



Annual Report 2006

Manitoba Telecom Services Inc.

WE LAID THE FOUNDATION FOR GROWTH...

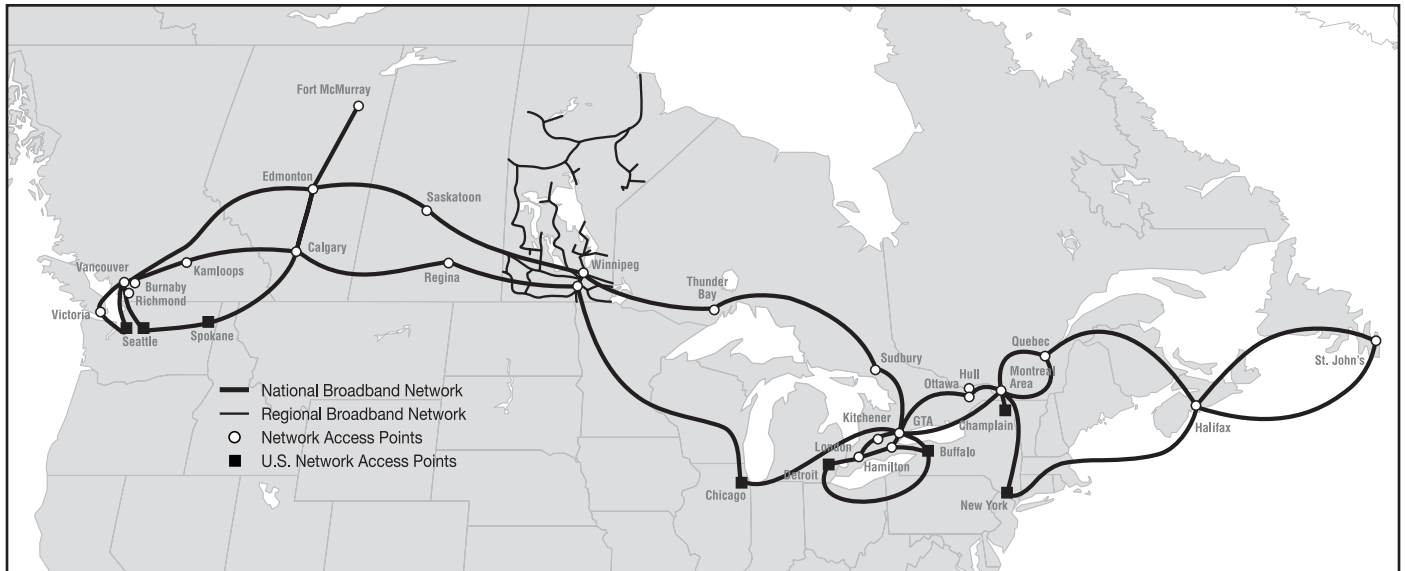
- Completed a comprehensive business review
- Created a new strategy to move the company forward, successfully
- Launched new national growth initiatives targeting the mid-market enterprise and small business customers
- Deployed an advanced wireless high-speed data network (EVDO) in Manitoba
- Exceeded our two-year cost reduction target of \$100 million in one year
- Posted four consecutive quarters of solid business performance
- Increased free cash flow from continuing operations by 18.3 %
- Continued double-digit increases in growth services
- Revitalized the Enterprise Solutions division

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MANITOBA TELECOM SERVICES INC.

MTS is a leading national communications provider in Canada. The company is organized into two operating segments, the Enterprise Solutions division and the Consumer Markets division. The company, which operates under two principal brands, MTS and Allstream, builds upon its unique combination of market leadership in Manitoba and agile competitive presence in business markets across Canada to deliver innovative telecommunications solutions that bring value to customers. MTS employs approximately 6,000 people.



ENTERPRISE SOLUTIONS DIVISION

The Enterprise Solutions division, which operates under the Allstream brand nationally and under the MTS brand in Manitoba, is a leading competitor in the national business and wholesale markets. This division offers customers a portfolio of solutions tailored to the needs of medium and large businesses looking for success in a world of rapidly evolving technology – Internet protocol-based communications, unified communications, voice and data connectivity services. The Enterprise Solutions division operates an extensive national broadband fibre optic network that spans more than 24,300 kilometres, and provides international connections through strategic alliances and interconnection agreements with other international service providers. The division's advanced services, combined with the impressive reach of a state-of-the-art network and continued leadership in technological innovation, have allowed the company to forge strong relationships with top national business customers across the country.

CONSUMER MARKETS DIVISION

The Consumer Markets division leads every telecommunications market segment in Manitoba, delivering a full suite of next generation wireless, high-speed Internet and data, digital television and wireline voice services under the MTS brand, as well as security and alarm monitoring services through AAA Alarm Systems Ltd., a subsidiary of MTS which also operates in other western provinces. This complete range of products is unmatched by any other provider in Manitoba, and the digital television service offered by the Consumer Markets division to customers in Winnipeg is recognized as one of the leading North American digital television services. With this innovative combination of products and services, the company connects people, homes and businesses everywhere. In addition, the Consumer Markets division is a leading player in the national small business telecommunications market outside Manitoba, providing customers in major Canadian centres with a range of innovative business Internet, data and voice services under the Allstream brand.

<i>Years ended December 31 (in millions, except earnings per share)</i>	2006	2005	% change
Consolidated ¹			
Revenues	\$ 1,926.4	\$ 1,980.3	(2.7%)
EBITDA ²	609.5	595.2	2.4%
Net income	299.4	213.7	40.1%
Earnings per share	4.40	3.16	39.2%
Continuing operations ³			
Revenues	\$ 1,916.5	\$ 1,976.0	(3.0%)
EBITDA ²	649.7	646.6	0.5%
Net income	169.6	170.4	(0.5%)
Earnings per share	2.50	2.52	(0.8%)

1 The company's directories business has been reclassified as discontinued operations following the sale of this business. In accordance with this treatment, only net income and EPS include results from the directories business.

2 Earnings before interest, taxes, amortization, other income and discontinued operations.

3 We provide information that refers to our performance from continuing operations to assist investors in understanding the performance of the company. Continuing operations is described in Management's Discussion and Analysis on page 13.

Non-GAAP measures of performance

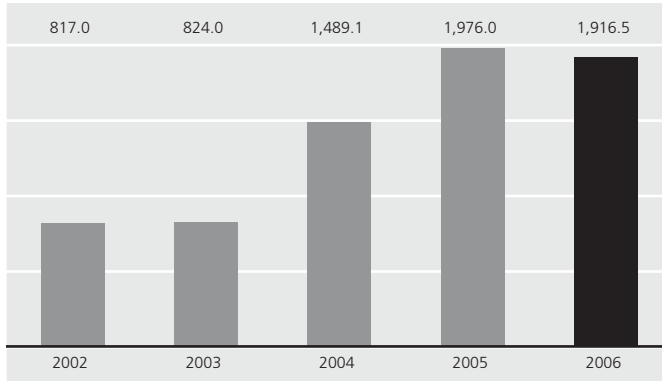
We provide information concerning continuing operations, EBITDA, and free cash flow in our 2006 Annual Report because we believe investors use them as measures of our financial performance. These measures do not have a standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP") and are not necessarily comparable to similarly titled measures used by other companies. These non-GAAP measures of performance are discussed in Management's Discussion and Analysis on page 13.

Forward-looking statements

Our 2006 Annual Report includes forward-looking statements about our corporate direction and financial objectives that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking information. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", "pending", and other similar terms. Factors that could cause actual results to differ materially from those expected, and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in such forward-looking information, include, but are not limited to, the items identified in the "Risks and Uncertainties" section of Management's Discussion and Analysis on page 29. Please note that forward-looking statements reflect our expectations as at March 7, 2007. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Revenues – Continuing Operations*

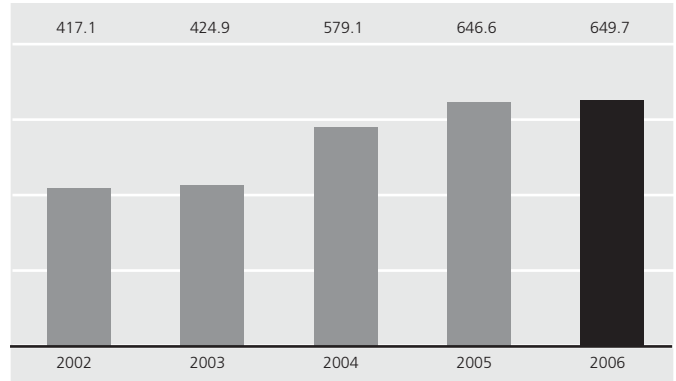
for the years ended December 31 (in millions \$)



* excludes revenues from Bell Intrigna

EBITDA – Continuing Operations

for the years ended December 31 (in millions \$)



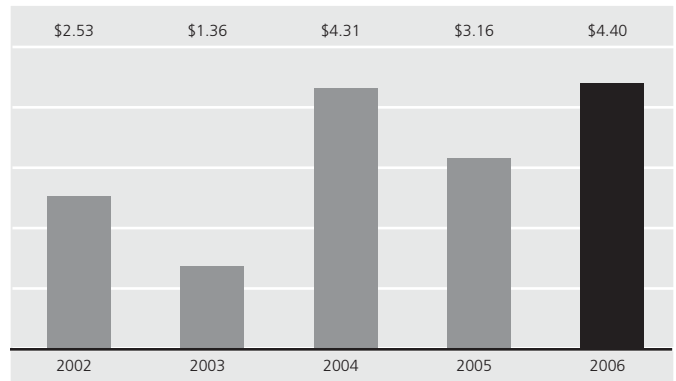
Earnings Per Share – Continuing Operations

for the years ended December 31



Earnings Per Share – Consolidated

for the years ended December 31





Thomas E. Stefanson, FCA
Chairman



Pierre Blouin
Chief Executive Officer

DEAR SHAREHOLDER,

2006 was a year of significant change and accomplishment for Manitoba Telecom Services Inc. We began the year by initiating a strategic business review aimed at improving the company's business fundamentals and examining a full range of strategic alternatives for creating and delivering value to our shareholders.

We finished the year having established a strong platform for growth by strengthening our business fundamentals, sharpening our strategic focus, and delivering on our commitment to create and deliver value to shareholders.

While we continue to operate in challenging and competitive markets, we enter 2007 with confidence in our business and positive momentum towards achieving our goals for our customers and shareholders over the next 12 months.

The Canadian telecommunications sector is an industry under the constant pressure and opportunity of change – change driven by evolving technology, new regulation and increasing competition. In 2006, these trends continued to impact the entire industry, challenging telecommunications service providers from coast to coast. Yet, through the year, we demonstrated that we can not only adjust to these changes, but we can do so while continuing to deliver new and innovative services to our customers and significant value to our shareholders.

We met the challenges of 2006 head on and delivered many wins and important innovations. These solid achievements came while managing the transition to a new Chief Executive Officer and during the launch of a long-term plan for growth and continued value creation for investors – a plan which already is underway.

2006 IN REVIEW

In 2006, we met or exceeded our guidance for all key financial metrics from continuing operations, including revenue, EBITDA, earnings per share and free cash flow. In addition, we:

- ▶ posted four consecutive quarters of solid business performance;
- ▶ refocused and revitalized our Enterprise Solutions division, which operates under the Allstream brand;
- ▶ launched new national growth initiatives targeting the mid-market enterprise and small business customers;
- ▶ delivered double-digit growth in our growth services of wireless, high-speed Internet, digital television in Manitoba, and business Internet protocol (“IP”) connectivity and unified business communications nationally;
- ▶ sold our non-core Manitoba directories business for \$281 million and two office buildings in downtown Winnipeg for \$51 million, and announced our intention of returning the proceeds from these sales to our shareholders through a share buyback program;
- ▶ revitalized our business and accelerated the transition from legacy to growth services;
- ▶ exceeded our two-year cost reduction target of \$100 million by achieving nearly \$120 million in cost reductions by the end of the first quarter of 2007; and
- ▶ completed a comprehensive review of our business, which included the evaluation of multiple strategic scenarios and growth opportunities.

In all, these efforts are making us a more focused, profitable and agile business that is better able to respond to changes in the market and to the needs of our customers.

Our financial performance in 2006 from continuing operations included total revenues of \$1.9 billion, EBITDA of \$650 million, free cash flow of \$286 million, and basic earnings per share of \$2.50. Not only did we deliver on our 2006 targets, we exceeded them in key areas such as basic earnings per share and an 18% year-over-year increase in free cash flow. In 2006, we funded all of our cash requirements for the year from free cash flow with no incremental borrowings and without using funds from our non-cash asset sales. This is a significant accomplishment which reinforces the sustainability of the dividends we pay to our shareholders.

In 2006, we continued our performance as one of the highest yield stocks on The Toronto Stock Exchange, delivering \$2.60 in dividends to shareholders, and extending a record of delivering shareholder value that reaches back to our initial public offering in 1997.

Enterprise Solutions Division

For our Enterprise Solutions division, 2006 was a year of revitalization and refocusing. We made significant progress towards improving our focus on business fundamentals and regaining momentum in a very competitive national market. We are the leading competitor to Bell Canada and TELUS Communications Inc. in most markets in Canada. We have over 6,000 large corporate customers, a state-of-the-art national IP network and a solid track record of technological innovation.

Enterprise Solutions generated strong performance in its growth services for the year. Revenues from converged IP and unified communications products – two key growth areas – increased year-over-year by 23% and 100%, respectively in 2006. The number of customers subscribing to our IP virtual private network service grew by approximately 39% compared to 2005. This made us a market leader in Canada and is a strong indication of the growing demand for our IP-based services for business customers.

Significant new contract wins with leading companies such as WestJet Airlines Ltd., RBC Financial Group, Access Communications Co-operative Limited, Persona Communications Corp, and Level 3 Communications, Inc. clearly demonstrate that we are building positive momentum in a competitive market segment.

Our Enterprise Solutions division delivered an improved 2006 EBITDA margin, which grew by 130 basis points compared to 2005, as a result of an enhanced market focus, pricing discipline, strong cost management and Canadian leadership in IP-based products.

Consumer Markets Division

We continue to possess undisputed market leadership, exceptional brand loyalty and strong customer relationships in our home province of Manitoba, where we operate primarily under the MTS brand. In 2006, our Consumer Markets division delivered double-digit increases in all of our growth services. Wireless customers grew by 11.9%, high-speed Internet customers increased by almost 18%, and the number of customers subscribing to our digital television service, known as MTS TV, increased by over 28% from the same period a year ago.

While we expect continued competition in the residential telephony market, we are encouraged by the steady improvements in customer winbacks. What is equally encouraging is that almost 90% of these winback customers also subscribe to our digital television and high-speed Internet services. This speaks to the effectiveness of our disciplined bundle offerings strategy.

In 2006, we continued to set the pace of technological innovation in the market. Over the past 12 months, our Consumer Markets division introduced several leading-edge services. In Manitoba, we were the first to market with services such as our high-speed wireless data network, which was launched in both Winnipeg and Brandon. Six new communities received high-speed Internet access, bringing this service to 162 communities in Manitoba. MTS TV continued to grow its subscriber base, by 14,532 to 66,093 customers, while adding features such as high-definition television events-only pay per view and innovative new services that enable users to access e-mail and view digital photos on their television. In wireless, we introduced Press2Talk™, which allows our wireless customers to instantly connect with up to nine people with the press of a button, as well as wireless streaming television and radio service.

In all, these innovations further enhance our extensive market-leading menu of products and services that create substantial differentiation from our competition.

2007 GOALS

Our goal for 2007 is to continue building on the momentum we established in 2006.

In addition to a continued focus on operational efficiency and profitability, a key part of our Enterprise Solutions division's business strategy for 2007 is an initiative designed to introduce our advanced IP solutions and unified communications to the mid-market enterprise customer. This initiative will build on our state-of-the-art network, which covers more than 60% of mid-size and large businesses across Canada. With this initiative, we have targeted a national base of customers who are located near our network facilities with total annual spending of approximately \$2 billion. This program has been launched in five cities, and already it has delivered new wins and sales.

Our Consumer Markets division will continue to strengthen its leadership position in the important growth areas of wireless, high-speed Internet and digital television in the Manitoba market. More specifically, we will focus on the continued implementation of our simplified product offerings, which true to its name, are designed to make it easier for customers to do business with us through the use of product bundles and integrated service.

2007 will see our Consumer Markets division introduce new products and services specifically designed to meet the needs of the national small business market. With an existing base of over 100,000 small business customers nationally, this new program is designed to capitalize on the growing needs of this market segment by offering simple, cost-effective service bundles and new IP-based products.

We will also continue to make progress in aligning our cost structure with the realities of our markets. Building on the progress we made in 2006, we expect to achieve an additional \$40 million to \$50 million in annualized cost savings in 2007.

REGULATORY UPDATE

In 2006, we continued to be actively engaged in the policy and regulatory process governing communications services in Canada.

During the year, several policy and regulatory decisions were issued which are positive for the company on an overall basis. The Canadian Radio-television and Telecommunications Commission issued a number of decisions that lowered the costs incurred by our Enterprise Solutions division for the use of the local network facilities controlled by the incumbent telephone companies. In December, the federal Minister of Industry issued the first-ever policy direction that recognizes the direct link between competitor access to incumbent-controlled local networks and vibrant competition in the telecommunications industry, particularly in the business market.

These are encouraging developments for our company, particularly since our Enterprise Solutions division paid nearly \$250 million to the incumbent telephone companies for network access in 2006. It also is excellent news for telecommunications customers in Canada, since fair access to local network facilities for competitors drives competition and innovation.

COMPLETION OF BUSINESS REVIEW

In January 2006, we announced that we would undertake a comprehensive business review designed to strengthen our business fundamentals and to review all available strategic alternatives for creating and delivering long-term value for our shareholders. More than 10 months were spent evaluating and considering the full range of alternatives to achieve our objectives.

In December, we concluded this business review and announced a plan aimed at strengthening our ability to deliver value to our investors and customers. This plan has the full support of our Board of Directors, and contains what we believe are the necessary ingredients for enabling us to compete, win and grow over the long term. The plan provides for:

- ▶ distributing 70% to 80% of our annual distributable cash flow to shareholders, including the current dividend;
- ▶ purchasing for cancellation approximately \$320 million worth of Common Shares prior to December 31, 2007 using the proceeds from the sales of certain non-core assets;
- ▶ maintaining an annual dividend of \$2.60 per common share;
- ▶ adopting a customer-focused approach that leverages our national network and core competencies;
- ▶ forecasted growth in the range of 1% to 3% for consolidated revenue and EBITDA through to 2009; and
- ▶ a continued realignment of our cost structure through operational efficiency and productivity.

Since announcing our plan in December 2006, we have moved forward aggressively with its implementation. We are continuing to make progress in re-aligning our cost structure, and we are well on our way to achieving our targets for the year.

We now are moving forward as a solid and profitable company with momentum and an advantageous competitive position in our key markets. And while our announcement in December 2006 formally concluded our business review process, it will not bring to an end our ongoing efforts to find opportunities to create and deliver long-term value to our shareholders.

BOARD OF DIRECTORS

The Board of Directors would like to acknowledge the valuable contributions made by John T. McLennan, who has served as a director since 2004, and Gedas A. Sakus, who has been a director since 1999, both of whom will not be standing for re-election at this year's annual meeting of shareholders. The Board also is pleased to nominate Gregory J. Hanson for election as a new director at the annual meeting. Mr. Hanson has been the President and Chief Executive Officer of The Wawanesa Mutual Insurance Company since 1992, and brings with him a wealth of business expertise and experience.

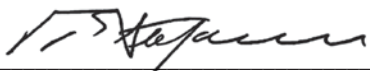
IN CLOSING

2008 will mark our 100th anniversary in Manitoba. It will be a proud moment for all those who have contributed to our success over the years, particularly our skilled and dedicated employees in Manitoba and across the country.

With the progress we have made over the past year, we are confident that we are moving forward as a more solid and focused company. We have momentum in the marketplace backed by a plan with a sharpened strategic focus, accelerated performance from growth services, continued leadership in technological innovations, and strong customer connections.

We thank you for your continuing support, and we look forward to reporting to you on our progress in the coming months.

Sincerely,



Thomas E. Stefanson, FCA, Chairman



Pierre Blouin, Chief Executive Officer

March 7, 2007

This Management's Discussion and Analysis ("MD&A") of our financial results for the period ended December 31, 2006 is prepared as at March 7, 2007. In this MD&A, "we", "our", and "us" refer to Manitoba Telecom Services Inc. ("MTS"). This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2006. All financial data is reported in millions of Canadian dollars, unless otherwise noted. This MD&A and the financial information contained herein have been reviewed by our Audit Committee and approved by our Board of Directors.

This MD&A includes forward-looking statements about our corporate direction and financial objectives that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking information. Examples of statements that constitute forward-looking information may be identified by words such as "believe", "expect", "project", "anticipate", "could", "target", "forecast", "intend", "plan", "outlook", "pending", and other similar terms. Factors that could cause actual results to differ materially from those expected, and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in such forward-looking information, include, but are not limited to, the items identified in the "Risks and Uncertainties" section and the "Material Assumptions" identified in the "Outlook" section of this MD&A. Please note that forward-looking statements reflect our expectations as at March 7, 2007. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information relating to our company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

MD&A CONTENTS	In this section:	Page
Non-GAAP Measures of Performance	We define certain financial measures that we use for evaluating our performance, which do not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP").	13
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Results of Operations	We review our consolidated results, as well as the performance of each of our lines of business. We provide detailed information about our performance in 2006 as compared to 2005.	20
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Critical Accounting Estimates and Assumptions	We outline important estimates and assumptions that we have made in preparing our 2006 financial statements.	28
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Risks and Uncertainties	We describe the major risks and uncertainties that may shape and impact our ability to achieve projected results going forward.	29
Disclosure Controls and Procedures and Internal Control over Financial Reporting	We confirm our compliance with the disclosure requirements of securities regulatory authorities and describe the effectiveness of our disclosure controls and procedures, and the design of our internal control over financial reporting.	33
Social Responsibility	We highlight our presence and commitment to the communities in which we operate, as well as our focus on environmental performance.	33
Outlook	We provide material assumptions and forward-looking information, which includes our liquidity and capital resources for 2007.	34

NON-GAAP MEASURES OF PERFORMANCE

In this MD&A, we provide information concerning continuing operations, EBITDA and free cash flow because we believe investors use these factors as measures of our financial performance. These measures do not have a standardized meaning as prescribed by Canadian GAAP, and are not necessarily comparable to similarly titled measures used by other companies.

► **Continuing Operations** – We provide information that refers to our performance from continuing operations to assist investors in understanding the performance of our company.

In 2006, continuing operations include synergies and exclude our directories business, which has been classified as discontinued operations; restructuring and integration costs; the retroactive adjustment related to the Band F Decision¹; the adjustment related to the Direct Connect/Access Tandem Decisions²; solvency funding to our pension plans; the impact of changes in income tax rates on our tax asset; the taxes recoverable related to the sale of our investment in Bell West Inc. (the “Bell West gain”) in 2004; the gain on the sale of our discontinued operations; and the tax asset valuation allowance adjustment.

In 2005, continuing operations include synergies and exclude our directories business, which has been classified as discontinued operations; restructuring and integration costs; the estimated net positive retroactive portion of the impact from the CDNA Decision³ and the positive retroactive portion associated with the Band F Decision; the gain arising from the sale of our investment in a wireless venture; a non-cash gain associated with the settlement of prior years’ tax audits; the impact of changes in income tax rates on our tax asset; solvency funding to our pension plans; the taxes paid related to the Bell West gain; and a provision taken against the carrying value of a long-term investment.

► **EBITDA** – We define EBITDA as earnings before interest, taxes, amortization and other income (expense) and discontinued operations. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian GAAP) as a measure of liquidity.

► **Free Cash Flow** – We define free cash flow as cash flow from operating activities, less capital expenditures, and excluding changes in working capital. Free cash flow is the amount of discretionary cash flow that we have for purchasing additional assets beyond our annual capital expenditure program, paying dividends, buying back shares or retiring debt.

Notes:

¹ Band F Decision means Telecom Decision CRTC 2006-20 in which the Canadian Radio-television and Telecommunications Commission (“CRTC”) approved the application of MTS Allstream Inc. (“MTS Allstream”) to review and vary the CRTC’s decision in *MTS Allstream’s application to review and vary certain decisions relating to its Band F subsidy*, Telecom Decision CRTC 2005-52

² Direct Connect/Access Tandem Decisions means *Alliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Access Tandem service*, Telecom Decision CRTC 2006-22 and *Alliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Direct Connection service*, Telecom Decision CRTC 2006-23

³ CDNA Decision means CRTC’s decision in *Competitor Digital Network Services*, Telecom Decision CRTC 2005-6

OVERVIEW

MTS commenced its operations in the province of Manitoba in 1908, first as a department of the provincial government, and then as a Crown corporation that was incorporated in 1933. In 1997, the company was reorganized and continued as a publicly traded company. MTS’s common shares are listed on The Toronto Stock Exchange under the trading symbol MBT.

MTS is a leading national communications provider in Canada. The company is organized into two operating segments, the Enterprise Solutions division and the Consumer Markets division. The company, which operates under two principal brands, MTS and Allstream, builds upon its unique combination of market leadership in Manitoba and agile competitive presence in business markets across Canada to deliver innovative telecommunications solutions that bring value to customers. MTS employs approximately 6,000 people.

Enterprise Solutions division

The Enterprise Solutions division, which operates under the Allstream brand nationally and under the MTS brand in Manitoba, is a leading competitor in the national business and wholesale markets. This division offers customers a portfolio of solutions tailored to the needs of medium and large businesses looking for success in a world of rapidly evolving technology – Internet protocol (“IP”)-based communications, unified communications, voice and data connectivity services. The Enterprise Solutions division operates an extensive national broadband fibre optic network that spans more than 24,300 kilometres, and provides international connections through strategic alliances and interconnection agreements with other international service providers. The division’s advanced services, combined with the impressive reach of a state-of-the-art network and continued leadership in technological innovation, have allowed the company to forge strong relationships with top national business customers across the country.

Consumer Markets division

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Core Strengths

- ▶ an extensive IP national network, including 24,300 kilometres of fibre across the country, together with a leading-edge regional network with extensive broadband capabilities in Manitoba;
- ▶ an innovative product portfolio of IP-based services and network solutions for large enterprises and the mid-business market;
- ▶ a cost structure that increasingly has national economies-of-scale to support profitable competitive success in our markets;
- ▶ a regional telecommunications franchise, which operates in Manitoba as the leading full-service provider, with very high brand recognition among residential customers and businesses;
- ▶ a strong, thriving wireless franchise with significant continuing growth potential;
- ▶ an unrivalled high-speed Internet market share of over 50% in the Manitoba market;
- ▶ a thriving digital television service offering in Winnipeg, with a success rate that is unparalleled in North America, gaining a 27% market share in three years of operation;
- ▶ a dedicated, talented team of people across the country who are motivated to deliver on our strategies; and
- ▶ a strong balance sheet which provides significant financial flexibility.

We report on the following consolidated revenue segments:

- ▶ **Data** – Our data line of business includes revenues earned from providing data, Internet and professional services. Data services connect data, video and voice networks to establish private connections across office locations and to integrate traffic over highly secure networks. We provide a wide range of Internet connectivity services to meet the needs of residential customers in Manitoba and business customers across the country. We also offer numerous hosting and security services to business customers across Canada.
- ▶ **Local** – Local services revenues from our Consumer Markets division include basic voice connections for residential and business customers, including enhanced calling features (such as Call Answer, Call Display, Call Waiting and 3-Way Calling), payphone revenue, wholesale revenues from services provided to third parties, as well as contribution revenue. Through our Enterprise Solutions division, we provide a full range of local services to business customers on a national basis. These services allow customers to complete calls in their local calling areas and to access long distance, cellular networks and the Internet.
- ▶ **Long distance** – Long distance services enable residential customers in Manitoba and business customers across Canada to communicate with destinations outside the local exchange. Our long distance voice service portfolio includes basic, domestic, cross-border and international outbound long distance, basic and enhanced toll-free services, calling cards and audio conferencing, as well as a variety of enhanced long distance services and features.

- ▶ **Wireless** – Our wireless portfolio consists of cellular, wireless data, paging and group communications services that we offer in the Manitoba market.
- ▶ **Other** – Other revenues consist of revenues earned from our digital television services and miscellaneous items. Our digital television service is offered across our broadband network platform and is targeted at residential customers in Winnipeg. Miscellaneous revenues primarily consist of security and alarm monitoring services, and the sale and maintenance of terminal equipment.

In the first quarter of 2006, we announced changes to our organizational structure. We changed the name of our MTS (Manitoba) division to the Consumer Markets division, and our Allstream (National) division was renamed the Enterprise Solutions division. Our Consumer Markets division is focused on the consumer and small business segments. Our Enterprise Solutions division is focused on the mid- to large-enterprise business markets across the country. Through this structure, which is centred around the customer, we believe that we are better positioned to compete in the marketplace and to facilitate cost-effective operations.

Consumer Markets division: the primary telecommunications provider in Manitoba which markets its consumer products and services and operates primarily under our MTS brand. Our Consumer Markets division serves small business customers nationally and residential customers in Manitoba with a full suite of wireline voice, high-speed Internet and data, next generation wireless, digital television and alarm monitoring services.

Enterprise Solutions division: a customer-focused, responsive innovator which provides national business customers with a world-class portfolio of IP-based connectivity services, unified communications services, and professional services as well as a strong market position in the more traditional connectivity services such as data, local and long distance. Our Enterprise Solutions division, which operates primarily under our Allstream brand, has built a strong market share position that spans the country, and includes many of Canada's largest companies, as well as federal, provincial and municipal governments.

The financial and operating information, and any associated discussion in this MD&A, relating to our Consumer Markets division and our Enterprise Solutions division, are presented on the same basis as each division's respective predecessor organization to provide continuity with our outlook for 2006 and comparative results from 2005. We will report segmented information for the Consumer Markets division and the Enterprise Solutions division beginning with the results of the first quarter of 2007 when we also will have comparative information available for 2006 in this format.

On August 14, 2006, we entered into a definitive agreement to sell our directories business. This transaction closed on October 2, 2006. As prescribed by the Canadian Institute of Chartered Accountants (“CICA”) Handbook, the directories business results have been classified as discontinued operations in our financial statements (see Note 5 to our financial statements), and any prior period figures have been reclassified when necessary to conform to the current year’s presentation for discontinued operations.

Year in Review

The Canadian telecommunications industry continued to be extremely competitive throughout 2006, and was marked by the ongoing convergence of markets in which telecommunications providers and cable operators, each capable of bundling multiple consumer services under one brand, now compete. In business markets, we have seen the continuing advancement of value-added managed IP services and high-bandwidth network solutions, along with an expected decline in revenue from traditional telecommunications legacy services.

Early in 2006, we initiated a comprehensive business review aimed at strengthening our overall fundamental business, evaluating our competitive position, and examining strategic opportunities for creating and delivering long-term shareholder value. On December 13, 2006, we announced the completion of this process, and unveiled a strategy that will serve as our blueprint going forward for creating and delivering sustainable long-term value for our investors and customers.

Throughout 2006, we undertook significant work to refocus and revitalize our business. Specifically, we delivered four quarters of solid business performance, including double-digit growth in key product lines and improved margins. In addition, we launched new products and marketing strategies to accelerate the profitable transition from legacy revenues to revenues from growth services.

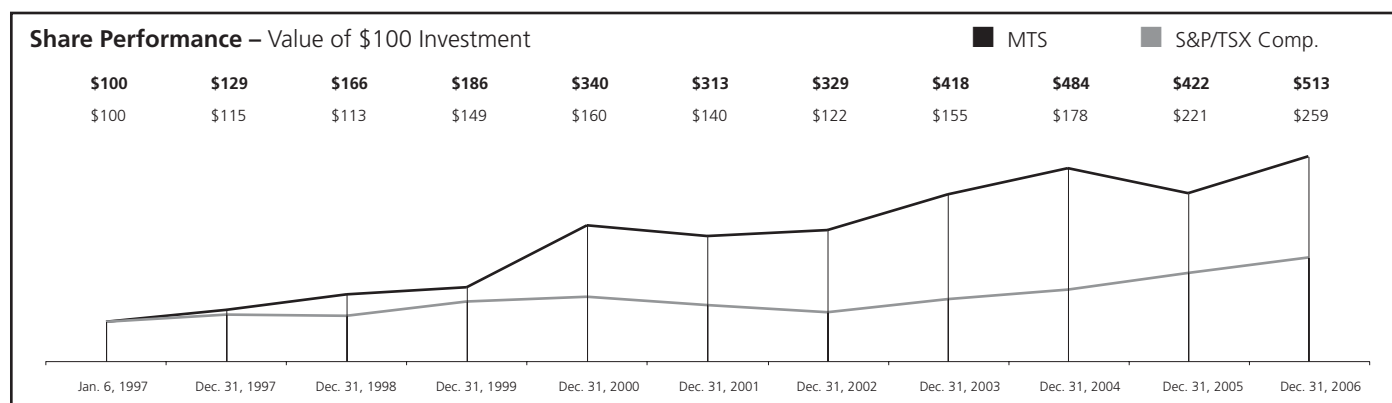
Re-pricing and technology shifts continued to put significant pressure on our business in 2006. In response to this pressure, we took an aggressive approach to cost reductions with the full implementation of our Transition Phase II cost reduction program

(“TP2 cost reduction program”), which we initially announced in November 2005. Aimed at positioning us to grow profitably and improve cash flows in the rapidly changing telecommunications industry, our TP2 cost reduction program builds on the success of our initial integration project and aligns our cost structure for long-term competitive success. Our TP2 cost reduction program, which achieved \$109 million in annualized cost savings in 2006, represents a further integration of our two operating divisions. The balance of the \$120 million targeted annualized cost reduction under our TP2 cost reduction program is expected to be achieved early in 2007, with 90% of the related employee departures scheduled to occur in the first quarter of 2007.

In 2006, we delivered financial results from continuing operations that generally were consistent with those reported in 2005, in line with our outlook for 2006, and exceeding our outlook for earnings per share (“EPS”) and free cash flow. Specifically, our revenues for 2006 declined on a year-over-year basis by 3.0% to \$1,916.5 million, as compared to \$1,976.0 million in 2005. Year-over-year, EBITDA and EPS both were essentially flat for the year – EBITDA was up by \$3.1 million to \$649.7 million, or approximately 0.5%, while EPS was down by \$0.02 to \$2.50. As compared to our outlook, EBITDA was within our range for 2006, while EPS exceeded the range for the year. Free cash flow in 2006 increased by more than \$44 million, or 18.3%, over the prior year to \$286.0 million, and exceeded our outlook for 2006 of between \$260 million and \$285 million.

	2006 actual	2006 outlook*	2005 actual
<i>(in millions \$, except EPS)</i>			
Revenues	1,916.5	1,885 – 1,935	1,976.0
EBITDA	649.7	630 – 655	646.6
Free Cash Flow	286.0	260 – 285	241.7
EPS	2.50	2.10 – 2.40	2.52

* adjusted for the sale of our directories business to allow comparison to our actual results



This graph compares the cumulative total return on our Common Shares over the last 10 years to the cumulative total return of the S&P/TSX Composite Index, assuming a \$100 investment at the initial offering price of \$13 and reinvestment of dividends.

Key Developments

Business Review

On January 31, 2006, we initiated a comprehensive business review aimed at delivering long-term value to our investors and customers. This business review was undertaken to evaluate our competitive position and strategic opportunities for creating and delivering shareholder value. The review involved extensive consultations between our Board of Directors and management, as well as discussions with external financial advisors and industry consultants.

On December 13, 2006, we announced the completion of this review, and provided our outlook for 2007 and related business plans. These plans call for us to distribute 70% to 80% of our annual distributable cash flow to our shareholders and sharpen our strategic focus on growth opportunities in key segments of the national business market and within Manitoba, where we remain the clear market leader.

A Sharpened Strategic Focus

We have a unique position in the Canadian communication services industry. We are the leading full-service communications provider in Manitoba and a leading presence in national enterprise markets.

In addition to serving our current markets, the business review also identified opportunities to increase our focus on serving the national mid-market and small business segments. Our mid-market strategy is centred on the availability of our market-leading IP network in major urban centres.

In our Consumer Markets division, where local competition continues to be strong, our emphasis will be on growth products and bundles in areas such as high-speed Internet, wireless and digital television services. Our goal is to maintain our position as the one-stop provider of clear choice to Manitoba households and consumers, and to deliver double-digit growth in our Internet, digital television, and wireless services in 2007 in a more competitive and deregulated market. We anticipate that local service will be forborne in Winnipeg by the end of 2007, which will enhance our ability to compete against new market entrants.

In our Enterprise Solutions division, we will build on our established leadership in advanced IP, multiprotocol label switching (“MPLS”) solutions and unified communications. As part of this new strategy, we will strive to reduce our direct costs through the migration of customers to our network, and will continue to improve our productivity and cost structure. From a growth perspective, revenues from our IP connectivity and unified communications product lines are forecasted to grow at double-digit rates.

Sale of Non-Core Assets

On October 2, 2006, we announced that we had closed a transaction to sell our directories business to Yellow Pages Group Co. This transaction had a value of \$281 million, of which \$275 million was paid to us in cash upon closing. On December 28, 2006, we announced that we had closed a transaction regarding the sale of our two office buildings in downtown Winnipeg for a price of \$51.1 million. As part of this transaction, we signed a 15-year lease

to leaseback the office space that we currently occupy. Combined, the proceeds from the sale of these non-core assets are being used to finance our \$320 million share buyback program.

Share Buyback Program

On December 13, 2006, we received approval from The Toronto Stock Exchange of our Notice of Intention to make a Normal Course Issuer Bid (the “Issuer Bid”), which commenced on December 18, 2006. Pursuant to the Issuer Bid, we may purchase for cancellation up to 6,807,624 Common Shares, or 10% of the public float. These purchases are being financed by the sale of non-core assets as described above.

As at December 31, 2006, we had purchased 1.4 million Common Shares for cancellation at a cost of \$61.9 million.

Transition Phase II Cost Reduction Program

On November 29, 2005, we launched our TP2 cost reduction program to position us to grow profitably and to improve our cash flows in the rapidly changing telecommunications industry. Our TP2 cost reduction program builds on the success of our initial integration project by refining our market focus and aligning our cost structure for long-term competitive success. The objective of this program was to achieve \$100 million in annualized expense savings over two years. During 2006, we identified further cost saving opportunities and expanded our program to target annualized expense savings of \$120 million, with no change to the expected overall cost of the program. As at December 31, 2006, we have achieved \$109 million in cost savings, exceeding our two-year target in one year. While we have completed substantially all of the activities under our TP2 cost reduction program, employee reductions will continue in 2007, and cost reductions will be considered achieved on the respective employee departure dates. We expect to achieve total annualized expense savings of approximately \$120 million, with 90% of the related departures scheduled to occur by the first quarter of 2007.

Performance Drivers

The following factors affect the performance of our company as a whole and/or impact the specific businesses we operate:

Customer Demand

We expect that the Canadian market will continue to exhibit steady growth overall. This top-line stability masks an underlying turbulence as customers seek better pricing for legacy services, while searching out new capabilities enabled by IP technologies which are available from us as well as other service providers. This is particularly so for businesses requiring a competitive edge in a globalizing economy, but, increasingly, for the household as well with its diversity of communications demands. A key factor driving our performance will be our ability to package, price, market, deliver and support existing services, and to develop innovative new services to meet changing customer needs for functionality and value.

Networking Innovation

We have invested substantially over the years in advanced broadband and wireless networking platforms to drive new service deployment efficiently and profitably. Our ability to incorporate new technologies into our network will be a factor in enabling us to offer new services that allow for ubiquitous, on-demand access across any device. As our network infrastructure continues to incorporate newer IP technologies that merge voice, data and video onto one stream, our focus on reliability and security will take on even more importance.

Operational Efficiency

Our long-term financial performance over the years has been an indicator of our commitment to efficiency. Our costs increased as the scale and scope of our business expanded into national markets in the past years. We have had considerable success in reducing our costs, as demonstrated by our TP2 cost reduction program, which resulted in \$109 million in annualized expense savings in 2006.

Competitive Intensity

The dynamics of consolidation and mergers among incumbents and alternative telecommunications providers, and the entry of cable providers in the local voice market continue to change our competitive landscape. We have been vigilant and creative in our response to challenges to our market leadership in Manitoba, particularly in the battleground with the cable companies, by offering “quadruple play” bundles to win the broadband household. This refers to our ability to bundle wireless, high-speed Internet, digital television services and home security across a single residential connection. Nationally, as an alternative to the incumbents, we remain focused on exploiting market-ready IP capabilities to profitably win share in business markets.

Regulatory

The federal government and the CRTC establish the policy and regulatory framework that govern the Canadian telecommunications and broadcast industries. We operate as both an incumbent local exchange carrier (“ILEC”) in Manitoba and as a competitive local exchange carrier (“CLEC”) nationally. In addition, pursuant to Broadcasting Decision CRTC 2002-235, the CRTC granted us a Class 1 regional broadcasting distribution licence to operate as a broadcasting distribution undertaking serving Winnipeg and its surrounding areas.

During 2006, the federal government received the final report (the “TPR Report”) of the Telecommunications Policy Review Panel and began the process of implementing recommended changes to the telecommunications regulatory and policy framework.

As an interim measure on December 18, 2006, the government issued a proposed direction (the “Policy Direction”) to the CRTC, which provides general advice to the CRTC as to the approach to be taken to regulation in light of the TPR Report and pending legislative amendments. The Policy Direction includes a requirement that the CRTC review the regulatory framework for mandated access for competitors to network facilities and services that are controlled by the ILECs. The Policy Direction responds positively to the concerns

raised by us and other competitive providers in requiring that the CRTC, as part of its current review of essential network access for competitors, take into account the principles of technological and competitive neutrality, the potential for incumbents to exercise retail market power absent competitor network access, and the impediments faced by competitors in seeking to develop competing network facilities. In addition, the Policy Direction is favourable to our business in terms of deregulation of residential services where competition exists.

Economic Outlook

The business prospects and performance of the Canadian economy have a direct impact on us. It is anticipated that the Canadian economy overall will continue to exhibit strength relative to other developed countries. Canada is both a leader in newer industries, such as high technology, telecommunications and transportation systems, and has enduring strength in the resource sector, including mining, forestry and agriculture, which have outputs in many international and domestic markets.

Performance Drivers Affecting Specific Businesses**Data**

Data includes competitive growth areas across our business. Our data line of business includes revenues earned from providing data, Internet and professional services. Data services connect data, video and voice networks to establish private connections across office locations and to integrate traffic over highly secure networks. We have the strategic advantage of doing business today with many of the top 500 companies in Canada. Increasingly, these companies require solutions that integrate three core capabilities: data connectivity through transport and access technologies for local, national and international networking; a growing emphasis on security services; and unified communications that link enterprise applications to the telecommunications infrastructure. We provide a wide range of Internet connectivity services to meet the needs of residential customers in Manitoba and business customers across the country. We also offer numerous hosting and security services to business customers across Canada. In this context, our challenge is to continue to evolve our data services portfolio, and our underlying network building blocks and support systems, which enable us to offer innovative integrated solutions. In this regard, we are well-positioned with an extensive fibre-based MPLS national network, extensive fibre facilities in our regional Manitoba network, and strong service development capabilities.

Local

Local services revenues from our Consumer Markets division include basic voice connections for residential and business customers, including enhanced calling features (such as Call Answer, Call Display, Call Waiting and 3-Way Calling), payphone revenue, wholesale revenues from services provided to third parties, and contribution revenue. The quality of our local wireline connection remains a differentiator in the success of our voice services operations in Manitoba. It is the strategic

entry point into customer premises for high-growth services, including high-speed Internet and digital television. This is critical for addressing competition from cable providers in telephony services, which began in Manitoba in mid-2005. Outside Manitoba, the cost and availability of local network access is a performance factor in serving our business customers. Our facilities allow us to provide connectivity economically to more than 60% of the medium- and large-sized businesses in Canada. We report the number of wireline connections we have with customers, which are referred to as network access services (“NAS”). Pending forbearance, the CRTC regulates the prices we can charge for NAS in Manitoba, which affects our flexibility to compete in this market segment.

Long distance

Long distance services enable residential customers in Manitoba and business customers across Canada to communicate with destinations outside the local exchange. Our long distance voice service portfolio includes basic, domestic, cross-border and international outbound long distance, basic and enhanced toll-free services, calling cards, a dial around service, and audio conferencing, as well as a variety of enhanced long distance services and features. The impact of strong competition over many years has created continued margin pressure in the market for long distance services. A key performance driver will be our ability to manage price erosion while maintaining customer loyalty. We must be sensitive in our market strategies to the potential impact of voice over Internet Protocol (“VoIP”) technologies as a disruptive force changing the economics and service definition of telephony-based services. VoIP-based services are moving into the mainstream, at least in the larger metropolitan centres. Given our focus on IP-based services overall, we are confident that we can address this competitive challenge.

Wireless

Our wireless portfolio consists of cellular, wireless data, paging, FleetNet800™, and Press2Talk™, which we offer in the Manitoba market. Arrangements with other international wireless providers allow our customers to access cellular and data services outside Manitoba. Our wireless revenues today originate from our Manitoba customer base. As a guide to our future prospects, we note that we are the clear leader in Manitoba, and that the lower relative penetration rate in this market provides a basis for continuing strong growth. The expansiveness and sophistication of our wireless infrastructure in Manitoba, including the pervasiveness of 1X radio transmission technology capabilities, is a significant competitive advantage. Wireless applications are, and will increasingly become, a key competitive advantage, and we continue to advance our capabilities to be a leader in this area. Our MTS brand is a big strength in marketing our wireless services to consumer and business segments in Manitoba.

Digital television

Our digital television service is offered across our broadband network platform and is targeted at residential customers in Winnipeg. Since we launched digital television in 2003, our results have been outstanding, achieving a customer base of over 66,000 that represents a market share of approximately 27%. We are one of the best-positioned telecommunications providers in North America in the digital television market as a key pillar in formulating the “quadruple play” of our consumer bundle. Our ability to drive strong growth from digital television will depend on continuing consumer demand for digital services, the availability of our broadband capabilities in the markets in which we compete, and on our ability to offer attractive content and high definition services that appeal to our customer base, as well as our ability to successfully package digital television with other services that leverage our telecommunications portfolio. In 2006 alone, we delivered several new innovative features which utilize the cross-functionality of our digital television service and high-speed Internet service. Our “Email on Demand” service allows our customers who subscribe to both our digital television service and Internet service to check their e-mail on their own television set while our “Photos on Demand” service allows customers to view a slide show of their own photographs in digital quality on their television screen.

Selected Financial Information

Consolidated (in millions \$, except EPS and cash dividends declared per share)

	2006	2005	2004
Revenues	1,926.4	1,980.3	1,489.1
Net Income	299.4	213.7	305.1
Total Assets	2,923.5	2,984.2	2,930.9
Long-term Financial Liabilities	877.6	962.3	1,049.2
Basic EPS	4.40	3.16	4.31
Diluted EPS	4.39	3.14	4.27
Cash Dividends Declared Per Share	2.60	2.60	1.80

Our last three completed years reflect steady performance of our business in an increasingly challenging marketplace.

Over the past three years, our Consumer Markets division has delivered steady underlying growth in financial performance. Results from our Consumer Markets division reflect the following:

- ▶ Strong growth in the newer communications service areas, including wireless, high-speed Internet and digital television. These improvements were offset partially by lower overall results in the traditional telecommunications services of local and long distance.
- ▶ Our continuing efforts to reduce expenses in the low-growth traditional segments of the business to preserve margins and shift these expense dollars to support expansion in the newer high-growth areas, such as wireless, high-speed Internet and digital television services.

As well, the financial performance of our Enterprise Solutions division has stabilized and has been increasingly successful in attracting and winning business customers in our chosen markets as follows:

- ▶ Through focused efforts to reduce our cost structure, the operating expenses of our Enterprise Solutions division have been more closely aligned with the competitive landscape.
- ▶ Our leading-edge growth services, including converged IP and unified communications, coupled with increasing customer demand for innovative new generation IP-based services, continue to build support for solid performance.

For the years 2006 and 2005, please see “Consolidated Quarterly Data”, and for 2004, they reflect the following:

- ▶ The recognition of restructuring costs in 2004 in the amount of \$5.5 million. This cost is associated with the integration of the operations of Allstream Inc. (“Allstream”) following the completion of our acquisition of this company in June 2004.
- ▶ The recording of a provision against the carrying value of a long-term investment in the pre-tax amount of \$7.0 million in 2004.
- ▶ The impact of our substantial issuer bid that was completed on September 27, 2004, which resulted in the purchase for cancellation of 1,966,775 Class B Preference Shares for cash consideration of \$84.6 million and 16,637,870 Common Shares for cash consideration of \$716.2 million in 2004.
- ▶ The recording of a one-time charge of \$75.0 million (\$47.8 million, net of taxes) in 2004 relating to a settlement agreement with Bell Canada (“Bell”). The one-time pre-tax cost is reflected in our income statement entitled “Other Income (expense)”.
- ▶ The acquisition of all of the issued and outstanding Class A voting shares and Class B limited voting shares of Allstream on June 4, 2004.
- ▶ In 2004, our results account for our 40% share of Bell West’s net losses using the equity method of accounting.
- ▶ The recognition of a one-time gain of \$232.6 million (\$188.8 million, net of taxes) associated with the exercise of our put option with Bell in 2004 to sell our investment in Bell West, which produced much higher earnings for us during the first quarter of 2004.

Consolidated Quarterly Data

Unaudited quarterly financial data for 2006 and 2005 is presented below:

	Q4	Q3	Q2	Q1
<i>(in millions \$, except earnings per share)</i>	2006	2006	2006	2006
Operating Revenues	479.1	477.9	489.0	480.4
Operating Income	34.2	69.8	95.1	79.8
Net Income (Loss) before discontinued operations	26.8	35.8	(6.2)	40.7
Net Income (Loss)	216.1	40.5	(1.2)	44.0
Earnings (Loss) Per Share before discontinued operations	0.39	0.53	(0.09)	0.60
Diluted Earnings (Loss) Per Share before discontinued operations	0.39	0.52	(0.09)	0.60
Earnings (Loss) Per Share	3.18	0.60	(0.02)	0.65
Diluted Earnings (Loss) Per Share	3.17	0.59	(0.02)	0.65

	Q4	Q3	Q2	Q1
<i>(in millions \$, except earnings per share)</i>	2005	2005	2005	2005
Operating Revenues	494.2	507.7	491.3	487.1
Operating Income	34.0	82.7	87.0	75.4
Net Income before discontinued operations	10.8	41.8	106.7	39.5
Net Income	14.6	45.1	111.5	42.5
Earnings Per Share before discontinued operations	0.16	0.62	1.58	0.58
Diluted Earnings Per Share before discontinued operations	0.16	0.61	1.57	0.58
Earnings Per Share	0.22	0.67	1.65	0.63
Diluted Earnings Per Share	0.22	0.66	1.64	0.63

Our eight most recently completed quarters reflect the performance of our business and the inclusion of the items described below:

- ▶ An adjustment of \$11.8 million for a reduction of our tax asset valuation allowance in the fourth quarter of 2006.
- ▶ Effective October 2, 2006, we sold our directories business and recorded a net gain on the sale of discontinued operations of \$189.3 million in the fourth quarter of 2006.
- ▶ The recording of a \$58.6 million charge in the second quarter of 2006 to reflect a decrease in the value of our income tax asset, as a result of a reduction in future income tax rates.
- ▶ The recording of amounts relating to a number of regulatory decisions: a \$9.9 million retroactive positive impact from the Band F Decision and a \$6.7 million retroactive positive impact from the Direct Connect/Access Tandem Decisions, which both occurred in the second quarter of 2006; a \$5.9 million positive retroactive impact in the third quarter of 2005 from the Band F Decision; and a \$4.3 million net positive retroactive impact in the first quarter of 2005 from the CDNA Decision.

- ▶ The recognition of restructuring costs for our TP2 cost reduction program in the first, second, third and fourth quarters of 2006 in the amounts of \$3.1 million, \$7.1 million, \$9.8 million and \$28.3 million, respectively, and \$35.4 million in the fourth quarter of 2005. Included in the amount recognized in the fourth quarter of 2006 are costs associated with a workforce reduction initiative that was announced on October 2, 2006, which resulted in restructuring charges of \$19.0 million.
- ▶ The recognition of restructuring costs in each of the four quarters of 2005 in the amounts of \$3.6 million, \$3.9 million, \$5.0 million and \$5.0 million, listed chronologically.
- ▶ Workforce reduction initiatives undertaken in the fourth quarter of 2006 and the first quarter of 2005, which resulted in restructuring charges of \$8.5 million and \$9.0 million, respectively.
- ▶ The recording of a provision against the carrying value of a long-term investment in the pre-tax amount of \$4.5 million in the fourth quarter of 2005.
- ▶ The acquisition on July 5, 2005, of Delphi Solutions Corp. ("Delphi") for a purchase price of approximately \$15 million.
- ▶ The recording of a \$72.5 million (non-cash) gain in respect of prior years' tax audits in the second quarter of 2005, which was offset partly by a \$9.6 million charge to reflect a decrease in the value of our income tax asset as a result of a reduction in future income tax rates in the province of Manitoba.
- ▶ The recognition of a one-time gain in the amount of \$2.7 million in the first quarter of 2005 resulting from the sale of our investment in a wireless venture.

RESULTS OF OPERATIONS

EPS (\$)	2006	2005
EPS (Continuing Operations)	2.50	2.52
Discontinued Operations	2.97	0.22
Tax Audit Settlement	–	1.07
Restructuring Costs	(0.53)	(0.58)
Future Tax Rate Adjustment	(0.86)	(0.14)
Tax Asset Valuation Allowance Adjustment	0.17	–
Retroactive Band F Decision	0.09	0.05
Retroactive Direct Connect/Access Tandem Decisions	0.06	–
Retroactive CDNA Decision	–	0.04
Gain on Sale of Wireless Venture	–	0.03
Investment Provision	–	(0.05)
Basic EPS	4.40	3.16

Note: EPS is based on weighted average shares outstanding of 68.0 million for 2006, and 67.7 million for 2005.

Higher amortization expense, which was offset partially by a slight increase in EBITDA and lower statutory income tax rates, contributed to the slight decline in EPS from continuing operations for the 12 months ended December 31, 2006.

Basic EPS for the year was \$4.40 in 2006, as compared to \$3.16 in 2005. These results reflect a number of items that did not arise from continuing operations. In 2006, these include the gain on the sale of our discontinued operations, restructuring costs, a non-cash future tax adjustment due to a decrease in statutory income tax rates, a positive adjustment for income tax asset valuation, and positive adjustments related to the retroactive Band F Decision and the retroactive Direct Connect/Access Tandem Decisions. In 2005, these include discontinued operations, a non-cash gain associated with the settlement of prior years' tax audits, restructuring costs, a non-cash future tax adjustment due to a decrease in statutory income tax rates, positive adjustments related to the Band F Decision and the CDNA Decision, the gain on the sale of our ownership interest in a wireless venture, as well as a provision taken against the carrying value of a long-term investment.

EPS – Continuing Operations



EBITDA

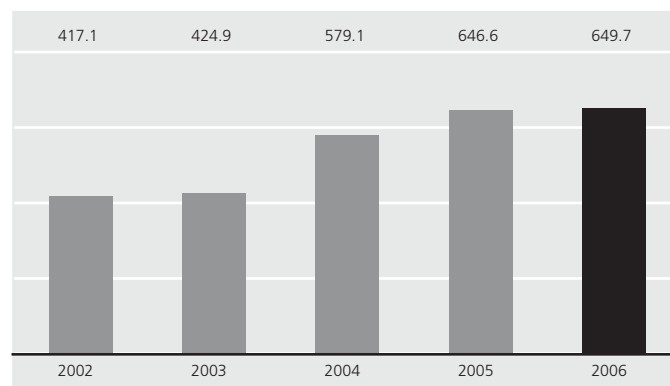
(in millions \$)	2006	2005	% change
EBITDA (Continuing Operations)	649.7	646.6	0.5
Restructuring Costs	(56.8)	(61.6)	7.8
Retroactive Portion of Band F Decision	9.9	5.9	67.8
Retroactive Direct Connect/Access Tandem Decisions	6.7	–	n.m.
Retroactive Portion of CDNA Decision	–	4.3	n.m.
EBITDA	609.5	595.2	2.4

EBITDA from continuing operations for the 12 months ended December 31, 2006 was up slightly as compared to the corresponding period in 2005. This is reflective of growth in our wireless, digital television, converged IP, unified communications and high-speed Internet services, which were offset by declines in long distance, local and legacy data connectivity services revenues. Also contributing to this performance was a disciplined approach to pricing in both our Enterprise Solutions and Consumer Markets divisions. In addition, our cost reduction initiatives have had an impact on our results. As at December 31, 2006, we have realized in-year savings of \$97 million.

Consolidated EBITDA was \$609.5 million year to date in 2006 versus \$595.2 million in 2005. In 2006 and 2005, we incurred restructuring charges and benefited from several regulatory decisions, which are detailed in the above table.

EBITDA – Continuing Operations

(in millions \$)



Revenues

Operating Revenues

(in millions \$)

	2006	2005	% change
Data	660.3	675.8	(2.3)
Local	553.2	564.3	(2.0)
Long Distance	401.7	467.7	(14.1)
Wireless	234.1	207.7	12.7
Other	77.1	64.8	19.0
Total	1,926.4	1,980.3	(2.7)

Our operating revenues include those earned from the provision of data, local voice, long distance voice, wireless and other services, which includes our digital television service.

Consolidated revenues were \$1,926.4 million, representing a decrease of 2.7% from last year's revenues. This is due primarily to decreased revenues from long distance, legacy data connectivity and local services, which were offset partly by strong increases in revenue from wireless, converged IP, digital television and high-speed Internet services, as well as increased unified communications revenues partly due to revenues from Delphi, which we acquired on July 5, 2005.

Our revenues also were impacted by a number of retroactive regulatory decisions. In 2006, we received a retroactive payment of \$9.9 million associated with the Band F Decision, while in 2005, we received an earlier retroactive payment of \$5.9 million, which also is associated with the Band F Decision, and a \$1.6 million retroactive charge associated with the CDNA Decision.

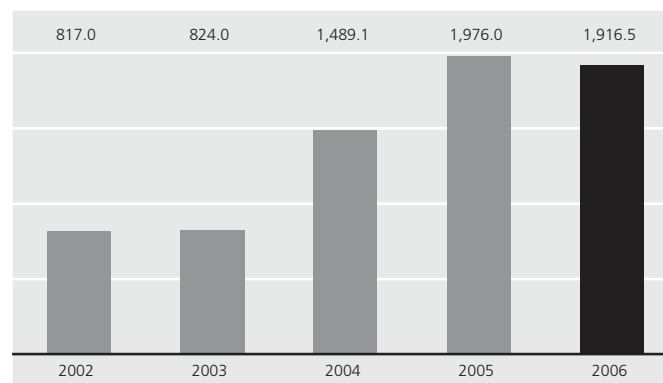
Operating Revenues

(in millions \$)

	2006	2005
Revenue (Continuing Operations)	1,916.5	1,976.0
Retroactive Band F Decision	9.9	5.9
Retroactive CDNA Decision	–	(1.6)
Revenue	1,926.4	1,980.3

Operating Revenues – Continuing Operations*

(in millions \$)



* excludes revenues from Bell Intrigna

Data Services

(in millions \$)

	2006	2005	% change
Revenues	660.3	675.8	(2.3)

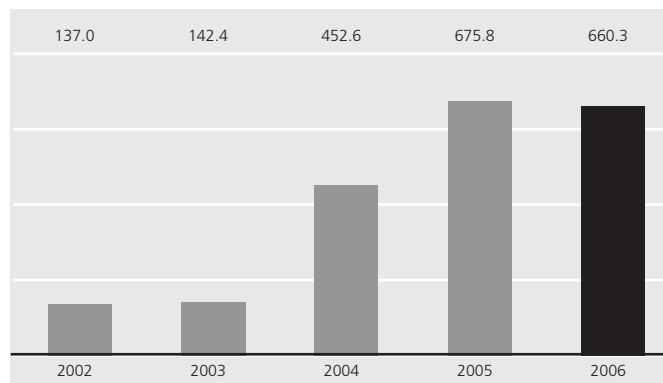
Our data line of business includes revenues earned from providing data, Internet, and professional services. Data services connect data, video and voice networks to establish private connections across office locations and to integrate traffic over highly secure networks. We provide a wide range of Internet connectivity services to meet the needs of residential customers in Manitoba and business customers across the country. We also offer numerous hosting and security services to business customers across Canada.

Revenues in 2006 decreased to \$660.3 million from \$675.8 million in 2005. Our results reflect decreased legacy data connectivity and professional services revenues, which were offset partly by revenue growth from converged IP, unified communications and high-speed Internet services. The increase in unified communications revenues is due, in part, to our acquisition of Delphi. In 2006, revenues from growth services represented 64% of our data services revenues.

The continued strong performance in our converged IP revenues reflects customer migration to IP-based solutions and the ability of our Enterprise Solutions division to deliver leading edge solutions to our customers. Our IP virtual private network customer base has grown strongly, increasing to 172 as at December 31, 2006, which is up by 39%.

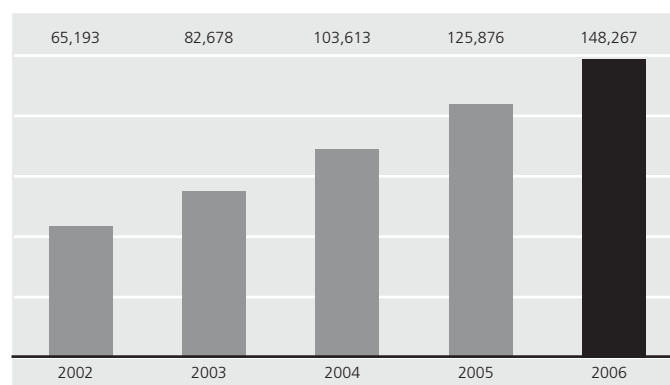
Data Services Revenues

(in millions \$)



Strong growth in our high-speed Internet customer base in Manitoba also continued in 2006. As at December 31, 2006, our high-speed Internet customer base totalled 148,267, translating into strong year-over-year growth of 17.8%.

High-Speed Internet Services Customers



Local Services

(in millions \$)	2006	2005	% change
Revenues	553.2	564.3	(2.0)

Local services revenues include basic voice connections for residential customers, including enhanced calling features (such as Call Answer, Call Display, Call Waiting, and 3-Way Calling), payphone revenue, wholesale revenues from services provided to third parties, as well as a full range of local services to business customers. These services allow customers to complete calls in their local calling areas and to access long distance, cellular networks and the Internet.

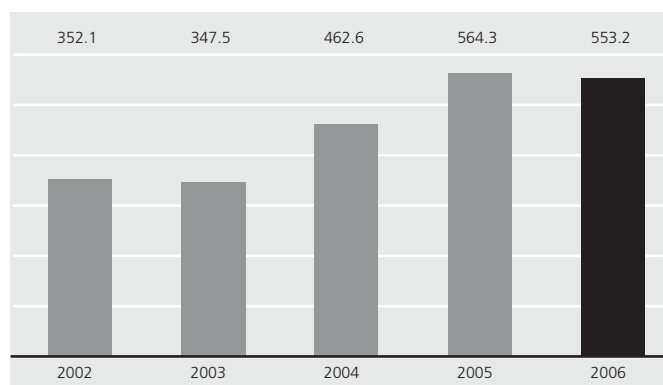
Local services revenues were \$553.2 million for the year, which reflects a decrease of 2.0% as compared to 2005.

The decrease in local services revenues is due to the competitive pressures that our Consumer Markets division began facing in Winnipeg in the latter part of 2005. Our residential line loss for 2006 was 6.7%, which is consistent with our expectation. Our strategy against this competition is a strong value proposition for our customers which includes excellent customer service combined with an attractive suite of products and services, a strong brand, and superior distribution capabilities. By bundling our residential service offerings together, which include long distance, wireless, Internet, digital television and alarm services, we believe that we are well positioned to compete successfully in the long-term. In the fourth quarter of 2006, we experienced some early positive results from our efforts with a substantial decrease in sequential line losses. After adjusting for seasonal temporary disconnections, our residential line losses in the fourth quarter were less than 3,000 lines or 65% lower than the decline experienced in the third quarter of 2006. The increasing success of our winback program has contributed to this lower decline in residential line losses.

Decreased revenues related to losses in network access services to competitors and customer wireless migration, along with lower usage of associated enhanced services in our Consumer Markets division, were offset partly by increased wholesale service revenues in our Enterprise Solutions division. In addition, we received retroactive payments associated with the Band F Decision of \$9.9 million and \$5.9 million in 2006 and 2005, respectively.

Local Voice Services Revenues

(in millions \$)



Long Distance Services

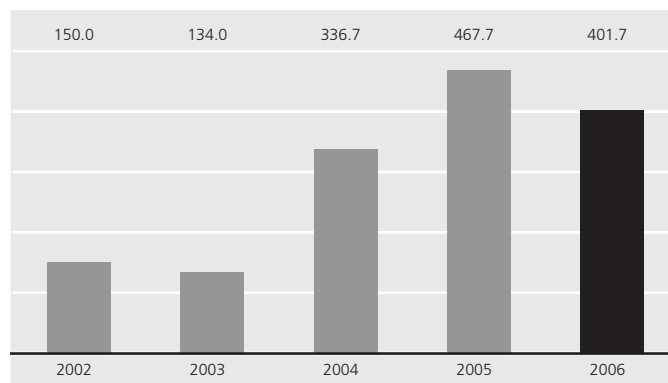
(in millions \$)	2006	2005	% change
Revenues	401.7	467.7	(14.1)

Long distance services enable residential customers in Manitoba and business customers across Canada to communicate with destinations outside the local exchange. Our long distance voice service portfolio includes basic, domestic, cross-border and international outbound long distance, basic and enhanced toll-free services, calling cards and audio conferencing, as well as a variety of enhanced long distance services and features.

Long distance revenues in 2006 decreased by 14.1% to \$401.7 million from \$467.7 million in 2005. The effects of competitive pricing pressures across all of our market segments are reflected in these results. Our Consumer Markets division continued to experience decreased revenue due to local line losses and customer migration to lower-priced long distance plans along with wireless and e-mail substitutions. Our Enterprise Solutions division was impacted negatively by lower rates in the domestic, cross-border and international markets, which were offset partly by higher cross-border and international volumes.

Long Distance Services Revenues

(in millions \$)



Wireless Services

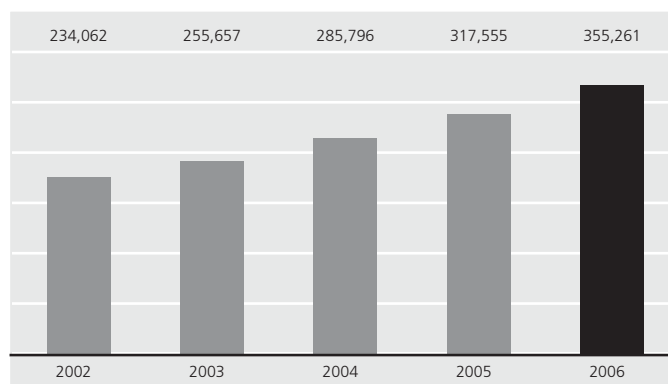
(in millions \$)

	2006	2005	% change
Revenues	234.1	207.7	12.7

Our wireless portfolio consists of cellular, wireless data, paging and group communications services that we offer in the Manitoba market.

We experienced strong year-over-year growth in our wireless services revenues. In 2006, revenues from wireless services grew by \$26.4 million, or 12.7%, to reach \$234.1 million. The primary driver of this performance was our growing cellular customer base, which increased by 11.9% to 355,261 as at December 31, 2006, and was complemented by increased average monthly revenue per user (“ARPU”).

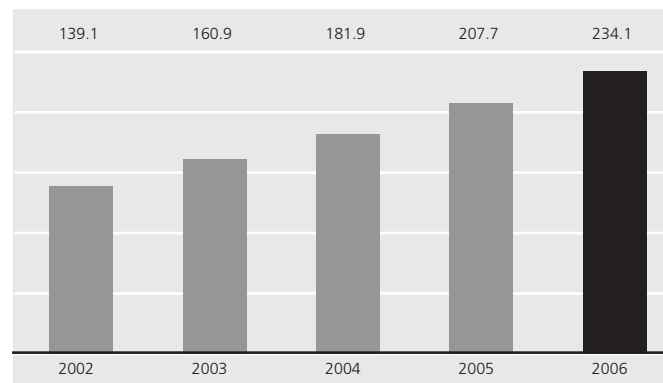
Wireless Services Customers



The expanding popularity of our wireless services, including related data features such as text messaging, and other enhanced features, also continued to drive increased utilization rates, and contributed to an ARPU of \$56.65 as at year-end, representing a 1.0% improvement over the previous year.

Wireless Services Revenues

(in millions \$)



Other Revenues

(in millions \$)

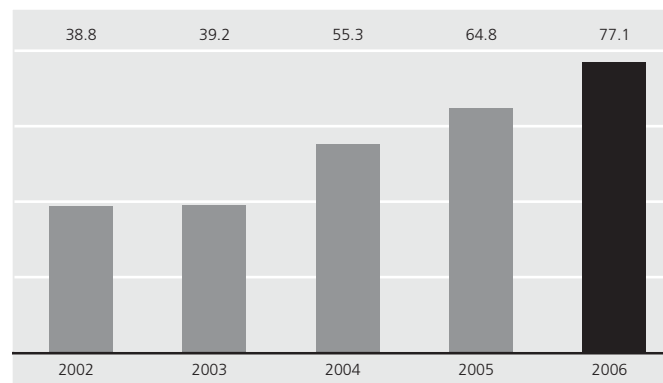
	2006	2005	% change
Revenues	77.1	64.8	19.0

Other revenues consist of revenues earned from our digital television services and miscellaneous items. Our digital television service is offered across our broadband network platform and is targeted at residential customers in Winnipeg. Miscellaneous revenues primarily consist of security and alarm monitoring services, and the sale and maintenance of terminal equipment.

Other revenues climbed by 19.0% to \$77.1 million in 2006 from \$64.8 million in 2005. This increase was due primarily to strong revenue growth from digital television services.

Other Revenues

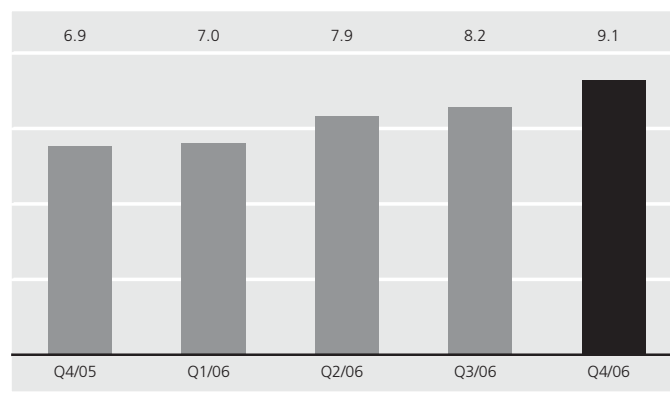
(in millions \$)



For the 12 months ended December 31, 2006, digital television services revenues increased by 40.6% to \$32.2 million. This increase reflects strong year-over-year growth in customers and video on demand service revenues.

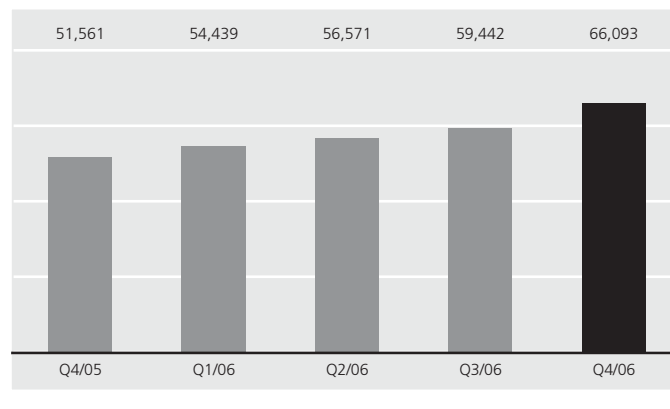
Digital Television Services Revenues

(in millions \$)



Our subscriber base increased to 66,093 as at December 31, 2006, representing an increase of 28.2% over 2005. The fourth quarter of 2006 was the strongest yet, with 6,651 customer additions, which is more than double the additions in any other quarter in 2006, increasing our overall television market share to 26.6% in Winnipeg. Our digital television service is available to 96% of homes in Winnipeg.

Digital Television Services Installed Customers



Operating Expenses

Operations Expense

(in millions \$)	2006	2005	% change
Operations Expense	1,260.1	1,323.5	(4.8)

Operations expense in the 12 months ended December 31, 2006 decreased by \$63.4 million, or 4.8%, when compared to 2005. Contributing to this year-over-year decrease were lower expenses

as a result of our TP2 cost reduction program, which contributed approximately \$97 million to in-year realized savings in 2006. Partly offsetting these savings were higher expenses for our growth operations, and the inclusion of 12 months of Delphi's expenses in 2006, as compared to six months after its acquisition in July 2005.

Transition Phase II Cost Reduction Program

In late 2005, we undertook our extensive, two-year TP2 cost reduction program to achieve annualized savings of a minimum of \$100 million. During 2006, we identified further cost saving opportunities, and on October 2, 2006, we announced a workforce reduction program, which increased our targeted annualized savings to \$120 million, with no change to the overall cost of the program. As at December 31, 2006, we have achieved annualized expense savings of \$109 million. While we have completed substantially all of the activities under our TP2 cost reduction program, employee reductions will continue in 2007, and cost reductions will be considered achieved on the respective departure dates. We expect to achieve total annualized expense savings of approximately \$120 million, with 90% of the related departures slated to occur by the first quarter of 2007.

To achieve these cost savings, we expected to incur approximately \$100 million in one-time costs. The table below summarizes how these costs were expensed or capitalized in 2005 and 2006:

(in millions \$)	estimated	actual
Q4 2005 Integration and Restructuring Expense	35.4*	31.8
2006 Restructuring Expense	35 – 45	32.9
2006 Capital Expenditures		9.9
Q4 2006 Restructuring and Integration Expense	20 – 25	19.0*
Total Cost of Program	100	93.6

* represent accrued amounts relating to workforce reduction initiatives

In 2006, the cash costs for our TP2 cost reduction program represented the following: \$27.2 million, which we applied to the liability relating to the fourth quarter 2005 restructuring and integration element of the program; \$32.9 million in restructuring expense; and \$9.9 million in capital expenditures, which brings cash costs to \$70.0 million.

Restructuring and Integration Costs

(in millions \$)	2006	2005	% change
Restructuring and Integration Costs	56.8	61.6	(7.8)

In 2005, we incurred \$61.6 million in restructuring costs. Restructuring and integration expenses in 2006 were \$56.8 million. Included in restructuring costs during 2006 is the workforce reduction charge of \$19.0 million in relation to our TP2 cost reduction program. In the fourth quarter of 2006, we initiated a further workforce reduction program and expensed \$8.5 million. This program is part of our 2007 restructuring program to identify efficiencies and reduce annualized costs by an estimated \$40 million to \$50 million. The restructuring and integration costs

during 2006 include \$32.9 million for restructuring expense and \$9.9 million for capital expenditures, and a reversal of an amount that was accrued in 2005 is included.

Amortization Expense

<i>(in millions \$)</i>	2006	2005	% change
Amortization Expense	330.6	316.1	4.6

During 2006, amortization expense increased by 4.6% to \$330.6 million, as compared to \$316.1 million in 2005. This increase resulted primarily from higher plant in service.

Other Income

<i>(in millions \$)</i>	2006	2005	% change
Other Income	5.5	3.0	83.3

Other income in 2006 increased to \$5.5 million from \$3.0 million in 2005. This increase is attributable primarily to a provision that reduces the carrying value of a long-term investment to nil in the fourth quarter of 2005 and increased investment income, which are offset partly by a gain realized in the first quarter of 2005 on the disposition of our investment in a wireless venture.

Debt Charges

<i>(in millions \$)</i>	2006	2005	% change
Debt Charges	60.6	60.8	(0.3)

Debt charges in 2006 were lower for the year at \$60.6 million. This decrease primarily reflects maturing long-term debt, which was refinanced at a lower interest cost with short term debt. These decreased interest costs were offset largely by interest associated with our accounts receivable securitization program, higher short-term interest rates, and short-term debt levels.

As at December 31, 2006, we had \$848.1 million of outstanding debt, as compared to \$1,004.2 million as at December 31, 2005. Our debt to total capitalization ratio as at December 31, 2006 was 36.0%, and continues to provide us with financial strength and flexibility going forward.

Income Tax Expense

<i>(in millions \$)</i>	2006	2005	% change
Income Tax Expense	126.7	22.5	n.m.

We have the benefit of substantial loss carryforwards, as a result of our acquisition of Allstream in 2004, which allows us to reduce our taxable income to zero without utilizing our substantial and growing capital cost allowance ("CCA") pools. Through the utilization of these loss carryforwards in the amount of \$1.7 billion as at December 31, 2006 (2005 – \$2.3 billion), followed by utilization of our deferred CCA deduction in the amount of \$2.3 billion as at December 31, 2006 (2005 – \$2.1 billion), we project that we will not pay cash taxes any earlier than 2014.

Income tax expense increased from \$22.5 million in 2005 to \$126.7 million in 2006 due to several non-cash adjustments which were made during the period. An adjustment of \$11.8 million for a reduction of a tax asset valuation allowance reduced income tax expense during the fourth quarter of 2006. In the second quarter of this year, we recorded a \$58.6 million non-cash charge to reflect a decrease in the book value of our income tax asset, as a result of a reduction in future income tax rates. A similar adjustment of \$9.6 million was recorded in the second quarter of 2005 for a reduction in future income tax rates in Manitoba. As well, in the second quarter of 2005, a non-cash gain of \$72.5 million associated with the settlement of prior years' tax audits was recorded. All of these adjustments to income tax expense are non-cash impacting.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

<i>(in millions \$)</i>	2006	2005	\$ change
Cash Flows from Operating Activities	423.6	404.8	18.8

Cash flows from operating activities refers to cash we generate from our normal business activities.

Cash flows from operating activities in 2006 increased to \$423.6 million from \$404.8 million in 2005. This increase is attributable to solid operating performance in both our divisions and a one-time cash payment associated with tax paid in 2005 resulting from the Bell West gain, which was offset partially by higher pension solvency funding.

Cash Flows used in Investing Activities

<i>(in millions \$)</i>	2006	2005	\$ change
Cash Flows used in Investing Activities	222.6	349.3	(126.7)

Investing activities represent cash used for acquiring, and cash received from disposing of, long-term assets and other long-term investments.

Cash flows used in investing activities decreased by \$126.7 million for the 12 months ended December 31, when comparing activities that were undertaken in 2006 versus 2005.

This year-over-year decrease was driven mainly by decreased capital spending, the proceeds from our disposition of real estate in downtown Winnipeg for \$51.1 million, and fewer acquisitions. In 2006, we acquired Valley Cable Vision (1997) Limited for cash consideration of \$4.3 million, while in 2005, we acquired Delphi for approximately \$15 million and received proceeds of \$8.1 million from the sale of our investment in a wireless venture.

Capital Expenditures

In 2006, capital was allocated principally to fund our higher growth segments, as well as to maintain our network and business systems. In 2006, capital expenditures totalled \$272.7 million, as compared to \$340.5 million in 2005. In addition, capital expenditures for 2006 included restructuring projects of \$9.9 million, as compared to \$22.4 million in 2005.

Free Cash Flow

<i>(in millions \$)</i>	2006	2005
Free Cash Flow (Continuing Operations)	286.0	241.7
Pension Solvency Funding	(87.5)	(69.2)
Restructuring Expense	(56.8)	(61.6)
Retroactive Direct Connect/Access Tandem Decisions	6.7	–
Restructuring Capital Expenditures	(9.9)	(22.4)
Retroactive Band F Decision	9.9	5.9
Taxes on Bell West Gain	20.5	(38.0)
Retroactive CDNA Decision	–	4.3
Consolidated Free Cash Flow	168.9	60.7

Free cash flow refers to cash flow from operating activities, less capital expenditures, and excluding changes in working capital, and excludes the \$12.5 million non-cash adjustment to current tax expense that was part of the tax audit settlement recorded in the second quarter of 2005.

Free cash flow from continuing operations was \$286.0 million in 2006, which is up by \$44.3 million from the previous year. This increase is attributable primarily to lower capital expenditures.

Consolidated free cash flow, which includes items not from continuing operations, was \$168.9 million in 2006, as compared to \$60.7 million in the previous year. Lower capital expenditures and the tax paid in 2005 resulting from the Bell West gain, which was offset partially by higher pension solvency funding, are primarily responsible for this increase.

Cash Flows from Financing Activities

<i>(in millions \$)</i>	2006	2005	\$ change
Cash Flows from Financing Activities	378.6	120.5	258.1

Financing activities refer to actions we undertake to fund our operations through equity capital and borrowings.

Cash flows used in financing activities for 2006 were \$378.6 million, as compared to \$120.5 million in 2005. We paid cash dividends of \$176.6 million, and repaid net notes payable and long-term debt of \$108.0 million and \$48.1 million, respectively, and purchased for cancellation 1,363,600 Common Shares for \$61.9 million under our Issuer Bid. In 2005, we paid cash dividends of \$175.9 million and repaid long-term debt in the amount of \$60.1 million, and issued net notes payable of \$108.0 million.

Credit Facilities

<i>(in millions \$)</i>	Capacity	Utilized at Dec. 31/06
Commercial Paper	150.0	–
Accounts Receivable Securitization	150.0	–
Revolving Credit Facility	200.0	85.4
Total	500.0	85.4

We have arrangements in place that allow us to access the debt and commercial paper markets for funding when required. Borrowings under these facilities typically are used to fund new initiatives, refinance maturing debt, and manage cash flow fluctuations.

Our previous \$350 million medium term note program expired on October 7, 2006, and we plan to establish another \$350 million medium term note program in the second quarter of 2007. In addition to our planned medium term note program, we have additional credit facilities available in the amount of \$500.0 million, which consist of a fully back-stopped commercial paper program of \$150.0 million, an accounts receivable securitization program of \$150.0 million and a \$200.0 million revolving credit facility. As at December 31, 2006, our commercial paper program and accounts receivable securitization program were unutilized, and we utilized \$85.4 million of our revolving credit facility, which represent undrawn letters of credit. Of this amount, \$68.2 million represents letters of credit issued under the new Solvency Funding Relief Regulations, which permit the extension of pension solvency payments from a five-year amortization period to a 10-year amortization period for our defined benefit pension plans.

Capital Structure

<i>(in millions \$)</i>	Dec. 31/06	Dec. 31/05
Long-term Debt and Notes Payable	848.1	1,004.2
Shareholders Equity	1,505.9	1,429.8
Total Capitalization	2,354.0	2,434.0
Debt to Capitalization	36.0%	41.3%

Our capital structure illustrates the amount of our assets that are financed by debt versus equity. Our debt to total capitalization ratio of 36.0% as at December 31, 2006 continues to represent excellent financial strength and flexibility.

We launched our Issuer Bid on December 18, 2006, pursuant to which we are permitted to purchase for cancellation up to 6,807,624 Common Shares, or approximately 10% of the public float, over a 12-month period ending no later than December 17, 2007. As at December 31, 2006, we had purchased for cancellation 1,363,600 Common Shares pursuant to this Issuer Bid.

Credit Ratings

S&P – Senior debentures	BBB+
S&P – Commercial paper	A-2
DBRS – Senior debentures	BBB
DBRS – Commercial paper	R-2 (high)

Two leading rating agencies, Standard & Poor's ("S&P") and Dominion Bond Rating Service ("DBRS"), analyze us and assign ratings based on their assessments. We have consistently been assigned solid investment grade credit ratings. DBRS revised our credit ratings on December 13, 2006 to "BBB" on our senior debentures and "R-2 (high)" on our commercial paper and changed its outlook to stable. On December 13, 2006, S&P confirmed our credit ratings on our long-term corporate credit and senior unsecured debt of "BBB+", and our commercial paper of "A-2". The outlook remained unchanged at negative.

Outstanding Share Data as at March 7, 2007

Authorized:

- ▶ Unlimited number of Preference Shares of two classes issuable in one or more series
- ▶ Unlimited number of Common Shares of a single class

Issued:

Shares	Number	Book Value (in millions \$)
Common	66,062,247	1,291.8

Stock options:

Options	Number	Weighted Average Exercise Price Per Share
Outstanding	1,933,110	\$41.45
Exercisable	658,250	\$37.99

Contractual Obligations

(in millions \$)	2007	2008	2009	2010	2011	After
Long-term Debt	106.5	89.7	220.0	11.9	220.0	200.0
Capital Leases	5.1	2.2	2.2	2.2	2.3	14.3
Operating Leases	64.8	58.6	51.8	45.8	31.2	245.8
Purchase Obligations	100.0	81.6	50.0	21.8	11.9	2.3
Total	276.4	232.1	324.0	81.7	265.4	462.4

Our contractual obligations as at December 31, 2006 are provided in the table above. Our long-term debt consists of medium term notes. We issue medium term notes for general corporate and working capital purposes, and for financing investments and additions to property, plant and equipment. We have equipment under capital leases. We rent buildings, operating facilities, construction and other equipment under operating leases. Purchase obligations include contractual commitments for services required in the normal course of operations, as well as capital purchase commitments under supply contracts and customer contracts.

Financial Instruments, Off-Balance Sheet Arrangements, and Other Financial Arrangements

Foreign Currency Forward Contracts

We use foreign currency forward contracts to manage the price of certain of our U.S. dollar purchases. These instruments are accounted for as hedges of anticipated transactions and are not recorded on our balance sheet. As at December 31, 2006, we did not have any outstanding foreign currency forward contracts.

Commitment

On February 16, 2006, the CRTC issued *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2006-9 ("Decision 2006-9"). In this decision, the CRTC determined that the funds accumulated in our deferral account since the *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34 was issued should be used for the expansion of broadband services, for initiatives to improve accessibility to telecommunications services for persons with disabilities, and for certain rate reductions. After the referenced rate reductions, which took effect in June 2006, the current estimate of the balance to be cleared from our deferral account for these initiatives is approximately \$21 million. The final balance is subject to change dependent upon certain other CRTC proceedings as well as the outcome of appeals of Decision 2006-9, which have been filed by various parties as described in the "Risks and Uncertainties" section.

Accounts Receivable Securitization

On April 11, 2006, we established an accounts receivable securitization program to sell, on a revolving basis, an undivided interest in our accounts receivable, up to a maximum of \$150.0 million. We are required to maintain reserve accounts, in the form of additional accounts receivable over and above the cash proceeds received, to absorb any credit losses on the receivables sold. We are required to maintain certain financial ratios with respect to our accounts receivables, or the cash proceeds must be repaid. We also are subject to certain risks of default which, should they occur, could cause the agreement to be terminated early. As at December 31, 2006, we had not sold any of our accounts receivable under this program.

Guarantees

In the normal course of business and in connection with the disposition of assets, we enter into agreements providing indemnifications that may require us to pay for costs or losses incurred by the parties to these agreements. These indemnifications relate to various matters such as intellectual property right infringement, loss or damage to property, claims arising from the provision of services, violation of laws or regulations, and breaches of representations or warranties. The nature of these indemnifications prevents us from making reasonable estimates of the maximum potential amount we could be required to pay, and no amount has been recorded in the financial statements relating to these indemnifications. Historically, we have not made significant payments related to these indemnifications.

Employee Future Benefits

We have two contributory defined benefit pension plans and one non-contributory defined benefit pension plan. These pension plans provide pensions based on length of service and best average earnings. These pension plans are funded as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits. We also have a defined contribution pension plan which covers certain of our employees. We also provide supplemental pension arrangements and other non-pension employee future benefits that are unfunded with the exception of the long-term disability plan for which we have dedicated assets set aside to fund benefits.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our consolidated financial statements in accordance with Canadian GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We make these estimates and assumptions based on reasonable methodologies, established processes and comparisons to industry standards. We continuously evaluate these estimates and assumptions, which rely on the use of professional judgment. Because professional judgment involves inherent uncertainty, actual results could differ from our estimates. Each of the accounting estimates and assumptions identified below affects both of our operating segments except for the estimates relating to our future tax assets, which affect our company on a consolidated basis only. Our estimates, assumptions and methods have been applied consistently.

Employee Future Benefits

The current actuarial assumptions used in determining our accrued benefit obligations for our pension and other employee future benefit plans include a discount rate of 5.50% for pension liabilities, 5.25% to 5.50% for the non-pension employee future benefits liabilities, and a rate of compensation increase of 3.50% for pension and non-pension employee future benefits. Changes in these assumptions would affect the determination of pension expense and deferred employee benefits.

Future Tax Assets

We have future tax assets resulting from net operating loss carryforwards and deductible temporary differences, which, to the extent utilized, will reduce future taxable income. We assess the realization of these assets as to whether it is more likely than not that all or a portion of the net future tax assets will be utilized. The main factors considered include future earnings potential based on internal forecasts, the carryforward period associated with the future tax assets, the nature of income that can be used to realize the future tax assets, and ongoing audits by Canada Revenue Agency ("CRA"). A change in our assessment of any of these factors could affect the value of our future tax asset and related income tax expense. CRA audits currently are underway for the years 2001 to 2003. These audits include a review of loss carryforwards accumulated by Allstream prior to its acquisition by us.

Future tax assets as at December 31, 2006 and 2005 were reduced by valuation allowances of \$107.7 million and \$158.4 million, respectively. During 2006, we lowered the valuation allowance to reflect a change in our estimate of the expected utilization of acquired income tax losses. See Note 3 to our financial statements.

Restructuring and Integration Costs

We have incurred restructuring and integration costs resulting from our plans to improve efficiencies and reduce operating costs. Accruals for these costs are determined from a detailed action plan that estimates the costs of severance, facilities and systems consolidations, and other integration costs. If actual payments made under the plan are different than estimated, this could impact our restructuring and integration expense and the associated carrying amount of the liability.

Useful Life of Property, Plant and Equipment

Property, plant and equipment are amortized on a straight-line basis over our best estimate of the future period of benefit. The future period of benefit is determined based on a continuing program of engineering studies. We review these estimates on an annual basis or more frequently, if events during the year indicate that a change may be required, with consideration given to technological obsolescence, competitive pressures, and other relevant business factors. A change in our estimate could impact our amortization expense and the carrying value of property, plant and equipment.

Asset Retirement Obligations

When recognizing asset retirement obligations, we are required to make estimates of the probability of retiring assets, the timing and amount of retirement costs, and the discount factor applied to determine fair value. Our estimates of probability and the timing and amount of costs are subject to change, and are reviewed annually or more frequently if events during the year indicate that a change may be required.

Useful Lives of Deferred Cost

Deferred costs are amortized on a straight-line basis over our best estimate of the future period of benefit. We amortize our deferred wireless activation costs over the estimated period of benefit, which is normally two years, while alarm installation costs are amortized over six to 10 years. We review our estimates on an annual basis or more frequently, if events during the year indicate that a change may be required, with consideration given to customer churn, industry standards, and other relevant business factors. A change in our estimate could impact the carrying value of deferred costs.

Goodwill and Other Intangible Assets

We test the recoverability of goodwill and indefinite life intangible assets on an annual basis or earlier when events or changes in circumstances indicate that the carrying value of goodwill or indefinite life intangible assets might not be recoverable. A change in our estimates could impact the carrying value of goodwill or

indefinite life intangible assets. Limited life intangible assets are amortized on a straight-line basis over our best estimate of the future period of benefit. We amortize our customer contracts and relationships, brand name and other contractual arrangements over periods of two and one-half to 10 years. We review our estimates on an annual basis. A change in our estimate could impact amortization expense and the carrying value of limited life intangible assets.

Valuation of Accounts Receivable

As we expect that a certain portion of our receivables from customers will not be collected, we maintain an allowance for doubtful accounts. If circumstances related to specific customers change, economic conditions worsen, or actual results differ from our expectations, our estimate of the recoverability of our receivables could be reduced further from the levels provided for in our consolidated financial statements. A change in our estimate would impact bad debt expense and accounts receivable.

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

Our consolidated financial statements have been prepared using the same accounting policies as the previous year, except for the following accounting policy that was adopted effective April 11, 2006 when we established an accounts receivable securitization program. In 2007, we will adopt new accounting policies which relate to financial instruments and have provided details below.

Accounts Receivable Securitization

We account for the transfer of receivables as a sale when we are deemed to have surrendered control over the transferred receivables in exchange for proceeds. When the receivables are sold, we remove the receivables sold from our balance sheet, recognize the assets received and the liabilities incurred at fair value, and record a gain or loss on sale in other income. We continue to service the receivables and recognize a servicing liability on the date of sale, amortizing this liability to earnings over the expected life of the transferred accounts receivable.

Financial Instruments

Effective for our 2007 fiscal year, we have adopted the following sections issued by the CICA: Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation, Section 1530, Comprehensive Income and Section 3865, Hedges.

Section 3855, Financial Instruments – Recognition and Measurement, and Section 3861, Financial Instruments – Disclosure and Presentation provide guidance for the recognition, measurement and presentation of financial assets, financial liabilities and non-financial derivatives, and identifies the information that should be disclosed about them. Section 1530, Comprehensive Income establishes standards for the reporting and display of comprehensive income. Comprehensive income is a new measure of income comprised of

net income and other comprehensive income. Other comprehensive income is required to temporarily recognize certain revenues, expenses, gains and losses outside of net income. Section 3865, Hedges provides guidance on when and how hedge accounting may be applied. This section prescribes the conditions under which hedge accounting may be applied, the measurement basis to be applied, and the timing of income recognition. Hedge accounting under this section is optional.

Our first reporting period under these new standards will be the first quarter of 2007. We are determining the impact that these changes in accounting policies will have on our consolidated financial statements once they are adopted. At transition, our financial assets and financial liabilities will be remeasured in accordance with the new standards. Any adjustments to the previous carrying amounts of our financial instruments will be recognized as an adjustment to retained earnings as at January 1, 2007, or to accumulated other comprehensive income, as appropriate.

RISKS AND UNCERTAINTIES

This section describes the major risks and uncertainties to our business and operations.

Changes in Competitive Conditions

Over the last several years, there has been increasing competition in the telecommunications market. Specific to us, we expect that the broad market segment trends within our industry that we have encountered over these past few years will continue in 2007. Continued competition is expected from both existing companies as well as new entrants in the industry. The dynamics of consolidation and mergers among incumbents and alternative telecommunications providers, and the entry of cable providers in the local voice market, also will contribute to the ongoing change and evolution within our competitive landscape.

In Manitoba, we expect the greatest competitive threats to come from an incumbent cable provider, which entered the local residential telephony market in Manitoba in 2005. We also expect continuing competitive pressure in the large business, long distance, wireless and Internet markets. In addition, wireless broadband Internet companies provide service today in certain rural areas of Manitoba, often in locations where we do not offer a competing high-speed Internet service. As these technologies evolve, the impact of these providers may become more significant.

At the national level, we expect to face continued competition for our existing and planned services from, among others, the ILECs, cable companies, competitive long distance providers, wireless providers, CLECs, Internet service providers, Centrex resellers and other current and planned telecommunications providers. In each of the business areas we serve outside of Manitoba, the principal competitors are the ILECs serving those geographic areas.

Accelerated Pricing Pressure in Legacy Services

A percentage of our current revenue base is represented by our legacy services, such as long distance, local, frame relay and private line data services. Over the past few years, these revenues have come under heightened competitive pricing pressure, and are at risk of displacement over time from next generation and IP services, which typically are priced lower than legacy services with comparable bandwidth or functionality. While we have seen a decline in revenues from our legacy services, we have been adding new revenues from our growth services. In 2005, our growth services accounted for 29% of our overall revenue, whereas this increased to 36% in 2006.

AT&T Relationship

Effective November 30, 2004, our Enterprise Solutions division and AT&T Corp. (“AT&T”) extended, until June 30, 2011, a master services agreement (the “MSA”), pursuant to which AT&T provides us with continued use of certain AT&T technology and capabilities related to toll-free, calling card and customer care platforms. As is typical in such commercial agreements, provisions exist for early termination of the MSA. The MSA may be terminated upon the occurrence of certain defined defaults under the MSA, or the acquisition of 20% or more of our equity by a strategic competitor, or upon 36 months prior written notice.

Throughout 2006, AT&T continued the transitioning of its data traffic onto its own networks, resulting in loss of revenue for us as we had forecasted. We anticipate that this impact also will be felt in 2007 as AT&T continues this transition. We have strategies underway to facilitate the migration of customers to IP solutions utilizing our capabilities, and to mitigate the impact on our financial performance associated with the changes made by AT&T.

Bell Mobility Agreement

We have an agreement and other arrangements in place with Bell Mobility which address competition in each other’s territory and provide us with access to various wireless-related platforms and products. Our wireless customers are provided with service in certain of Bell Mobility’s operating territories, and Bell Mobility’s customers are provided with service in Manitoba. The agreement provides for notice of termination by either party six months in advance of December 31, 2007. If we are unable to renew this agreement on terms and conditions that are acceptable to us, we will need to secure satisfactory alternatives to replace some or all of these arrangements. We are currently in discussions with Bell Mobility, and we believe that we will be able to establish new arrangements with them, which together with other alternatives available to us, will ensure continuity of service going forward.

Changes in CRTC Regulation

The CRTC governs the telecommunications and broadcast industries in which we operate. We operate as both an ILEC in Manitoba and as a CLEC nationally. In addition, pursuant to Broadcasting Decision CRTC 2002-235, the CRTC granted us a Class 1 regional broadcasting distribution licence to operate as a broadcasting distribution undertaking serving Winnipeg and the surrounding areas. Current regulatory proceedings and policy issues, which present significant risk and uncertainty to our business, are described below.

Telecommunications Policy Review

On March 22, 2006, the TPR Report of the Telecommunications Policy Review Panel was submitted to the federal Minister of Industry and released to the public. The TPR Report is substantial, including over 120 recommendations for modernization of the telecommunications policy framework in Canada. The Government of Canada had begun the process of responding to and implementing portions of the TPR Report when the Minister of Industry, as an interim measure, tabled a proposed Policy Direction to the CRTC in Parliament on June 13, 2006. The draft Policy Direction included a requirement that the CRTC review the regulatory framework regarding mandated access to ILEC-controlled network services by competitors. After receiving comments from stakeholders and hearings conducted by the Parliamentary Standing Committee for Industry, the government issued the final form of the Policy Direction to the CRTC on December 18, 2006. The Policy Direction responds positively to the concerns raised by us and other competitive providers in requiring that the CRTC, as part of its current review of essential access for competitors to network infrastructure controlled by the ILECs, take account of the principles of technological and competitive neutrality, the potential for incumbents to exercise retail market power absent competitor wholesale access, and the impediments faced by competitors in seeking to develop competing network facilities. We are participants in the proceeding that has been commenced by the CRTC to review the definition of essential facilities.

Essential Facilities

On November 9, 2006, the CRTC issued *Review of regulatory framework for wholesale services and definition of essential services*, Telecom Public Notice CRTC 2006-14. This is the first time since 1997 that a review of the definition of essential facilities has been undertaken. The starting point for the CRTC’s review is the definition utilized by the Competition Bureau, which defines essential facility as “an input that provides the firm controlling it with the power to lessen or prevent competition in a relevant downstream market.” As well, the Policy Direction mandates that the CRTC take account of the matters referred to above in its review. We will be active participants in this CRTC proceeding, which will carry on throughout 2007, with a decision expected by mid-2008.

Deferral Account

On February 16, 2006, the CRTC issued Decision 2006-9. In this decision, the CRTC determined that the funds accumulated in our deferral account should be used for certain reductions in rates for basic local residential services and for certain optional features; for the expansion of broadband

services; and for initiatives to improve accessibility to telecommunications services for persons with disabilities. After using approximately \$5 million to fund the required rate reductions which came into effect on June 1, 2006, the estimate of the balance to be cleared from our deferral account for the remaining initiatives is approximately \$21 million. The final calculation of the balance to be cleared is dependent upon certain other CRTC proceedings.

Groups representing consumers and Bell each have been granted leave to appeal Decision 2006-9 by the Federal Court of Appeal. As well, another company, Barrett Xplore Inc., has appealed this decision to the federal government, and also has made an application to the CRTC to review and vary its decision. These proceedings may delay the final drawdown of the balance of the deferral account.

We have submitted proposals for broadband expansion and other initiatives for the CRTC's consideration which meet the goals and objectives of Decision 2006-9, and which are consistent with our business goals. On November 30, 2006, the CRTC issued *Review of proposals to dispose of the funds accumulated in the deferral accounts*, Telecom Public Notice CRTC 2006-15. This public notice initiates a CRTC proceeding to review the proposals submitted by the ILECs. This proceeding is expected to conclude by the middle of 2007, with a decision expected by the end of 2007 or early 2008.

VoIP Services

On May 12, 2006, in response to an appeal by Bell, TELUS Communications Inc. ("TELUS"), and Saskatchewan Telecommunications ("SaskTel"), the Minister of Industry asked the CRTC to reconsider *Regulatory framework for voice communications services using Internet Protocol*, Telecom Decision CRTC 2005-28 ("Decision 2005-28") regarding the regulatory treatment of the provision of local VoIP service by the ILECs. In Decision 2005-28, the CRTC found that VoIP services were offered in the same market as other basic local voice services and, therefore, determined that VoIP services should be accorded the same regulatory treatment as basic local voice services, such as the obligation to file tariffs for this service. In the proceeding that the CRTC initiated to canvass views on this reconsideration, we expressed agreement with the CRTC's original findings, and indicated that there is no sound basis for having different regulatory treatment for VoIP and local voice services when offered using traditional technology. On September 1, 2006, the CRTC issued Telecom Decision 2006-53 ("Decision 2006-53"), which reaffirmed the regulatory treatment of VoIP services as established in Decision 2005-28. On November 9, 2006, the Governor in Council varied Decision 2005-28 as confirmed by Decision 2006-53 to the extent that so-called "retail local access-independent VoIP services" that are offered by the ILECs within their incumbent territories should not be subject to economic regulation.

Local Forbearance

On April 6, 2006, the CRTC issued *Forbearance from the regulation of retail local exchange services*, Telecom Decision CRTC 2006-15 (the "Forbearance Decision"). The Forbearance Decision sets out the details of the framework for forbearance from the regulation of local exchange services, including local forbearance criteria, and

outlines the scope of forbearance to be granted and the adoption of transitional measures to aid in the development of sustainable local competition. On September 1, 2006, the CRTC issued Telecom Public Notice CRTC 2006-12 (the "Reconsideration") to re-assess the market share thresholds set out in the Forbearance Decision. Evidence in the Reconsideration proceeding indicated that local competition in the residential market was taking hold more quickly than the CRTC had anticipated when it issued the original Forbearance Decision. As well, the Reconsideration does not extend to the non-market share loss forbearance criteria such as the existence of competitor wholesale access tariffs and satisfaction of quality of service indicators by the applicant. A decision in this proceeding is expected in early 2007, but will depend upon the federal Cabinet's actions as described below.

Aliant Telecom Inc., Bell, TELUS, and SaskTel also have been granted leave to appeal the Forbearance Decision to the Federal Court of Appeal, and also have appealed this decision to the federal Cabinet. On December 11, 2006, the government issued a proposed order to vary the Forbearance Decision (the "Order"). The Order purports to accelerate deregulation of retail local telephone services offered by ILECs within their operating territories by substituting the market share test established by the CRTC with a test based on the presence of competitive infrastructure; narrowing the relevant geographic market for any forbearance determination; maintaining the requirement for satisfaction of competitor quality of service indicators with some modification; and ending restrictions on winback and marketing promotional activity by ILECs in their operating territories. The Order was open for comment by stakeholders until the middle of January 2007, after which the government has until early April 2007 to vary the Forbearance Decision. We have made submissions with respect to the Order, which point out certain concerns regarding the consistency of the Order with the TPR Report and the Policy Direction.

Price Caps

On May 9, 2006, the CRTC issued *Review of price cap framework*, Telecom Public Notice CRTC 2006-5, which invited proposals for the regulation of the incumbent retail services that remain subject to rate regulation. The ILECs, including our Consumer Markets division, have been subject to price caps, a form of incentive regulation, since 1998. This will be the third price cap review undertaken by the CRTC. The regime that will be put in place as a result of this proceeding will commence in June 2007, and likely will be in place for a number of years. We are participating in this proceeding and expect that the CRTC will issue a decision in the second half of 2007. We are proposing a regime that reflects the emergence of competition in the residential market by offering greater pricing flexibility, and increasing reliance on competitive market forces to set price rather than artificial regulatory mechanisms such as the deferral account mechanism.

Pension Solvency Funding

We have defined benefit pension plans which provide retirement benefits to our employees. These plans are funded as determined through periodic actuarial valuations.

In 2006, the federal government enacted the *Solvency Funding Relief Regulations* (the “Regulations”) for defined benefit pension plans regulated under the *Pension Benefits Standards Act, 1985* (Canada). The Regulations enable smoothing of solvency payments and extension of the solvency funding amortization period.

We have filed revised January 1, 2006 actuarial valuations to enable the extension of our solvency funding payments from five years to 10 years based on the Regulations. In 2006, employer solvency and special payments to our defined benefit pension plans totalled \$87.5 million. Solvency funding payments made in 2006 prior to the implementation of the Regulations exceeded the amounts required for 2006 under the Regulations. These overpayments in 2006 will reduce payments to approximately \$15 million to \$20 million in 2007 pursuant to the Regulations. The anticipated 2007 funding is subject to change based on the results of the January 1, 2007 actuarial valuations. In accordance with the requirements of the Regulations, we have obtained letters of credit to guarantee future funding of our registered pension plans.

Future solvency funding requirements will depend on the results of annual actuarial funding valuations which are affected by various factors, such as return on plan assets, changes in solvency liability discount rates, and government regulations regarding the requirements associated with solvency valuations.

Market Conditions and Economic Fluctuations

Our future operating results may be affected by changes in the conditions of specific markets for certain of our products and services and, in the overall market for communications, and by conditions in the domestic or global economy generally. The business prospects and performance of the Canadian economy have a direct impact on our company. As competition in the overall marketplace escalates, the broad market segment trends that have taken shape in recent years also will persist in 2007. A slowdown in the Canadian and global economies could impact our business, including reducing our access to low-cost investment capital. Any decline in economic growth and commercial activity may result in residential and business customers delaying purchases or discontinuing the use of our services. Slower economic conditions also may affect our ability to collect receivables from customers.

Collective Agreements

A significant portion of our employees are unionized and are covered by collective agreements. Our unionized employees are represented by the following five unions: the Telecommunications Employees Association of Manitoba (“TEAM”); the International Brotherhood of Electrical Workers, Local 435 (“IBEW”); the Communications, Energy and Paperworkers Union of Canada, Local 7 (“CEP”); the Canadian Auto Workers, Local 2000 (“CAW”); and the United

Steelworkers of America, TC Local 1976 (“USWA”). Our collective agreements have expiry dates ranging from December 2006 to April 2009. It is anticipated that our collective agreements will be renewed without a labour disruption.

The TEAM collective agreement expired on February 19, 2007. We have two collective agreements with IBEW which expire on January 31, 2008 and on April 27, 2009. We have two collective agreements with CEP which expire on November 20, 2007 and on December 19, 2007. Our collective agreement with CAW expired on December 31, 2006, and our collective agreement with USWA expired on December 31, 2006. The collective agreements with CAW, USWA, and TEAM are in the process of being renegotiated.

Rapid Technological Change and Displacement

The telecommunications industry is subject to rapid and significant changes in technology that may reduce the relative effectiveness of existing technology and equipment, such as consumer hardware devices across all product lines, including wireline, wireless, Internet and digital television services. Network technology continues to evolve at a pace that may enable new competitors to enter the market with increased flexibility, provide increased choice for customers, and speed the obsolescence of our core technologies. This could result in the displacement of products and services by substitutes and create a potential for accelerated investment in our network evolution. Technological advancement also results in an increased risk of obsolescence of our property, plant and equipment. Although we believe our network represents leading edge technology, all aspects of voice, data, and video telecommunications are undergoing rapid technological change.

Competition Bureau Review of Allstream Acquisition

The three-year period during which the Competition Bureau may review the acquisition of Allstream expires in June 2007. Prior to the closing of our acquisition of Allstream in June 2004, all of the necessary steps required by the Competition Bureau were completed. We advised the Competition Bureau of our intention to close this acquisition, and the Competition Bureau did not express any objection to this closing. The merger provisions of the *Competition Act* (Canada) permit the Competition Bureau to seek relief in respect of merger transactions that are likely to prevent or lessen competition substantially. As these merger provisions permit a merger transaction to be reviewed up to three years after the transaction has been substantially completed, there can be no assurance that a challenge of the acquisition before the Competition Bureau will not be made, or, if such a challenge is made, of the result. We believe that our acquisition of Allstream is beneficial to the competitive landscape of the Canadian telecommunications industry, and that any actions on the part of the Competition Bureau will not have a material adverse effect on our operations.

Allstream/Inukshuk/NR Communications Venture

During the fourth quarter of 2003, Allstream entered into a venture (the "Venture") with Microcell Solutions Inc. (formerly Inukshuk Internet Inc.) ("Microcell"), and NR Communications, LLC ("NR") to build a multipoint communications systems network to offer high-speed Internet, IP-based voice and local networking services using broadband wireless access technology. Each party owned a one-third interest in the Venture. Allstream had a period of time to evaluate the technology and its potential commercial acceptance. While the results of the evaluation demonstrated the promise of fixed broadband technology, our priorities and corporate initiatives indicated that our future relationship with the Venture would be better suited as a strategic supplier of telecommunications services. On January 24, 2005, Microcell and NR purchased equal shares of our ownership interest in the Venture for \$8.1 million in cash, which represented our total investment made in the Venture.

In April 2004, Unique Broadband Wireless Services, Inc. ("UBS") filed a statement of claim against Allstream, Inukshuk Internet Inc. ("Inukshuk"), Microcell Telecommunications Inc. and Microcell with the Ontario Superior Court of Justice. This claim, which seeks damages in the amount of \$160 million and other relief, alleges, in part, that Allstream induced Inukshuk and Microcell to breach their agreement with UBS relating to the use of certain wireless spectrum and licences, and that it intentionally interfered with the contractual arrangements between these parties. We believe that we have a good defence to this claim, and we are defending our position vigorously.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information that is required to be disclosed in prescribed filings and reports that are filed with the Canadian securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") as appropriate to allow timely decisions regarding required disclosure.

Under the direction of our Audit Committee and our CEO and CFO, we evaluated our disclosure controls and procedures as at December 31, 2006. Based on this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures, as defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are effective to ensure that information that is required to be disclosed in prescribed documents and reports that we file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation.

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the direction of our Audit Committee and our CEO and CFO, we have designed internal control over financial reporting using an industry-accepted internal control framework and criteria, and believe the design to be sufficient to provide such reasonable assurance.

There have been no changes in our internal control over financial reporting during the interim period ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SOCIAL RESPONSIBILITY

We are a strong supporter of the Canadian communities in which we live, work and do business. We take pride in, and work hard at, the support our company has in communities in our home province of Manitoba, and across Canada. Together with our employees across Canada, we make significant contributions to support charitable organizations, educational and non-profit endeavours, sporting and cultural events. During 2006, we contributed to a wide range of organizations through direct program funding, in-kind contributions, and the volunteer efforts of our employees.

In Manitoba, where we are one of the largest private sector employers, we have an almost 100-year history of providing support through funding, service in-kind, and volunteer efforts. The MTS Volunteers, a group of over 3,000 current and retired MTS employees, donated over 70,000 hours of support to community events and organizations in 2006. In addition, we create programs that promote corporate responsibility, such as our province-wide cellular phone recycling program. Nationally, in the major cities across the country, we are also active in the community, both through funding and employee volunteer efforts. We actively sponsor several key initiatives and organizations, and we encourage employees to contribute their time and talents through our volunteer support program.

In addition, the company is committed to sound environmental performance, which is governed through our Environmental Policy. The Policy was established to ensure that we operate our business in a manner that reflects concern for the environment and supports the principles of sustainable development. We have a number of proactive programs across the country to reduce our impact on the environment. We are a proud corporate partner to the communities we call home.

OUTLOOK

Forward-looking statements disclaimer

This outlook includes forward-looking statements about our corporate direction, financial objectives, and future financial results and performance that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking information. Forward-looking statements reflect our expectations as at March 7, 2007. Examples of statements that constitute forward-looking information may be identified by words such as “believe”, “expect”, “project”, “anticipate”, “could”, “target”, “forecast”, “intend”, “plan”, “outlook”, “pending”, and other similar terms. Factors that could cause actual results to differ materially from those expected, and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in such forward-looking information, include, but are not limited to, the items identified in the “Risks and Uncertainties” and the “Outlook” sections of this MD&A. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information relating to our company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

Factors that could cause actual results to differ materially include, but are not limited to, the intensity of competitive activity from both traditional and new competitors (competitive conditions); the ability to retain major customers (customer relationships); decisions by the federal regulator that affect our ability to compete effectively (developments in federal regulation); general economic and market conditions and the level of consumer confidence and spending, and the demand for, and prices of, our products and services (market conditions and economic fluctuations); the ability to manage labour relations effectively (collective agreements); the ability to anticipate, and respond to, changes in technology (technology); and other risk factors discussed in this MD&A and listed from time to time in our comprehensive public disclosure documents and in other filings with Canadian securities regulatory authorities.

Our financial outlook from continuing operations, as detailed below, remains unchanged since originally announced on December 13, 2006:

2007 Financial Outlook – Continuing Operations

Revenues	\$1.875 billion – \$1.925 billion
EBITDA	\$625 million – \$655 million
EPS	\$2.30 – \$2.50
Free Cash Flow	\$240 million – \$270 million
Capital Expenditures	14% – 15% of revenues

Looking beyond 2007, we expect consolidated revenue and EBITDA growth in the range of 1% to 3% for 2008 and into the near future.

Business Review

On January 31, 2006, we initiated a comprehensive business review aimed at delivering long-term value to investors and customers. This business review was undertaken to evaluate our competitive position and strategic opportunities for creating and delivering shareholder value. The review involved extensive consultations between our Board of Directors and management, as well as discussions with external financial advisors and industry consultants.

On December 13, 2006, we announced the completion of this review, and provided our outlook for 2007 and related business plans. As part of these plans, we will increase cash distributions to shareholders and sharpen our strategic focus on growth opportunities in key segments of the national business market and within Manitoba, where we remain the clear market leader.

Specifically, these plans call for us to:

- ▶ distribute 70% to 80% of our annual distributable cash flow (before pension solvency payments and restructuring charges) to our shareholders via share buyback programs and/or dividends;
- ▶ purchase for cancellation approximately \$320 million worth of our Common Shares prior to December 31, 2007, which will be funded by the proceeds from the sale of non-core assets;
- ▶ maintain our current annual dividend of \$2.60 per Common Share;
- ▶ continue to deliver double-digit increases in growth services, which rapidly are overtaking legacy services as a proportion of total revenue and EBITDA;
- ▶ adopt a focused market approach, which leverages our national network footprint and core competencies, and launch innovative new services for mid-sized enterprises and small businesses in specific geographic markets, and for households and consumers in Manitoba;
- ▶ reduce our costs by \$40 million to \$50 million in 2007, in addition to the \$120 million of cost savings expected to be achieved from our TP2 cost reduction program; and
- ▶ direct the majority of our 2007 capital expenditures, which will total 14% to 15% of our revenue, towards investments in our growth services.

During the review period, we:

- ▶ delivered four consecutive quarters of solid business performance, including double-digit growth in our key product lines and improved our margins;
- ▶ managed a successful leadership transition to a new CEO;
- ▶ sold our non-core Manitoba directories business for \$281 million, and completed the sale of selected commercial real estate holdings in downtown Winnipeg for \$51.1 million;

- ▶ realized cost savings of \$97 million in 2006;
- ▶ implemented marketing strategies to accelerate the profitable transition of legacy-related revenues to growth revenues in the years ahead;
- ▶ refocused and revitalized our Enterprise Solutions division; and
- ▶ continued our track record of being first to market with major new technology innovations.

A Sharpened Strategic Focus

We have a unique position in the Canadian communications services industry. We are the leading full-service communications provider in Manitoba, and a leading presence in national enterprise markets.

In addition to serving our current markets, our business review also identified opportunities to increase our focus on serving the national mid-market and small business segments. Our mid-market strategy is centred on the availability of our market-leading IP network in major urban centres. Together, our new initiatives are forecasted to achieve \$200 million of incremental revenues by 2010.

In our Consumer Markets division, where local competition has intensified, our emphasis will be on growth products and bundles in areas such as high-speed Internet, wireless and digital television services. Our goal is to maintain our position as the one-stop provider of clear choice to Manitoba households and consumers, by delivering double-digit growth in our Internet, digital television, and wireless services in 2007 in a more competitive and deregulated market. We anticipate that local service will be forborne in Winnipeg by the end of 2007, which will enhance our ability to compete against new market entrants.

In our Enterprise Solutions division, we will build on our established leadership in advanced IP, MPLS solutions and unified communications. As part of this new strategy, we will strive to reduce our direct costs through the migration of customers to our network, and we will continue to improve our productivity and cost structure. From a growth perspective, revenues from our IP connectivity and unified communications product lines are forecasted to grow at significant double-digit rates.

Material Assumptions

We made a number of assumptions in preparing our outlook and making certain other forward-looking statements, including, but not limited to, the following:

Economic Assumptions

The general economic activity in the national and regional markets in which we operate influences our performance. Consistent with the Manitoba Finance Survey of forecasts, which includes the Conference Board of Canada, we assumed a growth rate of approximately 2.6% for gross domestic product for the Manitoba and national markets.

Market Assumptions

As competition in the overall marketplace escalates, the broad market segment trends that have taken shape in recent years also will persist in 2007. Growth in service areas such as wireless, Internet, digital television, converged IP and unified communications specifically for business customers, is expected to continue at similar levels in 2007. The competitive pressure experienced in traditional legacy services, which include data connectivity, local and long distance services will continue in similar trends as it did in 2006. Likewise, we anticipate that customer demand will continue to migrate to next generation services. To face the continued strong competition in the business markets, we are refining our market focus, creating innovative IP solutions, reducing our cost structure, and investing selectively in high-margin opportunities. Although competition from the incumbent cable operator is expected to continue in the Manitoba residential market, we are confident that we have prudently prepared our operations and strategies to counter these threats. Through our broadband network initiative and our residential service offerings, which include local and long distance, wireless, Internet, digital television and alarm services, we believe that we are well-positioned to compete successfully.

Financial and Operational Assumptions

We have made the following financial and operating assumptions with respect to the forward-looking information in this outlook:

- ▶ converged IP revenue growth of 25% to 30%;
- ▶ unified communications revenue growth of 45% to 50%;
- ▶ wireless customer growth of 9% to 12%;
- ▶ consumer high-speed Internet customer growth of 12% to 15%;
- ▶ digital television revenue growth of 35% to 40%; and,
- ▶ residential network access services decline of 5% to 7%.

We have future tax assets resulting from net operating loss carryforwards, which, to the extent utilized, will reduce future taxable income. As such, we do not expect to pay any cash taxes on earnings from operations in 2007.

Cost Reduction Assumptions

Key to our operating and financial progress will be our restructuring activities. We expect to achieve further cost reductions in 2007 of between \$40 million and \$50 million. To capture these additional savings, we expect to incur further restructuring costs of \$30 million to \$40 million in 2007. These costs are not included in our 2007 outlook from continuing operations.

Liquidity and Capital Resources Assumptions

Our operations historically have delivered strong cash flows, and we expect this positive trend to continue in 2007. We will continue to invest in our core operations with a focus on our growth products and services to ensure success in the markets in which we operate. Significant investments have been made in modernizing our network infrastructure both in Manitoba and nationally. In 2005, we saw the completion of a five-year, \$300 million broadband expansion program in Manitoba, which positions our network capabilities second to none in Canada. These investments, in addition to the investment choices we are making nationally, are placing us in a favourable position in terms of capital requirements going forward. In 2007, our capital program is expected to be 14% to 15% of our revenue.

Our cash requirements for 2007 include two non-recurring obligations. These consist of approximately \$50 million to \$60 million for restructuring programs in 2007, and solvency funding of approximately \$15 million to \$20 million for our pension plans. Cash expenditures for restructuring in 2007 will include approximately \$20 million to complete the TP2 cost reduction program and \$30 million to \$40 million for our 2007 efficiency initiatives. From a 2007 cash flow perspective, we anticipate funding all of our requirements, including quarterly dividend payments, capital expenditures, restructuring costs and pension contributions, from operations with no incremental borrowings.

REPORT ON MANAGEMENT'S RESPONSIBILITY

Management is responsible for the information contained in the annual filings of Manitoba Telecom Services Inc. The annual filings include the accompanying consolidated financial statements and Management's Discussion and Analysis, along with the Annual Information Form.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and assumptions. The information presented in Management's Discussion and Analysis, and elsewhere in the annual report, as well as in the Annual Information Form, is consistent with the information contained in the consolidated financial statements. For the year ended December 31, 2006, each of the Chief Executive Officer and the Chief Financial Officer have signed and filed their certifications in the following form with respect to the Company's 2006 annual filings:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Manitoba Telecom Services Inc. (the "issuer") for the period ending December 31, 2006;
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
 - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the annual filings are being prepared;
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
 - (c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation; and
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

In fulfilling its responsibilities, management, under the direction of the Chief Executive Officer and the Chief Financial Officer, has developed and maintains a system of internal controls, including systems and processes, policies and procedures, segregation of duties and responsibilities, and an internal audit program. This system is designed to provide reasonable assurance that assets are adequately accounted for and safeguarded, transactions are properly authorized and recorded, and the financial records are reliable for preparing the financial statements and financial information included in Management's Discussion and Analysis and the Annual Information Form.

The Company also maintains an employee *Guide for Business Conduct & Ethics*, which requires employees to follow high ethical business standards, and a *Corporate Disclosure Policy & Practices*, which requires the public disclosure of all material information in accordance with securities regulations.

The Board of Directors carries out its responsibility for the consolidated financial statements, Management's Discussion and Analysis, and the Annual Information Form principally through its Audit Committee. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the consolidated financial statements and other annual filings. The Audit Committee has recommended the consolidated financial statements, Management's Discussion and Analysis and the Annual Information Form to the Board for approval, and the Board has approved these documents.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows.



Pierre Blouin
Chief Executive Officer



Wayne Demkey, CA
Chief Financial Officer

AUDIT COMMITTEE REPORT

To the Shareholders

Manitoba Telecom Services Inc.

The Audit Committee, which is comprised of five independent directors appointed by the Board of Directors, ensures that appropriate due diligence has been directed towards the control, accountability and reporting functions of Manitoba Telecom Services Inc. (the "Company"). In fulfilling these responsibilities, the Audit Committee makes assessments and determinations and, where appropriate, makes recommendations to the Board of Directors concerning the following matters:

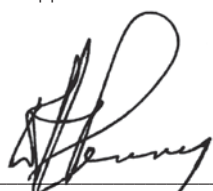
- (a) Annual audited financial statements and financial reporting;
- (b) Interim unaudited financial statements and financial reporting;
- (c) External audit function;
- (d) Internal audit function;
- (e) Internal control environment;
- (f) Principal risks of the Corporation's business and implementation of appropriate systems to manage these risks;
- (g) Communication Policy for the distribution of financial information to the public;
- (h) Governance and administration of employee pension plans; and
- (i) Coordination of special studies and reviews.

The Audit Committee has responsibility to monitor and strengthen the independence of the external and internal audit functions by establishing a direct reporting relationship between the auditors and the Audit Committee, providing a forum for communicating with the Board of Directors, and establishing a governance process over the engagement of the external auditors. Maintaining the independent and objective viewpoint of the external auditors is critical to the external financial reporting process. Accordingly, the Audit Committee has established an *Auditor Independence Policy* to ensure that the external auditors remain independent in fact and in appearance. The *Auditor Independence Policy* applies in all cases where the Company intends to engage the external auditors, and requires the pre-approval of the Audit Committee for all non-audit services to be provided by the external auditors.

The text of the Audit Committee's Charter and a summary of the *Auditor Independence Policy* are disclosed in the Company's Annual Information Form.

During 2006, the Audit Committee met independently with each of management and the external auditors to discuss the audited consolidated financial statements, including the quality of internal controls, accounting principles and significant judgments affecting these audited consolidated financial statements.

The Audit Committee has received written disclosure from the external auditors regarding their independence. The Audit Committee has recommended the audited consolidated financial statements and Management's Discussion and Analysis to the Company's Board of Directors for approval, and the Board has approved these documents.



Donald H. Penny, C.M., FCA, LL.D.

Chairman of the Audit Committee

AUDITORS' REPORT

To the Shareholders

Manitoba Telecom Services Inc.

We have audited the consolidated balance sheets of Manitoba Telecom Services Inc. as at December 31, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba

January 31, 2007

CONSOLIDATED STATEMENTS OF INCOME*Years ended December 31 (in millions, except earnings per share)*

	2006	2005
Operating revenues		
Data services	\$ 660.3	\$ 675.8
Local services	553.2	564.3
Long distance services	401.7	467.7
Wireless services	234.1	207.7
Other	77.1	64.8
	1,926.4	1,980.3
Operating expenses		
Operations	1,260.1	1,323.5
Restructuring and integration (Note 2)	56.8	61.6
Amortization	330.6	316.1
	1,647.5	1,701.2
Operating income	278.9	279.1
Other income	5.5	3.0
Debt charges	(60.6)	(60.8)
Income before income taxes and discontinued operations	223.8	221.3
Income taxes (Note 3)		
Current	(17.4)	(20.3)
Future	144.1	42.8
	126.7	22.5
Income before discontinued operations	97.1	198.8
Income from discontinued operations, net of tax (Note 5)	202.3	14.9
Net income for the year	\$ 299.4	\$ 213.7
Basic earnings per share (Note 14)		
Income before discontinued operations	\$ 1.43	\$ 2.94
Net income	\$ 4.40	\$ 3.16
Diluted earnings per share (Note 14)		
Income before discontinued operations	\$ 1.42	\$ 2.92
Net income	\$ 4.39	\$ 3.14

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>Years ended December 31 (in millions)</i>	2006	2005
Retained earnings, beginning of year	\$ 96.6	\$ 59.0
Net income for the year	299.4	213.7
Dividends declared	(176.9)	(176.1)
Purchase of outstanding shares (Note 14)	(35.2)	—
Retained earnings, end of year	\$ 183.9	\$ 96.6

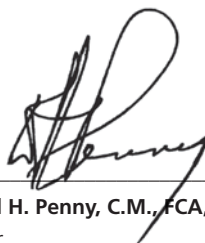
CONSOLIDATED BALANCE SHEETS

<i>December 31 (in millions)</i>	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 106.7	\$ -
Accounts receivable (Note 4)	215.8	212.6
Prepaid expenses	24.3	20.5
Future income taxes (Note 3)	111.4	130.9
Assets of discontinued operations (Note 5)	-	24.6
	458.2	388.6
Property, plant and equipment (Note 6)	1,459.6	1,502.9
Other assets (Note 7)	299.9	191.9
Future income taxes (Note 3)	654.0	803.6
Goodwill and other intangible assets (Note 8)	51.8	97.2
	\$ 2,923.5	\$ 2,984.2
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	\$ -	\$ 9.9
Accounts payable and accrued liabilities	387.0	362.4
Advance billings and payments	38.8	54.2
Notes payable (Note 9)	-	108.0
Current portion of long-term debt (Note 10)	106.5	48.1
Current portion of capital lease obligations (Note 11)	4.5	4.3
Liabilities of discontinued operations (Note 5)	-	3.3
	536.8	590.2
Long-term debt (Note 10)	741.6	848.1
Long-term portion of capital lease obligations (Note 11)	18.3	17.5
Deferred employee benefits	46.4	51.4
Other long-term liabilities (Note 12)	71.3	45.3
Future income taxes (Note 3)	3.2	1.9
	1,417.6	1,554.4
Shareholders' equity		
Share capital (Note 14)	1,305.1	1,315.0
Contributed surplus (Note 15)	16.9	18.2
Retained earnings	183.9	96.6
	1,505.9	1,429.8
	\$ 2,923.5	\$ 2,984.2

Approved on behalf of the Board



Thomas E. Stefanson, FCA
Chairman



Donald H. Penny, C.M., FCA, LL.D.
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended December 31 (in millions)</i>	2006	2005
Cash flows from operating activities		
Income before discontinued operations	\$ 97.1	\$ 198.8
Add (deduct) items not affecting cash		
Amortization	330.6	316.1
Future income taxes (Note 3)	144.1	42.8
Gain on sale of investment	–	(2.7)
Provision against long-term investment	–	4.5
Deferred wireless costs	(31.4)	(32.9)
Pension funding and net pension credit	(99.7)	(79.0)
Other, net	0.9	4.1
Decrease in taxes payable on Bell West gain	–	(38.0)
Changes in non-cash working capital	(18.0)	(8.9)
Cash flows from operating activities	423.6	404.8
Cash flows from investing activities		
Capital expenditures, net	(272.7)	(340.5)
Acquisitions (Note 16)	(4.3)	(18.6)
Proceeds from sale of buildings	54.2	–
Proceeds on sale of investment	–	8.1
Other, net	0.2	1.7
Cash flows used in investing activities	(222.6)	(349.3)
Cash flows from financing activities		
Dividends paid	(176.6)	(175.9)
Repayment of long-term debt	(48.1)	(60.1)
(Repayment) issuance of notes payable, net	(108.0)	108.0
Issuance of share capital (Note 14)	15.1	4.9
Purchase of outstanding shares (Note 14)	(61.9)	–
Other, net	0.9	2.6
Cash flows used in financing activities	(378.6)	(120.5)
Cash flows before discontinued operations	(177.6)	(65.0)
Cash flows from discontinued operations (Note 5)	294.2	23.5
Net increase in (bank indebtedness) cash and cash equivalents	116.6	(41.5)
(Bank indebtedness) cash and cash equivalents, beginning of year	(9.9)	31.6
Cash and cash equivalents (bank indebtedness), end of year	\$ 106.7	\$ (9.9)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005 (All financial amounts are in millions \$, except where noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Manitoba Telecom Services Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

Use of accounting estimates

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used in accounting for items such as revenues, employee compensation and benefit plans, allowance for doubtful accounts, useful lives of assets, asset retirement obligations, recoverability of goodwill and other intangible assets, accruals for restructuring and integration costs, and income taxes.

Revenue recognition

Revenues from local, data and digital television services are recognized in the period in which the services are provided. Data services include data connectivity, Internet and information technology ("IT") services. Revenues from long distance and wireless airtime are recognized based on usage in the period in which the services are provided. Revenues from telecommunications and IT services-related product sales are recognized once the product is delivered to, and is available for use by, the customer in accordance with contractual arrangements. Revenues from telecommunications and IT services-related maintenance services are deferred and recognized over the period of the customer contract. Directory revenues are recognized during the period in which the directory is in circulation.

Advance payments received from customers are deferred and recognized in the period in which the services are provided.

Estimated sales rebates are recognized in the same period as the related revenues.

Services and products may be sold together as multiple element arrangements. When the components of these multiple element arrangements have stand-alone value to the customer, they are recognized separately based on relative fair values.

Cash and cash equivalents (bank indebtedness)

Cash and cash equivalents (bank indebtedness) include cash on hand, net of bank overdrafts, and money market instruments, which are readily convertible into known amounts of cash.

Accounts receivable securitization

The Company accounts for the transfer of receivables as a sale when the Company is deemed to have surrendered control over the transferred receivables in exchange for proceeds. When the receivables are sold, the Company removes the receivables sold from the balance sheet, recognizes the assets received and the liabilities incurred at fair value, and records a gain or loss on the sale in other income. The Company also retains reserve accounts, which are retained interests in the securitized receivables. The Company measures the fair value of the receivables transferred based on the present value of expected future cash flows, using management's best estimates of the key assumptions. The amount of gain or loss recognized on the sale of receivables depends in part on the carrying amount of the receivables involved in the transfer, allocated between the fair values of the receivables sold and the reserve accounts at the date of sale. The Company continues to service the receivables and recognizes a servicing liability on the date of sale, amortizing this liability to earnings over the expected life of the transferred accounts receivable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment**

Property, plant and equipment are recorded at original cost, which include materials, direct labour and certain overhead costs associated with construction activity and an allowance for the cost of funds during construction, less specifically related investment tax credits. These tax credits are recorded when the Company has reasonable assurance that they will be realized. Amortization is calculated on a straight-line basis over the estimated useful life of property, plant and equipment. For a significant portion of the Company's property, plant and equipment, amortization rates are determined based on a continuing program of engineering studies. The composite amortization rate for the year ended December 31, 2006, was 8.3% (2005 – 8.5%).

The estimated useful lives of property, plant and equipment are as follows:

	Estimated useful life
Network equipment and outside plant	3 to 45 years
General equipment and other	2 to 20 years
Buildings	10 to 40 years
Equipment under capital lease	3 to 20 years

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This obligation subsequently is adjusted for the passage of time and for any revisions to the timing or amount required to settle the obligation. Upon the initial measurement of an asset retirement obligation, a corresponding asset retirement cost is added to the carrying value of property, plant and equipment. This cost is amortized on the same basis as the related asset. Changes in the asset retirement obligation due to the passage of time and the amortization of the asset retirement cost are recorded in amortization expense. Asset retirement obligations are presented in accounts payable and accrued liabilities and in other long-term liabilities on the balance sheet.

Deferred costs

Deferred costs include wireless activation costs and alarm installation costs that are amortized on a straight-line basis over the estimated periods of benefit, which are normally two years for wireless activation costs, and six to 10 years for alarm installation costs. Deferred costs also include costs associated with the issuance of long-term debt, which are amortized over the term of the issue. Deferred costs are presented in other assets on the balance sheet.

Goodwill and other intangible assets

Goodwill represents the excess of the aggregate purchase price over the fair value of the identifiable net tangible assets and intangible assets purchased at the dates of acquisition. The Company has assigned each of its unamortized goodwill balances to a reporting unit and tests goodwill for impairment on an annual basis, or more frequently if impairment indicators arise. Any impairment in the value of goodwill is charged to income in the period in which such review is performed.

Other intangible assets include limited life intangible assets and indefinite life intangible assets. The limited life intangible assets represent customer contracts and relationships, brand name and other contractual arrangements, which are amortized on a straight-line basis over the estimated periods of benefit of two and one-half to 10 years. The indefinite life intangible assets represent a trade name and a broadcasting certificate, which are not amortized. The carrying values of the intangible assets with indefinite lives are tested for impairment on an annual basis, or when events occur which indicate that the carrying value may not be recoverable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of foreign currencies

Foreign currencies have been translated into Canadian dollars at rates of exchange on the following bases:

- monetary assets and liabilities at rates in effect on the date of the balance sheet;
- non-monetary assets and liabilities at the historical exchange rates; and
- revenues and expenses at rates prevailing at the respective transaction dates.

Foreign exchange hedging

The Company purchases foreign currency forward contracts in U.S. dollars to manage foreign currency exchange exposure, which arises in the normal course of business operations. The Company applies hedge accounting for foreign currency forward contracts and U.S. dollars that are designated and effective as hedges of foreign currency denominated commitments. The Company's policy is to formally document the relationship between a hedging instrument and a hedged item, as well as the nature of the specific risk exposure being hedged and the intended term of the hedging relationship. The effectiveness of the hedge is assessed at its inception and throughout the term of the hedge. Gains and losses on foreign currency forward contracts and U.S. dollars that qualify for hedge accounting are recognized in income in the same period in which gains and losses on the underlying hedged transactions are recognized. The Company does not utilize derivative financial instruments for speculative purposes. As at December 31, 2006, the Company had no outstanding foreign currency forward contracts.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes reflect the estimated income taxes payable for the current year. Future income tax assets and liabilities are measured using substantively enacted tax rates and are based on:

- the differences between the tax basis of an asset or liability and its carrying amount for accounting purposes; and
- the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

Stock-based compensation

The Company uses the fair value method to account for stock options granted to employees after January 1, 2002. Under the fair value method, the Company recognizes estimated compensation expense related to stock options over the vesting period of the options granted, with the related credit being charged to contributed surplus. Upon exercise of these stock options, amounts previously credited to contributed surplus are reversed and credited to share capital.

Employee future benefits

Pension and other employee future benefit costs are determined using the projected benefit method prorated on years of service and based on best estimate assumptions. The discount rate used to calculate the accrued benefit obligation is determined by reference to market interest rates of high-quality corporate bonds at the measurement date. The expected return on plan assets is based on a market-related value of pension fund assets. Market-related values of pension fund assets are calculated using a four-year moving average of year-end market values. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the expected average remaining service life of active employees, except for the post-retirement medical and dental benefits programs, where the average remaining life expectancy of former employees is used in the determination of the amortization period. Where applicable, past service costs for defined benefit plans are amortized on a straight-line basis over the remaining service period of participating employees expected to receive benefits. Transitional assets and obligations, arising upon implementation of the recommendations in CICA Handbook section 3461, Employee Future Benefits, are amortized on a straight-line basis over the expected average remaining service life of active employees.

2. RESTRUCTURING AND INTEGRATION

During 2006 and 2005, the Company recorded restructuring and integration expenses as follows:

Years ended December 31

	Consumer Markets		Enterprise Solutions		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Integration								
Phase one								
Other restructuring	–	12.7	–	3.5	–	1.3	–	17.5
Phase two								
Workforce reduction	18.6	8.8	(3.6)	25.4	0.4	1.2	15.4	35.4
Other restructuring	16.5	–	16.4	–	–	–	32.9	–
	35.1	8.8	12.8	25.4	0.4	1.2	48.3	35.4
Restructuring								
Workforce reduction	–	6.5	8.5	2.1	–	0.1	8.5	8.7
	35.1	28.0	21.3	31.0	0.4	2.6	56.8	61.6

Integration – phase one

In 2005, the Company substantially completed its first phase of integration and restructuring, an initiative that commenced in 2004 following the acquisition of Allstream Inc. In this first phase, the Company incurred severance and other employee-related costs, as well as costs to consolidate facilities, systems and operations. Total costs of \$89.7 million were incurred over 2004 and 2005 to complete phase one, of which \$17.5 million was expensed in 2005 and \$5.5 million was expensed in 2004. The remainder of the program costs were either capitalized or recorded as part of the acquisition of Allstream Inc.

Integration – phase two

In the fourth quarter of 2005, the Company launched the second phase of integration and restructuring to further integrate its operating divisions and corporate functions. This cost reduction program includes both workforce reduction initiatives and activities to improve network access costs and further integrate compatible functions and processes. While the Company has substantially completed all initiatives under phase two of integration and restructuring, some employee departures will continue into 2007. The Company has recognized workforce reduction and integration expenses related to this program in the amount of \$48.3 million in 2006, and \$35.4 million in 2005, and has incurred \$9.9 million of capital costs in 2006.

The outstanding liability as at December 31, 2005, relating to the workforce reduction element of the program was \$35.1 million. During 2006, this estimate was reduced by \$3.6 million, new costs of \$19.0 million were accrued, and payments of \$27.2 million were applied against this liability, leaving an outstanding liability of \$23.3 million as at December 31, 2006.

Restructuring – workforce reduction

In the fourth quarter of 2006, the Company commenced a restructuring program in order to improve efficiencies and reduce operating costs. This program, which will continue throughout 2007, is estimated to cost approximately \$30 million to \$40 million. These costs include severance and other employee-related expenses, as well as costs to automate and consolidate certain systems and processes. In 2006, the Company accrued expenses of \$8.5 million relating to a workforce reduction element of the program.

In the first quarter of 2005, the Company initiated a workforce reduction program in order to improve efficiencies and reduce operating costs. The costs related to this initiative include severance and other employee-related costs. The initiative was substantially completed in 2005.

3. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2006	2005
Combined basic federal and provincial statutory income tax rate	35.9%	36.2%
Large corporations tax	–	2.1
Other items	(0.2)	2.0
Change in valuation allowance for future income tax asset	(5.3)	–
Settlement of prior years' tax audits	–	(32.8)
Change in substantively enacted tax rates	26.2	2.7
Effective tax rate	56.6%	10.2%

The balances of future income taxes as at December 31, 2006 and 2005 represent the future benefit of unused tax losses and temporary differences between the tax and accounting bases of assets and liabilities. The major items giving rise to future income tax assets and liabilities are presented below:

	2006	2005
Non-capital loss carryforwards	584.2	803.5
Property, plant and equipment	330.4	255.2
Other	(44.7)	32.3
Total future income tax asset	869.9	1,091.0
Valuation allowance	(107.7)	(158.4)
Net future income tax asset	762.2	932.6

Future tax assets as at December 31, 2006 and 2005 were reduced by valuation allowances of \$107.7 million and \$158.4 million, respectively. During 2006, the Company lowered the valuation allowance by \$41.0 million to reflect a change in management's estimate of the expected utilization of acquired income tax losses. This change in the valuation allowance was allocated first to reduce the net carrying value of acquired intangible assets to nil, with the remainder allocated as a reduction of income tax expense of the current period. In addition, the allowance was reduced by \$9.7 million to reflect a change in substantively enacted tax rates.

Future income taxes are comprised of:

	2006	2005
Current future income tax asset	111.4	130.9
Long-term future income tax asset	654.0	803.6
Long-term future income tax liability	(3.2)	(1.9)
Net future income tax asset	762.2	932.6

During 2006, the Company recovered \$20.3 million of cash income taxes (2005 – paid \$26.8 million).

As at December 31, 2006, the Company had non-capital loss carryforwards available to reduce future years' taxable income, which expire as follows:

2008	47.1
2009	1,639.2
2010 and beyond	8.0
	1,694.3

4. ACCOUNTS RECEIVABLE SECURITIZATION

On April 11, 2006, the Company established an accounts receivable securitization program with an arm's length securitization trust pursuant to an agreement which expires on April 11, 2011. Under the terms of this agreement, the Company has the ability to sell, on a revolving basis, an undivided ownership interest in its accounts receivable, up to a maximum of \$150.0 million. During the term of the agreement, the Company is subject to certain risks of default which, should they occur, could cause the agreement to be terminated early. The undivided ownership interest is sold on a fully serviced basis and the Company receives no fee for ongoing servicing responsibilities.

The Company is required to maintain reserve accounts, classified as retained interests, in the form of additional accounts receivable over and above the cash proceeds received, to absorb credit losses on the receivables sold. For financial statement purposes, the reserve accounts have been included in accounts receivable. The trust has no recourse to the undivided ownership interest in the retained receivables, other than through the reserve accounts. The fair value of the reserve accounts approximates carrying value as a result of the short collection cycle and negligible credit losses. As at December 31, 2006, the Company had not sold any of its accounts receivable to the trust.

During the year ended December 31, 2006, the Company recognized a pre-tax loss of \$0.2 million on the sale of accounts receivable, which is recorded in other income.

The following table is a summary of cash flows received and paid to the trust during the year:

	2006
Proceeds from new securitizations	150.0
Proceeds from collections reinvested in revolving period securitizations	803.0

The key assumptions used to determine the loss on sale of receivables and the fair values attributed to the retained interest for the year are as follows:

	2006
Annual discount rate	4.50%
Weighted average life of receivables sold (days)	39
Credit loss ratio	0.61%
Servicing fee liability	1.0%

5. DISCONTINUED OPERATIONS

On October 2, 2006, the Company sold its directories business, which was part of the Consumer Markets division, to Yellow Pages Group Co. for cash proceeds of \$275.0 million.

The following table provides further information on the composition of revenues and income related to discontinued operations:

	2006	2005
Revenue	29.1	36.9
Income from discontinued operations before income taxes	20.2	23.3
Gain on sale of discontinued operations before income taxes	259.0	-
Current income tax expense related to discontinued operations	(6.3)	-
Future income tax expense related to discontinued operations	(70.6)	(8.4)
Income from discontinued operations, net of tax	202.3	14.9

5. DISCONTINUED OPERATIONS (continued)

The following table provides further information on the composition of assets and liabilities related to discontinued operations:

	2006	2005
Assets		
Current assets	–	12.7
Property, plant and equipment, net	–	4.7
Other long-term assets	–	7.2
Assets of discontinued operations	–	24.6
Liabilities		
Current liabilities	–	3.2
Long-term liabilities	–	0.1
Liabilities of discontinued operations	–	3.3

The following table provides further information on cash flows relating to discontinued operations:

	2006	2005
Cash flows from operating activities	19.4	25.4
Cash flows from (used in) investing activities	274.8	(1.9)
Cash flows from discontinued operations	294.2	23.5

6. PROPERTY, PLANT AND EQUIPMENT

	2006		2005	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Network equipment and outside plant	2,820.8	1,751.7	2,707.1	1,629.2
General equipment and other	464.7	279.9	461.7	273.2
Buildings	211.0	114.6	229.1	110.8
Equipment under capital lease	3.2	1.8	3.3	1.6
Plant under construction	80.2	–	84.6	–
Materials and supplies	22.1	–	25.1	–
Land	5.6	–	6.8	–
	3,607.6	2,148.0	3,517.7	2,014.8
Net book value		1,459.6		1,502.9

7. OTHER ASSETS

	2006	2005
Pension asset (Note 18)	212.9	117.4
Deferred wireless activation costs	33.5	33.7
Restricted cash	14.8	14.5
Long-term prepaid costs	13.8	9.3
Investment tax credits receivable	9.2	–
Deferred alarm installation costs	7.4	7.0
Other deferred costs	5.7	6.9
Long-term disability fund, at cost	2.6	3.1
	299.9	191.9

The pension asset represents the net of employer pension contributions and pension expense.

The carrying value of deferred costs is presented net of accumulated amortization. Total amortization of deferred costs charged to operations amounts to \$33.3 million in 2006 (2005 – \$28.3 million).

Restricted cash includes \$14.8 million held in trust as protection for the former directors and officers of the predecessor company to Allstream Inc. relating to their potential personal liability arising out of their actions as directors or officers. The restrictions on this cash will terminate upon the earlier of (i) December 31, 2008, if there have been no claims, and (ii) three years from the date of conclusive resolution of all related claims.

The market value of the long-term disability fund was \$5.7 million as at December 31, 2006 (2005 – \$5.8 million).

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	2006	2005
Goodwill	36.0	34.9
Other intangible assets	15.8	62.3
	51.8	97.2

During 2006, the carrying values of certain other intangible assets were reduced to nil as a result of a reduction in the future tax asset valuation allowance (Note 3). Other intangible assets consist of customer contracts and relationships of \$11.4 million (2005 – \$53.6 million), broadcasting certificate of \$2.9 million (2005 – nil), brand name of \$0.5 million (2005 – \$1.0 million), other contractual arrangements of \$1.0 million (2005 – \$1.2 million), and trade name of nil (2005 – \$6.5 million). As at December 31, 2006, other intangible assets were recorded at a cost of \$22.4 million (2005 – \$77.9 million) less accumulated amortization of \$6.6 million (2005 – \$15.6 million). Total amortization of other intangible assets charged to operations amounts to \$10.2 million in 2006 (2005 – \$9.4 million).

9. NOTES PAYABLE

The Company has a \$350.0 million bank credit facility with a syndicate of financial institutions which consists of \$150.0 million to support the Company's commercial paper program, and a \$200.0 million revolving credit facility for cash management purposes and the issuance of letters of credit. The Company utilized its fully back-stopped commercial paper program and credit facilities during 2006, and paid short-term interest of \$2.9 million (2005 – \$1.3 million). As at December 31, 2006, the Company had \$85.4 million in undrawn letters of credit outstanding against its operating line of credit.

10. LONG-TERM DEBT

	2006	2005
Medium Term Note, 8.00%, due April 17, 2006	–	48.1
Medium Term Note, 9.00%, due May 2, 2007	14.6	14.6
Medium Term Note, 6.50%, due July 2, 2007	80.0	80.0
Medium Term Note, 8.50%, due September 29, 2007	11.9	11.9
Medium Term Note, 9.125%, due April 3, 2008	27.7	27.7
Medium Term Note, 5.90%, due June 2, 2008	62.0	62.0
Medium Term Note, 5.85%, due February 23, 2009	70.0	70.0
Medium Term Note, 5.25%, due June 10, 2009	150.0	150.0
Medium Term Note, 8.625%, due September 8, 2010	11.9	11.9
Medium Term Note, 5.20%, due September 27, 2011	220.0	220.0
Medium Term Note, 6.15%, due June 10, 2014	200.0	200.0
	848.1	896.2
Less: current portion of long-term debt	(106.5)	(48.1)
	741.6	848.1

Interest expense on long-term debt, including amortization of debt issue costs, amounts to \$52.1 million in 2006 (2005 – \$57.0 million). During 2006, the Company paid interest on long-term debt of \$52.4 million (2005 – \$57.4 million).

11. CAPITAL LEASE OBLIGATIONS

The Company's future minimum lease payments under capital leases as at December 31, 2006, are summarized in the following table:

	2006
2007	5.1
2008	2.2
2009	2.2
2010	2.2
2011	2.3
2012 and thereafter	14.3
Total minimum lease payments	28.3
Less: imputed interest at 4.78%	(5.5)
Balance of the obligations	22.8
Less: current portion of capital lease obligations	(4.5)
	18.3

Interest expense on capital leases totaled \$1.0 million in 2006 (2005 – \$1.0 million).

12. OTHER LONG-TERM LIABILITIES

	2006	2005
Deferred gain on sale-leaseback of buildings	26.8	–
Rights-of-way and network access contracts	13.4	15.3
Deferred revenue	10.5	11.1
Asset retirement obligations – long-term portion	7.3	7.0
Other	13.3	11.9
	71.3	45.3

On December 28, 2006, the Company disposed of certain properties under the terms of a sale-leaseback transaction. The pre-tax gain of \$28.7 million, on total proceeds of \$51.1 million, has been deferred and will be amortized over the 15-year term of the lease. Of the \$28.7 million pre-tax gain, \$1.9 million has been classified as current.

Asset retirement obligations arise from legal obligations that exist for the removal of equipment or the restoration of premises upon the termination of certain agreements. The asset retirement obligations are associated with underground and above ground cable, microwave towers and related structures, building accesses, and leased facilities. The short-term component of asset retirement obligations is recorded in accounts payable and accrued liabilities, and the long-term component is recorded in other long-term liabilities. The undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$11.9 million (2005 – \$11.6 million). A credit adjusted interest rate ranging from 5.11% to 8.66% (2005 – 4.61% to 5.23%) was used to calculate the present value of the asset retirement obligations, over periods ranging from one month to 47 years (2005 – one month to 46 years). A reconciliation of the asset retirement obligation is provided below:

	2006	2005
Balance, beginning of year	8.3	9.3
Liabilities incurred	–	0.8
Liabilities settled	(0.3)	(2.3)
Accretion expense	0.4	0.5
	8.4	8.3
Less: current portion	(1.1)	(1.3)
Balance, end of year	7.3	7.0

13. FINANCIAL INSTRUMENTS**Fair value**

The Company's financial assets and liabilities initially are recorded at the related transaction amount, which is normally the historical cost. When the carrying value of a financial asset exceeds its fair value on a basis that is other than temporary, the carrying value is reduced to the fair value. With the exception of long-term debt, the carrying value of the Company's financial assets and liabilities, which are subject to normal trade terms, approximates the fair value. The Company's long-term debt, with a book value of \$848.1 million (2005 – \$896.2 million), had a fair market value of \$878.4 million as at December 31, 2006 (2005 – \$939.4 million).

Credit risk

The Company is exposed to credit risk from its customers. This risk is minimized by the Company's large and diverse customer base.

14. SHARE CAPITAL**Authorized**

Unlimited number of Preference Shares of two classes

Unlimited number of Common Shares of a single class

Preference Shares

The two classes of Preference Shares are issuable in one or more series, for which the Board of Directors of the Company may fix the number of shares and determine the designation, rights, privileges, restrictions and conditions. One class of Preference Shares of a single series has been designated as Class A Preference Shares. Another class of Preference Shares of a single series has been designated as Class B Preference Shares.

Class A Preference Shares

The rights, privileges, restrictions and conditions of the Class A Preference Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Class A Preference Shares are not entitled to vote at meetings of shareholders on resolutions electing directors.
- The Class A Preference Shares are convertible, at any time, into Common Shares, on a one-for-one basis.

Class B Preference Shares

The rights, privileges, restrictions and conditions of the Class B Preference Shares are identical in all respects to those of the Common Shares, except for the following:

- The holders of Class B Preference Shares are not entitled to vote at meetings of shareholders, and are not entitled to share in the distribution of the assets of the Company upon a liquidation, winding-up or dissolution.
- The Class B Preference Shares are convertible into Common Shares on a one-for-one basis at the option of the holder at any time subject to foreign ownership restrictions, or upon the occurrence of certain events, or at the option of the Company at any time.

Dividends on each class of Preference Shares are payable on the same dates as dividends are paid on the Common Shares of the Company, using the same record date for determining holders of Preference Shares entitled to dividends as the record date for Common Share dividends, in an amount per Preference Share equal to the corresponding amount of dividends per Common Share.

Both classes of Preference Shares participate in the earnings of the Company on an equal basis with the Common Shares and, therefore, are included in the weighted average number of shares outstanding for purposes of calculating basic and diluted earnings per share.

Common Shares

The holders of the Common Shares have the right to receive notice of, and attend and vote at, meetings of shareholders, to receive such dividends as may be declared by the Board of Directors of the Company, and to share in the distribution of the assets of the Company upon liquidation, winding-up or dissolution, subject to the rights, privileges and conditions attaching to any other class of shares ranking in priority thereto.

Issued	2006		2005	
	Number	Value	Number	Value
Common Shares				
Opening balance	67,739,257	1,315.0	67,570,117	1,309.5
Issued pursuant to stock options	442,050	16.8	169,140	5.5
Purchased for cancellation	(1,363,600)	(26.7)	–	–
	66,817,707	1,305.1	67,739,257	1,315.0

14. SHARE CAPITAL (continued)

During 2006, 442,050 stock options were exercised for cash consideration of \$15.1 million, of which \$16.8 million was credited to share capital and \$1.7 million was charged to contributed surplus. During 2005, 169,140 stock options were exercised for cash consideration of \$4.9 million, of which \$5.5 million was credited to share capital and \$0.6 million was charged to contributed surplus.

During 2006, the Company purchased 1,363,600 Common Shares for cancellation for cash consideration of \$61.9 million pursuant to its normal course issuer bid. The excess of the purchase price over the stated capital in the amount of \$35.2 million was charged to retained earnings.

Earnings per share reconciliation

The following table provides a reconciliation of the information used to calculate basic and diluted earnings per share:

	2006	2005
Net income – basic and diluted		
Income before discontinued operations	97.1	198.8
Income from discontinued operations, net of tax	202.3	14.9
Net income	299.4	213.7
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic	68.0	67.7
Dilutive effect of outstanding stock options	0.2	0.3
Weighted average number of shares outstanding – diluted	68.2	68.0
Basic earnings per share (\$)		
Income before discontinued operations	1.43	2.94
Discontinued operations	2.97	0.22
Net income	4.40	3.16
Diluted earnings per share (\$)		
Income before discontinued operations	1.42	2.92
Discontinued operations	2.97	0.22
Net income	4.39	3.14

15. CONTRIBUTED SURPLUS

	2006	2005
Contributed surplus, beginning of year	18.2	16.1
Stock option expense	0.4	2.7
Exercise of stock options	(1.7)	(0.6)
Contributed surplus, end of year	16.9	18.2

16. ACQUISITIONS**2006**

Effective August 31, 2006, the Company acquired all of the outstanding shares of 2892031 Manitoba Ltd. and its wholly owned subsidiary Valley Cable Vision (1997) Limited, a provider of cable and Internet services in rural Manitoba, for cash consideration of \$4.3 million. This acquisition was accounted for using the purchase method, and the purchase price has been allocated to current assets of \$0.1 million, property, plant and equipment of \$1.5 million, intangible assets of \$2.9 million, goodwill of \$1.1 million, liabilities of \$0.2 million and a future income tax liability of \$1.1 million. The operating results of this business are included in the Company's consolidated operating results from the effective date of acquisition.

16. ACQUISITIONS (continued)**2005**

Effective July 5, 2005, the Company acquired all of the issued and outstanding shares of Delphi Solutions Corp., a provider of telecommunications products and services to business customers, for a purchase price of \$14.7 million. This acquisition was accounted for using the purchase method, and the purchase price was allocated to assets of \$16.4 million, current liabilities of \$8.4 million and goodwill of \$6.7 million. The acquired assets included intangible assets of \$8.0 million. The intangible assets represent customer contracts and relationships of \$4.0 million, a non-competition agreement of \$2.7 million and brand name of \$1.3 million. The intangible assets are being amortized over estimated periods of benefit of two and a half to 10 years. The goodwill amount has been allocated to the Enterprise Solutions division operating segment. The operating results of this business are included in the Company's consolidated operating results from the effective date of acquisition.

Effective February 25, 2005, the Company acquired all of the operating assets of Reliable Alarms Limited, a provider of alarm monitoring services, for cash consideration of \$4.2 million. This acquisition was accounted for using the purchase method, and the purchase price has been allocated to accounts receivable of \$0.1 million, intangible assets of \$4.6 million, and current liabilities of \$0.5 million. Intangible assets represent customer contracts and relationships and are being amortized over the estimated period of benefit of 10 years. The operating results of this business are included in the Company's consolidated operating results from the effective date of acquisition.

17. STOCK-BASED COMPENSATION**Employee share ownership plan**

The Company has an employee share ownership plan under which eligible employees can purchase Common Shares of the Company. Eligible employees may contribute between 1% and 6% of salary, with the Company contributing an amount equal to 25% of employee contributions. The Company records its contributions as a component of operating expenses. During 2006, the Company contributed \$2.6 million (2005 – \$2.7 million) to this plan. During the year, all Common Shares purchased on behalf of employees under this plan were purchased at fair market value.

Stock options

The Company has a stock option plan under which the Board of Directors may grant options to purchase Common Shares to employees and directors at a price not less than the weighted average of the prices at which the Common Shares traded on The Toronto Stock Exchange ("TSX") for the five days immediately preceding the date of grant of the option. The options are exercisable during a period not to exceed 10 years. The right to exercise the options accrues over a period of five years of continuous employment at a rate of 20% per year effective on the anniversary of the date on which the options were granted. The Company has reserved a maximum of 3.5 million Common Shares to meet rights outstanding under the stock option plan. In addition, in December 2005, the Company, with the approval of the TSX, reserved 450,000 Common Shares to meet rights outstanding under an additional security-based compensation arrangement. This compensation arrangement has the same terms and conditions as the stock options granted under the existing stock option plan described above.

The following tables provide further information on outstanding stock options:

	2006		2005	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Outstanding, beginning of year	2,301,960	39.32	1,699,200	35.94
Granted	362,000	39.57	858,000	44.45
Exercised	(442,050)	33.73	(169,140)	29.00
Terminated	(500,760)	42.08	(86,100)	43.85
Outstanding, end of year	1,721,150	40.01	2,301,960	39.32
Exercisable, end of year	638,890	36.68	696,880	33.26

17. STOCK-BASED COMPENSATION (continued)

Year granted	Options outstanding	Options exercisable	Weighted average exercise price per share	Range of exercise price per share	Expiry date
2006	343,500	–	39.61	38.78 – 47.76	2016
2005	697,600	163,200	43.40	40.44 – 49.03	2015
2004	183,820	81,580	45.61	45.61	2014
2003	146,860	87,740	34.84	34.75 – 35.81	2013
2002	180,400	137,400	34.35	33.58 – 34.71	2012
2001	64,620	64,620	37.27	36.42 – 38.81	2011
2000	45,600	45,600	31.14	23.81 – 35.60	2010
1999	13,750	13,750	16.99	16.99	2009
1997	45,000	45,000	14.63	14.63	2007

In estimating compensation expense for stock options granted to employees, the Company uses the Black-Scholes option pricing model. The weighted average assumptions used and weighted average grant date fair value are as follows:

	2006	2005
Risk-free interest rate	4.1%	3.1%
Expected volatility	20.8%	21.0%
Expected dividend yield	6.5%	6.0%
Expected life (years)	6	6
Weighted average grant date fair value	\$4.23	\$4.62

18. EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries provide pension, supplemental pension and other non-pension employee future benefits to its employees. The Company has two contributory and one non-contributory defined benefit best average pension plans, which cover most of the employees of the Company and its subsidiaries. These plans provide pensions based on length of service and best average earnings. Two of the defined benefit plans have provisions for periodic cost of living adjustments to benefit payments for certain members based on a percentage of the increase in the Consumer Price Index. The Company's policy is to fund the plans as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits. The Company also has a defined contribution pension plan that covers certain employees of the Company. This plan requires the Company to contribute on behalf of each member an amount equal to 2.5% of the member's earnings. The Company also provides supplemental pension arrangements and other non-pension employee future benefits, including life, medical and dental insurance, which are unfunded. The Company has a long-term disability plan for certain employees for which the Company has dedicated assets set aside to fund benefits. These assets are recorded in the Company's financial statements.

The Company recognized a curtailment loss of \$1.4 million in 2006 benefit expense. The curtailment loss is a result of workforce reductions that impacted the non-contributory defined benefit pension plan.

The Company measures its accrued benefit obligations and the fair value of plan assets as at December 31 each year. The most recent actuarial valuation of the pension plans for funding purposes was as at January 1, 2006. The next funding valuations are required to be completed as at January 1, 2007. Future funding requirements will depend on the results of annual actuarial funding valuations which are affected by various factors such as actuarial experience of the plans, return on plan assets, and interest rate fluctuations.

In 2006, the Government of Canada implemented Solvency Funding Relief Regulations for defined benefit pension plans regulated under the *Pension Benefits Standards Act, 1985* (Canada). The Company filed revised January 1, 2006 actuarial valuations to enable the extension of its solvency funding payments from five years to 10 years based on the new Solvency Funding Relief Regulations.

18. EMPLOYEE FUTURE BENEFITS (continued)**Defined benefit plans**

The components of the Company's net benefit expense for its defined benefit pension plans and other non-pension employee future benefit plans are as follows:

	Pension benefits		Other benefits	
	2006	2005	2006	2005
Current service cost	27.7	22.1	2.0	1.4
Interest on accrued benefit obligation	100.4	100.9	1.5	1.5
Actual return on plan assets	(217.8)	(170.1)	(0.3)	(0.3)
Actuarial (gain) loss on accrued benefit obligation	(27.3)	172.6	(0.9)	3.3
Curtailment loss	1.4	–	–	–
Difference between expected return and actual return on plan assets for the year	92.5	54.9	(0.1)	(0.1)
Difference between actuarial loss recognized for year and actual actuarial gain or loss on accrued benefit obligation for the year	46.4	(162.5)	1.0	(3.3)
Amortization of transitional asset	(10.9)	(10.9)	(0.1)	(0.1)
Benefit expense	12.4	7.0	3.1	2.4

The components of the Company's accrued benefit asset (liability) for its defined benefit pension plans and other non-pension employee future benefit plans, in total, are as follows:

	Pension benefits		Other benefits	
	2006	2005	2006	2005
Accrued benefit obligation, beginning of year	1,844.8	1,628.3	28.3	24.5
Current service cost	27.7	22.1	2.0	1.4
Employee contributions	13.1	13.2	–	–
Interest on accrued benefit obligation	100.4	100.9	1.5	1.5
Actuarial (gain) loss on obligation	(27.3)	172.6	(0.9)	3.3
Curtailment gain	(1.5)	–	(0.1)	–
Benefit payments and transfers	(115.5)	(92.3)	(2.8)	(2.4)
Accrued benefit obligation, end of year	1,841.7	1,844.8	28.0	28.3
Fair value of plan assets, beginning of year	1,712.5	1,535.5	5.7	5.9
Employee contributions	13.1	13.2	–	–
Employer contributions	112.1	86.0	2.5	1.9
Actual return on plan assets	217.8	170.1	0.3	0.3
Benefit payments and transfers	(115.5)	(92.3)	(2.8)	(2.4)
Fair value of plan assets, end of year	1,940.0	1,712.5	5.7	5.7
Plan surplus (deficit)	98.3	(132.3)	(22.3)	(22.6)
Unamortized net actuarial loss	184.3	326.1	2.0	3.0
Unamortized past service costs	0.2	0.2	–	–
Unamortized net transitional asset	(81.4)	(92.3)	(0.6)	(0.6)
Accrued benefit asset (liability), end of year	201.4	101.7	(20.9)	(20.2)
Accrued benefit asset – recorded in Other assets	212.9	117.4	2.6	3.1
Accrued benefit liability – recorded in Deferred employee benefits	(11.5)	(15.7)	(23.5)	(23.3)
Accrued benefit asset (liability), end of year	201.4	101.7	(20.9)	(20.2)

18. EMPLOYEE FUTURE BENEFITS (continued)

For defined benefit pension plans with accrued benefit obligations that were more than plan assets, the accrued benefit obligations as at December 31, 2006 were \$123.8 million (2005 – \$1,844.8 million) and the fair value of the plan assets as at December 31, 2006, were \$110.1 million (2005 – \$1,712.5 million).

Total cash payments for pension and other post-retirement benefits for 2006, consisting of cash contributed by the Company to its funded pension plans, other post-retirement benefit plans and the defined contribution plan were \$117.9 million (2005 – \$90.7 million).

The Plans' assets are comprised of:

	2006	2005
Equity securities	58%	58%
Debt securities	38%	39%
Real estate	4%	3%
	100%	100%

The actuarial assumptions used to determine the accrued benefit obligation and net benefit expense (credit) as at December 31, are as follows:

	Pension benefits		Other benefits	
	2006	2005	2006	2005
Accrued benefit obligation				
Discount rate on accrued benefit obligation	5.50%	5.50%	5.25 – 5.50%	5.25 – 5.50%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Net benefit expense (credit)				
Discount rate	5.50%	6.25%	5.25 – 5.50%	6.00 – 6.25%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

Defined contribution plan

The Company's defined contribution plan expense (employer contributions) for the year ended December 31, 2006, amounts to \$3.3 million (2005 – \$2.8 million).

19. SEGMENTED INFORMATION

On February 28, 2006, the Company announced changes to its organizational structure. Under this structure, the Company renamed its reportable operating segments as the Consumer Markets division and the Enterprise Solutions division. The Consumer Markets division provides a full range of local, data, long distance, wireless, digital television, security system and telecommunications equipment sales to residential and business customers in Manitoba. During 2006, the Company disposed of its directories business (Note 5) and, as such, no longer includes the results of operations from the directories business in the Consumer Markets division. The Enterprise Solutions division provides local, data, long distance, information technology services and telecommunications equipment sales to business customers in Canada. In 2007, with further segmentation of its customer base and changes in the internal reporting responsibilities of each division for both revenues and expenses, segmented information will be provided under this new basis of segmentation.

The Company evaluates performance based on EBITDA (earnings before interest, taxes, amortization, other income and discontinued operations). EBITDA, as reported below, includes intersegment revenues and expenses. The Company accounts for intersegment revenues and expenses at either prices that approximate current market prices or cost, depending on the type of service.

The following tables provide further segmented information:

Years ended December 31

	Consumer Markets		Enterprise Solutions		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Operating revenue								
External	874.5	865.2	1,051.9	1,115.1	-	-	1,926.4	1,980.3
Internal	18.1	12.4	12.1	9.0	27.1	22.4	57.3	43.8
EBITDA	444.8	443.3	167.1	158.6	(2.4)	(6.7)	609.5	595.2
Amortization	239.8	233.9	90.4	81.9	0.4	0.3	330.6	316.1
Goodwill	11.8	10.7	24.2	24.2	-	-	36.0	34.9
Assets	2,239.8	1,547.4	1,433.5	974.3	160.3	537.0	3,833.6	3,058.7
Capital expenditures, net	165.5	214.4	107.0	124.9	0.2	1.2	272.7	340.5

Reconciliations of net income and assets are as follows:

Years ended December 31

	2006	2005
Consolidated net income		
Total EBITDA	609.5	595.2
Amortization	(330.6)	(316.1)
Other income	5.5	3.0
Debt charges	(60.6)	(60.8)
Income tax expense	(126.7)	(22.5)
Income before discontinued operations	97.1	198.8
Income from discontinued operations, net of tax	202.3	14.9
	299.4	213.7
Assets		
Assets for operating segments	3,833.6	3,058.7
Eliminations	(1,675.5)	(1,033.6)
Future income taxes	765.4	934.5
Assets of discontinued operations	-	24.6
Consolidated total assets	2,923.5	2,984.2

20. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Commitments

The Company's commitments as at December 31, 2006 are summarized in the following table:

	2007	2008	2009	2010	2011	Beyond	Total
Long-term debt	106.5	89.7	220.0	11.9	220.0	200.0	848.1
Capital leases	5.1	2.2	2.2	2.2	2.3	14.3	28.3
Operating leases	64.8	58.6	51.8	45.8	31.2	245.8	498.0
Purchase obligations	100.0	81.6	50.0	21.8	11.9	2.3	267.6
Total	276.4	232.1	324.0	81.7	265.4	462.4	1,642.0

The Company has entered into operating lease agreements for buildings, operating facilities and construction and other equipment. Purchase obligations include contractual commitments for services required in the normal course of operations and capital purchase commitments under supply contracts and customer contracts.

On May 30, 2002, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, which governs local rates charged to residential and business customers and the rates that incumbent telephone companies may charge their competitors. In this decision, the CRTC established a regulatory deferral account mechanism, which is expected to be used to fund qualifying initiatives. Subsequently, on February 16, 2006, the CRTC issued *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2006-9. In this decision, the CRTC determined that the funds accumulated in the Company's deferral account should be used for the expansion of broadband services, for initiatives to improve accessibility to telecommunications services for persons with disabilities, and for certain rate reductions. The preliminary estimated balance of the Company's deferral account is approximately \$21 million as at December 31, 2006, and is not recognized in these financial statements.

Guarantees

In the normal course of business and in connection with the disposition or sale of assets, the Company enters into agreements providing indemnifications that may require the Company to pay for costs or losses incurred by the parties to these agreements. These indemnifications relate to various matters such as intellectual property right infringement, loss or damage to property, claims arising from the provision of services, violation of laws or regulations, and breaches of representations or warranties. The nature of these indemnifications prevents the Company from making reasonable estimates of the maximum potential amount it could be required to pay, and no amount has been recorded in the financial statements relating to these indemnifications. Historically, the Company has not made significant payments related to these indemnifications.

The Company also indemnifies its directors and officers against claims and damages that are incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance in respect of its directors and officers.

The Company obtains letters of credit with financial institutions for the benefit of third parties. In general, the terms of these letters of credit permit third parties to draw on the letters of credit to recover any loss incurred, as defined in the particular letter of credit. Certain of these letters of credit guarantee future funding of the Company's registered pension plans. As at December 31, 2006, the Company had undrawn letters of credit outstanding in the amount of \$85.4 million.

Contingencies

On April 21, 2004, Unique Broadband Wireless Services, Inc. ("UBS") filed a statement of claim against Allstream, Inukshuk Internet Inc. ("Inukshuk"), Microcell Telecommunications Inc. and Microcell Solutions Inc. ("Microcell") in the Ontario Superior Court of Justice. This claim, which seeks damages in the amount of \$160.0 million and other relief, alleges, in part, that Allstream induced Inukshuk and Microcell to breach their agreement with UBS relating to the use of certain wireless spectrum and licenses, and that it intentionally interfered with the contractual arrangements between these parties. The Company believes it has a good defence to this claim, and it is defending its position vigorously.

21. RATE REGULATED SERVICES

The Company operates in the telecommunications and broadcast industries, which are governed by the CRTC. The CRTC regulates telecommunications common carriers under the authority of the *Telecommunications Act* (Canada) and broadcast distribution undertakings (“BDUs”) under the authority of the *Broadcasting Act* (Canada). The CRTC has authority over certain aspects of the operations of telecommunications common carriers, including rates, service packages, quality of service and costing. The CRTC, however, has the discretion to forbear from regulating certain services where it considers the market sufficiently competitive to protect consumers. The CRTC also licenses BDUs and regulates the broadcasting services that BDUs are allowed to carry on their television services. As a telecommunications common carrier, the Company is regulated as an incumbent local exchange carrier in Manitoba and as a competitive local exchange carrier outside of Manitoba. The Company’s residential and business wireline services in Manitoba, competitor services and public telephone services are all subject to rate regulation.

22. COMPARATIVE FIGURES

The prior year figures have been reclassified when necessary to conform to the current year’s presentation for discontinued operations.

Five Years in Review

MTS ANNUAL REPORT 2006

(Not subject to Auditor's Report)

FINANCIAL INFORMATION

(in millions, except earnings per share & ratios)

	2006 ^{1,2}	2005 ^{1,2}	2004 ^{1,2}	2003 ^{1,3}	2002 ^{1,3}
Consolidated operations					
Total operating revenues	1,926.4	1,980.3	1,489.1	824.0	909.2
Total operating expenses	1,647.5	1,701.2	1,194.2	627.6	744.3
Operating income	278.9	279.1	294.9	196.4	164.9
Debt charges	60.6	60.8	47.8	33.2	29.5
Gain on sale of investment in Bell West ⁴	–	–	232.6	–	–
Equity losses in Bell West ⁴	–	–	2.5	29.8	26.2
Gain on sale of Bell Intrigna ⁴	–	–	–	–	94.2
Income before discontinued operations	97.1	198.8	290.5	71.2	149.3
Income from discontinued operations	202.3	14.9	14.6	14.4	13.0
Net income	299.4	213.7	305.1	85.6	162.3
Basic earnings per share, before discontinued operations (\$)	1.43	2.94	4.10	1.13	2.33
Basic earnings per share (\$)	4.40	3.16	4.31	1.36	2.53
EBITDA ⁵	609.5	595.2	573.6	419.8	388.0
Dividends	176.9	176.1	119.0	59.1	52.6
Capital expenditures, net	272.7	340.5	276.6	206.5	220.7
Continuing operations⁶					
Operating revenues	1,916.5	1,976.0	1,489.1	824.0	817.0
Net income	169.6	170.4	160.6	100.6	99.0
Basic earnings per share (\$)	2.50	2.52	2.26	1.60	1.54
EBITDA	649.7	646.6	579.1	424.9	417.1
Consolidated balance sheet					
Total assets	2,923.5	2,984.2	2,930.9	1,666.8	1,601.6
Property, plant and equipment, net book value	1,459.6	1,502.9	1,443.6	1,061.0	1,057.3
Long-term debt and notes payable ⁷	848.1	1,004.2	956.3	529.3	529.3
Shareholders' equity	1,505.9	1,429.8	1,384.6	887.5	887.5
Debt to capitalization (%)	36.0	41.3	40.9	37.4	37.4

OPERATIONAL STATISTICS

Long distance minutes (in thousands)	9,437,704	9,348,246	5,422,335	1,115,692	1,219,005
Cellular customers	355,261	317,555	285,796	255,657	234,062
Internet customers ⁸	184,227	166,049	149,546	134,755	121,119
MTS TV customers	66,093	51,561	32,578	8,693	200
Number of employees ⁹	5,951	6,491	6,567	3,418	3,566

- Effective October 2, 2006, the Company disposed of its directories business. The financial results relating to the directories business are presented for each of the years 2002 to 2006 as discontinued operations.
- Effective June 4, 2004, the Company acquired 100% of the issued and outstanding Class A voting shares and Class B limited voting shares of Allstream Inc., a provider of telecommunications services. The operating results of this business are included in the Company's consolidated operating results from the effective date of acquisition.
- Financial results for each of the years 2003 and 2002 have been restated for a change in presentation of cost of goods sold, whereby costs previously netted against operating revenues are now included as operating expenses, and for a retroactive change in accounting policy for deferred alarm installation costs, adopted January 1, 2004. Figures for 2002 were restated for a change in accounting policy for stock options granted to employees adopted January 1, 2003.
- During 2001 and until April 11, 2002, the Company owned 66.7% of Bell Intrigna Inc. ("Bell Intrigna"), a telecommunications service provider, of which 33.3% was owned by Bell Canada. During this period, the Company consolidated the results of Bell Intrigna. Effective April 11, 2002, the Company entered into an agreement with Bell Canada, whereby Bell Intrigna acquired the operating assets of BCE Nexia Inc. in Alberta and British Columbia as well as certain wireline assets owned by Bell Canada west of Ontario, in exchange for the issuance of shares. After this transaction, this combined entity continued operations under the name Bell West Inc. ("Bell West"), owned 60% by Bell Canada and 40% by Manitoba Telecom Services Inc. As a result of this transaction, the Company began accounting for its 40% investment on an equity basis, beginning April 11, 2002, and recognized a pre-tax gain of \$94.2 million on reduction of its ownership interest. On February 2, 2004, the Company exercised its put option to sell its interest in Bell West to Bell Canada. At that time, the Company recognized a pre-tax gain of \$232.6 million on the sale of its investment and discontinued the use of equity accounting.
- Earnings before interest, taxes, amortization, gain on sale of investment in Bell West, equity losses, goodwill revaluation, gain on sale of Bell Intrigna, other (expense) income and discontinued operations.
- Continuing operations for 2006 and 2005 is described in Management's Discussion and Analysis on page 13. In 2004, 2003, and 2002, continuing operations excludes the Company's directories business, which has been reclassified as discontinued operations, restructuring and integration costs and the impact of Bell West. In 2004, continuing operations also excludes a provision taken against the carrying value of a long-term investment and Bell Canada settlement costs. In 2003, continuing operations also excludes a goodwill revaluation. In 2002, continuing operations also excludes the impact of Bell Intrigna.
- Includes current portion of long-term debt.
- Includes consumer and business customers. Figures for 2003 and 2002 have been restated to include business customers previously not included in the customer count.
- Represents number of regular full-time and regular part-time employees.

OFFICERS OF MANITOBA TELECOM SERVICES INC.

Pierre J. Blouin

Chief Executive Officer
Winnipeg, Manitoba

John A. MacDonald

President Enterprise Solutions
Toronto, Ontario

Kelvin A. Shepherd, P.Eng.

President Consumer Markets
Winnipeg, Manitoba

Wayne S. Demkey, CA

Chief Financial Officer
Winnipeg, Manitoba

Peter J. Falk, Q.C.

*Chief Legal Officer &
Corporate Secretary*
Winnipeg, Manitoba

Brenda M. McInnes, CA

Vice-President & Treasurer
Winnipeg, Manitoba

EXECUTIVE COMMITTEE OF MANITOBA TELECOM SERVICES INC. AND MTS ALLSTREAM INC.

Pierre J. Blouin

Chief Executive Officer
Winnipeg, Manitoba

John A. MacDonald

President Enterprise Solutions
Toronto, Ontario

Kelvin A. Shepherd, P.Eng.

President Consumer Markets
Winnipeg, Manitoba

Nicholas M. Curry

Chief Information Officer
Winnipeg, Manitoba

Wayne S. Demkey, CA

Chief Financial Officer
Winnipeg, Manitoba

Peter J. Falk, Q.C.

*Chief Legal Officer &
Corporate Secretary*
Winnipeg, Manitoba

Paul C. Frizado, P.Eng.

Chief Technology Officer
Toronto, Ontario

Christopher W. Peirce

Chief Regulatory Officer
Ottawa, Ontario

Dean L. Prevost

Chief Strategy Officer
Toronto, Ontario

Helen Reeves

Senior Vice-President
Corporate Communications
Toronto, Ontario

Thomas E. Stefanson, FCA
Chairman of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.



Mr. Stefanson has been a member of the MTS Board of Directors since 1988. He is Chairman of the Governance & Nominating Committee, and is a member of the Human Resources & Compensation Committee.

The Honourable Gary A. Filmon, P.C., O.M.
Corporate Director and Business Consultant



Mr. Filmon has been a member of the MTS Board of Directors since 2003. He is Chairman of the Human Resources & Compensation Committee, and is a member of the Governance & Nominating Committee.

Donald H. Penny, C.M., FCA, LL.D.
Corporate Director



Mr. Penny has been a member of the MTS Board of Directors since 1997. He is Chairman of the Audit Committee.

Pierre J. Blouin
Chief Executive Officer of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.



Mr. Blouin was appointed to the MTS Board of Directors in March 2006.

Kishore Kapoor, CA
President, Wellington West Holdings Inc.



Mr. Kapoor was elected to the MTS Board of Directors in May 2006. He is a member of the Audit Committee.

Gedas A. Sakus
Corporate Director



Mr. Sakus has been a member of the MTS Board of Directors since 1999. He is a member of the Governance & Nominating Committee and the Human Resources & Compensation Committee.

Jocelyne M. Côté-O'Hara
Corporate Director



Ms. Côté-O'Hara has been a member of the MTS Board of Directors since 1997. She is a member of the Audit Committee.

James S.A. MacDonald
Chairman & Managing Partner Enterprise Capital Management Inc.



Mr. MacDonald was elected to the MTS Board of Directors in May 2006. Mr. MacDonald is a member of the Audit Committee.

Arthur R. Sawchuk
Chairman Manulife Financial Corporation



Mr. Sawchuk has been a member of the MTS Board of Directors since 1997. He is a member of the Governance & Nominating Committee and the Human Resources & Compensation Committee.

N. Ashleigh Everett
Chairman, Royal Canadian Properties Limited President, Royal Canadian Securities Limited



Ms Everett has been a member of the MTS Board of Directors since 1997. She is a member of the Governance & Nominating Committee and the Human Resources & Compensation Committee.

John T. McLennan
Corporate Director



Mr. McLennan has been a member of the MTS Board of Directors since 2004. He is a member of the Governance & Nominating Committee.

D. Samuel Schellenberg
Chief Executive Officer Pembina Valley Water Co-operative Inc.



Mr. Schellenberg has been a member of the MTS Board of Directors since 1989. He is a member of the Audit Committee.

Corporate headquarters

P.O. Box 6666
333 Main Street
Winnipeg, Manitoba R3C 3V6
www.mtsallstream.com

Operating subsidiaries

MTS Allstream Inc.
AAA Alarms Systems Ltd.
Delphi Solutions Corp.
Valley Cable Vision (1997) Limited

Contact information**For additional information, please contact:**

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Or visit the Investors section on our website at
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Winnipeg, Manitoba R3C 3V6
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For share transfer agent and registrar information, please contact:**Computershare Investor Services Inc.**

600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8
1-800-564-6253

Market trading information

The Common Shares of Manitoba Telecom Services Inc. are listed on The Toronto Stock Exchange. Our trading symbol is MBT.

Dividends*

Record date	Payment date
March 30, 2007	April 16, 2007
June 15, 2007	July 16, 2007
September 17, 2007	October 15, 2007
December 17, 2007	January 15, 2008

*Subject to approval by Board of Directors

Annual meeting

The Annual and Special Meeting of shareholders of Manitoba Telecom Services Inc. will be held at The Fort Garry Hotel, Provencher Room, Winnipeg, Manitoba on May 8, 2007, at 11:00 a.m. Central Time.

Duplicate Annual Reports

If you have received duplicate copies of this Annual Report, please call MTS Corporate Communications at (204) 941-7302.



www.mtsallstream.com