



Management's Discussion and Analysis

Fourth Quarter 2003

January 29, 2004

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This document has been prepared for the purpose of providing management's discussion and analysis (MD&A) of our financial condition and results of operations for the fourth quarter and the year ended December 31, 2003. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended December 31, 2003. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Quarterly reports, annual reports and supplementary information can be found under "financial reports" on our corporate website at www.aliant.ca. Additional information, including our Annual Information Form and other continuous disclosure documents, can be found on SEDAR at www.sedar.com.

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

This document contains certain statements and information about potential future circumstances and developments. Such forward-looking statements and information are qualified by any of the inherent risks and uncertainties surrounding future expectations generally and may differ materially from our actual future experience. Reference is made to the "Risk and risk management" and "Forward-looking statements" sections for further discussion about the inherent risks and uncertainties surrounding future expectations. We disclaim any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

Reclassification of prior year results

Prior year results have been reclassified to reflect the impact of discontinued operations and to incorporate the results of operations for Innovatia Inc. (“Innovatia”) into the results of the Telecommunications segment. This reclassification is required under Canadian GAAP to conform to the presentation adopted in the current year.

About our business

Who we are

Aliant is a communications-focused company based in Atlantic Canada. We were formed in 1999, the result of the merger of the four Atlantic Canadian telecommunications and technology companies. Our Company is built on a strong 100-year plus history in each of the four provinces. It is here that we pursue innovation to enhance and simplify the lives of Atlantic Canadians through world-leading communications and technology solutions. Our employees strive to exceed customers’ needs through our advanced solutions and high levels of customer service. Aliant Inc. (TSX: AIT) is a TSX 100 company and the largest publicly traded company in Atlantic Canada. We operate through two segments, Telecommunications and Information Technology.

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

The business of the Information Technology (“IT”) segment is carried out through Xwave Solutions Inc. (“xwave”). xwave delivers complete IT services to clients through three service lines: systems integration and software engineering, infrastructure services and product fulfillment. These areas offer clients a broad delivery capability: xwave plans, designs, builds and operates information technology solutions for its clients. Specific industries in which it has acquired relevant expertise include; telecommunications, energy, select areas of the public sector such as defence and aerospace, public safety, education, health care and government. xwave is one of the largest Canadian-owned IT companies in Canada based on gross revenues and serves several geographic markets through offices in Canada, the United States and Europe.

Strategy

We continue to build upon our “value strategy” that we launched in 2001. The overriding objective of our strategy is to increase value for our shareholders. While the core of our value strategy remains consistent, it has the flexibility to allow for changing business issues and environmental factors.

Our capability to achieve this objective requires strength in our foundational elements: employees, internal processes and customer relationships. As a service organization with approximately 9,000 employees the strength of our Company is dependent on the strength of our employees. Our employees need internal processes that are streamlined and simplified to be productive. Only when processes are running smoothly can customer relationships be fully realized. Our ability to satisfy customers is essential to meeting our financial goals and ultimately increasing shareholder value.

The four underlying themes of our value strategy are: maximizing shareholder value, everything begins with the customer, simplifying internal processes and fostering employee learning and growth.

Performance results for 2003

Maximizing shareholder value

Providing a stable and rewarding investment for shareholders is our primary focus. We have strengthened the focus on our core business through the divestiture of non-strategic assets and subsidiaries. By increasing our earnings per share, generating strong cash flow and improving the balance sheet investors have been rewarded with increasing dividends and a higher share price. This was achieved through the following activities:

- Our board of directors approved an increase of \$0.025 cents in the quarterly dividend effective June 30, 2003, raising the annual dividend rate to \$1.10 per common share;
- We purchased and cancelled 1,335,700 shares by June 2003, completing the total purchase of 1,600,000 shares permitted under a Normal Course Issuer Bid (“NCIB”) announced in July 2002; and
- We commenced a second NCIB in August 2003 allowing us to purchase and cancel up to 6,925,000 additional outstanding common shares before August 2004. As at December 31, 2003, we had purchased 5,192,870 common shares for cancellation under this program.

Refer to the “Financial and capital management” section of this document for a complete discussion of dividends and progress under the NCIBs.

Consistent with our strategy to be a communications-focused company based in Atlantic Canada, and in line with our strategy to maximize shareholder value, a key initiative that we undertook was to exit non-core businesses.

Emerging Business segment and other investments

On January 1, 2003, the Emerging Business segment was dismantled. At that time, we transferred Innovatia from the Emerging Business segment to the Telecommunications segment

for operating and reporting purposes. The remaining components of the former Emerging Business segment were reviewed and those that were identified as non-strategic were divested:

- Our 29.3 per cent interest in iMagicTV Inc. (“iMagicTV”) was sold in April 2003;
- The assets of Prexar LLC (“Prexar”) were sold in May 2003; and
- The operating assets of AMI Offshore Inc. (“AMI”) were sold in August and December 2003.

Throughout the year other non-strategic investments were identified and divested of:

- Aliant Telecom Inc.’s 50 per cent interest in 3618412 Canada Inc. (“SableCom”) was sold in August 2003; and
- Aliant Energy Services Inc. (“Aliant Energy Services”) was wound up in September 2003.

The disposal of these non-core assets in 2003 has generated a gain on sale, net of taxes, of \$14.5 million, which is included in the results from discontinued operations.

Remote Communications segment

Our most significant divestiture in 2003 was in our Remote Communications segment as represented by the sale of our 53.2 per cent ownership of Stratos Global Corporation (“Stratos”), a publicly traded (TSX:SGB) company. The decision to sell our ownership interest in Stratos arose as it had become increasingly independent of us over the last two years.

On October 6, 2003 we sold 26,141,024 Subscription Receipts through a syndicate of underwriters led by RBC Capital Markets at a price of \$13.00 per receipt. Each Subscription Receipt entitled the holder to acquire one common share of Stratos upon receipt of approval by the U.S. Federal Communications Commission and delivery of a joint notice in writing from Aliant and the Representative Underwriter confirming that the condition of the release of escrow have been fulfilled to their satisfaction. Approval was received and conditions of the release of escrow were fulfilled in December 2003. Total gross proceeds received from the offering were \$339.8 million, with a gain on sale, net of taxes of \$90.1 million included in the results from discontinued operations.

Information Technology segment

On January 24, 2003, we announced that we would seek a buyer for our Information Technology segment, xwave. We held discussions with several potential buyers, but none was able to satisfy all of our conditions and become the business partner we needed. As announced on June 19, 2003, we concluded that it was better for our customers, employees and shareholders to retain and restructure xwave.

With the decision to retain xwave, a comprehensive restructuring plan was prepared and executed with the objectives of restoring profitability, improving productivity, realigning xwave’s strategy with our Telecommunications segment and simplifying xwave’s business model. The restructuring plan reviewed all elements of the business including leadership, business processes, systems and organizational structure. A restructuring charge of \$15.5 million was recorded in the third quarter, which was subsequently adjusted downward by \$1.0 million in the fourth quarter. The restructuring charge was comprised primarily of severance and related benefits for over 200 employees, but also included equipment lease cancellation penalties and real estate rationalization costs.

Everything begins with the customer

Satisfying customers is essential to preserve and grow revenues for strong financial performance. We will focus on serving customers on their terms with passion and integrity, ensuring every customer experience is simple and enjoyable. We also want to provide our customers with choice and value through our ongoing focus on developing and introducing new products and services. Success in this area will only occur if our customers' needs are met. Our accomplishments in 2003 consisted of:

- Served customers on their terms and simplified their experiences.
 - Launched the Aliant brand - The new brand image and associated message “You can depend on us to make it easier to do what you want.” is encapsulated in our new tag line: “*here. for you™.*” Our new brand identity provides a consistent look and message in the marketplace and further differentiates Aliant in the minds of customers. This new brand has also contributed to a renewed energy in our workplace that translates to a customer-centric environment. The launch of the Aliant brand included a major advertising campaign, Aliant signage conversion on major corporate buildings in each of the four Atlantic Provinces, and agreements with some of our top dealers to redesign their existing stores to become Aliant branded stores.
 - Integrated our marketing strategy - The marketing effort is now coordinated across all of our service and product offerings.
- Provided customers with innovative new products, services and network capabilities.
 - Introduced new Internet services - Anti-spam, anti-virus, Music on my PC™, TV on my PC™, GamesMania™, firewall protection, parental control, remote PC backup and other services to increase value to customers and enhance the profitability of our broadband portfolio.
 - Expanded the next generation wireless network - One times radio transmission technology (1XRTT) is the next evolution of our existing code division multiple access (CDMA) voice and data network and will deliver the fastest wireless data speeds in Atlantic Canada. In 2002 we launched 1XRTT in Halifax and throughout 2003 we aggressively expanded our network such that by year end 1XRTT was available to approximately 60 per cent of the population in Atlantic Canada, with 31 per cent of all digital usage by our customers being through the 1XRTT network.
 - Introduced new wireless services - We launched the BlackBerry® 6750™ handheld, which operates on our CDMA 1XRTT network and features wireless e-mail, cell phone, text messaging, and browser and organizer functionality all in a single handheld device. In addition we also expanded our line of handsets to include models with colour screens, 1XRTT capabilities and camera phones. We also introduced picture messaging, ring tones and enhanced mobile browser services.

Simplifying internal processes

Our ability to deliver on our customers' expectations relies on our management of numerous networks, billing systems and other information technology systems all interconnected with a multitude of processes. It is a complex business; creating simplicity amongst the complexity requires optimization of existing processes and a strong plan for the transition to next

generation networks. Our customers want product and services that are easy to buy and simple to use. As well, our effective allocation of financial and human resources will position us for short and long-term profitability. Capital investments are made where there is a positive return and to strategically position us for future growth with a flexible balance between the two ensuring the changing needs of the business are met. Building on our successes of prior years, we continued to focus on cost structure efficiencies in 2003. Our accomplishments consisted of:

- Improved and simplified end-to-end customer experiences.
 - Launched Aliant.net - Aliant.net provides a single point of access to information about Aliant products and services, enables customer self-service, and provides access to online media, applications and content all from a single website.
 - Provided one bill for all services to customers on certain packaged plans- Continued to build on this initiative launched in Nova Scotia and Prince Edward Island in 2002, by expanding it to New Brunswick and Newfoundland and Labrador.
 - Improved billing presentation for enterprise customers - In consultation with our customers we designed an e-billing reporting methodology that not only allows our customers to view their bill on-line but can present a consolidated bill for corporations with operations across the Atlantic Provinces and incorporate both wireline and wireless services. As a result our customers can manage their costs better and disseminate information throughout their organizations with ease.
- Allocated resources effectively.
 - Continued to work towards an industry leading cost structure - This includes loyalty and retention activities to reduce churn and operational productivity activities to reduce servicing costs and improve efficiency. Productivity initiatives include the consolidation of server platforms across the four Atlantic Provinces to reduce maintenance costs, renegotiation of vendor contracts, roll out of consistent computer technology to employees, improvements to credit and collection processes and improvements to inventory management.
 - Generated ongoing productivity savings through our relationship with Bell Canada - Operational agreements to improve technology and network planning have been established, and capital and expense savings will be realized through many such initiatives. Other shared initiatives include advertising campaigns, market research, contact centre integration, various customer contact workforce management tools, and intellectual property.

Fostering employee learning and growth

Our value strategy is only possible through the efforts of our employees, thus investing in human capital is a fundamental requirement of our Company. Supporting and developing each of our employees is essential. We strive to create a safe and healthy work environment where people feel valued and can maximize their potential. We listen to our employees and respond. This builds on mutual respect and ensures employees are fully engaged in and support the value strategy. In 2003 our accomplishments included:

- Enhanced our safe and healthy working environment.

- Launched new employee benefits programs - We aligned most of our benefits throughout the four Atlantic Provinces and delivered a program that offers employees greater choice and flexibility along with a number of enhanced benefits.
- Launched new health and safety initiatives - Numerous initiatives have been undertaken, including the launch of a Web-based health risk appraisal tool for our employees and their families to assist employees in assessing their health.
- Focused employees on corporate strategy.
 - Enhanced performance recognition and rewards programs - We implemented two new employee awards. The Aliant Achievement Award, a performance based award designed to recognize and reward individual employees or teams for outstanding contributions that impact the business and the Aliant Community Spirit Award to recognize employees for their community involvement.
 - Introduced the balanced scorecard - The balanced scorecard translates our value strategy into key objectives that aid us in aligning our activities throughout our Company.

Outlook for 2004

We will continue focusing and building upon our value strategy in 2004. The accomplishments noted in 2003 greatly advanced our value strategy and the momentum gained will continue to generate value for our shareholders in the future. In keeping with the strategic themes, we will pursue the following in 2004:

Maximizing shareholder value. We will invest and innovate in order to grow profitability in 2004. Growth will come from customer growth for our Internet and wireless businesses and retention activities in other areas. We will continue to drive the customer focused activities in each of our core customer segments: residential, small to medium business, and enterprise. For each of these segments we have a focused plan to explore every revenue opportunity and maximize customer spending.

Continued investments in our next generation infrastructure, such as Voice over IP (VoIP), position us well into the future. In conjunction with Bell Canada and Nortel, we will begin transition to a VoIP network as customer demands, customer needs and technology dictate. A new approach to growth in 2004 will be investments in operations complementary to our core business.

Everything begins with the customer. Using our customer segment approach we will continue to deepen our understanding of our customers' needs and ensure that we are delivering relevant solutions to build loyalty and create growth. Over the next five years we will improve, enhance and completely transform our customer service processes to further simplify our customers' experiences. A focused plan for customer service and network transformation will be enacted to ensure migration to future networks creates improved customer value.

Simplifying internal processes. We will improve and simplify end-to-end customer interactions. In order to better serve our business customers and increase profitability, the sales process is being redesigned to reflect a world-class sales organization. In addition a new wireless customer care and billing system will be implemented throughout 2004 and 2005.

Fostering employee learning and growth. We will continue to maximize employee potential. Our customers have told us that they look for a company that is helpful, confident, straightforward and dynamic. Aliant has a talented and dedicated employee base. We will continue to build an environment that maximizes our employees' potential and follows the example set by our leadership to live the Aliant values.

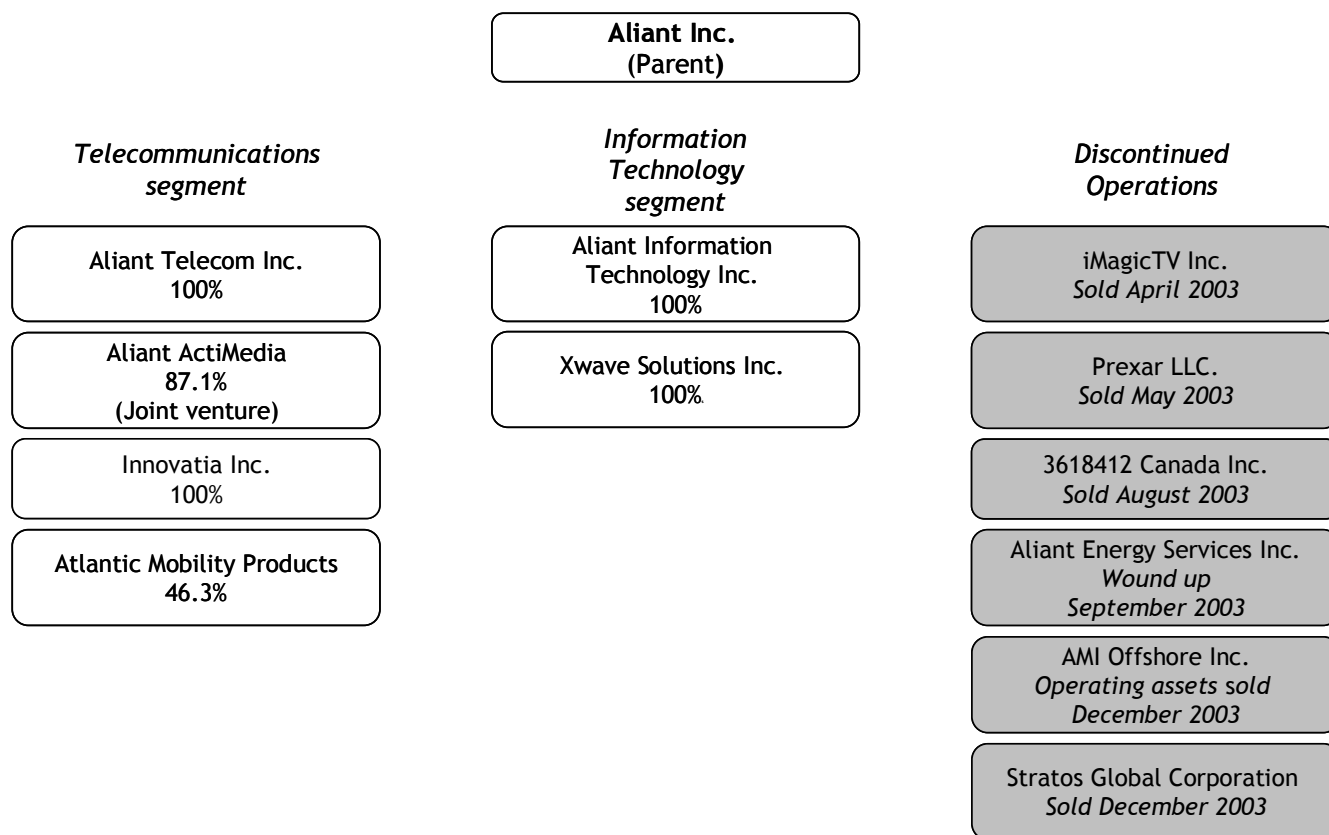
Success in advancing our value strategy in 2004 will be measured in terms of earnings per share growth. We anticipate low double digit percentage growth in earnings per share.

Senior management changes during 2003

- Barrie Black, vice-president, general counsel and corporate secretary, retired in March. Frederick Crooks, Q.C., joined Aliant in the position of senior vice-president, general counsel and corporate secretary in October.
- Harry Connors, vice-president of communications and public affairs, retired in June and Robyn Tingley was promoted to this position.
- Robert Neal, senior vice-president of business development retired in September.
- Mike Roberts was promoted to the newly created position of vice-president, regulatory and government relations in September.
- In September, Paul Kent accepted the role of senior vice-president of Aliant and chief operating officer of xwave, replacing Rod Wark who left the Company in January.

Our legal and operating structure

The accompanying chart reflects our operating segments and discontinued operations, and the main corporate entities and joint venture in each of these segments for 2003. This chart also shows the percentage of voting securities or joint venture interest that Aliant currently holds, directly or indirectly, in these entities. As a result of recent divestitures the structure has become significantly more streamlined and more operationally integrated than before.



Operating results

The following is a summarized discussion of our consolidated operating results for the three and twelve months ended December 31, 2003.

Gross operating revenues by segment

For the period ended December 31

<i>(millions of dollars)</i>	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Telecommunications	\$ 465.4	\$ 464.3	0.2	\$ 1,819.8	\$ 1,809.0	0.6
Information Technology	89.0	91.0	(2.2)	366.0	399.3	(8.3)
Other and eliminations	(25.8)	(42.1)	38.7	(116.4)	(161.8)	28.1
	\$ 528.6	\$ 513.2	3.0	\$ 2,069.4	\$ 2,046.5	1.1

Robust wireless and Internet growth throughout 2003 have positively contributed to Telecommunications' total revenue. Partially offsetting this growth is lower local revenue due partly to regulatory impacts, lower long distance revenue due to continued competitive price pressures in the business market and lower "other revenues" resulting from the absence of Internet help desk revenues, now that those services are provided directly to the customer by the Information Technology segment.

Weak economic conditions affecting the Information Technology industry and customer uncertainty regarding the future of xwave as a result of the divestiture process undertaken by Aliant during the first half of the year, have contributed to declining revenues in that segment year over year. In addition, alignment of roles and intersegment productivity improvements resulted in decreased IT product and service requirements from the Telecommunications segment in 2003.

Telecommunications operating revenues

For the period ended December 31

<i>(millions of dollars)</i>	Three months			Twelve months		
	2003	2002 (reclassified)	% change	2003	2002 (reclassified)	% change
Local	\$ 183.6	\$ 189.2	(3.0)	\$ 750.1	\$ 767.0	(2.2)
Long distance	97.6	100.9	(3.3)	394.3	403.9	(2.4)
Wireless	89.6	77.2	16.1	332.5	281.3	18.2
Internet	27.8	24.0	15.8	106.6	91.5	16.5
Other revenues	66.8	73.0	(8.5)	236.3	265.3	(10.9)
Total operating revenues	\$ 465.4	\$ 464.3	0.2	\$ 1,819.8	\$ 1,809.0	0.6

Local revenue

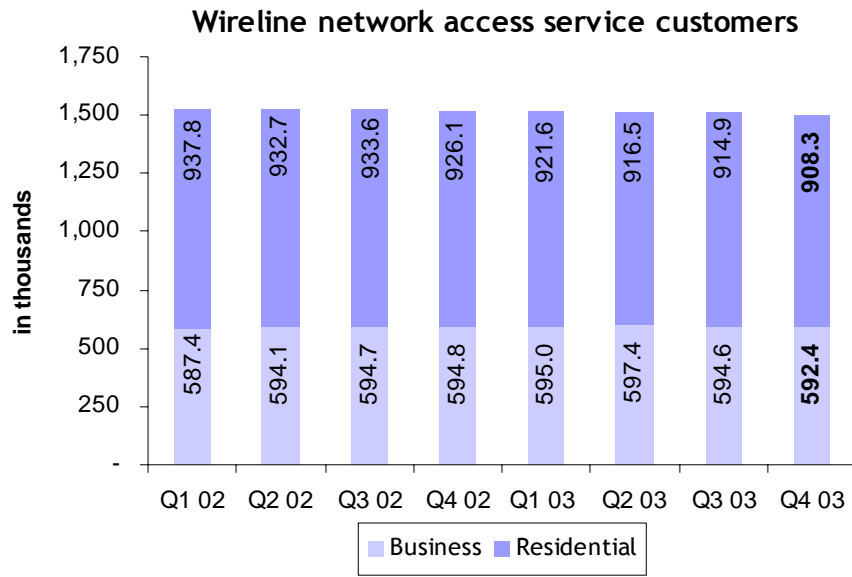
Local revenue consists of providing the following services to residential and business customers:

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

We have been able to minimize the negative impact on local revenues from changes in the regulatory, competitive and technology environments, through selected price changes on non-regulated local services, enhanced service feature growth and customer retention associated with the strength of our local and other services.

The Canadian Radio-television and Telecommunications Commission (“CRTC”) announced several decisions in 2002 that put pressure on our local revenues this year. Annual price changes required by the price caps decision decreased annual competitor payment and data access revenues by an additional \$2.7 million and \$4.3 million, respectively, over the prior year. Contribution regime changes lowered the annual contribution rate and related revenue by an additional \$3.4 million over 2002. As well, regulatory restrictions on win-back promotions and increased competitive activity negatively impacted our network access service (NAS) customer base.

In addition, in recent years a trend has developed in which a growing number of customers choose to purchase rather than rent telephone sets, thus reducing rental revenues.



At December 31, 2003, our residential NAS customer base is 1.9% lower than at December 31, 2002 contributing to a 1.3% decline in the total NAS customers throughout 2003.

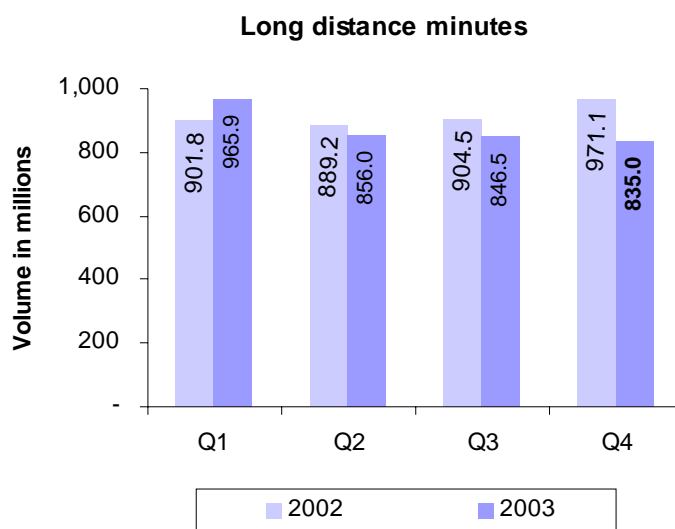
Our NAS customer base has decreased by 1.3 per cent from last year end, due to decreases in residential NAS. Residential NAS customers are declining year over year due to a combination of competition, regulatory restrictions on win-back promotions, substitution of wireline service with wireless service, and reduction in residential second lines due to migration from dial-up to high-speed Internet. Steady growth in business NAS customers due to growth in small to medium sized businesses was negatively impacted by competition. In addition, in the second half of 2003 business NAS was negatively impacted due to the loss of one large multi-line customer as a result of regulatory intervention. Despite the decrease in the NAS customer base, NAS revenues, which represent over one half of all local revenues, are relatively unchanged year over year due to the implementation of selected pricing action.

Long distance revenue

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

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

Plan restructuring and selected rate changes implemented in 2003 mitigated the negative impact on long distance revenue from competition, the \$5.2 million annual decrease in terminating revenues due to CRTC mandated rate reductions and the general softness in the data market, particularly in the large business market.



Our fourth quarter minute volumes decreased by 14.0% over the same period in 2002, bringing the annual decrease in minute volumes to 4.4%.

Consistent with our strategic initiative to grow Aliant profitability we restructured our pricing plan for residential customers. Components of this restructuring, such as the capping of the minutes of the unlimited plans, resulted in anticipated changes in customer calling patterns reflected in decreased minute volumes. This action improved the quality of our service and avoided the need to invest in additional capacity. The net impact of this restructuring resulted in an increase in our average revenue per minute. Business long distance minutes remained relatively unchanged year over year, however the associated revenues have decreased due to pricing changes in response to competitive pressures and softness in the data market.

Wireless revenue

Wireless revenue is earned through the provision of cellular, paging and mobile radio services. Cellular revenue consists primarily of monthly recurring charges and also include charges for airtime, long distance, roaming and enhanced service features such as text messaging.

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

Our wireless revenues for 2003 grew 18.2 per cent over last year. This growth is driven by increased average revenue per customer (ARPC) and continued new demand for voice and data wireless services.

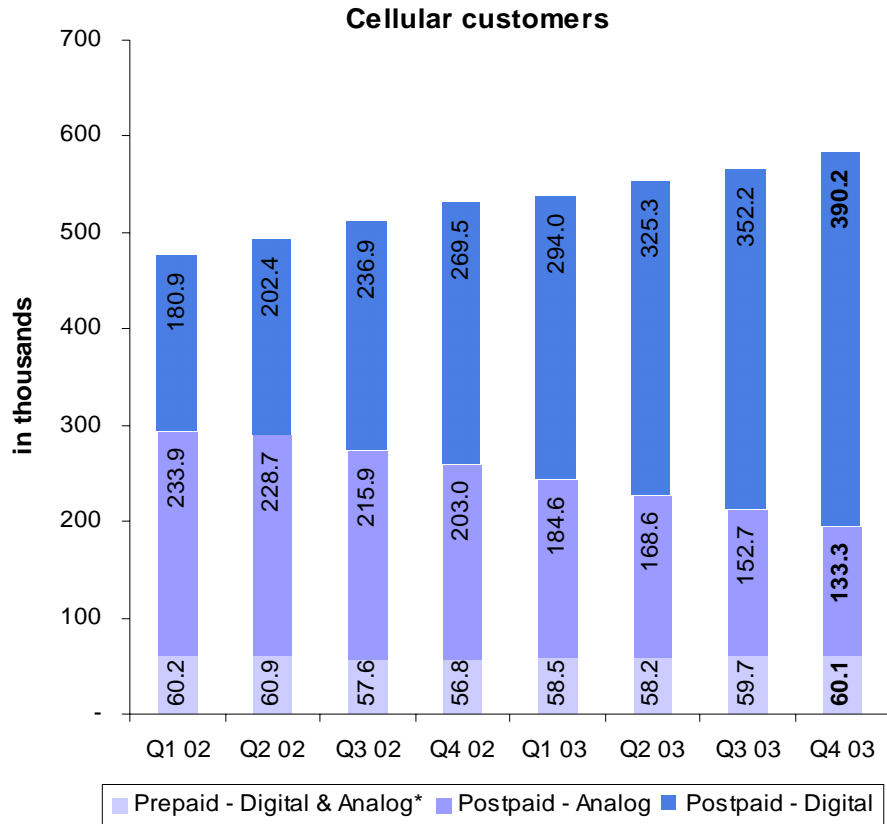
Wireless - statistics

For the period ended December 31

	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
Monthly - Average revenue per customer						
Postpaid	\$54.42	\$51.35	6.0	\$52.00	\$48.90	6.3
Prepaid*	\$10.37	\$11.39	(9.0)	\$9.67	\$8.56	13.0
Total*	\$49.82	\$46.94	6.1	\$47.50	\$44.10	7.7
Monthly - Average minutes of use per customer*						
	259	229	13.1	247	218	13.3
Churn*	1.64%	1.64%	-	1.53%	1.62%	(5.6)

* These statistics have been impacted by the restatement of our prepaid customer base made to align to our current prepaid policy. This has no impact on net activations or revenue.

The growth in total ARPC results from an increase in the average minutes of use, select price increases and more customers choosing digital service and postpaid plans. Digital customers generate higher monthly ARPC than analog, likewise postpaid customers generate higher monthly ARPC than prepaid. The decrease in prepaid ARPC for the fourth quarter in comparison to the fourth quarter of 2002 is due to recognition of the revenue on customers' expired balances for the year being recorded in the fourth quarter of 2002 rather than throughout the year. In 2003 this was recorded regularly throughout the year as customer minutes expired.



Our cellular customers at December 31, 2003 grew 10.3% over 2002. Included in these results is 47.3% digital growth and 10.8% postpaid growth.

*Prepaid customers have been restated to remove 21,282 inactive customers from the base. New prepaid policies have been implemented in 2003 regarding inactive account terminations. The 2002 starting base and the customer terminations in 2002 have been restated to reflect this new policy. This restatement has no impact on 2003 net activations or revenue.

Customer growth remains strong at 10.3 per cent as a result of competitive pricing offers, the packaging of wireless service with other non-regulated services, extensive handset selection and continued expansion of our digital cellular service into new areas. At December 31, 2003 approximately 83 per cent of Atlantic Canada’s population had access to our digital cellular service up from 68 per cent at the same time last year. In addition to the increase in customers there is also a significant shift in service type to digital and postpaid, which generate higher ARPC. At December 31, 2003, 69.1 per cent of our cellular customers were digital compared to 51.7 per cent for the same point in time in 2002. Our postpaid customer mix of 89.7 per cent remains at industry-leading levels.

Internet revenue

Internet revenue consists of high-speed and dial-up service to residential and business markets, which include enhanced services such as anti-virus and firewall protection.

Internet revenue experienced strong growth of 16.5 per cent over the prior year as a result of initiatives to improve ARPC, aggressive churn management and continued strong customer growth.

Internet - statistics

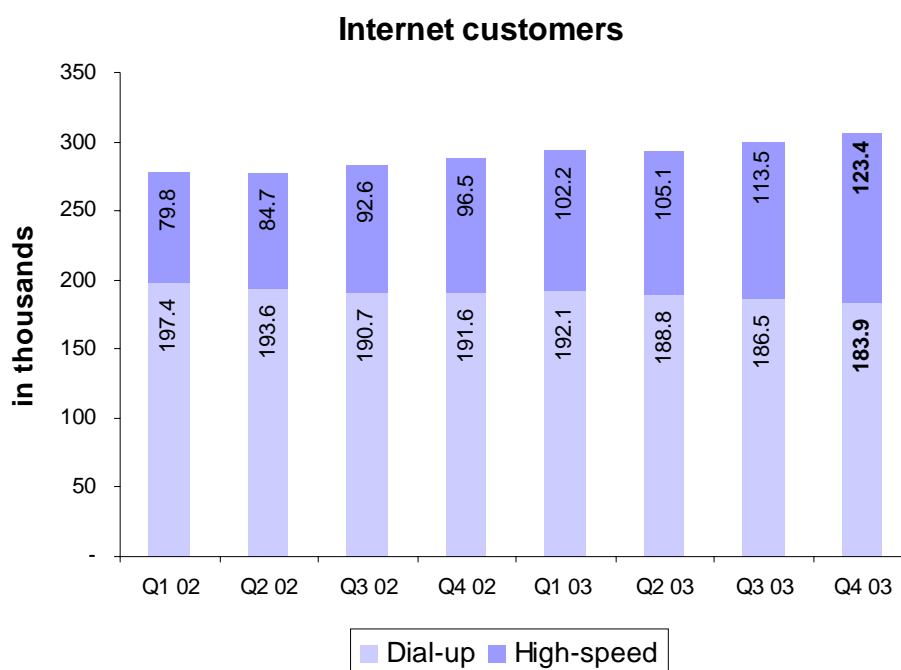
For the period ended December 31

	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
Monthly - Average revenue per customer						
Residential Dial-up	\$18.78	\$18.80	(0.1)	\$18.93	\$18.61	1.7
Residential High-speed	\$33.60	\$32.30	4.0	\$33.82	\$31.96	5.8
Business Dial-up	\$45.83	\$43.47	5.4	\$44.63	\$46.98	(5.0)
Business High-speed	\$97.86	\$88.46	10.6	\$95.16	\$84.54	12.6
Churn	1.9%	2.4%	(20.8)	2.0%	2.6%	(23.1)

The ARPC for high-speed customers has increased due to targeted pricing initiatives, the migration from introductory to regular pricing in the residential market and increased usage in the business segment.

Loyalty management has been a key focus in 2003. The introduction of customer retention programs including loyalty bulletins and customer contracts, as well as the integration of Internet offers with our other product lines, has served to reduce Internet churn.

In addition, competitive pricing, and continued network expansion combined to drive customer growth of 6.7 per cent over the prior year and high-speed customer growth of 27.9 per cent over the prior year. On December 31, 2003 our high-speed Internet services passed 65 per cent of the homes in Atlantic Canada up from 60 per cent at the 2002 year end.



Our Internet customer base at December 31, 2003 grew 6.7% over 2002, representing high-speed customer growth of 27.9% and a decline in dial-up customers of 4.0%.

Other revenues

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Product	\$ 41.6	\$ 38.9	6.9	\$ 122.3	\$ 122.2	0.1
Directory	8.1	7.9	2.5	46.3	44.5	4.0
Innovatia	6.9	6.0	15.0	24.4	22.9	6.6
Internet help desk	-	3.1	-	-	19.5	-
Miscellaneous	10.2	17.1	(40.4)	43.3	56.2	(23.0)
	\$ 66.8	\$ 73.0	(8.5)	\$ 236.3	\$ 265.3	(10.9)

Revenue from product sales increased for the fourth quarter over the prior year due to increased sales of equipment for private radio networks and data equipment, which are typically large and sporadic in nature. The directory revenues increase is reflective of the growth in the directory business across Atlantic Canada. Revenues from Innovatia increased as a result of the introduction of a new contact centre solution in 2003. There are no Internet help desk revenues in 2003, as the Information Technology segment now provides that service directly to the customer. Miscellaneous revenues have decreased as a result of our exit from

certain consulting services, lower pole rentals due to the sale of poles in Newfoundland and Labrador in late 2002 and declines in other service revenues.

Information Technology operating revenues

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
Service	\$ 53.2	\$ 57.8	(8.0)	\$ 217.1	\$ 237.6	(8.6)
Product	35.8	33.2	7.8	148.9	161.7	(7.9)
Total operating revenues	\$ 89.0	\$ 91.0	(2.2)	\$ 366.0	\$ 399.3	(8.3)

Information Technology generates service and product revenues. Service revenues consist of systems integration, software engineering, infrastructure services and other IT consulting. Product sales include computer hardware, accessories and packaged software.

Attaining revenue levels consistent with the prior year was a challenge for xwave in 2003. Service revenues suffered in the first half of the year, the period in which we undertook the divestiture process for xwave, due to uncertainty amongst potential customers regarding the future of the company. These concerns have diminished following our subsequent decision to retain xwave (as previously discussed in the "Performance results for 2003" section). The continued softness in IT market conditions also negatively impacted service revenues. Clients scaled back expenditures for infrastructure, systems integration and other service related work throughout the year in response to subdued market conditions. Product revenues were negatively impacted by a slow down in both federal and provincial government year-end spending. In addition, less product and service revenues were earned from our Telecommunications segment due to role alignment, productivity improvement initiatives and reduced product sales between the two segments. During 2003, xwave has renewed numerous contracts with existing clients - which, in addition to new projects such as those initiated in the fourth quarter with the Brandon Police Service and the Government of Ireland, will aid in sustaining and growing revenues into the future.

Outlook for 2004 - Gross operating revenues

Telecommunications

Revenue growth is a key focus for Aliant in 2004 as we anticipate continued regulatory and competitive pressures.

In 2003, we continued to focus on growth in wireless and high-speed Internet to offset the declines in local, long distance and other revenues. Looking forward we will continue to focus on growth from wireless and Internet as well as enhanced services that ride on these access technologies. We will be prepared to take advantage of new technological opportunities as they evolve. Sustaining revenues from traditional sources is also an important focus as it represents a large portion of our total revenues and we recognize the importance of maintaining this customer base. Growing and sustaining revenues will continue to be accomplished through our brand promise of simplicity, expansion of our product and service selection, high levels of customer service and network reliability.

Local

Looking forward we recognize the importance of maintaining a strong base of local customers. We will continue to mitigate the negative impact of the regulatory, competitive and technological environments on local revenues through our marketing plan. This approach incorporates our competitive action plan, the strength of the Aliant brand and selected pricing action on non-regulated services. However, the deferral account mechanism decision from the CRTC is still pending, the outcome of which may or may not impact 2004, as at the present time the outcome is undeterminable.

Long distance

We will continue to position the total value of our long distance offerings through service oriented marketing, packaging of long distance with other products and services and focused price perception initiatives. We will continue to tailor our long distance offerings to the unique needs of Atlantic Canadian residential and business customers.

Wireless

We anticipate that wireless revenue growth will remain strong as industry market penetration increases. We are focusing on growth by expanding our digital coverage and continuing our investment in 1XRTT. Our digital coverage is expected to increase to approximately 90 per cent by the end of 2004. We will continue to focus on delivering on and communicating the reliability of our networks, dealers and customer service.

Internet revenue

Growth in Internet revenue is expected to continue due to growing market penetration for high-speed Internet and growth of enhanced service features. We continue to roll out high-speed availability and anticipate obtaining 70 per cent coverage by the end of 2004. In 2003, we rolled out numerous customer applications designed to improve our customers' Internet experience and drive revenue growth. In 2004, we will continue to grow the business through expansion, increased penetration and new service applications growth.

Information Technology

Information Technology's revenue is projected to grow in 2004 in both service and product revenue. To do this we will concentrate on securing additional long-term business with particular emphasis on infrastructure services outsourcing and network management. We will continue to focus on the promising small and medium sized enterprise market in Atlantic Canada. In addition, a new priority in 2004 will be to focus on securing service arrangements with clients in other geographical regions in which the work is based out of our offices.

Cost of operating revenues by segment

For the period ended December 31

<i>(millions of dollars)</i>	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		<i>(reclassified)</i>			<i>(reclassified)</i>	
Telecommunications	\$ 50.3	\$ 60.6	(17.0)	\$ 175.3	\$ 214.0	(18.1)
Information Technology	32.7	29.8	9.7	135.4	148.0	(8.5)
Other and eliminations	-	(0.1)	-	-	(0.5)	-
	\$ 83.0	\$ 90.3	(8.1)	\$ 310.7	\$ 361.5	(14.1)

Telecommunications

The decrease in cost of operating revenues for our Telecommunications segment reflects margin improvement on equipment sales, a decrease in terminating costs due to lower per minute rates for calls originating on our local network and terminating with other carriers, a decrease in the contribution rate, and the absence of Internet help desk revenues, as this service is now provided directly to the customer by our Information Technology segment.

Information Technology

Changes in the cost of operating revenues for our Information Technology segment are a reflection of product sales. Product sales in 2003 are \$12.8 million below the prior year but for the fourth quarter are \$2.6 million above of the same period in 2002. Despite a challenging and competitive environment for product sales, our product margin has improved by 0.5 per cent compared to the prior year.

Operating expenses by segment

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Telecommunications	\$ 196.3	\$ 178.9	9.7	\$ 797.8	\$ 738.2	8.1
Information Technology	53.5	64.2	(16.7)	223.4	248.5	(10.1)
Other and eliminations	(14.8)	(37.6)	(60.6)	(91.9)	(137.6)	(33.2)
	\$ 235.0	\$ 205.5	14.4	\$ 929.3	\$ 849.1	9.4

Telecommunications

Defined benefit pension plan expense increases contributed \$9.7 million and \$37.2 million to the quarterly and annual increases in operating expenses, respectively. The annual increase in pension expense is attributable to a change in certain pension accounting assumptions, an increase in amortization of accumulated actuarial losses of prior years, an increasing pension obligation, a lower value for pension plan assets after capital market losses in past years and higher pensionable earnings for employees (as discussed under “Significant accounting policies”).

Salaries and benefits increased \$12.3 million for the fourth quarter and \$18.7 million for the year compared to the same periods in the prior year as a result of cost of living adjustments and a higher employee performance incentive.

Commissions and subsidies have increased by \$2.3 million for the fourth quarter and \$12.9 million for the year in comparison to the same periods in the prior year primarily as a result of increased wireless sales, increased cost of cellular phones and accessories hardware and increase in the number of customers upgrading their phones.

These and other operating expense increases have been partially offset by various ongoing productivity and cost reduction initiatives, some of which involved our majority shareholder, Bell Canada. These initiatives are outlined under “Performance highlights for 2003”.

Information Technology

The reduction in Information Technology’s operating expenses results from current year workforce reductions, a sustained focus on cost management and an impairment charge recorded in the third quarter of 2002. The impairment charge was recorded to reflect the decline in the continuing value of xwave assets. The total charge was \$12.2 million of which \$11.3 million was recorded in operating expenses. In January 2003, downsizing activities resulted in a \$5.5 million charge to operating expense, relating mainly to salaries and benefits. This downsizing and the restructuring activities in the second half of the year resulted in a new operating structure and workforce reductions. These activities reduced salaries, benefits and other operating expenses. As at December 31, 2003 the total number of xwave employees has decreased by approximately 17.6 per cent from the same point in time last year.

Depreciation and amortization

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Depreciation and amortization	\$ 95.7	\$ 97.0	(1.3)	\$ 390.6	\$ 385.6	1.3

Telecommunications' depreciation and amortization increased throughout the year due to the higher proportion of capital investment in recent years being in broadband and wireless assets which have depreciable lives as short as three years. In the third and fourth quarter of 2003 this increase was minimized as some software application assets became fully depreciated and gains on the sale of salvage material were realized.

Information Technology's depreciation and amortization expense has decreased as some of its capital investment reaches maturity, becomes fully depreciated, and is retired.

Restructuring charge

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
Information Technology	\$ (1.0)	\$ -	-	\$ 14.5	\$ -	-

Following our decision to retain xwave in June 2003, a comprehensive restructuring plan was prepared and executed in the second half of the year resulting in a \$14.5 million restructuring charge. This charge was comprised primarily of severance and related benefits for over 200 employees, but also included equipment lease cancellation penalties and real estate rationalization costs.

Other income (expenses)

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Writedown of goodwill	\$ -	\$ (50.0)	-	\$ -	\$ (50.0)	-
Writedown of portfolio investments and related assets	(13.3)	-	-	(13.3)	(5.6)	137.5
Gain on sale of investments	-	-	-	-	2.4	-
Miscellaneous income	3.5	4.5	(22.2)	5.1	3.4	50.0
Other income (expenses)	\$ (9.8)	\$ (45.5)	(78.5)	\$ (8.2)	\$ (49.8)	(83.5)

In 2002 the writedown of goodwill related to our Information Technology segment reflected the soft IT market conditions and the weak performance of our Information Technology segment at that time.

In 2003 we continued our review of portfolio investments initiated in 2002 and as a result of further impairments in value wrote-down our investments and related assets.

Miscellaneous income includes various sundry items, such as the gain (loss) on sale of property, netted with interest income. The increase in 2003 miscellaneous income over the prior year is due to an increase in interest earned relating to the settlement of prior years' claims for Scientific Research and Experimental Development investment tax credits. On a quarter over quarter basis the interest earned in 2002 was greater than in 2003.

Interest charges

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Interest charges	\$ 20.8	\$ 22.7	(8.4)	\$ 83.1	\$ 90.3	(8.0)

Interest charges have decreased for the quarter and year in comparison to the same periods in the prior year. Telecommunications repaid \$72.5 million in debentures and bonds in the first seven months of 2003, reducing its interest expense by \$1.6 million and \$6.1 million over the fourth quarter and year in 2002 respectively. The remainder of the decrease relates to the Information Technology segment and is due primarily to a \$35.8 million reduction in the outstanding balance on its operating line in 2003.

Calculation of effective income tax rate

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Net income from continuing operations	\$ 45.4	\$ 2.2	-	\$ 194.9	\$ 151.7	28.5
Addback:						
Income taxes	39.7	49.6	(20.0)	137.6	157.3	(12.5)
Non-controlling interest	0.3	0.5	(40.0)	0.5	1.2	(58.3)
Net income from continuing operations before income taxes	\$ 85.4	\$ 52.3	63.3	\$ 333.0	\$ 310.2	7.4
Effective income tax rate	46.47%	94.88%	(51.0)	41.33%	50.70%	(18.5)

The consolidated income tax provision decreased despite an increase in net income from continuing operations due to the decline in the effective income tax rate. The decline in the rate is mainly attributable to lower statutory rates in 2003 compared to 2002 and non-deductible writedown of goodwill in 2002 as detailed in the "Factors impacting effective income tax rate" table.

Factors impacting effective income tax rate

For the period ended December 31

	Three months		Twelve months	
	2003	2002	2003	2002
Statutory income tax rate (including surtax)	39.69 %	42.47 %	39.00 %	42.47 %
Federal large corporation tax	1.39	2.77	0.54	0.86
Tax rate change - future asset	(5.27)	(3.25)	(1.77)	(2.30)
Non-taxable loss (gain)	(1.11)	4.16	(0.37)	1.67
Non-deductible goodwill	0.05	49.28	0.05	6.61
Benefit of non-capital losses not recognized	3.59	3.15	1.27	0.42
Other permanent differences	8.13	(3.70)	2.61	0.97
Effective income tax rate	46.47 %	94.88 %	41.33 %	50.70 %

Non-controlling interest

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(Reclassified)			(Reclassified)	
Non-controlling interest	\$ 0.3	\$ 0.5	(40.0)	\$ 0.5	\$ 1.2	(58.3)

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

Net income (loss) and basic earnings per share

For the period ended December 31

(millions of dollars except per share amount)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Net income (loss):						
Continuing operations	\$ 45.4	\$ 2.2	-	\$ 194.9	\$ 151.7	28.5
Discontinued operations	100.4	(6.7)	-	111.3	25.9	-
Total net income (loss)	\$ 145.8	\$ (4.5)		\$ 306.2	\$ 177.6	72.4
Basic earnings per common share:						
Continuing operations	\$ 0.32	\$ -	-	\$ 1.35	\$ 1.02	32.4
Discontinued operations	0.75	(0.05)	-	0.81	0.19	-
Total basic earnings per common share	\$ 1.07	\$ (0.05)	-	\$ 2.16	\$ 1.21	78.5

Continuing operations

In 2002, net income from continuing operations was negatively impacted by \$60.0 million due to transactions outside of our normal operations:

- \$50.0 million writedown of goodwill related to xwave in the fourth quarter;
- \$7.4 million writedown of xwave assets, net of tax, in the third quarter;
- \$4.5 million writedown of investments, net of tax, in the second quarter; and
- \$1.9 gain on disposal of investments, net of tax, in the second quarter.

In 2003, net income from continuing operations was negatively impacted by \$21.0 million due to transactions outside of our normal operations:

- \$8.7 million xwave restructuring charge, net of tax, in the third and fourth quarters; and
- \$12.3 million writedown of investments, net of tax, in the fourth quarter.

From time to time earnings per share is impacted by events which are outside the normal course of operations. The impact of such events in 2003 and 2002 is summarized in the "Earnings per common share analysis" table.

Earnings per common share analysis

For the period ended December 31

	Three months			Twelve months		
	2003	2002	\$ change	2003	2002	\$ change
		(reclassified)			(reclassified)	
Continuing day-to-day activities	\$ 0.41	\$ 0.36	\$ 0.05	\$ 1.50	\$ 1.46	\$ 0.04
Net impact of items outside the normal course of operations:						
Writedown of goodwill	-	(0.36)	0.36	-	(0.36)	0.36
xwave asset impairment	-	-	-	-	(0.05)	0.05
Writedown of portfolio investments and related assets	(0.09)	-	(0.09)	(0.09)	(0.03)	(0.06)
xwave restructuring charge	-	-	-	(0.06)	-	(0.06)
Earnings per common share from continuing operations	\$ 0.32	\$ -	\$ 0.32	\$ 1.35	\$ 1.02	\$ 0.33

Included in the continuing day-to-day activities is the impact of pension expense.

Impact of net pension benefits expense on earnings per common share

For the period ended December 31

	Three months			Twelve months		
	2003	2002	\$ change	2003	2002	\$ change
Impact of net pension benefits expense	\$ (0.06)	\$ (0.01)	\$ (0.05)	\$ (0.23)	\$ (0.05)	\$ (0.18)

Discontinued operations

Our exit from non-core businesses has resulted in the reclassification of current and prior period results of these businesses as discontinued operations. In 2003, the divestiture of some of these companies has improved financial results from discontinued operations as the gains or losses on the sale of these businesses are recorded in addition to operating activities prior to their disposition. The after tax impacts of the gain or loss on disposition were as

follows; \$90.1 million gain on Stratos, \$5.6 million gain on AMI, \$10.9 million gain on iMagicTV, \$2.0 million loss on SableCom and the loss on Prexar was not material. In 2002, the annual results of discontinued operations reflect the activities of the businesses as well as a \$32.5 million dilution gain on Stratos, a \$12.7 million gain on foreign exchange net of non-controlling interest and investment writedowns of \$19.7 million, net of tax.

Outlook for 2004 - Net income

Our commitment to maximizing shareholder value will be met through efforts to grow our profitability and generate cash from operations. We anticipate increased operating costs in 2004 to support growth in our business, pension expense increases and inflationary increases. These negative impacts will be mitigated through our increased focus on driving profitability and productivity and the realization of the full year impact of savings associated with xwave's downsizing and restructuring activities in 2003.

Financial and capital management

Summary of consolidated cash flows

Cash and short-term investments at December 31, 2003 were \$365.3 million, up from \$178.2 million at December 31, 2002. Proceeds received on the sale of Stratos in December 2003 of \$339.8 million contributed to the high year end cash balance. Part of these proceeds were used to make a significant extra pension funding contribution of \$30.0 million in December 2003 and a further \$25.0 million will be paid in January 2004. Throughout 2003 we generated strong cash flow and deployed cash that was not required in the normal course of our operations in a manner consistent with our objective of returning value to our shareholders. This involved the buyback of common shares under our NCIB programs in order to optimize our cost of capital while keeping our debt ratio at an appropriately conservative level. In addition we paid increased dividends to our shareholders, invested in capital programs that will generate economic profit, repaid debt and funded pension obligations.

Operating activities

Summary of cash flows from operating activities

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Net income from continuing operations	\$ 45.4	\$ 2.2	-	\$ 194.9	\$ 151.7	28.5
Add non-cash items	154.0	174.3	(11.6)	441.1	458.5	(3.8)
Change in non-cash working capital	(21.2)	(9.6)	120.8	110.8	(38.5)	-
Cash from continuing operations	\$ 178.2	\$ 166.9	6.8	\$ 746.8	\$ 571.7	30.6

Cash generated from operating activities has increased over the prior year due to an increase in net income from continuing operations and our continued focus on reducing our investment in working capital to improve financial flexibility.

Change in non-cash working capital

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Accounts receivable	\$ (9.8)	\$ 1.4	-	\$ (3.4)	\$ 16.9	-
Income and other taxes payable	(36.0)	(21.9)	64.4	84.1	(1.7)	-
Prepaid expenses	17.0	19.7	(13.7)	(8.6)	4.0	-
Inventory	(1.7)	(4.2)	(59.5)	(0.3)	(3.5)	(91.4)
Accounts payable and other liabilities	9.3	(4.6)	-	39.0	(54.2)	-
Change in non-cash working capital	\$ (21.2)	\$ (9.6)	120.8	\$ 110.8	\$ (38.5)	-

During 2003 cash generated from working capital was \$110.8 million. Income and other taxes have contributed positively to cash from working capital with \$73.0 million of tax refunds received during 2003. These tax refunds resulted from implementation of tax planning strategies, the settlement of prior years' claims for Scientific Research and Experimental Development investment tax credits and the collection of outstanding prior period tax refunds. The implementation of a transaction that resulted in the realization of cash benefits from the tax savings associated with prior period non-capital losses, offset by the reduction to current income tax liability resulting from pension contributions during the year, contributed to the remaining positive contribution from income and other taxes for the year.

Prudent management of working capital balances continued to be a priority throughout 2003, resulting in improvements in accounts receivable and accounts payable days outstanding. The improvement in accounts payable days outstanding resulted in an absolute increase in accounts payable and additional cash flow; however growth in revenues resulted in increased

accounts receivable balances despite the improvement in our accounts receivable days outstanding.

Financing activities

Summary of cash flows from financing activities

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Repayments of notes payable and bank advances	\$ (39.8)	\$ (39.7)	0.3	\$ (28.8)	\$ (52.0)	(44.6)
Proceeds (repayments) of long-term debt	(0.3)	(3.8)	(92.1)	(74.3)	45.6	-
Proceeds from issue (repurchase) of common shares	(82.2)	(3.5)	-	(195.4)	10.4	-
Preferred and common share dividends	(37.0)	(36.9)	0.3	(148.0)	(100.9)	46.7
Other financing activities	-	-	-	(4.6)	(16.8)	(72.6)
Cash from (used in) financing	\$ (159.3)	\$ (83.9)	89.9	\$ (451.1)	\$ (113.8)	-

Cash used in financing activities in 2003 has been largely related to repayment of long-term debt, common share repurchases and payment of dividends.

Liquidity and financing resources

We maintain lines of credit totalling \$557.0 million in aggregate with our bankers, of which \$350.0 million is a committed facility supporting our commercial paper program, \$150.0 million is the total of our uncommitted operating lines and \$57.0 million in operating lines of credit within our segments. There were no balances outstanding under our commercial paper program or uncommitted operating lines as at December 31, 2003.

Telecommunications maintains bank operating lines of credit totalling \$42.0 million, which had \$4.5 million outstanding as at December 31, 2003 compared to \$3.5 million at December 31, 2002. The most recent debt issued was on January 15, 2002, when a \$100.0 million 5-year note was issued under a shelf prospectus for the issue of new Medium Term Notes. The shelf prospectus expired in May 2003 and was not renewed at that time, as we do not foresee any need for new borrowings in the capital markets for the next year. A \$65.0 million debenture matured and was repaid on June 16, 2003 and \$7.5 million of first mortgage bonds were called and repaid on July 28, 2003. The next scheduled debt maturity is a \$100.0 million medium term note issue in October 2004, which we anticipate repaying at that time out of operating cash flows.

Information Technology has reduced its operating and acquisition lines of credit from \$75.0 million at December 31, 2002 to an operating line of credit for \$15.0 million at December 31, 2003. There was \$12.9 million outstanding at December 31, 2003 on this line of credit compared to a balance of \$46.0 million at December 31, 2002.

Consolidated capital structure

<i>(millions of dollars)</i>	December 31, 2003		December 31, 2002	
			(reclassified)	
Common equity	\$ 1,451.6	54.7%	\$ 1,498.3	53.5%
Preferred equity	172.3	6.5%	172.3	6.1%
Non-controlling interest	4.1	0.1%	3.3	0.1%
Long-term debt, including current portion	990.1	37.3%	1,064.4	38.0%
Short-term debt, including bank indebtedness and interest payable	36.1	1.4%	64.6	2.3%
	\$ 2,654.2	100.0%	\$ 2,802.9	100.0%

The percentage of debt to total capital was 38.7 per cent at December 31, 2003 compared to 40.3 per cent at December 31, 2002. The reduction in this ratio is due to the reduction in debt outstanding being proportionately greater than the net reduction in our common equity as a result of the repurchase and cancellation of common shares under the NCIBs.

Corporate equity instruments

We issued common shares of \$2.2 million during the fourth quarter and \$9.0 million for the year, by way of our common shareholder dividend reinvestment and stock purchase plan, and the exercise of options under our employee stock option plan. Shares were purchased on the open market to fulfill the requirements of our employees' stock savings plan.

Purchases under the NCIB in effect from July 22, 2002 to July 21, 2003 were completed by June 30, 2003. We purchased all 1,600,000 shares permitted under this NCIB, purchasing and cancelling the balance of 1,335,700 common shares during the first six months of 2003 for an aggregate price of \$37.1 million.

On July 30, 2003, we announced acceptance by the Toronto Stock Exchange ("TSX") of notice of our intention to purchase, from time to time, up to 6,925,000 of our issued and outstanding common shares which totalled 138,517,283 as at July 30, 2003. These shares represent approximately 5.0 per cent of the total issued and outstanding shares. Under this NCIB we are able to acquire, from time to time, our common shares for cash at the market price through the facilities of the TSX. Bell Canada, our majority shareholder, is selling shares into the NCIB on a pro-rata basis and the TSX has granted an exemption to permit us to make purchases from Bell Canada on that basis. Purchases of shares under this NCIB may be made during the twelve month period commencing August 6, 2003 and ending on August 5, 2004. All common shares of Aliant purchased pursuant to this NCIB will be cancelled. Our board of directors believe that such purchases are in the best interest of our shareholders and a desirable use of corporate funds. As of December 31, 2003, we had purchased for cancellation 5,192,870 common shares under this NCIB at an aggregate price of \$163.8 million.

Despite the lower number of shares outstanding the total dividends that we paid to our common shareholders increased \$1.1 million for the fourth quarter and \$15.6 million for the year over 2002 levels to \$36.9 million and \$147.5 million, respectively. Based on our demonstrated financial strength, our board of directors approved an increase in the quarterly dividend of \$0.025 cents per common share in the third quarter of 2002 and another \$0.025 cent increase to the quarterly dividend effective with the June 30, 2003 dividend, raising the annual rate to \$1.10 per common share. Dividends paid that were subsequently included in

the dividend reinvestment plan were \$2.2 million and \$9.0 million for the three months and year ended December 31, 2003 respectively. Reinvestment was higher in the prior year as there was greater participation in the plan.

We paid preferred shareholder dividends of \$2.4 million in the fourth quarter and \$9.5 million in 2003, consistent with the amounts paid in the same periods in 2002.

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

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

Issued

(millions of dollars)

	January 26, 2004	
	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172.3
Common shares	133,559,869	1,035.3
		\$ 1,207.6

	January 26, 2004	
	Number of options	Weighted average exercise price
Options outstanding	2,336,280	\$ 30.06
Options exercisable	1,594,390	\$ 30.48

Between December 31, 2003 and January 26, 2004 we purchased for cancellation 57,307 common shares under this NCIB at an aggregate price of \$1.8 million.

Investing activities

Summary of cash flows from investing activities

For the period ended December 31

<i>(millions of dollars)</i>	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Capital investments	\$ (101.0)	\$ (87.6)	15.3	\$ (335.8)	\$ (376.2)	(10.7)
Other investing activities	(81.7)	(0.5)	-	(100.0)	5.5	-
Cash from (used in) investing	\$ (182.7)	\$ (88.1)	107.4	\$ (435.8)	\$ (370.7)	17.6

Cash used in investing activities consists mainly of capital investments. Cash used in other investing activities for the year ended December 31, 2003 has increased significantly as it reflects a \$91.4 million increase in pension and other post employment benefit funding (pension obligations discussed under "other financial arrangements") over 2002 levels. In addition, there were fewer disposals of assets in 2003, therefore less proceeds by \$9.7 million and lower deferred charges in general.

Capital investments

For the period ended December 31

(millions of dollars)	Three months			Twelve months		
	2003	2002	% change	2003	2002	% change
		(reclassified)			(reclassified)	
Telecommunications	\$ 98.6	\$ 85.8	14.9	\$ 330.7	\$ 368.8	(10.3)
Information Technology	2.1	1.3	61.5	3.4	6.1	(44.3)
Other	0.3	0.5	(40.0)	1.7	1.3	30.8
	\$ 101.0	\$ 87.6	15.3	\$ 335.8	\$ 376.2	(10.7)

Telecommunications

Telecommunications' capital investment for the fourth quarter was higher than the same period in 2002 due simply to the timing of expenditures. Capital spending for 2003 is \$38.1 million lower than in 2002. Wireline and network investment have decreased by \$41.9 million and \$13.3 million respectively, offset by a \$10.3 million increase in wireless spending and a \$6.8 million increase for vehicle lease buyouts.

The decrease in wireline spending relates predominantly to broadband. The decrease in the 2003 broadband investment recognizes the significant investment in Digital Subscriber Line port capacity in 2002 and a reduction in costs from suppliers for customer premises equipment such as modems. The lower network investment level in 2003 has been largely facilitated by the completion of an extensive voice and data network build in 2002, accounting for \$18.0 million of the 2002 capital investment. The investment in wireless has increased as the digital footprint expansion continued and an increased level of investment in wireless network capacity was required to meet the robust demand experienced this year. First time investment of \$9.0 million in the 1XRTT platform also contributed to growth of the wireless capital investment.

Information Technology

Information Technology's capital investment for the three months ended December 31, 2003 was higher than the same period in 2002. During the last quarter of 2003 xwave invested in a number of software products including a project management software and methodology to enhance service delivery to clients. Capital investments for 2003 are lower than in 2002. Throughout 2002 an extensive business process re-engineering project, including an upgrade of internal business systems, occurred that resulted in a significant capital investment. In 2003, tight controls were maintained over Information Technology's capital investments in order to bring the business model in line with the current and projected information technology market conditions. The information technology industry is not highly capital intensive and capital needs are driven largely by changes in the employee base, the data processing business and customer support requirements.

Outlook for 2004 - Cash flow

We anticipate that we will continue to generate strong cash flow in 2004 unless, and until, there are new opportunities to support our strategy either through expanded capital investments in, for instance, new technology or through strategic investment in operations complementary to our core business. We anticipate generating cash and cash equivalents from (used in) operations, including changes in working capital (as defined by Canadian GAAP) of over \$550.0 million.

We expect that we will have sufficient cash flow from operating activities to provide for necessary pension funding, dividend payments, repurchases of shares under the existing NCIB, repayment of debt, required capital investments and scheduled contractual obligations. Defined benefit pension plan funding required in 2004 is anticipated to be in the range of \$50 to \$70 million. We plan to buyback the remaining 1,732,130 shares allowed under our existing NCIB and will consider future buyback programs or dividend increases as our financial position and strategic direction allows. The only debt repayment that we anticipate for 2004 is a \$100 million bond series when it matures in October 2004.

Our capital investment is anticipated to be similar to 2003. In the Telecommunications segment we will continue required investment in our existing network, ongoing expansion of our digital wireless and high-speed Internet coverage, evolving to remain a next generation service provider and investing in improving our processes. Capital investment in wireline is expected to decline slightly in 2004 but will incorporate significant funding for the expansion of our high-speed Internet coverage and other investment in service growth, contact centre growth, retail store upgrades, and new product development and introduction. Core network investment will reflect the continuing trend of lower investment requirements associated with our legacy network. Capital spending for wireless is decreasing as requirements for 1XRTT and digital coverage expansion will trend materially lower based on 2003 investment. Wireless investment will focus on service growth, digital coverage expansion and a modest investment in wireless enhanced services. These decreases in capital requirements will be more than offset by other investments required to support our strategy, such as the wireless customer care and billing system upgrade, VoIP based network and other process improvement initiatives. Information Technology's capital investment will also increase as we continue to upgrade and respond to client requirements in the infrastructure services area as well as completing the upgrade and implementation of internal business systems.

Other financial arrangements

Off-balance sheet arrangements

We use a transfer of receivables arrangement whereby we sell certain accounts receivable to a securitization trust. We consider this to be an effective and low-cost working capital management tool. The terms of the purchase and sale arrangement and accounting policy that we follow are described in notes 1 and 3 to the unaudited interim consolidated financial statements for the period ended December 31, 2003.

Our retained interest in securitized accounts receivable as at December 31, 2003 was \$28.7 million (2002 - \$29.9 million) and is included in deferred charges. This retained interest equals the amount of overcollateralization in the receivables transferred, calculated as the excess of amounts transferred of \$158.7 million (2002 - \$164.9 million) over the cash proceeds of \$130.0 million (2002 - \$135.0 million). A reduction in the amount of receivables eligible for sale to the trust, due to improved collection activity, caused a \$5.0 million net reduction in the proceeds to us during the second quarter of 2003.

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

Contractual obligations

For the period ended December 31

(millions of dollars)	Payments due by						
	2004	2005	2006	2007	2008	Thereafter	
Long-term debt	\$ 100.1	\$ 150.2	\$ -	\$ 100.0	\$ -	\$ 635.0	
Capital lease obligations	1.4	1.5	1.8	-	-	-	
Operating leases	27.5	27.5	27.5	27.7	27.7	162.7	
Notes payable and bank advances	17.8	-	-	-	-	-	
Purchase obligations ¹	57.4	37.3	17.4	10.5	6.1	15.9	
Other long-term obligations ²	-	-	-	-	-	-	
Total contractual obligations	\$ 204.2	\$ 216.5	\$ 46.7	\$ 138.2	\$ 33.8	\$ 813.6	

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

² No other long-term obligations have been identified. Other long-term obligations consist of other long-term liabilities reflected on our Company's balance sheet (not including pension related items).

Use of derivative financial instruments

We periodically use certain derivative financial instruments in the management of foreign currency and interest rate exposures. Further information concerning our policy and use of derivative financial instruments is contained in note 1 to the unaudited interim consolidated financial statements for the period ended December 31, 2003.

The following derivative financial instruments were outstanding at December 31, 2003:

- Interest rate swaption agreements involving the monetization of call options are embedded in certain long-term debt obligations of Telecommunications. \$9.4 million in unamortized premium income is recorded as a deferred credit on the balance sheet at December 31, 2003 related to the swaptions. Since inception of the agreements, interest rates have changed such that cancellation of the swaptions at December 31, 2003 would have required a payment of \$25.0 million to the financial institution counterparty.
- A \$100.0 million fixed-to-floating interest rate swap agreement relating to Telecommunications long-term debt outstanding and maturing in May 2011. This swap has the effect of exchanging the 6.80 per cent fixed rate of interest on this debt issue

for a floating rate of interest tied to three-month banker's acceptance rates. This swap was entered into in order to adjust the mix of floating and fixed rate debt utilized within our targeted capital structure. The fair value of the swap transaction was consistent with its carrying value at December 31, 2003.

Pension obligations

We perform a valuation on our non-contributory defined benefit plans at least every three years to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits. During the third quarter of 2003, we completed the full actuarial valuation of our registered defined benefit pension plans. This valuation identified total minimum funding requirements of approximately \$63.7 million for 2003, reflective of the negative impacts of equity market returns and other factors. In anticipation of this we began making special deficit-funding contributions to the plans in the amount of \$15.6 million in the first half of 2003, with the remaining contribution of \$48.1 million made in the second half of 2003. In addition, we made an extra \$30.0 million in cash contribution in December to address the plan deficit and a further \$25.0 million contribution was committed to by our board of directors in December. This cash contribution was made in the first weeks of January 2004. This brings total 2003 pension funding to \$124.7 million, including a \$2.0 million contribution made in the first quarter that related to 2002 and \$4.0 million in funding to our non-registered pension plans. Also, as a result of the actuarial valuation, we revised our estimate of 2003 pension expense to include the amortization of additional actuarial losses identified in the valuation. Refer to the "Significant accounting policies" section under Post Employment Benefits for a discussion of the effect on pension expense.

Related party transactions

In the normal course of business we engage in numerous transactions with our majority shareholder, Bell Canada. Refer to note 19 of the unaudited interim consolidated financial statements for the period ended December 31, 2003 for greater detail on our related party transactions.

Significant accounting policies

Our consolidated financial statements have been prepared in accordance with Canadian GAAP. Greater detail on our significant accounting policies is provided in note 1 to the unaudited interim consolidated financial statements for the period ended December 31, 2003. The accounting policies and methods used are consistent with those in effect in the most recent annual audited financial statements except as otherwise noted under "Accounting policies adopted in 2003".

Use of key assumptions and estimates

The preparation of financial statements in conformity with Canadian GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements. We constantly evaluate these estimates and assumptions.

We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty, thus the amounts currently reported in the financial statements could prove to be inaccurate in the future.

We consider the estimates and assumptions described in this section to be an important part in understanding the financial statements. These estimates and assumptions rely heavily on management's judgment, are based on factors that are inherently uncertain and thus are subject to change.

Post Employment Benefits

Aliant and its subsidiaries provide certain pension plans and other non-pension post employment benefits to qualified employees. The amounts reported in the financial statements in relation to the defined benefit plans and other non-pension post employment benefits are determined using actuarial calculations that are based on management's assumptions. Significant actuarial assumptions include the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, and the per capita cost of covered health care benefits. These assumptions are disclosed in notes 1 and 6 to the unaudited interim consolidated financial statements for the period ended December 31, 2003. We review the appropriateness of our assumptions on an annual basis. We reduced the assumed rate of return on pension assets from 9.0 per cent to 7.5 per cent and lowered the discount rate used to calculate pension liabilities from 7.0 per cent to 6.75 per cent, commencing December 31, 2002. During 2003 we increased the assumed rate of growth of salaries from 3.0 per cent to 3.5 per cent. All of these changes represent more conservative estimates of the assumptions. We believe that these assumptions continue to be appropriate, but variances between assumptions and actual results could impact the accrued benefit obligation and related expense. We disclose the sensitivity of the key assumptions in note 6 to the unaudited interim consolidated financial statements for the period ended December 31, 2003. The change in pension assumptions adopted December 31, 2002 and during 2003 translates into increased defined benefit plan pension expense and reduced pre-tax earnings for the fourth quarter and year ended December 31, 2003 of \$5.4 million and \$21.7 million respectively.

We have also disclosed the components of our annual pension expense in note 6 to the unaudited interim consolidated financial statements for the period ended December 31, 2003. These components include: current service cost, interest on the accrued benefit obligation, the expected rate of return on plan assets and the amortization of past actuarial losses. In 2003 we have amortized a portion of the accumulated actuarial losses in our pension plans. Our accounting policies with respect to the recognition of amortization on these losses (or gains should they arise) follow Canadian GAAP and recognize that future investment returns on plan assets and actuarial changes in the plans can influence the amount of the loss and can even reverse it over time. Specifically, the amortization occurs when the size of the actuarial loss (or gain) exceeds a 'corridor', which is 10 per cent of the greater of the accrued benefit obligation and the market-related value of the plan assets. Using the market-related value of the assets smoothes the effect of actual gains and losses in the plan assets over a three-year period. The effect of these accounting policies is to limit the amount of amortization of both gains and losses recognized in our earnings except in situations when they become exceedingly large. We have unamortized net actuarial losses totalling \$397.5 million in our pension plans at the end of 2003. This balance reflects the amortization of \$8.9 million of the losses through pension expense in 2003. In 2004 we estimate that our pension expense will include loss amortization in the range of \$18.0 to \$20.0 million.

The impact of the changes in actuarial assumptions, along with the amortization of accumulated actuarial losses of prior years, an increasing pension obligation, a lower value for pension plan assets after capital market losses in 2001 and 2002 and higher pensionable earnings for employees have contributed to an annual pre-tax cost of approximately \$35.9 million for defined benefit plan pension expense in 2003. This expense is estimated to rise to approximately \$50.0 to \$58.0 million for 2004. The impact of prior year unamortized actuarial losses on future pension expense cannot be determined with certainty because it will be influenced by experience in future years. However, it is expected that pension expense will remain at least at the current level for the foreseeable future.

We also have defined contribution pension plans for qualified employees. These pension plans require us to contribute between 4 per cent and 6 per cent and our employees to contribute between 1 per cent and 6 per cent of a member-employee's pensionable earnings. Pension costs under these plans are recognized as employees render services during the year. The total expense for the defined contribution pension plans is equal to our Company's required contributions and was \$9.0 million for 2003 (2002 - \$8.0 million).

Allowance for doubtful accounts

We expect that a certain portion of required customer payments will not be made and maintain an allowance for these doubtful accounts. This allowance is based on our estimation of the likelihood of recovering our accounts receivable. This is based on past experience and incorporates current and expected collection trends. If economic conditions, actual results or specific industry trends differ from our expectations we will adjust our allowance for doubtful accounts and our bad debt expense accordingly.

Long-lived assets

One significant factor in determining our depreciation and amortization expense is the estimated useful life of long-lived assets. Upon acquiring an asset we estimate the asset's useful life. Our estimate is based on past experience with similar assets and takes into account our expectations of technological or other changes that may impact the usefulness of the asset. It is standard practice for us to review our estimates of useful life on an ongoing basis. If unanticipated technological or other changes occur we might have to revise our estimate of the asset's useful life. This could result in a change in the depreciation and amortization expense in future periods or an impairment charge to reflect the writedown in value of the asset.

We annually review the value associated with the goodwill of all our reporting units to ensure that the fair value is greater than, or equal to, the carrying value. We also evaluate all long-lived assets for impairment whenever indicators of impairment exist. Accounting standards require that if the sum of expected future cash flows from a company asset is less than the reported value of the asset, an asset impairment exists and a writedown is required. The amount of impairment recognized is calculated by subtracting the fair value of the asset from the reported value of the asset. Any impairment to the value of these assets is charged to income in the period such impairment is determined.

We use the projected discounted cash flow method to measure fair value. We believe this method's estimates of future cash flows and fair value are reasonable. The assumptions are based on internal planning and reflect our best estimates. These assumptions are subject to inherent uncertainties that are beyond management's control, hence the results of the impairment test could be different if there is a change in assumptions or conditions. We are

unable to predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values that have been reported. There have been no events or changes in circumstances throughout 2003 that indicate impairment of our long-lived assets.

Restructuring and other charges

As circumstances require, we engage in restructuring activities to streamline our operations and improve productivity. The development of formal plans to execute these activities requires significant estimates for severance and other employee costs, lease cancellation and other exit costs. Restructuring is a complex process that can take several months or longer to complete, requiring a periodic reassessment of original estimates. In addition, we constantly evaluate whether the estimates of the remaining liabilities under our restructuring program are appropriate. As a result, we may have to change previously reported estimates when the payments are made or activities completed. There may also be additional charges for new restructuring initiatives.

Legal and regulatory contingencies

We may become involved in various litigation and regulatory proceedings in the normal course of our business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss. We accrue potential losses if we believe the loss is probable and can be reasonably estimated. Estimates of loss are based on consultation with legal counsel and involve analyzing potential outcomes and assuming various litigation and settlement strategies. Note 21 to the unaudited interim consolidated financial statements for the period ended December 31, 2003 presents a discussion of significant contingencies outstanding as at December 31, 2003.

Alternative acceptable accounting policies

Directory revenue and expense recognition

There are two alternative practices concerning the recognition of directory revenues and expenses: 1) recognize the revenue and expense upon issuance of the directory and 2) defer the revenue and expense and amortize over the period of circulation of the directory. We recognize the revenue upon issuance, as the requirements for performance are complete, we have no further obligations at that time and all related receivables become due. The revenues fluctuate from quarter to quarter based on the volume of directories issued, and are traditionally highest in the second quarter due to the timing of the release of directories in our large market areas. The matching principle is also adhered to as the related costs are expensed when the revenue is recognized.

Wireless customer acquisition costs

Our wireless customer acquisition costs include commissions and cellular phone subsidies (the amount by which the cost exceeds the sale price). There are two alternative accounting practices; 1) expense as incurred and 2) defer and amortize these costs over the life of the customer contract. We have chosen to defer and amortize these costs over the life of the customer contract as we feel this provides for a better matching of the costs with the future revenue stream being generated from the customer contract.

Accounting policies adopted in 2003

Stock-based compensation and other stock-based payments

The accounting standard issued by the CICA on stock-based compensation in late 2001 encouraged, but did not require, the use of the fair value method to account for stock-based awards, other than direct awards of stock, stock appreciation rights and similar awards with a cash settlement feature. In recognition of the demands of the financial community and the fact that standard setters in Canada and the United States were moving towards the adoption of mandatory fair value accounting, we began expensing stock-based awards issued to employees subsequent to December 31, 2002 using the fair value approach. Subsequent to our adoption of the fair-value method, the related standard was amended to require all companies to adopt this method. Our early adoption falls within the transitional provision that allows prospective application for all companies that elect to apply the fair value-based method for fiscal years beginning before January 1, 2004. Previously, this cost was estimated and disclosed in the notes to the financial statements but not recognized as an expense in the financial statements themselves. This accounting change resulted in an additional expense for the three months and twelve months ended December 31, 2003 of \$0.3 million and \$1.0 million, respectively.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted average assumptions for dividend yield, expected volatility, risk-free interest rate and expected life as disclosed in note 15 of the unaudited interim consolidated financial statements for the period ended December 31, 2003.

Future changes in accounting policies

Asset Retirement Obligation

The CICA issued a new handbook section 3110, Asset retirement obligations, which focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. This new section is effective for fiscal years beginning on or after January 1, 2004. At present, we have identified obligations relating to the dismantling of cellular transmission towers on leased property with a fair value of approximately \$19.0 million. However, we have not finalized our evaluation of the impact and the final fair value of the obligation could differ. We are currently evaluating the impact of this standard on our financial reporting.

Hedging relationships

The CICA issued Accounting Guideline 13, Hedging relationships, requiring that hedging relationships be adequately documented to qualify for hedge accounting. There will be no impact as we have already assessed and documented the effectiveness of our hedging relationships in accordance with this guideline. We have judged all hedging relationships to be effective and qualified for hedge accounting treatment.

Variable interest entities

The CICA issued Accounting Guideline 15, Consolidation of variable interest entities. We are currently evaluating the impact of this guideline on our financial reporting.

Risk and risk management

While management is confident about our long-term prospects, the risks and uncertainties identified here could have a negative effect on the financial condition or results of operations of our Company or our subsidiaries. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we presently consider insignificant to our consolidated operations.

General economic conditions

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

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

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

Changing technology

Our Telecommunications segment operates in an industry that experiences constant technological change, driven occasionally by rapid advances in technology, evolving industry standards, customer demands and short product lifecycles.

The technology environment which we operate in is experiencing an unprecedented rate of change. There is a risk in adopting selected technologies to serve our business needs, as investments may have shorter than anticipated product lifecycles due to sudden advances in the development of competing products or services. Failure to respond in a timely and effective manner could cause current products or services to become unmarketable or could cause prices to fall, resulting in reduced net income due to inventory write-offs and decreased revenues.

Open competition and the rapid pace of technological advancement fosters an environment where industry standards bodies are unable to keep up with these leading edge technology developments. Companies that choose to invest in these technologies are forced to adopt ad hoc standards. They may then incur the costs of significant re-engineering efforts to

accommodate final standards that eventually emerge or find that they have made an investment in products and services that have become unmarketable.

We are responding to the fast-pace of technological change by embracing new service development with strategic partners, accelerating new service introduction and developing an integrated growth plan to remain a next generation services provider. The success of new products is linked to the actions of regulators and customers, and the technology solutions that we use to introduce these new services. Considerable effort is expended to ensure we correctly interpret, predict and respond to regulators and customers. However, we are not immune to sudden or unanticipated changes in those parties' actions and choices. This may result in the failure of new services and products to meet expectations and result in lower than anticipated net income.

Increasing competition

Atlantic Canada is one of the most competitive regions for telecommunications services in North America. Virtually every aspect of our business is contested by a variety of competitors, of domestic and international origin or affiliation. While we continue to build plans focused on the Atlantic Canadian market inclusive of the competitive landscape, it is impossible to predict every change. The number and nature of competitors continues to grow, ranging from telecom-centric organizations, to cable companies, to Internet service providers, to system integrators offering IT and communications solutions.

Competition for local services continues to include varied competitors. Increased activity from national telecommunications competitors and cable companies for local service will continue to pressure pricing downward. New competitors' entry could significantly change the landscape for local service dependent upon the method of entry and pricing.

We continue to compete aggressively with a host of alternate carriers for all or a portion of customers' long distance business. The increased use of alternate communications means such as instant messaging and e-mail continues to impact the quantity of long distance per minute use and the related revenue we generate from it. The introduction of new long distance communication options or the increased use of existing alternatives can influence our long distance minute volume and the associated revenue.

Since the introduction of our wireless services we have prospered in the local competitive wireless environment. Competition is focused on bulk minute plans, aggressive handset pricing and handset selection. As innovation continues in this market competitive intensity is expected to continue increasing. The introduction of additional competitors and partnerships could further increase the competitive intensity already experienced in Atlantic Canada.

Internet competition from Internet service providers and cable companies continues to create pressure on Internet access pricing. These same providers are bundling Internet access with additional products ranging from Internet related products, to cable, and local telephone in an effort to create dominance within the household. Internet access prices will be amongst the lowest in North America, as competitors for dial-up continue their efforts to retain and attract customers through low-priced access bundles and high-speed providers bundle multiple services. While pricing is driven down Internet costs may increase as a direct result of the nature of customer usage and related network traffic.

Technology is rapidly changing the methods of entry for competitors to Atlantic Canada and the means for offering products and services. As new domestic and international competitors

seek out new opportunities, Atlantic Canada could become part of their plans through direct entry, partnership, or consolidation of industry players.

In general, competition can place our strategies, revenue, and net income at risk without adequate preparation. The entry and change of competitive threats is a business reality. It is for this reason that we constantly monitor our environment and assess the competitive landscape creating new and modifying existing plans to ensure our optimum position in the Atlantic market is maintained. We continue to mitigate competitive risk through continuous efforts to provide superior quality of service and product offerings in a cost-effective manner that are responsive to market needs, reliable and simple to access and use.

Changing regulations

The CRTC has taken steps to forbear from regulating prices for services offered in some competitive markets, such as long distance, wireless, and some data services. The federal government and the CRTC continue to focus on ensuring that there is a competitive Canadian environment for certain telecommunications services through continued regulation of certain services offered by incumbent local exchange carriers (ILECs), like us. In past years, our profitability has been negatively impacted by regulatory changes concerning price caps, the contribution regime and service bundling. The outcome of future regulatory reviews could have an impact on our future revenues and costs. The CRTC is currently reviewing a number of items that could significantly impact us. These items include potential restrictions on the ILECs' ability to bundle services, new floor price rules for ILECs' price-regulated services, the costs of certain services provided to competitors at cost-based rates, and a ruling on the deferral account mechanism (as discussed in note 21 to the unaudited interim consolidated financial statements for the period ended December 31, 2003).

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

It is apparent that the degree of regulation on our local service offerings is increasing. In 2003, the CRTC suspended any further approval of tariffs for win-back of customers and other types of promotions in the local wireline market. The CRTC is currently evaluating several applications of competitors to further restrict our ability to offer local services in competitive packages and bundles. If these competitor requests are granted, our market share in the major centers may be negatively affected.

In the fourth quarter of 2003, the CRTC issued a public notice that proposes changes in how floor prices will be determined for the regulated services of ILECs, how service bundles can be priced, and how volume and term contracts can be developed. Should the CRTC ultimately rule to increase the floor prices of our regulated services and bundles, it would make our prices for similar services less attractive than those of our competitors. Furthermore, if the CRTC alters the rules on volume and term contracts, it could make it more difficult for us to provide competitive pricing proposals to tenders issued by large customers. The CRTC public notice to review floor prices for the ILECs is a major new

regulatory issue that could affect our pricing of local services in a fundamental way. This new proceeding creates uncertainty and risk for us in 2004 and going forward.

The restrictions on pricing and packaging of our products and services make it increasingly difficult to respond to rapidly evolving customer demands and competition from competitive local exchange carriers.

The federal government is also giving consideration to eliminating the foreign ownership restrictions for telecommunications carriers, which may result in increased competition from foreign companies with greater access to capital. Changing CRTC regulation may impact our ability to compete and as a result negatively impact net operating revenues. We will continue our dialogue with the CRTC in an attempt to increase bi-lateral understanding of key business and regulatory initiatives.

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

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

Improving profitability and productivity

We intend to continue to implement profitability and productivity initiatives and manage the inherent “change management” risks associated therewith. Many of these initiatives result from our continued focus on alignments with strategic partners, business process improvements and restructuring activities. If our initiatives are unsuccessful there could be a negative impact on net income.

Renegotiating labour agreements

Our employees play an integral role in our ability to provide a competitive advantage based on quality of service. The Council of Atlantic Telecommunications Unions (“CATU”) represents approximately 4,200 of Aliant Telecommunications’ unionized employees. These employees have been without a collective agreement since December 31, 2001. We have been involved in negotiations with CATU since March 4, 2002. Based on our application for conciliation in early September 2003, Human Resources Development Canada (HRDC) has appointed two conciliation officers to assist with the bargaining process. This conciliation process began on October 7, 2003. On December 1, 2003, the workers bargaining through the CATU voted to give their negotiating committee the authority to call a strike “if and when necessary”. Negotiations for 2003 ended positively on December 17, 2003, as did the most recent round of scheduled negotiations, which ended on January 22, 2004. While no agreement has been reached at this time, progress has been made on several outstanding issues and both sides have agreed to extend negotiations through this conciliation process and are meeting again from January 28, 2004 until February 6, 2004. Conciliation can be extended beyond that date if both parties mutually agree to do so, on or before February 6,

2004. A new collective agreement will enable both unionized employees and management to more completely focus on serving customers and meeting business objectives in the coming year. The process of renegotiating collective agreements could result in higher labour costs or work disruptions thus affecting our operating results and financial condition.

Other legal and regulatory matters

Pending or future litigation, regulatory initiatives or proceedings, or new or changing laws or regulations or changes in their interpretation could have a material and negative effect on us. We accrue potential losses as previously noted under “Legal and regulatory contingencies” in the “Significant accounting policies” section. If the resolution of a legal or regulatory matter results in a judgment against us that has not been accrued, it could have a significant and adverse effect on our results of operations, cash flows and financial position in the period in which the judgment or settlement occurs.

Capital management risks

The financial transactions we participate in may expose us to currency, interest rate, credit, securitization and financial instrument risks. A more detailed description of our exposure to these risks and the procedures in place to mitigate these risks is described in note 17 to the unaudited interim consolidated financial statements for the period ended December 31, 2003.

Forward-looking statements

Certain statements contained in this document and in particular the statements contained in the “Risk and risk management”, “Significant accounting policies” and “Outlook” sections, constitute forward-looking statements. These forward-looking statements relate to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate and management’s beliefs and assumptions regarding these markets. In some cases forward-looking statements may be identified by words such as “anticipate”, “believe”, “could”, “expect”, “plan”, “seek”, “may”, “intend”, “will”, “target”, “goal” and similar expressions. These statements are subject to important risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate. Some of the factors that could cause results or events to differ materially from current expectations include but are not limited to those factors identified in the “Risk and risk management” section, many of which are largely beyond our control. Should any of these factors impact us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the results or events predicted in management’s discussion and analysis may differ materially from actual results or events. Consequently, all of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences. Readers should not place undue reliance on any forward-looking statements. Further, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or any other occurrence.

Supplementary financial information

Consolidated quarterly financial information

For the period ended December 31

(millions of dollars except per share amounts)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2003	2002	2003	2002	2003	2002	2003	2002
		(reclassified)		(reclassified)		(reclassified)		(reclassified)
Total operating revenues	\$ 505.9	\$ 499.4	\$ 519.4	\$ 524.5	\$ 515.5	\$ 509.4	\$ 528.6	\$ 513.2
Net income from continuing operations	\$ 37.5	\$ 43.4	\$ 61.3	\$ 61.3	\$ 50.7	\$ 44.8	\$ 45.4	\$ 2.2
Net income (loss) from discontinued operations	1.4	10.1	9.3	23.2	0.2	(0.7)	100.4	(6.7)
Net income (loss)	\$ 38.9	\$ 53.5	\$ 70.6	\$ 84.5	\$ 50.9	\$ 44.1	\$ 145.8	\$ (4.5)
Preferred share dividends	2.4	2.4	2.4	2.4	2.3	2.4	2.4	2.4
Net income (loss) applicable to common shares	\$ 36.5	\$ 51.1	\$ 68.2	\$ 82.1	\$ 48.6	\$ 41.7	\$ 143.4	\$ (6.9)
Basic earnings per common share:								
Continuing operations	\$ 0.25	\$ 0.30	\$ 0.42	\$ 0.42	\$ 0.36	\$ 0.30	\$ 0.32	\$ -
Discontinued operations	0.01	0.07	0.07	0.17	-	-	0.75	(0.05)
Total basic earnings per common share	\$ 0.26	\$ 0.37	\$ 0.49	\$ 0.59	\$ 0.36	\$ 0.30	\$ 1.07	\$ (0.05)
Diluted earnings per common share:								
Continuing operations	\$ 0.25	\$ 0.30	\$ 0.42	\$ 0.42	\$ 0.36	\$ 0.30	\$ 0.32	\$ -
Discontinued operations	0.01	0.07	0.07	0.17	-	-	0.74	(0.05)
Total diluted earnings per common share	\$ 0.26	\$ 0.37	\$ 0.49	\$ 0.59	\$ 0.36	\$ 0.30	\$ 1.06	\$ (0.05)

Factors impacting comparability

Telecommunications operating revenues have generally increased quarter over quarter due to significant growth in wireless and Internet services, which has been partially offset by lower revenue from local and long distance services due to increased competition, CRTC regulations and technological advancements. Fluctuations are mainly a result of product and other revenues as the recognition of the majority of our directory revenues occurs in the second quarter coinciding with the timing of the issuance of the majority of our directories and the timing of products sales which are typically large and sporadic in nature.

Information Technology product sales are typically higher in the first quarter due to government year-end spending. Service revenues are contract based and fluctuate in accordance with the size and number of outstanding contracts.

Consolidated net income from continuing operations fluctuates quarter over quarter due to the timing of such items as identified in the “Net income and basic earnings per share” section.

Consolidated annual financial information

For the years ended December 31

(millions of dollars except per share amounts)	2003	2002	2001
		(reclassified)	(reclassified)
Operating revenues	\$ 2,069.4	\$ 2,046.5	\$ 2,083.4
Net income from continuing operations	\$ 194.9	\$ 151.7	\$ 173.9
Net income from discontinued operations	111.3	25.9	(53.0)
Net income	\$ 306.2	\$ 177.6	\$ 120.9
Basic and diluted earnings per common share			
Continuing operations	\$ 1.35	\$ 1.02	\$ 1.21
Discontinued operations	0.81	0.19	(0.38)
Total basic and diluted earnings per common share	\$ 2.16	\$ 1.21	\$ 0.83
Dividends declared per common share	\$ 1.10	\$ 1.00	\$ 0.90
Total assets	\$ 3,066.3	\$ 3,741.7	\$ 3,844.3
Total long-term debt (including current portion)	\$ 990.1	\$ 1,064.4	\$ 1,018.8

Factors impacting comparability

The comparability of 2003 with 2002 operating results are discussed in more depth throughout this document. The following are specific items discussed that affect comparability.

Goodwill

Prior to January 1, 2002, goodwill was amortized on a straight line basis over the estimated useful life. Since then goodwill is no longer amortized but assessed annually for impairment. In 2001, we recorded \$25.4 million relating to the amortization of goodwill and in 2002 we recorded a writedown of goodwill associated with our Information Technology segment of \$50.0 million.

CRTC regulations

Changes in CRTC regulations have caused significant fluctuations in operating results, as a result of such changes 2002 net income was \$41.0 million lower than 2001 and in 2003 net income was \$8.2 million lower than in 2002.

Writedowns

From time to time, significant writedowns are required to align the book value of assets with the net realizable value. There were no significant writedowns in 2001. However, there were several writedowns in 2002 and 2003 as outlined in the "Net income and basic earnings per share" section.

Restructuring charges

In 2001, we recorded a restructuring charge of \$111.2 million (\$62.9 million after tax) to reflect the cost of consolidating various entities into one operating unit and accelerate the pace of operating efficiencies following the merger that created our Company in 1999.

In 2003, a restructuring charge of \$14.5 million (\$8.7 million after tax) was recorded to improve the operating efficiencies of the Information Technology segment.