

From the time we are born

Second quarter report 2005



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Aliant 

Wireless growth strong; operations back to normal



I am pleased to report that our operations and our financial results are back on track following last year's labour disruption. Consolidated revenues for the second quarter grew 2 per cent to \$517 million over the same period last year. Net income was up 24 per cent to \$50 million. Earnings per share were \$0.36, an increase of 29 per cent.

Wireless, Internet drive growth

Our wireless business remains strong. Revenues grew 14 per cent to \$107 million. We increased our number of wireless customers by 10 per cent. Average revenue per customer grew by 5 per cent.

Our Internet business also performed well. We had over 5,200 net customer additions during the quarter. Revenue grew by 6 per cent, year over year, to \$32 million. The increase was due to successful

promotions and to customers moving from dial-up to high-speed Internet and to value packages.

These revenue gains, combined with those generated from our telephone directories business and Innovatia, more than offset the 4 per cent decline in local and long-distance revenues.

xwave operating income up 154 per cent

xwave, our information technology business, continues to deliver strong performance. Quarterly revenues were \$86 million, about the same as the second quarter in 2004. However, after adjusting for last year's divestitures and acquisition, organic growth was 8 per cent for IT services revenues. The rationalization of xwave's operations and a focus on improving margins and controlling expenses resulted in a 154 per cent increase in operating income.

Advancing our strategy – highlights

In addition to reporting on our financial performance, I also want to update you on the significant progress we have made in three strategic areas:

Owning the broadband home and accelerating the adoption of IP technology

During the second quarter, we enhanced our broadband network by installing or augmenting approximately 230 new sites, surpassing our record for the most installations in one quarter. This is important because it allows us to offer customers a broader range of Internet protocol-based solutions and it provides us with additional revenue opportunities.

We launched Aliant TV in Halifax during the second quarter. We now offer a 100 per cent digital television service with over 200 TV and music channels, including local content. At \$29 dollars per month for the first 12 months, with free equipment and installation, our TV service beats the competition on value and price.

We continued to pursue Voice-over-IP (VoIP) solutions. We currently have almost 200 business and residential customers trialing our VoIP services. During the quarter, we spoke out against the CRTC's decision to regulate VoIP for incumbent carriers like us. In our view, the decision does not serve customers in the way an open marketplace should. Late in July, we filed a formal appeal.

Becoming a trusted information and communications technology (ICT) advisor for small- to medium business (SMB) and enterprise customers.

In the second quarter, we continued to advance our strategy of becoming the most trusted partner for ICT solutions in the SMB and enterprise sectors. In doing so, we are steadily growing our business outside of Atlantic Canada. During the quarter, we extended our contract with the New Hampshire Department of Corrections for our correctional facility information system. You may recall that we have similar agreements in place with the Commonwealth of Virginia and the State of Maine. We also signed contracts with the City of Kingston, Ontario, and the City of Camrose, Alberta, to provide dispatching and mobile workstation solutions for law enforcement and emergency services.

Staying competitive in one of North America's most hotly contested markets

Finally, I want to touch on some additional steps we are taking to remain competitive. Building on the strength of our wireless business, we launched unlimited text, picture and video bundles. Existing customers pay only \$10 per month. New customers are offered a free trial to become familiar with the services.

In keeping with our strategy to deliver value and enhancements to consumers, we made improvements to the long distance offerings within our value packages and we launched a five-cent-per-minute summer savings campaign. We also upgraded our ultra high-speed Internet service, which is now more than three times faster than our regular high-speed service. For the SMB market, we opened the Aliant Business Solutions store in Halifax – the first of its kind in Atlantic Canada – to meet the unique needs of this market.

Our most recent competitive offering was launched in mid July – the Aliant PC Purchase Program. Our research indicates that 37 per cent of Atlantic Canadian households are still without a computer. The main reason? Cost. To help Atlantic Canadians overcome this obstacle, we are offering a Dell PC, along with high-speed Internet service, for only \$54.95 a month for a 36 month contract period. Additionally, as part of our commitment to children and education, for every PC Purchase Program sale we are making a \$10 donation to provide school supplies for kids in need.

We are confident these aggressive offerings will keep us at the forefront of providing choice and value for Atlantic Canadians.

Dividend declared for September

Our board of directors declared a common share dividend of \$0.295 per common share and a preferred share dividend of \$0.340625 payable on September 30, 2005, to shareholders of record on September 15, 2005.



Jay Forbes
President and chief executive officer
 July 28, 2005

Second quarter financial highlights

For the period ended June 30

(million of dollars, except per share amounts)

	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Operating revenue	517.3	508.2	1.8	1,041.7	1,022.8	1.9
Net income	49.8	40.0	24.4	93.4	85.7	9.0
Earnings per common share	0.36	0.28	28.6	0.67	0.61	9.8
Weighted average common shares outstanding (millions)	130.9	132.7	(1.3)	131.6	133.0	(1.1)

On the cover: Aisha, daughter of Roxanne Smith, Aliant business analyst, Nova Scotia

On the computer screen: Alyson, daughter of Sonia and Ian Ward, Aliant customer service representatives, New Brunswick

MD&A

This document provides management's discussion and analysis (MD&A) of our financial condition and results of operations for the three and six month periods ended June 30, 2005, compared to the corresponding periods in 2004. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2005, our audited consolidated financial statements and accompanying notes contained in our 2004 annual report and our MD&As contained in our previously issued 2005 first quarter report and our 2004 annual report. The consolidated 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 investor information can be found under "financial reports" on our corporate website at www.aliant.ca. Quarterly and annual reports, annual information forms and other continuous disclosure documents are available at www.sedar.com.

This MD&A is dated July 27, 2005, which is the date of filing in conjunction with our press release announcing our results for the second quarter of 2005. This document contains forward-looking statements, which are qualified by reference to, and should be read together with, the "Forward-looking statements" section. Disclosure contained in this MD&A is current to, and describes our expectations on, July 27, 2005, unless otherwise stated.

Restatement of prior year results

Effective January 1, 2005, we changed our accounting policies for subscriber acquisition costs and for the recognition of revenues and expenses in our directory business. These changes have been applied retroactively with restatement of prior periods.

ABOUT OUR BUSINESS

We are an Atlantic Canada-based company focused on being the premier information and communications technology (ICT) solutions provider for our customers. In 2005, we are continuing to leverage the combined strengths of our Telecommunications and Information Technology segments to achieve this goal.

Our Telecommunications segment operates primarily through 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, retail sales at Aliant-owned dealer stores, telephone directory advertising and wholesale distribution of wireless handsets, accessories and other telecommunications products.

The business of our Information Technology segment is carried out through Xwave Solutions Inc. ("xwave"). We provide clients with a complete range of information technology (IT) solutions through our consulting, infrastructure management and product fulfillment services. We serve clients in several geographic markets and in a range of industries including energy, telecommunications, defence, aerospace, health care, correctional services and education.

QUARTER AT A GLANCE

Financial results

For the period ended June 30

(millions of dollars, except per share amounts)

	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Operating revenues	517.3	508.2	1.8	1,041.7	1,022.8	1.9
Expenses	419.5	429.0	(2.2)	857.4	853.8	0.4
Operating income	97.8	79.2	23.4	184.3	169.0	9.1
Other income (expenses)	(0.3)	2.1	—	(1.1)	5.1	—
Interest charges	18.4	18.6	(0.6)	35.7	37.8	(5.2)
Income taxes	28.6	22.4	27.8	53.0	49.8	6.4
Non-controlling interest	0.7	0.3	96.8	1.1	0.8	33.0
Net income	49.8	40.0	24.4	93.4	85.7	9.0
Earnings per common share	0.36	0.28	28.6	0.67	0.61	9.8

Operating revenues for the second quarter of 2005 increased by 1.8 per cent over the same period last year, with growth experienced in all areas except traditional local and long distance. Wireless revenue grew 13.8 per cent over the second quarter of 2004 driven by a 9.7 per cent increase in our customer base and a 4.8 per cent increase in average revenue per customer (ARPC). Our high-speed Internet customer base grew year-over-year by 31.2 per cent, however, migration of customers from dial-up service and specific introductory promotions that were offered in late 2004 and early 2005 limited second quarter Internet revenue growth to 6.4 per cent over the prior year.

Telecommunications product revenues increased 10.2 per cent over the second quarter of 2004, reflecting our recovery from the sales slowdown arising from the 2004 work stoppage. Revenues from our local and long distance services continued to decline due to competition, technology substitution and regulatory constraints. The February 2005 Canadian Radio-television and Telecommunications Commission (“CRTC” or the “Commission”) ruling on competitor digital network (CDN) service negatively impacted our local revenues by \$2.3 million in the second quarter.

Excluding the impact of our 2004 divestiture activity, IT service revenue in the second quarter experienced growth of 13.9 per cent over the same period in 2004, driven by an acquisition in late 2004 combined with successful organic growth through new contracts. IT fulfillment revenue increased marginally over the second quarter of 2004 and has returned to a normal level after the increase in public sector spending experienced in the first quarter of 2005.

Second quarter operating income increased by 23.4 per cent, or \$18.6 million, over the results for the same period in the prior year. Despite this significant increase, the full impact of our second quarter growth and recovery from the 2004 labour disruption is still somewhat diluted by the impact of the CRTC’s CDN decision and an increase in pension and other post-employment benefits (OPEBs) costs. However, the underlying profitability of the business is improving as operating expense increases required to drive revenue growth are being contained through sound expense management and productivity savings resulting from the early retirement incentive program (ERIP) implemented in late 2004. As at June 30, 2005, 644 of the 693 employees that accepted the voluntary offer have left Aliant, with the remainder expected to leave by the end of this year. We estimate that this reduction in employees has removed approximately \$17 million in operating expenses in the first half of 2005.

We generated cash from operating activities of \$169.2 million, an increase of \$78.8 million over the same period last year. An improvement in days' accounts receivable outstanding and a reduction in income tax installments were the largest contributors to a \$56.6 million improvement in working capital. In addition, net income for the quarter was \$9.8 million higher than the net income for the same period in the prior year, which was negatively impacted by the labour disruption. Financing activities generated \$57.3 million in cash, as we received \$149.3 million from the issuance of medium-term notes offset by payments of \$37.3 million for common dividends and \$46.3 million for repurchase of common shares under our normal course issuer bid (NCIB). During the second quarter, we made \$105.0 million in capital investments to support our strategy of growth and transformation.

Progress on our strategic initiatives

Seven strategic initiatives underpin our growth and transformation agenda.

First, in the residential market, we are capturing new growth and defending existing revenues by "owning" the broadband home. We have continued to position ourselves to be the first choice for complete information, communications and entertainment services through a number of activities:

- On June 21, 2005, we formally launched Aliant TV in selected areas of Halifax. Aliant TV is a 100 per cent digital television solution, which offers our customers "more TV for less".
- We installed or augmented approximately 230 broadband sites during the second quarter of 2005, bringing our total number of broadband sites to 702.
- We increased our value package penetration significantly by simplifying the pricing and introducing new long distance offerings in the form of unique, anytime unlimited plans and low per minute rate options. Value packages are key to retaining our high-value customers.
- We introduced our upgraded Ultra High-Speed service which provides download speeds of up to 5Mbps.

Second, we are focused on being the most trusted ICT advisor to the small- to medium-sized business (SMB) market. This market includes approximately 75,000 businesses, making up almost 99 per cent of businesses in Atlantic Canada and represents one of our biggest opportunities for growth:

- We opened the first Aliant Business Solutions store, providing a platform to showcase innovative business solutions and to meet the specific needs of our SMB customers. In addition, we further expanded our SMB distribution channels by signing contracts with two new value-added resellers.
- We educated our customers about the benefits of ICT solutions during a four-week business solutions roadshow, which we hosted in seven centres throughout Atlantic Canada.
- We launched our Dial Accelerator service to the SMB market, offering 3X dial download speed.
- We increased our emphasis on integrated solutions by launching specific solution sets to key SMB verticals including the real estate segment.

Third, we are serving the enterprise market by innovating with our customers. We are focusing on key industry verticals, delivering needs-based ICT consulting and business solutions. Several achievements were made in the second quarter:

- We further improved our ability to develop and deliver ICT solutions by integrating functions of our Telecommunications and Information Technology segments. By aligning processes, systems and tools, we are able to generate efficiencies and achieve growth in serving the enterprise market. Illustrating the confidence our customers have in our ICT capabilities, the Workplace Health Safety and Compensation Commission in Newfoundland and Labrador selected us to provide a comprehensive service set that will address all of their telecom services, infrastructure upgrades, IT system redesign and application development needs.

- We are innovating and partnering with our customers through two trials of enhanced Internet Protocol (IP)-enabled contact centre solutions.
- We continued to pursue our “make once, sell many” business model. We are building on xwave’s reputation for providing secure public safety communications solutions, having signed contracts this quarter with the City of Kingston, Ontario, to deliver a fire dispatching and mobile workstation solution, and with the City of Camrose, Alberta, for a police dispatching and mobile workstation solution.

Fourth, we are innovating with our customers to drive growth through new technologies and enhanced customer experiences. As our industry evolves, offering new value to customers will be key to sustaining and building new revenues and will require us to develop solutions that use new technologies. During the second quarter, we advanced with a number of initiatives:

- We opened the Bell-Aliant SMB Innovation Centre in Saint John. The centre is a state-of-the-art research and development facility where IP-based applications for the national SMB market are being created and tested.
- We continued to add trial participants to our Voice over Internet Protocol (VoIP) platforms. We currently have over 130 individuals on our managed IP telephony service and 60 individuals on our consumer VoIP service.
- We launched Aliant Ethernet (AE) Service, a critical step toward our goal of becoming an IP-centric service provider. AE delivers voice and data needs over a single access, with improved quality of service and cost effective high-speed connections for our enterprise customers.

Fifth, we are redefining the way we work to better serve our customers, reduce costs and safeguard our future. This transformation involves ongoing initiatives that will serve to enhance our customer service experience and improve operational effectiveness:

- We made further upgrades to the on-line help and account management capability for consumer and SMB customers. Expanded self-serve capability combined with improvements in the ease of navigation was delivered to our Aliant.net portal. In addition, to support the rapidly growing demand for our wireless products and services, we created a new wireless technical support organization to effectively and efficiently service our customers.
- We aligned people, processes and technologies within information services operations and corporate functions from across the Aliant family of companies realizing synergies in people, real estate and infrastructure while creating an ICT-ready business.
- We continued our focus on improved productivity and cost management across all segments of our business. Inroads were made in the consolidation and replacement of high operating cost technologies and systems and we worked with partners and suppliers to improve procurement and customer sales and servicing functions.

Sixth, we are transforming our business model by accelerating adoption of IP technology. We are investing in IP technology through the development of Aliant TV, VoIP solutions and Internet-enabled wireless applications. We also continue to expand and enhance the capabilities of our broadband network and our digital wireless data networks.

And seventh, we are investing in new skills required to grow and transform our business. We are supporting our employees as their roles evolve in response to the transformation of our business. To provide for employee growth and development, many areas of our organization are using our Web-based learning management system to deliver management and technical training.

Environmental update*Regulatory*

During the second quarter of 2005, the CRTC issued several new decisions that affected our telecommunications business. The most significant of these was the VoIP decision in which the Commission determined that VoIP services are the equivalent of existing primary exchange services (PES) and address the same relevant markets. The Commission also determined that these relevant markets are not sufficiently competitive to warrant forbearance for regulated carriers such as us. As a result of those determinations, our VoIP services will be subject to all the regulatory obligations, including price regulation that currently applies to the equivalent PES. Other significant decisions or developments arising during the second quarter and up to and including July 27, 2005, are discussed below:

- The CRTC issued decisions on price controls or “price floor safeguards”. Overall the additional controls were not as severe as originally proposed by the CRTC.
- The Commission initiated a public notice inviting comments on a framework for forbearance from regulation of residential and business local exchange services, and among other things, invited comments on our Part VII application for forbearance from regulation of residential wireline local services. In response to the public notice, we filed an update to our evidence originally filed in our forbearance application dated April 7, 2004.
- The CRTC invited comments on extending the current price cap regime by two years. The Commission noted a review at that time would allow them to take into account the impact of VoIP competition and the framework for local service forbearance, to be decided in 2006. We support a one-year extension.
- We filed an application seeking interim relief from certain marketing restrictions until the CRTC rules on the framework for local service forbearance. A proceeding is underway and the Commission will render a decision on our request when the record of the proceeding is complete.
- The Government of Canada has established the Telecom Policy Review Panel to conduct a review of Canada’s telecommunications policy and regulatory framework. The panel released a consultation paper asking questions about, among other things, the nature and purpose of regulation and the possible need to change the framework. The panel hopes to make its recommendations before the end of 2005.

The timing of any CRTC decision on other issues, including the disposition of the deferral account, is unknown.

Competitive

Several large cable companies now offer local telephone service in parts of Canada, but Atlantic Canada continues to be the most established and competitive local market in the country. Our application for residential forbearance in specific competitive areas is before the CRTC; however a decision is not expected this year.

Cable companies are developing their telecommunications presence in our market through network expansion and acquisitions and are increasingly crossing into more segments of the market we serve. Technologies such as VoIP, wireless and broadband continue to put downward pressure on prices for traditional local and long distance services.

In the face of increasingly intense competition, we continue our singular focus on our customers, providing reliable service and innovative solutions delivered by our capable employees and robust networks.

OPERATING RESULTS

The following is our discussion and analysis of the significant components of our consolidated operating results for the three and six months ended June 30, 2005, in comparison to the same periods in the prior year.

Operating revenues

For the period ended June 30

(millions of dollars)

	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Telecommunications						
Local	184.2	187.8	(1.9)	366.6	376.5	(2.6)
Long distance	80.7	88.1	(8.4)	160.5	180.2	(11.0)
Wireless	107.0	94.0	13.8	206.5	180.5	14.4
Internet	32.1	30.2	6.4	62.7	59.2	6.0
Other revenues	54.4	48.6	11.9	107.9	95.1	13.5
	458.4	448.7	2.2	904.2	891.5	1.4
Information Technology						
IT services	52.3	52.1	0.4	103.3	106.1	(2.6)
Fulfillment	33.6	33.1	1.5	87.4	77.6	12.6
	85.9	85.2	0.8	190.7	183.7	3.8
Other and intercompany eliminations	(27.0)	(25.7)	5.1	(53.2)	(52.4)	1.5
Operating revenues	517.3	508.2	1.8	1,041.7	1,022.8	1.9

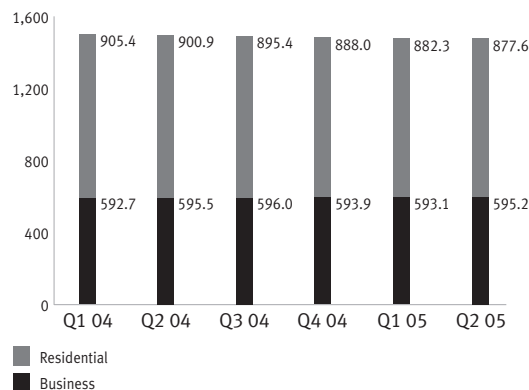
Local revenue

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

Local revenues for the three months ended June 30, 2005, declined 1.9 per cent compared to the second quarter of 2004 mainly due to competition, technology substitution and regulatory constraints.

The majority of our local revenues are earned through the provision of NAS. NAS revenues declined 0.7 per cent over the second quarter of 2004 mainly due to a 1.6 per cent decline in our NAS customer base in the past year. Our business NAS has remained virtually unchanged, despite an intensely competitive marketplace, due to our strong marketing programs in both the SMB and enterprise markets. Our consumer, or residential, NAS is down 2.6 per cent, in line with the trend that we have been experiencing over the past couple of years. This downward trend reflects competitive losses, the reduction in the number of second lines as customers migrate to high-speed Internet service, and the reduction in primary lines as customers adopt wireless technology.

Wireline NAS customers
(in thousands)



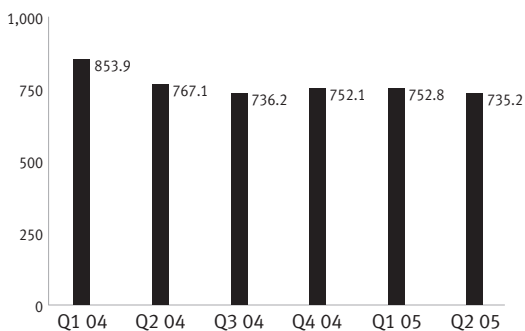
Strong marketing programs in the SMB and enterprise business markets have held our number of business NAS customers virtually unchanged over the past year, despite an intensely competitive marketplace. Residential NAS is down 2.6 per cent due to competition, the reduction in the number of second lines as customers move to high-speed Internet service, and the reduction in primary lines as customers adopt wireless technology.

Revenue from sources other than NAS declined by 3.8 per cent over the second quarter of 2004. Growth in data access services was offset by the \$2.3 million impact of the CRTC's CDN decision. Enhanced service features revenue for the quarter declined 5.0 per cent over the prior year due to consumer NAS declines and also due to lower pricing allocations resulting from the conversion of customers to local value packages – a key part of our customer retention strategy to provide long-term growth. In addition, rental revenues declined due to the changing customer preference to buy rather than rent phone sets, and payphone revenue fell as wireless and card service substitution continued.

Long distance revenue

Long distance revenue is earned through toll, data network and long distance terminating services.

Long distance minutes
(in millions)



Long distance revenue declined \$7.4 million or 8.4 per cent over the second quarter of 2004 due to competition and technology substitution. Approximately \$3.7 million of the revenue decline can be attributed to lower pricing, with the remainder due to lower calling volumes. Long distance minutes for the second quarter declined 4.2 per cent when compared with the same period in the prior year.

Business long distance revenues are declining due to competitive pricing pressures and contact centre minute usage reductions, as the contact centre industry implements new technologies to gain efficiencies.

Long distance minutes for the second quarter declined 4.2 per cent when compared with the same period last year. The impact of declining long distance minutes was mitigated, in part, by success in marketing our value packages, which resulted in increased customer retention and enabled us to stabilize our customer base.

In the consumer market, revenues have declined due to the impact of intense competition, particularly from dial-around competitors, resulting in minute erosion. The substitution of wireline long distance calling with wireless and Internet communications also contributes to minute erosion. The impact of minute erosion is

mitigated in part by the number of customers on long distance plans. Our success in marketing our value packages has resulted in increased customer retention and has enabled us to stabilize our customer base in 2005. Converting customers to our bundled solutions contributes to lower pricing allocations to our long distance revenues but improves total household retention and secures future revenues.

Wireless revenue

Wireless revenue is earned through cellular, paging and mobile radio services over our analog and digital wireless networks.

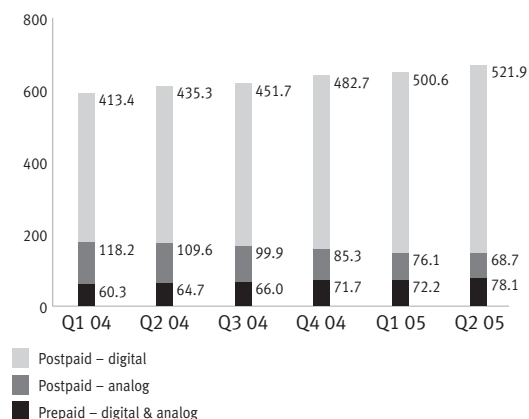
Wireless revenues grew 13.8 per cent over the second quarter of 2004, reflecting continued strong growth in our customer base, ARPC and average minutes of use.

Our customer base grew 9.7 per cent, year over year, due to our strong market position, supported by our extensive coverage, comprehensive dealer network, broad product selection, innovative wireless data solutions and competitive offers. As at June 30, 2005, approximately 89 per cent of Atlantic Canada's population had access to our digital wireless network, up from approximately 85 per cent at the same time last year. Customer net additions showed strong growth over the same period in the prior year, increasing by 12.1 per cent.

Our customer turnover rate, or churn, remained low at 1.37 per cent due to our value packages and business bundles, hardware upgrades, and the high number of customers on contracts.

Second quarter ARPC grew by 4.8 per cent over the prior year. This growth reflects increases in average minutes of use, data growth such as text messaging and web usage, and an increased percentage of customers choosing digital service. Digital customers generate higher ARPC than analog customers. By the end of the second quarter, digital customers comprised 84.0 per cent of our cellular customer base compared to 74.2 per cent one year ago, representing growth of 24.1 per cent. Postpaid customers generate higher monthly ARPC than prepaid customers. We maintained our industry leading position with 88.3 per cent of our customer base subscribing to postpaid plans as at June 30, 2005.

Cellular customers
(in thousands)



Our cellular customer base grew 9.7 per cent over the past 12 months. Digital postpaid customers, who generate higher average revenue than postpaid analog customers, now make up 84.0 per cent of our customer base. We lead the industry with 88.3 per cent of our customers subscribing to postpaid plans.

Wireless – statistics

For the period ended June 30	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Monthly – average revenue per customer (dollars)						
Postpaid	57.32	54.24	5.7	55.79	52.55	6.2
Prepaid	11.16	10.85	2.9	10.97	10.26	6.9
Total	52.12	49.72	4.8	50.75	48.19	5.3
Monthly – average minutes of use per customer	299	272	9.9	281	255	10.3
Net additions	19,847	17,702	12.1	29,044	26,005	11.7
Churn	1.37%	1.23%	11.4	1.37%	1.26%	8.7

Internet revenue

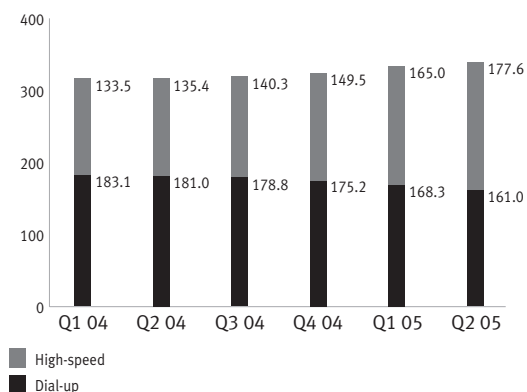
Internet revenue is earned through high-speed and dial-up service, enhanced services and applications such as TV on my PC™, security services, music download service and Dial Accelerator.

Internet revenue increased 6.4 per cent over the second quarter in 2004, driven by the migration of customers from dial to high-speed service as well as overall Internet customer growth. Attracting new customers was facilitated by the provision of introductory promotional offers and value package options, mitigating the related revenue growth.

Our high-speed Internet customer base increased 31.2 per cent over the second quarter of 2004. High-speed customer net additions in the quarter were more than five times higher than the same period last year due to strong customer demand, aggressive expansion, competitive offers, and lower activations in 2004 as a result of the labour disruption. Combined churn for the second quarter of 2.1 per cent was higher than the 1.7 per cent churn for the second quarter of 2004. Processing delays in 2004 as a result of the labour disruption contributed to temporarily suppressed churn levels during 2004.

Internet customers

(in thousands)



Our high-speed Internet customer base increased 31.2 per cent over the second quarter of 2004. Net additions during the second quarter were more than five times higher than the second quarter of 2004 due to strong customer demand, aggressive expansion and the low number of additions during last year's labour disruption.

Dial-up customers continued to upgrade their Internet connection to our feature-rich high-speed service. With management of this migration, our overall Internet customer base continued to grow quarter-over-quarter and year-over-year.

Our total Internet customer growth of 7.0 per cent over the second quarter of 2004 demonstrates that our customers are responding to our enhanced services, value packages, and expanding high-speed footprint. At June 30, 2005, our high-speed Internet service passed 77.3 per cent of homes and 82.4 per cent of businesses in Atlantic Canada, up from 66.0 per cent and 77.0 per cent, respectively, at June 30, 2004.

Consumer ARPC declined when compared to the same period last year as successful high-speed Internet promotional offers in the fourth quarter of 2004 and early 2005 have temporarily lowered ARPC. In addition, an increased percentage of customers are choosing value packages, which generates lower ARPC but provides

increased value to the customer and improves long-term customer retention. Customers are increasingly adopting enhanced services, such as anti-spyware and personal firewall, which help to mitigate the ARPC decline caused by promotional offers and value package pricing.

Business dial-up ARPC continued to increase due to greater customer adoption of our unlimited usage plans, and as subscribers remained with multi-user and customized plans, improving 7.2 per cent over the same period last year. Business high-speed ARPC decreased due to the increased adoption of business bundles priced to appeal to the small business market and promotional pricing for new acquisitions.

Internet – statistics

For the period ended June 30	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Monthly – average revenue per customer (dollars)						
Consumer dial-up	18.84	20.18	(6.6)	18.93	19.93	(5.0)
Consumer high-speed	32.52	33.76	(3.7)	32.02	33.62	(4.7)
Business dial-up	47.42	44.23	7.2	47.09	44.86	5.0
Business high-speed	86.78	102.93	(15.7)	89.25	100.71	(11.4)
Net additions						
Dial-up	(7,245)	(2,057)	(252.2)	(14,196)	(2,907)	(388.3)
High-speed	12,485	1,893	559.5	28,084	11,980	134.4
Total	5,240	(164)	—	13,888	9,073	53.1
High-speed churn						
Consumer	1.93%	1.36%	41.9	1.60%	1.34%	19.4
Business	1.64%	1.56%	5.1	1.63%	1.79%	(8.9)

Other revenues

Product sales, directory advertising and knowledge-service application sales contributed to the 11.9 per cent growth in other revenues this quarter compared to the same period in the prior year. The increase in product sales reflects the impact of last year's work stoppage when limited resources caused product sales efforts to be significantly reduced. Directory advertising has grown as a result of strong marketing efforts, and growth in the SMB market. Expansion of an existing project and the addition of new business spurred the growth of our knowledge-service applications during the second quarter.

IT services revenue

IT services revenue is earned through systems integration, software engineering, infrastructure services and other IT consulting.

IT service revenue grew \$0.2 million in the second quarter, or 0.4 per cent, compared to the second quarter of 2004. Underlying revenue growth of 13.9 per cent was largely offset by the \$6.2 million impact of 2004 business unit divestiture activity. The underlying growth was mostly derived from external customers with approximately \$2.6 million resulting from our December 2004 acquisition of the Atlantic Canadian operations of Fujitsu Consulting (Canada) Inc., and the remaining 8.3 per cent representing organic growth.

During the second quarter of 2005, xwave secured new or extended service business from a number of customers including the State of Maine Department of Corrections, Government of Newfoundland and Labrador, RCMP and Workplace Health Safety and Compensation Commission in Newfoundland and Labrador.

Fulfillment revenue

Fulfillment revenue is earned through the sale of computer hardware, accessories and packaged software.

Fulfillment revenues in the second quarter of 2005 were comparable with the same period of 2004, growing modestly by 1.5 per cent. Year-to-date fulfillment revenues are 12.6 per cent higher in 2005 largely due to increased public sector sales in the first quarter.

Expenses

For the period ended June 30

<i>(millions of dollars)</i>	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Expenses						
Cost of operating revenues	70.2	69.2	1.5	159.2	143.7	10.8
Operating expenses						
Pension and OPEBs cost	24.8	19.1	29.9	50.2	40.3	24.5
Other operating expenses	225.5	240.7	(6.3)	450.4	465.7	(3.3)
	250.3	259.8	(3.7)	500.6	506.0	(1.1)
Depreciation and amortization	99.0	98.5	0.4	197.6	199.5	(1.0)
Restructuring charge	—	1.5	—	—	4.6	—
	419.5	429.0	(2.2)	857.4	853.8	0.4

Cost of operating revenues

The 1.5 per cent increase in cost of operating revenues for the second quarter reflects the higher cost of goods sold associated with the increased volume of telecommunications product sales. The higher cost of operating revenues on a year-to-date basis reflects costs associated with higher fulfillment revenues in the first quarter. Gross margins on these sales and on fulfillment revenues are slightly higher than for the same period last year.

Pension and OPEBs cost

For the period ended June 30

(millions of dollars)	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Defined benefit	18.3	12.9	41.9	36.6	25.8	41.9
Defined contribution	2.2	2.4	(8.3)	5.1	6.8	(25.0)
Other post-employment benefits	4.3	3.8	13.2	8.5	7.7	10.4
Pension and OPEBs cost	24.8	19.1	29.9	50.2	40.3	24.5

Defined benefit (DB) pension cost for the second quarter of 2005 increased over the same period of 2004 primarily due to the amortization of a larger balance of net actuarial losses. Net actuarial losses have increased in the past year due to a rise in the accrued benefit obligation. The increase in the obligation results from a lower rate used to discount the future obligations, 6.25 per cent versus 6.75 per cent, and from additional past service costs relating to plan amendments made in 2004. In the second quarter of 2005, we amortized \$4.1 million more accumulated losses through pension cost compared to the second quarter of 2004.

Defined contribution (DC) pension cost represents the current service expense associated with our contributions to employees' retirement savings accounts. DC costs for the second quarter of 2005 decreased slightly compared to the same period last year. There are now fewer employee members in our DC pension plan, as certain eligible employees converted their membership from a DC plan to a DB plan pursuant to the 2004 plan amendments.

Other operating expenses

Overall, other operating expenses decreased in the second quarter by \$15.2 million over the expenses incurred during the same period in the prior year. This reflects approximately \$16 million of incremental costs experienced during the 2004 work stoppage. The underlying increased costs required to support growth in our wireless and Internet businesses in the second quarter of 2005 were significantly offset by the impact of a net reduction in costs associated with business acquisitions and divestitures in 2004 and sound expense management, including productivity improvements and cost savings from our 2004 ERIP.

Other expenses

Other income (expenses)

Other income (expenses) includes non-operating items such as interest income, gains on sale of property, provincial large corporation tax and expenses related to our accounts receivable securitization program. Comparing the second quarter of 2005 to the same period last year, other income experienced a decline due to several non-recurring gains on short-term portfolio investment transactions that occurred during 2004.

Interest charges

Interest charges for the second quarter of 2005 were \$0.2 million lower than for the second quarter of 2004. Savings in interest from the repayment of \$100.0 million in maturing long-term debt in October 2004 have been partially offset by new interest costs associated with \$150.0 million of medium-term notes issued in late May 2005.

Income taxes

The impact of higher taxable income in the second quarter resulted in an increase in income taxes over the same period in the prior year. Comparing the second quarter of 2005 to the same period last year, the future tax expense component of the total income tax provision has increased. This shift between future and current tax expense occurs when there are higher deductions or lower additions to income calculated for tax purposes compared to reported income before tax. The increase in 2005 is a result of accruals for restructuring charges and a higher deferral of directory revenues in the second quarter of 2004, offset by cash payments associated with the 2004 ERIP made in the first six months of 2005.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

For the period ended June 30

(millions of dollars)

	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Cash from (used in):						
Operating activities						
Net income	49.8	40.0	24.4	93.4	85.7	9.0
Adjustments to reconcile net income to cash from operating activities						
Funding of DB pension and OPEBs plans	(20.0)	(18.0)	11.1	(100.0)	(59.8)	67.2
Change in non-cash working capital	11.4	(45.2)	—	(39.2)	(60.3)	(35.0)
Depreciation, amortization and other non-cash items	128.0	113.6	12.7	247.5	233.9	5.8
	169.2	90.4	87.0	201.7	199.5	1.1
Repurchase of common shares	(46.3)	(23.8)	94.5	(79.5)	(43.5)	82.8
Preferred and common share dividends	(39.6)	(37.5)	5.6	(79.7)	(75.2)	6.0
Proceeds of long-term debt	149.3	—	—	149.3	—	—
Capital investments	(105.0)	(44.7)	134.9	(187.2)	(129.3)	44.8
Other financing and investing activities	(6.1)	(1.3)	—	(8.4)	(10.1)	(16.8)
Net increase (decrease) in cash	121.5	(16.9)	—	(3.8)	(58.6)	(93.5)

Operating activities

During the second quarter of 2005, we generated \$169.2 million in cash from operating activities, bringing the year-to-date total to \$201.7 million. Compared to the same quarter of 2004, this represents a significant improvement of \$78.8 million, driven by improvements in working capital and net income. On a year-to-date basis, cash from operating activities is in line with our 2004 performance as increased pension funding offset working capital improvements.

Funding of DB pension and OPEBs plans

In 2005, we anticipate having to make required contributions to our DB pension plans in the range of \$70 million to \$80 million. Our required contributions are higher than 2004 primarily due to the expected impact of the DB plan amendments made in late 2004. We expect 2005 contributions to our OPEBs plans to be in the range of \$5 million to \$7 million.

Change in non-cash working capital

For the period ended June 30

(millions of dollars)

	Three months			Six months		
	2005	2004	% change	2005	2004	% change
Accounts receivable	25.0	9.1	174.7	27.9	36.3	(23.1)
Prepayments	(15.3)	(19.6)	(21.9)	(22.2)	(21.3)	4.2
Inventory	4.2	1.5	180.0	4.4	0.8	—
Payables and accruals	(14.6)	(15.5)	(5.8)	(61.1)	(33.8)	80.8
Income and other taxes receivable and payable	12.1	(20.7)	—	11.8	(42.3)	—
Change in non-cash working capital	11.4	(45.2)	—	(39.2)	(60.3)	(35.0)

During the second quarter of 2005, non-cash working capital balances changed by \$11.4 million, representing an additional source of cash from operating activities of \$56.6 million when compared with the same period in 2004. The improved working capital position is primarily due to an improvement in days' accounts receivable outstanding and a reduction in income tax installments during the second quarter of 2005 compared to the second quarter of 2004.

Repurchase of common shares

Under the NCIB that commenced on August 6, 2003, and ended August 5, 2004, we acquired our common shares for cash at the market price through the facilities of the Toronto Stock Exchange (TSX). We commenced a similar but new NCIB on February 4, 2005, under which we may acquire an additional 6,637,200 common shares prior to the expiry of the bid on February 3, 2006.

For the three and six months ended June 30, 2005, we purchased for cancellation 1,697,691 and 2,848,879 shares, respectively, for an aggregate price of \$46.3 million and \$79.5 million, respectively. For the three and six months ended June 30, 2004, we purchased for cancellation 847,168 and 1,463,284 shares, respectively, for an aggregate price of \$23.9 million and \$43.5 million, respectively.

Further details about the NCIB are provided in note 9 to our unaudited interim consolidated financial statements for the period ended June 30, 2005. Shareholders may obtain a copy of the Notice of Intention that was filed with the TSX in relation to the NCIB by contacting us.

Preferred and common share dividends

The \$2.1 million increase in dividends paid during the quarter, when compared with the same period in the prior year, reflects the \$0.02 increase in the quarterly dividend rate to \$0.295 per common share that was approved during the first quarter of 2005.

Proceeds of long-term debt

In May 2005, we issued \$150.0 million (for net proceeds received of \$149.3 million) in seven-year notes, pursuant to a shelf prospectus filed on May 9, 2005. The notes carry a coupon rate of 4.52 per cent, mature on May 24, 2012, and are callable at any time at the greater of par and the Canada Yield Price. The proceeds of this issue will be used to repay \$150.0 million in medium-term notes maturing in November 2005.

Capital investments

Capital investments during the second quarter of 2005 increased by \$60.3 million compared to the second quarter of 2004 as spending returned to normal levels following the work stoppage experienced in 2004. We have continued to invest in our traditional wireline areas as required and have increased our investment in areas to support growth. We expect the pace of our investment to increase slightly throughout the remainder of 2005, due both to normal seasonality of network investment made in the non-winter months and for the further advancement of 2005 strategic initiatives. In particular, we are supporting future growth by expanding and updating our broadband and wireless networks, developing IPTV and VoIP solutions and investing in software and other tools to support xwave in its execution of new contracts.

Other financing and investing activities

During the second quarter of 2005, \$5.0 million was repurchased under our accounts receivable securitization program. \$5.0 million was also repurchased in the first quarter of 2004. The accounts receivable securitization program is discussed further in the "Off-balance sheet arrangements" section.

Liquidity*Cash requirements*

Our cash requirements for the remainder of 2005 will consist of investments in capital, repayments of long-term debt, payments of our restructuring charge balance, dividend payments, purchases of shares under our NCIB, required pension plan contributions, and payments of other commitments. In particular, these requirements will result in the use of cash as follows:

- Capital investments will be made as required to support our existing infrastructure and to advance our strategies of growth and transformation.
- Scheduled long-term debt repayments for 2005 consisting primarily of a \$150.0 million note maturing in November.

- Cash payments associated with prior years' restructuring activities, primarily the 2004 ERIP. As at June 30, 2005, the balance remaining to be paid for the restructuring charge taken in 2004 is \$24.3 million. ERIP participants may elect to receive their payments in whole at their retirement date or they may opt to defer a portion to the January following the year of their retirement.
- Dividend payments at the current rates, totalling approximately \$40 million per quarter for common and preferred shares. To the extent that shares are repurchased under the NCIB, the total cash required for dividend payments will be slightly reduced.
- We expect to repurchase the remaining 3,788,321 common shares permitted under our NCIB prior to February 3, 2006.
- Total required contributions to our DB pension plans for 2005 are anticipated to be in the range of \$70 million to \$80 million for 2005, of which \$20.0 million was made during the second quarter of 2005. We are currently updating our DB pension actuarial valuations for the year ended December 31, 2004, and expect these to be completed in the third quarter of this year. We will adjust our DB pension funding based on the outcome of these valuations.
- Other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure, and contingencies as disclosed in notes 11 and 12 to the unaudited interim consolidated financial statements for the period ended June 30, 2005.

Sources of liquidity

We anticipate that we will be able to meet our future cash requirements from cash on hand, the generation of cash from operating activities, and through access to the capital markets as described below.

Capital structure

(millions of dollars, except as otherwise noted)

	June 30, 2005		December 31, 2004	
Common equity	1,295.7	51.4%	1,360.3	55.7%
Preferred equity	172.3	6.8%	172.3	7.0%
Non-controlling interest	5.4	0.2%	5.2	0.2%
Long-term debt, including amount due within one year	1,045.5	41.5%	896.4	36.7%
Notes payable and bank advances	1.9	0.1%	9.1	0.4%
Total capital	2,520.8	100.0%	2,443.3	100.0%
Debt as a percentage of total capital	41.6%		37.1%	

Common equity

The rate at which we repurchase common shares under our NCIB is at our discretion. Between July 1 and July 22, 2005, we purchased for cancellation 352,825 shares under the NCIB program for \$9.4 million.

At July 22, 2005, we had the following outstanding shares and stock options:

Authorized

- Unlimited number of preference shares, issuable in series.
- Unlimited number of common shares, without par value.

Issued

<i>(millions of dollars, except as otherwise noted)</i>	July 22, 2005	
	Number of shares	Value
Preference shares, series 2	7,000,000	172.3
Common shares	129,670,659	1,022.8
		1,195.1

	Number of options	Weighted average exercise price
Options outstanding	2,917,909	30.62
Options exercisable	2,106,192	30.00

Debt

Our financial structure provides several possible sources of liquidity:

- We maintain excellent access to capital markets, which provides flexibility in our capital structure. We filed a shelf prospectus on May 9, 2005, that allows us to issue up to \$350.0 million in medium-term notes as and when we require funds during its 25-month life. As noted above, we issued \$150.0 million in medium-term notes in late May, 2005, thus a further \$200.0 million is permitted under the shelf prospectus.
- As at June 30, 2005, we maintained lines of credit totalling \$607.5 million, unchanged from March 31, 2005. Further details on our existing credit arrangements are provided in note 10 to our audited consolidated financial statements for the year ended December 31, 2004, and in our MD&A contained in our 2005 first quarter report.

Credit ratings

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

During the quarter, S&P and DBRS adjusted the outlook, or trend, on our corporate credit ratings from stable to negative, except for the rating of Aliant's commercial paper program by DBRS, which remained stable. The adjustment generally reflects the expectation by rating agencies of increased competition in local services as cable companies launch VoIP services in Canada.

Other financial arrangements

Our cash requirements may also be affected by the liquidity risks related to our off-balance sheet arrangements and derivative instruments.

Off-balance sheet arrangements

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. During the second quarter of 2005, we repurchased \$5.0 million of accounts receivable from the securitization trust, which reduced our cumulative cash proceeds to \$120.0 million at June 30, 2005. The reduced cumulative cash proceeds lowered the security required at June 30, 2005, resulting in retained interest of \$41.6 million.

Further details of this arrangement are described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2004.

Use of derivative financial instruments

The derivative financial instruments that we use are interest rate swap and interest rate swaptions. There has been no change in the purpose or terms of these agreements during the second quarter of 2005.

Given current and forecasted interest rate levels over the next year, we anticipate the exercise of our two interest rate swaption agreements upon their expiry dates in 2006. The exercise of these swaptions by the counterparty will cause us to be placed into a fixed-floating interest rate swap starting in 2006 and lasting until 2013. We will pay fixed interest payments of 10.45 per cent on a notional principal of \$50.0 million and 11.125 per cent on a notional principal of \$40.0 million and, in return, we will receive floating interest payments related to the three-month Banker's Acceptance rates. At June 30, 2005, the fair value of these agreements is \$36.1 million in favour of the counterparty. We have recorded a

deferred credit of \$7.9 million related to unamortized premium income we received in 1997 and 2001 in relation to these swaptions. The difference of \$28.2 million is a deferred loss that is not recorded in our financial statements due to the application of hedge accounting treatment to these transactions. If the agreements were to be cancelled as of June 30, 2005, this amount would have to be recorded as a loss on our income statement. The loss that will be recorded on the exercise of the swaptions will depend on interest rate levels in effect on the exercise dates in 2006.

Further details on our derivative financial instruments are provided in notes 1 and 20 to our audited consolidated financial statements for the year ended December 31, 2004.

RELATED PARTY TRANSACTIONS

Our only significant related party continues to be our majority shareholder, Bell Canada, which is owned 100 per cent by BCE Inc. The nature of our relationship and our related party transactions remain substantially unchanged during the second quarter of 2005. For greater detail on our related party transactions refer to note 22 of our audited consolidated financial statements for the year ended December 31, 2004.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Our unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our audited consolidated financial statements for the year ended December 31, 2004, except for the two changes in our accounting policies as anticipated and disclosed in our MD&A contained in our 2004 annual report.

We changed our accounting policies for the treatment of our subscriber acquisition costs and the recognition of our directory revenues and expenses to provide more relevant presentation in the financial statements. Greater detail on changes in accounting policies is provided in note 1 to our unaudited interim consolidated financial statements for the period ended June 30, 2005.

Accounting policy developments

We constantly monitor changes in accounting standards and guidelines to ensure that we remain in adherence with Canadian GAAP.

Changes in accounting standards or guidelines issued to date have not resulted in changes to our accounting in the first six months, nor are they expected to result in changes during the remainder of 2005.

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. We identified significant risks that we were aware of for the year ended December 31, 2004, as presented in our MD&A contained in our 2004 annual report.

To date, we have not identified significant changes to the nature of the risks that we are exposed to. We have provided updates to our regulatory and competitive environments in the "Environmental update" section.

Legal and other contingencies

We described certain legal proceedings and other contingencies that involved us in note 24 to our audited consolidated financial statements for the year ended December 31, 2004. There have been no significant changes in these matters that would impact our financial position. Given current circumstances surrounding deferral account rules, we have revised our estimate of the balance of our deferral account to between \$7 million and \$33 million as discussed in note 12 of our unaudited interim consolidated financial statements for the period ended June 30, 2005.

SUPPLEMENTARY FINANCIAL INFORMATION

The accompanying table shows selected consolidated financial data for the most recent eight quarters. This quarterly information has been prepared on the same basis as the consolidated financial statements.

Quarterly financial information (unaudited)

For the eight quarters ended June 30, 2005

(millions of dollars, except per share amounts)

	2003		2004				2005	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total operating revenues	515.5	530.4	514.5	508.3	499.4	509.6	524.4	517.3
Net income from continuing operations	50.9	42.1	45.7	40.0	37.2	7.6	43.6	49.8
Net income from discontinued operations	0.2	100.4	—	—	—	—	—	—
Net income	51.1	142.5	45.7	40.0	37.2	7.6	43.6	49.8
Preferred share dividends	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Net income applicable to common shares	48.7	140.1	43.3	37.6	34.8	5.2	41.2	47.4
Basic earnings per common share								
Continuing operations	0.35	0.29	0.32	0.28	0.26	0.04	0.31	0.36
Discontinued operations	—	0.75	—	—	—	—	—	—
Basic earnings per common share	0.35	1.04	0.32	0.28	0.26	0.04	0.31	0.36
Diluted earnings per common share								
Continuing operations	0.35	0.29	0.32	0.28	0.26	0.04	0.31	0.36
Discontinued operations	—	0.74	—	—	—	—	—	—
Diluted earnings per common share	0.35	1.03	0.32	0.28	0.26	0.04	0.31	0.36

Impact of factors in the normal course of business

Trends and seasonality

Our quarterly results are impacted by ongoing trends and seasonality as discussed within our MD&A contained in our 2004 annual report. These factors remain relatively unchanged with the exception of the following:

- Effective January 1, 2005, we changed our accounting policy for recognition of revenues and expenses in our directory business from the publication-date method to the defer and amortize method. This accounting policy change was applied retroactively with restatement of prior periods. This change eliminates the seasonal fluctuations in the quarterly results from our directory business.
- A trend of improved profitability has emerged in our Information Technology segment due to a combination of the lower cost structure as a result of restructuring activities in prior years and increased demand for IT services.

Pension and OPEBs cost

Most pension and OPEBs accounting assumptions and calculations affect the expense that is recorded for an entire year, and therefore large variations may be seen in these costs from one year to the next. Quarterly comparisons may be impacted by factors such as the outcome of pension valuations, amendments to the pension plans and the variability in quarterly pensionable earnings.

Impact of pension and OPEBs cost (unaudited)

For the eight quarters ended June 30, 2005

(millions of dollars, except per share amounts)

	2003		2004				2005	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Decrease in:								
Net income from continuing operations	(10.4)	(9.9)	(13.3)	(12.2)	(10.7)	(11.7)	(16.0)	(15.7)
Earnings per share from continuing operations	(0.08)	(0.07)	(0.10)	(0.09)	(0.08)	(0.09)	(0.12)	(0.12)

Impact of factors outside the normal course of business

During the first two quarters of 2005, we were not impacted by any factors outside the normal course of business. However, previous quarters have been impacted by such factors as illustrated in the accompanying table and discussed in our 2004 annual report.

Impact of factors outside the normal course of business (unaudited)

For the eight quarters ended June 30, 2005

(millions of dollars, except per share amounts)

	2003		2004				2005	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Decrease in net income from continuing operations								
Restructuring charge	(9.3)	0.6	(1.9)	(0.9)	(0.4)	(42.3)	—	—
Writedown of investments	—	(12.3)	—	—	—	—	—	—
	(9.3)	(11.7)	(1.9)	(0.9)	(0.4)	(42.3)	—	—
Increase (decrease) in net income from discontinued operations								
Gain (loss) on sale of subsidiary	(2.0)	95.7	—	—	—	—	—	—
Impact on net income	(11.3)	84.0	(1.9)	(0.9)	(0.4)	(42.3)	—	—
Increase (decrease) in earnings per share								
Earnings per share from continuing operations	(0.06)	(0.09)	(0.01)	(0.01)	—	(0.32)	—	—
Earnings per share from discontinued operations	(0.01)	0.71	—	—	—	—	—	—
Earnings per share	(0.07)	0.62	(0.01)	(0.01)	—	(0.32)	—	—

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 that could cause results or events to differ materially from current expectations include but are not limited to: general economic conditions; market or business conditions; changing competitive environment; changing regulatory conditions or requirements; changing technology; and success in implementing productivity initiatives. Some of these factors are largely beyond our control. Should any factor impact us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the 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.

Statements (unaudited)

CONSOLIDATED BALANCE SHEETS

<i>(thousands of dollars)</i>	Notes	As at June 30, 2005	As at December 31, 2004 <i>(as restated, note 1)</i>
Assets			
Current assets			
Cash and cash equivalents		157,444	138,265
Note receivable from related party	1	162,000	185,000
Accounts receivable	2	223,137	251,164
Inventory		18,231	22,654
Prepayments		44,060	21,876
Income tax receivable		19,326	28,299
Future income tax asset	3	6,313	—
		630,511	647,258
Capital investments	4	1,908,288	1,920,282
Other assets			
Deferred charges		56,631	56,101
Future income tax asset		20,502	31,792
Accrued benefit asset	5	233,597	172,680
Goodwill	6	60,838	60,783
Indefinite-life intangibles	1	2,975	2,952
		374,543	324,308
Total assets		2,913,342	2,891,848
Liabilities and shareholders' equity			
Current liabilities			
Notes payable and bank advances		1,900	9,101
Payables and accruals	7	198,938	259,856
Income tax payable	3	8,181	1,865
Future income tax liability		—	4,840
Long-term debt due within one year		153,938	153,043
		362,957	428,705
Long-term debt	8	891,542	743,342
Accrued benefit liability	5	176,283	170,344
Deferred credits		9,117	11,660
		1,439,899	1,354,051
Non-controlling interest		5,414	5,242
Shareholders' equity			
Capital stock	9	1,197,820	1,216,993
Contributed surplus		535	—
Retained earnings		269,674	315,562
		1,468,029	1,532,555
Total liabilities and shareholders' equity		2,913,342	2,891,848

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors



Charles White
Chairman



Edward Reevey
Director

CONSOLIDATED STATEMENTS OF INCOME

For the period ended June 30

<i>(thousands of dollars, except per share amounts)</i>	Note	Three months		Six months	
		2005	2004	2005	2004
Operating revenues		517,325	508,261 <i>(as restated, note 1)</i>	1,041,739	1,022,769 <i>(as restated, note 1)</i>
Expenses					
Cost of operating revenues		70,197	69,182	159,158	143,677
Operating expenses		250,345	259,820	500,646	506,031
Depreciation and amortization		98,986	98,549	197,576	199,508
Restructuring charge	7	—	1,473	—	4,556
		419,528	429,024	857,380	853,772
Operating income		97,797	79,237	184,359	168,997
Other income (expenses)		(269)	2,106	(1,086)	5,116
Interest charges					
Interest on long-term debt		18,190	18,769	35,376	37,624
Other interest expenses (income)		275	(184)	474	183
		18,465	18,585	35,850	37,807
Income before underlisted items		79,063	62,758	147,423	136,306
Income taxes					
Current tax expense		25,212	24,226	49,202	52,970
Future tax expense (recovery)		3,397	(1,843)	3,780	(3,162)
		28,609	22,383	52,982	49,808
Income before non-controlling interest		50,454	40,375	94,441	86,498
Non-controlling interest		669	340	1,072	806
Net income		49,785	40,035	93,369	85,692
Earnings per common share					
Basic and diluted		0.36	0.28	0.67	0.61

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the six months ended June 30

<i>(thousands of dollars)</i>	Notes	2005	2004
Retained earnings, beginning of period, as previously reported		360,351	415,866 <i>(as restated, note 1)</i>
Changes in accounting policies	1	(44,789)	(38,296)
Retained earnings, beginning of period, as restated		315,562	377,570
Net income		93,369	85,692
Preferred share dividends		(4,769)	(4,769)
Common share dividends – paid in cash		(74,936)	(70,386)
Common share dividends – reinvested through dividend reinvestment plan		(2,629)	(2,750)
Excess of repurchase of common shares over stated value	9	(56,923)	(31,852)
Retained earnings, end of period		269,674	353,505

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended June 30

(thousands of dollars)

Notes	Three months		Six months	
	2005	2004	2005	2004
		<i>(as restated, note 1)</i>		<i>(as restated, note 1)</i>
Cash from (used in) operating activities				
Net income	49,785	40,035	93,369	85,692
Adjustments to reconcile net income to cash from operating activities				
Depreciation and amortization	98,986	98,549	197,576	199,508
Future income taxes	3,397	(1,842)	3,780	(3,161)
Net benefit plans' cost	22,633	16,742	45,066	33,477
Funding of defined benefit pension and other post-employment benefits plans	(19,956)	(17,994)	(100,045)	(59,833)
Non-controlling interest	669	340	1,072	806
Other non-cash items	2,281	(233)	6	3,309
Change in non-cash working capital	11,351	(45,161)	(39,178)	(60,297)
	169,146	90,436	201,646	199,501
Cash from (used in) financing activities				
Repurchase of accounts receivable	(5,000)	—	(5,000)	(5,000)
Collection of long-term receivable	—	—	4,823	4,874
Repayment of notes payable and bank advances	(1,291)	(3,585)	(7,200)	(12,373)
Proceeds of long-term debt	149,349	—	149,349	—
Repayment of long-term debt	—	(100)	(98)	(100)
Increase (decrease) in capital lease obligations	(420)	844	(807)	651
Increase (decrease) in non-controlling interest	245	(114)	(900)	(583)
Issuance of common shares	349	857	751	1,780
Repurchase of common shares	(46,284)	(23,858)	(79,476)	(43,504)
Preferred share dividends	(2,385)	(2,385)	(4,769)	(4,769)
Common share dividends	(37,260)	(35,096)	(74,936)	(70,386)
	57,303	(63,437)	(18,263)	(129,410)
Cash from (used in) investing activities				
Purchase of capital investments	(104,992)	(44,700)	(187,155)	(129,269)
Proceeds on sale of capital investments	28	768	28	768
Purchase of indefinite-life intangibles	(23)	—	(23)	(227)
Business acquisitions, net of cash	—	—	(54)	—
	(104,987)	(43,932)	(187,204)	(128,728)
Net increase (decrease) in cash	121,462	(16,933)	(3,821)	(58,637)
Cash, beginning of period	197,982	323,626	323,265	365,330
Cash, end of period	319,444	306,693	319,444	306,693
Cash consists of:				
Cash and cash equivalents	157,444	202,693	157,444	202,693
Notes receivable from related party	162,000	104,000	162,000	104,000
	319,444	306,693	319,444	306,693
Supplementary disclosure				
Interest paid	22,758	25,705	35,845	39,095
Net income taxes paid	13,015	41,131	37,922	90,812

See accompanying notes to the consolidated financial statements

Statement notes *(unaudited)*

1 SIGNIFICANT ACCOUNTING POLICIES

We have prepared the unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP) using the same basis of presentation and accounting policies as outlined in note 1 to the annual audited consolidated financial statements for the year ended December 31, 2004, except as noted below. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2004.

Note receivable from related party

The note receivable is from Bell Canada and represents a revolving loan that matures on the first day of each month and can be recalled at any time, bearing interest of 2.52 per cent per annum (December 31, 2004 – 2.56 per cent per annum). The presentation of note receivable from related party was reclassified from cash and cash equivalents in 2005.

Deferred charges

Deferred charges include contract costs, such as software development costs, licenses, bid pursuit and other up-front costs related to long-term customer contracts. They are amortized on a straight-line basis over the length of the customer contracts.

Indefinite-life intangibles

Indefinite-life intangible assets consist of spectrum licences. We assess these assets for impairment in the second quarter of every year, and when events or changes in circumstances indicate that an asset might be impaired. The annual impairment test was conducted during the second quarter of 2005 and no impairment loss was required.

Changes in accounting policies

Effective January 1, 2005, we changed certain accounting policies, as noted on the following page. These changes have been retroactively applied with comparative financial information restated to conform to the presentation adopted for 2005.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subscriber acquisition costs

We changed our accounting policy for subscriber acquisition costs from deferring and amortizing over the life of the customer contract to expensing when services are activated. Subscriber acquisition costs include wireless and Internet commissions and cellular hardware subsidies. The following table outlines the impact of these changes.

<i>(thousands of dollars, except per share amounts)</i>	Three months ended June 30, 2004	Six months ended June 30, 2004	Year ended December 31, 2004
Consolidated statements of income			
Increase (decrease) to:			
Operating expenses	2,177	2,155	9,184
Income taxes	(799)	(791)	(3,347)
Net income	(1,378)	(1,364)	(5,837)
Consolidated balance sheets			
Increase (decrease) to:			
Deferred charges	(43,567)	(43,567)	(50,598)
Future income tax liability	(16,281)	(16,281)	(18,838)
Retained earnings	(27,286)	(27,286)	(31,760)
Earnings per common share			
Basic and diluted	(0.01)	(0.01)	(0.04)

Directory revenue and expense recognition

We changed our method for recognizing revenues and expenses in our joint venture directory business, Aliant ActiMedia, from the publication-date method to the defer and amortize method. The publication-date method recognizes revenues and direct expenses when directories are published. Under the defer and amortize method, directory advertising revenues are generally billed in accordance with the contractual terms with advertisers, and recognized on a monthly basis over the estimated life of the print directory or electronic directory advertising, not exceeding 12 months, commencing with the delivery or display date, respectively. Amounts billed up-front for the directories are deferred and recognized over the billing period for which the corresponding directories are in circulation, not exceeding 12 months. Direct expenses, primarily printing and distribution costs, are recognized over the same period as the related revenue. The following table outlines the impact of these changes.

<i>(thousands of dollars, except per share amounts)</i>	Three months ended June 30, 2004	Six months ended June 30, 2004	Year ended December 31, 2004
Consolidated statements of income			
Increase (decrease) to:			
Operating revenues	(17,323)	(7,257)	(1,714)
Operating expenses	(3,618)	(1,392)	(678)
Income taxes	(5,030)	(2,153)	(380)
Net income	(8,675)	(3,712)	(656)
Consolidated balance sheets			
Increase (decrease) to:			
Accounts receivable	(28,964)	(28,964)	(22,767)
Prepayments	2,817	2,817	1,725
Payables and accruals	(736)	(736)	(459)
Future income tax liability	(9,325)	(9,325)	(7,554)
Retained earnings	(16,086)	(16,086)	(13,029)
Earnings per common share			
Basic and diluted	(0.07)	(0.03)	(0.01)

2 TRANSFER OF RECEIVABLES

During the second quarter of 2005, we repurchased \$5.0 million of accounts receivable from the securitization trust, which reduced our cumulative cash proceeds to \$120.0 million at June 30, 2005 (December 31, 2004 – \$125.0 million). The reduced cumulative cash proceeds lowered the security required at June 30, 2005, resulting in retained interest of \$41.6 million (December 31, 2004 – \$43.5 million).

3 INCOME TAXES

During the first quarter of 2005, we revised our estimate for the timing of the payout of the voluntary early retirement incentive program (ERIP), which resulted in an increase to current tax liability of \$10.0 million and a corresponding increase to the current portion of future income tax asset. As a result of ERIP payments made since the beginning of the year, \$2.3 million has been reclassified from future tax asset to current tax liability.

4 CAPITAL INVESTMENTS

<i>As at June 30, 2005</i> <i>(thousands of dollars)</i>	Cost	Accumulated depreciation and amortization	Net book value
Property plant and equipment			
Land	12,808	—	12,808
Buildings and towers	358,318	167,353	190,965
Telecommunications facilities and equipment	4,196,567	2,753,312	1,443,255
Other equipment	228,899	147,513	81,386
Plant under construction	59,476	—	59,476
Materials and supplies	5,500	—	5,500
Total property plant and equipment	4,861,568	3,068,178	1,793,390
Finite-life intangibles			
Software	246,720	141,695	105,025
Customer relationships	6,357	2,172	4,185
Residual commissions	7,600	1,912	5,688
	5,122,245	3,213,957	1,908,288

4 CAPITAL INVESTMENTS *(continued)*

<i>As at December 31, 2004</i> <i>(thousands of dollars)</i>	Cost	Accumulated depreciation and amortization	Net book value
Property plant and equipment			
Land	12,828	—	12,828
Buildings and towers	367,494	179,652	187,842
Telecommunications facilities and equipment	4,507,451	3,044,641	1,462,810
Other equipment	276,166	197,070	79,096
Plant under construction	52,200	—	52,200
Materials and supplies	5,500	—	5,500
Total property plant and equipment	5,221,639	3,421,363	1,800,276
Finite-life intangibles			
Software	253,635	145,150	108,485
Customer relationships	6,357	1,736	4,621
Residual commissions	7,600	700	6,900
	5,489,231	3,568,949	1,920,282

In addition to normal disposal and retirement activity, during the second quarter, we performed a review of our capital investments, which resulted in retiring assets with a cost of \$523.8 million and net book value of \$nil million.

5 ACCRUED BENEFIT ASSET (LIABILITY)

Components of net benefit plans' cost

The following tables show the components of the net benefit plans' cost.

Defined benefit (DB) pension plans

For the period ended June 30

<i>(thousands of dollars)</i>	Three months		Six months	
	2005	2004	2005	2004
Current service cost	7,592	7,028	15,184	14,056
Interest on the accrued benefit obligation	27,525	24,777	55,050	49,554
Actual return on plan assets	(51,394)	13,936	(80,127)	(42,202)
Elements of employee future benefit plans' cost, before recognizing its long-term nature	(16,277)	45,741	(9,893)	21,408
Excess of actual return over expected return	25,803	(37,580)	28,945	(5,093)
Amortization of deferred amounts:				
Past service costs	1,375	—	2,750	—
Net actuarial losses	7,382	4,712	14,764	9,424
Adjustments to recognize long-term nature of employee future benefit plans' cost	34,560	(32,868)	46,459	4,331
Net benefit plans' cost	18,283	12,873	36,566	25,739

5 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

Other post-employment benefit (OPEB) plans

For the period ended June 30

(thousands of dollars)

	Three months		Six months	
	2005	2004	2005	2004
Current service cost	1,390	1,144	2,580	2,288
Interest on the accrued benefit obligation	2,889	2,725	5,778	5,450
Elements of employee future benefit plans' cost, before recognizing its long-term nature	4,279	3,869	8,358	7,738
Amortization of deferred net actuarial losses	71	—	142	—
Net benefit plans' cost	4,350	3,869	8,500	7,738

Pension plan contributions

The table below shows the funding of DB pension and OPEB plans.

For the period ended June 30

(thousands of dollars)

	Three months		Six months	
	2005	2004	2005	2004
DB pension plans				
Required contributions	18,713	16,686	37,483	32,643
2003 contributions received by the plans	—	—	—	25,000
Additional voluntary contributions	—	—	60,000	—
OPEBs plans contributions	1,243	1,308	2,562	2,190
Funding of DB pension and OPEBs plans	19,956	17,994	100,045	59,833

6 GOODWILL

The annual impairment test was conducted during the second quarter of 2005 and no impairment loss was required.

7 RESTRUCTURING CHARGE

In 2004, we restructured our operations by reducing the workforce in certain areas, which resulted in a pre-tax charge against earnings for the three and six months ended June 30, 2004, of \$1.5 million and \$4.6 million, respectively (December 31, 2004 – \$5.7 million). As well, in October 2004, we offered a voluntary ERIP to all eligible employees with the retirement date for most employees being January 1, 2005. The ERIP was accepted by 693 employees and resulted in a pre-tax charge against earnings of \$66.6 million in 2004.

The restructuring charge balance in payables and accruals at June 30, 2005, is \$ 24.3 million (December 31, 2004 – \$68.6 million). As the employees leave the organization in 2005, the cash payments associated with the ERIP will be charged against this balance.

8 LONG-TERM DEBT

During the second quarter of 2005, we issued \$150.0 million of unsecured medium-term notes, bearing interest at 4.52 per cent per annum, maturing in May 2012 and callable at any time at the greater of par and the Canada Yield Price.

9 CAPITAL STOCK

The following table provides the details of the change in the issued and outstanding common shares.

	As at June 30, 2005		As at December 31, 2004	
	Number of shares	Stated capital	Number of shares	Stated capital
<i>(thousands of dollars, except as otherwise noted)</i>				
Common shares, beginning of period	132,744,009	1,044,729	133,616,920	1,035,798
Common shares issued	—	—	582,081	15,000
Common shares purchased for cancellation	(2,848,879)	(22,553)	(1,732,130)	(13,410)
Dividend reinvestments	110,368	3,067	229,316	6,405
Stock option plan	17,986	313	47,822	936
Common shares, end of period	130,023,484	1,025,556	132,744,009	1,044,729

Common shares purchased for cancellation

We commenced a normal course issuer bid (NCIB) on February 4, 2005, which will allow us to purchase, from time to time, up to 6,637,200 of our outstanding common shares at the market price with cash through the facilities of the Toronto Stock Exchange, representing approximately 5.0 per cent of our issued and outstanding common shares as of January 31, 2005, being 132,744,009 common shares. Purchases of common shares may be made up to February 3, 2006, and Bell Canada, our majority shareholder, will sell shares into the normal course issuer bid on a pro rata basis. In 2004, we acquired common shares under a similar NCIB, which ended on August 5, 2004. For the six months ended June 30, 2005, we purchased for cancellation 2,848,879 shares (June 30, 2004 – 1,463,284 shares) for an aggregate price of \$79.5 million (June 30, 2004 – \$43.5 million), which reduced capital stock by \$22.6 million (June 30, 2004 – \$11.4 million), contributed surplus by \$nil million (June 30, 2004 – \$0.2 million) and retained earnings by \$56.9 million (June 30, 2004 – \$31.9 million).

Included in the common share purchases for the six months ended June 30, 2005, were 1,476,479 shares purchased at market value from Bell Canada (June 30, 2004 – 714,784 shares) for an aggregate price of \$41.2 million (June 30, 2004 – \$21.2 million).

Stock option plan

A summary of the status of our stock option plan as at June 30, 2005, and December 31, 2004, and changes during the periods ended on those dates is presented below:

	As at June 30, 2005		As at December 31, 2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	2,496,777	30.37	2,338,367	30.06
Granted	481,520	29.24	432,621	32.39
Forfeited	(42,402)	31.76	(226,389)	33.31
Exercised	(17,986)	16.75	(47,822)	19.58
Options outstanding, end of period	2,917,909	30.62	2,496,777	30.37
Options exercisable, end of period	2,106,192	30.00	1,703,581	30.38

For the three and six months ended June 30, 2005, compensation expense in the amount of \$0.5 million and \$1.0 million, respectively (June 30, 2004 – \$0.3 million and \$0.6 million, respectively) related to stock options granted was recorded.

9 CAPITAL STOCK *(continued)*

For the three and six months ended June 30, 2004, the pro-forma adjustment to net income for compensation expense related to the 2002 stock options was \$0.3 million, and \$0.6 million respectively, which did not impact basic or diluted earnings per common share. There is no pro-forma adjustment in 2005 related to compensation expense on the 2002 stock options as it was fully recognized over the vesting period, being three years.

Performance share unit plan

During the second quarter of 2005, the performance share unit plan (PSU) was amended to include a supplementary personal performance share unit plan (PPSU) component, which was approved by the board of directors. The PPSU plan was established for certain executives and senior management. The PPSUs are similar to the PSUs with the exception of the performance-based criteria for vesting of share unit grants, which are based on the achievement of personal objectives supporting specific key corporate objectives rather than overall corporate performance. The 2004 PSU grant was repurposed as a PPSU grant in the second quarter of 2005.

	As at June 30, 2005	As at December 31, 2004
	Number of units	Number of units
Units outstanding, beginning of period	109,322	61,121
Granted	143,026	50,193
Forfeited	(14,800)	—
Exercised	(13,150)	(1,992)
Units outstanding, end of period	224,398	109,322

For the three and six months ended June 30, 2005, compensation expense in the amount of \$0.7 million and \$1.0 million, respectively (June 30, 2004 – \$0.3 million and \$0.5 million, respectively) related to the PSUs and PPSUs granted was recorded.

Employees' stock savings plan

The total number of common shares bought for employees during the three and six months ended June 30, 2005, was 330,977 and 711,027, respectively, (June 30, 2004 – 243,926 and 554,000 respectively). Compensation expense related to the employees' stock savings plan of \$1.8 million and \$3.4 million, respectively, for the three and six months ended June 30, 2005 (June 30, 2004 – \$1.2 million and \$2.7 million, respectively) was recorded.

10 SEGMENTED INFORMATION

For the three months ended June 30, 2005

(thousands of dollars)

	Telecommunications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	456,304	60,577	444	—	517,325
Intersegment revenue	2,107	25,329	—	(27,436)	—
Operating revenues	458,411	85,906	444	(27,436)	517,325
Operating expenses	260,285	77,311	9,555	(26,609)	320,542
Depreciation and amortization	97,188	2,030	307	(539)	98,986
Other income (expenses)	(1,465)	239	52,527	(51,570)	(269)
Interest charges	18,124	27	1,382	(1,068)	18,465
Income taxes (recovery)	30,589	1,880	(3,816)	(44)	28,609
Non-controlling interest	669	—	—	—	669
Net income	50,091	4,897	45,543	(50,746)	49,785
Purchase of capital investments	105,052	(60)	—	—	104,992
Total assets	2,714,545	179,197	1,793,456	(1,773,856)	2,913,342

For the three months ended June 30, 2004

(thousands of dollars)

	Telecommunications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	446,704	60,873	684	—	508,261
Intersegment revenue	2,047	24,354	—	(26,401)	—
Operating revenues	448,751	85,227	684	(26,401)	508,261
Operating expenses	268,720	79,344	6,999	(26,061)	329,002
Depreciation and amortization	97,060	2,134	369	(1,014)	98,549
Restructuring charge	309	1,164	—	—	1,473
Other income (expenses)	485	178	47,777	(46,334)	2,106
Interest charges (income)	18,758	(112)	1,248	(1,309)	18,585
Income taxes	19,213	501	2,364	305	22,383
Non-controlling interest	340	—	—	—	340
Net income	44,836	2,374	37,481	(44,656)	40,035
Purchase of capital investments	42,415	2,227	58	—	44,700
Total assets	2,652,515	191,113	1,817,674	(1,739,636)	2,921,666

10 SEGMENTED INFORMATION *(continued)*

For the six months ended June 30, 2005

(thousands of dollars)

	Telecommunications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	900,166	140,685	888	—	1,041,739
Intersegment revenue	4,075	50,051	—	(54,126)	—
Operating revenues	904,241	190,736	888	(54,126)	1,041,739
Operating expenses	522,314	172,579	17,569	(52,658)	659,804
Depreciation and amortization	194,040	3,975	615	(1,054)	197,576
Other income (expenses)	(2,730)	106	96,939	(95,401)	(1,086)
Interest charges	35,254	107	2,592	(2,103)	35,850
Income taxes (recovery)	55,955	4,920	(7,864)	(29)	52,982
Non-controlling interest	1,072	—	—	—	1,072
Net income	92,876	9,261	84,915	(93,683)	93,369
Purchase of capital investments	184,369	2,777	9	—	187,155
Goodwill acquired	54	—	—	—	54
Total assets	2,714,545	179,197	1,793,456	(1,773,856)	2,913,342

For the six months ended June 30, 2004

(thousands of dollars)

	Telecommunications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	887,278	134,627	864	—	1,022,769
Intersegment revenue	4,171	49,065	—	(53,236)	—
Operating revenues	891,449	183,692	864	(53,236)	1,022,769
Operating expenses	518,002	171,561	12,714	(52,569)	649,708
Depreciation and amortization	196,399	4,453	674	(2,018)	199,508
Restructuring charge	2,230	2,326	—	—	4,556
Other income (expenses)	4,123	208	93,185	(92,400)	5,116
Interest charges	37,704	351	2,658	(2,906)	37,807
Income taxes	47,510	1,493	196	609	49,808
Non-controlling interest	805	1	—	—	806
Net income	92,922	3,715	77,807	(88,752)	85,692
Purchase of capital investments	126,590	2,584	95	—	129,269
Total assets	2,652,515	191,113	1,817,674	(1,739,636)	2,921,666

11 COMMITMENTS

The estimated future minimum lease payments under operating leases and purchase commitments are as follows:

<i>(thousands of dollars)</i>	Remainder of					
	2005	2006	2007	2008	2009	Thereafter
Operating leases	26,090	43,724	38,801	36,704	36,235	136,768
Purchase commitments	27,135	25,024	5,594	4,143	1,854	—
	53,225	68,748	44,395	40,847	38,089	136,768

Purchase commitments primarily relate to various information systems and technology agreements, obligations under service contracts, and a billing system for our wireless services.

12 CONTINGENCY

Deferral account

On May 30, 2002, the CRTC released its price cap decision that prescribed new rules to determine the rates charged for certain telecommunications services provided by incumbent local exchange carriers (ILECs) for the four years beginning June 1, 2002. The price caps decision requires the use of a new mechanism, the deferral account, to mitigate the potential adverse effects on competition in the local market as a result of mandated rate reductions. The deferral account may be reduced by one or a combination of the following:

- Rate reductions for residential local services that are proposed as the result of competitive pressures;
- Certain rate reductions for services provided to competitors;
- The approval of exogenous factors for matters beyond control of the ILECs;
- Rate increases less than the amount by which inflation exceeds productivity;
- Subscriber rebates; and
- Funding initiatives that would benefit residential customers in other ways.

We await clarification from the CRTC regarding application of the deferral account rules and allowable cost mitigation features. Accordingly, we have not recognized the deferral account as a liability in our financial statements. Given the circumstances outlined, we estimate the deferral account balance could be between \$7 million and \$33 million. A liability, should one arise, will be charged to operating income or capital investments, as appropriate.

Owning AIT

STOCK EXCHANGE AND TRADING SYMBOLS

<i>Toronto Stock Exchange</i>	<i>Trading symbol</i>
Common shares	AIT
Preferred shares	AIT.PR.A

IMPORTANT DATES

Common share dividends for 2005 *(subject to approval by the board of directors)*

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

Earnings release dates for 2005 *(subject to change)*

	<i>Release dates</i>
Quarter 1	April 28
Quarter 2	July 27
Quarter 3	October 27
Quarter 4	January 26, 2006

SHAREHOLDER SERVICES

CIBC Mellon Trust, our transfer agent, provides additional information about the following services on its website: www.cibcmellon.com/investor.

Direct deposit of dividends

Registered common shareholders can have dividends directly deposited, electronically, into their bank account *(in Canada only)*.

Dividend reinvestment and share purchase plan

Registered shareholders can reinvest their dividends, automatically and without fees, in additional shares of the company. Also, up to \$10,000 in company shares can be purchased each quarter with optional cash payments without commissions or service charges.

E-services

On-line account inquiry

Registered shareholders can access their account information on the Internet, any time.

Electronic distribution of reports

Registered shareholders can obtain investor information and reports electronically rather than through the mail.

WE'RE HERE TO HELP

Contact our transfer agent, CIBC Mellon Trust Company, for information about:

- Dividend payments
- Change of address
- Exchanging shares
- Replacing lost certificates
- Dividend reinvestment and stock purchase plan
- E-services
- Tax forms
- Estate requirements

CIBC Mellon Trust Company Investor Correspondence

PO Box 7010 Phone: 1.800.387.0825 *(toll free in Canada and U.S.)*
 Adelaide Street Postal Station E-mail: inquiries@cibcmellon.com
 Toronto ON M5C 2W9 Website: www.cibcmellon.com

Our corporate website, www.aliant.ca, provides additional information about the company, financial reports and company news.

Contact Investor Relations for further information about:

- Additional financial or statistical information
- Industry and company developments
- Shareholder history for predecessor companies
- Annual Information Form

Aliant Investor Relations

PO Box 5030 Phone: 1.877.248.3113
 Saint John NB E2L 4L4 Fax: 1.877.498.2464
 E-mail: investor.relations@aliant.ca
 Website: www.aliant.ca

BOND TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare Investor Services and CIBC Mellon Trust Company

From the time we are born we have an innate desire to communicate, at first with mom and dad and then with the wider world. Throughout life that desire never wanes. Helping Atlantic Canadians fulfill this basic human need with simple and dependable solutions is our purpose.

Whether you're communicating with a friend across town or a business colleague around the world, we're here for you.



Our vision

**To be the company with the
strongest connection to the hearts
and minds of Atlantic Canadians**

Aliant Inc.
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www.aliant.ca

