Management's Discussion and Analysis

Year ended December 31, 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 year ended December 31, 2004, compared to 2003. The MD&A should be read in conjunction with our consolidated financial statements and accompanying notes for the year ended December 31, 2004. The financial statements have been 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.

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

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.

This MD&A is dated January 26, 2005, which is the date of filing in conjunction with our press release announcing our results for the year ended December 31, 2004. This document is current to that date, unless otherwise stated. This document contains forward-looking statements which are qualified by reference to, and should be read together with the "Forward-looking statements" section.

About our business

Who we are

We are Atlantic Canada's leading information and communications technology (ICT) provider, leveraging strengths within our Telecommunications and Information Technology segments to deliver complete customer solutions. We are listed on the Toronto Stock Exchange ("TSX") and are the largest publicly traded company based in Atlantic Canada.

Our vision is to be the company with the strongest connection to the hearts and minds of Atlantic Canadians. We provide our customers with more than 100 years of experience in traditional and innovative information and communication services. Our mission is to enhance and simplify the lives of our fellow Atlantic Canadians through world-leading communications solutions. We listen to and collaborate with our customers and other partners to ensure Atlantic Canadians are on the leading-edge. We combine the dependability and quality of our infrastructure, innovation and customer service to enhance the capabilities of our customers, making their day-to-day life simpler and allowing them to focus on what is important to them.

What we do

Our Telecommunications segment operations are primarily carried out through our 100 per cent ownership interest in Aliant Telecom Inc. We provide a wide range of innovative and traditional voice and data communications services including local, long distance, wireless, Internet and other services. We also provide complementary services in:

- knowledge-service applications offered through our 100 per cent ownership interest in Innovatia Inc. ("Innovatia");
- retail sales at our own stores, primarily our 51 Aliant dealer and communications outlets in Nova Scotia, Newfoundland and Labrador and New Brunswick arising from our acquisition of 100 per cent ownership interest in DownEast Ltd. ("DownEast Communications") on October 1, 2004;
- telephone directory advertising through our 87.1 per cent joint venture interest in Aliant ActiMedia; and
- wholesale distribution of wireless handsets, accessories and other telecommunications products through our 45 per cent ownership interest in Atlantic Mobility Products Ltd.

The business of the Information Technology segment is carried out through our 100 per cent interest in Xwave Solutions Inc. ("xwave"). xwave provides end-to-end information technology (IT) services that range from consulting and engineering through to infrastructure management and product fulfillment. We serve clients in several geographic markets and key industries including energy and telecommunications, and in select areas of the public sector such as defence, aerospace, healthcare, correctional services and education.

As we continue with the convergence of our Telecommunication and Information Technology segments we will draw on our expertise in key industries to provide ICT solutions through a single point of contact to our business customers through common sales, marketing and customer service channels.

Our environment

Our customers' needs are evolving. Customers are migrating from traditional wireline communication services towards newer technologies such as wireless, high-speed Internet and Internet Protocol (IP) based technologies. They want simplicity in product and service solutions and want to be served on their terms through self-serve and online processes, putting purchasing decisions at their fingertips. Our business customers want a trusted advisor who can help them make informed decisions on the complex technology investments they must make, while also helping them to achieve their business goals.

The communications world is changing. The technology has evolved to enable the combination of information, communication and entertainment into a single solution. The resulting convergence of the telecommunications industry with cable television and IT companies is resulting in new customer solutions, new opportunities and new competition. Technological evolution is creating a world in which data, video and voice share a common IP-based communication platform. We have the ability to keep pace with the current rapid rate of technological change while ensuring that solutions work for customers and that the networks remain reliable.

The Atlantic Canadian marketplace is a competitive one, and one where regulation presents particular challenges. Although the Canadian Radio-television and Telecommunications Commission ("CRTC" or the "Commission") recognizes that the two most competitive local residential markets in Canada, Halifax and Charlottetown, are in our marketplace they continue to impose regulations that impede our ability to compete effectively. As Atlantic Canada's incumbent local exchange carrier (ILEC), we are subjected to CRTC rate regulation on local and other communication services and additional restrictions on our bundled telecommunication services and marketing activities.

The economics and demographics of our marketplace also present a challenge. We are experiencing relatively low growth in consumer and business customers in Atlantic Canada as a result of population and economic trends. In addition, continued migration of our population base from rural to urban areas is increasing the pressure on profitability from serving our rural customers.

To remain competitive in this evolving communications industry, we plan to make substantial changes to our business model to improve the customer service experience, simplify our product offerings, evolve to an IP-based network and redefine our costs structure to introduce more flexibility and reduce costs.

2004 Performance highlights

The most notable events that affected our 2004 performance were the labour disruption and the provision of a voluntary Early Retirement Incentive Program (ERIP) to our employees. Both of these events financially impacted our 2004 results and will have some financial impacts in the future. There will be substantial operating expense savings generated from the ERIP, but we will also experience incremental pension and other post employment benefits cost resulting from the new collective agreement.

Labour disruption

The past year was dominated by a five-month labour disruption that ended on September 20, 2004. This was a challenging period as we sought to continue service for our customers with minimal interruption. A beneficial outcome was a new collective agreement that lasts until December 2007, which provides improved workforce management flexibility to better compete in the new converging communications environment.

We estimate that during 2004 the labour disruption negatively impacted our operating income by $68 million. Operating revenues were negatively impacted by an estimated $40 million due to fewer new customers, reduced product sales, additional promotional activities and reduced levels of field work. However, through close attention to the management of cost of operating revenues this revenue shortfall was held to a negative gross profit impact of $26 million. The labour disruption also caused us to incur incremental costs to enable our operations to continue with relatively few interruptions, ensure the safety of our employees, perform property repairs and provide training and equipment to our employees. These incremental operating expenses of approximately $42 million were directly related to the disruption and are therefore not expected to recur in future periods.

Although the labour disruption ended in September, some effects continued into the fourth quarter with some lingering impacts on operating revenues from promotional activities and the lower customer additions during the labour disruption. Our efforts during the fourth quarter focused on restoring normal operations and regaining momentum lost throughout the labour disruption. We estimate that the negative impact on our fourth quarter net income is $8 million, the after-tax result of foregone revenue and gross profit of $14 million and $10 million, respectively, together with $3 million of final expenses associated with the return to normal operations.

The settlement of the labour disruption brought with it some future increases to wages and benefits. The most notable driver of these increases result from our commitment to provide additional pension entitlement, as discussed below under “Pension and other post employment benefit costs”. In addition to pension increases, we expect the salary and related benefit increases awarded through the collective agreement will increase annual expenses by an additional $10.5 million in 2005. We plan to mitigate much of this increase through improved management of our workforce, enabled by changes in the new collective agreement.

We have estimated the negative impact of this labour disruption on our 2004 results in an effort to separate the short-term negative financial impacts from the underlying performance. These impacts rely on management’s judgment and have been determined through the identification of specific direct costs and a comparison of our actual monthly results against performance expectations. These performance expectations were based on our experiences in 2003 and 2004 prior to the labour disruption. Based on these estimates the labour disruption is believed to have negatively impacted our operating results in 2004 as follows:

Estimated financial impact of labour disruption

(millions of dollars, except per share amounts)	2004			
	Second quarter	Third quarter	Fourth quarter	**Total**
Operating revenues	$ (9)	$ (17)	$ (14)	**$ (40)**
Cost of operating revenues	4	6	4	**14**
Gross profit	(5)	(11)	(10)	**(26)**
Operating expenses	(16)	(23)	(3)	**(42)**
Operating income	(21)	(34)	(13)	**(68)**
Income taxes	8	12	5	**25**
Net income	$ (13)	$ (22)	$ (8)	**$ (43)**
Earnings per share	$ (0.10)	$ (0.16)	$ (0.06)	**$ (0.32)**

Voluntary early retirement incentive program (ERIP)

In October 2004, we offered a voluntary ERIP to eligible employees. The offer was accepted by 693 employees, including 654 employees or 11% of the workforce in our Telecommunications segment, and resulted in a charge of $66.6 million in the fourth quarter, reducing net income by $42.1 million and earnings per share by $0.32. The cash payments associated with this charge will occur mainly in the first half of 2005. Approximately 400 of the ERIP participants retired effective January 1, 2005, and the remainder are scheduled to exit through the early part of 2005. We expect that by mid-2005 we will be on-track to realize full annualized operating cost savings from these workforce reductions of approximately $40 million and an additional $8 million in capital cost savings, for a total annualized cost savings of approximately $48 million.

Pension and other post employment benefits cost

A large component of our annual operating expenses is comprised of salary and related pension and other post employment benefits costs. Our defined benefit (DB) pension and other post-employment benefit (OPEB) plan costs have been escalating over the last 3 years at a pace that is not reflective of the underlying trend in salary and other benefit costs. This is because, in accordance with Canadian GAAP, these costs contain the impact of amortization of investment and actuarial losses (or gains) from earlier periods. Low investment returns from the years 2001 and 2002, combined with steadily declining interest rates with which these future liabilities are discounted, have contributed to a significant increase in the net deficits in these plans.

Pension and other post employment benefits cost

For the year ended December 31

(millions of dollars)	**2004**	2003	2002
Defined benefit	**$ 48.5**	$ 35.9	$ (1.3)
Defined contribution	**11.7**	11.3	9.6
Other post employment benefits	**15.5**	14.6	12.9
Pension and other post employment benefits cost	**$ 75.7**	$ 61.8	$ 21.2

Increased deficits in our DB pension and OPEB plans require increased cash funding over prescribed time periods. In addition to making all prescribed contributions to our plans, we have also taken exceptional measures to improve the funded position of our plans. In late 2003 and early 2004, we made additional voluntary contributions to the DB pension plans totalling $55 million. Now, in light of the additional obligations created by enhancements to the pension plans following the signing of the new collective agreement and other changes, we are planning another voluntary cash injection of $60 million in early 2005. This will be in addition to the estimated $70 million to $80 million in required funding that we are expecting for 2005.

Cash funding of pension and other post employment benefit plans

For the year ended December 31

(millions of dollars)	**2004**	2003	2002
Defined benefit	**$ 82.8**	$ 99.7	$ 9.0
Defined contribution	**11.7**	11.3	9.6
Other post employment benefits	**4.3**	4.0	3.3
Pension and other post employment benefits funding	**$ 98.8**	$ 115.0	$ 21.9

Enhancements to the pension plans resulting from the new collective agreement plus subsequent changes to pension plans for management employees will impact future years' financial results through higher pension and other post employment benefit costs totalling approximately $18 million in 2005. The collective agreement also enables us to close our DB pension plans to all future hires, allowing us to evolve to a more stable and predictable, purely defined contribution (DC) retirement plan model in years to come.

Strategic accomplishments in 2004

In 2004, we were able to sustain operations through a five-month labour disruption and at the same time continue advancing our strategies. We strengthened our core business, invested in complementary businesses and restored xwave to profitability. We also positioned ourselves for the future by making changes to our operations which enabled us to evolve into an ICT company.

Evolved into an ICT company

Our operating segments increased their collaboration in order to provide integrated ICT solutions to our business customers. The realignment of our organizational structure in December 2004 will enable us to deliver one point of contact with these business customers and provide integrated end-to-end ICT solutions. We are developing strategic partnerships to simplify the introduction of new technologies and software, thereby providing our customers with solutions that will improve their own business performance. This strategy is expected to grow revenues and improve margins as we continue to align or consolidate activities throughout the company.

Strengthened our core business

Our local and long distance revenues continue to be adversely impacted by competition, technology substitution and regulatory restrictions. The year-over-year declines in our network

access service customers of 1.3 per cent and long distance minutes of 11.2 per cent reflect these pressures. In 2004 we implemented strategies to mitigate revenue loss as follows:

- Continued introduction of Value Packages to the consumer market – By the end of 2004, customers in all provinces have the option of receiving additional savings by combining high-speed or dial-up Internet service with their choice of a long distance plan and, if desired, cellular service.
- Introduced Enhanced Local Service Packages for the consumer market – We made available the option of combining seven call management services with local service for additional savings to all customers in our region.
- Enhanced our long distance plans – We launched an overseas calling plan in February, added daytime minutes to two of our national calling plans in August, and reduced the per minute rate for calling in Canada and the United States for customers on related plans, with additional rate reductions for customers on Value Packages.

Growth in our digital wireless customer base of 26.1 per cent and overall growth in our average revenue per customer combined to generate strong wireless revenue growth of 16.2 per cent. We continue to benefit from an industry leading postpaid customer mix of 88.8 per cent at December 31, 2004, and have improved our customer turnover rate, or churn, to 1.43 per cent from 1.53 per cent in 2003. This strong growth reflects our extensive coverage, dealer network, diversity of products and competitive offers. Throughout 2004, we supported our revenue growth through the following activities:

- Expanded and enhanced our wireless network - At December 31, 2004, approximately 88 per cent of Atlantic Canada's population had access to our digital wireless service up from approximately 83 per cent at the end of 2003. We also doubled the speed of our 1xRTT network and expanded this network to mirror our digital wireless network.
- Introduced new wireless services and products – We enhanced our product offerings through the introduction of the Palm Treo™ device and other handsets with expanded data and video capabilities. In 2004, we were the first to launch video messaging in Atlantic Canada and we also introduced International text messaging.
- Partnered to create customer specific wireless applications – These solutions included: a wireless point of sale service that completes secure data and voice transactions for couriers and other businesses, an automatic vehicle location service that allows a construction company to monitor the activity of each vehicle in its fleet, and a wireless water meter reading solution that allows a municipality to transfer data directly from the meters into its billing system.

We grew Internet revenues by 11.7 per cent, largely from growth in our high-speed customer base of 21.1 per cent. Our high-speed churn has improved in both consumer and business markets to 1.52 per cent and 1.83 per cent, respectively. We grew our high-speed customer base and improved churn as we expanded our high-speed footprint, enhanced our customers' Internet experience, introduced new services and emphasized our enhanced service features and Value Packages. More specifically these efforts included:

- Expanded our high-speed footprint – Expanded our high-speed Internet service to pass 72 per cent of homes and 79 per cent of businesses in Atlantic Canada as at December 31, 2004, up from 65 per cent of homes and 75 per cent of businesses at the end of 2003.
- Enhanced our Internet service - Moved our enhanced media services to a new platform, resulting in faster video streaming and higher quality of audio and video. Improved content and simplified navigation on aliant.net to provide customers with a better on-line experience.
- Introduced new Internet services - We launched our Ultra High-Speed Internet service, a new pay-per-download music service powered by Puretracks™ and our dial-up accelerator that allows dial-up speeds up to five times faster than traditional dial-up service.

Process transformation has focused on simplification, customer service improvement and cost reduction. This has been achieved through our customer service transformation and various other initiatives. Some of our 2004 accomplishments are as follows:

- Introduced an on-line ordering process on aliant.net and made other process improvements to simplify and speed-up customer interactions.
- Upgraded our wireless billing platform to better serve our more than 700 national mobility corporate customers. This conversion enables enhanced 1xRTT data and Blackberry™ billing, providing an easy-to-read billing format and windows-based user functionality.
- Accelerated adoption of our electronic transaction channels by our employees and major suppliers, resulting in a more than four-fold increase in e-purchasing volumes compared to 2003.

In 2004, we placed greater emphasis on our next generation business by upgrading our network and services to be IP capable. We continued to work towards the wide introduction of Voice over Internet Protocol (VoIP) to our market and to work with Bell Canada and Nortel Networks towards establishing a national multi-service IP-enabled network. Development efforts in 2004 focused on the following:

- Collaborating with our business customers to develop IP-based solutions through the launch of three VoIP demonstration centers in 2004, enabling us to work with our enterprise customers. We also worked with Bell Canada towards the launch of a small- to medium-sized business (SMB) Innovation Centre in 2005.
- Developed a Fibre-to-the-Home solution that was launched in January 2005 as a pilot project in Halifax. This project delivers VoIP and high-speed Internet at speeds almost ten times faster than regular high-speed and will allow us to trial future IP-based solutions.
- Developing an IP-television solution for our consumer market which will allow us to provide digital television service in Halifax in the second quarter of 2005.

Restored xwave to profitability

Our Information Technology segment had a successful year, generating higher net income over 2003. Profitability has improved as a result of the restructuring activities initiated in 2003, additional cost containment initiatives, enhanced resource management processes and a focus on the development of key practice areas leading to strengthened revenue prospects. Specific initiatives that have benefited us in 2004 and are expected to generate further profitability in the future include:

- Pursued the “make once, sell many” business model, identifying areas of past success and exploring opportunities to provide these solutions to a broader range of clients. For example, we developed a correctional facility information system which we originally sold to the State of Maine and then customized to deliver to the State of Virginia, and we are now pursuing additional opportunities.
- Established a strategy to focus on our near-shore opportunities which allow us to use our Atlantic Canadian-based expertise in key industry verticals to deliver solutions outside our region.
- Continued to emphasize our focus on our core business through the divestiture of two non-strategic businesses, the Internet Help Desk in New Brunswick and IT services business in Western Canada, reducing related revenues and expenses but having a minimal impact on net income.
- Acquired the Atlantic Canada operations of Fujitsu Consulting (Canada) Inc. on December 1, 2004, advancing our strategic agenda through the addition of service offerings and core competencies aligned closely with ours and concentrated in similar industries.
- Further integrated with the Telecommunications segment, particularly in sales, marketing, and corporate support operations. Further alignment in infrastructure services and enterprise service management is planned for 2005. These changes will allow us to put a “single face” in front of the customer and provide integrated ICT solutions.

Regulatory update

We constantly seek to minimize the extent to which regulation unfairly disadvantages our business and our customers. Some of the CRTC regulatory decisions that demonstrated our successes in achieving these goals in 2004 were: the denial of a competitor's request that Aliant be directed to cease offering its Value Packages, the denial of a competitor's request that the Commission require rate reductions to the rates charged by the ILECs for local loops and related services, and the decisions throughout the year that granted forbearance from rate regulation for certain services on competitive inter-exchange routes.

The CRTC is currently reviewing a number of matters that could significantly impact our ability to compete and our financial results. Some of the significant regulatory issues that are currently the subject of CRTC proceedings include: calculation and disposition of the amount in the deferral account, prices of services provided to competitors, the VoIP regulatory regime, and the evaluation of proposed increased restrictions on ILEC price floors and bundling requirements. In addition, the CRTC has scheduled a proceeding in 2005 in response to our

application for forbearance from price regulation of certain local services. We have engaged the CRTC in vigorous defence of our position and have presented alternatives that promote a more balanced approach in creating competition that will benefit customers more than a regime that subsidizes competitors and negatively impacts customer choice. We expend resources in developing, presenting, and defending our position in regulatory proceedings and in rebutting the unending requests from competitors for regulatory advantages. Further details of our regulatory risks are identified in the "Risk and risk management" section.

Financial results

Performance to revised 2004 guidance

During 2004, it became evident that as a result of the labour disruption we would not meet the original guidance announced in January 2004. As well, the divestiture of our Internet help desk contact centre in June and our IT services business in Western Canada in July created a $17.4 million decline in our 2004 revenues. The revised 2004 guidance that we issued in October 2004 took into account the estimated annual impacts of the labour disruption, the sale of these two business units and anticipated participation rates in the ERIP.

(millions of dollars, except earnings per share amounts)	**2004 results**	**Revised 2004 guidance**	**Met ✓ Not met ×**
Operating revenues	$2,033	$2,030 to $2,070	✓
Earnings per share	$0.96	$0.90 to $0.94[1]	✓
Cash from operating activities	$582	Over $550	✓
Capital investments	$295	$285 to $300	✓

[1] Represents earnings per share guidance adjusted for actual ERIP participation. Revised earnings per share guidance of $1.03 to $1.07 was based on an estimated $40 million pre-tax ERIP charge for 400 employees and a resulting $0.19 impact on EPS, but the actual participation was significantly higher which had an additional $0.13 per share impact. The actual impact was $0.32 per share as 693 employees participated, requiring a pre-tax ERIP charge of $66.6 million.

Delivered shareholder returns

In 2004, we proved the sustainability of our strong operating cash flows. Despite the challenging labour disruption we generated cash from operating activities which met our 2004 guidance at $581.9 million, even after funding $87.1 million for our DB pension and OPEB plans. Capital investments of $295.0 million were focused mainly on preparing our Internet and wireless networks to deliver the next generation of IP-based services and transforming our internal systems to simplify processes and reduce operating costs. Cash flow was also sufficient to balance the capital structure through debt repayments of $100.0 million and cash distributions to shareholders of $150.4 million through common and preferred share dividends and $50.6 million through a normal course issuer bid (NCIB).

In 2004, we returned cash to our shareholders through:

- The payment of dividends amounting to $1.10 per common share, an increase over the $1.075 dividends paid in 2003.

- The purchase and cancellation of 1,732,130 common shares, the remaining amount allowable under the NCIB that ended August 5, 2004, returning $50.6 million to our shareholders.

2005 strategic direction and guidance

Growth and transformation strategy

We recognize the need to generate growth in our revenues and the need to change our business model as our marketplace changes. We are moving forward with a strategy of growth and transformation for the future that will assist us in our goal of becoming the foremost ICT company in Atlantic Canada. We plan to transform our business model, customer service experience, products and services, internal systems, workforce and infrastructure over the next five years to respond to and leverage the impacts of IP-based technology.

Our *growth* strategy involves selling solutions not just products, simplifying our solutions and services, investing in our existing infrastructure and new technologies to embrace the IP evolution, developing winning partnerships and knowing our customers. Our plans include continuing to evolve from providing stand-alone products and services to providing complete solutions for residential and business needs. Through collaboration with our customers and strategic partners, we plan to innovate to drive growth through the deployment of new technologies and solutions that expand and enhance customer experiences. We intend to simplify our product and service offerings and improve customer service through multiple transformation initiatives and the continued convergence of our Telecommunications and Information Technology segments. Our investment for growth focuses on digital wireless and high-speed Internet network expansion, the introduction of new service offerings, as well as network quality improvements to enhance service features. Working closely with our customers to understand their needs will allow us to progressively transform our network to embrace the IP evolution. Knowing our customer involves developing distinct strategies for each of our three customer segments: consumer, SMB and enterprise.

Our Value Packages are integral to our success in the consumer market as we convert customers from stand-alone services to integrated service offerings to drive loyalty and protect our customer base. We will evolve our Value Packages to provide complete information, communications and entertainment solutions. In 2005, our Value Packages will include a television option, either satellite television through our existing partnership with Bell ExpressVu or a digital IP-television solution to be launched in Halifax in the second quarter of 2005. We plan to further strengthen our Value Packages by offering simple and comprehensive solutions and emphasizing the value of applications that work across a wide array of devices. We will continue to focus on growing our wireless and Internet presence, with an increased emphasis on establishing a broadband connection into customers' homes to position us for future growth through IP-based solutions.

Our strategies for our business segments involve leveraging our IT capabilities in combination with communication strengths to deliver end-to-end integrated ICT solutions. Within the SMB market we intend to deliver integrated business solutions enabling customers to concentrate on their business while entrusting their technology to us. The opening of an SMB Innovation Centre in conjunction with Bell Canada during the first quarter of 2005 will allow us to partner with our

customers to develop new IP-based applications and managed ICT business solutions for SMB customers with a focus on migration to IP and improving the customer experience. We plan to serve the enterprise market by leveraging our knowledge in key industry verticals and partnering with our customers to create advanced business solutions. Our goal is to stimulate growth in the ICT market in Atlantic Canada.

To support our growth agenda and improve profitability we will *transform* our operating cost structure and business model as we evolve to an IP world. Internal system and process changes driven by our customers' need for simplification are expected to improve workforce management, generate productivity improvements and reduce costs. To address these customer needs we plan to continue the transformation and integration of our customer service operations in order to provide a single point of contact for our customers and enable customer self-service. We will support our workforce during this transformation by providing employees with new skills to maximize their potential. We will also transform our infrastructure to adapt IP technology. In the short-term we are conducting a Fibre-to-the-Home trial to validate the feasibility of widespread introduction of IP-based solutions through greater broadband capacity. The pace of customer migration to this new network will ultimately guide our rate of investment. Our ultimate goal is to transition to one network with one IP-based connection to the customer. This transformation is expected to enable operational excellence, productivity and growth.

2005 financial guidance

	2005 Guidance	
(millions of dollars, except earnings per share amounts)	**Low**	**High**
Operating revenues	$ 2,080	$ 2,120
Earnings per share	$ 1.35	$ 1.42
Cash from operating activities	$ 510	$ 560
Capital investments	$ 330	$ 370

Our key assumptions for 2005 include increased competition, no negative impact as a result of further clarification from the CRTC on the deferral account mechanism, successful execution of our strategies, cost savings from productivity improvements and from the 2004 ERIP, wage and benefit increases resulting from the new collective agreement and general inflationary pressures. The 2005 guidance also includes accounting policy changes for subscriber acquisition costs and directory revenues and expenses, which are described in the "Significant accounting policies" section. Our key risks are unanticipated negative outcomes of regulatory decisions and competitive actions, the degree of success in the integration of our segments and potential delays in attaining planned productivity improvements. For additional detail of specific risks please refer to the "Risk and risk management" section.

Operating revenue guidance

In 2005, we expect to achieve revenue growth from our high-speed Internet and digital wireless services and to capture more of the ICT market in Atlantic Canada and adjacent geographies, but to see continued declines in local and long distance revenues. In addition, we have put the labour disruption and its impact on 2004 behind us.

We will strive to preserve local and long distance revenues by emphasizing enhanced services, modifying our long distance plans and pricing and leveraging our Value Packages and business bundles. Wireless growth will focus on attaining greater penetration and usage, through the launch of handsets with enhanced capabilities, expanded network coverage and a focus on wireless applications for key industries. We intend to continue expansion of our digital wireless voice and data network to reach approximately 91 per cent of Atlantic Canada's population by the end of 2005. The Internet business is increasingly important due to the IP-based nature of next generation networks and associated applications. We plan to grow Internet revenue by expanding our high-speed Internet footprint, enhancing our broadband capabilities to increase speeds and enable media-rich applications, continuing to promote Value Packages and introducing new enhanced services to provide our customer with additional security and entertainment.

IT revenues are expected to increase as we introduce ICT solutions through the combination of existing key industry expertise and a closer alignment of efforts with our Telecommunications segment, in particular through an integrated go-to-market approach. We will focus on developing customized offerings for key industries such as contact centres, healthcare and defence. In 2004, the IT segment renewed contracts with existing clients and secured new business, which build on our expertise in the correctional services, aerospace and other key industries.

Earnings per share guidance

We anticipate increased operating income from revenue growth and through productivity improvements. We also expect to benefit from the absence of major restructuring charges, decreased interest expense and an effective tax rate that remains consistent with Canadian statutory rates. These positive impacts on our net income combined with the decrease in our outstanding common shares due to a new NCIB will result in increased earnings per share.

We plan to reduce operating expenses and safeguard our future by redefining the way we work. In 2005, we will focus on transforming our business to benefit from the workforce reductions arising from the ERIP and increased workforce management flexibility built into the terms of the new collective agreement. This transformation will rely on not only improved workforce management but other system and process improvements to generate increased productivity. These improvements will involve the simplification of our billing platforms and processes, contact centre integration, self-service interfaces and the closer integration of business segments. These measures are expected to impact many aspects of our day-to-day operations, providing customers with more web-based and self-serve options, reducing technician dispatches, eliminating back-office overlap between our business segments and simplifying the organizational structure. These changes should minimize the need to replace retiring employees and should foster our culture of innovation and creativity.

Total operating expenses for 2005 are anticipated to be slightly higher than 2004 as cost savings from these transformational changes and the absence of costs associated with the labour disruption are offset by cost of living increases, costs required to support revenue growth and increased pension and other post employment benefits cost. Pension and other post employment benefit costs are expected to increase by approximately $25 million, driven by plan enhancements negotiated and granted in 2004 combined with the continued decline in

interest rates and the resulting change in accounting assumptions related to pension obligations.

Cash from operating activities guidance

Our balance sheet is strong and we anticipate generating more than sufficient cash flow in 2005 to meet our operating, financing and investing requirements. We expect pension contribution requirements to increase after the results of 2004 funding valuations are received in 2005. We estimate required pension funding in the range of $70 million to $80 million for 2005. As well, we will be making additional voluntary contributions of $60 million to the plans early in 2005 to help partially offset deficits created by the plan enhancements granted in 2004. We will return capital to shareholders by launching another NCIB commencing in February 2005, allowing us to purchase and cancel up to 5 per cent of our outstanding shares by February 2006, subject to TSX approval. We will also increase the annual dividend by $0.08 effective with the March 30, 2005, quarterly payment, raising the annual dividend rate to $1.18 per common share. We will also invest in capital and meet our other contractual obligations.

Capital investment guidance

In 2005, we plan to invest approximately $330 million to $370 million in capital with an increased emphasis on strategic transformational initiatives. The portion of our total capital investment spent on transformational initiatives is anticipated to increase from approximately 20 per cent in 2004 to 30 per cent in 2005.

Being aggressive in our pursuit of new growth involves capital investment to support our IP evolution, internal process improvements and expansion of our high-speed Internet coverage. The acceleration of our IP evolution will involve transforming our business model through the establishment of a national multi-service IP enabled next generation network in conjunction with Bell Canada and Nortel Networks. This network will become the backbone for future services and enable service and quality differentiation based on customer needs. Early in 2005, we launched a Fibre-to-the-Home pilot project in Halifax, and are delivering participants VoIP, 10Mgbs high-speed Internet connectivity, IP-television and the ability to trial other IP-based solutions as they become available. We are preparing for the wider introduction of IP-based solutions through increased broadband speed. Planned transformational process improvements include integrating processes between our two segments to support our ICT operations, upgrading our Mobility customer care and billing systems and Customer Service Transformation projects. During 2005, the Customer Service Transformation program expects to make significant advancement on projects that maximize self-serve and electronic channel interfaces, integrate our contact centres and in general make it easier for customers to do business with us.

We remain focused on supporting our existing network and growing our wireless and Internet business. The focus of our wireless network investment will continue to shift away from network expansion, as we already have approximately 88 per cent coverage of the population in Atlantic Canada. Our expansion activities will be focused on in-filling our current coverage. We continue to increase our focus on reinforcing the quality performance of our network by introducing new data and voice service offerings and supporting capacity growth from increased usage. We plan to grow our Internet business through continued expansion of our high-speed

Internet footprint to 79 per cent of homes and 84 per cent of businesses in Atlantic Canada and through the launch of new technologies to improve speed and enable media-rich applications.

2004 operating results

The following is our discussion and analysis of our consolidated operating results for the year ended December 31, 2004, in comparison to the prior year.

Operating revenues

For the year ended December 31 *(millions of dollars)*	**2004**	2003	% change
Telecommunications			
Local	**$ 750.2**	$ 765.0	(1.9)
Long distance	**348.5**	394.3	(11.6)
Wireless	**386.4**	332.5	16.2
Internet	**119.1**	106.6	11.7
Other revenues	**197.8**	221.4	(10.7)
	$ 1,802.0	$ 1,819.8	(1.0)
Information Technology			
IT services	**$ 200.6**	$ 217.1	(7.6)
Fulfillment	**142.9**	138.5	3.2
	$ 343.5	$ 355.6	(3.4)
Other and intercompany eliminations	**$ (112.1)**	$ (116.4)	3.7
Consolidated operating revenues	**$ 2,033.4**	$ 2,059.0	(1.2)

In 2004, Telecommunications operating revenue growth was negatively impacted by increasing competition, ongoing regulatory restrictions and a labour disruption. Local and long distance revenues declined as a result of these factors and technology substitution, including the increasing use of wireless and Internet communications, but were largely offset by the continued strong growth in wireless and Internet revenues.

In total, the labour disruption is estimated to have negatively impacted our 2004 operating revenues by $40 million. During the labour disruption the loss of momentum in sales plus the compounding effect of the loss of recurring revenues from fewer new customer installations and activations had an estimated negative impact on the second and third quarters of $9 million and $17 million, respectively. We estimate that we incurred an additional $14 million in negative impact in the fourth quarter from the loss of recurring revenues associated with these lower customer additions during the labour disruption. In the fourth quarter, we focused our efforts on regaining our customer base through aggressive promotional activity which reduced our average revenue per customer in the short-term but has enabled us to largely regain lost momentum and rebuild our customer base. As indicated in the below table our customer net additions for the fourth quarter of 2004 were comparable to the fourth quarter of 2003.

Customer net additions

	2004					2003				
(thousands of customers)	**Q1**	**Q2**	**Q3**	**Q4**	**Total**	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Network access service	**(2.6)**	**(1.7)**	**(5.0)**	**(9.5)**	**(18.8)**	(4.4)	(2.7)	(4.3)	(8.8)	(20.2)
Wireless	**8.3**	**17.7**	**8.1**	**22.0**	**56.1**	7.8	15.0	12.5	19.0	54.3
Internet	**9.2**	**(0.2)**	**2.8**	**5.6**	**17.4**	6.2	(0.4)	6.1	7.3	19.2
	14.9	**15.8**	**5.9**	**18.1**	**54.7**	9.6	11.9	14.3	17.5	53.3

Information Technology's operating revenues declined due to the business unit divestiture activity in 2004. This decline was offset slightly by growth resulting from strategic initiatives under the new business model.

Excluding the estimated $40 million negative impact of the labour disruption, our consolidated operating revenues in 2004 would have been slightly higher than 2003. This was accomplished despite the sale of two business units that occurred during 2004, which lowered revenues by $17.4 million.

Local revenue

Local revenue consists of providing the following services to residential and business customers:

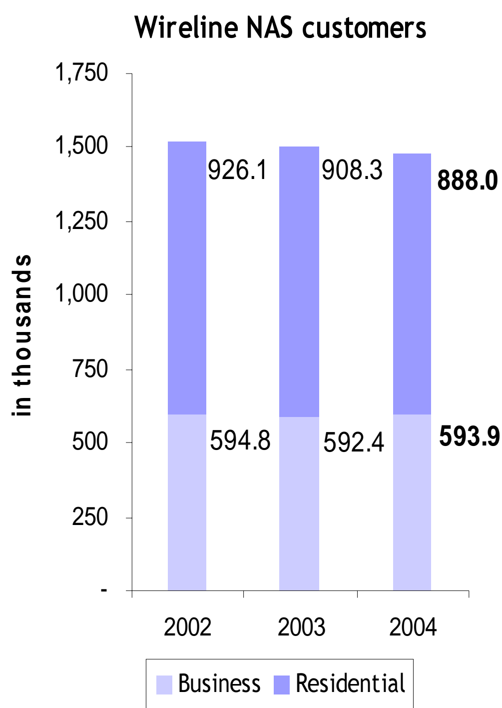
- Network access service (NAS) – monthly access charges for provision of local telephone service;
- Enhanced service features – value added services such as call answer, call display and call forwarding;
- Data access – consists of local data access services such as frame relay, asynchronous transfer mode and interoffice digital access;
- Contribution payments – subsidies from the telecommunications industry-financed National Contribution Fund for the provision of residential local service in high cost areas;
- Competitor payments – rates paid by competitors that access our local network; and
- Other revenues – from telephone set rentals, payphone usage and service charges.

Local revenues have declined 1.9 per cent due to the labour disruption, competition, technology substitution and continued regulatory restriction.

The majority of our local revenues are earned through the provisions of NAS. NAS revenues have declined by 2.1 per cent in 2004 mainly due to the declines in our customer base. As at December 31, 2004, our NAS customer base was 1.3 per cent lower than last year, representing a 2.2 per cent decline in our residential NAS customer base partially offset by a 0.3 per cent increase in our business NAS customer base due to growth in our SMB market.

Our marketplace is one of the most competitive in Canada for local telephone services and one in which our operations are still impacted by CRTC-imposed restrictions which relate to bundling and packaging of local service with other non-regulated services and to limitations on customer win-back promotions. We filed an application with the CRTC in April 2004 to have

these constraints removed in those areas of Nova Scotia and Prince Edward Island that experience vigorous competition. We have not yet received a ruling on this application.



Over one quarter of our local revenues are earned from the provision of enhanced services and data access. Although scaled-back marketing and sales efforts during the labour disruption slowed revenue growth in these areas, we regained much of our momentum in the fourth quarter. In comparison to 2003, data access revenues grew 6.6 per cent, due to new features such as broadband data services. Enhanced service revenue grew 2.5 per cent as customers continued to add features to their basic local service individually or as part of their enhanced local service package or business bundle.

Service charge revenue declined during the labour disruption as we completed fewer new installations with our reduced work force. We also continued to experience a reduction in telephone set rentals, lower payphone revenues due to technology substitution, and lower competitor payments due to the negative impact of the previous year CRTC price cap decision.

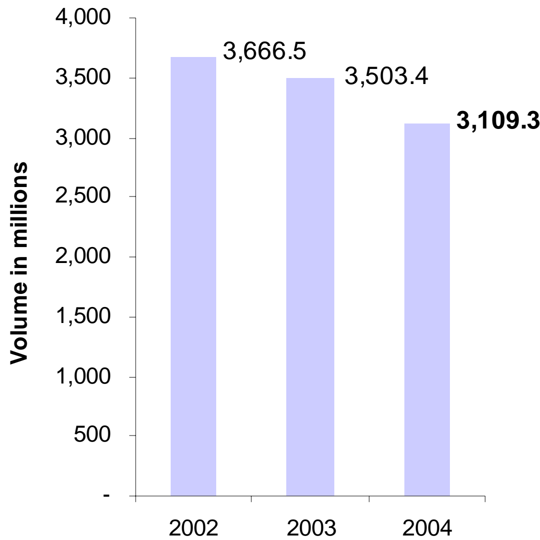
Long distance revenue

Long distance revenue consists of providing the following services to residential and business customers:

- Toll service – long distance voice services including toll-free service;
- Data network service – long distance data transmission circuits; and
- Long distance terminating – the rates paid by certain telecommunications carriers for long distance calls terminating with our customers.

Long distance revenues declined 11.6 per cent due to the impacts of the labour disruption, continued downward pressure on price, continued technological substitution to wireless and Internet communications, increased emphasis on Value Packages and reduced terminating rates.

Downward pressure on average revenue per minute (ARPM) continues, especially in our business market. These impacts were offset in part by rate plan restructuring in our consumer market that has resulted in a higher ARPM. Success in converting customers to our bundled solutions also caused a further decline in long distance revenues but should secure future revenues by improving customer retention. The labour disruption adversely affected revenues as we were unable to maintain our normal customer win-back efforts and we introduced promotional rates in an effort to retain customers. CRTC-mandated rate reductions on long distance terminating revenue were offset by our savings in terminating expenses.

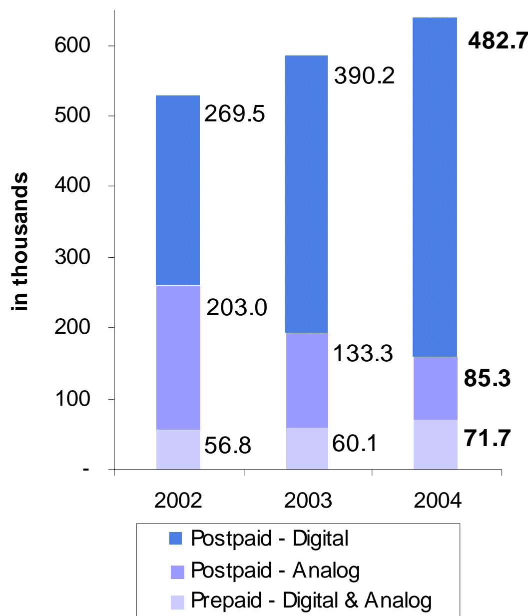


Long distance minutes, traditionally the driver of long distance revenue growth, are becoming less relevant due to the number of customers on "block of minute" based long distance plans. Long distance minutes in the consumer market declined due to a lower customer base resulting from the increased presence of dial-around competitors, technological substitution to wireless and Internet services and the restructuring of our customer plans in late 2003. Components of this restructuring plan, such as capping of the minutes available under certain unlimited calling plans, have optimized the usage of our network, limited additional capital investment and improved the profitability of this segment. Business long distance minutes have also declined due to technology substitution and to the loss of some of our contact centre business to competition in late 2003 and early 2004.

Wireless revenue

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over our analog and digital wireless network. Cellular revenues consist primarily of monthly recurring charges and also include charges for airtime, long distance, roaming and enhanced service features such as text and video messaging.

Customers can choose to pay for their cellular service through a monthly rate plan (postpaid) or in advance (prepaid).



Strong customer growth, higher average revenues per customer (ARPC) and an increase in average minutes of use led to wireless revenue growth of 16.2 per cent.

Year-over-year our customer base grew 9.6 per cent resulting from our extensive coverage, dealer network, product selection and competitive offers. As at December 31, 2004, approximately 88 per cent of Atlantic Canada's population had access to our digital wireless network, up from approximately 83 per cent at the same time last year. Net additions temporarily slowed during the labour disruption but in the fourth quarter showed a marked improvement effectively regaining momentum, as reflected in the 16.3 per cent increase over the fourth quarter of 2003. Likewise, our customer turnover rate, or churn, has improved

over the prior year by 6.1 per cent due to our Value Packages and business bundles, hardware upgrades and a high number of customers on contracts.

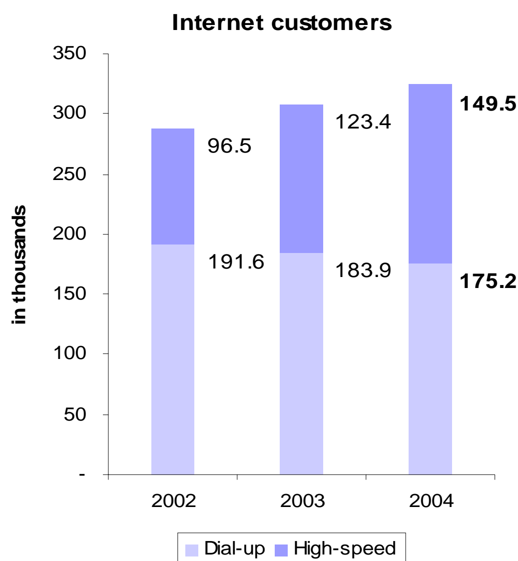
The growth in ARPC reflects increased average minutes of use, data usage and adoption of enhanced services, and the increased percentage of customers choosing digital service. Digital customers generate higher ARPC than analog, and we have been successfully improving our ARPC by growing our digital customer base by 26.1 per cent through continued expansion of our digital wireless network and increased market penetration. Digital customers now represent 79.5 per cent of our cellular customer base compared to 69.1 per cent at December 31, 2003. Postpaid customers also generate higher monthly ARPC than prepaid and we have an industry leading postpaid customer mix of 88.8 per cent at December 31, 2004.

Wireless - statistics

For the year ended December 31	**2004**	**2003**	**% change**
Monthly - Average revenues per customer			
Postpaid	**$ 55.40**	$ 52.00	6.5
Prepaid	**$ 10.81**	$ 9.67	11.8
Total	**$ 50.71**	$ 47.50	6.8
Monthly - Average minutes of use per customer	**270**	247	9.3
Net additions	**56,083**	54,295	3.3
Churn	**1.43%**	1.53%	(6.1)

Internet revenue

Internet revenue consists of high-speed and dial-up service to consumer and business markets and enhanced services and applications such as TV on my PC™, security services, music download service and dial-up accelerator.



Our Internet revenue growth of 11.7 per cent was driven by customer growth, changes in our pricing structure and increased adoption of enhanced services.

Our high-speed customer base grew 21.1 per cent over December 31, 2003, contributing to total Internet customer growth of 5.7 per cent. Net customer additions for high-speed service were marginally lower than in 2003, due largely to the labour disruption. During 2004, high-speed churn has improved in both our consumer and business markets to 1.52 per cent and 1.83 per cent, respectively. The reduction in our dial-up customer base continues to reflect migration to high-speed

service, encouraged through targeted promotions and our general introductory offers.

We achieved customer growth by introducing Ultra High-Speed service, emphasizing Value Packages and enhanced services, expanding our high-speed footprint and improving our dealer and on-line sales channels. At December 31, 2004, our high-speed Internet service passed 72 per cent of homes and 79 per cent of businesses in Atlantic Canada, up from 65 per cent of homes and 75 per cent of businesses at December 31, 2003. Our continued focus on customer retention and loyalty management programs minimized the impact of competition on churn through the success of our long-term customer contracts and continued introduction of Value Packages and business bundles that integrate Internet offers with our other products.

Internet - statistics

For the year ended December 31	**2004**	2003	**% change**
Monthly - Average revenue per customer			
Consumer dial-up*	**$ 19.90**	$ 19.66	1.2
Consumer high-speed*	**$ 33.14**	$ 34.01	(2.6)
Business dial-up	**$ 45.33**	$ 44.63	1.6
Business high-speed	**$ 98.95**	$ 95.16	4.0
Net additions	**17,379**	19,186	(9.4)
High-speed churn			
Consumer	**1.52%**	1.74%	(12.6)
Business	**1.83%**	1.87%	(2.1)

* 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.

All Internet product categories, except consumer high-speed, showed improvement in ARPC over the prior year. Consumer high-speed ARPC reflects a higher mix of customers on short-term introductory offers, particularly in the fourth quarter. This was partially offset by the growing adoption of Ultra High-Speed service, security services and TV on my PC™. Short-term introductory offers and our customer retention and loyalty management programs are expected to continue to be successful strategies for managing churn and increasing our customer base for the long-term. Consumer and business dial-up ARPC increased as customers adopted our dial-up accelerator technology to improve connection speed. Business high-speed ARPC has increased significantly due to price restructuring within product categories, increased usage and the popularity of new security services.

Other revenues

For the year ended December 31 *(millions of dollars)*	**2004**	2003	% change
Product	**$ 109.7**	$ 122.3	(10.3)
Directory	**49.5**	46.3	6.9
Innovatia	**27.5**	25.4	8.3
Miscellaneous	**11.1**	27.4	(59.5)
Other revenues	**$ 197.8**	$ 221.4	(10.7)

Product sales were adversely impacted when some customers deferred purchases during the labour disruption, but we were able to complete some of these deferred sales in the fourth quarter as we resumed normal operations. We also experienced higher product sales from our subsidiary, Atlantic Mobility Products Ltd. in 2004. Directory advertising revenues showed good growth as a result of strong marketing efforts. Higher Innovatia revenues were due primarily to a one-time customer contract termination penalty in the third quarter of 2004. Miscellaneous revenues have decreased in 2004 as a result of lower private line broadcast revenue compared to 2003 which included some large broadcast events. In addition, we experienced lower revenues from e-commerce, managed network services and other services as these services lost momentum during the labour disruption.

IT services revenue

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

External IT services revenues have declined $15.1 million from 2003 levels, attributable to the divestiture of the Internet help desk contact centre in June and the Western business unit in July of this year. Revenues from these businesses were $14.8 million in 2004, down $17.4 million from the prior year. The decline due to divestitures was partially offset by growth generated from new contracts with Airbus, the State of Virginia, and the City of Sudbury, amongst others. Overall, internal revenues declined by $1.4 million with incremental revenue generated during the labour disruption being more than offset by productivity improvement initiatives undertaken in collaboration with the Telecommunications segment.

Fulfillment revenue

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

Strong sales activity in Central Canada in both the public and private sectors led to an increase of $3.8 million in external fulfillment sales. Although internal sales were more erratic than usual due to the labour disruption, total internal sales were comparable to the prior year, increasing by $0.6 million.

Cost of operating revenues

For the year ended December 31 *(millions of dollars)*	**2004**	2003	% change
Cost of operating revenues	**$ 285.5**	$ 300.4	(5.0)

In the Telecommunications segment, lower product sales resulting from the labour disruption reduced the associated cost of goods sold in comparison to the prior year. As well, lower long distance minute usage and continued lower toll terminating rates reduced costs in our long distance portfolio. Cost of IT fulfillment revenues increased $4.9 million, or 3.9 per cent, due to higher sales volumes and higher costs which have led to slightly lower gross margins in an increasingly competitive marketplace.

Operating expenses

For the year ended December 31 *(millions of dollars)*	**2004**	2003	% change
Telecommunications	**$ 890.3**	$ 797.8	11.6
Information Technology	**191.9**	223.4	(14.1)
Other and intercompany eliminations	**(82.9)**	(91.9)	(9.8)
Consolidated operating expenses	**$ 999.3**	$ 929.3	7.5

The growth in operating expenses in 2004, over 2003, resulted mainly from the impact of the labour disruption, growth in our wireless business and increased pension and other post employment benefits cost. This was offset by savings from restructuring activities and the divestiture of business units in the Information Technology segment.

The labour disruption caused approximately $42 million of the operating expense increase, net of approximately $3 million in defined benefit pension and other post employment benefits cost savings associated with unionized employees. The incremental costs associated with the labour disruption were of a non-recurring nature and related to ensuring appropriate security for our employees and assets, property repairs and increased salary costs to maintain basic customer service.

Our wireless business exhibited strong customer growth over 2003, translating into a 16.2 per cent growth in wireless revenues. To support this growth, we incurred an associated operating expense increase of approximately $22.8 million, or 13.5 per cent, related to commissions, subsidies, cellular phone and accessories costs, and other actions in support of increased customer levels.

Overall, salaries and benefits for 2004 were not significantly higher than in 2003. Normal annual wage and salary increases were mostly offset by productivity improvements and by the removal of costs previously included in the Internet help desk and Western business unit which were sold.

Pension and other post employment benefits cost increased $13.9 million, or 22.5 per cent, over the prior year, with most of the increase being driven by higher defined benefit pension plan expenses.

Pension and other post employment benefits cost

For the year ended December 31 *(millions of dollars)*	**2004**	2003	**% change**
Defined benefit	**$ 48.5**	$ 35.9	35.1
Defined contribution	**11.7**	11.3	3.5
Other post employment benefits	**15.5**	14.6	6.2
Pension and other post employment benefits cost	**$ 75.7**	$ 61.8	22.5

DB pension cost has increased in 2004 primarily due to the amortization of a larger balance of net actuarial losses. Net actuarial losses have 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 a lower rate used to discount the future obligation and from additional past service costs in the fourth quarter which relate to the new collective agreement. Throughout 2004, we amortized $19.4 million of the accumulated losses through pension cost while $8.9 million was amortized during the same period in 2003. DB pension costs were incurred evenly throughout the year with the exception of the five-month period of the labour disruption, which reflected a $2.5 million decline in the current service cost attributable to unionized employees not accruing pensionable service during the labour disruption.

DC costs represent our contributions to the employees' retirement savings accounts. The increase in 2004 resulted from higher contributions related to annual short-term incentive payments paid out in the first quarter. During the second and third quarters, DC costs were lower than normal as contributions were not being made for unionized employees during the labour disruption. DC costs in the fourth quarter were also lower than the prior year because as an outcome of the negotiated collective agreement a number of unionized employees converted membership from their DC plan to a DB plan.

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

Depreciation

For the year ended December 31 *(millions of dollars)*	**2004**	2003	**% change**
Depreciation	**$ 397.3**	$ 390.6	1.7

The increase in depreciation expense has been caused by the higher proportion of capital investment in recent years being in assets with shorter depreciable lives.

Restructuring charge

For the year ended December 31 *(millions of dollars)*	**2004**	2003	**% change**
Restructuring charge	**$ 72.3**	$ 14.5	-

In October 2004, we offered a voluntary ERIP to all eligible employees. The ERIP was accepted by 693 employees and resulted in a charge of $66.6 million. The majority of the ERIP

participants retired effective January 1, 2005, and the remainder have scheduled exit dates through the early part of 2005. During 2004, we also continued our efforts to restructure operations in our Information Technology segment and also reduced the workforce in certain areas of our Telecommunications segment. These activities resulted in a restructuring charge of $5.7 million, an $8.8 million decrease from 2003.

Other income (expenses)

For the year ended December 31 *(millions of dollars)*	**2004**	2003	% change
Interest income	**$ 13.1**	$ 13.1	-
Accounts receivable securitization	**(3.3)**	(4.5)	(26.7)
Provincial large corporation tax	**(4.7)**	(4.5)	4.4
Gain on disposal of business units	**1.3**	-	-
Writedown of portfolio investments and related assets	**-**	(13.3)	-
Miscellaneous income (charges)	**(1.5)**	1.0	-
Other income (expenses)	**$ 4.9**	$ (8.2)	-

As a result of our review of portfolio investments in 2003 we re-valued certain assets and, where required, wrote down the values at that time. In 2004 we recognized a small gain on the sale of our IT services business in Western Canada, which was offset by an increase in our miscellaneous charges.

Interest charges

For the year ended December 31 *(millions of dollars)*	**2004**	2003	% change
Interest charges	**$ 75.0**	$ 83.1	(9.7)

Interest charges have decreased in 2004 compared to the prior year due primarily to a decrease in the amount of outstanding debt. We repaid $72.5 million in debentures and bonds in June and July of 2003 and a $100.0 million note in October 2004. A $100.0 million interest rate swap entered into in December 2003 is also contributing to lower interest charges in 2004, as we benefit from relatively low floating rate interest.

Income taxes

Calculation of effective income tax rate

For the year ended December 31 *(millions of dollars)*	**2004**	2003	% change
Net income from continuing operations	**$ 137.0**	$ 194.9	(29.7)
Addback:			
Income taxes	**70.1**	137.6	(49.1)
Non-controlling interest	**1.8**	0.5	-
Net income from continuing operations before income taxes and non-controlling interest	**$ 208.9**	$ 333.0	(37.3)
Effective income tax rate	**33.56%**	41.33%	(18.8)

Lower net income from continuing operations and lower statutory tax rates in 2004 resulted in lower income taxes. Our effective tax rate also declined because of the reversal of a previously recorded tax liability following the favourable resolution of outstanding tax audits related to previous years.

Non-controlling interest

For the year ended December 31 *(millions of dollars)*	2004	2003	% change
Non-controlling interest	**$ 1.8**	$ 0.5	-

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

Net income and earnings per share

For the year ended December 31 *(millions of dollars, except per share amounts)*	2004	2003	% change
Net income:			
Continuing operations	**$ 137.0**	$ 194.9	(29.7)
Discontinued operations	**-**	111.3	-
Total net income	**$ 137.0**	$ 306.2	(55.3)
Earnings per common share (basic and diluted):			
Continuing operations	**$ 0.96**	$ 1.35	(28.9)
Discontinued operations	**-**	0.81	-
Total earnings per common share	**$ 0.96**	$ 2.16	(55.6)

The decrease in net income from continuing operations in 2004 compared to 2003 is due primarily to the impact of the labour disruption, the ERIP and an increase in pension and OPEB costs. This decrease was mitigated in part by the absence of investment writedowns, lower interest charges and lower income taxes. Excluding the estimated impact of the labour disruption of $0.32 and the ERIP charge of $0.32, earnings per common share from continuing operations grew considerably over 2003.

Our exit from non-core businesses in 2003 resulted in the reclassification of prior period results of these businesses as discontinued operations. The 2003 results from discontinued operations reflect the operating activities of the businesses prior to their disposition and a $104.6 million gain, net of taxes, on the sale of these businesses.

Financial and capital management

Summary of consolidated cash flows

Our principal source of funds is the cash we generate from our operations. Despite the labour disruption, we delivered $581.9 million in cash from operating activities after meeting our obligations for our DB pension and OPEB plans which amounted to $87.1 million. Cash and cash

equivalents at December 31, 2004 was $323.3 million, slightly below our prior year position of $365.3 million.

In 2004, we repaid $100.0 million of long-term debt, paid shareholder dividends of $150.4 million, repurchased $50.6 million of common shares through an NCIB, invested $295.0 million in capital to strengthen our service delivery capabilities for the future and invested $23.4 million on our business acquisitions.

We anticipate that we will continue to generate sufficient cash from operations to meet our operating, financing and investing requirements as outlined in our earnings per share guidance provided in the "2005 strategic initiatives and guidance" section.

Operating activities

Summary of cash flows from operating activities

For the year ended December 31

(millions of dollars)	**2004**	2003	% change
Cash from operating activities, before the change in non-cash working capital	**$ 504.2**	$ 528.6	(4.6)
Change in non-cash working capital	**77.7**	109.5	(29.0)
Cash from operating activities	**$ 581.9**	$ 638.1	(8.8)

Cash from operating activities, before the change in non-cash working capital, decreased from the prior year as a result of lower net income due largely to the impact of the labour disruption and the ERIP, but benefited from lower interest charges and income taxes. Cash generated from the change in non-cash working capital was lower this year primarily due to a $38.0 million decline in tax refunds received in 2004 compared to 2003.

Change in non-cash working capital

For the year ended December 31

(millions of dollars)	**2004**	2003	% change
Accounts receivable	**$ 44.2**	$ (4.7)	-
Prepayments	**1.5**	(8.6)	-
Inventory	**0.7**	(0.3)	-
Payables and accruals	**44.9**	74.2	(39.5)
Income taxes	**(13.6)**	48.9	-
Change in non-cash working capital	**$ 77.7**	$ 109.5	(29.0)

We continue to generate positive cash from changes in non-cash working capital. Cash flow increased as accounts receivable decreased from 2003 due to the collection of large customer balances early in 2004 and the divestiture of business units. Payables and accruals increased with the inclusion of a $66.4 million liability related to the ERIP at year end. Income taxes used cash in 2004 as a result of tax installments exceeding the current tax provision for the year and tax refunds received, while in 2003 we received a higher balance of tax refunds which added to our cash flow.

Financing activities

Summary of cash flows from financing activities

For the year ended December 31
(millions of dollars)

	2004	2003	% change
Repayments of long-term debt	**$ (100.1)**	$ (75.5)	32.6
Repurchase of common shares	**(50.6)**	(201.0)	(74.8)
Preferred and common share dividends	**(150.4)**	(151.9)	(1.0)
Other financing activities	**(8.5)**	(18.0)	(52.8)
Cash used in financing activities	**$ (309.6)**	$ (446.4)	(30.6)

Cash used in financing activities was $136.8 million less than in 2003, as fewer common shares were repurchased under the NCIB program which was completed on August 5, 2004, whereas an NCIB program was in operation throughout 2003.

We repaid maturing and callable debt obligations in each of 2004 and 2003. In October 2004, we repaid a $100.0 million medium-term note, while in 2003 we repaid $72.5 million of debentures and bonds. In addition we repaid $28.8 million of notes payable and bank advances in 2003.

Liquidity and financing resources

As at December 31, 2004, we maintained lines of credit totalling $562.0 million in aggregate with our bankers, of which $62.0 million relates to our business segments, an increase of $5.0 million from December 31, 2003, due to the acquisition of DownEast Communications. There was $0.8 million outstanding on these lines of credit and no balances outstanding under our commercial paper program as at December 31, 2004. Further details are provided in note 10 to our consolidated financial statements for the year ended December 31, 2004.

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

As at December 31
(millions of dollars)

		2004			2003	
Common equity	**$**	**1,405.1**	**56.1%**	$	1,451.6	54.7%
Preferred equity		**172.3**	**6.9%**		172.3	6.5%
Non-controlling interest		**5.2**	**0.2%**		4.1	0.1%
Long-term debt, including current portion		**896.4**	**35.8%**		990.1	37.3%
Short-term debt, including bank indebtedness and interest payable		**26.1**	**1.0%**		36.1	1.4%
	$	**2,505.1**	**100.0%**	$	2,654.2	100.0%

The percentage of debt to total capital was 36.8 per cent at December 31, 2004, which has declined slightly from 38.7 per cent at December 31, 2003, as our debt repayments exceeded our net common share repurchases.

Corporate equity instruments

In 2004, we issued common shares in the amount of $7.3 million by way of our common shareholder dividend reinvestment and stock purchase plan and the exercise of options under our stock option plan. Common shares were purchased on the open market to fulfill the requirements of our employees' stock savings plan. In addition, we issued common shares with a value of $15.0 million pursuant to the acquisition of DownEast Communications.

Under the NCIB program, which commenced on August 6, 2003, and ended August 5, 2004, we acquired, from time to time, our common shares for cash through the facilities of the Toronto Stock Exchange. Further details on this NCIB are provided in note 15 to our consolidated financial statements for the year ended December 31, 2004. As at December 31, 2004, we had purchased and cancelled all of the allowable 6,925,000 common shares under this NCIB at an aggregate price of $214.4 million, of which 1,732,130 common shares were purchased during 2004 at an aggregate price of $50.6 million.

We paid preferred shareholder dividends of $9.5 million in 2004, consistent with the amounts paid in 2003.

Common share dividends decreased $1.2 million from 2003 levels due to the lower number of common shares outstanding offset in part by the increase in our dividend rate per common share effective with the second quarter of 2003.

Dividends paid that were subsequently reinvested through the common shareholder dividend reinvestment and stock purchase plan and the employees' stock savings plan were $6.4 million and $3.8 million, respectively, slightly higher than the prior year.

Our outstanding shares and stock options as of January 20, 2005 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)	**January 20, 2005**	
	Number of shares	**Value**
Preference shares, series 2	7,000,000	$ 172.3
Common shares	132,744,009	1,044.7
		$ 1,217.0

	January 20, 2005	
	Number of options	**Weighted average exercise price**
Options outstanding	2,479,434	$ 30.38
Options exercisable	1,693,271	$ 30.40

Investing activities

Summary of cash flows from investing activities

For the year ended December 31 *(millions of dollars)*	**2004**	**2003**	**% change**
Purchase of capital investments	**$ (295.0)**	$ (335.8)	(12.2)
Business acquisitons, net of cash	**(23.4)**	-	-
Other cash used in investing activities	**4.1**	3.8	7.9
Cash used in investing activities	**$ (314.3)**	$ (332.0)	(5.3)

Cash used in investing activities in 2004 decreased from 2003 due to a slower pace of capital investments resulting from the labour disruption. This was partially offset by cash consideration paid for businesses acquired in the fourth quarter of 2004, $19.7 million related to DownEast Communications and $3.7 million related to the Atlantic Canada operation of Fujitsu Consulting (Canada) Inc.

Capital investments

For the year ended December 31 *(millions of dollars)*	**2004**	**2003**	**% change**
Telecommunications	**$ 289.3**	$ 330.7	(12.5)
Information Technology	**5.5**	3.4	61.8
Corporate and others	**0.2**	1.7	(88.2)
Total purchase of capital investments	**$ 295.0**	$ 335.8	(12.2)

Telecommunications capital investment was lower due to the deferral of some projects during the labour disruption. The pace of spending resumed in the fourth quarter but was not enough to fully offset the decline incurred earlier in the year. Capital investment in 2004 focused on

our strategic initiatives. We expanded our high-speed Internet footprint, equipped our network to deliver IP-based services such as VoIP in 2005, and prepared to launch IP-television in 2005.

Information technology invested more in capital in 2004 reflecting renewed investment in tools and infrastructure to support the business.

Other financial arrangements

Off-balance sheet arrangements

We participate in a program whereby we sell certain accounts receivable to a securitization trust. We consider this to be an effective and low-cost working capital management tool. During the year, we amended the arrangement which reduced the available facility from $130.0 million to $125.0 million and increased the security provided. At December 31, 2004, we had transferred $168.5 million of accounts receivable to the securitization trust for cash proceeds of $125.0 million, with the excess of $43.5 million representing security for the trust. The terms of the purchase and sale arrangement and accounting policy that we follow are described in notes 1 and 3 to our consolidated financial statements for the year ended December 31, 2004.

We also have various operating leases and purchase commitments for equipment and other network infrastructure. The amounts of estimated future payments under such arrangements are detailed below.

Contractual obligations

as at December 31, 2004 *(millions of dollars)*	2005	2006	2007	2008	2009	Thereafter
Long-term debt	$ 151.3	$ 1.3	$ 101.3	$ 1.4	$ 105.0	$ 531.5
Capital lease obligations	1.8	1.9	0.9	-	-	-
Operating leases	45.9	41.4	37.0	35.5	33.5	148.5
Purchase commitments[1]	39.6	8.9	2.6	1.8	1.8	-
Total contractual obligations	$ 238.6	$ 53.5	$ 141.8	$ 38.7	$ 140.3	$ 680.0

[1] Purchase commitments are agreements to purchase goods or services that are enforceable and legally binding on us and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed minimum or variable price provisions; and the approximate timing of the transaction.

Use of derivative financial instruments

We periodically use certain derivative financial instruments in the management of foreign currency and interest rate exposures associated with our long-term debt or specific firm commitments. Details of our use of derivative financial instruments and accounting policies we follow are provided in notes 1 and 20 to our consolidated financial statements for the year ended December 31, 2004. The following derivative financial instruments were outstanding at December 31, 2004:

- An interest rate swap transaction with a notional amount at December 31, 2004, of $100.0 million expiring in May 2011. This swap was entered into in order to adjust the mix of floating and fixed rate debt utilized within our targeted capital structure. This swap results in us exchanging our underlying fixed interest rate of 6.80 per cent per

annum for a three-month Banker's Acceptance floating interest rate plus 2.06 per cent. The terms of the swap transaction are unchanged from December 31, 2003.

- Interest rate swaption transactions relating to two outstanding issues of long-term debt with a total notional amount at December 31, 2004, of $90.0 million. These swaptions grant an option to the counterparty in the transaction to enter into an interest rate swap transaction with us on the call dates of the two underlying debt instruments. If exercised, we would pay the underlying fixed interest rate on the outstanding debts of 10.45 per cent and 11.125 per cent, respectively, in exchange for receiving the three-month Banker's Acceptance floating interest rate from the call dates in 2006 until maturity in 2013. As a result of entering into these agreements we received premium income payments from the counterparty of $7.6 million in 2001 and $5.4 million in 1997. This premium income is being amortized against interest charges over the period to maturity of the underlying debt issues. The remaining unamortized premium income at December 31, 2004, of $8.4 million is recorded as a deferred credit. The terms of the swaption are unchanged from December 31, 2003. Since inception of the agreements, interest rates have changed such that cancellation of the swaptions would have required a payment to the financial institution counterparty at December 31, 2004, of $27.5 million, an increase of $2.8 million from December 31, 2003.

Pension and other post employment benefit obligation and related cash funding requirements

We provide certain pension plans and non-pension post employment benefits to qualified employees. These include DC pension plans, DB pension plans, retirement savings plans and OPEB plans such as life insurance and health care plans. Details of our post employment benefits and accounting policies we follow are provided in notes 1 and 7 to our consolidated financial statements for the year ended December 31, 2004.

While all new employees participate in a DC pension plan or retirement savings plan, we still have many active employees in one of four DB pensions and supplementary executive plans. The DB pension plans require periodic funding payments to a trust fund, and these payments are determined by performing required actuarial valuations of the plans. During 2003, we completed the actuarial valuations of our DB plans as of December 31, 2002, and during 2004, we updated the valuations as of December 31, 2003, as required. Actuarial valuations performed as of December 31, 2002, and December 31, 2003, prescribed our required funding obligation for 2004 of approximately $54 million. We contributed our prescribed funding and other funding for a total of $83 million towards our obligation in 2004.

The collective agreement reached during the third quarter of 2004 includes enhancements to certain features of our pension plans and an increase in past service benefits accrued for some employees. These changes resulted in an increased pension obligation of $31.3 million for the DB pension plans. The cost of these plan amendments is being amortized and recognized as increased DB pension costs over future years and will result in increased future funding requirements. We estimate the impact on annual pension costs in future years to be $6.5 million while the increase in annual funding requirements is estimated to be approximately $9.0 million beginning in 2005. The collective agreement also stipulates that any new bargaining unit employees will participate in a DC pension plan, which is in line with our desired model for

delivery of employee retirement benefits and will result in all of our DB pension plans being closed to new members.

On October 28, 2004 our board of directors approved the ERIP as well as certain enhancements to the pension plans for non-unionized employees that are similar to those awarded to unionized employees in the collective agreement. These changes result in an increased pension obligation of approximately $91 million for the DB pension plans. We estimate the impact of these changes on annual pension costs in future years to be approximately $12.1 million while the increase in annual funding requirements is estimated to be in the range of $9 million to $14 million beginning in 2005.

The combined impact of the aforementioned factors and the increased amortization of actuarial losses arising from the lowering of our discount rate at December 31, 2004, offset by higher earnings on increased contributions is an increase in our annual pension costs of approximately $25 million. The increase in our annual funding requirements is expected to be approximately $18 million to $23 million, bringing total required DB pension funding levels of $70 million to $80 million annually. We also plan to contribute an additional $60 million in voluntary funding to the DB pension plans in 2005 in order to help address the increased deficits created by the 2004 plan enhancements.

Related party transactions

Bell Canada, which is owned 100 per cent by BCE Inc., beneficially owns and controls 53.22 per cent of our outstanding common shares as at December 31, 2004. In the normal course of business, we engage in transactions with our majority shareholder and its controlled investees to purchase and provide telecommunications and other services and to make capital investments. In addition, during the year we repurchased our common shares from Bell Canada under an NCIB. At December 31, 2004 we also had notes receivable with Bell Canada. Refer to note 22 of our consolidated financial statements for the year ended December 31, 2004 for greater detail on our related party transactions.

Significant accounting policies

Our 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 consolidated financial statements for the year ended December 31, 2004. The accounting policies and methods used are consistent with those in effect in 2003 except as otherwise noted.

Accounting policy changes in 2004

Asset retirement obligation

Effective January 1, 2004, we adopted the Canadian Institute of Chartered Accountants (“CICA”) handbook section 3110, Asset retirement obligations. This standard provides guidance on the recognition, measurement and disclosure of liabilities related to legal obligations associated with the retirement of certain long-lived assets. The adoption of this standard had no material impact on our financial position, results of operations or cash flows.

Future changes in accounting policies

In 2005, we intend to change our accounting policies for our subscriber acquisition costs and the recognition of our directory revenues and expenses. In September 2003, the Accounting Standards Board ("AcSB") of the CICA issued an exposure draft, Changes in accounting policies and estimates, and errors, which specifies that an entity can only make a change in an accounting policy when it is required by a primary source of GAAP or results in more relevant presentation in the financial statements. The changes in accounting policies that we will make in 2005 will comply with this standard under its current form, should the exposure draft be approved with an effective date of January 1, 2005.

Subscriber acquisition costs

We currently account for the cost of acquiring wireless and Internet subscribers by deferring and amortizing the costs. Wireless subscriber acquisition costs include commissions and cellular phone subsidies (the amount by which the cost of the cellular phone exceeds the sale price) and are amortized over the life of the customer contract. Internet subscriber acquisition costs include commissions amortized over the defined customer relationship.

Effective January 1, 2005, we are changing our accounting method and will start expensing all subscriber acquisition costs when services are activated. This is a more conservative approach as we operate in an increasingly competitive marketplace and these upfront costs may or may not be recoverable during the course of the customer relationship. In addition, the equipment subsidy component of subscriber acquisition costs fluctuates based on the success of promotional activity and seasonality of the business, thus, we believe these costs should be expensed as incurred. As a result of applying this change in 2005, we will be retroactively restating comparative figures for prior years. This restatement will increase our annual operating expenses for 2004 and 2003 by approximately $9 million and $8 million, respectively.

Directory revenue and expense recognition

Effective January 1, 2005, we will change our method for recognizing revenues and expenses in our directory business from the publication-date method to the defer and amortize method. The publication-date method recognizes revenues and direct expenses when directories are published, which tends to fluctuate monthly with the number and size of directory books published. Under the defer and amortize method, revenues and direct expenses, primarily printing and distribution costs, are recognized over the period of circulation, which is usually 12 months. This method results in a more consistent trend over the course of a year. We decided to change methods to provide a more consistent and relevant presentation in our consolidated financial statements. As a result of applying this change in 2005, we will be retroactively restating comparative figures for prior years. The restatement of our 2004 annual results is expected to decrease operating revenues by approximately $1 million, after related expenses and taxes the impact on net income will not be material.

Accounting policy developments

The AcSB of the CICA continually amends and improves certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary. As at January 26, 2005, there

was one guideline issued with an effective date in 2005 that may impact our accounting policies.

Variable interest entities

In June 2003, the AcSB introduced Accounting Guideline 15 (AcG-15), Consolidation of variable interest entities. A variable interest entity is any type of legal structure in which control is determined through contractual or other financial arrangements as opposed to traditional voting rights if certain conditions exist. This guideline applies to annual and interim periods beginning on or after November 1, 2004. We are still assessing the impact of this guideline on our reporting and if it is determined that variable interest entities exist we will commence consolidation as required under this guideline effective January 1, 2005.

Critical accounting estimates and assumptions

Certain of our significant accounting policies require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

We base our estimates and assumptions on past experience and other factors that we believe are reasonable under the circumstances. This involves varying degrees of judgment about matters that may be inherently uncertain. The amounts currently reported in the financial statements could prove to be inaccurate or are subject to change under different conditions or using different assumptions. We constantly evaluate the reasonability of these estimates and assumptions.

We have discussed the development, selection and application of our key accounting policies and the critical accounting estimates and assumptions they involve, with the audit committee of the board of directors, and our audit committee has reviewed the disclosures described in this section. We consider the critical accounting estimates and assumptions described in this section to be an important part in understanding our significant accounting policies and consolidated financial statements.

Post employment benefits

The amounts reported in the financial statements in relation to the DB pension plans and OPEB plans are determined using complex actuarial calculations that utilize several key assumptions determined by management. These key assumptions include the rate used to discount obligations, the expected long-term rate of return on plan assets, the rate of compensation increase and the growth rate of per capita health care costs.

The rates for our two most significant assumptions are developed as follows:

- A discount rate is used to determine the present value of future cash flows that we expect will be required to pay employee benefit obligations. Management’s assumptions of the discount rate are based on current interest rates on long-term debt of high quality corporate issuers. We determine the appropriate discount rate at the end of every year. Given the continued decline in long-term bond yields during 2004, we have lowered our assumed discount rate from 6.75 per cent to 6.25 per cent effective December 31, 2004.

This change in assumption added $116.6 million to our DB pension and $12.1 million to our OPEB plan obligations at the end of 2004, and is included as an actuarial loss in the "Components of accrued benefit asset (liability)" table in note 7 to our consolidated financial statements for the year ended December 31, 2004.

- The expected long-term rate of return on plan assets is based on the mid-point of a range of long-term return expectation for capital markets and active investment management, given our plans' policy asset mix. The rate used in 2004 is consistent with 2003.

A sensitivity table outlining the estimated impact on the value of the accrued benefit obligation and the annual amount of net benefit plans' cost for a 0.25 percentage point change in these assumptions is provided in note 7 to our consolidated financial statements for the year ended December 31, 2004.

Our accounting policies with respect to the recognition of amortization on net actuarial losses follow Canadian GAAP and recognize that future investment returns on plan assets and actuarial changes in the plans can influence the amount of the loss and can reverse it over time. Specifically, the amortization occurs when the size of the actuarial loss (or gain) exceeds a 'corridor', which is the greater of 10 per cent of the accrued benefit obligation or 10 per cent of the market-related value of the plan assets. The use of the market-related value of the assets smoothes the affect of actual gains and losses in the plan assets over a three-year period. The effect of these accounting policies is to limit the amount of amortization of both gains and losses recognized in our earnings except in situations when they become exceedingly large. We have unamortized net actuarial losses totalling $536.1 million in our pension plans at the end of 2004. This balance reflects the amortization of $18.8 million of the losses through pension expense in 2004. In 2005, we estimate that our pension expense will include loss amortization in the range of $29 million to $30 million. The impact of prior year unamortized actuarial losses on future pension expense cannot be determined with certainty because it will be influenced by experience in future years.

Additional information regarding our accounting for post employment benefits is included in note 7 to our consolidated financial statements for the year ended December 31, 2004.

Long-lived assets

Our long-lived assets consist of capital investments, goodwill and finite-life intangibles. We make certain estimates relating to the values recorded for these assets, including determinations of useful life, assessments of asset recoverability through impairment testing and the allocation of acquisition purchase prices between goodwill and finite-life intangible assets.

Estimations of useful lives

We depreciate and amortize our capital investments, finite-life intangibles and other deferred charges based on their estimated useful lives. We estimate the useful life when an asset is acquired, based on past experience with similar assets and our expectations of technological changes or other circumstances that may impact the usefulness of the asset. We review our estimates of useful life on an ongoing basis. When events or changes in circumstances indicate that asset lives do not reflect the expected remaining period of benefit, we make prospective

changes to their depreciable useful lives. This could result in a change in the depreciation and amortization expense in future periods.

Recoverability

The value associated with our goodwill is assessed at our business segment level, being our reporting units, on an annual basis or sooner if events or changes in circumstances indicate that the carrying amounts could exceed fair value. Potential impairment is identified when the carrying value of our business segments, including the allocated goodwill, exceeds their fair value. Goodwill impairment is measured as the excess of the carrying amount of the business segment's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the business segment. Any impairment indicated is charged to earnings in the period such impairment is identified. The annual impairment test that we conducted during the second quarter of 2004 indicated that no impairment provision was required. There have been no events or circumstances since that time indicating impairment.

The value associated with our other long-lived assets is reviewed whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability is based on our estimate of projected discounted cash flows resulting from the use of the asset and its eventual disposition. These reviews could result in a current year impairment charge to reflect the writedown in value of the capital investment or long-lived asset. Reviews triggered by events or changes in circumstances throughout 2004 have not resulted in any significant writedowns for impairment of our other long-lived assets.

We use the projected discounted cash flow method to measure fair value and determine recoverability of assets, which we believe is a reasonable and appropriate approach to measure fair values. The assumptions and estimated cash flows are based on internal planning and reflect our best estimates. These assumptions are subject to inherent uncertainties that are beyond management's control, hence the results of the impairment test could be different if there is a change in assumptions or conditions. We are unable to predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values that have been reported.

Purchase price allocation for a business acquisition

Goodwill represents the excess, at the dates of acquisition, of the costs of an acquired business over the fair values of the net amounts assigned to the individual assets acquired and liabilities assumed, regardless of whether or not these items were recognized in the financial statements of the acquired business. Intangible assets other than goodwill are recognized at their estimated or appraised values when they arise from contractual or other legal rights or are capable of being individually sold, transferred, licensed, rented or exchanged. The identification and valuation of intangible assets of an acquired business involves the evaluation of all significant terms of the purchase that explicitly or implicitly suggest the presence of intangible assets apart from goodwill.

Income taxes

We use the asset and liability method to account for income taxes which requires us to estimate the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes compared with the tax basis of assets and

liabilities and tax losses carried forward for tax purposes. The future tax consequences of the temporary differences, which impact the classification and calculation of our tax assets and liabilities, are based on assumptions and estimates related to expectations of future results of operations, the timing of the reversal of temporary differences and our interpretation of applicable income tax legislation and regulations. The composition of our future income tax assets and liabilities are reasonably likely to change from period to period because of the significance of these assumptions.

The calculation of our income taxes also requires significant judgement and interpretation of tax regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. As our tax filings are subject to audit by the Canada Revenue Agency, such audits could materially change the amount of current and future income tax assets and liabilities if different interpretations are used. As at December 31, 2004, there were no audits ongoing.

We use judgements and estimates when calculating income taxes, if these prove to be inaccurate, or if certain tax rates or laws change, our results of operations and financial position could be materially impacted in future periods. We believe that we have adequately provided for income taxes based on all information currently available.

Restructuring charges

As circumstances require, we engage in restructuring activities to streamline our operations and improve productivity and profitability. The development of formal plans to execute these activities requires us to estimate costs related to post employment benefits, severance and other employee related benefits, premise rationalization, technology lease cancellation penalties and other exit costs. We make these estimates based on the terms of any contracts involved, the number of employees, their pension eligibility and other related factors. Restructuring is a complex process that can take several months or longer to complete, requiring a periodic reassessment of original estimates. In addition, we constantly evaluate whether the estimates of the remaining liabilities under our restructuring program are appropriate. As a result, we may have to change previously reported estimates when the payments are made or activities completed. There may also be additional charges for new restructuring initiatives.

Legal and regulatory contingencies

We may become involved in various litigation and regulatory proceedings in the normal course of our business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss. We accrue potential losses if we believe the loss is probable and can be reasonably estimated. Estimates of loss are based on consultation with legal counsel and involve analyzing potential outcomes and assuming various litigation and settlement strategies. Note 24 to our consolidated financial statements for the year ended December 31, 2004, presents a discussion of significant contingencies outstanding at that time.

Risk and risk management

Management is confident about our long-term prospects, but we recognize that 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. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we presently consider insignificant to our consolidated operations.

Our corporate structure

Aliant Inc., as a corporate entity does not carry on any significant operations and has no major sources of income or assets, other than interest in its subsidiaries and a joint venture. Our financial performance and our ability to service our debt and pay dividends to our shareholders are dependent on the dividends and other distributions we receive from our interest in our subsidiaries and joint venture.

Our dependence on the Telecommunications segment

Our financial performance is dependent on the performance of our subsidiaries and joint venture, in particular the performance of those interests that constitute our Telecommunications segment. Therefore the risks that impact this segment are more likely to have a significant impact on the financial condition, results of operations and business of our Company as a whole.

Stock market volatility

Stock markets are generally subject to significant volatility due to such factors as fluctuating interest rates, economic conditions and political uncertainty. This market volatility influences the market price and trading volumes of the shares of many companies. In particular, the shares of telecommunications companies have been experiencing price volatility due to industry factors such as competition, mergers and acquisitions activity, the debate over the merit of conversion to an income trust structure 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.

Ability to achieve strategies and plans

We plan to achieve our business objectives in 2005 through the performance of key strategic initiatives under our strategy of growth and transformation. These initiatives are discussed under the “2005 strategic direction and guidance” section.

These initiatives will have a wide-reaching impact, transforming our customer interactions, our internal processes, our network and our people. If we are unable to attain these initiatives on a timely basis or achieve the desired effect, we may be unable to meet our business objectives. As a result, our financial performance, including our growth prospects, could be negatively impacted.

General economic conditions

Changes in general economic conditions, customer confidence and spending affect the demand for, and prices of, our products and services. In particular, a downturn in general economic conditions could lead to:

- lower than anticipated demand for IT services and products and integrated ICT solutions;
- lower than expected growth in data revenue, because of softer demand from enterprises and wholesale customers;
- lower than anticipated long distance and wireless revenues due to decreased usage; and
- higher than anticipated bad debt expense due to increased credit risk.

The existence of these conditions or the emergence of new conditions could reduce revenues or increase costs, negatively impacting results. We constantly monitor economic conditions to enable us to respond by implementing strategies to mitigate risks or adjusting assumptions used in recording the effects of these risks on our results.

Pension and other post employment benefit contributions

Based on valuations performed in 2004 as of December 31, 2003, and estimations of additional funding requirements resulting from the plan amendments made in 2004, required funding for 2005 is estimated to be in the range of $70 million to $80 million. This estimate is subject to change, as we remain exposed to general future valuation risk. Actuarial valuations will be required as of December 31, 2004, for all of our DB pension plans, and required funding levels for 2005 and beyond will change as a result of these updated actuarial valuations. The impact of recent plan amendments will result in increased annual contribution requirements. Past service benefits and plan enhancements stipulated in the collective agreement, pension enhancements offered to non-unionized employees and the increased pension obligation arising from the ERIP will all have a significant effect on future funding requirements. In addition, if the return on plan assets, interest on the obligation, or actual experience of the plans are better or worse than initially anticipated, the valuations could result in either lower or higher minimum required contributions.

In 2005, we will also be reviewing our projections for growth in our OPEBs liability given the changing demographics of the workforce and the complement of retirees resulting from acceptance of the ERIP in the fourth quarter.

Reliance on systems

We are reliant on our systems as they enable us to provide services to customers, manage customer relationships, billings, inventory and support many other vital activities. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and the related data. Our operations depend on how well we protect these components 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 systems are connected with the systems 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 hurt our business, including our customer relationships and operating results.

Changing technology

We operate in an industry that experiences constant change, driven by rapid advances in technology, evolving industry standards, customer demands and short product life cycles. Our success is dependent on our ability to anticipate and respond to these changes in order to effectively deliver new services and technologies to our customers.

There is a risk associated with adopting new technologies to serve our business needs. Investment in new technologies may have shorter than anticipated product life cycles due to evolving standards or sudden advances in the development of competing products or services. This may result in increased re-engineering costs to incorporate new technology and may cause current products or services to become unmarketable or could cause prices to fall, resulting in a negative financial impact.

We are continuing the evolution of our network from a circuit-based technology infrastructure to an IP infrastructure. This evolution enables the development of enhanced services for our customers through the integration of voice, data and video. This integration plays a significant role in increasing operating and capital efficiency. In some cases, significant investments need to be made before it can be determined if the new services will be successful in the marketplace. There is no assurance that customers will adopt these new services or migrate from existing services in a reasonable period of time.

The adoption of new IP-based services may be impacted by the customer perception of the security related to IP networks. There are no assurances that solutions will be available to allow service providers to totally defend customers against all forms of computer viruses and attacks.

We are responding to the fast-pace of technological change by embracing new service development with strategic partners, accelerating new service introduction and developing an integrated growth plan to remain a next generation services provider. The success of new products is impacted by a number of factors, not all of which are under our control. Considerable effort is expended to ensure we correctly interpret, predict and respond to changes in technology, the regulatory environment, partner relationships and customer demand. However, we are not immune to sudden or unanticipated changes in any of these areas. This may result in the failure of new services and products to meet expectations and result in lower than anticipated net income.

Increasing competition

Atlantic Canada continues to be among the most competitive telecommunications markets in North America, especially for local telephone and wireless service. We expect that competition will continue to intensify, fueled by technology evolution.

We have strategies in place to mitigate the risk of competition that involve deepening customer relationships, enhancing our services and packages to create compelling value, improving our cost structure to enable greater price competitiveness, and expanding our IP network and its

capabilities to provide broader access and innovative solutions. Competition, and particularly changes in the competitive landscape, can place these strategies at risk, and as such have a negative impact on future revenue growth and profitability. In recognition of this we constantly monitor our marketplace and respond accordingly to ensure we maintain our leadership position.

Local and long distance

After five years of local competition, this is the only market in Canada where consumer local service is substantially more competitive than business. Competition continues to increase with a competitive local exchange carrier (CLEC) continuing to expand into new areas in Nova Scotia, Prince Edward Island and parts of New Brunswick. In addition, a previous long distance competitor has entered the local service market using both traditional wireline and VoIP in our largest urban market, Halifax. Competition for long distance began a decade ago and continues to grow in intensity. Competition includes dial-around providers, pre-paid card providers and others, from traditional competitors to resellers. Competitors compete for local and long distance service based on price, bundling with other offerings and low “block of minute” long distance packages.

Various companies, ranging from national cable companies to new entrants previously unseen in our market, have announced their intention to launch VoIP in 2005. VoIP technology provides a relatively low cost entry point for new competitors as there is no requirement to invest in physical networks. As VoIP technology evolves, companies that did not traditionally offer voice solutions, are now able to compete in our ICT market. This new class of competitors, including IT providers, network vendors and system integrators, are exerting competitive pressure on price. Our ability to compete with these new entrants on VoIP will be affected by an upcoming CRTC decision in which the CRTC’s initial position that VoIP would be regulated is under review. The decision is expected in the first half of 2005. Increasing presence of VoIP is expected to intensify the competitive pressure on price and could affect our financial performance.

Wireless

The wireless market is becoming increasingly competitive, with new entrants including resellers and established Canadian companies. Competitors in our consumer market are increasingly advertising free phones, new phones and new plans for Atlantic Canadians with reduced long distance pricing. This competition for wireless long distance prices in both the consumer and business markets is putting downward pressure on revenues and margins.

Internet

Across the consumer and SMB markets, competitors continue to focus on speed and price while attempting to evolve their offerings with additional value-add services. The continued aggressive competition for Internet customers has positioned Atlantic Canadian prices among the lowest in North America. While high-speed penetration has surpassed dial-up, consumer high-speed penetration is less than the Canadian average, mainly because close to half of Atlantic Canadians live in rural areas.

Bundles

Consumers are increasingly seeking a provider who can meet all their needs. Bundling services at a discount is central to market success as competitors vie to increase their total revenue per customer. In the consumer market, we are seeing the emergence of packages that combine information, communication and entertainment solutions. Such solutions combine aspects of local and long distance over wireline and wireless networks, Internet, television and additional related services and applications. In 2004, we have experienced competitors creating new partnerships to increase the number of services in their "bundle solutions". In the business market, we see the focus on integrated ICT solutions. The growing prevalence of packaged offerings increases the potential revenue loss associated with the loss of one customer.

Changing regulations

Overall regulatory environment

The business of our primary Telecommunications company, Aliant Telecom Inc. is affected by decisions made by the CRTC. While the CRTC has taken steps to forbear from regulating prices for services offered in some competitive markets, such as long distance, wireless, and some data services, they continue to ensure that there is a competitive Canadian environment for telecommunications services through continued regulation of certain services offered by ILECs, like us. In past years, our profitability has been negatively impacted by regulatory changes concerning the rates charged for price-regulated services, the contribution regime and service bundling. The outcome of future regulatory reviews could have an impact on our ability to compete effectively and our future revenues and costs.

The CRTC is currently reviewing a number of items that could significantly impact us. These items include promotions and win-back restrictions applicable to ILECs, new floor price rules for ILECs' price-regulated services, regulation of VoIP services, rates for certain services provided to competitors at cost-based prices, and a ruling on the deferral account mechanism. In addition, the CRTC has indicated that it has scheduled a number of proceedings in 2005 that could result in significant impacts on us. In particular, in 2005, the CRTC has scheduled a proceeding in response to our application for forbearance from price regulation of certain local services as well as a proceeding to review the regulatory regime that will be effective for the third price cap period beginning in 2006.

In order to address these regulatory risks, we fully participate in proceedings before the CRTC to vigorously defend our position and present alternatives that promote economically sound competition that will benefit customers rather than a regulated competition regime that inappropriately subsidizes competitors and negatively impacts customer choice.

Regulatory requirements can negatively affect us and our customers

While the prices of telecommunications services offered by CLECs are free from rate regulation, many of our local and other telephone service rates continue to be regulated by the CRTC. Any change in the regulations governing these services can potentially impact us. The CRTC Price Cap decision of May 2002, which extends through May 2006, set the upper limits on the prices for our price-regulated local and other telephone services. The price cap mechanism and increasing local competition in our major markets are constraining factors in our ability to grow

local service revenues. In addition, the CRTC-imposed restrictions on ILECs' bundled services and marketing activities negatively affect our ability to respond to customers' expectations and thus, negatively affects our revenues.

Restrictions on ILEC promotions and win-back activities

It is apparent that the degree of regulation on our local service offerings is increasing. In 2003, the CRTC suspended any further approval of tariffs for win-back of customers and other types of promotions in the local wireline market. Then, in the first quarter of 2004, in its interim determination regarding a competitor's application, the Commission extended the previous three-month no-contact restriction to twelve months. The no-contact restriction prevents the ILECs from attempting to win-back residential customers who have switched to a competitor. The extension of the length of time the restriction applies will negatively impact our ability to provide the affected customers with choice of service provider. Together with other ILECs, we provided evidence and argument to the CRTC as to why such restrictions should not exist and why they were contrary to the public interest during the proceeding dealing with this issue. A final CRTC determination on these and related issues is expected in 2005.

Price floors

During 2004, the CRTC conducted a proceeding regarding proposed changes to how floor prices would be determined for the regulated services of ILECs, how ILEC service bundles could be priced, and how ILEC volume and term contracts could be developed. Should the CRTC ultimately rule to increase the floor prices of our regulated services and bundles, it would make our prices for such services less attractive than those of our competitors. Furthermore, if the CRTC alters the rules on volume and term contracts, it could make it more difficult for us to provide competitive pricing proposals to tenders issued by large customers. An increase in price floors may also undermine the global competitiveness of Canadian based businesses.

The submissions by parties in this proceeding were completed during the year. The ILECs, consumer groups and business customer groups opposed any new restrictions while competitors supported the CRTC's 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 in 2005.

Regulation of VoIP services

During the year, the CRTC conducted a proceeding concerning the regulatory framework for voice communications using Internet Protocol. The CRTC indicated that it supports imposing rules for some VoIP services, similar to those that currently apply to traditional local phone services. During the proceeding, together with Bell Canada, SaskTel and Telebec, we urged 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 our position and create an environment in which we are subject to price-regulation while competitors are not. This would negatively impact our future revenue potential.

Rates for services provided to competitors

There are a number of CRTC proceedings underway reviewing the cost-based rates for certain services provided to competitors. If the CRTC approves final rates that are significantly lower than current rates, our revenues and competitive position could be negatively affected. Competitors would be able to obtain underlying facilities at lower rates than would otherwise be available and this would lower their operating costs and improve their competitive position.

In addition, during 2004, some competitors requested that the CRTC expand the list of services on which competitors receive preferential pricing to include certain inter-exchange services in our operating territory. We responded to these requests by demonstrating to the CRTC why such treatment is inappropriate and inconsistent with the goal of establishing economically sound and sustainable competition. There is a risk that the CRTC may approve the competitors' request, in whole or in part, and this could have a negative effect on us, including reduced revenues from competitors as well as retail service price cross-impacts.

Deferral account

In 2004, the CRTC initiated a public proceeding to review the amounts in the ILECs' deferral accounts and to determine how to dispose of any of these amounts. We will submit our proposed disposition of any amounts in our deferral account in early 2005 and the proceeding will continue during the year. For additional information on the deferral account mechanism, refer to note 24 of our consolidated financial statements for the year ended December 31, 2004.

Earlier this year, the CRTC issued its decision on some of the items that affect the amount in our deferral account. The Commission approved our proposals regarding some calculations and denied some of our other proposals. We have filed a review application regarding one of the items that the CRTC denied. There is a risk that the Commission will not vary its previous decision. We have not recognized the deferral account as a liability in our financial statements, but a liability should one arise will be charged to operating income or capital investments, as appropriate. We estimate the deferral account balance could be between $3 million and $37 million.

Local services forbearance application

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. A copy of this filing entitled "Forbearance application for residential wireline local services in specified exchanges" can be found at *www.aliant.ca*.

The CRTC's Three-Year Work Plan for the years 2004 to 2007 indicates that the CRTC expects to deal with the local forbearance application during the April 2005 to March 2006 time frame. If the CRTC ultimately 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:

• suspension of the prohibition on promotional offers to local customers and on waiving service charges for customers who chose to return to us for local service;

• removal of the twelve month period in which we are not allowed to contact customers who have left our local service to invite them to return to us; and

• re-instatement of our ability to file proposed promotions in confidence with the CRTC, such that our competitors would not have advance notice of our special promotional offers.

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.

In an August 2004 determination, the CRTC denied our request for a separate expedited proceeding and indicated that our request for relief from the above identified restrictions will be considered as part of a proceeding in which our request for forbearance for local service will also be considered.

Planned proceeding to review regime for third price cap period

The second price cap period, under the CRTC Price Cap Decision of May 2002, is expected to end in June 2006. Under the price cap regime, the prices for certain ILEC services were capped at an index calculated using a target productivity factor and an inflation measure. During years where inflation was lower than the target productivity factor, the ILECs were required to reduce certain retail prices.

In 2005, the CRTC has scheduled a proceeding to review this and other pricing mechanisms. During previous price cap review proceedings, the ILECs, competitors and other interested parties have made extensive proposals regarding many aspects of the regulatory regime that applies to ILECs. These wide-ranging reviews can lead to CRTC decisions that can greatly affect customers, competitors, and ourselves.

Legal contingencies and changes in laws

We review all legal proceedings and make an assessment of the likelihood of a negative outcome and the estimated impact. Losses are accrued for when a potential loss is deemed probable and its impact can be reasonably estimated. However, pending or future litigation could still have a material and negative effect on our results of operations, cash flows and financial position in the period in which the judgment or settlement occurs.

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, could materially or negatively affect our results of operations, cash flows and financial position.

Capital management risks

The financial transactions we participate in may expose us to credit, currency, interest rate, and financial instrument risks. A more detailed description of our exposure to these risks and the procedures in place to mitigate these risks is described in note 20 to our consolidated financial statements for the year ended December 31, 2004.

Supplementary financial information

Consolidated quarterly financial information (unaudited)

For the eight quarters ended December 31, 2004

(millions of dollars, except per share amounts)	2003				2004			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Total operating revenues	$ 500.9	$ 517.3	$ 513.9	$ 527.0	$ 504.4	$ 525.6	$ 497.2	**$ 506.2**
Net income from continuing operations	$ 37.5	$ 61.3	$ 50.7	$ 45.4	$ 40.7	$ 50.1	$ 37.0	**$ 9.3**
Net income from discontinued operations	1.4	9.3	0.2	100.4	-	-	-	**-**
Net income	$ 38.9	$ 70.6	$ 50.9	$ 145.8	$ 40.7	$ 50.1	$ 37.0	**$ 9.3**
Preferred share dividends	2.4	2.4	2.3	2.4	2.4	2.4	2.4	**2.4**
Net income applicable to common shares	$ 36.5	$ 68.2	$ 48.6	$ 143.4	$ 38.3	$ 47.7	$ 34.6	$ 6.9
Basic earnings per common share:								
Continuing operations	$ 0.25	$ 0.42	$ 0.35	$ 0.32	$ 0.29	$ 0.36	$ 0.26	**$ 0.05**
Discontinued operations	0.01	0.07	-	0.75	-	-	-	**-**
Basic earnings per common share	$ 0.26	$ 0.49	$ 0.35	$ 1.07	$ 0.29	$ 0.36	$ 0.26	**$ 0.05**
Diluted earnings per common share:								
Continuing operations	$ 0.25	$ 0.42	$ 0.35	$ 0.32	$ 0.29	$ 0.36	$ 0.26	**$ 0.05**
Discontinued operations	0.01	0.07	-	0.74	-	-	-	**-**
Diluted earnings per common share	$ 0.26	$ 0.49	$ 0.35	$ 1.06	$ 0.29	$ 0.36	$ 0.26	**$ 0.05**

Impact of factors in the normal course of business

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 CRTC regulations, technology substitution and increased competition. In addition, an event outside the normal course of operations, the labour disruption negatively impacted revenues in the last three quarters of 2004. Refer to the "2005 strategic direction and guidance" section for further information.

Prior to 2004, Information Technology operating revenues decreased as clients scaled back their information technology expenditures in response to subdued market conditions and a slowdown in government spending. A restructuring program, implemented in the first six months of 2003, is resulting in improved productivity and profitability of this segment in 2004.

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. Third quarters are typically adversely impacted by client slowdowns during the summer vacation period.

Pension and other post employment benefits cost

Most pension and OPEB accounting assumptions and calculations affect the expense that is recorded for an entire year, and therefore the largest variations in these costs is seen from one year to the next. However, some factors such as the outcomes of pension valuations, amendments to the pension plans and the variability in quarterly pensionable earnings can affect quarterly comparisons.

Consolidated quarterly results analysis

Impact of pension and other post employment benefits cost

For the eight quarters ended December 31, 2004

(millions of dollars, except per share amounts)	2003				2004			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Decrease in:								
Net income from continuing operations	$ (9.1)	$ (8.9)	$ (10.4)	$ (9.9)	$ (13.3)	$ (12.2)	$ (10.7)	$ (11.7)
Earnings per share from continuing operations	$ (0.07)	$ (0.06)	$ (0.08)	$ (0.07)	$ (0.10)	$ (0.09)	$ (0.08)	$ (0.09)

Consolidated quarterly results analysis (unaudited)
Impact of factors outside the normal course of operations

For the eight quarters ended December 31, 2004

(millions of dollars except per share amounts)	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
Impact on net income of items outside of the normal course of operations								
Increase (decrease) in net income from continuing operations								
Restructuring charge	$ -	$ -	$ (9.3)	$ 0.6	$ (1.9)	$ (0.9)	$ (0.4)	**$ (42.3)**
Labour disruption (estimated)	-	-	-	-	-	(13.0)	(22.0)	**(8.0)**
Writedown of investments	-	-	-	(12.3)	-	-	-	**-**
	$ -	$ -	$ (9.3)	$ (11.7)	$ (1.9)	$ (13.9)	$ (22.4)	**$ (50.3)**
Increase (decrease) in net income from discontinued operations								
Gain (loss) on sale of subsidiary	$ -	$ 10.9	$ (2.0)	$ 95.7	$ -	$ -	$ -	**$ -**
Impact on net income	$ -	$ 10.9	$ (11.3)	$ 84.0	$ (1.9)	$ (13.9)	$ (22.4)	**$ (50.3)**
Impact of items outside the normal course of operations								
Earnings per share from continuing operations	$ -	$ -	$ (0.06)	$ (0.09)	$ (0.01)	$ (0.11)	$ (0.16)	**$ (0.38)**
Earnings per share from discontinued operations	$ -	$ 0.08	$ (0.01)	$ 0.71	$ -	$ -	$ -	**$ -**
Earnings per share	$ -	$ 0.08	$ (0.07)	$ 0.62	$ (0.01)	$ (0.11)	$ (0.16)	**$ (0.38)**

Restructuring charge

Over the past two years, we have initiated restructuring changes to improve our future productivity and profitability. Activity in 2003 consisted largely of charges in our Information Technology segment, while activity in 2004 consisted primarily of acceptance of our ERIP offer by 693 eligible employees in the fourth quarter, with most of the impact being in the Telecommunications segment.

Labour disruption

A labour disruption occurred between April 23, 2004, and September 20, 2004, while negotiating a new collective agreement with our approximately 4,300 employees represented by the Council of Atlantic Telecommunications.

Writedown of investments

We periodically review the value of our long-lived assets. In the fourth quarter of 2003 this resulted in the writedown of portfolio investments and related assets.

Gain (loss) on sale of subsidiaries

In 2003, our exit from non-core businesses resulted in the sale of some of our subsidiaries. The gains and losses on the sale of these subsidiaries and the results from operations prior to their disposition were reclassified as discontinued operations.

Consolidated annual financial information

For the years ended December 31

(millions of dollars except per share amounts)		**2004**		2003		2002
Operating revenues	**$**	**2,033.4**	$	2,059.0	$	2,036.4
Net income from continuing operations	**$**	**137.0**	$	194.9	$	151.7
Net income from discontinued operations		**-**		111.3		25.9
Net income	**$**	**137.0**	$	306.2	$	177.6
Basic and diluted earnings per common share						
Continuing operations	**$**	**0.96**	$	1.35	$	1.02
Discontinued operations		**-**		0.81		0.19
Total basic and diluted earnings per common share	**$**	**0.96**	$	2.16	$	1.21
Dividends declared per common share	**$**	**1.10**	$	1.10	$	1.00
Dividends declared per preferred share	**$**	**1.36**	$	1.36	$	1.36
Total assets	**$**	**2,937.1**	$	3,066.3	$	3,741.7
Total long-term debt (including current portion)	**$**	**896.4**	$	990.1	$	1,064.4

Factors impacting comparability of annual results

The 2004 results were impacted by a labour disruption and the provision of an ERIP. In 2003, several segments were reported as discontinued operations and sold during the year. The comparability of 2004 with 2003 operating results is discussed in more depth throughout this document.

In 2002, net income from continuing operations was negatively impacted by $61.9 million due to the writedown of $50 million in goodwill related to xwave, $7.4 million of xwave assets, net of tax, and $4.5 million writedown of investments, net of tax.

Forward-looking statements

This MD&A contains forward-looking statements related 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" 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: our ability to achieve our strategies and plans; general economic conditions; changes in pension valuations; changing technology; increased competition; and changing regulatory conditions or requirements. 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 actual results or events may differ materially from the results or events predicted. 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.