting the environment is a top priority in all aspects of operations at Aliant.

Our employees work together effectively to:

- Identify activities and situations which may have potential to harm the environment
- Implement environmentally positive practices and preventive measures

Our environment program ensures Aliant complies with regulatory requirements and achieves results that minimize risk to the environment.

# LEADING ROLES

Officers of the Company are responsible for day-to-day operations, developing strategic objectives and achieving financial results. They also provide leadership and direction for more than 10,000 employees.



**Stephen Wetmore** is president and CEO of Aliant Inc. He is a director of Stratos Global Corporation, and MMC Blue Cross. Mr. Wetmore is a member of the National Broadband Task Force, the Canadian Institute of Chartered Accountants, the Conference Board of Canada, the Financial Executives Institute, and the National Council of Financial Executives. He is chairman of the Atlantic Provinces Economic Council.

A graduate of Acadia University, Mr. Wetmore is very active in the community. He is chairman of the Canadian Youth Business Fundraising Committee, a member of the Genesis Centre Mentor Program, Memorial University, and the Advisory Council for the Shad Valley Institute (Newfoundland). He has served as chairman of the Nova Scotia Council on Higher Education and on the board of directors of the Janeway Foundation.



**Gerry Pond** is executive vice-president of Aliant Inc. and president of Aliant Telecom and Emerging Business. Mr. Pond is a director of Prexar Inc., Innovatia Inc. and iMagicTV Inc., affiliates of Aliant.

A graduate of UNB, Mr. Pond is a member of the board of directors of the Conference Board of Canada and the Information Technology Association of Canada.

He is also a member of the Canadian E-Business Opportunities Roundtable, the Board of Governors of the University of New Brunswick and vice-chairman of the Atlantic Institute for Market Studies. Mr. Pond served as chairman of the board of directors of the Canadian Chamber of Commerce in 1997 and 1998. He is also a member of the IWK Grace Health Centre Foundation Capital Campaign Cabinet.



**Colin Latham** is executive vice-president of Aliant Inc. responsible for the Aliant Premium program.

Since graduating from Liverpool University in England, Mr. Latham has spent his 33-year career in the telecommunications industry.

Mr. Latham is chairman of the board of the Greater Halifax Partnership and chairman of the acquisition committee of the Art Gallery of Nova Scotia. He is a member of the

board of governors of Dalhousie University and a board member of Dalhousie's Global Information Networking Institute. He is also a board member of the Council for Business and the Arts in Canada, the Atlantic Institute for Market Studies and InNOVAcorp. Mr. Latham is a member of the Association of Professional Engineers of Nova Scotia and a fellow of the Canadian Academy of Engineers.



**Jay Forbes** is executive vice-president and chief financial officer of Aliant Inc.

After graduating from Dalhousie University in 1983, Mr. Forbes joined Doane Raymond Chartered Accountants and acquired a CA designation three years later. He moved to Nova Scotia Power Incorporated in 1993 as corporate controller and was promoted to vice president and CFO four years later. Most recently, Mr. Forbes was executive vice president, corporate resources and CFO for

Oxford Properties Group Inc. before joining Aliant in February 2001.

Mr. Forbes is a member of the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants of Nova Scotia, the Financial Executives Institute and the Conference Board of Canada, National Council of Financial Executives.

Mr. Forbes is the treasurer and a member of the Board of Governors of the Atlantic Provinces Economic Council.

# INDIVIDUAL STRENGTH TEAM PERFORMANCE



# DIRECTORS

At Aliant, the board of directors plays an important role in the governance of the business. As elected shareholder representatives, directors are responsible for establishing mechanisms that ensure accountability.



**Miller Ayre** is publisher of The St. John's Telegram and president of Mansbord Incorporated. He is a director of the Institute for Research on Public Policy and a director of the Canadian Labour and Business Centre. (1) (2)



**Charles Caty** is chairman of NAL Energy Inc. and a director of CGU Group Canada Ltd. He is a past president and CEO of the Investment Dealers Association of Canada and a past chairman of the Toronto Stock Exchange. (3) (4)



**Lino Celeste**, *chairman*, currently serves as a director of New Brunswick Power Corporation and Manulife Financial. He is a member of the advisory board of Canada Post Learning Institute.



**Gary Davis** is vice-president and controller, BCE Inc. and Bell Canada. He is a director of BCE Corporate Services Inc., Bimcor Inc., Nordia Inc. and audit committee chairman of Northern Telephone Ltd.



**Robert Dexter**, QC, is chairman and CEO of Maritime Marlin Travel and a partner with the law firm Stewart McKelvey Stirling Scales. He is a director of Empire Company, Sobeys Inc. and Highliner Foods. (1) (2)



**Ivan Duvar** is currently president and CEO of MIJAC Inc., a private investment company. He is a director of Canadian Imperial Bank of Commerce and several Atlantic Canadian companies. (3)



**Albert Hickman** is chairman and president of Hickman Motors. He is a director of Canadian Imperial Bank of Commerce, Churchill Falls (Labrador) Corporation and Fishery Products International Limited. (3)



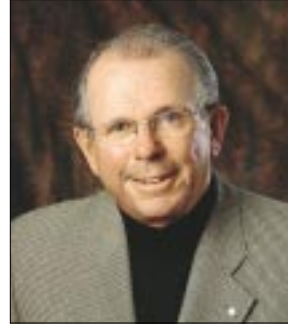
**Dr. Margot Northey** is Dean of the School of Business at Queen's University in Kingston, Ontario. She is a director of Wawanesa Insurance Company, Nexfor Inc., the Laurentian Bank of Canada and several other prominent Canadian businesses.



**Edward Reevey** is chairman and CEO of Addee Developments Limited, a private holding company. He is also president of the New Brunswick Institute of Chartered Accountants. (1)



**Randall Reynolds** is president and CEO of Bell Nexxia, a division of Bell Canada that provides integrated telecommunications solutions, including high-speed data and Internet services. He is a director of MTS and Bell Intrigna. (2) (4)



**Alan Scales, QC**, is counsel with the law firm Stewart McKelvey Stirling Scales in Charlottetown, PEI. He is a member of the Order of Canada and a fellow of the American College of Trial Lawyers. (2)



**John Sheridan** is president of Bell Canada. He is responsible for Bell's operations across Canada including Bell Nexxia, Bell Mobility, Bell ExpressVu and Bell ActiMedia. He is a director of Bell Canada and MTS. (1) (3)



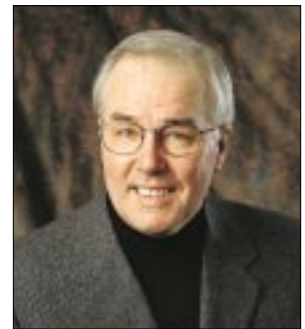
**Catherine Tait** is the president and COO of Salter Street Films. Prior to Salter Street, she was executive director of the Independent Feature Project, America's largest organization of independent filmmakers and producers. She has also served as Canada's Cultural Attaché in Paris.



**Donald Sobey** is chairman of Empire Company, a holding company with interests that include food distribution, real estate and corporate investment. He is a director of Toronto Dominion Bank, Alliance Atlantis and several Atlantic Canadian companies. (4)



**Stephen Wetmore** is president and CEO of Aliant Inc. He is a director of Stratos Global Corporation and MMC Blue Cross, and chairman of the Atlantic Provinces Economic Council.



**Charles White, QC**, is a senior partner with the law firm White, Ottenheimer & Baker. He is chairman and trustee, BMO Mutual Funds, and a director of The Trust Company of Bank of Montreal and several other Canadian companies. (4)

**Committees:** (1) Audit (2) Corporate governance (3) Human resources and compensation (4) Investment

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# BACKSTAGE

## Management's discussion and analysis

*Certain statements contained in this document, including statements which may contain words such as "anticipate", "could", "should", "expect", "may", "intend", "will", and similar expressions, and statements that are based on current expectations and estimates about the markets in which Aliant Inc. and its subsidiaries operate and management's beliefs and assumptions regarding these markets, constitute forward-looking statements. Such statements are subject to important risks, uncertainties, and assumptions which are difficult to predict. The results or events predicted in these statements may differ materially from actual results or events.*

### OVERVIEW OF ALIANT'S OPERATIONS

#### GENERAL

Effective May 31, 1999, Aliant Inc. (Aliant or the Company) acquired direct or indirect ownership of the businesses previously operated by Bruncor Inc., Island Telecom Inc. (Island Tel), Maritime Telegraph and Telephone Company, Limited and NewTel Enterprises Limited. Aliant is one of the largest private sector employers in Atlantic Canada with over 10,000 employees. Effective April 27, 2000, Bell Canada and BCE Inc. (BCE) together increased their investment in Aliant from 42% to 53%.

#### BUSINESS OF ALIANT

Aliant is engaged in four core lines of business: telecommunications, information technology, remote communications and emerging businesses.

The telecommunications line of business is carried on by Aliant Telecom Inc. (Aliant Telecom).

Effective January 1, 2001, Aliant Telecom amalgamated with most of its wholly owned subsidiaries including Island Tel, Maritime Tel & Tel Limited (MTT), NBTel Inc. (NBTel) and NewTel Communications Inc. (NewTel), (collectively the ATI Telcos) and NewTel Mobility Limited (NewTel Mobility). Measured by revenues, Aliant Telecom is Canada's third largest full-service telecommunications business. Aliant Telecom provides a full range of voice and data communications services including local, long-distance, data, Internet, interactive television and other wireline and wireless services. This line of business also includes the results of 87%-owned Aliant ActiMedia (formerly Tele-Direct Atlantic), a telephone directory advertising business operating in Atlantic Canada.

During 2000 Aliant Information Technology Inc. (Aliant IT) consolidated and simplified its corporate structure so that now all of its operations are carried out through Xwave Solutions Inc. (**xwave**). Aliant IT acquired the minority interests in **xwave** and MITI Information Technology Inc. (MITI) previously held by arm's-length parties. On September 1, in order to clarify and focus its brand in the market, MITI and **xwave** were merged and have since been carrying on business under **xwave's** name. **xwave** is an information technology (IT) services and fulfilment company with an established national presence and a growing presence in the United States and Europe. **xwave** has more than 2,400 professionals

and is Canada's second largest Canadian-owned information technology services company on a gross revenue basis.

Aliant's investment in the remote communications business is a 62% ownership position in Stratos Global Corporation (Stratos). Stratos is a Canadian-based public company offering mobile and fixed remote communications solutions to a global customer base through a combination of its own satellite and microwave telecommunications facilities, shared infrastructure and distribution of services of other network operators.

The emerging businesses segment is a group of companies under the ownership of Aliant Horizons Inc. (Aliant Horizons). These companies recognize revenue through several means: licensing revenues, consulting revenues, one-time software sales, the outright sales of investments, transaction revenues, joint developments and joint ventures. This group's primary operations are through Innovatia Inc. (Innovatia), Prexar LLC (Prexar) and AMI Offshore Inc. (AMI). Innovatia is focused on the research and development of Internet-based services for broadband networks. Innovatia designs, develops and sells applications to service providers worldwide. Aliant Horizons owns 87.2% of Prexar, an Internet services provider based in Bangor, Maine and servicing the northern New England States. AMI (57.4% owned by Aliant Horizons) provides process and systems control technical services, logistics and supply chain management and contract

manufacturing solutions to the offshore oil and gas and other industries. The emerging business segment also includes a number of portfolio and strategic investments in the Internet and e-commerce area including minority interests in iMagicTV Inc. (“iMagicTV”), Exigen Ltd., Voice Mobility International Inc. and InfoInterActive Inc., among others. Aliant accounts for its investment in iMagicTV by the equity method, while the other minority investments are accounted for on a cost basis.

The companies driving Aliant’s four lines of business are each leaders in their respective industries. Through its Aliant *Premium* operating model, Aliant strives to realize even greater benefit from this collective group of companies by having them work together, wherever possible, to serve customers with unique needs. This is intended to realize greater revenues for the consolidated organization through superior ability to provide customers with complete communications and IT solutions.

**ORGANIZATION**

The organization chart below shows the Company’s four core lines of business, the main corporate entities carrying out those operations, as well as some other corporate investments.

**CONSOLIDATED RESULTS**

Aliant’s consolidated net income for the year 2000 grew by 18.9% over 1999 from \$182.6 million (excluding 1999 restructuring costs) to \$217.1 million. This increase flowed from a 12.0% rise in consolidated revenues coupled with only a 2.8% increase in general operating costs as synergy savings from the 1999 merger continued to be realized throughout the year. Earnings before interest, taxes, depreciation and amortization (EBITDA) and before restructuring costs grew by 8.6%. The EBITDA margin (EBITDA as a percentage of revenues) decreased from 38.8% in 1999 to 37.6% in 2000, primarily due to a decline in telecommunications EBITDA margins.

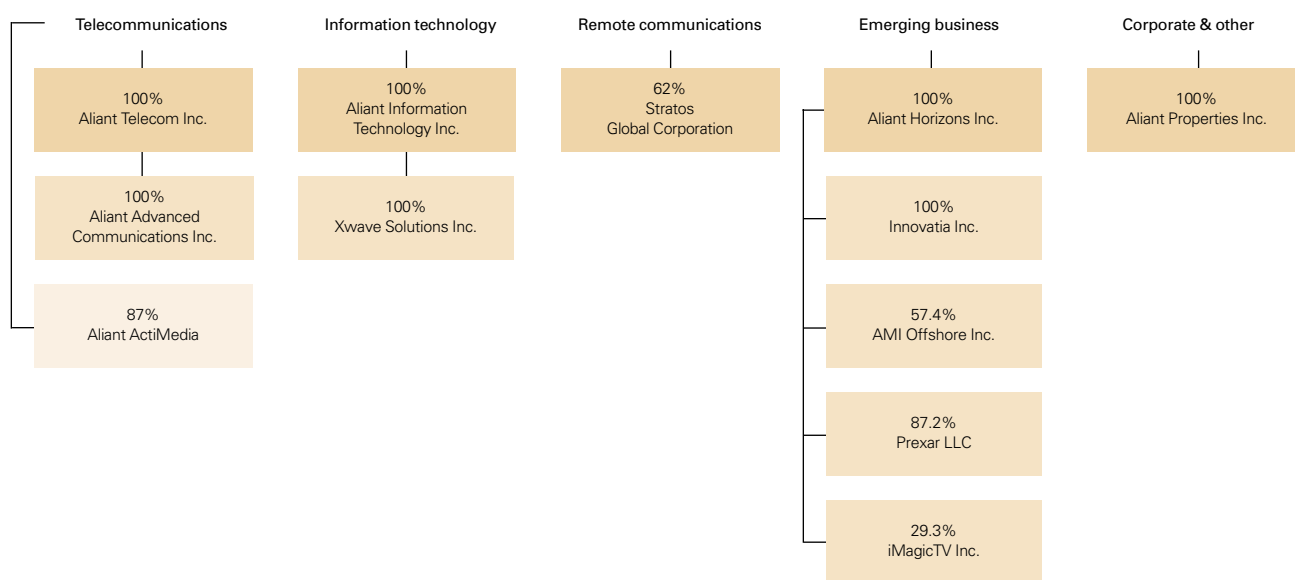
1999 operating results have been restated for a number

of adjustments made by Stratos to its 1999 revenues, expenses and net income. Additional details are provided in the section titled “Remote communications”.

*Quarterly results*

Earnings per share (EPS) for the fourth quarter of 2000 were \$0.45 per share, compared to \$0.38 per share in 1999. Included in this quarter’s EPS was a net \$0.08 per share from a dilution gain that occurred when iMagicTV issued additional equity in its initial public offering (IPO) and the write-off of a small investment in TecKnowledge Health Care Corporation for \$1.2 million after tax. Operating income increased 12.9% for the quarter, from \$105.7 million to \$119.3 million in 2000. Revenues grew by 17.0% from \$523.4 million in 1999 to \$612.4 million in the fourth quarter of 2000. The revenue growth came from all of Aliant’s lines of business. Within telecommunications it was the wireless division showing strong growth with a 22.4% increase

**ALIAN T INC.**



in the quarter's revenues. Overall telecommunications revenues increased 13.0% to \$480.5 million for the quarter. Information technology revenues grew by 49.2% and remote communications' revenues rose 43.1%, both as a result of acquisitions made in the last 12 months and organic growth. Total operating expenses, excluding cost of revenues, remained unchanged at \$310.2 million compared with the last quarter of 1999 – attributable to merger synergy savings being achieved. The quarterly results for 1999 and 2000 are provided in the table on the following page and have all been restated to conform to the current presentation format.

#### *Changes in accounting policy*

Effective January 1, 2000, the Company adopted new accounting policies, following recommendations under Canadian Generally Accepted Accounting Principles (GAAP). There are new accounting standards for recognition of the costs of post-employment benefits and for

accounting for future income taxes. The prior years' impact of these changes resulted in increased liabilities, which were recorded through a charge against retained earnings, as described in note 2 to the financial statements. As well, it is estimated the implementation of the new post-employment benefit policy has caused an \$11.3 million increase in reported operating expenses in 2000, while the new rules for future income taxes resulted in a \$3.6 million decrease in the provision for income taxes for the year. There are no significant accounting policy changes anticipated to be implemented in 2001.

#### **TELECOMMUNICATIONS**

During 1999 and 2000 Aliant Telecom was a holding company for the telecommunications operations being carried out by the ATI Telcos and their mobility affiliates. Effective with the amalgamation on January 1, 2001, Aliant Telecom has become the main telecommunications operating

company. The ATI Telcos and mobility affiliates had been operating as merged entities in many respects since the creation of Aliant in 1999. The alignment of all internal organizations such as finance, human resources, marketing, sales, customer service and systems engineering was achieved over the last eighteen months. This has contributed in large part to the realization of the merger synergy targets set by Aliant last year. The further amalgamation of the various legal entities into Aliant Telecom is not expected to add significantly to the merger synergies already being realized. However, it will streamline accounting, financial and cash management processes as well as tax, legal and regulatory filings.

Telecommunications revenues increased 8.5% in 2000 to \$1.78 billion as significant growth in wireless and other revenues combined with virtually no change in local and long-distance revenues for the year. EBITDA (excluding 1999 restructuring

#### **Consolidated operating results** *(thousands of dollars except per share amounts)*

	2000	1999	% change
Revenues	\$ 2,274,180	\$ 2,030,705	12.0
Cost of revenues	565,901	404,479	39.9
Net operating revenues	1,708,279	1,626,226	5.1
Operating expenses <i>(excluding restructuring costs)</i>	1,211,722	1,179,216	2.8
Operating income <i>(before restructuring costs)</i>	496,557	447,010	11.1
Restructuring costs	—	78,000	—
Operating income	496,557	369,010	34.6
Depreciation and amortization	357,855	340,602	5.1
EBITDA	856,209	709,612	20.7
EBITDA <i>(before restructuring costs)</i>	856,209	787,612	8.6
Net income	217,121	140,070	55.0
Net income <i>(before restructuring costs)</i>	\$ 217,121	\$ 182,602	18.9
Earnings per share	\$ 1.65	\$ 1.11	49.0
Earnings per share <i>(before restructuring costs)</i>	\$ 1.65	\$ 1.44	14.3

Consolidated quarterly statements of earnings (in thousands of dollars except per-share amounts)

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2000	1999	2000	1999	2000	1999	2000	1999
<b>Revenues</b>								
Telecommunications								
Local	\$ 208,548	\$ 210,390	\$ 217,640	\$ 211,373	\$ 209,103	\$ 212,657	\$ 217,924	\$ 215,895
Long distance	114,681	103,551	105,349	109,254	110,091	114,362	109,652	111,278
Wireless	45,912	39,674	51,269	45,039	59,898	52,609	59,220	48,401
Other	39,453	27,527	75,980	52,155	65,976	40,531	93,669	49,634
Information technology	84,513	69,925	77,170	63,058	79,009	58,890	90,693	60,769
Remote communications	35,135	31,873	43,631	35,349	45,416	35,637	53,319	37,263
Other	35,161	13,938	35,304	15,035	43,536	23,312	46,150	23,497
Intercompany eliminations	(32,119)	(20,569)	(43,108)	(18,976)	(45,803)	(19,274)	(58,192)	(23,352)
	531,284	476,309	563,235	512,287	567,226	518,724	612,435	523,385
<b>Expenses</b>								
Cost of operating revenues	119,968	104,423	125,498	92,872	137,496	99,993	182,939	107,191
Other operating expenses	216,160	195,863	212,539	209,710	210,454	209,857	214,714	223,184
Depreciation	88,186	83,118	90,408	83,028	83,746	87,096	95,515	87,360
Restructuring costs	—	—	—	—	—	78,000	—	—
	424,314	383,404	428,445	385,610	431,696	474,946	493,168	417,735
Operating income	106,970	92,905	134,790	126,677	135,530	43,778	119,267	105,650
Other income	2,670	1,013	741	6,769	2,271	190	15,600	11,680
Interest charges	29,901	29,639	31,665	30,660	29,992	31,100	32,829	29,239
Income before income taxes	79,739	64,279	103,866	102,786	107,809	12,868	102,038	88,091
Income taxes	37,763	32,451	48,918	49,946	52,357	8,776	44,852	42,756
Income before non-controlling interest	41,976	31,828	54,948	52,840	55,452	4,092	57,186	45,335
Non-controlling interest	(881)	(1,023)	(1,198)	(1,181)	(3,467)	(1,307)	(2,013)	(2,464)
<b>Net income applicable</b>								
to common shares	\$ 42,857	\$ 32,851	\$ 56,146	\$ 54,021	\$ 58,919	\$ 5,399	\$ 59,199	\$ 47,799
Net income before								
restructuring costs	\$ 42,857	\$ 32,851	\$ 56,146	\$ 54,021	\$ 58,919	\$ 47,931	\$ 59,199	\$ 47,799
<b>Earnings per share</b>								
Earnings per share before	\$ 0.33	\$ 0.26	\$ 0.43	\$ 0.43	\$ 0.44	\$ 0.04	\$ 0.45	\$ 0.38
restructuring costs	\$ 0.33	\$ 0.26	\$ 0.43	\$ 0.43	\$ 0.44	\$ 0.37	\$ 0.45	\$ 0.38
Average common shares								
outstanding	127,645	126,093	130,896	126,360	134,032	126,575	134,283	126,942

costs) grew 5.2% from \$747.6 million in 1999 to \$786.9 million in 2000 as the net revenue (after cost of revenues) increase of \$55.2 million, or 3.8%, was coupled with only a \$14.2 million, or 1.4%, rise in operating expenses. Merger synergy savings of \$47.1 million realized during the year helped to minimize expense growth. EBITDA margins were negatively impacted by expensing a portion of the broadband network build, as well as a significant increase in lower margin product sales, a trend that is not expected to recur in 2001.

**REVENUES**

*Local*

Local revenues are earned through the provision of network accesses, telephone set rentals, enhanced service options and contribution payments made under the regulatory obligation of all long-distance service providers to gain access to the local network. Total local revenues increased very slightly by 0.3% to \$853.2 million for 2000. Network access service (NAS) growth, higher revenues from enhanced service options and data access services and increased revenues from contribution payments were offset by price declines and lower terminal rental revenues.

The number of NAS increased 1.1% to 1,554,942, however price declines to business customers offset much of this growth so that total revenues from basic local service increased by only 0.5% to \$455.3 million. Aliant Telecom marketed bundled service offerings on a large scale throughout 2000 and the customer acceptance and demand for these bundled offerings drove growth in revenue from enhanced service options. These revenues increased 5.3% to \$76.8 million

in 2000. Approximately 213,000 residence and business customers have now selected a bundled service offering which includes a combination of basic and enhanced local, long-distance, Internet and wireless services. Data access revenues increased 16.7% to \$88.4 million in 2000, reflecting continued strong growth in demand for data services. Local contribution payments from long-distance service providers increased 4.5% to \$105.1 million based on the growth in long-distance minutes, but offset by a decline in contribution rates.

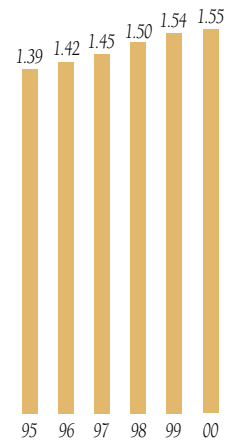
*Long distance*

Long-distance prices continued to decline in 2000, although the pace of descent was not as extreme as had been seen in the three previous years. Aliant Telecom's minute volumes increased by 15.2% from 2.856 billion in 1999 to 3.290 billion in 2000. A significant driver of this growth continues to be the toll-free market, with Aliant Telecom's large base of call-centre customers. The bundled service offerings also drove up calling volumes in the residential market in 2000, as fixed price long-distance calling makes up a component of these packaged services. Despite these significant volume increases, price declines relating to a renegotiated settlement plan resulted in overall long-distance revenues increasing by only 0.3% to \$439.8 million.

*Wireless*

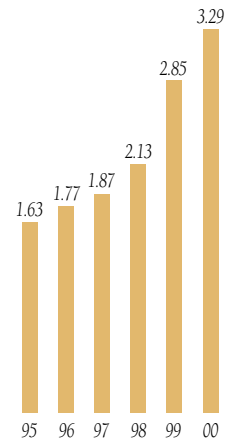
Wireless revenues are earned through the provision of cellular, paging and mobile radio services. The 16.5% increase to \$216.3 million continues to reflect the strong growth in customer numbers for cellular services.

Cellular customers numbered 389,544 at the end of 2000, a 30.5%



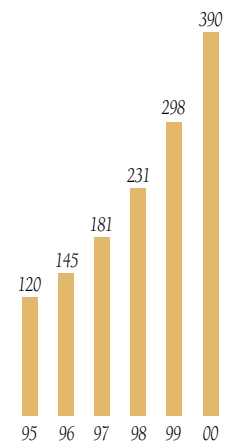
**Wireline network access services (millions)**

Demand for the wireline network remained strong. In 2000, network access services grew to 1.55 million, a 1.1% increase over 1999.



**Long-distance conversation minutes (billions)**

Call centres and fixed price long-distance calling for residence customers pushed up long-distance usage by 15.2% in 2000 to a record 3.29 billion minutes.



**Cellular customers (thousands)**

Growth in the number of cellular customers continued at a rapid pace in 2000. By year end, we had almost 390,000, an increase of 30.5%.

rise over year-end 1999. As the customer count continues to grow, the broader customer base tends to have a lower average usage pattern leading to less average revenue per customer. This, combined with Aliant Telecom's updated pricing plans that tended to reduce overall prices to the customer, resulted in a decline in average revenues per customer by about 12% over the previous year. The net of these effects caused cellular revenue to increase by 18.4% to \$196.9 million in 2000.

At 62,900, the number of Aliant Telecom's paging customers at the end of 2000 remained essentially unchanged compared with 1999. This reflects lower market growth and some loss of market share during the year. Paging and other wireless revenues remained flat at \$19.4 million for the year.

### Other

Other telecommunications revenues are derived from Internet services, telephone directory advertising, equipment sales, consulting services and new services such as *VibeVision* – Aliant Telecom's interactive television offering. Total other revenues were up 62.0% to \$275.1 million in 2000.

Internet services continued to experience tremendous growth throughout the year as the number of dial-up customers grew by 16.0% to 176,182 and the number of high-speed customers more than doubled to 36,095. Revenues from Aliant Telecom's Internet services and advanced solutions increased 37.6% to \$63.4 million for the year. Directory advertising sales were up slightly from \$39.3 million in 1999 to \$40.7 million

in 2000. Outright sales of telecom equipment increased 126.7% to \$115.9 million. The full year of ownership of 50% of a mobility equipment vendor, Atlantic Mobility Products Limited, accounted for about \$20.7 million of this growth, while sales of other telecom equipment added \$44.1 million in revenues. Much of the large increase in outright sales in 2000 will not be repeated in 2001 as it was related to specific contracts and sales campaigns. However these are very low margin sales for Aliant Telecom, therefore any reduced sales volume will have a minimal effect on net revenues. Other miscellaneous revenues including those from consulting services and a new contract to operate the *Sympatico* Internet help-desk, rose 65.1% to \$55.1 million.

### Telecommunications operating results *(thousands of dollars)*

	2000	1999	% change
Local	\$ 853,215	\$ 850,315	0.3
Long distance	439,773	438,445	0.3
Wireless	216,299	185,723	16.5
Other	275,078	169,847	62.0
Total revenues	\$ 1,784,365	\$ 1,644,330	8.5
Cost of revenues	284,019	199,143	42.6
Net operating revenues	1,500,346	1,445,187	3.8
Operating expenses <i>(excluding restructuring costs)</i>	1,025,254	1,011,063	1.4
Operating income <i>(before restructuring costs)</i>	475,092	434,124	9.4
Restructuring costs	—	78,000	—
Operating income	475,092	356,124	33.4
Depreciation and amortization	311,759	313,523	(0.6)
EBITDA	786,851	669,647	17.5
EBITDA <i>(before restructuring costs)</i>	786,851	747,647	5.2
Net income	\$ 204,615	\$ 143,158	42.9
Net income <i>(before restructuring costs)</i>	\$ 204,615	\$ 185,690	10.2

## EXPENSES

### Cost of revenues

Cost of revenues includes cost of goods sold, settlement costs paid to other telecommunications carriers to transit and terminate long-distance calls originating on Aliant Telecom's network and contribution payments made for its own long-distance minutes. The 42.6% increase in cost of revenues for 2000 reflects higher cost of goods sold and contribution payments, partially offset by lower settlement payments.

Cost of goods sold increased by \$82.7 million or about 200%, related to the significant rise in revenues from equipment sales plus the costs of the *Sympatico* Internet help-desk function. Contribution costs were slightly higher by \$4.5 million or 4.5% reflecting higher long-distance minute volumes offset by lower contribution rates. Settlement expense declined by \$2.3 million or 4.0% in 2000 due to lower settlement rates on calls terminating on other companies' networks, offset somewhat by higher long-distance minute volumes.

### Depreciation and amortization

Depreciation and amortization were down slightly by

\$1.8 million or 0.6%. Although the combined effects of higher capital expenditures and shorter average estimated lives for plant and equipment would have increased this expense, a \$10 million salvage reserve adjustment offset any increase. The salvage reserve is a credit balance which was intended to absorb costs of asset disposal less estimated salvage recoveries. Aliant Telecom has experienced better results in terms of lower disposal costs, higher salvage amounts or longer asset lives than were estimated and so the reserve has been adjusted to reflect this.

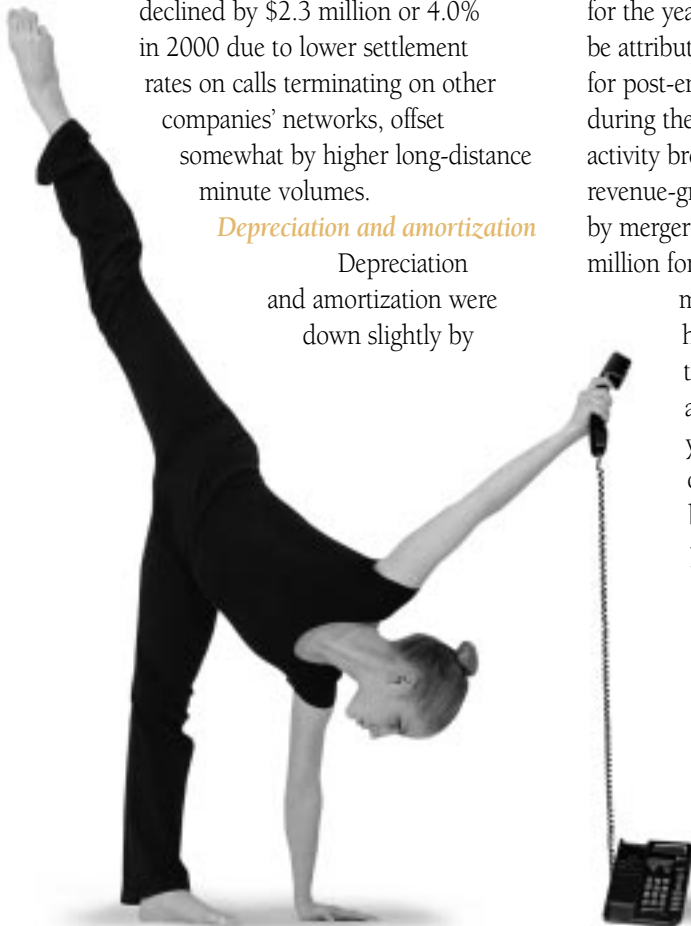
### Other operating expenses

Other telecommunications operating expenses totaled \$713.5 million and include salaries, property expense, network maintenance, computer costs, promotion, travel, administrative and other general corporate expenses. These costs increased by \$16.0 million or 2.3% for the year. Most of this increase can be attributed to the new accounting for post-employment benefits incurred during the year as any increased activity brought on by volume and revenue-growth initiatives was offset by merger synergy savings of \$47.1 million for the year. At the time of the merger in 1999, management had set operating cost synergy targets of \$80 million annually to be achieved by year-end 2001. By the end of 2000 these targets had been exceeded, reaching a pace of almost \$86 million annually. The savings are mainly in the area of salaries as operational efficiencies enabled Aliant Telecom to reduce staff through a 1999 early retirement incentive plan.

## TELECOMMUNICATIONS OPERATING ENVIRONMENT, BUSINESS TRENDS AND OUTLOOK

Aliant Telecom's total revenues and EBITDA are expected to have an improved growth trend into 2001. This is a challenging objective given the increasing pressure that competition is placing on margins in the traditional local and long-distance service market, which still represent Aliant Telecom's largest sources of revenues. The new, higher growth revenue sources such as wireless, Internet and broadband services face competitive pressures as well and the entire industry is confronting the reality of high technology costs coupled with low initial market-penetration rates. Service providers are competing fiercely for very few customers in the hopes of establishing themselves as leaders in an industry that is expected to experience huge future growth. Aliant Telecom is proving its leadership role by being the first to introduce exciting new services and by gaining and keeping a solid share of these new markets.

Local revenue is expected to be higher from growth in use of enhanced service options and increases in data network access. Growth in local revenues will be moderated by increased competition, especially for business access services. The long-distance market is expected to grow, as flat-rate and per-minute discount plans, combined with the growing importance of communications and call centres, continue to increase usage. With 116 call centres in Atlantic Canada, 12 of which were added in 2000, this business represents over \$70 million annually to Aliant Telecom and is growing steadily. Management expects a small increase in long-distance



revenue for 2001 as lower average revenues earned per minute offset much of this growth. Wireless revenues are expected to experience continued healthy growth, but at a slightly slower rate than that seen in 2000. Customer growth will come from higher market penetration rates, which should be achieved through expanded coverage, new digital wireless data services and pricing actions. Other telecommunications revenues, including those from Internet services, should provide Aliant Telecom with its most significant growth in 2001. High-speed capability expanded over a greater geographic area, increased customer adoption of new services like *VibeVision* and migration of customers from dial-up to high-speed Internet services will drive this revenue growth.

With the margin pressures on most of Aliant Telecom's services, the targeted EBITDA growth will need to be achieved through efficiency gains. Additional merger synergies are expected to be realized through 2001

and newly identified opportunities for expense reductions



will be implemented. These savings should come from increased use of on-line channels and self-service tools for customer, supplier and employee transactions, organizational changes and greater utilization of key strategic alliances.

### Competition

There are a number of competitive local exchange carriers (CLECs) operating in the region with particular focus on the business market in Halifax and St. John's areas. One of these CLECs also offers residential access service, mainly in the Halifax market. Aliant Telecom expects that the degree of local competition will continue to grow in 2001. At this point Aliant Telecom has maintained approximately 98% of the local services market.

Long-distance competition continued to be strong in 2000. There are over 30 competitors for long-distance services in Atlantic Canada, offering flat-rate monthly pricing packages and discounted per-minute rates in both the residential and business markets. Management expects these pressures to persist and long-distance margins will continue to narrow, although the pace at which prices are falling in this region has moderated. Aliant Telecom continues to focus on maintaining margins through improved efficiency and stable market share. Aliant Telecom estimates its share of the Atlantic Canada long-distance market was 88% at the end of 2000, up from 86% at the end of 1999. Increasing market share in the face of intense competition was achieved primarily through the bundling of long distance with other services such as local, Internet and wireless services.

In its wireless business, Aliant Telecom faces three competitors

for paging services and two competitors for cellular services. A third cellular competitor has a limited presence in the region by way of offering roaming facilities to other national carriers. 2000 saw the continued expansion of Aliant Telecom's digital cellular service to provide coverage in major urban centres in all four Atlantic provinces and, at 35% population coverage, is the largest digital footprint in Atlantic Canada. Analog service was also expanded to increase coverage and add capacity to meet increased demand. In Prince Edward Island and New Brunswick analog coverage is provided to approximately 95% of the population, in Nova Scotia it reaches about 97%, and in Newfoundland, nearly 84%. Aliant Telecom estimates it holds approximately 75% of the cellular market in Atlantic Canada. Although some additional cellular market share could be lost to new competitors, management is confident superior service offerings, competitive pricing and greater coverage will help Aliant Telecom retain a strong market position. This market leadership was evidenced in 2000 by the extension of prepaid cellular services and a wireless data network across the four provinces. Also, market and technology conditions are being closely monitored to ensure additional digital services are deployed at the time that best serves customer needs. Accordingly, in October 2000, Aliant Telecom launched a suite of *WireFree* services whereby customers can access the Internet, e-mail and corporate Local Area Networks (LANs) via laptop and hand-held computing devices.

Aliant Telecom, together with other mobility affiliates of Bell Canada, bid for additional Personal Communications Services (PCS) wireless spectrum that was auctioned

by Industry Canada in January 2001. Through a successful bid, Aliant Telecom was able to acquire five new PCS spectrum licenses for Atlantic Canada. This additional spectrum will allow Aliant Telecom the flexibility to offer new “third generation” wireless services as market and network-capacity conditions dictate. Existing competitors and new entrants also participated in the auction, although no new entrants were successful in obtaining licenses for the region. The number of competitors may still increase as existing wireless system operators may choose to sell their additional capacity, in bulk, to other competitors for resale to the public.

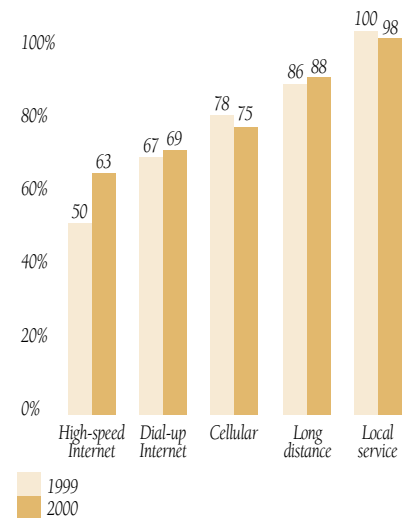
Aliant Telecom is the major Internet service provider (ISP) in Atlantic Canada, with an estimated market share of 69% of the dial-up market. In addition to dial-up service, which is available throughout the region, Aliant Telecom offers high-speed Internet services to a growing number of Atlantic communities. High-speed capability now passes 450,000 homes in Atlantic Canada and this is expected to increase to approximately 635,000 homes by year-end 2001 through continued investment in digital subscriber line (DSL) technologies. Aliant Telecom estimates it holds about a 63% market share in high-speed services, its major competitors being cable television companies. Competition exists throughout the region for both Internet dial-up and high-speed services. However, Aliant Telecom's focus on quality, customer service, and its range of applications, along with the dedicated two-way access on its high-speed network, will enable it to maintain a strong market position into the future.

Aliant Telecom considers the

growth and retention of the Internet customer base to be a key component in its strategy to build its interactive multimedia business and migrate it to a broadband network. Aliant Telecom competes with cable service providers in the digital television service market, where its *VibeVision* service is now offered in Moncton and Saint John. Also, a broadcast distribution license has been granted by the CRTC for Aliant Telecom to serve Halifax, and this launch is planned for 2001. In the future these services will be offered in other areas of the Atlantic Provinces assuming favourable market conditions, the economics of available technology, and the approval of the CRTC.

#### Regulation of the telecommunications industry

The predecessor ATI Telcos were, and now Aliant Telecom is, a “Canadian Carrier” and regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). The telecommunications services that the CRTC chooses to forbear from regulation have been steadily growing over the past five years as competition has grown. However, regulation continues to be an aspect of the operating environment in which Aliant Telecom functions. Price-cap regulation of utility services (which include residential local services and single and multi-line local business services), in particular, limits the growth in revenues from local services by placing a cap on these prices. With the initial four-year term of price-cap regulation set to expire at the end of 2001, there is uncertainty as to what impact, if any, the new rules will have on future prices for utility services. In 2000, the CRTC issued a number of notices and decisions dealing with the many aspects of regulation which



**Aliant Telecom market share (estimated)**  
Aliant Telecom's share of the high-speed Internet market grew to 63% last year, up from 50% in 1999. Market share in all other lines of business remained strong.

are described in Aliant's Annual Information Form for the year ended December 31, 2000.

#### Technology

The major technological challenge facing Aliant Telecom over the coming years is to deploy a “next generation network” infrastructure that takes into account shortened product life cycles and facilitates the convergence of different market segments – all while satisfying customer demands for new products and services at competitive prices. Technological advances may also affect Aliant Telecom's level of earnings by shortening the useful life of some of its assets. Retention of customers for longer terms becomes even more important due to the high up-front costs of new technology. Further, technological advances may well emerge that could reduce the costs of plant and equipment, and eliminate or reduce barriers that deter other companies from competing in

particular market segments. The merger into Aliant and the formation of Aliant Telecom has partially addressed this technology risk as the larger organization can now spread resources, investment and knowledge across the region. At the time of the merger the potential for \$50 million in annual capital expenditure savings were identified. By the end of 2000, \$32 million of these savings measures had been implemented and the annual rate of \$50 million will be reached by June 2001.

In addition to being a source of new revenue streams, advancing technology is also enabling Aliant Telecom to reduce costs in certain areas. The Internet brings an opportunity to provide customers with self-serve options, greatly reducing the costs of customer transactions.

Aliant Telecom has made fairly heavy investments in the last four years in advancing the capacity and scope of its broadband multimedia network. Evolving the communications network to be able to carry and manage broadband services is essential to the future growth of Aliant. Many new sources of revenue with the

greatest growth potential in the next few years are from services that are now or soon will be offered over this network. These include Internet, e-commerce, broadband data transmission and interactive television services. At this time there is no assurance that broadband technologies and services will continue to be developed according to anticipated schedules, that they will perform according to expectations, or that they will achieve commercial acceptance to the degree necessary to make these investments profitable.

#### INFORMATION TECHNOLOGY

**xwave** made a number of important acquisitions during 2000 that helped it to expand its geographical presence and expertise in certain vertical markets. In January, **xwave** purchased Prior Data Sciences Ltd. (PRIOR). PRIOR had offices in Ottawa, Toronto, Halifax and Montreal, and approximately 255 software and systems specialists primarily focused on air traffic management, defence, communications and energy applications. PRIOR also brought complementary expertise,

which allows **xwave** to offer integrated solutions for both corporate and operational systems – a critical advantage when serving customers in these highly technical industries. In February, Aliant Telecom transferred its IT employees and related business to **xwave** so that Aliant's IT expertise could be consolidated and better utilized to grow the Company's IT line of business. Then in July, **xwave** acquired the operations of MCW Business Systems Limited (MCW), a Toronto-based IT-product fulfilment enterprise. Finally in December, **xwave** purchased a 75% interest in TechKnowledge Inc., a network services, systems integration and hardware supplier based in Maine.

As a result of these acquisitions and significant internal growth, **xwave's** revenues increased by 31.2% to \$331.4 million in 2000. An estimated \$55.6 million of the increase is attributable to acquisitions made during the year, with organic growth being about 9.2%. Part of this growth was driven by increased demand for **xwave's** services by other Aliant companies. For example, **xwave** was instrumental in helping

#### Information technology operating results (thousands of dollars)

	2000	1999	% change
Services	\$ 227,212	\$ 164,130	38.4
Product sales	104,173	88,512	17.7
Total revenues	\$ 331,385	\$ 252,642	31.2
Cost of revenues	94,518	81,134	16.5
Net revenues	236,867	171,508	38.1
Operating expenses	209,098	147,863	41.4
Operating income	27,769	23,645	17.4
Depreciation and amortization	13,447	8,986	49.6
EBITDA	41,216	32,631	26.3
Net income	\$ 13,476	\$ 11,451	17.7

Aliant Telecom meet its cost-savings synergy targets through integrating systems of the predecessor ATI Telcos. Therefore, when examined on a consolidated basis, and as presented in note 19 to Aliant's financial statements, Aliant's external IT revenues grew by 7.3% from \$182.2 million to \$195.6 million.

**xwave's** EBITDA followed the pattern of revenue growth, increasing 26.3% as **xwave** was able to maintain its overall margins at approximately the same level as 1999. **xwave's** net income grew by 17.7% from \$11.5 million in 1999 to \$13.5 million in 2000.

Service revenues are derived from the provision of professional IT consulting, technical support services and data processing services. Revenues from these services grew 38.4% during 2000 as a result of acquisitions, the increased work from other Aliant companies and several important new contracts and developed solutions. These included the Canadian Forces navigation training system, the radar threat test system for defence helicopter manufacturer GKN Westland and an in-car office and dispatch system being used by the RCMP.

Product sales from **xwave's** IT fulfilment business grew 17.7% to \$104.2 million. These revenues were positively impacted by the July acquisition of MCW, which brought annual sales of about \$20 million, combined with organic growth from **xwave's** existing business.

**xwave's** EBITDA margins were down slightly from 12.9% in 1999 to 12.4% in 2000. Gross margins on product sales and systems integration services were up slightly, while there was a decline in margins in the technical or infrastructure support services. The decline in overall margins in 2000 is attributed to the positive

impact that Year-2000 readiness work had on 1999 margins, the focus being placed on growing the business and the efforts to combine the operations of MITI, **xwave** and the various acquisitions made through the year.

#### **IT OPERATING ENVIRONMENT AND BUSINESS OUTLOOK**

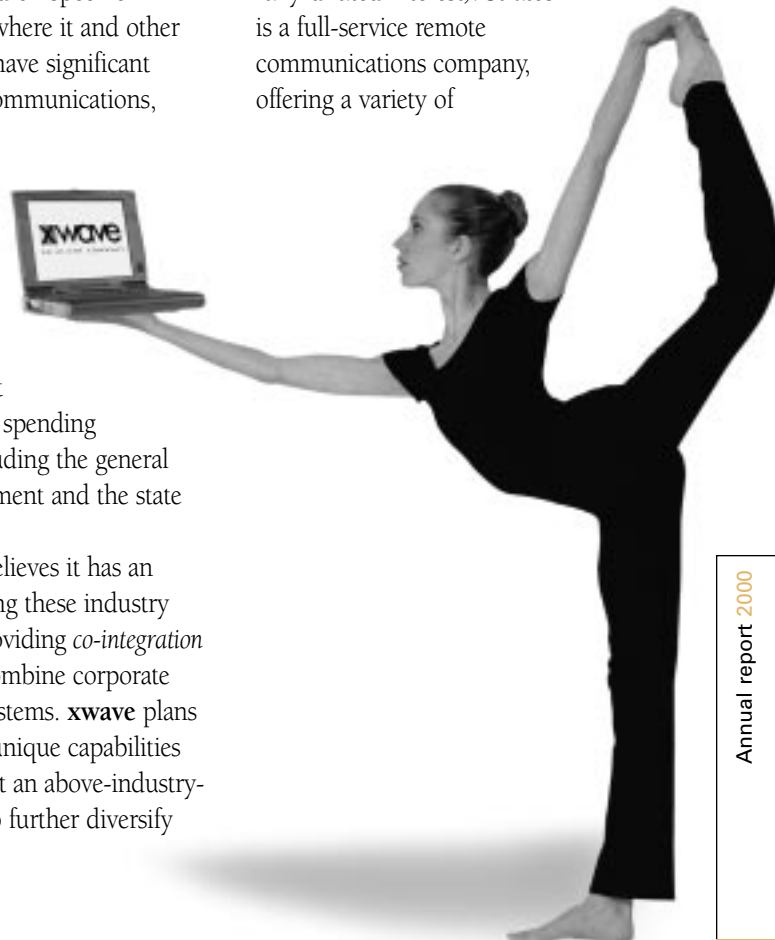
**xwave** was started and is based in Atlantic Canada, but is expanding its national and international presence. In 2000, approximately 22% of **xwave's** revenues were derived from outside the Atlantic Provinces. The IT operating environment is characterized by a few very large competitors and several very small local or regional competitors. The industry is quite fragmented in that each competitor might have a specific area of expertise either in the services it provides or the vertical markets it serves. Although **xwave** is a full-service IT provider to a broad range of clients, it is particularly focused on specific industry verticals where it and other Aliant companies have significant experience – telecommunications, energy, defence / aerospace and public safety. This group of industries makes **xwave** somewhat dependent on cyclical factors that drive discretionary spending in these areas including the general economic environment and the state of public finances.

**xwave** believes it has an advantage in serving these industry verticals and in providing *co-integration* solutions which combine corporate and operational systems. **xwave** plans to build on these unique capabilities to grow revenues at an above-industry-average rate and to further diversify

revenues geographically. Maintaining or improving profitability will also be a key focus for **xwave** in 2001. Increasing competitive pressures, especially in the fulfilment business and in managing turnover of IT-skilled professionals in certain geographic markets, will make this goal challenging. **xwave** will continue to evaluate strategic acquisitions to expand in select geographic markets or add to its specific areas of expertise. Organic growth is targeted at rates above the industry average, which is anticipated to be in the 11% range for 2001.

#### **REMOTE COMMUNICATIONS**

During 2000, Aliant's ownership in Stratos was reduced from approximately 65% to 62% through options exercised by minority holders of Stratos' shares and by a Stratos share issue in April in which Aliant participated at 60.75% (its then fully-diluted interest). Stratos is a full-service remote communications company, offering a variety of



wireless Internet Protocol (IP), data and voice communications solutions through a range of newly emerging and established technologies. Stratos executed an aggressive acquisition strategy in 2000, capitalizing on a fragmented satellite and remote telecommunications industry, bringing efficiencies to infrastructure costs and providing multi-technology global solutions to customers.

Stratos completed four strategic acquisitions in 2000 – the assets of Shell Offshore Services Company (SOSCo), Seven Seas Communications Inc. (Seven Seas), the assets of Rig Telephones Inc., doing business as Datacom Inc. (Datacom) and, effective December 31, finalized the acquisition of British Telecom plc's Aeronautical and Maritime Division (BT A&M). The SOSCo acquisition, completed in April, has enabled Stratos to provide high-bandwidth microwave services in the Gulf of Mexico to its customers in the offshore oil and gas industry. Seven Seas, acquired in July, was the largest non-facilities based provider of global and regional satellite communication solutions to customers in the Americas. Datacom complemented these acquisitions when it was added in

October, further strengthening Stratos' capabilities in North America and Latin America. Datacom provides voice and data communications solutions through a digital microwave system located in the Gulf of Mexico and a satellite teleport which it uses to serve customers in remote locations, as well as oil and gas companies operating beyond the reach of its microwave services. BT A&M provides a full range of INMARSAT, very small aperture terminal (VSAT) and terrestrial solutions to customers around the world and in a variety of industries including maritime, oil and gas, banking and aeronautical. They operate four teleports including two earth stations, located in the southwest of England and in New Zealand, which provide global INMARSAT services. This acquisition has transformed Stratos into the second largest INMARSAT provider in the world, with a solid entry into the North Sea oil and gas market and a strengthened ability to serve customers in Europe, the Middle East, Asia and Africa. At \$350 million, it has been the largest acquisition in Stratos' history.

The 26.7% increase in Stratos' revenue can be attributed to the acquisitions made earlier in

the year and organic growth in the core business. SOSCo and Datacom combined added \$35.7 million to Stratos' revenues. Organic growth of 18.2% in the core mobile satellite business and the acquisition of Seven Seas combined to increase mobile satellite revenues to \$116.1 million. This growth was offset by a decline in fixed satellite revenues and terminal sales.

Cost of goods and services for 2000 of \$124.5 million represents an increase of 28.4% over last year. This increase can be attributed to the new goods and services offered through Stratos and to the increased size of the base of customers through its acquisitions and organic growth in 2000.

Stratos' operating expenses of \$60.9 million represent an increase of 52.9% over operating expenses of 1999. The majority of this increase relates to the increase in staffing resources and costs associated with acquisitions and growth in the business. The additional operating expenses of SOSCo, Datacom and Seven Seas, account for \$13.3 million of the increase. As well, amortization of goodwill relating to these acquisitions

#### Remote communications operating results (thousands of dollars)

	2000	1999 (restated)	% change
Revenues	\$ 177,501	\$ 140,122	26.7
Cost of revenues	124,490	96,954	28.4
Net operating revenues	53,011	43,168	22.8
Operating expenses	60,937	39,859	52.9
Operating income	(7,926)	3,309	—
Depreciation and amortization	19,517	9,791	99.3
EBITDA	13,387	13,100	2.2
Net income (loss)	\$ (14,470)	\$ (4,291)	(237.2)

contributed \$1.0 million to the growth in operating expenses.

Stratos' 1999 results have been restated, with a total of \$12.9 million in reduced revenues and increased expenses lowering reported net earnings. Aliant's consolidated revenues, expenses and net income have been restated as well, resulting in an \$8.1-million reduction to 1999 earnings after considering the minority interest share of this adjustment. As well, a small net reduction relating to fiscal 1998 has resulted in Aliant's opening retained earnings as of January 1, 1999 to be restated by \$1.4 million. These revenue reductions related to billing adjustments, customer settlements and unrealized contract revenues. Higher expenses were warranted for bad debt write-offs from acquired businesses and trade accounts receivable, inventory write-downs, excise taxes and non-recurring special charges relating to severance costs, litigation and the write-off of deferred costs. The adjustments resulted from a detailed review of historical financial information and processes conducted by Stratos management. Stratos' rapid internal growth rate, as well as the additional growth attributable to business acquisitions, have placed significant demands on corporate resources, including financial systems and reporting processes. As part of an improved management and reporting structure after this review, Stratos has taken steps to strengthen its internal financial processes, back office systems and management team.

#### **REMOTE COMMUNICATIONS OPERATING ENVIRONMENT AND BUSINESS OUTLOOK**

Key drivers in the remote communications industry are the increasing demand for remote wireless services, the availability of high-speed

data access and the growth of the Internet. The acquisitions made in 2000 have positioned Stratos as a leader in this high-growth industry. Stratos' pro-forma annual revenues after the BT A&M acquisition are approaching \$500 million. Stratos' priority in 2001 will be to integrate its core business with its recent acquisitions to start realizing efficiencies in operations and back-office processes and systems. Synergies from these acquisitions should lead to strong growth in EBITDA margins as well.

Stratos' acquisitions improved its strength in key vertical markets such as oil and gas, shipping, aerospace and defence – industries in which other members of Aliant (Aliant Telecom, **xwave** and AMI) have significant expertise and which are a focus of the Aliant *Premium* model.

Stratos is subject to Canadian and United States regulatory frameworks governing the provision of mobile satellite services. A description of changes, decisions, on-going proceedings and issues in this regulatory environment is provided in Aliant's Annual Information Form for the year ended December 31, 2000.

#### **EMERGING BUSINESS**

Aliant Horizons develops and nurtures new technology-based products and services by extracting and realizing the value of intellectual property developed throughout the Aliant group. During 2000 two new important engines emerged within the Aliant Horizons group of companies. Innovatia, formerly NBTel Global Inc., was renamed and given a larger

role in May 2000 by consolidating intellectual property formerly distributed amongst various Aliant companies. Also, a budding venture into the New England Internet services market in 1999, Aliant Internet LLC became Prexar and has since made six acquisitions to become one of the larger regional Internet services providers in Northern New England.

Innovatia's role within Aliant is to:

- develop, engineer, implement and sell IP-based broadband applications;
- provide broadband multimedia applications for Aliant Telecom's Internet and interactive television services;
- provide a research and development focus through the *LivingLAB*;
- sell Aliant-developed applications to network service providers worldwide;
- commercialize high-potential applications developed internally or with partners.

Prexar offers Internet dial-up and high-speed access, features and enhanced services such as web-hosting to residential



and small- to medium-sized business customers. Internet access customers numbered 27,000 at year end after completing the acquisitions made during 2000. Prexar is a vehicle through which Aliant can achieve growth by leveraging the success of Aliant Telecom in a completely new market where it is not the dominant service provider and by utilizing other Aliant companies like **xwave** and Innovatia to introduce new services to that market.

AMI is the third major operation under the Aliant Horizons group of companies. AMI's importance to Aliant lies in its expertise in servicing key Atlantic offshore oil and gas industry participants with controls and automation solutions, logistics, supply-chain management and manufacturing solutions. The expertise that has grown in this sector in all of Aliant's lines of business led to the creation in March 2000 of Aliant Energy Services (AES), a division of Aliant that reports through the emerging business group. AES was formed to provide complete end-to-end communications and IT solutions to participants in the petroleum and other energy sectors in Canada and around the world.

Revenues from emerging businesses increased by \$88.3 million or 144.6% in 2000. Innovatia contributed \$10.8 million of this growth when comparing its \$31.3 million in revenues for 2000 to those of its predecessor business. Prexar's first year of operations added \$6.0 million while AMI's growth, largely through acquisitions made in 1999, accounted for another \$44.7 million. Also included in emerging business revenues are sales of intellectual property, which accounted for the remainder of the year's growth. The substantial revenue increase in 2000 led to much better operating income results from the group – \$27.6 million compared to a loss of \$3.5 million in 1999.

**EMERGING BUSINESS  
OPERATING ENVIRONMENT  
AND BUSINESS OUTLOOK**

Innovatia is a service provider to service providers. It supplies broadband IP-based applications to telecommunications companies, governments and other enterprises that are looking to provide new Internet-based services to their customers. Sometimes these services are charting completely new ground – such as interactive television

services – and sometimes they are simply a new way of doing things electronically – such as government services online or interactive educational tools. Therefore, Innovatia faces competitors in the Internet services development field as well as those providing more traditional services. In addition to competition for revenues, there is competition for scarce IT-skilled employees. Innovatia is working hard at developing its name and its products' names primarily in the North American market, but also in Europe. It is also continually researching the next-generation of applications and services, but will limit the number of start-up projects it pursues ensuring bottom-line stability. Steady revenue streams from the *LivingLAB* and consulting contracts will help offset less predictable revenues from other initiatives. A new contract with Nortel Networks to provide its customers and employees an Internet-based learning environment is now in place, providing approximately \$175 million in revenues over five years and establishing Innovatia's name in this high-growth market. Management expects that through organic growth, key investments and partnerships, Innovatia will be contributing

**Emerging business operating results** (thousands of dollars)

	2000	1999	% change
Revenues	\$ 149,324	\$ 61,038	144.6
Cost of revenues	62,874	27,249	130.7
Net revenues	86,450	33,789	155.8
Operating expenses	58,824	37,290	57.7
Operating income (loss)	27,626	(3,501)	—
Depreciation and amortization	4,538	2,849	59.3
EBITDA	32,164	(652)	—
Net income	\$ 30,810	\$ 2,654	—

significantly to Aliant's future revenue growth.

Prexar will continue to grow organically as well as through acquisition to expand geographically within New England and increase market share. In addition to the Internet services now provided, in 2001 Prexar will add to its selection of enhanced services, begin offering local exchange services and expand its broadband network to extend the reach of its high-speed services.

In 2000 AMI focused on positioning itself as a world class, local brand in the Atlantic-offshore oil and gas industry, integrating acquisitions it made in 1999 and on playing a key role in the development of AES. The drilling and development of offshore oil and gas in Eastern Canada is expected to accelerate in 2001, and AMI believes it is in a position to benefit from this increased activity. AMI is also looking to expand its services globally, by working with Stratos and AES to gain footholds into the Gulf of Mexico and the North Sea markets.

Overall, the emerging businesses group is involved in the higher-risk / higher-growth sectors. Management believes the higher risk is being moderated through selectively concentrating in areas where Aliant has a proven expertise, making use of relationships with established business partners and forcing a financially focused discipline on its operating companies.

## OTHER CONSOLIDATED RESULTS

### OTHER INCOME

Aliant's other income increased 8.3% from \$19.7 million in 1999 to \$21.3 million in 2000. Other income includes gains on sales of assets and investments, and in 2000

includes the dilution gain realized on iMagicTV. In 2000 a total dilution gain of \$19.3 million (\$16.9 million after tax) arose as Aliant's investment in iMagicTV was reduced by equity issued in that company's IPO in November and in earlier rounds of private financing during the year. Aliant's interest in iMagicTV was reduced from 39% at the beginning of the year to about 29% currently. Also included in other income is Aliant's share of earnings in equity-accounted investments.

### INTEREST EXPENSE

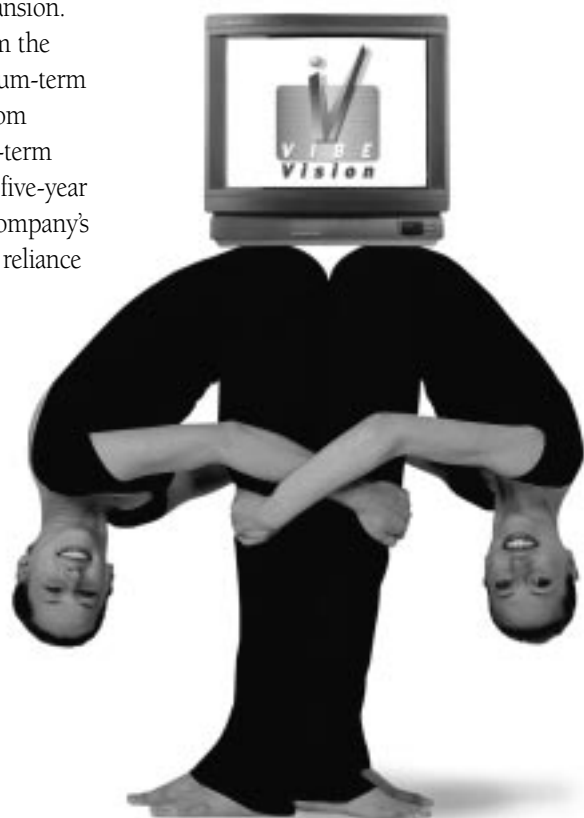
Consolidated interest expense increased 3.1% from \$120.6 million in 1999 to \$124.4 million in 2000. An increase in interest expense at Aliant Telecom from \$98.5 million to \$101.7 million was partially offset by a decrease at Stratos. IT and emerging lines of business also added small amounts to the consolidated expense. Aliant Telecom's higher expense was as a result of temporarily higher short-term debt balances through the year, as Aliant Telecom funded its broadband infrastructure expansion. A portion of the proceeds from the issue of \$150 million in medium-term notes (MTNs) by Aliant Telecom refinanced much of this short-term debt in November 2000. The five-year issue at 6.70% reduced the Company's exposure to floating rates and reliance on temporary financing. It also funded a \$40-million redemption of first mortgage bonds that carried a coupon rate of 10.95% and would have matured in 2005. The call premium and unamortized issue costs related to these redeemed bonds added \$0.9 million to Aliant Telecom's 2000 interest expense. Aliant

Telecom also repaid a \$75-million first mortgage bond that matured in May 2000 and a \$50-million debenture that matured in October 2000. The refinancing of these issues has lowered Aliant Telecom's average interest rates on its long-term debt.

Stratos' interest costs declined 9.5% in 2000 from \$12.5 million to \$11.3 million as a result of refinancing a large portion of its debt with a common equity issue in April.

Aliant's interest coverage ratio before taxes, excluding the 1999 restructuring costs, increased from 3.9 times in 1999 to 4.2 times in 2000. The greater coverage is a result of the higher operating income achieved in 2000.

Future trends in interest expense will be as a result of the offsetting impacts of higher free cash flow being generated, especially in the telecommunications and IT lines of business and further potential acquisition activity that may partially and temporarily



require debt financing. Refinancing of higher-cost debt will also continue where feasible. The use of debt by Stratos to fund its acquisition of BT A&M will drive interest expense higher in 2001.

#### TAXES

Aliant's consolidated income tax provision increased by 8.6% from \$169.4 million, before restructuring costs, in 1999 to \$183.9 million in 2000. This resulted from the higher taxable income from the Company's operations, offset by a lower effective tax rate – 46.7% in 2000 compared with 50.0% in 1999. The statutory combined federal and provincial tax rates remained largely unchanged, however several differences between reported net income and taxable income combined to decrease the effective tax rate. Also lowering the effective rate experienced in 2000 was a \$3.6 million reduction of previously recorded liabilities for future taxes, which under the new GAAP rules, are now recorded at a lower enacted tax rate.

The Aliant group of companies have a total of \$10.6 million in tax losses available to offset taxable income of prior or future years. Management expects to be able to take tax-planning measures sufficient to utilize most of these losses in 2001.

### LIQUIDITY AND CAPITAL RESOURCES

#### OPERATING ACTIVITIES

Aliant's operating cash flow, before changes in working capital, increased 11.6% from \$489.7 million in 1999 to \$546.3 million in 2000. This is attributed to higher cash flow from earnings across all lines of business. Changes in non-cash working capital, primarily related to the payment of early retirement incentives that were accrued in the 1999 restructuring charge, offset much of this growth in earnings so that net cash flow from operations increased only by 4.7% to \$469.7 million. Cash from working capital changes was also negatively impacted by the increase in accounts receivable at Aliant Telecom, **xwave** and Stratos during the year. Turnover was slower than in 1999, due partially to transition issues for acquired businesses, and Aliant Telecom added \$50 million to its accounts by unwinding a receivables financing arrangement during the year. Management has been increasing its focus on measures to improve working capital and expects to see positive results from these efforts in 2001. This, combined with a reduction in the payments for restructuring and continued earnings growth, should lead to higher cash from operations in 2001.

#### INVESTING ACTIVITIES

Aliant's consolidated net capital expenditures were \$437.7 million in 2000, compared with \$377.9 million in 1999. The telecommunications segment accounted for over 92% of the expenditures and all of the spending growth. Telecommunications capital expenditures were influenced by additional spending in advancing the coverage of high-speed Internet, digital television and cellular services. Spending in the voice-wireline business continues to decline. Capital expenditures (excluding acquisitions) are expected to remain about the same in 2001 as Aliant Telecom plans to complete its targeted roll-out of its broadband network to pass 70% of the homes in Atlantic Canada. Investment will also be made to expand the coverage of digital wireless services to 50% of the population, to transition customer contact points to new web-based self-serve applications and to acquire additional PCS spectrum. Also, Prexar will be continuing to extend its high-speed digital network in parts of Maine and New Hampshire. Increased capital spending by other Aliant subsidiaries will be as a result of expanding operations after completing recent acquisitions.

The acquisition activity of Stratos, **xwave** and Prexar caused

#### Capital expenditures (thousands of dollars)

	2000	1999	% change
Telecommunications	\$ 406,285	\$ 320,800	26.7
Information technology	9,639	9,035	6.7
Remote communications	9,753	19,814	(50.8)
Emerging business	10,818	12,446	(13.1)
Other	1,170	15,755	(92.6)
Total capital expenditures	\$ 437,665	\$ 377,850	15.8

Aliant's total investments to rise from \$52.6 million in 1999 to \$621.0 million in 2000. Stratos made a total of \$521.1 million in acquisitions in 2000, Aliant IT's totaled \$65.3 million (including \$22.8 million to buy-out minority shares in **xwave** and MITI), Aliant Telecom invested \$14.2 million and Prexar added \$5.0 million. Another \$15.7 million went towards additional portfolio and strategic investments. 2001 acquisition activity will depend on the availability of strategic opportunities in key geographic markets or areas of expertise, and the ability of the Company to manage its capital structure into its desired range. See the section titled "Capital structure" below.

## FINANCING ACTIVITIES

### Telecommunications

The primary external source of financing for Aliant Telecom's operations is long-term debt issued to the public. For the foreseeable future, Aliant Telecom will obtain its short-term debt and common equity financing from Aliant. In October 1999, Aliant Telecom filed a shelf prospectus for the issue of \$350 million of MTNs in the Canadian market. With the \$150-million issue completed in November 2000, this shelf filing was fully utilized and will be expanded by the filing of a new shelf prospectus in early 2001. As in 1999 and 2000, this facility will be used to refinance

maturing or redeemable debt originally issued by the ATI Telcos and to satisfy additional long-term financing requirements as necessary. During 2001, a \$55-million debenture issue matures and an additional \$134 million in debentures and mortgage bonds become callable for the Company's financial advantage.

Aliant Telecom also issued \$131.4 million in common equity to Aliant during 2000. These proceeds were used to repay some of the maturing long-term debt and to reduce short-term debt owed to Aliant.

### Information technology

The primary sources of financing for **xwave** are debt and equity investments from Aliant. **xwave** has in place as of January 2001, operating lines of credit totaling \$30 million and acquisition facilities of \$45 million with a syndicate of Canadian chartered banks. **xwave's** 2000 acquisitions were funded primarily through equity from Aliant, while operations were funded through internal cash flow and bank indebtedness.

### Remote communications

Stratos obtains its debt financing through bank facilities and its common equity financing through the public issue of shares that trade on the Toronto Stock Exchange. In April 2000 Stratos refinanced much of its existing debt from earlier acquisitions

through a common equity issue of \$154 million. Aliant bought sufficient shares in this issue to maintain its fully diluted percentage ownership in Stratos. The BT A&M acquisition required a significant amount of additional financing, leading to the arrangement of US\$380 million in credit facilities with a syndicate of Canadian banks. This facility also refinanced Stratos' existing debt. Aliant has guaranteed US\$150 million of Stratos' obligations under this facility. The guarantee by Aliant assisted Stratos in securing the financing necessary to complete the acquisition. Aliant has entered into an agreement with Stratos concerning certain matters in connection with the bank facility and the guarantee, including terms concerning the consequences of any payment by Aliant on the guarantee.

### Corporate financing

Existing sources of financing available to Aliant include its short-term credit facilities through the banking system and the public markets and issues of equity to the public. During the year, Aliant issued \$200 million in common equity through an offering in May and \$31.2 million under its dividend reinvestment plan, the employee stock plans of its subsidiaries and the exercise of stock options. Aliant maintains lines of credit totaling \$500 million in aggregate with its bankers of which \$350 million is a

## Consolidated capital structure *(thousands of dollars)*

	2000		1999	
Common equity	\$ 1,343,403	41.0%	\$ 1,096,228	43.5%
Non-controlling interest	82,486	2.5%	29,718	1.2%
Long-term debt <i>(including current portion)</i>	1,568,271	47.9%	1,187,573	47.1%
Short-term debt, including bank indebtedness	282,143	8.6%	206,105	8.2%
	<b>\$ 3,276,303</b>	<b>100.0%</b>	<b>\$ 2,519,624</b>	<b>100.0%</b>

committed facility supporting the Company's commercial paper program. As at December 31, 2000, a total of \$235.3 million in commercial paper was issued under this facility. Total dividends paid by Aliant to its shareholders rose from 1999 levels due to the increased number of shares outstanding. Aliant maintained its dividend payment rate per share at \$0.90 for the year.

#### CAPITAL STRUCTURE

Effective with the acquisition of BT A&M on December 31, Aliant's capital structure on a consolidated basis, as presented in the chart on the previous page, contains 56.5% debt compared with 41.0% common equity and 2.5% minority interest. Without the BT A&M acquisition the consolidated debt level would have been 51.3% of the capital structure. This acquisition has brought Stratos' debt level up to 71.5% of its capital structure, which is too high a debt burden to maintain over the long-term. As Stratos works through integrating BT A&M with its existing operations and realizing anticipated synergies from this, management believes Stratos will be in a position to seek additional equity financing to improve the capital structure.

Management considers target capital structures for each of its lines

of business that are appropriate to the industry, the level of risk and the nature of operations of that business. In addition to Stratos' debt burden being addressed, management will be working in 2001 towards continuing to reduce Aliant Telecom's debt level from its current position of 50%. This will be achieved through use of improved operating cash flow to repay a portion of debt maturities.

These targets for capital structures are internally imposed guidelines. It is anticipated that Aliant will continue to generate sufficient internal cash flow to provide for dividend payments, as and when such dividends are declared, and to fund its capital expenditures and some new investments. Also, Aliant has sufficient capacity in its existing and available financing arrangements to provide liquidity for existing operations and planned future growth.

Aliant's and Aliant Telecom's solid financial position and stable outlook were affirmed, as indicated in the chart below, by ratings from Dominion Bond Rating Service (DBRS) and the recently merged Standard and Poor's (S&P) and Canadian Bond Rating Service (CBRS). Apart from an upgrade of NewTel's first mortgage bonds by CBRS, the only rating action during 2000 was to align the ratings

on the debt originally issued by the ATI Telcos that would become obligations of Aliant Telecom effective with the January 1, 2001 amalgamation.

#### CONSOLIDATED OUTLOOK, RISKS AND UNCERTAINTIES

During 2000 Aliant concentrated on establishing a long-term growth strategy, evolving the organizational structure to realize merger synergy targets and strengthening the position of each line of business through targeted acquisitions and business expansion. In 2001 Aliant will continue to integrate its recent acquisitions and focus on operational efficiencies. In order to achieve Aliant's overall growth objectives for 2001 and beyond, the higher-growth lines of business have to compensate for the moderating trends expected in telecommunications. Additional value from implementation of the Aliant *Premium* model, such as through AES, will have to be realized. Also, challenges being created by rapidly advancing technology, competition, scarce IT-skilled resources and a higher consolidated debt burden will have to be met. From the foundation put in place in 2000, Aliant is in a better position to weather this current period of industry transition and to emerge a leader.

#### Debt ratings and outlook

<i>Debt</i>	<i>DBRS</i>	<i>S&amp;P</i>
First mortgage bonds originally issued by:		
Island Tel	A stable	A+ stable
MTT	A stable	AA- stable
NewTel	A stable	A+ stable
Debentures originally issued by:		
MTT	A stable	A stable
NBTel	A stable	A stable
Aliant Telecom MTNs	A stable	A stable
Aliant commercial paper	R-1 (low) stable	A-1 stable
Aliant corporate credit rating	A (low) stable	A stable

# RESPONSIBILITY

## Management and auditors' reports

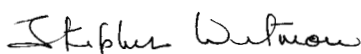
### MANAGEMENT REPORT

The accompanying financial statements of Aliant Inc. and all information in this annual report are the responsibility of management and have been approved by the board of directors. The financial statements are based upon management's best estimates and judgements and have been prepared within the guidelines of generally accepted accounting principles appropriate in the circumstances. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the data, management maintains a system of internal controls comprising written policies, procedures and a comprehensive internal audit program which provides reasonable assurance that transactions are recorded and executed in accordance with its authorization, that assets are properly safeguarded and that reliable financial records are maintained.

The responsibility of the board of directors is pursued principally through the audit committee, which meets periodically with management and the internal and external auditors to review accounting principles, practices and internal controls.

The shareholders' external auditors have free access to the audit committee both with and without management present. The report on their review, which provides an independent assessment of the system of internal controls and the compliance of the financial statements with generally accepted accounting principles, is shown opposite.



Stephen Wetmore  
*President and Chief Executive Officer*



Barrie H. Black  
*General Counsel and Corporate Secretary*  
*St. John's, Newfoundland,*  
*February 9, 2001*

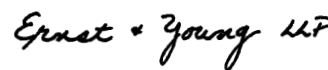
### AUDITORS' REPORT

We have audited the consolidated balance sheets of Aliant Inc. as at December 31, 2000 and 1999 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

The previous year was audited under a joint audit appointment with another firm of Chartered Accountants.



Ernst & Young LLP  
*St. John's, Newfoundland,*  
*February 9, 2001*

# HITTING THE MARKS

## Consolidated financial statements

### Consolidated balance sheets

<i>As at December 31 (thousands of dollars)</i>	2000	1999
		<i>(note 23)</i>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 70,444	\$ 17,260
Accounts receivable	638,425	421,000
Inventory	45,528	31,640
Prepayments	30,247	20,387
	<b>784,644</b>	<b>490,287</b>
<b>Capital assets – net</b> <i>(note 5)</i>	<b>2,355,145</b>	<b>2,100,370</b>
<b>Other assets</b>		
Long-term investments <i>(note 6)</i>	80,058	52,402
Accrued benefit asset <i>(note 15)</i>	—	83,664
Deferred charges	47,733	32,736
Future income tax asset <i>(note 17)</i>	9,439	—
Goodwill <i>(note 7)</i>	452,616	127,099
	<b>589,846</b>	<b>295,901</b>
<b>Total assets</b>	<b>\$ 3,729,635</b>	<b>\$ 2,886,558</b>

See accompanying notes to the consolidated financial statements



As at December 31 (thousands of dollars)

2000

1999

(note 23)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current liabilities**

Bank indebtedness	\$ 46,826	\$ 35,970
Notes payable (note 8)	235,317	170,135
Payables and accruals	396,871	352,580
Long-term debt due within one year (note 9)	58,880	133,857
	<b>737,894</b>	<b>692,542</b>

Long-term debt (note 9)	<b>1,509,391</b>	<b>1,053,716</b>
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Future income tax liability (note 17)	<b>5,631</b>	<b>4,482</b>
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Accrued benefit obligation (note 15)	<b>42,063</b>	<b>—</b>
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Deferred credits	<b>8,767</b>	<b>9,872</b>
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Non-controlling interest (note 11)	<b>82,486</b>	<b>29,718</b>
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**Shareholders' equity**

Capital stock (note 12)	<b>922,601</b>	<b>691,413</b>
Contributed surplus	<b>69,320</b>	<b>69,320</b>
Retained earnings	<b>351,482</b>	<b>335,495</b>
	<b>1,343,403</b>	<b>1,096,228</b>

<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,729,635</b>	<b>\$ 2,886,558</b>
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See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors:



Charles White  
Director



Edward Reevey  
Director

## Consolidated statements of income

<i>For the years ended December 31 (thousands of dollars)</i>	2000	1999 <i>(note 23)</i>
<b>Operating revenues</b> <i>(note 19)</i>	<b>\$ 2,274,180</b>	<b>\$ 2,030,705</b>
<b>Expenses</b>		
Cost of operating revenues	565,901	404,479
Operating expenses	853,867	838,614
Amortization	357,855	340,602
Restructuring costs <i>(note 3)</i>	—	78,000
	<b>1,777,623</b>	<b>1,661,695</b>
<b>Operating income</b>	<b>496,557</b>	<b>369,010</b>
<b>Other income</b>	<b>21,282</b>	<b>19,652</b>
<b>Interest charges</b>		
Interest on long-term debt	104,896	106,585
Other interest	19,491	14,053
	<b>124,387</b>	<b>120,638</b>
Income before underlisted items	393,452	268,024
<b>Income taxes</b> <i>(note 17)</i>	<b>183,890</b>	<b>133,929</b>
Income before non-controlling interest	209,562	134,095
<b>Non-controlling interest</b>	<b>(7,559)</b>	<b>(5,975)</b>
<b>Net income</b>	<b>\$ 217,121</b>	<b>\$ 140,070</b>
<b>Earnings per common share</b> <i>(based on average number of shares outstanding)</i>		
Basic earnings per share	<b>\$ 1.65</b>	<b>\$ 1.11</b>

*See accompanying notes to the consolidated financial statements*

## Consolidated statements of retained earnings

<i>For the years ended December 31 (thousands of dollars)</i>	2000	1999 <i>(note 23)</i>
<b>Balance, beginning of year, as previously reported</b>	<b>\$ 345,067</b>	<b>\$ 312,030</b>
Prior period adjustment <i>(note 23)</i>	(9,572)	(1,412)
Restated balance, beginning of year	335,495	310,618
Net income	217,121	140,070
Common share dividends	(119,275)	(106,305)
Changes in accounting policies <i>(note 2)</i>	(81,859)	—
Merger costs	—	(8,888)
<b>Balance, end of year</b>	<b>\$ 351,482</b>	<b>\$ 335,495</b>

*See accompanying notes to the consolidated financial statements*

## Consolidated statements of cash flows

<i>For the years ended December 31 (thousands of dollars)</i>	2000	1999
		<i>(note 23)</i>
<b>Cash and cash equivalents from (used in) operations</b>		
Net income	\$ 217,121	\$ 140,070
Add (deduct) non-cash items		
Amortization	359,049	341,153
Other non-cash items	(23,424)	(29,850)
Share in earnings of equity accounted investments	1,141	1,804
Non-controlling interest	(7,559)	(5,975)
	546,328	447,202
Restructuring costs, net of income taxes of \$35,468	—	42,532
	546,328	489,734
Change in non-cash working capital	(76,628)	(41,277)
	469,700	448,457
<b>Cash and cash equivalents from (used in) financing</b>		
Proceeds from issue of common shares	231,188	31,147
Repurchase of accounts receivable	(50,000)	—
Net proceeds from long-term debt	380,698	80,028
Dividends declared	(119,275)	(106,305)
Increase (decrease) in non-controlling interest	60,327	(1,189)
Increase (decrease) in notes payable	56,563	(55,039)
	559,501	(51,358)
<b>Cash and cash equivalents from (used in) investing</b>		
Capital expenditures	(437,665)	(377,850)
Merger acquisition costs	—	(8,888)
Increase in other deferred charges	(22,103)	(10,517)
Proceeds on sale of investments	93,865	21,711
Purchase of subsidiaries' net assets <i>(note 4)</i>	(582,482)	(33,284)
Non-controlling interest acquired	(22,821)	(9,044)
Investments	(15,667)	(10,313)
	(986,873)	(428,185)
<b>Change in cash and cash equivalents</b>	42,328	(31,086)
<b>Cash and cash equivalents, beginning of year</b>	(18,710)	12,376
<b>Cash and cash equivalents, end of year</b>	\$ 23,618	\$ (18,710)
<b>Cash and cash equivalents consist of:</b>		
Cash	\$ 70,444	\$ 17,260
Bank indebtedness	(46,826)	(35,970)
	\$ 23,618	\$ (18,710)
<b>Supplementary disclosure</b>		
Interest paid	\$ 126,246	\$ 119,898
Income taxes paid	\$ 185,641	\$ 167,501

See accompanying notes to the consolidated financial statements

# STATEMENT NOTES

## Notes to the consolidated financial statements

### NOTE 1

#### REORGANIZATION

Effective May 31, 1999, Bruncor Inc. (Bruncor), Island Telecom Inc. (Island), Maritime Telegraph and Telephone Company, Limited (MTT), and NewTel Enterprises Limited (NewTel) (the "Predecessor Companies") combined their businesses to form Aliant Inc. The combination has been accounted for in these financial statements by the pooling of interests method, which combined the historical carrying values of the assets, liabilities and shareholders' equity and the historical operating results of the Predecessor Companies.

Each of the Predecessor Companies operated the principal telecommunications companies in the provinces of New Brunswick (Bruncor), Prince Edward Island (Island), Nova Scotia (MTT), and Newfoundland (NewTel). The shareholders of the Predecessor Companies exchanged their shares for shares of Aliant Inc. as follows: each Bruncor Common Share exchanged for 1.011 Aliant Common Shares; each Island Common Share exchanged for 1.000 Aliant Common Share (other than those shares held by Maritime Telcom Holdings Inc., a wholly owned subsidiary of MTT); each MTT Common Share exchanged for 1.667 Aliant Common Shares; each MTT 7.00% Preference Share exchanged for 0.605 Aliant Common Shares; and each NewTel Common Share exchanged for 1.567 Aliant Common Shares. The share exchange resulted in a total of 126,437,484 Aliant Common Shares being issued, with the shareholders of the Predecessor Companies holding the following shares:

Shareholder group	Number of Aliant common shares	% of shares outstanding
Bruncor former shareholders	44,151,541	34.9%
Island former shareholders (other than Maritime Telcom Holdings Inc.)	3,533,469	2.8%
MTT former shareholders	49,889,477	39.5%
NewTel former shareholders	28,862,997	22.8%
	126,437,484	

The following table summarizes the results of operations for the five months ended May 31, 1999 and the net assets of each of the Predecessor Companies as at May 31, 1999:

<i>(Thousands of dollars)</i>	Bruncor	MTT (Including Island)	NewTel	Total
Operating revenue	\$ 278,233	\$ 299,955	\$ 231,046	\$ 809,234
Non-controlling interest	(311)	—	421	110
Net income	24,925	28,757	14,708	68,390
Total assets	847,814	1,080,497	873,744	2,802,055
Total liabilities	499,818	675,953	585,507	1,761,278
Net assets	\$ 347,996	\$ 404,544	\$ 288,237	\$ 1,040,777

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Consolidated financial statements

The consolidated financial statements include the accounts of Aliant Inc. (the “Company”) and all entities which are controlled by the Company.

At December 31, 2000, the principal subsidiaries of the Company include: Aliant Telecom Inc., Island Telecom Inc., Maritime Tel & Tel Limited, MT&T Mobility Incorporated, NBTel Inc., NewTel Communications Inc., NewTel Mobility Limited, Aliant Information Technology Inc., Xwave Solutions Inc., MITI Information Technology Inc., Aliant Horizons Inc., Stratos Global Corporation, AMI Offshore Inc., Innovatia Inc., Prexar LLC and Aliant Properties Inc.

The Company accounts for its interest in Joint Ventures by proportionate consolidation (note 18).

#### Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### Regulation

Island Telecom Inc., Maritime Tel & Tel Limited, NBTel Inc., and NewTel Communications Inc., the Company’s major telecommunications subsidiaries, are subject to regulation by the Canadian Radio-Television and Telecommunications Commission (“CRTC”).

#### Capital assets

Capital assets are recorded at cost. Depreciation is computed on a straight-line basis or declining balance basis at rates (outlined in the table below) over the useful lives of the assets. Depreciation expense in 2000 was \$340.8 million (1999 – \$325.5 million).

Asset	Method	Rate
Buildings	Declining balance	4-5%
Plant	Straight line	15 years
Machinery and equipment	Straight line	3-5 years

The cost of debt attributable to telecommunications plant under construction is added to the cost of the plant constructed. In 2000, \$1.8 million was capitalized (1999 – \$1.5 million). Gains and losses on the disposal of capital assets are included in income in the year they occur.

#### Income taxes

The Company follows the liability method of accounting for income taxes in accordance with the new recommendations of the Canadian Institute of Chartered Accountants. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

#### Inventory

Inventory is valued at the lower of cost and net realizable value.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments

The Company accounts for its investments in affiliated companies over which it has significant influence on the equity basis of accounting, whereby the investments are initially recorded at cost, and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. The excess of the cost of equity investments over the underlying book value at the date of acquisition is amortized over the estimated useful lives of the underlying assets to which it is attributed.

Portfolio investments are accounted for on the cost basis. Declines in market value below cost are recognized when such declines are considered to be other than temporary.

#### Foreign currency translation

Assets and liabilities of the Company's integrated foreign operations are translated using the temporal method whereby monetary items are translated at exchange rates prevailing at the balance sheet date, which was \$US 1.00 = \$Canadian 1.50 at December 31, 2000 (\$US 1.00 = \$Canadian 1.45 at December 31, 1999) and non-monetary items at historical rates. Revenues and expenses are translated at the average exchange rate. Exchange gains and losses arising from the translation of foreign currency items are included in income, except that gains or losses which arise from the translation of long-term monetary items are deferred and amortized to income over the life of the related monetary item.

#### Deferred charges

Deferred charges include debt issue costs, which are amortized on a straight-line basis over the term of the related debt.

#### Goodwill

Goodwill represents the excess at the dates of acquisition of the costs over the fair values of the net tangible assets of subsidiary companies and is amortized on a straight-line basis over the estimated life of ten to twenty years. The Company evaluates the carrying value of goodwill for potential permanent impairment through ongoing review and analysis of fair market value and expected earnings. A permanent impairment in the value of goodwill is written off against earnings in the year such impairment is recognized.

#### Post employment benefits

The Company maintains both contributory defined contribution and non-contributory defined benefit final average pension plans for the benefit of employees of certain subsidiaries.

The Company also offers other non-pension post employment benefits to employees of certain subsidiaries, including life insurance and health care plans. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the pension and other employee future benefits.

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies for its defined benefit pension plans and other retirement benefits:

- (a) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- (b) For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- (c) Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- (d) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.
- (e) When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

#### Earnings per share

Basic earnings per share are calculated using the weighted average number of shares outstanding for the year. Fully diluted earnings per share reflect the dilutive effect of the exercise of the stock options outstanding at the end of the year or those options exercised during the year, as if they had been exercised at the beginning of the year or the date granted, if later.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments of less than 90 days that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. The Company uses the indirect method to prepare its cash flow statement.

#### Stock-based compensation plan

The Company has a stock-based compensation plan for directors, executives and certain senior managers, which is described in note 13. No compensation expense is recognized when stock options are issued. Consideration paid on exercise of stock options is credited to share capital. Compensation expense is recognized for the Company's contributions to the Employee Share Purchase Plan.

#### Accounting changes

Effective January 1, 2000, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with regard to Income Taxes and Employee Future Benefits. As permitted under the new rules, the Company retroactively adopted these policies without restatement of prior years' financial statements.

##### (a) Income taxes

The cumulative effect of this change as of January 1, 2000, was to decrease opening retained earnings by \$15.3 million.

##### (b) Employee future benefits

Previously, costs for employee future benefits other than pensions were expensed as incurred and pension cost obligations were discounted at the long-term rate of return on net assets. In addition, actuarial gains and losses were amortized on a straight-line basis over the employees' average remaining service life.

As a result of this change, the January 1, 2000 accrued benefit liabilities increased \$122.1 million, future income taxes decreased \$55.5 million and retained earnings decreased by \$66.6 million. For the year ended December 31, 2000, employee benefits expense increased by \$11.3 million, net income decreased by \$6.2 million, accrued benefit liabilities increased by \$11.3 million and future tax expense increased by \$5.1 million.

The net impact of these changes on retained earnings is as follows:

(Millions of dollars)	2000
Implementation of future income taxes	\$ (15.3)
Implementation of employee future benefits:	
Accrued benefit liabilities increase	(122.1)
Future income taxes decrease	55.5
<b>Net decrease to retained earnings</b>	<b>\$ (81.9)</b>

## NOTE 3

### ARRANGEMENT COSTS

#### Restructuring costs

In 1999, the Company recorded a charge of \$78.0 million for the estimated costs for 1999 and 2000 to complete restructuring activities associated with the reorganization (see note 1). A significant portion of these expenses were for voluntary early retirement programs for employees. In addition, the business restructuring included employee transfer costs and other costs resulting from integration activities. At December 31, 2000, the balance of this provision totalled \$11.3 million (1999 – \$78.0 million), which will be drawn down in early 2001 on completion of merger activities.

#### Merger costs

The Company recorded the third party costs of effecting the reorganization (see note 1) as a charge to retained earnings. These costs included financial advisor fees, regulatory filing fees, legal and accounting fees and printing and mailing costs. The final total of these costs was \$15.5 million (\$8.9 million after income taxes).

## NOTE 4

### ACQUISITIONS

The Company made the following acquisitions for cash consideration:

(Thousands of dollars)

			2000		
Subsidiary acquired	Acquisition date	% acquired	Purchase price	Net assets acquired	Goodwill
<b>Telecommunications</b>					
Quality Connections Communications Inc. and Enercom Communications Inc. – share purchase (Long-distance service provider)	March 15	100	\$ 13,940	\$ 9,812	\$ 4,128
Transtech Engineering Inc. – share purchase (Internet service provider)	April 4	75	225	225	—
<b>Information technology</b>					
Prior Data Sciences, Ltd. – share purchase (IT services provider)	January 31	100	34,015	3,913	30,102
MCW Business Systems Limited – asset purchase (IT services provider)	July 6	100	1,713	—	1,713
TechKnowledge Inc. – share purchase (IT services provider)	December 21	75	6,794	838	5,956
<b>Emerging business</b>					
Rocket Science Internet Solutions LLC – asset purchase (Internet service provider)	September 1	100	1,526	(57)	1,583
New Hampshire Telephone Co. Ltd (MonadNet LLC) – asset purchase (Internet access provider)	October 1	100	2,504	(167)	2,671
Kennebec Computer Inc. – asset purchase (Internet access provider)	December 1	100	296	(64)	360
Waterville Online – asset purchase (Internet access provider)	August 11	100	643	34	609
<b>Remote communications</b>					
Shell Offshore Services Company – asset purchase (Mobile satellite communications)	April 7	100	77,523	69,904	7,619
Seven Seas Communications, Inc. and Seven Seas Communication Systems, Inc. – asset purchase (Mobile satellite communications)	July 31	100	24,347	1,080	23,267
Datacom Inc. – asset purchase (Mobile satellite communications)	October 25	100	69,139	37,369	31,770
British Telecom plc – INMARSAT, VSAT and Aeronautical Divisions – asset purchase (Mobile satellite communications)	December 31	100	350,110	140,081	210,029
			582,775	262,968	319,807
Less: Cash in subsidiary at time of acquisition			293	293	—
Acquisition, net of cash acquired			\$ 582,482	\$ 262,675	\$ 319,807

## NOTE 4

### ACQUISITIONS (continued)

The Company made the following acquisitions for cash consideration:

			1999		
<i>(Thousands of dollars)</i>					
Subsidiary acquired	Acquisition date	% acquired	Purchase price	Net assets acquired	Goodwill
<b>Information technology</b>					
Information Technology Business of Keltic Technologies Group Inc. – share purchase (Information technology business)	February 1	100	\$ 2,666	\$ 1,629	\$ 1,037
Galahad Information Systems – asset purchase (IT services provider)	March 1	100	491	427	64
Software Kinetics Limited – share purchase (IT services provider)	April 30	100	20,000	3,400	16,600
<b>Emerging business</b>					
K & D Industries Limited – share purchase (Industrial distribution company)	July & November	100	2,123	(25)	2,148
SEA Systems Limited – share purchase (Controls & instrumentation company)	November 19	100	5,590	522	5,068
Acadia Net Inc. – asset purchase (Internet service provider)	December 4	100	2,414	68	2,346
			\$ 33,284	\$ 6,021	\$ 27,263

These acquisitions have been accounted for using the purchase method of accounting. Goodwill resulting from the acquisitions is being amortized on a straight-line basis consistent with the policy outlined in note 2. The consolidated statements of income include the results of operations from the date of acquisition.

### Non-controlling interest

In December 1999, iMagicTV Inc. issued additional common shares to outside interests resulting in the Company's ownership being decreased to 39% (current holdings 29.3%). The Company ceased consolidating the results of iMagicTV at that time and began accounting for its investment using the equity method.

### Portfolio investments acquired

During the year, the Company acquired an 8% interest in Exigen for an aggregate purchase price of \$8.4 million. The Company also invested \$2.8 million in 1999 to increase its ownership interest in various other portfolio investments. These investments are accounted for as described in note 2.

## NOTE 5

### CAPITAL ASSETS

		2000			1999		
<i>(Thousands of dollars)</i>							
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value	
Land	\$ 17,629	\$ —	\$ 17,629	\$ 22,059	\$ —	\$ 22,059	
Buildings	341,838	171,410	170,428	368,415	151,654	216,761	
Plant	3,817,539	2,213,756	1,603,783	3,605,688	2,074,096	1,531,592	
Machinery and equipment	783,561	300,523	483,038	562,984	269,654	293,330	
Plant under construction	60,743	—	60,743	29,417	—	29,417	
Materials and supplies	19,524	—	19,524	7,211	—	7,211	
Total capital assets	\$ 5,040,834	\$ 2,685,689	\$ 2,355,145	\$ 4,595,774	\$ 2,495,404	\$ 2,100,370	

## NOTE 6

### LONG-TERM INVESTMENTS

<i>(Thousands of dollars)</i>	2000	1999
Investments subject to significant influence	\$ 30,853	\$ 8,013
Portfolio investments	49,205	44,389
	\$ 80,058	\$ 52,402

## NOTE 7

### GOODWILL

<i>(Thousands of dollars)</i>	2000	1999
Goodwill, at cost	\$ 484,786	\$ 142,235
Accumulated amortization	(32,170)	(15,136)
	\$ 452,616	\$ 127,099

## NOTE 8

### NOTES PAYABLE

<i>(Thousands of dollars)</i>	2000	1999
Commercial paper program	\$ 235,317	\$ 115,135
Other short-term debt	—	55,000
	\$ 235,317	\$ 170,135

At December 31, 2000, the Company has lines of credit available of \$500 million. These lines consist of \$350 million in committed lines supporting the Company's commercial paper program and \$150 million in uncommitted operating lines.

The weighted average rate of interest for the debt outstanding is 5.87% and the weighted average term to maturity is 71 days.

## NOTE 9

### LONG-TERM DEBT

<i>(Thousands of dollars)</i>			Outstanding December 31	
	Interest rate	Maturity	2000	1999
Telecommunications				
Notes	6.459% – 12.25%	2002-2009	\$ 350,032	\$ 204,000
Bonds	8.40% – 12.25%	2005-2019	301,500	416,500
Debentures	6.40% – 11.125%	2001-2025	400,000	450,000
			1,051,532	1,070,500
Present value of obligation under capital leases			3,473	4,011
Total – Telecommunications			1,055,005	1,074,511

## NOTE 9

### LONG-TERM DEBT (continued)

<i>(Thousands of dollars)</i>			Outstanding December 31	
	Interest Rate	Maturity	2000	1999
Information technology				
Mortgages			2,745	1,630
Present value of obligation under capital leases			354	757
Total – Information technology			3,099	2,387
Remote communications				
Acquisition facility	LIBOR + 3.75%	2002	270,855	—
Term debt	LIBOR + 3.75%	2005	224,513	73,947
Other	8.75%	2006	5,427	2,793
Total – Remote communications			500,795	76,740
Emerging business				
Mortgages			2,238	1,641
Bank loans			4,811	5,329
Present value of obligation under capital leases			516	384
Other			1,815	2,061
Total – Emerging business			9,380	9,415
Other				
Mortgages			—	24,520
Total – Other			—	24,520
Total long-term debt			1,568,271	1,187,573
Less: Portion due within one year			58,880	133,857
			<b>\$ 1,509,391</b>	<b>\$ 1,053,716</b>

The notes are a combination of both secured and unsecured issues. The unsecured notes have been issued under a trust indenture, or under long-term floating rate facilities. Certain notes are secured by debentures containing a floating charge over certain assets. At December 31, there were agreements in place which effectively fixed the interest at the rates noted above for the indicated terms on specific notes.

All bonds are issued in series and are redeemable at the option of the Company prior to maturity at the prices, times and conditions specified in each series. The bonds are secured by a Deed of Trust and Mortgage and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon all real and immovable property and equipment of Aliant Telecom Inc., and a floating charge on all other property of Aliant Telecom Inc., both present and future.

All debentures are issued in series and are redeemable at the option of the Company prior to maturity at the prices, times and conditions specified in each series. The debentures are issued under a trust indenture and are unsecured.

As collateral for the acquisition facility and term debt, Stratos Global has provided a first charge over all its assets.

All mortgages are secured by a fixed charge against specific assets of the Company.

The aggregate amount of payments required in each of the next five years to meet principal repayments and maturities of the Company's long-term debt and the future minimum lease payments under capital leases presently outstanding is as follows: 2001 – \$58,880,000; 2002 – \$304,615,000; 2003 – \$135,129,000; 2004 – \$187,819,000; 2005 – \$240,863,000; and thereafter \$640,965,000.

## NOTE 10

### FINANCIAL INSTRUMENTS

Under an agreement dated December 12, 1997, the Company sold, with minimal recourse, accounts receivable for aggregate cash proceeds of \$50,000,000. During the year, the Company re-purchased the accounts receivable for cash proceeds of \$50,000,000.

#### Risk management

The Company uses cross-currency and interest rate swaps, forward contracts, forward rate agreements and interest rate caps to manage its foreign currency and interest rate positions associated with its debt instruments. The terms of these derivative contracts generally match the terms associated with the underlying debt instruments. These contracts are generally used to reduce financing costs and to diversify the Company's access to capital markets.

#### Credit risk

The Company is exposed to credit risk with respect to accounts receivable from customers. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis.

#### Currency exposures

At December 31, 2000, principal amounts owed under cross-currency contracts include \$5.25 million to MCI.

#### Interest rate exposures

The Company's long-term debt consists of both floating and fixed interest rate financing, and is therefore subject to risks associated with fluctuating interest rates.

#### Fair value (millions of dollars)

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. Fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in the fair values. Therefore, due to the use of subjective judgment and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

At December 31, 2000 and 1999, the carrying value of all financial instruments approximates fair value with the exception of long-term debt which has been estimated to be \$1,710 (1999 – \$1,333) with a carrying value of \$1,568 (1999 – \$1,188).

## NOTE 11

### NON-CONTROLLING INTEREST

The non-controlling interest consists of common equity of subsidiary companies held by third parties.

<i>(Thousands of dollars)</i>	2000	1999
Xwave Solutions Inc.	\$ —	\$ 978
MITI Information Technology Inc.	—	1,491
Stratos Global Corporation	75,016	23,022
TechKnowledge Inc.	181	—
Atlantic Mobility Products	412	—
iMagicTV Inc.	—	1,662
Prexar LLC	2,413	—
Sablecom	1,094	—
Transtech Engineering Inc.	57	—
AMI Offshore Limited	3,313	2,565
	<b>\$ 82,486</b>	<b>\$ 29,718</b>

## NOTE 12

### CAPITAL STOCK

#### Authorized

Unlimited number of common shares.

#### Issued

(Thousands of dollars)

	2000		1999	
	Number of shares	Value	Number of shares	Value
Common shares without par value	134,336,983	\$ 922,601	127,434,451	\$ 691,413

#### Share transactions

The Company issued the following shares:

(Thousands of dollars)

	2000		1999	
	Number of shares	Value	Number of shares	Value
For cash:				
Stock option plan (note 13)	546,502	\$ 8,856	177,275	\$ 2,585
Shareholder dividend and share purchase plan	129,928	4,827	214,577	6,556
Issued for cash – May 2000	5,620,000	196,196	—	—
Employees' stock savings plan (note 13)	560,440	20,309	503,165	14,657
Shares issued in relation to acquisition activities	45,662	1,000	101,950	7,349
	6,902,532	\$ 231,188	996,967	\$ 31,147

Under the provisions of the Company's common shareholder dividend reinvestment and stock purchase plan and employees' stock savings plan, shareholders purchase additional common shares in lieu of receiving corporate dividends in the form of cash.

## NOTE 13

### STOCK-BASED COMPENSATION PLANS

At December 31, 2000, the Company has the following stock based compensation plans.

#### Stock option plan

Under the stock option plan, the Company may grant options to plan members for up to 6,500,000 shares of common stock. The exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is ten years. Options become fully vested three years from the date they are granted under the plan.

A summary of the status of the Company's stock option plan as of December 31, 2000 and 1999, and changes during the years ended on those dates is presented below:

	2000		1999	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Outstanding at beginning of year	2,202,906	\$ 17.60	1,865,295	\$ 15.80
Granted	822,270	33.73	528,198	22.48
Exercised	546,502	16.20	190,587	13.48
Forfeited	—	—	—	—
Outstanding at end of year	2,478,674	\$ 23.26	2,202,906	\$ 17.60
Options exercisable at year end	1,292,081	\$ 18.13	1,112,989	\$ 15.45

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2000	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at December 31, 2000	Weighted-average exercise price
\$10.625 to \$38.10	2,478,674	7.4 years	\$ 23.26	1,292,081	\$ 18.13

The Company expects that approximately 95% of the nonvested awards at December 31, 2000, will eventually vest.

#### Employees' stock savings plan

Under the employees' stock savings plan, the Company is authorized to issue up to 3,500,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the plan, employees can choose each year to have a portion of their annual base earnings withheld to purchase the Company's common stock. The Company contributes to the plan on behalf of eligible participants based upon a prescribed formula. The purchase price of the stock is the arithmetic average of the closing price of the shares traded on the Toronto Stock Exchange on the last five days up to, and including, the dividend payment date. Over 80% of eligible employees are participating in the plan. Under the plan, the Company sold 560,440 shares to employees from April 1 to December 31, 2000.

During the year, the Company recognized \$5.2 million in compensation expense in relation to these plans.

## NOTE 14

### COMMITMENTS AS LESSEE

The estimated future minimum lease payments under operating leases for the next five years are as follows: 2001 – \$36,320,000; 2002 – \$33,237,000; 2003 – \$30,442,000; and 2004 – \$30,255,000; 2005 – \$26,493,000; thereafter \$233,347,000.

## NOTE 15

### ACCRUED BENEFITS OBLIGATION

The Company maintains both contributory defined contribution and non-contributory defined benefit final average pension plans for the benefit of employees of certain subsidiaries. The Company also provides other retirement and post employment benefits to most of its employees.

The total expense for the Company's defined contribution plans providing pension benefits was \$7,850,000 (1999 – \$6,485,000).

Information about the Company's defined benefit plans in aggregate are as follows:

<i>(Thousands of dollars)</i>	Pension benefit plans		Other benefit plans
	2000	1999	2000
<b>Accrued benefit obligation</b>			
Balance at beginning of year	\$ 932,087	\$ 884,716	\$ —
Adjustment to opening balance for change in accounting policy	182,515	—	121,290
Current service cost	19,358	23,235	2,738
Interest cost	80,630	74,916	8,613
Benefits paid	(56,891)	(50,249)	—
Corporate restructuring giving rise to:			
Curtailments	—	(531)	—
Balance at end of year	\$ 1,157,699	\$ 932,087	\$ 132,641
<b>Plan assets</b>			
Fair value at beginning of year	\$ 1,276,611	\$ 1,113,696	\$ —
Actual return on plan assets	78,980	216,705	—
Benefits paid	(56,891)	(50,249)	—
Fund expenses	(4,071)	(3,541)	—
Fair value at end of year	\$ 1,294,629	\$ 1,276,611	\$ —
Funded status – plan surplus (deficit)	\$ 136,930	\$ 344,524	\$ (132,641)
Unamortized net actuarial loss	(46,352)	(260,880)	—
Accrued benefit asset (liability)	90,578	83,644	(132,641)
Valuation allowance	—	—	—
Accrued benefit asset (liability) recognized	\$ 90,578	\$ 83,664	\$ (132,641)

The plan does not directly own common shares of the Company. The plan does own units of index funds which may hold shares of the Company by virtue of the fact that the shares of the Company are listed on the relevant index.

## NOTE 15

### ACCRUED BENEFITS OBLIGATION (continued)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	Pension benefit plans		Other benefit plans
	2000	1999	2000
Discount rate	7.25%	8.48%	7.25%
Expected long-term rate of return on plan assets	9.00%	8.12%	—
Rate of compensation increase	3.00%	3.24%	3.00%

For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for five years. The rate was assumed to decrease gradually to 4.5% for five years and then to 2.0% and remain at that level thereafter.

The Company's net benefit plan expense is as follows:

(Thousands of dollars)	Pension benefit plans		Other benefit plans
	2000	1999	2000
Current service cost	\$ 19,358	\$ 23,235	\$ 2,738
Interest cost	80,630	74,916	8,613
Expected return on plan assets	(111,754)	(96,850)	—
Amortization of net actuarial loss	—	(18,200)	—
Curtailement gains	—	(117)	—
Net benefit plan expense	\$ (11,766)	\$ (17,016)	\$ 11,351

## NOTE 16

### RELATED PARTY TRANSACTIONS

BCE Inc. beneficially owns and controls 53.1% (1999 – 41.2%) of the outstanding common shares of the Company as at December 31, 2000.

In the normal course of business, the Company had transactions with related parties as follows:

(Thousands of dollars)		2000	1999
Related party	Nature of transactions		
Controlled investees of BCE Inc.	Purchases of telecommunications and other services	\$ 24,831	\$ 80,924
	Telecommunications revenue	\$ 24,383	\$ 12,781

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The balances due to and due from affiliates are non-interest bearing and under normal credit terms and have arisen from the sales of product and provision of services referred to above.

At December 31, 2000, accounts receivable included \$10.2 million (1999 – \$3.5 million) due from affiliates. Payables and accruals included \$2.5 million (1999 – \$nil) due to affiliates.

## NOTE 17

### INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

<i>At end of year</i>	<b>2000</b>
<b>Future income tax asset (liability)</b>	
Capital assets	\$ (38,715)
Pension and other employee benefits	21,779
Deferred charges	7,200
Loss carry forwards	4,198
Other	9,346
<b>Net future tax asset</b>	<b>3,808</b>
Add: Long-term portion of future tax liability	5,631
<b>Future tax asset</b>	<b>\$ 9,439</b>

Significant components of the provision for income taxes are as follows:

<i>(Thousands of dollars)</i>	Liability method 2000	Deferred method 1999
Current tax expense	\$ 170,215	\$ 121,259
Future income tax expense relating to origination and reversal of temporary differences	17,250	12,670
Future income tax benefit resulting from rate change	(3,575)	—
Income tax expense	\$ 183,890	\$ 133,929

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2000	1999
Statutory income tax rate (including surtax)	45.37%	45.06%
Interest during construction	0.67	0.70
Federal large corporation tax	0.99	0.90
Tax rate change – future asset	(0.94)	—
Prior period adjustment impact	—	1.37
Other permanent differences	0.65	1.94
	46.74%	49.97%

## NOTE 18

### JOINT VENTURES

The Company and its subsidiaries are partners in the following joint ventures: Brunswick Square Ltd. (50%) (disposed of during 2000), Aliant ActiMedia (87%), and Laurentides Joint Venture (67%). The effect of proportionate consolidation of the joint ventures on the Company's consolidated financial statements is summarized below:

<i>(Thousands of dollars)</i>	2000	1999
Revenue	\$ 55,694	\$ 66,027
Expenses	31,400	40,444
Operating income	\$ 24,294	\$ 25,583
Current assets	\$ 25,178	\$ 27,615
Long-term assets	521	34,336
Current liabilities	3,154	4,546
Long-term liabilities	—	13,671
Net investment	\$ 22,545	\$ 43,734
Cash flow		
Operating activities	22,300	26,568
Investing activities	162	664
Financing activities	(24,748)	(2,310)
Net cash flow	\$ (2,286)	\$ 24,922

## NOTE 19

### SEGMENTED INFORMATION

The Company operates through four reportable segments:

Telecommunications – provides a full range of telecommunications services in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Included in this line of business are NBTel Inc., Maritime Tel & Tel Limited, Maritime Tel & Tel Mobility Limited, Island Telecom Inc., NewTel Communications Inc., and NewTel Mobility Limited;

Information technology – provides systems integration, application development, local area network installation, wide area network management, data centre operations, VAR and information technology planning services. Included in this line of business are Xwave Solutions Inc. and MITI Information Technologies Inc.;

Remote communications – provides a full range of satellite communications services to clients in the international marketplace. Included in this line of business is Stratos Global Corporation and its subsidiaries;

Emerging business – focused in developing and nurturing new technology-based products and services such as: (1) computer telephony integration, TV over copper, high-speed e-commerce, and new media. This includes New North Media, iMagicTV, NBTel VideoActive Networks Ltd., and Innovatia Inc.; (2) electronics manufacturing carried out by NewTech Instruments Limited; and (3) supply and service of the east coast oil and gas industry as conducted by AMI Offshore Limited.

These reportable segments are managed as separate business units as they operate in different industries and require different market strategies and technologies.

The accounting policies of the segments are the same as those described in note 2. The Company evaluates performance based on a number of financial and non-financial indicators including net income, return on equity and revenue growth.

The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

## NOTE 19

### SEGMENTED INFORMATION (continued)

(Thousands of dollars)

2000

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,767,111	\$ 195,602	\$ 177,501	\$ 125,094	\$ 8,872	\$ —	\$ 2,274,180
Intersegment revenue	17,254	135,783	—	24,230	1,955	(179,222)	—
Operating revenue	\$ 1,784,365	\$ 331,385	\$ 177,501	\$ 149,324	\$ 10,827	\$ (179,222)	\$ 2,274,180
Other income	4,184	582	(4,625)	18,155	15,375	(12,389)	21,282
Operating expenses	1,309,273	303,616	185,427	121,698	29,777	(172,168)	1,777,623
Interest expense	101,716	2,308	11,298	1,493	19,961	(12,389)	124,387
Income taxes	172,600	12,362	(1,101)	13,309	(13,280)	—	183,890
Non-controlling interest	345	205	(8,278)	169	—	—	(7,559)
Net income	\$ 204,615	\$ 13,476	\$ (14,470)	\$ 30,810	\$ (10,256)	\$ (7,054)	\$ 217,121
Total assets	\$ 2,679,632	\$ 229,163	\$ 795,218	\$ 163,930	\$ 1,669,699	\$ (1,808,007)	\$ 3,729,635
Capital expenditures	\$ 406,285	\$ 9,639	\$ 9,753	\$ 10,818	\$ 1,170	\$ —	\$ 437,665
Goodwill acquired	\$ 4,128	\$ 37,771	\$ 272,685	\$ 5,223	\$ —	\$ —	\$ 319,807
Depreciation and amortization	\$ 311,759	\$ 13,447	\$ 19,517	\$ 4,538	\$ 1,539	\$ 7,055	\$ 357,855

(Thousands of dollars)

1999

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,639,381	\$ 182,240	\$ 140,122	\$ 56,502	\$ 12,460	\$ —	\$ 2,030,705
Intersegment revenue	4,949	70,402	—	4,536	2,284	(82,171)	—
Operating revenue	\$ 1,644,330	\$ 252,642	\$ 140,122	\$ 61,038	\$ 14,744	\$ (82,171)	\$ 2,030,705
Other income	10,705	206	3,892	5,149	4,533	(4,833)	19,652
Operating expenses	1,210,206	228,997	136,813	64,539	18,442	(75,302)	1,583,695
Restructuring charge	78,000	—	—	—	—	—	78,000
Interest expense	98,497	1,436	12,490	630	13,925	(6,340)	120,638
Income taxes	125,174	10,230	1,549	2,526	(5,633)	83	133,929
Non-controlling interest	—	734	(2,547)	(4,162)	—	—	(5,975)
Net income	\$ 143,158	\$ 11,451	\$ (4,291)	\$ 2,654	\$ (7,457)	\$ (5,445)	\$ 140,070
Total assets	\$ 2,492,116	\$ 120,339	\$ 206,022	\$ 67,766	\$ 1,807,296	\$ (1,806,981)	\$ 2,886,558
Capital expenditures	\$ 320,800	\$ 9,035	\$ 19,814	\$ 12,446	\$ 15,755	\$ —	\$ 377,850
Goodwill acquired	\$ —	\$ 17,701	\$ —	\$ 9,562	\$ —	\$ —	\$ 27,263
Depreciation and amortization	\$ 313,523	\$ 8,986	\$ 9,791	\$ 2,849	\$ 1,047	\$ 4,406	\$ 340,602

## NOTE 19

### SEGMENTED INFORMATION (continued)

#### Revenue by product and service

<i>(Thousands of dollars)</i>	2000	1999
Local	\$ 853,215	\$ 850,316
Long distance	428,279	434,133
Wireless	216,279	185,723
Other telecommunications	269,338	169,209
	1,767,111	1,639,381
Information technology	195,602	182,240
Remote communications	177,501	140,122
Emerging business	125,094	56,502
Other	8,872	12,460
	\$ 2,274,180	\$ 2,030,705

## NOTE 20

### CONTINGENCY

In 1998, a subsidiary of the Company, IDB Mobile Communications, Inc., was named as defendant in a legal action claiming \$US 13 million for alleged breach of contract. The action, filed in a federal US district court, was dismissed. The appeal by the claimant was also dismissed. A subsequent motion by the claimant for further relief was denied. The claimant has again appealed the denial of the motion and such appeal is pending. The claimant has also filed administrative complaints with the regulatory authority. IDB's position is that payment has been made for all services used. While it is not possible to determine the outcome of these actions, management believes that the Company's legal position is sound.

An international arbitration action for approximately \$US 8.0 million was initiated in 1999 against certain subsidiaries of the Company claiming breach of contract. In December 2000, an arbitrator rejected the claimant's arguments, but adopted a new theory that the Company breached the agreement. The arbitrator has required the Company to submit data for the damages phase. The Company has paid \$US 0.5 million to the claimant in 2000 and accrued an additional \$US 0.8 million as a special charge. The Company does not believe the outcome will exceed this amount.

## NOTE 21

### SUBSEQUENT EVENTS

Subsequent to year end one of the Company's subsidiaries, Aliant Telecom Inc., amalgamated with its subsidiaries effective January 1, 2001.

## NOTE 22

### RESTATEMENT OF COMPARATIVE FIGURES

The comparative financial information has been restated to conform with the presentation adopted for 2000 and to reflect a prior period adjustment as described in note 23.

## NOTE 23

### PRIOR PERIOD ADJUSTMENT

The comparative financial information has been restated to reflect adjustments to the December 31, 1999 results for Stratos Global Corporation, a 62% owned subsidiary of the Company. During the current fiscal year, the Company identified accounting adjustments in relation to prior years. These adjustments translated into a \$8.1 million overstatement of consolidated net income for 1999. For the year ended December 31, 1999, the effect of the adjustments is to decrease sales by \$5.6 million, increase cost of sales by \$2.1 million, increase expenses by \$5.4 million, decrease income tax expense by \$0.2 million, decrease accounts receivable by \$10.8 million and increase accounts payable by \$4.5 million.

# SIX-YEAR REVIEW

## Selected financial and operating data

<i>(Thousand of dollars, except per share amounts)</i>	2000	1999	1998	1997	1996	1995
		<i>(note 22)</i>				
<b>Income statement items</b>						
Total operating revenues	\$ 2,274,180	\$ 2,030,705	\$ 1,723,772	\$ 1,610,079	\$ 1,373,906	\$ 1,284,990
Total operating expenses	\$ 1,777,623	\$ 1,661,695	\$ 1,313,135	\$ 1,227,564	\$ 1,014,498	\$ 970,648
Restructuring costs	\$ —	\$ 78,000	\$ —	\$ —	\$ —	\$ —
Other income	\$ 21,282	\$ 19,652	\$ 10,875	\$ 2,903	\$ 6,903	\$ 10,504
Interest charges	\$ 124,387	\$ 120,638	\$ 108,036	\$ 109,659	\$ 121,829	\$ 131,297
Income taxes	\$ 183,890	\$ 133,929	\$ 140,793	\$ 128,545	\$ 116,432	\$ 95,151
Non-controlling interest	\$ (7,559)	\$ (5,975)	\$ 974	\$ 730	\$ 416	\$ 220
Net income before extraordinary item	\$ 217,121	\$ 140,070	\$ 171,709	\$ 146,484	\$ 127,634	\$ 98,178
Extraordinary item	\$ —	\$ —	\$ —	\$ (344,335)	\$ —	\$ —
Net income (loss)	\$ 217,121	\$ 140,070	\$ 171,709	\$ (197,851)	\$ 127,634	\$ 98,178
<b>Balance sheet items</b>						
Total assets	\$ 3,729,635	\$ 2,886,558	\$ 2,676,991	\$ 2,461,326	\$ 3,096,036	\$ 3,116,147
Shareholders' equity	\$ 1,343,403	\$ 1,096,228	\$ 1,041,616	\$ 941,596	\$ 1,268,529	\$ 1,222,506
Non-controlling interest	\$ 82,486	\$ 29,718	\$ 36,882	\$ 2,329	\$ 1,599	\$ 1,183
Long-term debt – including current portion	\$ 1,568,271	\$ 1,187,573	\$ 1,107,546	\$ 1,023,448	\$ 1,014,177	\$ 1,139,873
<b>Financial ratios</b>						
Earnings (loss) per average common share	\$ 1.65	\$ 1.11	\$ 1.36	\$ (1.58)	\$ 1.03	\$ 0.81
Dividends declared per common share	\$ 0.90	\$ 0.83	\$ 0.75	\$ 0.74	\$ 0.74	\$ 0.74
Interest coverage	4.17	3.88	3.90	3.51	3.01	2.47
Average common shares outstanding <i>(thousands)</i>	131,662	126,550	125,543	125,005	123,685	121,370
<b>Telecommunications</b>						
Total operating revenues	\$ 1,784,364	\$ 1,644,330	\$ 1,556,775	\$ 1,531,882	\$ 1,308,025	\$ 1,224,627
Total operating expenses	\$ 1,309,273	\$ 1,210,206	\$ 1,156,957	\$ 1,169,803	\$ 974,271	\$ 915,779
Network access services – wireline	1,554,942	1,538,569	1,503,004	1,453,995	1,421,700	1,394,115
Network access services – wireless	389,544	298,448	231,031	180,781	145,338	120,423
Long-distance minutes <i>(thousands)</i>	3,289,594	2,856,062	2,126,524	1,872,666	1,768,949	1,625,101
Internet subscribers <i>(1)</i>	212,277	166,750	125,844	83,861	N/A	N/A

Note: Revenues for 1997 and later years have been restated to report gross revenues from settlements and contribution. Consequently, revenue growth in 1997 is distorted.  
(1) Includes both Canadian and US subscribers

# TSE:AIT

## Shareholder information

### WE'RE HERE TO HELP

To learn more about Aliant and to view the latest news releases, please visit our Web site at [www.aliant.ca](http://www.aliant.ca). Contact Aliant investor relations for additional financial and statistical information, and industry developments.

Phone: 1.877.248.3113

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Aliant Investor Relations  
PO Box 1113,  
Station Central RPO  
Halifax, NS B3J 2X1

Contact our transfer agent, CIBC Mellon Trust Company, for information about the dividend reinvestment and stock purchase plan (DRP) and for answers to shareholder inquiries.

Phone: 1.800.387.0825

*(toll free in Canada and US)*

E-mail: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)

Mailing address:

CIBC Mellon Trust Company  
Investor Correspondence  
PO Box 7010,  
Adelaide Street Postal Station  
Toronto, ON M5C 2W9

### WHERE WE'RE LISTED

Our shares are listed on The Toronto Stock Exchange. Aliant's ticker symbol is AIT.

### SHARE CERTIFICATE EXCHANGE

For shareholders who have yet to do so, please exchange your Bruncor, Island Tel, MTT, or NewTel share certificates for Aliant share certificates. Contact CIBC Mellon Trust Company.

### DIRECT DEPOSIT OF DIVIDENDS

Registered common shareholders may have dividends deposited electronically into their bank account (in Canada only). Contact CIBC Mellon Trust Company.

### DIVIDEND DATES FOR 2001\*

<i>Record dates</i>	<i>Payment dates</i>
March 15	March 30
June 15	June 30
September 15	September 30
December 15	December 30

*\*Subject to approval by the board of directors*

### DIVIDEND REINVESTMENT PLAN

Registered common shareholders of Aliant may reinvest their dividends, automatically and without fees, in additional shares of the Company. Also, up to \$10,000 in Company shares may be purchased each quarter with optional cash payments. All administration costs are paid by the

Company. Approximately 40% of registered shareholders are enrolled in the plan. A brochure containing information on the dividend reinvestment and stock purchase plan may be obtained by calling CIBC Mellon Trust Company.

### STOCK REGISTRAR

#### AND TRANSFER AGENT

CIBC Mellon Trust Company  
Web site: [www.cibcmellon.com](http://www.cibcmellon.com)

### BOND TRUSTEE, REGISTRAR

#### AND TRANSFER AGENT

Computershare Investor Services,  
and CIBC Mellon Trust Company

### ANNUAL INFORMATION FORM

The annual information form as filed with the Canadian securities commissions is available upon request. For further information about the Company, institutional investors, brokers and security analysts should contact Aliant investor relations.

### Common share price range\*

	January	February	March	April	May	June	July	August	September	October	November	December
High	\$ 28.00	\$ 34.95	\$ 39.50	\$ 41.75	\$ 37.00	\$ 39.50	\$ 39.50	\$ 39.70	\$ 39.50	\$ 38.50	\$ 34.25	\$ 35.75
Low	\$ 24.70	\$ 27.50	\$ 31.50	\$ 31.50	\$ 34.50	\$ 34.70	\$ 35.75	\$ 36.00	\$ 35.85	\$ 30.00	\$ 30.25	\$ 31.00
Close	\$ 27.85	\$ 34.50	\$ 39.00	\$ 36.50	\$ 35.00	\$ 36.15	\$ 38.10	\$ 38.90	\$ 37.20	\$ 32.30	\$ 32.05	\$ 33.35
Volume	3,212,700	3,607,500	3,865,000	3,775,800	1,754,800	1,660,800	1,867,000	1,962,900	1,490,700	1,525,600	3,063,300	2,017,700

*\* Toronto Stock Exchange*

# CUE CARDS

## Glossary of terms

**ALIAN T PREMIUM:** Each of Aliant's lines of business is a leader in their area of expertise and additional opportunities can be created with the combination of these capabilities. This approach delivers additional value for customers, employees and shareholders.

**BROADBAND:** The volume of information that can be transmitted through a cable or fibre at any one time is measured in bandwidth. Broadband has the capability to carry enormous amounts of information and will enable Aliant to deliver new products and services to its customers.

**BUNDLES:** A combination of different products and services available to the customer. The price of a bundle is usually less than the price of the individual services that form the bundle, generating additional value for customers.

**CLEC (COMPETITIVE LOCAL EXCHANGE CARRIER):** New competitors that enter the local telephone service market.

**CO-INTEGRATION:** *xwave's* ability to integrate both corporate and operational information technology systems.

**CORPORATE SYSTEMS:** Corporate systems, such as billing systems, that help companies manage their business.

**DATA:** Information that is encoded and then transmitted to customers via electronic means when it can then be downloaded and analysed.

**E-COMMERCE/ELECTRONIC COMMERCE:** Business activity enabled by electronic communications applications, including business-to-business transactions and business-to-customer/customer-to-business exchanges.

**E-GOVERNMENT:** The ability of government departments to deliver services to their citizens electronically, through any communications medium such as the Internet, screen telephones, IVR or cellular telephones.

**E-LEARNING:** The ability to deliver training via the Internet to provide faster, more timely, and relevant educational opportunities to learners who are geographically dispersed.

**INMARSAT:** An acronym for International MARitime SATellite service that provides mobile communications to ships, aircraft, and vehicles worldwide.

**INTERACTIVE DIGITAL TELEVISION SERVICES:** The combination of Internet and television services delivered over the telecommunications network to a television set with both digital-quality colour and sound. IDTV also enables the customer to access e-mail, an interactive program guide, and surf the Internet using Aliant's *VibeVision* service.

**INTERNET PROTOCOL (IP):** Software that tracks the Internet address of nodes, routes outgoing messages, and recognizes and routes incoming messages.

**IVR:** An acronym for Interactive Voice Response. An IVR system combines snippets of a human voice with the touch-tone phone to enable customers to conduct transactions and retrieve information over the phone.

**NETWORK ACCESS SERVICES (NAS):** The number of unique physical connections to the telecommunications network.

**OPERATIONAL SYSTEMS:** Operational systems, such as air traffic control, help a company run their business.

**PORTAL:** One central location for information, typically a Web page that directs the customer to many different but related sites.

**VSAT:** An acronym for Very Small Aperture Terminal, a relatively small satellite antenna used for satellite-based point-to-multipoint data communications. For example, retail chains use VSAT to connect individual stores to a single satellite, which then provides the connection to a centralized data processing centre.

**WIRELESS:** The communications network and the related equipment that transmits conversations and

information using radio waves rather than wires.



# INDIVIDUAL STRENGTH TEAM PERFORMANCE

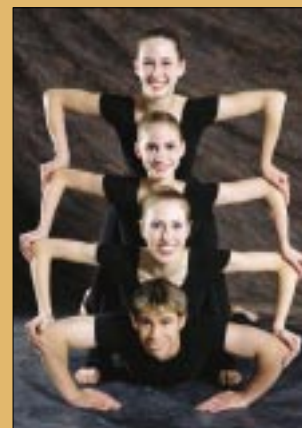
## Annual meeting of shareholders

Trade and Convention Centre  
Marco Polo Room  
Saint John, New Brunswick  
10:30 a.m. (*local time*)  
Friday, April 20, 2001

The annual meeting will be  
Webcast at [www.aliant.ca](http://www.aliant.ca)

### Aliant Inc.

1.877.248.3113  
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[www.aliant.ca](http://www.aliant.ca)



### The troupe

Members of the  
DancEast Young Company,  
Moncton, New Brunswick.  
Jennifer Robblee  
Andrea Bayne  
Jessica Cook  
Adam Bayne