

# Revenues up 17%

## Second quarter report

(Period ending June 30, 2001)

The second quarter was eventful and challenging, yet very rewarding as we applied our Aliant Premium™ growth strategy to ensure increased revenue for Aliant, and greater value for you, our shareholders.

Our focus on excellence through world-class customer service is built on a foundation of operational expertise in each of our lines of business. Our ability to deliver integrated solutions gives Aliant a strong competitive advantage.

### FINANCIAL HIGHLIGHTS

We delivered solid growth in revenues, which increased by 17% to \$659 million for the quarter ended June 30, 2001, compared with \$563 million for the same period in 2000. For the year to date, revenue has increased by 19% to \$1.3 billion from \$1.1 billion in the first half of last year. This increase is a result of our acquisition and growth strategy, in particular, acquisitions by Stratos Global

## INDIVIDUAL STRENGTH TEAM PERFORMANCE

Corporation and organic growth in the telecommunications and IT lines of business.

A key indicator of our Company's performance, EBITDA – earnings before interest, taxes, depreciation and amortization – grew by 11% over the same period in 2000, increasing to \$251 million from \$225 million for the same quarter of 2000. Year to date EBITDA grew by 10%.

Total cash operating expenses for the quarter were \$408 million compared with \$338 million for the second quarter of 2000. For the year to date, expenses increased 24% to \$835 million from \$674 million last year, primarily as a result of newly acquired operations and costs associated with organic growth.

### ALIAN T PREMIUM ACCELERATING GROWTH

The Company's growth strategy is centred on the Aliant Premium model, a business strategy that emphasizes the individual strength of Aliant's lines of business and the benefits created when they work together to provide end-to-end solutions for customers.

Examples of the Aliant Premium model in action in the second quarter include...

- Aliant Energy Services, which delivers Aliant Premium solutions to the energy sector has, through AMI Group, signed a multi-million dollar international contract to supply control and integration systems; and,
- **xwave** partnering with Innovatia on an existing \$350-million five-year contract with Nortel Networks to deliver e-learning solutions. This contract will provide \$4.3 million in revenue to **xwave** over the five-year contract.

To accelerate the timely and effective transformation of our telecommunications business into the multimedia company our markets now need, we have closely aligned Aliant Telecom and Innovatia, our unit that researches and develops broadband Internet-Protocol (IP) applications. This alignment will rapidly advance the deployment of our leading-edge communications solutions, while creating an environment for continuous Aliant Premium wins.

### LINE OF BUSINESS HIGHLIGHTS

#### TELECOMMUNICATIONS

We are confident that initiatives we set in motion this quarter, including Aliant Telecom's closer alignment with Innovatia and our strategic investments in broadband and

## Financial highlights (dollars in millions)

	Three months		Six months	
	2001	2000	2001	2000
Revenues	\$ 658.8	\$ 563.2	\$ 1,297.2	\$ 1,094.5
Cash operating expenses	\$ 408.3	\$ 338.0	\$ 835.1	\$ 674.2
EBITDA*	\$ 250.5	\$ 225.2	\$ 462.1	\$ 420.3
Net income applicable to common shares	\$ 45.4	\$ 56.1	\$ 76.2	\$ 99.0

\* Earnings before interest, taxes, depreciation and amortization





**Stephen Wetmore**  
President and Chief Executive Officer

wireless, position us well for future growth. Driven by broadband and wireless solutions, Aliant Telecom delivered strong year-over-year quarterly revenue growth.

**Internet**

- Internet customers up by 57,493 or 31%
- Revenues total \$20 million, up 49%

**Wireless**

- Wireless customers up by 91,491 or 27%
- Revenues total \$61 million, up 18%

**Product sales**

- Revenue up \$3 million or 14%

**Contact centre growth**

- \$63 million, 7-year contact centre contract renewal with Cendant
- \$9 million, 5-year contract with StarTek for the export of contact centre management and consulting services

Local service revenues are up slightly compared to last year, while long distance revenues, driven by contact centre growth, are up 3% excluding changes to the contribution regime required by the Canadian Radio-television and Telecommunications Commission (CRTC). The rapid growth in Internet and wireless services drove expense increases for the quarter up 6% or \$11 million, in line with expectations.

**EMERGING BUSINESS UNIT**

Aliant's emerging business unit, composed of AMI, Innovatia and Prexar, saw a second quarter highlighted with contract wins and new product and service launches.

**AMI**

- NewTech signed a one-year \$10-million contract with General Motors Defense; total revenue forecasted at \$47 million over seven years.

**Innovatia**

- Innovatia signed three new yearly renewable *LivingLAB* agreements, collectively valued at \$6 million for R&D with Alcatel, Vicinium and Voice Mobility.

**Prexar**

- Prexar launched high-speed Internet service in 12 communities and maintained its position as the leading Internet service provider in Maine.

**INFORMATION TECHNOLOGY**

**xwave** realized revenue of \$91 million this quarter, an increase of 18% or \$14 million year over year. The increase is primarily attributable to organic growth and the acquisition of New England-

Highlights this quarter include broadband and wireless growth at home in Atlantic Canada, strategic partnerships in our industry for global expansion, and further recognition that Aliant is one of Canada's leading high-tech companies<sup>1</sup>.

<sup>1</sup>*Canadian Business Investor 500 Report, July 2001*

based TechKnowledge and Ontario-based MCW. Expenses for the quarter increased \$16 million, of which a large portion is related to acquisitions and the remainder is attributable to growth in organic revenue.

- **xwave** signed an \$82-million five-year contract extension with the Government of Newfoundland & Labrador, effective April 1, 2002, for the provision of government IT services.
- **xwave** was named by the Federal Government to a select list of pre-qualifying companies to bid on a \$4 billion Government Online initiative.

**REMOTE COMMUNICATIONS**

Aliant's remote communications business, operated through our 61% ownership in Stratos Global Corporation, grew revenue in the quarter by \$65 million to \$109 million, driven primarily by the United Kingdom and Gulf of Mexico acquisitions in 2000. Stratos expanded its global operations this quarter through strategic partnerships.

- Stratos signed an agreement with Concert (global venture of AT&T and BT) to provide integrated voice solutions to Australia, Hong Kong, Singapore.
- Stratos solidified partnerships for Iridium distribution in Asia Pacific.
- Stratos signed an exclusive partnership with Innovative Communications Technologies, Inc. (ICTI) to be the sole distributor of BEST (Bandwidth Efficient Satellite Transport) equipment, software and related services for Inmarsat satellite system applications.

In closing, the second quarter was indicative of our strategic investment in the Company's future. We continued investing in our broadband program to ensure a world-leading position; we made further investments in our wireless infrastructure to capitalize on growing wireless markets; and, we invested in new, emerging technologies. Most importantly, we invested in our customers and employees by putting the Aliant *Premium* strategy to work for our future success, and for you, our shareholders.

Yours sincerely,

Stephen Wetmore  
President and Chief Executive Officer  
July 19, 2001

# Management's discussion and analysis

*This quarterly report contains statements and information about potential future circumstances and developments. Such statements and information are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations generally and may differ materially from Aliant's actual future experience involving any one or more of such matters. Aliant disclaims any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.*

## HIGHLIGHTS OF ALIANT'S SECOND QUARTER AND FIRST HALF RESULTS

Aliant Inc. (Aliant or the Company) earned consolidated revenues of \$658.8 million for the second quarter of 2001, growing by 17.0% from \$563.2 million in 2000. This brought revenue for the first half of the year to \$1.3 billion, up 18.5% over last year. Revenue growth was seen across the entire business, resulting from both organic growth and the continued impact of acquisitions made in 2000. Earnings before interest, taxes, depreciation and amortization (EBITDA) grew 11.3% over the second quarter of last year, and was 9.9% higher year-to-date compared with the first six months of 2000. EBITDA for the quarter was \$250.5 million compared with \$225.2 million for the second quarter of 2000. As presented in the 2001 earnings guidance material Aliant issued on March 28, revenue and EBITDA growth is expected to be in the 15-20% range for the full year. A continued strengthening of EBITDA margin, as illustrated by the second quarter results, should allow Aliant to meet this guidance.

Through the first half of 2001, Aliant continued to make significant strategic investments in infrastructure, expanding and optimizing its wireless and Internet protocol (IP) networks to meet increasing customer demand for these services. These investments brought telecom capital spending to \$216.1 million for the first half, up from \$161.9 million in 2000. Capital expenditures in the telecom segment for 2001 will be in the range of \$375-400 million, with approximately half allocated to broadband and wireless infrastructure. Investment in broadband is critical to the future growth of Aliant – this IP network is required to meet the needs of high-speed Internet customers and deliver an enhanced line-up of applications, which are expected to significantly enhance future revenues.

On January 8, 2001, Aliant's 61%-owned remote communications subsidiary, Stratos Global Corporation (Stratos Global) announced it had finalized its acquisition of British Telecommunications plc's Aeronautical and Maritime Division (BT A&M) effective December 31, 2000. During the first half of 2001 Stratos Global has worked to effectively integrate and consolidate the BT A&M operations. To date these integration plans are progressing on track and Stratos Global expects to

meet all plan milestones for the balance of the year.

Acquisitions and capital investment are impacting Aliant's consolidated interest charges as well as non-cash provisions for depreciation and goodwill amortization in 2001. Management estimates that 2001 consolidated depreciation and amortization expense will increase by \$75 to \$80 million over 2000. Approximately half of this increase relates to depreciation associated with the investment in telecom infrastructure while most of the remainder relates to acquisitions made by Stratos Global.

While EBITDA growth is strong, the increase in financing and non-cash expenses, combined with the non-recognition of any tax benefits associated with Stratos Global's current operating losses, is resulting in lower reported net income for the second quarter and the first half of 2001. EBITDA per share increased 7.8% from \$1.72 per share in the second quarter of 2000 to \$1.85 per share in 2001; year-to-date the increase was 5.5% from \$3.25 EBITDA per share to \$3.43 per share. Net income applicable to common shares was \$45.4 million, or \$0.34 per share in the quarter, compared with \$56.1 million and \$0.43 per share for the second quarter of 2000. Year-to-date earnings are \$0.57 per share compared with \$0.75 per share last year. Following is a discussion and analysis of the results and this quarter's developments in the operating environment for each line of business.

## TELECOMMUNICATIONS

The telecommunications line of business is comprised of the operations of Aliant Telecom, its subsidiaries and the telephone directory business. Telecommunications revenues increased 5.3% in the second quarter of 2001 to \$474.0 million with trends consistent from the first quarter of this year. This rate of increase was achieved through continued impressive growth in wireless and Internet revenues and stable results from local and long-distance revenues despite the negative impact on these revenues from a regulatory change as discussed below. Telecom revenues for the first half of \$912.3 million have increased 6.2% and are on track to meet the expected range of \$1.8 to \$1.9 billion for the full year.

EBITDA increased 8.9% from \$207.3 million in the second quarter of 2000 to \$225.7 million in 2001, improving on the growth experienced in the first quarter. EBITDA margins were a healthy 47.6% for the quarter. Telecom EBITDA year-to-date has increased 7.8% to \$414.0 million. With improving growth trends expected to continue as the year progresses, Aliant's telecom segment is on-pace to achieve its targeted full-year EBITDA growth in the range of 8-11%.

Revenues for the quarter and first half are negatively impacted, while EBITDA is positively impacted, by changes to the contribution regime required by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission).

### Impact of contribution regime changes (millions of dollars)

	Quarter ended June 30, 2001	Six months ended June 30, 2001
Decreased local revenues	\$ (4.1)	\$ (8.3)
Decreased long-distance revenues	(6.4)	(11.1)
Total revenue impact	(10.5)	(19.4)
Decreased settlement expense	(4.3)	(6.6)
Decreased contribution expense	(13.2)	(23.5)
Total cost of revenues impact	(17.5)	(30.1)
Net EBITDA impact	\$ 7.0	\$ 10.7

Effective January 1, 2001, all service providers must pay a flat 4.5% tax on certain of their telecommunications revenues into a national contribution pool. Local service providers are then able to draw from the pool to help offset the costs of providing basic local services in high-cost areas. These changes have reduced Aliant Telecom's revenues by \$10.5 million for the quarter and \$19.4 million year-to-date. Without this, revenue growth would have been 7.6% quarter-over-quarter and 8.5% year-to-date. Related costs of revenues are also being reduced as a result of implementing the decision, with the decrease in costs more than offsetting decreased revenues. The positive impact for 2001 EBITDA associated with the change in net contribution pool revenues is now expected to be approximately \$19 million, up from \$15 million estimated earlier. The impact for the quarter and year-to-date is detailed in the table on page 3.

Any positive impact from the contribution decision will affect the current year only, as starting in 2002 expected changes to the calculation of the cost of service will lower the net contribution amount that Aliant Telecom will be eligible to receive. During the quarter the CRTC announced its "banding" decision, defining high-cost service areas. As a result of this decision, there will also be a significant reduction in the amount of net subsidy Aliant Telecom will receive in 2002. The combined effects of the contribution and banding decisions are anticipated to reduce Aliant Telecom's net subsidies, and therefore EBITDA, by approximately \$66 million in 2002 (compared with 2001). Aliant Telecom has already initiated actions to mitigate the affects of these decisions – through pricing measures, some of which are being introduced in the marketplace at present, and through comprehensive cost reduction efforts. The finalization of merger efficiencies, that is moving from four companies to one, is being accelerated in 2001 to further assist Aliant Telecom's overall cost reduction programs. These programs will allow for the further realization of Aliant Telecom's growth potential through its industry

leading-market shares and penetration in wireless and Internet services.

## REVENUES

### Local

Local revenues are earned through the provision of voice and data network access, telephone set rentals, enhanced service options and contribution payments. Total local revenues increased by 0.3% to \$218.4 million for the second quarter and by 0.9% to \$430.1 million for the first half of 2001. Without the loss of revenues from the January 1 implementation of the CRTC contribution changes, local revenues would have increased 2.2% for the quarter and 2.9% year-to-date.

Local voice NAS revenue for the quarter decreased by 0.4% to \$113.1 million as NAS growth flattened and prices to business customers were reduced within the last year. During the quarter Aliant Telecom received approval from the CRTC to raise basic service prices for residential customers in New Brunswick and Newfoundland and applied for increases to basic local service in Prince Edward Island. Management estimates these price increases will add \$4-5 million to local revenues this year, and \$10-12 million in 2002.

Data access revenues increased to \$22.1 million for the quarter, showing growth of 3.9% as growing demand for data circuits is being offset by price reductions. Revenues from enhanced service options increased 18.4% to \$21.9 million for the quarter, a combined result of price increases during the quarter and continued growth in penetration of bundled services. Terminal rental revenue declined \$1.5 million, or 9.9%, compared with the second quarter of 2000 due to the continued conversion of the rental set base to outright sales. Local contribution payments received decreased \$4.1 million or 9.1% based on the CRTC changes to the contribution regime.

At a combined 98%, Aliant Telecom's local market share is very strong compared with those of other incumbent service providers in Canada. The relatively small losses to competitors to-date are

### Telecommunications operating results (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2001	2000	% change	2001	2000	% change
Local	\$ 218,358	\$ 217,640	0.3	\$ 430,122	\$ 426,188	0.9
Long distance	101,927	105,349	(3.2)	206,194	220,030	(6.3)
Wireless	60,585	51,269	18.2	115,497	97,181	18.8
Other	93,120	75,980	22.6	160,469	115,433	39.0
Total revenues	473,990	450,238	5.3	912,282	858,832	6.2
Cost of revenues	60,201	65,489	(8.1)	119,484	120,139	(0.5)
Net operating revenues	413,789	384,749	7.5	792,798	738,693	7.3
Operating expenses	188,067	177,403	6.0	378,776	354,592	6.8
EBITDA	225,722	207,346	8.9	414,022	384,101	7.8
Depreciation and amortization	87,830	78,844	11.4	175,725	157,696	11.4
Operating income	\$ 137,892	\$ 128,502	7.3	\$ 238,297	\$ 226,405	5.3

### Telecommunications operating statistics

For the quarter ended and as at June 30	2001		2000		% change
	% market share*	Number	% market share*	Number	
Network access services (NAS)					
Residence	98.8	941,304	99.7	947,060	(0.6)
Business	96.6	611,703	99.0	604,108	1.3
Wireless customers					
Cellular	74.9	428,299	74.4	336,808	27.2
Paging	n/a	59,996	n/a	63,518	(5.5)
Internet customers					
Dial-up	69.4	185,669	66.0	160,961	15.4
High-speed	61.8	55,426	49.4	22,641	144.8
Long-distance minutes (in thousands)	87.9	872,343	87.3	804,895	8.4

\* Estimated

impacting Aliant's NAS growth, especially in the Halifax residential market where a number of competitive local exchange carriers (CLECs) are attracting some customers with discounted prices. Several CLECs offer services in Halifax and in other selected parts of the Atlantic region. As the incumbent, Aliant Telecom naturally anticipates some loss of market share to CLECs. However, management is confident that Aliant Telecom's customers recognize the value provided in its combination of service offerings and that a strong market share position will be maintained. As evidence of this, in the past year the number of Aliant Telecom's residential and business customers opting for bundled services has grown by 47% to nearly 250,000 customers.

#### Long distance

Aliant Telecom's minute volumes in the second quarter increased by 8.4% from 805 million in 2000 to 872 million in 2001. This brings year-to-date minute volumes to 1.76 billion, up 7.4% from the first half of 2000. The large base of call-centre customers located in the Atlantic region continues to be a significant driver of minute growth in the toll-free market. Bundled service offerings, including a flat-rate long-distance component, continue to drive up calling volumes in the residential market. This continued strong demand helped to boost long-distance revenue growth, before considering the changes to toll settlement rates required under the new CRTC contribution regime, to 2.9% for the second quarter. Year-to-date revenues would have been down by 1.2% without the impact of the CRTC decision. However after the resulting reduction in toll settlement rates, there was a year-over-year decline in second-quarter long distance revenues of 3.2% and a decline in the year-to-date revenues of 6.3%.

#### Wireless

Aliant continued to grow its wireless business at a rapid pace, resulting in increased revenues of 18.2% compared with the second quarter last year and 18.8% growth year-to-date. Aliant maintains an industry-leading market share for cellular services, and continued new demand for these services is being reflected in the strong growth in customers. Aliant's cellular customers reached 428,299 at June 30, 2001, representing growth of 27.2% over the last year and encompassing a nearly threefold increase in digital subscribers. This growth is being accomplished while maintaining very low customer churn rates and customer acquisition costs. Part of the growing demand for cellular services, including new digital services, is being stimulated by declining overall prices. The greater penetration of cellular service in the population therefore leads to lower average revenues per customer, which declined by 7.1% to \$43.31 per month during the first six months of 2001 compared with \$46.64 per month for the same period last 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 \$17.1 million, or 22.6% for the second quarter, and \$45.0 million

or 39.0% so far in 2001.

Internet services continued to generate tremendous growth over the past year as the number of high-speed customers increased by 144.8% to 55,426 and the number of regular dial-up customers grew by 15.4% to 185,669. Revenues from Internet services increased 48.8% to \$20.1 million for the second quarter, leading to 42.7% growth year-to-date. Directory advertising revenues were \$24.3 million, the second quarter being a period when many of the region's larger directories are published, and therefore a larger portion of the annual revenue is recognized. Outright sales of telecom equipment increased 14% to \$27.5 million for the quarter. Aliant Telecom's 50% subsidiary, Atlantic Mobility Products Limited, accounted for a \$7.4 million increase, while lower sales of trunk mobile radio and other telecom equipment offset this growth. The \$6.4 million or 43.4% increase in other miscellaneous revenues is a result of strong growth in newer services such as e-commerce, operating an Internet help desk, digital television services and the export of call centre services.

#### EXPENSES

##### Cost of revenues

Cost of revenues includes cost of goods sold, contribution payments and settlement costs paid to other telecommunications carriers to transit and terminate long-distance calls originating on Aliant Telecom's network. The 8.1% decrease in cost of revenues compared with the second quarter of 2000 reflects the impact of lower contribution and settlement payments, partially offset by higher cost of goods sold.

Cost of goods sold in the second quarter increased by \$10.1 million or 41.9%, related to the growth in revenues from equipment sales plus the costs of operating the Internet help-desk. Contribution costs were lower by \$11.5 million for the quarter and by \$23.6 million for the first half, reflecting the lower contribution required by the new CRTC decision. Settlement expense for calls terminating on other companies' networks was lower by \$3.8 million compared to the second quarter of 2000 and down \$6.6 million for the first six months. This decline continues to be caused by lower settlement rates, also as a result of the CRTC contribution decision.

##### Depreciation and amortization

Telecommunications' depreciation and amortization expenses were up \$9.0 million for the quarter and \$18.0 million for the first half compared to last year. The combined effects of higher capital expenditures in 2000 and 2001 and a conservative approach to estimating lives for plant and equipment contributed to the increased expense. The focus of capital spending has shifted away from the traditional voice network and toward the broadband and wireless areas with their higher revenue-growth potential.

##### Other operating expenses

Other telecommunications operating expenses increased \$10.7 million for the quarter, up 6.0% over last year and bringing the year-to-date growth rate to 6.8%. These expenses include salaries and benefits, property expense, direct operating expenses and other general corporate expenses. Salaries and benefits increased \$6.4 million for the quarter, representing both a one-time credit adjustment relating

Other revenue detail (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2001	2000	% change	2001	2000	% change
Internet	\$ 20,094	\$ 13,500	48.8	\$ 36,178	\$ 25,344	42.7
Product sales	27,541	24,156	14.0	55,051	37,641	46.3
Directory revenues	24,259	23,523	3.1	25,964	25,076	3.5
Other miscellaneous	21,226	14,801	43.4	43,276	27,372	58.1
	\$ 93,120	\$ 75,980	22.6	\$ 160,469	\$ 115,433	39.0

to pension expense in the second quarter of 2000 and increased pay rates for both unionized and non-unionized employees in 2001. Other increases of note were in the area of bad debts and inventory adjustments, which together added \$2.6 million to expenses for the quarter, and the continued rise in cellular roaming costs, which were up \$1.9 million for the quarter. The bad debts and inventory adjustments, although not unusual in nature, were higher than normal and related to a few specific and isolated occurrences that are not expected to recur regularly. Growth in roaming costs is directly related to growth in revenues. Other general operating expenses combined for an overall quarter-over quarter decrease as opportunities for cost savings continue to be implemented.

#### INFORMATION TECHNOLOGY

Aliant's information technology (IT) line of business is operated by its wholly-owned subsidiary, Xwave Solutions Inc. (**xwave**). As a result of strong organic growth and two acquisitions made during the second half of 2000, **xwave's** second quarter revenues increased by \$14.0 million or 18.2% to \$91.2 million. With year-to-date revenue growth of 24.3% to \$200.9 million, **xwave** is on track to deliver the expected full-year 2001 revenues in the range of \$370-\$390 million, an increase of 12-18% over 2000.

Organic growth accounted for approximately \$8.3 million, or 10.8%, of the growth over the second quarter of 2000, while an estimated \$5.7 million of the increase is attributable to acquisitions. **xwave** continues to be an important supplier to other Aliant companies, especially to Aliant Telecom as it makes significant investments in network systems and accelerates its operating efficiency programs. However, external sales growth is outpacing **xwave's** sales to other Aliant lines of business, thereby resulting in Aliant's consolidated IT revenues increasing 22.5% for the quarter and 26.0% year-to-date, as presented in Note 12 to Aliant's consolidated financial statements.

Revenues from IT consulting, technical support services and data processing services grew by 7.6% to \$63.5 million for the second quarter – a result of both organic growth and the acquisition of TechKnowledge Inc. in December 2000. Product sales from **xwave's** IT fulfillment business grew 52.6% to \$27.7 million for the quarter.

These revenues were positively impacted by the July 2000 acquisition of MCW Business Systems Limited, adding \$4.2 million to second quarter revenues, as well as organic growth of 29.3% over the same period last year. These higher sales volumes have enabled **xwave** to earn improved gross margins on its fulfillment business. The gross margin on product sales has increased from 9.9% for the second quarter of 2000 to 10.3% for the second quarter of 2001.

Despite strong revenue growth, higher operating expenses and lower utilization levels of IT resources have led to lower EBITDA margins year-to-date. These lower utilization levels are primarily due to slowing demand for systems integration services over the past six months. **xwave** believes this is due to a temporary softening of economic conditions, and not an indication of a prolonged slowdown in the IT sector. Therefore, **xwave** has chosen to retain key resources and deal with short-term negative EBITDA implications through cost restraint measures that have been put in place in certain areas of discretionary spending. A number of these measures were put in place late in the second quarter and thus are expected to positively impact EBITDA in the remainder of the year. However, it is now anticipated that EBITDA for the year will come in slightly below the targeted range of \$50-55 million.

#### REMOTE COMMUNICATIONS

Aliant's remote communications line of business is represented by its 61% ownership of Stratos Global. Effective January 1, 2001, Stratos Global adopted the U.S. dollar as its financial reporting currency, reflecting the shift in its operations to a more international scope after its acquisitions made in 2000. Aliant translates Stratos Global's results to Canadian dollars for its reporting purposes, as disclosed in note 2 to Aliant's consolidated financial statements.

The \$65.3 million increase in second-quarter revenue from remote communications, and the \$130.8 million increase year-to-date, can be attributed to the four acquisitions Stratos Global made during 2000 and organic growth in the business. Stratos Global estimates that the base of business in its telecommunications services, as it existed prior to the BT A&M acquisition, has shown organic growth of approximately 14% for the second quarter of 2001 compared with

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

	Quarter ended June 30			Six months ended June 30		
	2001	2000	% change	2001	2000	% change
Services	\$ 63,468	\$ 59,002	7.6	\$ 128,569	\$ 112,785	14.0
Product sales	27,724	18,168	52.6	72,337	48,898	47.9
Total revenues	91,192	77,170	18.2	200,906	161,683	24.3
Cost of product sales	24,865	16,371	51.9	65,271	44,448	46.8
Net operating revenues	66,327	60,799	9.1	135,635	117,235	15.7
Operating expenses	57,300	50,240	14.1	115,989	96,029	20.8
EBITDA	9,027	10,559	(14.5)	19,646	21,206	(7.4)
Depreciation and amortization	3,613	3,510	2.9	7,133	6,590	8.2
Operating income	\$ 5,414	\$ 7,049	(23.2)	\$ 12,513	\$ 14,616	(14.4)

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

	Quarter ended June 30			Six months ended June 30		
	2001	2000	% change	2001	2000	% change
Revenues	\$ 108,918	\$ 43,631	149.6	\$ 209,559	\$ 78,764	166.1
Cost of revenues	67,830	30,833	120.0	129,876	55,763	132.9
Net operating revenues	41,088	12,798	221.1	79,683	23,001	246.4
Operating expenses	13,601	9,966	36.5	34,315	17,934	91.3
EBITDA	27,487	2,832	—	45,368	5,067	—
Depreciation and amortization	13,570	4,874	178.4	27,961	7,802	258.4
Operating income (loss)	\$ 13,917	\$ (2,042)	—	\$ 17,407	\$ (2,735)	—

the second quarter of 2000, and 13% year-to-date. There was an increase of approximately \$133 million in year-to-date revenues from telecommunications services, offset by a decline in network equipment and terminal sales, particularly in the first quarter.

Gross margin as a percentage of revenue increased to 38% for the six months ended June 30, 2001 compared to 29% for same period in 2000, resulting in a 246.4% increase in net operating revenues. The higher gross margin is attributable to both an improvement in margins in the pre-acquisition business and higher margins in the businesses that were acquired.

Despite the significant increase in scale of Stratos Global's business as a result of the acquisitions, remote communications operating expenses for the quarter increased by only \$3.6 million, evidencing the realization of significant operating synergies in the expanded operations. Operating expenses as a percentage of revenue have declined from 22.8% for the first half of 2000 to 16.4% so far in 2001. The improved gross margins and lower operating cost percentages have contributed to significant growth in EBITDA this year. EBITDA for the year-to-date has increased by \$40.3 million to \$45.4 million. EBITDA margins improved from 6.4% of revenue in 2000 to 21.6% of revenue for the first half of 2001.

Depreciation expense and goodwill amortization increased \$8.7 million in the quarter, and \$20.2 million year-to-date, due to the 2000 acquisitions. The rise in these expenses combined with added interest costs and non-recognition of tax benefits for current operating losses, as discussed under the heading "Taxes" on page 8, are negatively impacting Stratos Global's bottom line results in 2001. Stratos Global announced a second quarter net loss of US\$6.5 million compared with a US\$2.3 million loss in the second quarter of 2000. However, expanded revenue opportunities, coupled with continued cost-reduction synergies, are expected to improve the earnings outlook over the next 12 months.

### EMERGING BUSINESS

Aliant's emerging business is made up of the following operating subsidiaries: 100%-owned Innovatia Inc. (Innovatia), 92%-owned Prexar LLC (Prexar) and 57%-owned AMI Offshore Inc. (AMI). Innovatia is focused on the research and development of Internet-based services for broadband networks. Prexar is an Internet services provider operating in the northern New England States. Both Innovatia and Prexar are extensions of Aliant Telecom's core operations and report directly to the President of Aliant Telecom. While all of Aliant's emerging business only accounts for approximately 5.0% of consolidated revenues, it was considered informative to disclose telecom export sales (Innovatia) and Aliant Telecom's Internet services expansion into northern New England (Prexar) as distinct entities.

AMI is also included in Aliant's emerging business on the basis of historical and disclosure rationale. AMI 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. In 2000, Aliant formed the Aliant Energy Services (AES) division to focus the Aliant *Premium* execution into the oil and gas industry. The strategic direction of AMI is now the responsibility of the President of AES.

Due to these changes in Aliant's internal reporting structure and the materiality of emerging business in total, future external reporting of Innovatia and Prexar will be included in the telecommunications segment.

Aliant's emerging business revenues, on a consolidated basis, increased 9.9% to \$35.8 million in the second quarter compared to the same period last year. This brings year-to-date revenues up 14.5% over the first half of 2000, to \$74.0 million. Of Aliant's four lines of business, emerging business is the least consistent on a quarterly trend basis. Its revenues are derived from a combination of licensing, subscription, transaction and consulting revenues, which are somewhat stable, and sales of software, investments and joint developments, which are less predictable in terms of timing.

Management now anticipates that the 2001 revenue target of \$200-230 million for emerging businesses will come under downward pressure, although it is too early to determine if this short-term impact will result in a change to any long-term targets. Recent realignments at one of the emerging business unit's significant customers could have a short-term negative impact on the revenue growth of Innovatia and AMI. However, every effort will be made to make compensating adjustments in operating expenses, such that the projected EBITDA of approximately \$25-30 million for the year should still be achieved.

For the quarter Innovatia saw its revenues increase 91.5% to \$10.8 million, primarily due to the 5-year e-learning contract with Nortel Networks Corp. (Nortel), which started producing revenues in September 2000. Innovatia now has a second, similar contract with Nortel that is expected to start generating revenues in the second half of 2001. Additional contracts for Innovatia's *LivingLAB*, such as those recently obtained with Alcatel, Voice Mobility and Vicinium, also contributed to the quarter-over-quarter growth.

Prexar experienced significant growth in its revenues compared with the second quarter of 2000 as a result of completing six acquisitions in the past year. Internet access customers numbered over 30,000 at June 30, 2001, while revenues reached \$5.6 million for the quarter and \$9.3 million for the first half.

AMI's revenues grew by 12.3% to \$19.4 million for the quarter and by 19.3% to \$40.1 million year-to-date. This is organic growth, much of it from within the Aliant group. Future results will see the benefit of two large contract wins during the quarter. AMI was recently awarded a significant contract to supply control and integration systems to an oil and gas project in South America. NewTech Instruments, part of the AMI group of companies, recently signed a \$10-million one-year contract with General Motors Defense division to provide control panels for light armoured vehicles to the US Army, Australia and New Zealand. This contract has the potential to grow to \$47 million over seven years.

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

	Quarter ended June 30			Six months ended June 30		
	2001	2000	% change	2001	2000	% change
Revenues	\$ 35,786	\$ 32,571	9.9	\$ 73,992	\$ 64,626	14.5
Cost of revenues	15,327	12,805	19.7	31,800	25,117	26.6
Net operating revenues	20,459	19,766	3.5	42,192	39,509	6.8
Operating expenses	24,188	11,046	119.0	43,392	22,506	92.8
EBITDA	(3,729)	8,720	—	(1,200)	17,003	—
Depreciation and amortization	1,676	1,095	53.0	3,144	2,352	33.7
Operating income (loss)	\$ (5,405)	\$ 7,625	—	\$ (4,344)	\$ 14,651	—

## OTHER CONSOLIDATED RESULTS

### OTHER INCOME

Aliant's other income (losses) decreased from income of \$0.7 million in the second quarter of 2000 to a loss of \$5.3 million for the same period in 2001. Other income includes gains and losses on sales of assets and investments and Aliant's share of earnings and losses in equity-accounted investments. Contributing to the loss this quarter are \$3.3 million in costs incurred by Stratos Global in transitioning operations of BT A&M and \$2.2 million for Aliant's share of losses in equity-accounted investments. Year-to-date there is a loss of \$3.7 million compared to income in the first half of 2000 of \$3.4 million.

### INTEREST EXPENSE

Consolidated interest expense increased from \$31.7 million in the second quarter of 2000 to \$41.9 million in the second quarter of 2001; year-to-date the increase is from \$61.6 million to \$84.1 million. Consolidated interest expense is expected to increase in the range of \$35-\$40 million for the full year 2001 over 2000. Higher debt levels related to the acquisitions made by Stratos Global in 2000 drive this increase. Stratos Global's additional debt led to a \$12.8 million increase in Aliant's consolidated interest charges when compared to the second quarter of 2000 and a \$26.0 million increase year-to-date. As capital market conditions improve, Stratos Global will seek an opportunity to issue equity to retire this debt and reduce future interest costs.

Interest expense in the telecommunications line of business was reduced by \$1.3 million during the first half of 2000, primarily due to Aliant investing \$130 million in common equity in Aliant Telecom during the last three-quarters of 2000 and another \$35 million in equity at the end of the first quarter. Also, the refinancing of higher-cost debt issues in recent years has been reducing Aliant Telecom's average interest rates on its long-term debt. On May 7, 2001, Aliant Telecom redeemed a \$50 million series of first mortgage bonds that carried an interest rate of 9.75%. This redemption was financed with part of the proceeds of a \$150 million issue of medium term notes (MTNs) by Aliant Telecom on May 11. These notes carry a rate of 6.80% and have a term of 10 years.

The issuance of \$175 million in preferred shares by Aliant during the second quarter and the application of the net proceeds to reducing debt is also having a mitigating impact on interest costs. Aliant's interest coverage ratios for the twelve-month periods ended June 30, 2001 and June 30, 2000 were 3.5 times and 4.0 times, respectively. The lower coverage is a result of the growth in interest expense and reduction in net operating income. For the full year 2001, the anticipated growth in net operating income and the preferred share issue should improve the interest coverage ratio over its current level.

### TAXES

Aliant's consolidated income tax provision increased by 2.0% from \$48.9 million in the second quarter of 2000 to \$49.9 million in 2001, and from \$86.7 million in the first half of 2000 to \$87.0

million so far in 2001. This was despite a decline in net income before income taxes during the quarter. Notwithstanding a decline in the statutory combined tax rates, the effective tax rate appears higher than in 2000 due to the non-deductibility of certain expense items, like amortization of goodwill, for tax purposes and the operating losses of Stratos Global, for which the future tax benefit is not currently being recognized. The future tax benefit of Stratos Global's increased operating losses, if recognized, would have led to a reduction in the consolidated tax provision of approximately \$10 million year-to-date and increased Aliant's net income by its proportionate share, or approximately \$6 million.

## LIQUIDITY AND CAPITAL RESOURCES

### OPERATING ACTIVITIES

Aliant's operating cash flow for the second quarter of 2001, before changes in working capital, was \$151.5 million, down 4.0% from the same period in 2000. This decline is primarily due to the timing of recognition of other non-cash charges, such as pension expense and deferred taxes, which affected net income in the quarter. Year-to-date operating cash flow before working capital changes increased 5.3% to \$287.5 million. Management's targeted efforts to improve working capital balances started to see results in the second quarter. Growth in working capital was held to \$13.6 million during the second quarter of 2001 compared with a \$96.7 million increase in the second quarter of 2000. This added to Aliant's net cash flow from operations which reached \$137.9 million for the quarter, up from \$61.1 million in the second quarter last year and leading to 38.5% growth year-to-date. It is anticipated that these continued efforts, combined with earnings growth, should lead to strong positive cash from operations for the remainder of 2001.

### INVESTING ACTIVITIES

Aliant's consolidated net capital expenditures were \$98.8 million in the second quarter and \$249.8 million year-to-date. This represents a 21.1% decrease over the second quarter last year, but 38.2% growth for the first six months. Both these trends are primarily attributable to variation in spending in the telecommunications business. Aliant Telecom accelerated its significant investments in broadband and wireless networks during the latter part of 2000 and first quarter of 2001 in order to meet customer demand for high-speed Internet, digital television and cellular services. The 2001 plan for expansion of high-speed Internet has been refocused to service needs in the major urban areas, concentrating on increasing penetration rather than geographic coverage. The 144.8% increase in Aliant's high-speed Internet customers and increased market share is evidence of both the strong demand for these services and Aliant's success in meeting those demands. Investment is also being made in 2001 to expand the coverage of digital wireless services to 48% of the population, to transition customer contact points to new web-based self-serve applications and to acquire additional PCS spectrum. Similar to the trend seen in the second quarter, capital spending will slow down through the remainder of 2001, bringing Aliant Telecom's

Capital expenditures (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2001	2000	% change	2001	2000	% change
Telecommunications	\$ 76,110	\$ 111,296	(31.6)	\$ 216,074	\$ 161,899	33.5
Information technology	1,188	2,283	(48.0)	5,170	4,298	20.3
Remote communications	7,845	9,424	(16.8)	8,496	11,319	(24.9)
Emerging business	13,471	1,664	—	19,878	2,689	—
Other	189	491	(61.5)	226	631	(64.2)
Total capital expenditures	\$ 98,803	\$ 125,158	(21.1)	\$ 249,844	\$ 180,836	38.2

total capital budget for the year to \$375-400 million.

In the other lines of business capital spending decreased for the most part, except in the emerging business segment where Prexar is investing in its high-speed Internet network in New England and Innovatia is investing in the e-learning systems being developed by its Interactive Knowledge division. The consolidated 2001 capital budget for the non-telecom lines of business is approximately \$113 million, excluding any acquisitions or equity investments. So far in 2001, the only acquisitions Aliant has made are of two Internet services providers purchased by Prexar for a total of \$2.5 million.

## FINANCING ACTIVITIES

### Telecommunications

During the second quarter Aliant Telecom issued \$150 million in MTNs. The proceeds were used to refinance existing indebtedness including an intercompany loan from Aliant of \$100 million and a \$50 million first mortgage bond series originally issued by NewTel Communications Inc. that was called for redemption.

### Information technology

**xwave's** use of short-term credit facilities increased by approximately \$4.7 million in the second quarter and \$15.4 million year-to-date in order to fund capital expenditures and an increase in working capital balances arising from the growth of the business. **xwave** completed the implementation of its bank lines, which provide **xwave** with an independent source of financing without recourse to Aliant.

### Remote communications

During the second quarter Stratos Global received a total of US\$25.1 million from the vendors of BT A&M, Seven Seas Communications, Inc. and Rig Telephones, Inc. (doing business as Datacom) relating to post-closing purchase price adjustments on those acquisitions. This cash was applied to reduce the balance of its bridge loan facility during the quarter. Aliant has guaranteed US\$150 million of Stratos Global's obligations under the debt facilities put in place to complete the BT A&M acquisition. The guarantee by Aliant assisted Stratos Global in securing the necessary financing. Stratos Global's credit facilities contain various covenants relating to future financial results. Stratos Global is currently meeting all of its financial covenant requirements and has received a six-month extension (to January 2003) of its bridge loan facility.

### Corporate financing

During the quarter Aliant issued \$175 million in Series 2 preference shares with an initial dividend yield of 5.45%. Net proceeds of \$172.5 million were used to repay a portion of Aliant's short-term debt. The preferred shares issue was part of a plan to reduce the Company's reliance on short-term debt financing. As the subsidiary companies financed by Aliant have grown by acquisition or organically, they have required equity capital contributions from Aliant. Throughout 2000 Aliant had been utilizing its short-term debt capacity to partially, and temporarily, fund these requirements. Issuing preferred shares allows Aliant to put in place more permanent equity capital at a locked-in yield for five years to better reflect the longer-term nature of

these investments. Aliant repaid a total of \$235.8 million in short-term indebtedness in the second quarter.

Aliant also issued \$33.2 million in common equity during the quarter by way of its employee share purchase plan, dividend reinvestment plan (DRP) and the exercise of options under its employee stock option plan. Effective June 15, 2001 Aliant received notice from BCE Inc. and Bell Canada, which together hold approximately 53% of Aliant's outstanding common shares, of their intention to begin reinvesting dividends through the DRP beginning with the second quarter dividend. It is estimated this will provide Aliant with an additional \$16.0 million per quarter in cash from the plan.

Aliant maintains lines of credit totaling \$725 million in aggregate with its bankers of which \$350 million is a committed facility supporting the Company's commercial paper program and \$225 million is a total of three committed bank lines held in reserve in support of the guarantee of Stratos Global's debt. The other \$150 million is a total of Aliant's normal operating lines. As at June 30, 2001, Aliant had issued a total of \$76.3 million in commercial paper and had nothing outstanding on its operating lines.

Total dividends paid by Aliant to its common shareholders in the second quarter rose from 2000 levels due to the increased number of shares outstanding. Aliant maintained its dividend payment rate per share at \$0.225 for the quarter. Aliant also paid its first quarterly preferred share dividend, which totaled \$1.9 million for the partial quarter.

## CAPITAL STRUCTURE

The BT A&M acquisition by Stratos Global contributed in large part to the 56.5% debt level in Aliant's capital structure at December 31, 2000. Also, the accelerated rollout of Aliant Telecom's 2001 capital expenditure program added to the debt requirements of the Company in the first quarter of 2001. The issuance of preferred shares in the second quarter has offset this and helped to improve the debt levels to where they stand at June 30, 2001. Aliant's consolidated debt ratio at the end of the second quarter was 51.6% as shown in the table below.

Improved operating cash flow is expected through the remainder of 2001 and capital spending will continue to taper off in Aliant Telecom. This should generate the free cash flow that is expected to be used to reduce debt levels later in the year. Also, as capital market conditions improve and Stratos Global works through integrating BT A&M with its existing operations and realizing anticipated synergies from this, Stratos Global will be in a position to seek additional equity financing to improve its capital structure.

Interest and fixed charges coverage ratios are very strong. 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 as well as new investments. Also, Aliant has sufficient capacity in its existing and available financing arrangements to provide liquidity for existing operations and planned future growth.

## Consolidated capital structure (thousands of dollars)

	June 30, 2001		December 31, 2000	
Common equity	\$ 1,401,260	41.1%	\$ 1,343,403	41.0%
Preferred equity	172,455	5.1%	—	—
Non-controlling interest	75,697	2.2%	82,486	2.5%
Long-term debt (including current portion)	1,659,367	48.6%	1,568,271	47.9%
Short-term debt (including bank indebtedness)	103,611	3.0%	282,143	8.6%
	\$ 3,412,390	100.0%	\$ 3,276,303	100.0%

# Consolidated financial statements

## Consolidated balance sheets (unaudited)

As at June 30 (with comparative numbers as at December 31, 2000) (thousands of dollars)


	2001	2000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 58,595	\$ 70,444
Accounts receivable	669,520	638,425
Inventory	44,758	45,528
Prepayments	43,201	30,247
	<b>816,074</b>	<b>784,644</b>
<b>Capital assets – net (note 4)</b>	<b>2,376,399</b>	<b>2,355,145</b>
<b>Other assets</b>		
Long-term investments (note 5)	71,968	80,058
Deferred charges	84,112	47,733
Future income tax asset	3,916	9,439
Goodwill (note 6)	430,446	452,616
	<b>590,442</b>	<b>589,846</b>
<b>Total assets</b>	<b>\$ 3,782,915</b>	<b>\$ 3,729,635</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 27,275	\$ 46,826
Notes payable (note 7)	76,336	235,317
Payables and accruals	321,419	396,871
Long-term debt due within one year (note 8)	59,559	58,880
	<b>484,589</b>	<b>737,894</b>
<b>Long-term debt (note 8)</b>	<b>1,599,808</b>	<b>1,509,391</b>
<b>Future income tax liability</b>	<b>9,638</b>	<b>5,631</b>
<b>Accrued benefit obligation</b>	<b>29,996</b>	<b>42,063</b>
<b>Deferred credits</b>	<b>9,472</b>	<b>8,767</b>
<b>Non-controlling interest (note 9)</b>	<b>75,697</b>	<b>82,486</b>
<b>Shareholders' equity</b>		
Capital stock (note 10)	1,137,139	922,601
Contributed surplus	69,320	69,320
Retained earnings	367,256	351,482
	<b>1,573,715</b>	<b>1,343,403</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,782,915</b>	<b>\$ 3,729,635</b>

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors



Charles White  
Chairman



Edward Reevey  
Director

## Consolidated statements of income (unaudited)

For the period ended June 30 (thousands of dollars)	Three months		Year to date	
	2001	2000	2001	2000
<b>Operating revenues (note 12)</b>	<b>\$ 658,847</b>	<b>\$ 563,231</b>	<b>\$ 1,297,206</b>	<b>\$ 1,094,515</b>
<b>Expenses</b>				
Cost of operating revenues	167,407	125,498	345,614	245,467
Operating expenses	240,913	212,537	489,481	428,698
Amortization	108,677	90,408	217,933	178,594
	<b>516,997</b>	<b>428,443</b>	<b>1,053,028</b>	<b>852,759</b>
<b>Operating income</b>	<b>141,850</b>	<b>134,788</b>	<b>244,178</b>	<b>241,756</b>
<b>Other income (expenses)</b>	<b>(5,289)</b>	<b>740</b>	<b>(3,748)</b>	<b>3,411</b>
<b>Interest charges</b>				
Interest on long-term debt	39,425	27,559	77,842	52,993
Other interest	2,508	4,105	6,253	8,572
	<b>41,933</b>	<b>31,664</b>	<b>84,095</b>	<b>61,565</b>
Income before underlisted items	94,628	103,864	156,335	183,602
<b>Income taxes</b>	<b>49,906</b>	<b>48,920</b>	<b>87,040</b>	<b>86,681</b>
Income before non-controlling interest	44,722	54,944	69,295	96,921
<b>Non-controlling interest (share of losses)</b>	<b>(2,515)</b>	<b>(1,202)</b>	<b>(8,784)</b>	<b>(2,083)</b>
<b>Net Income</b>	<b>\$ 47,237</b>	<b>\$ 56,146</b>	<b>\$ 78,079</b>	<b>\$ 99,004</b>
Reconciliation of net income available to common shareholders (thousands of dollars)				
Net Income	\$ 47,237	\$ 56,146	\$ 78,079	\$ 99,004
Preferred share dividends	(1,851)	—	(1,851)	—
Net income available to common shareholders	<b>\$ 45,386</b>	<b>\$ 56,146</b>	<b>\$ 76,228</b>	<b>\$ 99,004</b>
<b>Earnings per common share (based on average number of shares outstanding)</b>				
Basic	\$ 0.34	\$ 0.43	\$ 0.57	\$ 0.75
Fully diluted	\$ 0.33	\$ 0.42	\$ 0.55	\$ 0.74

See accompanying notes to the consolidated financial statements

## Consolidated statements of retained earnings (unaudited)

For the period ended June 30 (thousands of dollars)	2001	2000
<b>Balance, beginning of period</b>	<b>\$ 351,482</b>	<b>\$ 253,636</b>
Net Income	78,079	99,004
Preferred share dividends	(1,851)	—
Common share dividends	(60,454)	(58,867)
<b>Balance, end of period</b>	<b>\$ 367,256</b>	<b>\$ 293,773</b>

See accompanying notes to the consolidated financial statements

## Consolidated statements of cash flows (unaudited)

For the period ended June 30 (thousands of dollars)	Three months		Year to date	
	2001	2000	2001	2000
<b>Cash and cash equivalents from (used in) operations</b>				
Net income	\$ 47,237	\$ 56,146	\$ 78,079	\$ 99,004
Add (deduct) non-cash items				
Amortization	109,339	90,610	218,814	178,801
Other non cash items	(4,728)	11,996	(3,550)	(3,765)
Share in earnings of equity accounted investments	2,169	217	2,912	1,070
Non-controlling interest share of losses	(2,515)	(1,202)	(8,784)	(2,083)
	151,502	157,767	287,471	273,027
Change in non-cash working capital balances related to operations	(13,608)	(96,696)	(127,349)	(157,399)
	137,894	61,071	160,122	115,628
<b>Cash and cash equivalents from (used in) financing</b>				
Proceeds from issue of preferred shares	172,456	—	172,456	—
Proceeds from issue of common shares	33,204	207,148	42,083	213,922
Net (repayment) proceeds from long-term debt	63,821	(76,809)	85,908	(75,192)
Preferred dividends	(1,851)	—	(1,851)	—
Common dividends	(30,372)	(30,103)	(60,454)	(58,867)
Increase (decrease) in non-controlling interest	(1,797)	55,720	1,995	55,720
Increase (decrease) in notes payable	(235,844)	52,853	(134,895)	88,558
	(383)	208,809	105,242	224,141
<b>Cash and cash equivalents from (used in) investing</b>				
Capital expenditures	(98,803)	(125,158)	(249,844)	(180,836)
(Increase) decrease in other deferred charges	(16,617)	6,037	(32,209)	2,608
Proceeds on sale of investments	19,658	16,016	21,591	32,616
Purchase of subsidiaries' net assets and goodwill (note 3)	(1,327)	(77,748)	(2,539)	(125,703)
Investments	333	(8,648)	5,339	(6,661)
	(96,756)	(189,501)	(257,662)	(277,976)
Change in cash and cash equivalents	40,755	80,379	7,702	61,793
Cash and cash equivalents, beginning of period	(9,435)	(32,222)	23,618	(13,636)
Cash and cash equivalents, end of period	\$ 31,320	\$ 48,157	\$ 31,320	\$ 48,157
<b>Cash and cash equivalents consist of:</b>				
Cash	\$ 58,595	\$ 65,758	\$ 58,595	\$ 65,758
Bank indebtedness	\$ (27,275)	\$ (17,601)	\$ (27,275)	\$ (17,601)
	\$ 31,320	\$ 48,157	\$ 31,320	\$ 48,157
<b>Supplementary disclosure</b>				
Interest paid	\$ 44,271	\$ 34,653	\$ 80,768	\$ 62,710
Income taxes paid	\$ 36,515	\$ 24,178	\$ 84,136	\$ 58,210

See accompanying notes to the consolidated financial statements

# Notes to the consolidated financial statements

## NOTE 1

### INTERIM FINANCIAL STATEMENTS

The accounting policies and methods followed for interim reporting purposes are consistent with those for year end reporting and these unaudited interim financial statements should be read

in conjunction with the audited financial statements for the year ended December 31, 2000.

## 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 June 30, 2001, the principal subsidiaries of the Company include: Aliant Telecom Inc., Aliant Information Technology Inc., Xwave Solutions Inc., Aliant Horizons Inc., Stratos Global Corporation, AMI Offshore Inc., Innovatia Inc., Prexar LLC, Aliant Properties Inc., and Aliant Energy Services Inc.

The Company accounts for its interest in Joint Ventures by proportionate consolidation.

#### 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

Aliant Telecom Inc., the Company's major telecommunications subsidiary, is 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.

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

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.

#### 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 (including Stratos Global Corporation) 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\$1.51 at June 30, 2001 (US\$1.00 = Canadian\$1.50 at December 31, 2000) 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, and deferred foreign exchange losses associated with United States denominated debt, 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

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

- 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.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- 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.
- 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.
- 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

Effective January 1, 2001, the Company implemented the new recommendations of the Canadian Institute of Chartered Accountants with regards to earnings per share. Accordingly, diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common share and dilutive common share equivalents. The comparative figures have been presented to conform to the adopted accounting method and presentation.

### 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 11. 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.

## NOTE 3

### ACQUISITIONS

The Company made the following acquisitions for cash consideration:

(Thousands of dollars)

Subsidiary acquired	Acquisition date	% acquired	June 30, 2001		
			Purchase price	Net assets acquired	Goodwill
<b>Emerging business</b>					
Lamere.Net – asset purchase (Internet access provider)	January 1	100	\$ 2,146	\$ 1,239	\$ 907
Internet Maine – asset purchase (Internet access provider)	April 12	100	1,327	194	1,133
			3,473	1,433	2,040
Less : cash in subsidiary at time of acquisition			934	934	—
Acquisition, net of cash acquired			\$ 2,539	\$ 499	\$ 2,040

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.

## NOTE 4

### CAPITAL ASSETS

(Thousands of dollars)

	June 30, 2001			December 31, 2000		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 17,056	\$ —	\$ 17,056	\$ 17,629	\$ —	\$ 17,629
Buildings	316,860	151,319	165,541	341,838	171,410	170,428
Plant	4,016,108	2,328,804	1,687,304	3,817,539	2,213,756	1,603,783
Machinery and equipment	806,448	343,552	462,896	783,561	300,523	483,038
Plant under construction	35,111	—	35,111	60,743	—	60,743
Materials and supplies	8,491	—	8,491	19,524	—	19,524
Total capital assets	\$ 5,200,074	\$ 2,823,675	\$ 2,376,399	\$ 5,040,834	\$ 2,685,689	\$ 2,355,145

## NOTE 5

### LONG-TERM INVESTMENTS

<i>(Thousands of dollars)</i>	June 30, 2001	December 31, 2000
Investments subject to significant influence	\$ 45,066	\$ 30,853
Portfolio investments	26,902	49,205
	\$ 71,968	\$ 80,058

## NOTE 6

### GOODWILL

<i>(Thousands of dollars)</i>	June 30, 2001	December 31, 2000
Goodwill, at cost	\$ 477,927	\$ 484,786
Accumulated amortization	(47,481)	(32,170)
	\$ 430,446	\$ 452,616

## NOTE 7

### NOTES PAYABLE

At June 30, 2001, the Company has lines of credit available of \$725 million. These lines consist of \$350 million in committed lines supporting the Company's commercial paper program,

\$225 million in committed lines supporting a Stratos loan guarantee and \$150 million in uncommitted operating lines.

## NOTE 8

### LONG-TERM DEBT

<i>(Thousands of dollars)</i>	Interest rate	Maturity	June 30, 2001	December 31, 2000
Telecommunications				
Notes	6.459% – 12.25%	2002-2009	\$ 500,000	\$ 350,032
Bonds	8.76% – 12.25%	2005-2019	247,500	301,500
Debentures	6.40% – 11.125%	2001-2025	400,000	400,000
Other			2,079	—
			1,149,579	1,051,532
Present value of obligation under capital leases			2,721	3,465
Total – Telecommunications			1,152,300	1,054,997
Information technology				
Mortgages			2,652	2,745
Present value of obligation under capital leases			342	354
Total – Information technology			2,994	3,099
Remote communications				
Term debt	LIBOR + 3.75%	2005	302,800	270,855
Acquisition facility	LIBOR + 3.75%	2003	189,250	224,513
Other	8.75%	2006	2,827	5,427
Total – Remote communications			494,877	500,795
Emerging business				
Mortgages			1,538	2,238
Bank loans			5,608	4,811
Present value of obligation under capital leases			427	516
Other			1,623	1,815
Total – Emerging business			9,196	9,380
Total long-term debt			1,659,367	1,568,271
Less: Portion due within one year			59,559	58,880
			\$ 1,599,808	\$ 1,509,391

## NOTE 9

### NON-CONTROLLING INTEREST

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

<i>(Thousands of dollars)</i>	June 30, 2001	December 31, 2000
Stratos Global Corporation	\$ 68,468	\$ 75,016
TechKnowledge Inc.	822	181
Atlantic Mobility Products Ltd.	689	412
Prexar LLC	1,436	2,413
Sablecom	493	1,094
Transtech Engineering Inc.	42	57
AMI Offshore Limited	3,747	3,313
	\$ 75,697	\$ 82,486

## NOTE 10

### CAPITAL STOCK

#### Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares.

#### Issued

<i>(Thousands of dollars)</i>	June 30, 2001		December 31, 2000	
	Number of shares	Value	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172,455	—	\$ —
Common shares without par value	135,753,101	964,684	134,336,983	922,601
		\$ 1,137,139		\$ 922,601

#### Share transactions

##### Preference shares

On April 20, 2001, the Company issued seven million cumulative redeemable preference shares (Series 2) at the price of \$25 per share and with a fixed annual dividend rate of \$1.3625 per share. These shares are non-voting, except under certain conditions, and are redeemable at the price of \$25 (plus any unpaid dividends) at the

Company's option on June 30, 2006 or on June 30 each fifth year thereafter.

Preference shareholders (Series 2) may convert Series 2 preference shares to Series 3 preference shares on June 30, 2006 or on June 30 each fifth year thereafter, provided that the Company has not delivered a notice of redemption.

The Company issued the following shares:

<i>(Thousands of dollars)</i>	June 30, 2001		December 31, 2000	
	Number of shares	Value	Number of shares	Value
For cash:				
Stock option plan <i>(note 11)</i>	164,667	\$ 1,472	546,502	\$ 8,856
Common shareholder dividend reinvestment and stock purchase plan	648,204	20,515	129,928	4,827
Issued for cash – May 2000	—	—	5,620,000	196,196
Employees' stock savings plan <i>(note 11)</i>	603,247	20,096	560,440	20,309
Shares issued in relation to acquisition activities	—	—	45,662	1,000
	1,416,118	\$ 42,083	6,902,532	\$ 231,188

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 11

### STOCK-BASED COMPENSATION PLANS

At June 30, 2001 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 June 30, 2001 and December 31, 2000, and changes during the periods ended on those dates is presented below:

(Thousands of dollars)	June 30, 2001		December 31, 2000	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Option outstanding at beginning of period	2,478,674	\$ 23.26	2,202,906	\$ 17.60
Granted	404,445	35.40	822,270	33.73
Exercised	164,667	15.73	546,502	16.20
Options outstanding at end of period	2,718,452	25.91	2,478,674	23.26
Options exercisable at end of period	1,662,734	\$ 21.43	1,292,081	\$ 18.13

The following table summarizes information about stock options outstanding at June 30, 2001:

Range of exercise prices	Number outstanding at June 30, 2001	Options outstanding		Options exercisable	
		Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2001	Weighted-average exercise price
\$10.625 to \$38.10	2,718,452	7.5 years	\$25.91	1,662,734	\$21.93

The Company expects that approximately 95% of the nonvested awards at June 30, 2001 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 603,247 shares to employees from January 1 to June 30, 2001.

## NOTE 12

### 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.

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

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

Emerging business – focused on 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 iMagicTV and Innovatia Inc.; and (2) 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 12**

**SEGMENTED INFORMATION (continued)**

(Thousands of dollars)

For the three month period ended June 30, 2001

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 469,427	\$ 53,438	\$ 108,918	\$ 26,571	\$ 493	\$ —	\$ 658,847
Intersegment revenue	4,563	37,754	—	9,215	—	(51,532)	—
Operating revenue	\$ 473,990	\$ 91,192	\$ 108,918	\$ 35,786	\$ 493	\$ (51,532)	\$ 658,847
Other income	176	106	(3,331)	(2,172)	2,822	(2,890)	(5,289)
Operating expenses	336,098	85,779	95,001	41,190	6,525	(47,596)	516,997
Interest expense	26,127	631	14,787	580	2,698	(2,890)	41,933
Income taxes	51,318	2,595	1,830	(2,511)	(2,411)	(915)	49,906
Non-controlling interest	2	(75)	(2,345)	(97)	—	—	(2,515)
Net income	\$ 60,621	\$ 2,368	\$ (3,686)	\$ (5,548)	\$ (3,497)	\$ (3,021)	\$ 47,237
Total assets	\$ 2,730,689	\$ 270,383	\$ 794,680	\$ 161,325	\$ 1,615,973	\$ (1,790,135)	\$ 3,782,915
Capital expenditures	\$ 76,110	\$ 1,188	\$ 7,845	\$ 13,471	\$ 189	\$ —	\$ 98,803
Goodwill acquired	\$ —	\$ —	\$ —	\$ 1,133	\$ —	\$ —	\$ 1,133
Depreciation and amortization	\$ 87,830	\$ 3,613	\$ 13,570	\$ 1,676	\$ 81	\$ 1,907	\$ 108,677

(Thousands of dollars)

For the three month period ended June 30, 2000

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 444,488	\$ 43,626	\$ 43,631	\$ 29,130	\$ 2,356	\$ —	\$ 563,231
Intersegment revenue	5,750	33,544	—	3,441	376	(43,111)	—
Operating revenue	\$ 450,238	\$ 77,170	\$ 43,631	\$ 32,571	\$ 2,732	\$ (43,111)	\$ 563,231
Other income	1,004	(4)	—	(226)	2,579	(2,613)	740
Operating expenses	321,734	70,122	45,673	24,947	7,344	(41,377)	428,443
Interest expense	26,047	617	2,012	350	5,250	(2,612)	31,664
Income taxes	48,042	2,895	(547)	1,966	(3,436)	—	48,920
Non-controlling interest	52	62	(1,324)	8	—	—	(1,202)
Net income	\$ 55,367	\$ 3,470	\$ (2,183)	\$ 5,074	\$ (3,847)	\$ (1,735)	\$ 56,146
Total assets	\$ 2,637,055	\$ 191,536	\$ 333,679	\$ 91,672	\$ 1,590,136	\$ (1,596,644)	\$ 3,247,434
Capital expenditures	\$ 111,296	\$ 2,283	\$ 9,424	\$ 1,664	\$ 491	\$ —	\$ 125,158
Goodwill acquired	\$ —	\$ —	\$ 7,619	\$ —	\$ —	\$ —	\$ 7,619
Depreciation and amortization	\$ 78,844	\$ 3,510	\$ 4,874	\$ 1,095	\$ 352	\$ 1,733	\$ 90,408

(Thousands of dollars)

For the six month period ended June 30, 2001

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 903,652	\$ 128,162	\$ 209,559	\$ 55,247	\$ 586	\$ —	\$ 1,297,206
Intersegment revenue	8,630	72,744	—	18,745	—	(100,119)	—
Operating revenue	\$ 912,282	\$ 200,906	\$ 209,559	\$ 73,992	\$ 586	\$ (100,119)	\$ 1,297,206
Other income	1,268	133	(6,814)	1,957	5,789	(6,081)	(3,748)
Operating expenses	673,985	188,393	192,152	78,335	12,555	(92,392)	1,053,028
Interest expense	50,400	1,096	30,213	998	7,469	(6,081)	84,095
Income taxes	86,634	5,949	3,525	(1,252)	(6,051)	(1,765)	87,040
Non-controlling interest	291	(91)	(9,208)	224	—	—	(8,784)
Net income	\$ 102,240	\$ 5,692	\$ (13,937)	\$ (2,356)	\$ (7,598)	\$ (5,962)	\$ 78,079
Total assets	\$ 2,730,689	\$ 270,383	\$ 794,680	\$ 161,325	\$ 1,615,973	\$ (1,790,135)	\$ 3,782,915
Capital expenditures	\$ 216,074	\$ 5,170	\$ 8,496	\$ 19,878	\$ 226	\$ —	\$ 249,844
Goodwill acquired	\$ —	\$ —	\$ —	\$ 2,040	\$ —	\$ —	\$ 2,040
Depreciation and amortization	\$ 175,725	\$ 7,133	\$ 27,961	\$ 3,144	\$ 155	\$ 3,815	\$ 217,933

## NOTE 12

### SEGMENTED INFORMATION (continued)

(Thousands of dollars)

For the six month period ended June 30, 2000

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from external customers	\$ 850,582	\$ 101,722	\$ 78,764	\$ 58,749	\$ 4,698	\$ —	\$ 1,094,515
Intersegment revenue	8,250	59,961	—	5,877	1,140	(75,228)	—
Operating revenue	\$ 858,832	\$ 161,683	\$ 78,764	\$ 64,626	\$ 5,838	\$ (75,228)	\$ 1,094,515
Other income	1,983	157	—	(1,055)	7,817	(5,491)	3,411
Operating expenses	632,425	147,068	81,499	49,975	13,669	(71,877)	852,759
Interest expense	51,725	1,434	4,216	799	8,882	(5,491)	61,565
Income taxes	82,198	5,789	(140)	3,677	(4,843)	—	86,681
Non-controlling interest	116	189	(2,416)	28	—	—	(2,083)
Net income	\$ 94,351	\$ 7,360	\$ (4,395)	\$ 9,092	\$ (4,053)	\$ (3,351)	\$ 99,004
Total assets	\$ 2,637,055	\$ 191,536	\$ 333,679	\$ 91,672	\$ 1,590,136	\$ (1,596,644)	\$ 3,247,434
Capital expenditures	\$ 161,899	\$ 4,298	\$ 11,319	\$ 2,689	\$ 631	\$ —	\$ 180,836
Goodwill acquired	\$ 4,128	\$ 30,102	\$ 7,619	\$ —	\$ —	\$ —	\$ 41,849
Depreciation and amortization	\$ 157,696	\$ 6,590	\$ 7,802	\$ 2,352	\$ 803	\$ 3,351	\$ 178,594

### Revenue by product and service

For the period ended June 30 (thousands of dollars)	Three months		Year to date	
	2001	2000	2001	2000
Local	\$ 218,358	\$ 217,640	\$ 430,122	\$ 426,188
Long distance	98,697	101,357	200,206	214,745
Wireless	60,585	51,263	115,497	97,161
Other telecommunications	91,787	74,228	157,827	112,488
	469,427	444,488	903,652	850,582
Information technology	53,438	43,626	128,162	101,722
Remote communications	108,918	43,631	209,559	78,764
Emerging business	26,571	29,130	55,247	58,749
Other	493	2,356	586	4,698
	\$ 658,847	\$ 563,231	\$ 1,297,206	\$ 1,094,515

## NOTE 13

### CONTINGENCIES

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. Subsequent to June 30, 2001 a settlement of US\$0.5 million was reached, covering various matters, including a claim before the Federal Communications Commission. This amount has been recorded as a liability at June 30, 2001.

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 subsidiaries breached the agreement. The arbitrator

has required the subsidiaries to submit data for the damages phase. The subsidiaries have paid US\$0.5 million to the claimant in 2000 and accrued an additional US\$0.8 million as a special charge. The subsidiaries do not believe that the outcome will exceed this amount.

An action has been commenced against the Company by 132 former employees who took early retirement under the 1998 early retirement incentive program. The former employees seek damages in the amount of the difference between what they received upon retirement in 1998, and what they would have received had they retired under the 1999 early retirement incentive program. The outcome of this matter is not determinable at this time.

## NOTE 14

### RESTATEMENT OF COMPARATIVE FIGURES

The comparative financial information has been restated to conform to the presentation adopted for 2001.

# Shareholder information

## We're here to help

To learn more about Aliant visit our Web site at [www.aliant.ca](http://www.aliant.ca).

For additional financial information contact Aliant investor relations.

Phone: 1.877.248.3113

Fax: 1.877.498.2464

E-mail: [investor.relations@aliant.ca](mailto:investor.relations@aliant.ca)

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

Phone: 1.800.387.0825

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

## Dividend dates for 2001\*

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

\*Subject to approval by the board of directors

# Performance numbers

*For the quarter ended and as at June 30*

	2001	2000	% change
Network access services – landlines	1,553,007	1,551,168	0.1
Network access services – cellular	428,299	336,808	27.2
Internet subscribers – high-speed	55,426	22,641	144.8
Internet subscribers – dial-up	185,669	160,961	15.4
Long-distance conversation minutes	872,343,000	804,895,000	8.4
Employees	10,469	9,981	4.9
Quarter-end stock price	\$ 34.35	\$ 36.15	(5.0)

# INDIVIDUAL STRENGTH TEAM PERFORMANCE

## The Aliant *Premium* model

Our path to growth is defined by the Aliant *Premium* model, a business strategy that emphasizes the individual strengths of our four lines of business. And, by combining their capabilities, we provide unique solutions for customers and extra value for shareholders.

