



Management's Discussion and Analysis

Second Quarter 2004

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This document has been prepared for the purpose of providing management's discussion and analysis (MD&A) of our financial condition and results of operations for the three and six month periods ended June 30, 2004, compared to the corresponding periods in 2003. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2004, and with our MD&As contained in our 2004 first quarter report and our 2003 annual report. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Quarterly reports, annual reports and supplementary information can be found under "financial reports" on our corporate website at www.aliant.ca. Additional information, including our annual information form and other continuous disclosure documents, have been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

Throughout this MD&A, "we", "us", "our" and "Aliant" refer to Aliant Inc. or our Telecommunications and Information Technology segments.

This document contains certain statements and information about potential future circumstances and developments. Such forward-looking statements and information are qualified by any of the inherent risks and uncertainties surrounding future expectations generally and may differ materially from our actual future experience. Reference is made to the "Risk and risk management" and "Forward-looking

statements” sections for further discussion about the inherent risks and uncertainties surrounding future expectations. We disclaim 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. Forward-looking statements in this MD&A describe our expectations on July 29, 2004, unless otherwise noted.

This MD&A is dated July 29, 2004, which is the date of filing in conjunction with our press release announcing our results for the second quarter of 2004. Disclosure contained in this document is current to that date, unless otherwise stated.

Reclassification of prior year results

Where indicated, prior year results have been reclassified to conform to the presentation adopted in the current year. Generally, these reclassifications were made to realign revenues as a result of new information.

About our business

Who we are

Aliant is a telecommunications and information technology company based in Atlantic Canada. We operate through two segments, Telecommunications and Information Technology.

The Telecommunications segment provides a full range of voice and data communications services including local, long distance, cellular, Internet and other wireline and wireless services. Aliant Telecom Inc. (“Aliant Telecommunications”), our wholly owned subsidiary, carries out the primary business of this segment, with complementary strengths in knowledge-service applications offered by our wholly owned subsidiary, Innovatia Inc. (“Innovatia”), and in telephone directory advertising through an 87.1 per cent interest in Aliant ActiMedia (a joint venture).

The business of the Information Technology segment is carried out through our wholly owned subsidiary, Xwave Solutions Inc. (“xwave”). xwave delivers systems integration, infrastructure services and product fulfillment to clients in several industry and geographic markets.

Advancing our strategy in 2004

Our value strategy has the flexibility to allow for changing business issues and environmental factors but our overriding objective, to increase value for our shareholders, remains constant. The flexibility of our strategy was demonstrated throughout the second quarter as a legal work stoppage by approximately two-thirds of our Aliant Telecommunications employees, which commenced April 23, 2004, has resulted in us focusing most of our efforts on the customer service aspect of our value strategy. As everything begins with the customer, we have ensured that our customers continue to receive the highest quality of service possible during this labour disruption. Nevertheless, in a quarter that has been primarily devoted to serving our customers, we have still been able to advance our strategy in other areas. The labour disruption is continuing and is discussed further under the “Labour disruption” section.

Maximizing shareholder value

We continue to pursue our strategy to invest and innovate in order to grow profitably. The current labour disruption has temporarily scaled back our activities, but we continue to make advancements.

- Continued expansion of our high-speed Internet network - We launched approximately 13 new high-speed Internet sites in the second quarter of 2004 through our participation in the Broadband and Rural Network Development (BRAND) program and our own digital subscriber line expansion. At June 30, 2004, our high-speed Internet services passed 66 per cent of homes in Atlantic Canada, up from 63 per cent at June 30, 2003.
- Continued enhancement of Internet service - Through our strategic alliance with Microsoft we have entered into an exclusive agreement for Atlantic Canada. This agreement links Sympatico.MSN.ca, the newest leading national and global content destination, with our exclusive local content from Aliant.net to deliver an exceptional on-line experience to our Internet customers. This builds on our existing relationship with Microsoft to offer our Internet customer an enhanced digital media experience through services like TV on my PC™.
- Continued expansion of our Wireless Fidelity (Wi-Fi) service trial - We added a wireless Internet access zone at the Saint John Airport in New Brunswick, bringing the total number of Wi-Fi service locations to six. These sites provide business customers and travellers convenient access to the Internet, e-mail and corporate networks without the need for a physical network connection.
- Continued expansion of our digital wireless network - During the second quarter we completed seven new digital sites. As a result, approximately 85 per cent of Atlantic Canada's population had access to our digital wireless network as at June 30, 2004, up from 72 per cent at June 30, 2003. The coverage of our one times radio transmission technology (1xRTT) data network continues to mirror our digital wireless voice network.
- Continued development of Voice over Internet Protocol (VoIP) service - Development of VoIP services including premise and network-based solutions are ongoing. Our demo centres in Saint John and Halifax showcase our network-based VoIP solution and have hosted over 25 of our largest enterprise customers with encouraging feedback. We are continuing to design and implement compelling VoIP services for our residential and business customers.

We have continued to strengthen our core business through divestiture of non-strategic operations and profitably growing our core operations, especially with respect to our Information Technology segment.

- The restructuring efforts undertaken in 2003 in our Information Technology segment are restoring profitability, improving productivity, realigning strategy and simplifying the business model. Our strategy is to be a business solution provider with concentration in three lines of business: systems integration, infrastructure services and product fulfillment. In support of this information technology (IT) consulting business model, on June 4, 2004, we announced the sale of our Moncton Internet help desk to ClientLogic, an international leader in call centre support services.
- We have focused on attaining new business that is consistent with the strategic direction of the Information Technology segment. We are winning and delivering on major contracts that

create development activity delivered by Atlantic Canadians to customers in international markets. Specifically, the State of Virginia has requested us to supply them with our corrections based systems integration solutions, which represents our third major customer in this sector and positions us with a strong foothold to leverage into new jurisdictions. Another significant project won this quarter is a multi-million dollar contract for the delivery of a flight simulation and training solution to Airbus.

- Since the Information Technology segment began its restructuring program approximately twelve months ago, we have proven our ability to refocus operations to increase productivity and profitability. Operating revenues for the first six months have declined, as internal revenues from our Telecommunications segment are 14.0 per cent lower due to role re-alignment and productivity improvement initiatives between the two segments. This decline was partially offset by a 3.1 per cent increase in revenue from external customers as a result of our growth strategy under our new business model. In addition, year-to-date operating expenses have declined 16.3 per cent over the same period in the prior year, reflecting the positive impact of the restructuring program. The second quarter of 2004 represents the third consecutive quarter of profitable growth for our Information Technology segment since the restructuring program was initiated. For the six months ended June 30, 2004, net income was \$3.7 million, an increase of \$8.0 million over the same period in 2003.

The continued generation of solid earnings per share and cash from operations in the second quarter of 2004 has enabled us to return cash to our shareholders as follows:

- the payment of a quarterly dividend of \$0.275 per common share to shareholders of record on June 15, 2004; and
- the purchase and cancellation of 847,168 shares under our current Normal Course Issuer Bid (NCIB) program during the three months ended June 30, 2004.

Refer to the “Financial and capital management” section for a complete discussion of dividends and progress under our NCIB.

Everything begins with the customer

Despite working through a labour disruption, our reputation for high quality service and passion for our customers was rewarded during the quarter with several new contracts with major enterprise customers. These include:

- five-year agreement with Dalhousie University to install and provide local service and Bell ExpressVu in 2,700 residence rooms;
- a three-year contract for Internet services for five New Brunswick universities;
- a fourteen-month long distance contract with the Province of Newfoundland & Labrador;
- an additional contract with a large municipality for the purchase and upgrade of Trunk Mobile Radios, representing significant new sales revenue; and
- preferred sales agreements with two of the largest residential property management companies in Nova Scotia, representing approximately 3,500 apartment units.

Contracts such as these demonstrate the value we bring to our customers and are instrumental in providing for our long-term success.

Our success is also dependent on our ability to offer our customers choice through our Aliant Value Packages as these packages ensure our customers receive the value and services they require and deserve. In the first quarter of 2004, the Canadian Radio-television and Telecommunications Commission (“CRTC” or “the Commission”) determined that certain of our Value Packages (which provide regulated and non-regulated bundles of certain services to residential customers) required their approval. We responded by making the necessary changes to ensure that these Value Packages are compliant with regulatory bundling rules. On July 7, 2004, the CRTC addressed these changes in the context of a related competitor complaint and concluded that the manner in which we sell our Value Packages complies with regulatory bundling rules. We welcome this decision, as it allows us to continue to provide customers with our current packages and to preserve the revenue generated through them.

In May 2004, we became the first Canadian telecommunications company to take an active stand against “modem hi-jacking” in an effort to provide our customers with additional security. Modem hi-jacking occurs when inadvertently downloaded software causes a modem (most frequently a dial-up or a fax modem) to disconnect from the local connection and then reconnect to an international long-distance phone number at rates from approximately \$2 to \$7 per minute. Our response has been to block direct dial access to five countries and assist our customers in identifying and removing associated software. Since we initiated these measures we have dramatically reduced the number of incidents of modem hi-jacking for customers.

Our efforts to ensure our customers’ needs are met during the temporary labour disruption have received a welcome response. Feedback from public opinion polls conducted throughout the second quarter indicated that the majority of our customers are satisfied with the job that we are doing to maintain service during the temporary labour disruption, giving us confidence about our customers’ loyalty. We enjoy excellent relationships with our customers, and we appreciate their confidence and trust in our products and services.

Simplifying internal processes

The simplification of internal processes and systems allows us to better serve our customers and reduce costs. During the second quarter of 2004, we continued to build upon initiatives to improve our cost structure:

- We implemented a conversion of our wireless billing platform to better serve our more than 700 mobility national corporate customers. This conversion enables enhanced 1xRTT data and Blackberry billing, providing an easy-to-read billing format and windows-based user functionality;
- We continued to make significant progress in the development and use of electronic transaction channels. Accelerated adoption of our e-Procurement platform by our employees and major suppliers has resulted in a more than four-fold increase in e-purchasing volumes compared to the same period in 2003. In addition, we expanded our use of electronic funds transfer for payment of a large portion of our accounts payable invoices; and
- We continued to identify process improvements and are making changes, as appropriate, to make things better for our customers. We are capturing all of the ideas generated during the labour disruption, with a view to supplementing our already comprehensive transformational change program. We are delivering on our promise of simplicity for our customers.

Fostering employee learning and growth

Considerable training and on-the-job learning has taken place as employees assume new responsibilities because of the labour disruption. These employees are building a greater understanding of our Company, as a whole, from their hands-on experience in various areas of our operations.

We recognize that this labour disruption is challenging for all our employees. As we come back together as a team, we will be helping employees process these experiences and feelings through interactive workshops and counseling, where needed. These sessions will extend from our existing Aliant Health and Wellness programs and include our proactive Employee Assistance Program.

Labour Disruption

On April 23, 2004, we tabled a conditional offer, which we believe to be fair, balanced and reasonable for all stakeholders. The offer was rejected by the Council of Atlantic Telecommunication Unions (“CATU”), which represents approximately 4,300 of Aliant Telecommunications’ unionized employees, and a legal work stoppage began. Accordingly, we immediately implemented our comprehensive business continuity plan. We are now operating with approximately 2,200 remaining employees, most of whom are engaged in serving our customers directly.

We strive to provide all services to customers on a timely basis but some delays have been unavoidable due to limited resources and unanticipated service interruptions. We are prioritizing our workload to ensure continuity of emergency services and restoration of out-of-service customers, so as not to jeopardize public safety. As a result of this prioritization of service, there have been some delays in installing new services and responding to other customer requests in a timely fashion. We continue to openly communicate to our customers that some delays are to be expected and encourage customers to visit an Aliant authorized dealer or use www.aliant.net to conduct routine business transactions.

We appreciate the continued support from our customers and have taken additional effort to enhance customer satisfaction. This includes waiving service fees where CRTC regulations allow in recognition of service delays and continuing to provide special customer promotions. These promotions included a variety of items ranging from wireless phones with unlimited local calling to special pricing on ultra high-speed Internet and a long distance promotion that allowed our customers to call evenings and weekends anywhere in Canada and the U.S. for only 9 cents per minute.

Our operating statistics for the second quarter of 2004 have remained strong, supporting the fact that our customers believe in the quality and reliability of our products and services. Our wireless and Internet customer bases grew 10.4 per cent and 7.7 per cent, respectively, over the same period in 2003. Our network access customers have declined by only 1.2 per cent over the same period in 2003, which is consistent with the trend seen in the last 24 months.

Financially, we estimate that the labour disruption has negatively impacted our operating results by approximately \$21 million, \$13 million after income taxes, for the three months ended June 30, 2004. This includes an estimated operating revenue impact of approximately \$9 million related to lower service charge revenue due to fewer new installations, lower product sales,

reduced long distance pricing as well as reduced data and Internet growth. The associated decrease in cost of operating revenues partially offset increased operating expenses, for a net expense impact of approximately \$12 million. At the onset of the labour disruption it was necessary to incur some upfront costs to train and equip our employees for their new roles. In addition, given the over 40 deliberate acts of sabotage that have taken place, it has been necessary to incur incremental costs to protect our communications infrastructure against vandalism and ensure the safety of our employees. Repairing the network, protecting our physical assets and ensuring our employees have safe access to our buildings and equipment to serve customers is of paramount importance to us and we will continue to take appropriate steps to ensure Atlantic Canadians receive quality telecommunications services.

Although the labour disruption has negatively impacted our financial results, our underlying profitability remains strong. Compared to the three months ended June 30, 2003, operating revenues have increased by 1.6 per cent, driven by growth in wireless and Internet revenues of 16.8 per cent and 14.1 per cent, respectively. This operating revenue growth, combined with effective operating expense management to contain costs and improve productivity, generated earnings per share of \$0.36 and \$111.2 million in cash from operations. We continue to invest in capital projects to support our network and future revenue growth, spending \$44.7 million in the second quarter.

Maintaining the integrity that we have built around our financial reporting is of utmost importance to us throughout the labour disruption. To this end, we continually monitor the adherence to established processes and controls, and in some instances additional processes have been implemented to ensure the highest quality of financial disclosures continue to be produced.

We continue to maintain our strong balance sheet and financial flexibility with the ensuing result being the affirmation of our credit ratings by the debt rating agencies during the second quarter of 2004.

We are committed to reaching a settlement with our unionized employees that will ensure the long-term viability of the Company and continue our role as an economic enabler in Atlantic Canada. We have continued to work with federal mediators throughout the labour disruption and have expressed our willingness to continue negotiations at any time. While we have exceeded our operational expectations set out in our business continuity plan, we look forward to reuniting our Company and resuming normal business operations.

Operating results

The following is a summarized discussion of our consolidated operating results for the three and six months ended June 30, 2004, in comparison to the same periods in the prior year.

Operating revenues

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Telecommunications						
Local	\$ 188.5	\$ 192.6	(2.1)	\$ 376.8	\$ 382.6	(1.5)
Long distance	88.1	97.8	(9.9)	180.2	198.6	(9.3)
Wireless	94.0	80.4	16.8	180.5	153.6	17.5
Internet	30.2	26.5	14.1	59.2	51.9	14.1
Other revenues	65.3	66.7	(2.1)	102.0	107.2	(4.9)
	\$ 466.1	\$ 464.0	0.5	\$ 898.7	\$ 893.9	0.5
Information Technology						
IT services	\$ 52.1	\$ 56.9	(8.4)	\$ 106.1	\$ 113.4	(6.4)
Fulfillment	33.1	27.7	19.5	77.6	74.2	4.6
	\$ 85.2	\$ 84.6	0.7	\$ 183.7	\$ 187.6	(2.1)
Other and eliminations	\$ (25.7)	\$ (31.3)	17.9	\$ (52.4)	\$ (63.3)	17.2
Consolidated operating revenues	\$ 525.6	\$ 517.3	1.6	\$ 1,030.0	\$ 1,018.2	1.2

Telecommunications generated year-over-year growth in operating revenues of 0.5 per cent in the second quarter and first six months of 2004 led by strong wireless and Internet growth. The impact of regulatory decisions and changes in customer behaviour in response to the competitive environment and technological advancements continue to negatively impact local, long distance and other revenues mitigating the overall revenue growth. The labour disruption has also negatively impacted the second quarter of 2004 by an estimated \$9 million through a reduction in the number of new service installations, slower product sales, delays in Internet and wireless activations and additional long distance promotions.

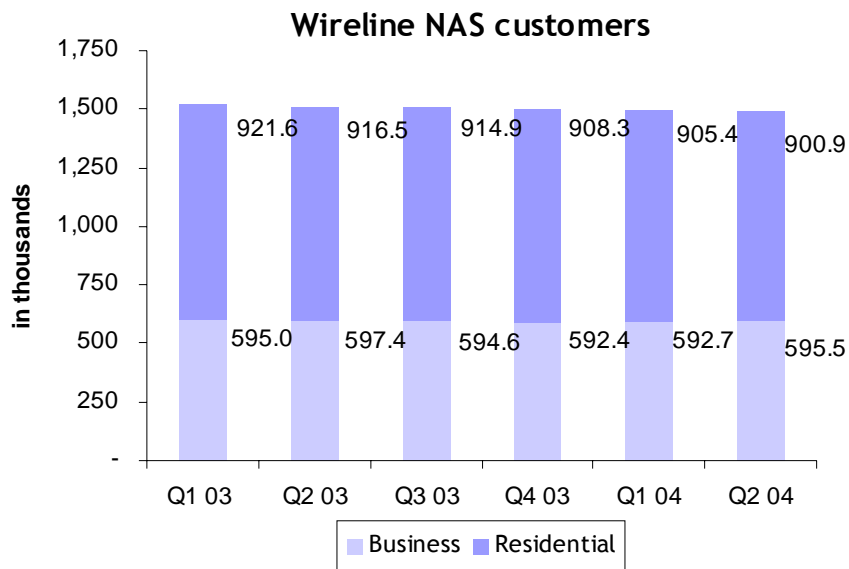
Information Technology operating revenues for the second quarter of 2004 were slightly higher than the same period in 2003, but slightly lower when the first six months in 2004 are compared to the same period in 2003. Internal sales have consistently decreased throughout 2004 compared to 2003 due to role re-alignment and productivity initiatives with the Telecommunications segment. External sales continue to strengthen in 2004 compared to 2003 mainly from fulfillment contracts, however new revenue growth arising from co-marketing leads from the Telecommunications segment has been lower than anticipated due to decreased activity during the labour disruption. On a year-to-date basis, external sales have increased 3.1 per cent compared to 2003, with the second quarter of 2004 exhibiting an 8.2 per cent increase over the same period in 2003.

Local revenue

Local revenue is earned through the provision of network access service (NAS), enhanced service features, data access, contribution payments, competitor payments, telephone set rentals, payphone usage and service charges.

Local revenues decreased by 2.1 per cent in the second quarter and 1.5 per cent in the first six months in comparison to the same periods last year. The decline in revenues in the second quarter of 2004 is higher than the decline in the first quarter due in part to the negative impact of the labour disruption. In general, the decline in local revenue is primarily resulting from competition, changes in consumers' communication needs and current year impacts from previous CRTC regulatory decisions. In order to mitigate these effects on local revenue, we focused on maximizing our customer retention programs, generating new revenue sources in data access and aggressively marketing enhanced service features.

NAS revenue, which represents over one half of all local revenues, declined 2.0 per cent in the second quarter of 2004 compared to the second quarter of 2003. Although we experienced a reduction in residential NAS customers of 1.7 per cent over the last year, the rate of our net residential NAS losses to the competition decreased by 29.4 per cent in the second quarter of 2004 compared to the same period in the prior year. Our residential NAS customer base continues to be negatively impacted by the regulatory restrictions on win-back promotions and the ongoing restriction on bundling and packaging of local service with other non-regulated services in the face of a competitive marketplace. In addition, Atlantic Canadians are increasingly choosing services such as cellular, e-mail, instant messaging and short text messaging to complement or replace traditional telecommunications services. Business NAS decreased 0.3 per cent due to competitive losses, particularly the loss of one large customer in late 2003 due to a regulatory decision. We have been able to offset some business NAS losses through growth in small- to medium-sized businesses. In combination, residential and business NAS customers decreased by 1.2 per cent over last year. During the second quarter of 2004, we focused on customer retention through our continued efforts on customer service and promotion of our local service value packages and business bundles.



At June 30, 2004, our residential NAS customer base is 1.7% lower than at June 30, 2003, contributing to a 1.2% year over year decline in total NAS customers.

Local revenues earned from services other than the provision of NAS have also declined, but to a lesser extent. In the second quarter of 2004, we continued to see the negative impact of the previous year CRTC price cap decision on contribution and competitor payments, lower revenue from monthly telephone set rentals as more customers choose to purchase telephone sets, and lower service charge revenue due to the lower number of new installations performed during the labour disruption.

Strong growth in data access and enhanced service features revenue continued in the second quarter of 2004 and offset the negative impacts experienced in these other areas. Data access revenues grew 7.3 percent over the second quarter of 2003 due to newer data access services, such as data broadband, despite negative impacts of the prior year CRTC price cap decision that required us to lower data access rates. Enhanced service features revenue grew 4.1 per cent over the second quarter of 2003, as customers chose to add features to their basic local service individually or as part of their local service value packages.

Long distance revenue

Long distance revenue consists of toll, data network and long distance terminating services.

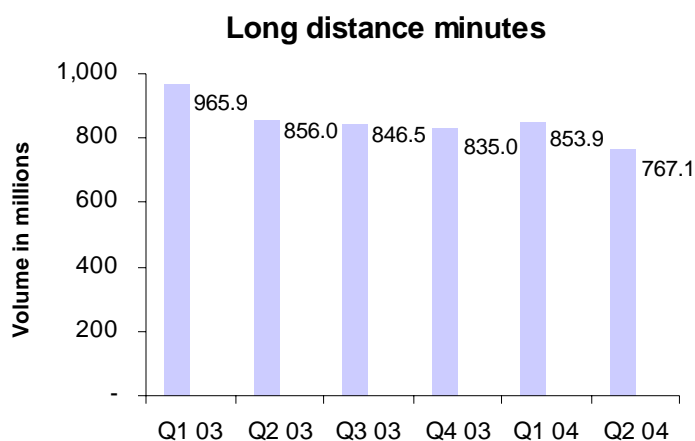
We continue to see long distance revenues decline in our competitive marketplace, as evidenced by revenue reduction of 9.9 per cent in the second quarter of 2004 and 9.3 per cent in the first six months of 2004 over the same periods in the prior year. The revenue decline has increased over the first quarter of 2004 due in part to the additional impact of our actions during the labour disruption, in particular promotional lower per minute rates. Lower rates, combined with reduced long distance minutes and a lower customer base, resulted in the decline in voice revenues. Data revenue continues to be lower as large customers have reduced or rationalized

their need for data circuits. We also experienced declines in terminating revenue due to CRTC mandated rate reductions, however, this decline was offset by savings we achieved in terminating expenses for our customers' calls to other regions.

In the second quarter of 2004, we introduced a long distance promotion as part of our overall retention strategy, which included a 9 cents per minute promotion for residential customers and an 8.5 cents per minute promotion for small- to medium-sized businesses. Although we continue to see declines in long distance minutes, the decline in minutes experienced between the first and second quarter of 2004 was 10.2 per cent, which is a reduction from the 11.4 percent decline in the comparable period of 2003.

Residential long distance minutes declined due to a lower customer base, increased substitution of long distance calling with wireless and Internet options and the restructuring of our customer plans during 2003. Components of this restructuring, such as capping of the minutes available under certain unlimited calling plans, have enabled us to optimize the usage of our network, improve profitability of this segment, and limit additional capital investment in a difficult market segment.

In the business long distance market, competitive pressure and a decline in contact centre activity has led to reduced business long distance minutes and has had a negative impact on business long distance revenues overall. We continue to aggressively respond to the competitive marketplace through offers designed to continually meet the needs of our customers, which have resulted in some new long distance contracts with business customers in the second quarter of 2004, as previously discussed.

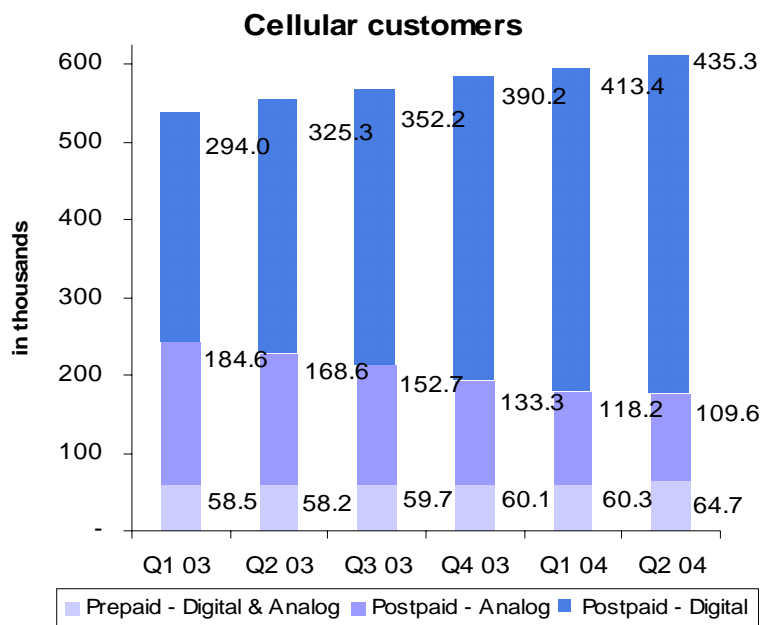


In the second quarter of 2004, our long distance minute volumes decreased by 10.4% over the second quarter of 2003, due in part to our decision to cap the minutes of usage on certain residential unlimited calling plans in 2003 and our competitive environment.

Wireless revenue

Wireless revenue is earned through the provision of cellular, paging and mobile radio services.

Our wireless revenues for the second quarter and first six months of 2004 grew 16.8 per cent and 17.5 per cent, respectively, over the same periods in 2003. Second quarter results were basically unimpeded by the labour disruption as a result of our strong market position. Our commitment to provide the most extensive and reliable cellular and data network available in Atlantic Canada has enabled us to achieve a 36.2 per cent increase in the number of digital customers over the last year. Approximately 85 per cent of Atlantic Canada’s population had access to our digital wireless and 1xRTT network at June 30, 2004, up from digital wireless coverage of 72 per cent at the same time last year.



Our cellular customers at June 30, 2004 grew 10.4% over June 30, 2003. Included in this result is 36.2% growth in our digital customers and 10.3% growth in our postpaid customers.

Year-over-year customer growth remained strong at 10.4 per cent due to having the most extensive digital wireless coverage in Atlantic Canada with continued expansion into new service areas and supported by a dealer network offering a sizeable handset selection and competitive pricing offers. We ran successful marketing campaigns for various markets in the second quarter of 2004. Overall, our net activations increased 17.9 per cent over the second quarter of 2003. Our churn, or customer turnover rate, has improved 15.8 per cent over the same period last year. This improvement is due to a higher base of customers on long-term contracts, driven by hardware upgrades and customer service incentive programs focused on customer retention.

Wireless - statistics

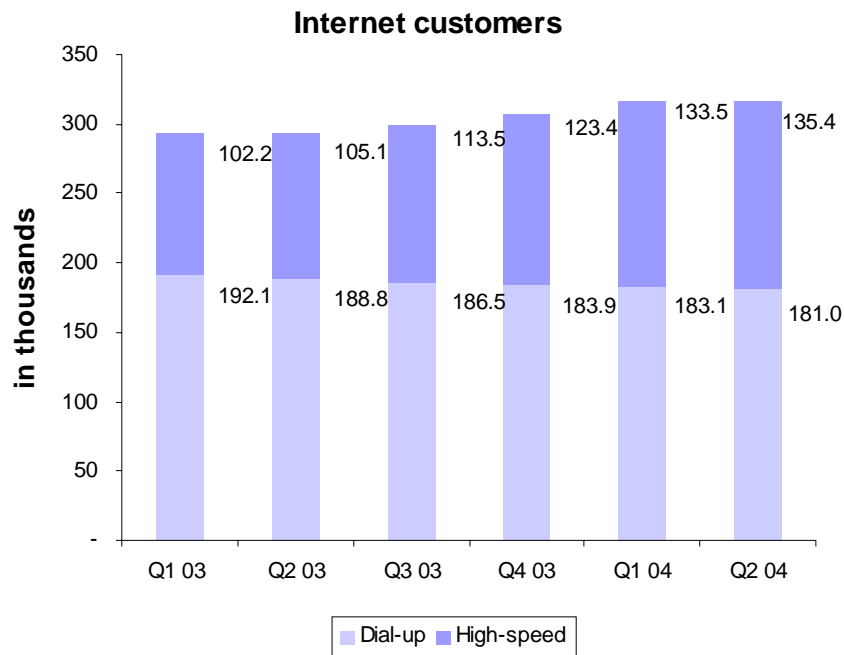
<i>For the period ended June 30</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Monthly - Average revenue per customer						
Postpaid	\$ 54.24	\$ 51.04	6.3	\$ 52.55	\$ 49.05	7.1
Prepaid	\$ 10.85	\$ 9.22	17.7	\$ 10.26	\$ 8.60	19.3
Total	\$ 49.72	\$ 46.52	6.9	\$ 48.19	\$ 44.68	7.9
Monthly - Average minutes of use per customer						
	272	247	10.1	255	231	10.4
Churn						
	1.23%	1.46%	(15.8)	1.26%	1.43%	(11.9)

The 6.9 per cent growth in total average revenue per customer (ARPC) for the second quarter of 2004 over the same period in the prior year, results from an increase in the average minutes of use, increased customer adoption of feature combination offers, increase in the percentage of customers choosing digital service and an increase in data usage. Digital customers generate higher monthly ARPC than analog, likewise postpaid customers generate higher monthly ARPC than prepaid. Our digital customer base grew by 36.2 per cent over the past year and now represents 74.2 per cent of our cellular customer base compared to 60.2 per cent for the same point in time in 2003. Our postpaid customer mix of 89.4 per cent continues to lead the industry.

Internet revenue

Internet revenue consists of high-speed and dial-up service to residential and business markets, which include enhanced services such as Music on my PC™ and Personal Firewall.

Internet revenue continues to perform well exhibiting growth of 14.1 per cent for the second quarter and first six months of 2004 compared to the same periods in 2003 resulting from customer growth, improved ARPC and lower churn.



Our Internet customer base at June 30, 2004 grew 7.7% over June 30, 2003, including 28.8% growth in our number of high-speed customers. This continued growth is due to our competitive pricing, value-added services and network expansion.

Our Internet customers grew 7.7 per cent over the second quarter of 2003, which includes high-speed customer growth of 28.8 per cent. We have been able to generate customer growth through attractive introductory offers, valued-added service offerings, dedicated high-speed service and expansion of our high-speed network coverage. Our newest value-added service, ultra high-speed Internet, has seen favourable customer response since its introduction late in the first quarter this year. As at June 30, 2004, our high-speed Internet service passed 66 per cent of homes in Atlantic Canada, up from 63 per cent at June 30, 2003, and continues to expand, albeit at a reduced pace due to the current labour disruption.

Internet - statistics

<i>For the period ended June 30</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Monthly - Average revenue per customer						
Consumer dial-up*	\$ 20.18	\$ 19.77	2.1	\$ 19.93	\$ 19.57	1.8
Consumer high-speed*	\$ 33.76	\$ 34.67	(2.6)	\$ 33.62	\$ 34.36	(2.2)
Business dial-up	\$ 44.23	\$ 44.36	(0.3)	\$ 44.86	\$ 44.07	1.8
Business high-speed	\$ 102.93	\$ 93.44	10.2	\$ 100.71	\$ 92.50	8.9
Churn	1.70%	2.10%	(19.0)	1.90%	2.00%	(5.0)

* These statistics have been restated to include revenues from enhanced services. This restatement was necessary to conform to the new industry standard of including all revenue derived from consumer Internet service in the calculation of average revenue per customer.

Initiatives to aggressively manage churn and programs to improve ARPC have also contributed to continued strong customer and revenue growth. Business Internet services have seen significant year-over-year improvement in ARPC, while consumer Internet services have remained relatively stable. The business ARPC increases are attributable to the expansion and popularity of security services, price restructuring within product categories and increased usage. The success that we have seen in attracting new customers through introductory promotional programs has had a minimal impact on consumer high-speed ARPC in the short-term but will bring long-term benefits through an increased customer base. Churn continues to remain low and show year-over-year improvement as we continue to focus on loyalty management. The continuation of customer retention programs including loyalty bulletins and emphasis on long-term customer contracts, as well as the integration of Internet offers with our other product lines, has served to minimize the impact of competition on churn.

Other revenues

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Product	\$ 26.5	\$ 26.7	(0.7)	\$ 51.7	\$ 51.3	0.8
Directory	28.0	26.1	7.3	30.0	27.9	7.5
Innovatia	6.4	6.6	(3.0)	12.4	12.2	1.6
Miscellaneous	4.4	7.3	(39.7)	7.9	15.8	(50.0)
Other revenues	\$ 65.3	\$ 66.7	(2.1)	\$ 102.0	\$ 107.2	(4.9)

Other revenues decreased by 2.1 per cent from the second quarter in 2003 despite strong directory revenues. Directory revenues have grown reflective of strong marketing efforts and the advertisers' commitment to this advertising medium. Consistent with prior years, a large portion of our year-to-date directory revenues were recognized in the second quarter coinciding with the timing of the issuance of some of our larger directories. Product sales were below expectations in the second quarter of 2004 due mainly to the labour disruption. Miscellaneous

revenues have decreased as a result of lower late payment rates driven by interest rate declines and lower private line broadcast revenue as 2003 included some large broadcast events.

IT services revenue

IT services revenue consists of systems integration, software engineering, infrastructure services and other IT consulting.

During the second quarter of 2004, IT services revenue declined by \$4.8 million over the same period in 2003, \$3.7 million of which was to external customers. This decrease reflects the disposition of the Internet help desk call centre during the second quarter and a slight slow down in new revenue growth due to fewer co-marketing leads from the Telecommunications segment during the labour disruption. Internally generated IT services revenue has decreased by \$1.1 million compared to the second quarter of last year, as continued collaboration with the Telecommunications segments has resulted in efficiencies from role re-alignment and productivity improvement initiatives. On a year-to-date basis, the decline in internal revenues represents \$4.6 million of the \$7.3 million decrease in IT services revenues.

During the second quarter of 2004, xwave renewed contracts with existing clients and secured new business with customers, including the State of Virginia and Airbus, which will help grow IT services revenues into the future.

Fulfillment revenue

Fulfillment revenue includes the sale of computer hardware, accessories and packaged software.

Fulfillment revenue showed strong performance in the second quarter increasing by \$5.4 million over the second quarter of 2003, despite a \$2.9 million decrease in internal sales from reduced procurement activity by our Telecommunications segment. This \$8.3 million increase in external sales is due to strong sales in Ontario, in both the private and public sectors. On a year-to-date basis, there is a \$6.8 million increase in external revenues offset by a \$3.4 million decrease in internal revenues.

Cost of operating revenues

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Cost of operating revenues	\$ 69.2	\$ 64.6	7.1	\$ 143.7	\$ 148.0	(2.9)

Higher Information Technology fulfillment revenue in the second quarter of 2004, compared to the same period in 2003, has caused an associated increase in cost of operating revenues. Results were also impacted in the second quarter of 2004 by improved margins on product sales and throughout 2004 by continued lower toll terminating costs in our long distance portfolio and lower payments to the contribution pool than those experienced in 2003.

Operating expenses

For the period ended June 30
(millions of dollars)

	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Telecommunications	\$ 231.3	\$ 201.1	15.0	\$ 444.2	\$ 401.5	10.6
Information Technology	49.0	57.8	(15.2)	100.9	120.6	(16.3)
Other and eliminations	(19.0)	(27.5)	(30.9)	(39.8)	(54.8)	(27.4)
Consolidated operating expenses	\$ 261.3	\$ 231.4	12.9	\$ 505.3	\$ 467.3	8.1

Operating expenses have increased in the second quarter and first six months of 2004 over the same periods in 2003 due to growth in the wireless business, the current quarter impact of the labour disruption, and increased pension and other post employment benefit costs. This has been partially offset by significant cost reductions in xwave as the benefits of restructuring activities are realized. Costs eliminated on consolidation have decreased primarily because both of our operating segments transact business between them at commercial rates which have been renegotiated. The other significant factor is the absence of eliminating entries in 2004 for transaction activity with entities which were disposed of in 2003.

In our Telecommunications segment, operating expenses, excluding pensions and other post employment benefit costs which are dealt with later in this section, increased by \$25.6 million in the second quarter and \$31.7 million in the first six months compared to the same periods in the prior year. The growth of wireless services has created associated operating expense increases in the second quarter of 2004 of \$6.2 million, \$10.7 million in the first six months of 2004, which relate to commissions, subsidies, cellular phone and accessories costs and to actions in support of increased customer service levels. The current labour disruption accounts for approximately \$16.0 million of the additional operating costs in the second quarter, primarily the result of security requirements and property repairs to enable our operations to continue with relatively little interruption. These costs were at their highest in the first month of the disruption when we needed to train, equip and reposition employees for their customer service roles and before we were successful in obtaining legal injunctions, which served to stabilize the environment for our employees. The transfer of approximately 80 employees from the Information Technology segment to the Telecommunications segment in July 2003, combined with normal annual wage and salary adjustments, have contributed \$6.8 million in increased salaries and benefits for the second quarter of 2004, \$10.0 million for the first six months of the year.

Our Information Technology segment has been successfully reducing costs since its 2003 restructuring through improved productivity from the consulting services resource pool and reduced general, selling and administrative expenses. We continue to seek additional synergies in operating costs between this segment and Telecommunications as an extension of the increasingly integrated go-to-market strategy. Future expense savings which relate to the sale of the Internet help desk in June 2004 will offset the related loss of revenue.

Pension and other post employment benefits cost

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Defined benefit	\$ 12.9	\$ 8.2	57.3	\$ 25.8	\$ 16.4	57.3
Defined contribution	2.0	2.4	(16.7)	5.3	4.4	20.5
Other post employment benefits	3.8	3.5	8.6	7.7	7.0	10.0
	\$ 18.7	\$ 14.1	32.6	\$ 38.8	\$ 27.8	39.6

The increase in pension and other post employment benefit costs contributes \$4.6 million and \$11.0 million to the increase in operating expenses for the second quarter and first six months of 2004, respectively, compared to the same periods in 2003.

The increase in pension and other post employment benefits cost relates primarily to the defined benefit (DB) pension plans. DB pension costs and other post employment benefits (OPEBs) costs are made up of a number of components. Each of these components is dependent on the actuarial valuations of the plans and management's assumptions about future events. These assumptions and the components of DB pension and OPEBs costs are disclosed in notes 1 and 5 to our unaudited interim consolidated financial statements for the period ended June 30, 2004.

DB pension cost has increased in 2004 primarily due to the increase in the amortization of net actuarial losses attributable to the higher balance of accumulated actuarial losses. The balance of accumulated actuarial losses has increased because past returns on plan assets were lower than expected and because the plan liabilities are higher than anticipated. The liability growth has largely come from lower interest rates being used to discount the future expected payments to pensioners. In the second quarter of 2004, we amortized \$4.7 million of the accumulated losses through pension cost while \$1.4 million was amortized during the same period in 2003.

The cost related to defined contribution (DC) pension plans is simply equal to the amount of the employer's required contribution to the employees' accounts. The increase in the first six months of 2004 is due to higher short-term incentive payments in the first quarter, which attract pension contributions. During the second quarter, DC pension plans' cost fell, as contributions are not being made for employee-members that are on legal work stoppage.

Our OPEBs cost has increased due to the interest on the unfunded obligation as the OPEBs liability has grown.

Depreciation and amortization

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Depreciation and amortization	\$ 98.5	\$ 98.4	0.1	\$ 199.5	\$ 196.6	1.5

Depreciation and amortization increased mainly due to the higher proportion of Telecommunications' capital investment in recent years being in broadband and wireless assets, which have depreciable lives as short as three years.

Restructuring charge

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Restructuring charge	\$ 1.5	\$ -	-	\$ 4.6	\$ -	-

In 2004, Telecommunications executed a restructuring plan, which resulted in a charge of \$1.9 million in the first quarter and \$0.3 million in the second quarter. This plan relates to workforce reductions with the associated costs being severance and related benefits.

Information Technology incurred \$1.2 million in restructuring charges in the second quarter of 2004, bringing the year-to-date total to \$2.4 million. This is a continuation of xwave's strategy realignment and business model simplification and consists of severance and related benefits as well as premises rationalization costs.

Other income (expenses)

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Interest income	\$ 2.2	\$ 2.2	-	\$ 9.3	\$ 5.3	75.5
Accounts receivable securitization	(0.8)	(1.2)	(33.3)	(1.8)	(2.3)	(21.7)
Provincial large corporation tax	(0.4)	(1.0)	(60.0)	(2.3)	(2.2)	4.5
Miscellaneous income (charges)	1.1	(0.2)	-	(0.1)	(1.3)	(92.3)
	\$ 2.1	\$ (0.2)	-	\$ 5.1	\$ (0.5)	-

Other income has increased by \$2.3 million for the second quarter compared to the last year due in part to some short-term portfolio investment transactions reflected in miscellaneous income. Other income has increased by \$5.6 million for the first six months of 2004 compared to the same period in 2003 due primarily to interest earned on cash balances and on previous years' tax reassessments.

Interest charges

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Interest charges	\$ 18.6	\$ 21.0	(11.4)	\$ 37.8	\$ 41.9	(9.8)

Interest charges have decreased in 2004 compared to the prior year due primarily to a decrease in the amount of outstanding debt, as \$72.5 million in debentures and bonds were repaid in June and July of 2003. An interest rate swap entered into in December 2003 is also contributing to lower interest charges in 2004, as we are benefiting from low floating interest rates.

Income taxes

Calculation of effective income tax rate

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Net income from continuing operations	\$ 50.1	\$ 61.2	(18.2)	\$ 90.8	\$ 98.7	(8.1)
Addback:						
Income taxes	28.2	40.6	(30.5)	52.7	65.3	(19.3)
Non-controlling interest	0.3	-	-	0.8	(0.1)	-
Net income from continuing operations before income taxes and non-controlling interest	\$ 78.6	\$ 101.8	(22.8)	\$ 144.3	\$ 163.9	(12.0)
Effective income tax rate	35.87%	39.89%	(10.1)	36.55%	39.84%	(8.3)

The income tax provision decreased due to the decrease in net income from continuing operations and the decline in the effective income tax rate. The decline in the rate is mainly attributable to lower statutory rates in 2004, compared to 2003.

Non-controlling interest

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Non-controlling interest	\$ 0.3	\$ -	-	\$ 0.8	\$ (0.1)	-

Non-controlling interest mainly represents the proportionate results of Atlantic Mobility Products Ltd.

Net income and earnings per share

For the period ended June 30 (millions of dollars, except per share amounts)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Net income:						
Continuing operations	\$ 50.1	\$ 61.2	(18.2)	\$ 90.8	\$ 98.7	(8.1)
Discontinued operations	-	9.4	-	-	10.8	-
Total net income	\$ 50.1	\$ 70.6	(29.0)	\$ 90.8	\$ 109.5	(17.1)
Earnings per common share:						
Continuing operations	\$ 0.36	\$ 0.42	(14.3)	\$ 0.65	\$ 0.67	(3.0)
Discontinued operations	-	0.07	-	-	0.08	-
Total earnings per common share	\$ 0.36	\$ 0.49	(26.5)	\$ 0.65	\$ 0.75	(13.3)

Our exit from non-core businesses in 2003 resulted in the reclassification of prior period results of these businesses as discontinued operations. In the first six months of 2003, the results from Aliant Inc. MD&A Second Quarter 2004

discontinued operations reflect the operating activities of the businesses prior to their disposition and a \$10.9 million gain, net of taxes, on the sale of some of these businesses in the second quarter.

The decrease in net income from continuing operations for 2004 over 2003 is due primarily to the negative impact of the restructuring charge, year-over-year increase in pension and OPEBs costs and the impact of the labour disruption. This decrease was mitigated in part by lower interest charges and income taxes.

Financial and capital management

Summary of consolidated cash flows

Cash and cash equivalents at June 30, 2004, were \$306.7 million. During the second quarter, we have generated \$111.2 million in cash from operations bringing our year-to-date total of cash from operations to \$258.0 million. We anticipate that we will continue to generate strong cash flow from operations throughout the year. We continue to deploy cash that is not required in our operations at this time in a manner consistent with our objective of maximizing shareholder value. This includes the payment of dividends to our shareholders, the buyback of common shares from our shareholders under our NCIB program and the strategic investment in new opportunities complementary to our core business to support our future growth.

Our cash requirements for the remainder of 2004 will consist of purchases of the remaining 268,846 shares allowed under our current NCIB program, quarterly dividend payments, repayment of debt, funding of required pension plan contributions, capital investments and scheduled contractual obligations. The only significant debt repayment that is scheduled for 2004 is a \$100.0 million bond maturing in October and we expect to repay this out of cash from operations. DB pension plan funding required in 2004 is anticipated to be in the range of \$50.0 to \$70.0 million, of which \$32.6 million has been paid to June 30, 2004.

Operating activities

Summary of cash flows from operating activities

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Net income from continuing operations	\$ 50.1	\$ 61.2	(18.2)	\$ 90.8	\$ 98.7	(8.1)
Non-cash items	119.2	108.9	9.5	235.9	190.4	23.9
	169.3	170.1	(0.5)	326.7	289.1	13.0
Change in non-cash working capital	(58.1)	(14.2)	-	(68.7)	89.1	-
Cash from continuing operations	\$ 111.2	\$ 155.9	(28.6)	\$ 258.0	\$ 378.2	(31.8)

Cash generated from continuing operating activities in the second quarter and first six months of 2004 has decreased by \$44.7 million and \$120.2 million, respectively, compared to the same period last year. Cash from continuing operations before the change in non-cash working capital are comparable to the second quarter of 2003 but have increased \$37.6 million or 13.0 per cent year to date as non-cash pension cost has been one of the larger contributors to the decline in net income for the second quarter and first six months. As well, a non-recurring future tax recovery in 2003 arising from the reversal of temporary taxable timing differences,

and a higher future tax expense in the first quarter of 2004 resulting from increased pension contributions, as well as other timing differences in the second quarter of 2004, have created a higher non-cash future tax expense in 2004 compared to 2003.

Change in non-cash working capital

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Accounts receivable	\$ (9.8)	\$ 13.7	-	\$ 27.4	\$ 21.4	28.0
Income and other taxes payable	(19.1)	(6.2)	-	(45.1)	91.5	-
Prepayments	(16.0)	(22.5)	(28.9)	(19.9)	(28.6)	(30.4)
Inventory	1.5	2.0	(25.0)	0.8	0.7	14.3
Accounts payable and other liabilities	(14.7)	(1.2)	-	(31.9)	4.1	-
Change in non-cash working capital	\$ (58.1)	\$ (14.2)	-	\$ (68.7)	\$ 89.1	-

Changes in non-cash working capital reduced cash from operations during the second quarter and first six months of 2004, which compared to the same periods in 2003 represents an additional use of cash from operations of \$43.9 million and \$157.8 million, respectively.

During the second quarter of 2004, the number of days sales outstanding in accounts receivable exhibited a 3.2 day degradation compared to the same period in 2003, which is mainly due to the labour disruption. The reduction of accounts payable is due primarily to lower capital spending in the second quarter of 2004. Timing differences between recording the provision for income and other taxes and making the installment payments has also impacted the change in non-cash working capital balance. The majority of the change in non-cash working capital in the second quarter is anticipated to reverse in future quarters.

On a year-to-date basis, larger income tax and harmonized sales tax refunds received in the first six months of 2003, as compared to 2004, as well as timing differences between recording the tax provisions and payment of tax installments have contributed to the additional use of cash. We have been able to maintain our working capital management at levels similar to those seen in the same period in 2003 with the exception of the impact of the 2003 refunds on income and other taxes payable and the significant decreases in accounts payable, relating to the reduced capital investment in the second quarter of 2004.

Financing activities

Summary of cash flows from financing activities

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Net proceeds (repayments) of notes payable and bank advances	\$ (4.7)	\$ 30.8	-	\$ (13.4)	\$ (10.9)	22.9
Repayments of long-term debt	(0.1)	(66.3)	(99.8)	(0.1)	(66.3)	(99.8)
Increase in capital lease obligations	0.8	2.8	(71.4)	0.6	1.7	(64.7)
Repurchase of common shares	(23.0)	(14.6)	57.5	(41.7)	(32.7)	27.5
Preferred and common share dividends	(37.5)	(39.1)	(4.1)	(75.2)	(75.0)	0.3
Other financing activities	(0.1)	(4.9)	(98.0)	(5.6)	(4.9)	14.3
Cash used in financing activities	\$ (64.6)	\$ (91.3)	(29.2)	\$ (135.4)	\$ (188.1)	(28.0)

Cash used in financing activities in the second quarter of 2004 has been related primarily to common share repurchases made under our NCIB program as well as the payment of dividends on preferred and common shares. More cash was required for financing activities in the second quarter and first six months of 2003 due to the repayment of a \$65.0 million debenture in June 2003. Increased share buyback activity has also been undertaken in the NCIB program in 2004. The use of cash from other financing activities related primarily to the repurchase of \$5.0 million accounts receivable under our accounts receivable securitization program in each of the second quarter of 2003 and the first quarter of 2004, as reported under "Other financing activities".

Liquidity and financing resources

As at June 30, 2004, we maintain lines of credit totalling \$557.0 million in aggregate with our bankers. These lines of credit are unchanged from December 31, 2003, and further details are provided in note 7 to our unaudited interim consolidated financial statements for the period ended June 30, 2004.

There were no balances outstanding under our commercial paper program or uncommitted operating lines as at June 30, 2004.

Bank operating lines of credit within our business segments include:

- \$42.0 million in Telecommunications - which had \$0.7 million outstanding as at June 30, 2004, compared to \$4.5 million at December 31, 2003.
- \$15.0 million in Information Technology - there were no amounts drawn at June 30, 2004, on this line of credit compared to a balance of \$6.0 million at December 31, 2003. Letters of credit committed against this line of credit total \$6.1 million at June 30, 2004, compared to \$6.9 million at December 31, 2003.

Our solid financial position and stable outlook were affirmed, as indicated in the accompanying table, by credit ratings issued during the second quarter of 2004 from Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). Our ratings have remained consistent throughout 2003 and into 2004, except for S&P's preferred share rating, which moved from P-2 to P-2 (high) with stable outlook in the second quarter of 2004.

Financial strength

	Standard & Poor's	Dominion Bond Rating Service
Aliant corporate credit rating	A stable outlook	A (low) stable trend
Aliant preferred shares	P-2 (high) stable outlook	Pfd-2 (low) stable trend
Aliant commercial paper	A-1 stable outlook	R-1 (low) stable trend
Aliant Telecom unsecured long-term debt	A stable outlook	A stable trend

Consolidated capital structure

The percentage of debt to total capital was 38.7 per cent at June 30, 2004, unchanged from December 31, 2003.

(millions of dollars)	June 30, 2004		December 31, 2003	
Common equity	\$ 1,425.5	54.5%	\$ 1,451.6	54.7%
Preferred equity	172.3	6.6%	172.3	6.5%
Non-controlling interest	4.3	0.2%	4.1	0.1%
Long-term debt, including current portion	990.6	37.9%	990.1	37.3%
Short-term debt, including bank indebtedness and interest payable	21.9	0.8%	36.1	1.4%
	\$ 2,614.6	100.0%	\$ 2,654.2	100.0%

Corporate equity instruments

We issued common shares in the amount of \$1.9 million during the second quarter of 2004 and \$4.1 million during the first six months of 2004, by way of our common shareholder dividend reinvestment and stock purchase plan, and the exercise of options under our employee stock option plan. Shares were purchased on the open market to fulfill the requirements of our employees' stock savings plan.

Under the current NCIB program, which commenced on August 6, 2003, for a twelve-month period ending August 5, 2004, we purchase, from time to time, our common shares for cash through the facilities of the Toronto Stock Exchange. All common shares purchased pursuant to the NCIB are cancelled. Further details on this NCIB are provided in note 11 to our unaudited interim consolidated financial statements for the period ended June 30, 2004. As at June 30, 2004, we had purchased for cancellation 6,656,154 common shares under this NCIB at an aggregate price of \$207.4 million, of which 1,463,284 common shares were purchased during the first six months of 2004 at an aggregate price of \$43.5 million.

Due to the lower number of shares outstanding, the total dividends that we paid to our common shareholders decreased \$1.6 million for the second quarter of 2004 over 2003 levels to \$36.5 million. On a year-to-date basis, the total dividends paid to our common shareholders are \$73.1 million, an increase of \$0.3 million over the first six months of 2003 due to the fact that the current dividend rate per share was increased effective in the second quarter of 2003. Dividends paid that were subsequently reinvested in the dividend reinvestment plan and employees' stock savings plans were \$2.4 million for each of the first two quarters of 2004, consistent with the prior year.

We paid preferred shareholder dividends of \$2.4 million and \$4.8 million for the second quarter and first six months of 2004, respectively, consistent with the amounts paid in 2003.

Our outstanding shares and stock options as of July 26, 2004 are as follows:

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

Issued

(millions of dollars, except as otherwise noted)

	July 26, 2004	
	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172.3
Common shares	132,120,061	1,027.0
		\$ 1,199.3

	July 26, 2004	
	Number of options	Weighted average exercise price
Options outstanding	2,694,856	\$ 30.60
Options exercisable	1,899,456	\$ 30.70

Between July 1, 2004, and July 26, 2004, we purchased for cancellation 192,345 common shares under the NCIB at an aggregate price of \$5.1 million.

Investing activities

Summary of cash flows from investing activities

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Purchase of capital investments	\$ (44.7)	\$ (72.9)	(38.6)	\$ (129.5)	\$ (143.5)	(9.7)
Other investing activities	(18.9)	(24.1)	(21.6)	(51.8)	(18.8)	-
Cash used in investing activities	\$ (63.6)	\$ (97.0)	(34.4)	\$ (181.3)	\$ (162.3)	11.7

Cash used in investing activities for the second quarter of 2004 has decreased significantly over the same period in 2003 due mainly to a slower pace of capital investments resulting from the labour disruption. Capital investments for the first six months of 2004 are down 9.7 per cent compared with 2003. For the six months ended June 30, 2004, cash used in other investing activities has increased over the same period in 2003 due to a special deficit-funding pension contribution of \$25.0 million in the first quarter of 2004 and an increase in regular funding of the DB pension plans due to the funding requirements identified in the December 31, 2002, actuarial valuations. Most of the 2003 pension funding occurred in the latter six months of the year as the 2002 actuarial valuation was completed in September 2003.

Capital investments

For the period ended June 30
(millions of dollars)

	Three months			Six months		
	2004	2003	% change	2004	2003	% change
Telecommunications	\$ 42.4	\$ 71.4	(40.6)	\$ 126.8	\$ 141.2	(10.2)
Information Technology	2.2	0.6	266.7	2.6	1.1	136.4
Other	0.1	0.9	(88.9)	0.1	1.2	(91.7)
Total purchase of capital investments	\$ 44.7	\$ 72.9	(38.6)	\$ 129.5	\$ 143.5	(9.7)

Telecommunications

Telecommunications' capital investment for the second quarter of 2004 is \$29.0 million lower than the investment for the same period in 2003. Due to the higher investment made in the first quarter of 2004, year-to-date capital investment is only \$14.4 million lower than in 2003. Although the labour disruption has slowed some of our capital projects, we are continuing to make core investments as required to support our existing network, grow our high-speed Internet and wireless digital coverage and fund development of our VoIP solution. Once normal operations resume, we will accelerate work on our capital projects.

Information Technology

Information technology's capital investment during the second quarter was higher compared to the same period of the prior year. The capital investment during the first half of 2003 was kept to a minimum as significant investment had been incurred in 2002, limiting the requirement for capital early in 2003. During the second quarter of 2004, capital was invested in software that is required in our data centres to support our clients' outsourcing requirements. The IT industry is not highly capital intensive and capital needs are driven largely by changes in the employee base, the data processing business and customer support requirements.

Other financial arrangements

Off-balance sheet arrangements

Off-balance sheet arrangements involve transferring accounts receivable to a securitization trust. Further details on this arrangement are provided in notes 1 and 2 to our unaudited interim consolidated financial statements for the period ended June 30, 2004.

We also have various operating leases and purchase commitments for equipment and other network infrastructure. The amounts of estimated future payments are disclosed in note 18 to our unaudited interim consolidated financial statements for the period ended June 30, 2004, and have not materially changed from those disclosed in the MD&A for the year ended December 31, 2003.

Derivative financial instruments

Our derivative financial instruments consist of interest rate swap and interest rate swaption agreements. Further details of these agreements are provided in notes 1 and 17 to our unaudited interim consolidated financial statements for the period ended June 30, 2004. There has been no change in the purpose or terms of these derivative financial instruments during the second quarter of 2004.

Pension and other post employment benefits obligations and related cash funding requirements

Most of our employees participate in one of our pension plans in order to assist in providing for their retirement. While most new employees participate in a DC pension plan, we still have many active employees in one of our four non-contributory DB pension plans. We also offer retiring employees certain other non-pension benefits such as health and dental care and disability insurance. The DB pension plans require periodic funding payments to be made to a trust fund while the OPEB plans require cash payments to be made directly to the plan carrier or to the retired employee. Details of our DC, DB and OPEB plans are provided in notes 1 and 5 to our unaudited interim consolidated financial statements for the period ended June 30, 2004.

We perform actuarial valuations on our DB pension plans at least every three years. During 2003, we completed the actuarial valuations of our DB plans as of December 31, 2002. Based on these actuarial valuations we are making periodic funding contributions at the 2003 required funding rate of approximately \$64 million annually. This translates into \$16.6 million and \$32.6 million for the second quarter and first six months of 2004, respectively.

Related party transactions

In the normal course of business we engage in numerous transactions with our majority shareholder, Bell Canada, such as the purchase of telecommunications and other services, the provision of telecommunications services and the purchase of capital investments. We also repurchased our shares for cancellation from Bell Canada on a pro-rata basis through our NCIB. Refer to note 19 to our unaudited interim consolidated financial statements for the period ended June 30, 2004, for greater detail on our related party transactions.

Significant accounting policies

Our unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP. Greater detail on our significant accounting policies is provided in note 1 to our unaudited interim consolidated financial statements for the period ended June 30, 2004. The accounting policies and methods, key assumptions and estimates, and choice of alternative acceptable accounting policies are consistent with the current and future accounting policies noted in the most recent annual audited financial statements and as further disclosed in our MD&A for the year ended December 31, 2003.

Risk and risk management

While management is confident about our long-term prospects, we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. A comprehensive discussion of these risks can be found in our MD&A for the year ended December 31, 2003, as presented on pages 37 to 40 of our 2003 annual report. In addition to identifying significant changes in the risks that we discussed at year end we have expanded our discussion of risk to include pension fund contributions, events affecting our networks and stock market volatility.

Pension fund contributions

Our DB pension plans assets were negatively impacted by the decline in the equity capital markets in 2001 and 2002. This, combined with historically low interest rates, contributed to deficits in our plans as of our most recent actuarial valuations as at December 31, 2002. As a

result of these actuarial valuations, a minimum funding requirement of \$63.7 million was identified for 2003. Total funding contributions, including minimum required contributions, voluntary funding contributions of \$55.0 million and other plan contributions totalled \$124.7 million in 2003.

In 2004, we are currently making periodic funding contributions at the rate required in 2003, or approximately \$16 million per quarter. We are updating our actuarial valuations as required for the year ended December 31, 2003 and expect these to be complete in the third quarter of 2004. If the return on plan assets, interest on the obligation or actuarial experience of the plans are better or worse than initially anticipated these valuations could result in either lower or higher minimum required contributions to the DB pension plans than the approximately \$64 million funding level currently being used.

If required funding levels were to change as a result of these updated actuarial valuations we could be required to make significant cash outlays. Based on improved investment returns of the DB pension plans assets in 2003 and the extra voluntary contributions made to the plans, minimum funding requirements for 2004 are currently expected to decline in the updated valuations.

Events affecting our networks

Network failures could materially hurt our business, including our customer relationships and operating results. Our operations depend on how well we protect our networks, our equipment, our applications and the information stored in our data centres against damage from fire, natural disaster, power loss, hacking, computer viruses, disabling devices, deliberate acts of vandalism, acts of war or terrorism, and other events. Any of these events could cause our operations to be shut down indefinitely. Our network is connected with the networks of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the events mentioned previously, as well as strikes or other work disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could also hurt our business, including our customer relationships and operating results.

During the second quarter, our network has been impacted by computer viruses and deliberate acts of vandalism and our work force has effectively dealt with these issues in a timely and efficient manner despite our ongoing labour disruption. Public safety and restoring emergency services remain our top priority and we are working in cooperation with local authorities to investigate these incidents in an attempt to communicate the seriousness of these incidents and in hopes of mitigating the likelihood of recurrence.

Stock market volatility

Stock markets have experienced significant volatility in the current year and over the last few years due to several factors in the market overall, such as fluctuating interest rates and political uncertainty. This market volatility has affected the market price and trading volumes of the shares of many companies. In particular, telecommunications companies have been experiencing additional volatility due to industry factors such as competition, mergers and acquisitions activity, income trust debates and regulatory developments. Differences between our actual or anticipated financial results and the published expectations of financial analysts may also contribute to volatility in our common shares. A major decline in the capital markets in general, or an adjustment in the market price or trading volumes of our common shares or

other securities, may materially and negatively impact our ability to raise capital, issue debt, retain employees or make future strategic acquisitions or joint ventures.

Regulatory developments

A number of CRTC proceedings are currently underway that deal with issues of significance to incumbent local exchange carriers (ILECs), such as us. These proceedings include a review of bundled services, regulation of VoIP services, new floor price rules for ILECs' price-regulated services, costs of certain services provided to competitors, local forbearance and the deferral account mechanism.

Earlier this year, the CRTC issued a public notice for comment entitled "Regulatory framework for voice communications using Internet Protocol". The CRTC has indicated it supports imposing rules for some VoIP services, similar to those that currently apply to traditional local phone services. On June 18, 2004, we filed a joint submission with Bell, SaskTel and Telebec, urging the CRTC to refrain from regulating prices for VoIP services and allow all VoIP service providers to compete for customers according to the same rules. There is a risk that the CRTC may rule contrary to the position made in this submission and create an environment in which we are subject to price-regulation and competitors are not. This would negatively impact our future revenue potential from VoIP services.

The final submissions from the parties participating in the review of the floor-price proceeding were filed with the CRTC on June 25, 2004. The ILECs (including Aliant), consumer groups, and business customer groups opposed any new restrictions while competitors supported the proposed restrictions on the ILECs or requested stronger measures. Any new restrictions on the floor prices for regulated services could limit our ability to satisfy customer requirements and could negatively affect our financial performance. A decision is expected by early 2005.

On April 7, 2004, we filed a forbearance application with the CRTC requesting them to stop regulating local residential phone service within certain areas of Nova Scotia and Prince Edward Island where there is significant local residential competition. In April 2004, the CRTC issued its Three-Year Work Plan for the years 2004 to 2007. That work plan indicates that the CRTC expects to deal with the local forbearance application during the April 2005 to March 2006 time frame. If the CRTC denies this application we expect to experience continued market share degradation, as our ability to compete will continue to be hindered.

In addition to the forbearance request, our April 7, 2004, application also requested that the CRTC provide us with immediate exemption from several past CRTC decisions that negatively affect customers in competitive areas, including:

- the restriction that prevents us from providing special promotional offers to local customers in competitive areas;
- the restriction imposed on us related to when we can contact customers who have left our local service to invite them to return to us; and
- the ability to file special promotional offer requests with the CRTC in a confidential manner, so that we can launch these offers to customers without competitors having advance notice, as is appropriate in a competitive market.

During April and May 2004, the CRTC requested and received ILEC, competitor, and customer group comments on whether our request for expedited relief should be dealt with by the Commission in an expedited process separate from the forbearance process. The CRTC is expected to issue a decision on whether these issues will be the subject of an expedited process within the next few months.

The CRTC initiated a public proceeding on March 24, 2004, to review the amounts in each ILEC's deferral account and to determine how to dispose of any of those amounts. On June 22, 2004, the CRTC issued its decision on some items that affect the amount in our deferral account. The Commission approved our proposals regarding some calculations and denied other proposed calculations. The remaining items that affect the size of the deferral account are expected to be addressed at a later date. Due to the reallocation of some of our corporate resources to customer service functions, we requested to make deferral account proposals at a later date, pending resolution of the labour disruption. The Commission accepted our proposal. We do not expect a decision in this proceeding to be issued until 2005. For additional information on the deferral account mechanism refer to note 21 to our unaudited interim consolidated financial statements for the period ended June 30, 2004.

The outcome of future CRTC rulings could significantly impact our ability to compete and affect our financial performance. We are actively participating in these proceedings by providing evidence, information, and arguments to the CRTC that defend our positions and present alternatives that promote economically sound competition that will provide benefits and choice for customers.

Competitive developments

Throughout the second quarter of 2004, the competition in the telecommunications market in Canada became increasingly intense. While existing competitors transformed themselves through mergers and acquisitions, new competitors continued to attempt to gain footing and some existing competitors expanded their telecommunication offerings.

Both traditional telephone and VoIP alternatives for local service are becoming increasingly available from a variety of providers. In particular, some of the new VoIP entrants are offering long distance and local services packages with discounted calling rates. Although this activity does not appear to be generating an immediate impact, it is indicative of the impact that VoIP transformation could have on our business.

Competition in our key growth areas of wireless and Internet continue to evolve. Internet providers continue to focus on speed as a primary competitive element and value-add service offerings to enhance the customer experience. We continue to maintain our leadership position in Atlantic Canada through continued evolution of our service offerings such as ultra high-speed service and our complete suite of security services. Sales propositions also focus on providing complete entertainment and communications packages. Our response includes our complementary offerings of Bell ExpressVu and TV on my PC™. Wireless competition continues to focus on handset and low network usage pricing. The retail and advertising activity of our wireless competitors has increased in the second quarter. We remain well positioned with the most reliable network in Atlantic Canada, the most extensive dealer network and a wide selection of product offerings.

Competition can place our strategies, revenue and net income at risk. We constantly monitor all market developments and work to ensure we maintain the flexibility required to respond quickly to our changing landscape. We constantly strive to optimize our competitive position by modifying and creating plans to arrive at solutions that are right for our customers and our marketplace.

Renegotiating labour agreements

At present, 4,300 of our employees represented by the Communications, Energy and Paperworkers Union of Canada and Atlantic Communications and Technical Workers' Union are in a legal work stoppage situation. We have been negotiating with the council representing these unions, the CATU since March 2002, in an effort to amalgamate nine collective agreements into one. Last October, we were joined by two federal conciliators and discussions continued. On March 11, 2004, we tabled a complete offer, and on April 12, 2004, were advised that the unions' membership had rejected our offer. We returned to the table to resume negotiations with the support of the same two conciliators in the role of mediators. Despite continued negotiations throughout the week of April 19, 2004, and a new Company offer on April 23, 2004, a mutually acceptable agreement could not be reached. On April 23, 2004, the CATU rejected the offer and a legal work stoppage began and continues to be in effect.

We have continued to work with federal mediators since the onset of the work stoppage. We engaged in exploratory talks during the week of July 12, 2004, with the union and the federal mediators, but were unable to reach agreement on a framework that would enable us to return to full negotiations. We are deeply disappointed with this outcome. We tried very hard to address the issues that are important to our employees, giving consideration to the environment we operate in and the future of our business. Although these talks did not result in the outcome that we were looking for, we remain committed to reaching a settlement that is fair and reasonable for all concerned, and we will continue to work with the mediators.

While additional costs are being incurred during the strike, the settlement of the collective agreements may result in higher costs at the time the agreement is signed and into the future, thus affecting our operating results and financial condition.

Other legal and regulatory matters

During the second quarter, we started an action in New Brunswick against Exigen Ltd. (Exigen) and its Canadian operating subsidiary, seeking adjudication of many of the issues brought forth in the action commenced against us by Exigen in California during the first quarter of 2004. This step was taken as we consider New Brunswick to be the proper jurisdiction in which to adjudicate these issues. We are in consultation with our legal counsel over the matter but are unable to predict the outcome at this time. Note 21 to our unaudited interim consolidated financial statements for the period ended June 30, 2004, presents a discussion of this and other significant contingencies outstanding at this time.

In addition, please refer to the discussion of regulatory developments under the "Risk and risk management" section for a description of certain regulatory initiatives and proceedings that could affect our Telecommunications segment.

Forward-looking statements

Certain statements contained in this document constitute forward-looking statements. These forward-looking statements relate to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. In some cases forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "target", "goal" and similar expressions. These statements are subject to important risks and uncertainties, which are

difficult to predict and assumptions which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: general economic conditions; market or business conditions; increased competition; changing regulatory conditions or requirements; changing technology; the outcome of collective bargaining; the duration and impact of the current labour disruption; and success in implementing productivity initiatives. Some of these factors are largely beyond our control. Should any factor impact us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the results or events predicted in management's discussion and analysis might differ materially from actual results or events. Consequently, all of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Readers should not place undue reliance on any forward-looking statements. Further, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or any other occurrence.

Supplementary financial information

Consolidated quarterly financial information (unaudited)

For the eight quarters ended June 30, 2004

(millions of dollars, except
per share amounts)

	2002		2003				2004	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total operating revenues	\$ 507.4	\$ 511.4	\$ 500.9	\$ 517.3	\$ 513.9	\$ 527.0	\$ 504.4	\$ 525.6
Net income from continuing operations	\$ 44.8	\$ 2.2	\$ 37.5	\$ 61.3	\$ 50.7	\$ 45.4	\$ 40.7	\$ 50.1
Net income (loss) from discontinued operations	(0.7)	(6.7)	1.4	9.3	0.2	100.4	-	-
Net income (loss)	\$ 44.1	\$ (4.5)	\$ 38.9	\$ 70.6	\$ 50.9	\$ 145.8	\$ 40.7	\$ 50.1
Preferred share dividends	2.4	2.4	2.4	2.4	2.3	2.4	2.4	2.4
Net income (loss) applicable to common shares	\$ 41.7	\$ (6.9)	\$ 36.5	\$ 68.2	\$ 48.6	\$ 143.4	\$ 38.3	\$ 47.7
Basic earnings per common share:								
Continuing operations	\$ 0.30	\$ -	\$ 0.25	\$ 0.42	\$ 0.36	\$ 0.32	\$ 0.29	\$ 0.36
Discontinued operations	-	(0.05)	0.01	0.07	-	0.75	-	-
Basic earnings per common share	\$ 0.30	\$ (0.05)	\$ 0.26	\$ 0.49	\$ 0.36	\$ 1.07	\$ 0.29	\$ 0.36
Diluted earnings per common share:								
Continuing operations	\$ 0.30	\$ -	\$ 0.25	\$ 0.42	\$ 0.36	\$ 0.32	\$ 0.29	\$ 0.36
Discontinued operations	-	(0.05)	0.01	0.07	-	0.74	-	-
Diluted earnings per common share	\$ 0.30	\$ (0.05)	\$ 0.26	\$ 0.49	\$ 0.36	\$ 1.06	\$ 0.29	\$ 0.36

Factors impacting comparability of quarterly results

Trends

Telecommunications operating revenues have generally increased quarter over quarter due to significant growth in wireless and Internet services, which has been partially offset by lower revenue from local and long distance services due to increased competition, CRTC regulations and technological advancements.

Information Technology operating revenues have decreased as clients scaled back their information technology expenditures in response to subdued market conditions and a slow down in government spending. A restructuring program was implemented in the first six months of 2003, which simplified the business model and is resulting in improved 2004 results. Productivity and profitability of the segment are improving as external operating revenues are increasing while operating expenses have declined.

Seasonality of results

Telecommunications operating revenues and expenses experience seasonality in the recognition of the majority of our directory revenues and related costs, as several of our larger

directories are issued in the second quarter. Also, the timing of product sales, which are typically large and sporadic in nature, can affect the comparability of quarterly results.

In Information Technology's fulfillment business, the first quarter of the year is historically the strongest as a result of government fiscal year-end spending, although this effect has been somewhat lessened in recent years. Service revenues are contract based and fluctuate in accordance with the size and number of outstanding contracts; in particular, third quarters are adversely impacted by client vacations.

Other factors

Net income and earnings per share fluctuates from quarter to quarter due to items outside of the normal course of operations and the impact of pension and other post employment benefits cost.

Consolidated quarterly results analysis (unaudited)

Impact of items outside of the normal course of operations

For the eight quarters ended June 30, 2004

(millions of dollars, except
per share amounts)

	2002		2003				2004	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Impact on net income								
Increase (decrease) in net income from continuing operations:								
Restructuring charge, net of tax	\$ -	\$ -	\$ -	\$ -	\$ (9.3)	\$ 0.6	\$ (1.9)	\$ (0.9)
Writedown of investments, net of tax	-	-	-	-	-	(12.3)	-	-
Writedown of goodwill related to xwave	-	(50.0)	-	-	-	-	-	-
Writedown of assets related to xwave, net of	(7.4)	-	-	-	-	-	-	-
	\$ (7.4)	\$ (50.0)	\$ -	\$ -	\$ (9.3)	\$ (11.7)	\$ (1.9)	\$ (0.9)
Increase (decrease) in net income from discontinued operations:								
Gain (loss) on sale of subsidiary, net of tax	\$ -	\$ -	\$ -	\$ 10.9	\$ (2.0)	\$ 95.7	\$ -	\$ -
Investment writedowns, net of tax	(19.7)	-	-	-	-	-	-	-
	\$ (19.7)	\$ -	\$ -	\$ 10.9	\$ (2.0)	\$ 95.7	\$ -	\$ -
Increase (decrease) in net income	\$ (27.1)	\$ (50.0)	\$ -	\$ 10.9	\$ (11.3)	\$ 84.0	\$ (1.9)	\$ (0.9)
Impact on earnings per share								
Increase (decrease) in:								
Earnings per share from continuing operations	\$ (0.05)	\$ (0.36)	\$ -	\$ -	\$ (0.06)	\$ (0.09)	\$ (0.01)	\$ -
Earnings per share from discontinued operations	(0.14)	-	-	0.08	(0.01)	0.71	-	-
Earnings per share	\$ (0.19)	\$ (0.36)	\$ -	\$ 0.08	\$ (0.07)	\$ 0.62	\$ (0.01)	\$ -

Consolidated quarterly results analysis (unaudited)

Impact of pension and other post employment benefits cost

For the eight quarters ended June 30, 2004

(millions of dollars, except
per share amounts)

	2002		2003				2004	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Decrease in:								
Net income from								
continuing operations	\$ (3.0)	\$ (3.0)	\$ (8.5)	\$ (8.7)	\$ (10.1)	\$ (9.6)	\$ (12.4)	\$ (11.9)
Earnings per share from								
continuing operations	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.06)	\$ (0.07)	\$ (0.07)	\$ (0.09)	\$ (0.09)