Growth services revenues
44% of total revenues

Converged IP
↑13%

Unified communications
↑22%

Wireless
↑8%

High-speed Internet
↑19%

Digital TV
↑17%

MTS allstream

Our purpose

to be the best communications solutions provider in Canada

Our mission

to deliver true value as seen through the eyes of our customers

Who we are

MTS Allstream, one of Canada's leading national communications providers, delivers innovative products and services to our customers in consumer markets in Manitoba and business markets across Canada. In 2008, we produced $1.9 billion in revenues and provided our shareholders one of the highest yields on the TSX. Leveraging the entrepreneurial spirit and skills of our 6,000 employees, our close customer relationships and our national broadband network, we provide a range of communications solutions including high-speed Internet, wireless, digital TV, converged IP and unified communications.

Total customer connections in 2008

1,947,636

Our values

Courage
We stand up for what is right and make a difference for our business. We create new ways to move towards our mission and learn from our continuous improvement.

Empathy
We take responsible action for our internal and external communities and consider the needs and uniqueness of each individual.

Commitment
We act honestly and ethically and deliver on our obligations and responsibilities resulting in mutual trust and respect.

Passion
We display personal positive energy and engage others in becoming excited about working towards our mission.

Enterprise Solutions division, in 2008

Leading innovator and competitor in national business markets

Won Microsoft's prestigious Partner Program IMPACT Award, in the Solutions Awards category, for delivering a market-leading unified communications solution built on Microsoft technology

Converged IP services growth revenues increased by 13%

Over $330 million in new contract wins

Over 15,538 corporations rely on our services

Consumer Markets division, in 2008

97% of Manitoba's population has access to our wireless network

85% of Manitoba's population has access to our high-speed Internet service

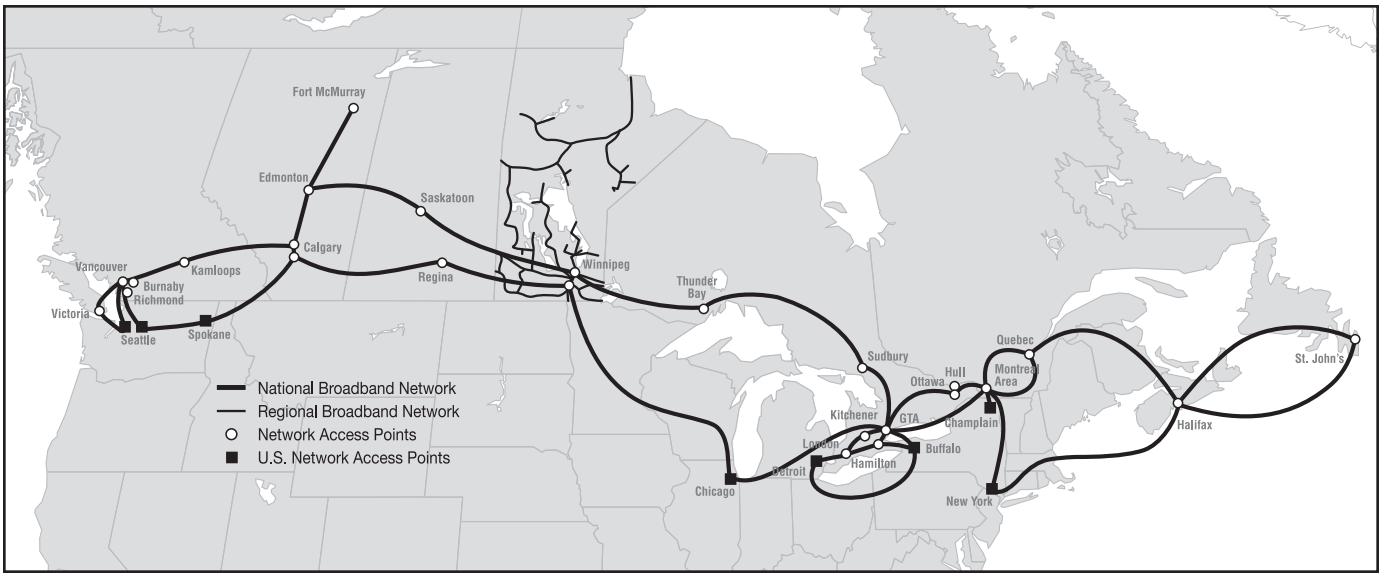
Over 84,500 digital TV customers in Manitoba

Over 490,000 small business employees use Allstream Small Business solutions

Over 270,000 households have more than one MTS brand service

Over 395,000 households have an MTS brand service

Our National Network



Our national broadband fibre optic network spans more than 27,900 kilometres.

CONTENTS

Financial Highlights

Years ended December 31 (in $ millions, except earnings per share)	**2008**	2007	% change
Consolidated			
Revenues	**$ 1,921.5**	$ 1,905.8	0.8%
EBITDA[1]	**613.9**	656.7	(6.5%)
Net income	**144.0**	169.7	(15.1%)
Earnings per share	**2.23**	2.61	(14.6%)
Continuing operations[2]			
Revenues	**$ 1,921.5**	$ 1,906.6	0.8%
EBITDA	**661.8**	655.1	1.0%
Net income	**192.4**	187.9	2.4%
Earnings per share	**2.98**	2.89	3.1%

1 Earnings before interest, taxes, amortization, and other income (expense).

2 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 on page 10 in our Management's Discussion and Analysis.

Non-GAAP measures of performance

We provide information concerning continuing operations, EBITDA, and free cash flow in our 2008 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 our Management's Discussion and Analysis on page 10.

Forward-looking statements

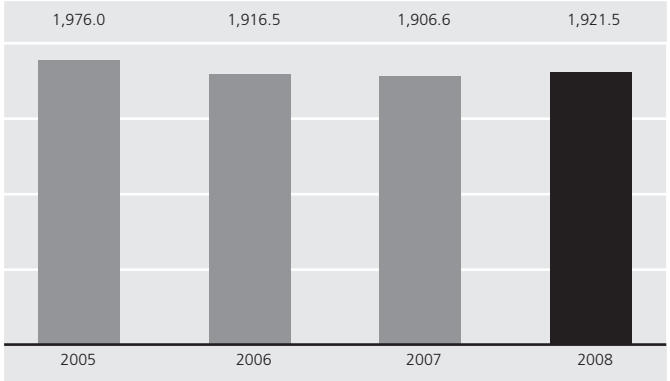
Our 2008 Annual Report includes forward-looking statements and information (collectively, the "statements") about our corporate direction, business opportunities, operating and dispute resolution activities, financial objectives, and future financial results and performance that are subject to risks, uncertainties and assumptions. As a consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking statements. 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", "see", "set", "pending", and other similar terms. Factors that could cause anticipated opportunities and 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 statements, 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 our Management's Discussion and Analysis on page 28 and page 34, respectively. Please note that forward-looking statements reflect our expectations as at March 5, 2009. 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, except as required by law. Additional information relating to our company, including our Annual Information Form, is available on SEDAR at www.sedar.com. Unless otherwise stated, all amounts are expressed in Canadian dollars.

2008 Annual Report

This document discusses the financial results and business operations of Manitoba Telecom Services Inc. (TSX:MBT), which includes its principal operating subsidiary, MTS Allstream Inc. and within this document we may also refer to ourselves as the "Company", "MTS" or "MTS Allstream".

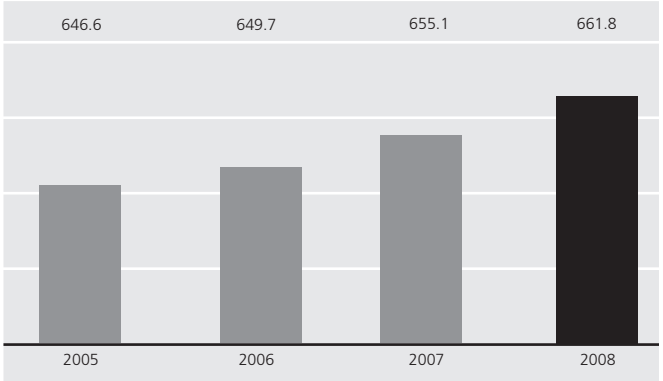
Revenues – Continuing Operations

for the years ended December 31 (in millions $)



EBITDA – Continuing Operations

for the years ended December 31 (in millions $)

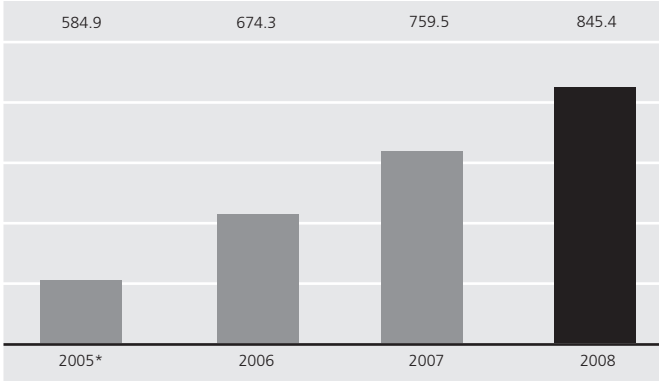


Earnings Per Share – Continuing Operations

for the years ended December 31

Growth Services Revenues

for the years ended December 31 (in millions $)



**estimated*

Letter to Shareholders

Thomas E. Stefanson
Chairman

Pierre Blouin
Chief Executive Officer

FELLOW SHAREHOLDER,

MTS Allstream continued to deliver value to our shareholders and customers in 2008. Despite a challenging economic environment, we achieved our annual guidance in all key metrics with increases in revenue, free cash flow, EBITDA and earnings per share from our continuing operations. At the same time, we maintained one of the strongest balance sheets in the Canadian telecommunications sector.

MTS Allstream's purpose is to be the best communications solutions provider in Canada. To this end, we made a commitment at the beginning of last year to concentrate on three key priorities across both our operating divisions which should deliver increased value for our shareholders and strengthen the company, supporting its dividend policy:

- focus on smart, profitable growth;
- improve the customer experience and gain market share nationally; and
- continue to align our cost structure to our new market realities.

Over the past 12 months, we stayed true to that commitment. As a result, we grew full-year revenue for the first time since 2005, strongly increased revenue from growth services by 11%, improved our market share in key growth services segments, achieved annualized cost reductions of $30 million, meeting the top-end of our cost savings target, and continued to deliver one of the highest dividend yields on the TSX.

We accomplished this in the face of economic turbulence that became more severe as the year progressed. During this period, our common shares outperformed both the S&P/TSX Composite Index and the S&P/TSX Telecom Index. We believe this outperformance is a clear reflection of the market's confidence in the fundamentals of our business. This includes the fact that over 70% of both our operating cash flow and profitability is derived from Manitoba, which remains one of Canada's strongest and best-diversified provincial economies.

In all, MTS Allstream maintained its unique position in the Canadian communications services industry in 2008 – as the leading full-service communications provider in Manitoba with a leading competitive presence in national enterprise markets. Our Consumer Markets division delivered "best in class" performance for an incumbent, and our Enterprise Solutions division delivered stable year-over-year revenues and record new contract wins.

CONSUMER MARKETS DIVISION – POSITIONED FOR CONTINUED SUCCESS

The Consumer Markets division, operating primarily under the MTS brand, delivered profitable growth for its incumbent operations in Manitoba in 2008 and continued to expand its small business offerings into select urban centres across Canada.

The division's key growth areas - high-speed Internet, wireless and digital television services - all saw solid increases in revenues and subscribers in 2008. Specifically, consumer high-speed Internet services experienced revenues increasing by 19% and customers increasing by 6%. Wireless services revenues increased by 8% and customers grew by 10%, while digital television services revenues increased by 17% with a customer base increase of 10%.

MTS digital television service reached yet another milestone in 2008, surpassing 84,500 customers. By the end of the year, we achieved a market share of 34% just five years after our digital television product was launched. This represents exceptional performance against a very strong cable incumbent. In January of 2009, we successfully launched a new advanced television product - MTS HDTV - in Portage la Prairie, Manitoba. The service combines technology from Alcatel-Lucent with the award-winning Microsoft Mediaroom IPTV product, and MTS Allstream is the first company in Canada to launch this next generation television service. We plan to extend this service to customers in Winnipeg and Brandon during 2009.

Each of these products offer compelling value to our customers, and growth for MTS Allstream. But the real power of our product suite comes from our ability to offer customers high value product bundles. Over 270,000, or 65%, of households in Manitoba have more than one MTS brand service.

The innovative approach behind our bundling strategies was recognized in 2008 by the prestigious Frost & Sullivan Competitive Strategy Leadership Award in the North American Consumer Communication and Entertainment Wallet Share growth category as well as the Global Telecoms Business Award in the fixed and mobile services innovations category. Both of these awards highlight the unique mix of products offered by the Consumer Markets division, which help drive profitable performance for our business while providing tremendous value to customers.

Regarding our wireless services, we are continuing to evaluate plans for upgrading our wireless network to the next generation of high-speed wireless infrastructure. We continue our discussions with other wireless service providers and expect to have our plans in place at the appropriate time for our market and our business.

In 2008, our Consumer Markets division also made progress in the national small business segment with the launch of our Hosted Phone System for small businesses in the Greater Toronto Area. Our national small business markets offering of services in Vancouver, Calgary, Edmonton, Montreal and Toronto is an important part of this division's portfolio of products and represents another opportunity for MTS Allstream to leverage its unique position in the Canadian marketplace.

ENTERPRISE SOLUTIONS DIVISION – RECORD NEW CONTRACT WINS IN 2008

MTS Allstream is a leading competitor in the enterprise solutions market, where we enjoy a strong reputation for customer service, innovative technology and real solutions to our customers' needs.

In 2008, the Enterprise Solutions division, operating primarily under the Allstream brand, focused on profitable growth by improving its market focus, leveraging its leadership in Internet protocol ("IP")-based products and advancing its efforts to target the Canadian mid-market segment. These efforts produced strong growth in converged IP services revenues and a 19% increase in the number of customers served by our IP-virtual private network services. We continue to see solid demand from business customers for our next generation IP-based services, despite the economic conditions.

The division also set a record for contract wins in 2008, with $332 million in new contract wins, and continued to diversify its customer base. New contract wins from 2008 included several significant customers such as HMV Canada, the Government of Newfoundland and Labrador, Selectcom Telecom, the City of Winnipeg, BMO Financial Group, Manitoba Hydro, DHL Express, Passport Canada, TD Waterhouse, WestJet and The Royal College of Physicians and Surgeons of Canada.

In addition to generating profitable and sustainable organic growth, we have been opportunistic when it comes to expanding our product suite or geographic reach. In January, we acquired ICU Technologies Inc., an established player in the growing Canadian enterprise-wide video conferencing solutions market. This acquisition enhances the division's current video conferencing capability on a national scale and strengthens its overall unified communications portfolio, a key area of long-term growth for our business.

We pride ourselves on our ability to work well with our customers and business partners. So it was gratifying when the Enterprise Solutions division was recognized as a winner of Microsoft's prestigious Partner Program IMPACT Award, in the Solutions Awards category, for delivering a market leading unified communications solution built on Microsoft technology. Awards such as this speak to our ability to develop innovative new solutions and sustain our growth over time.

The Enterprise Solutions division performed well in 2008, but it was not immune to the effects of a slowing economy. We know from past experience that in challenging times companies tend to invest in telecommunications services to enhance productivity and reduce cost. We are seeing this trend at work again today and expect it will continue to motivate customers despite the current economic challenges.

Given its positive sales momentum and the improvements we are making to our internal processes and cost structure, we are confident that the Enterprise Solutions division is well-positioned to gain national market share and achieve profitable growth over the long term.

AWS SPECTRUM AUCTION – BENEFITTING FROM A DISCIPLINED APPROACH

One of the most significant events of 2008 in Canada's telecom sector was Industry Canada's advanced wireless services ("AWS") spectrum auction. The auction exceeded all expectations in raising approximately $4.25 billion. It was the largest, longest and most expensive spectrum auction in Canadian history.

Throughout the process, MTS Allstream maintained a disciplined approach and remained committed to a level of participation that made sense for our business and our shareholders. In the end, we successfully acquired licenses representing 35 MHz of spectrum in the province of Manitoba at an auction price of approximately $41 million. This spectrum strengthens our franchise in Manitoba and will provide the capacity to manage future demand for next generation wireless services, including bandwidth intensive data applications.

We are very pleased with the spectrum we acquired and the discipline we showed in not bidding for spectrum that simply exceeded our estimation of its value. As a result, we emerged from the auction with a better wireless business in Manitoba and a strong balance sheet. As we go forward, we are very well positioned to explore opportunities to provide services such as backhaul transport to the new entrants and other strategic wireless opportunities. We continue to explore these opportunities while maintaining a very disciplined approach in the current economic environment.

REGULATORY UPDATE – DRIVING INNOVATION THROUGH COMPETITION

Throughout 2008, we continued to be actively engaged in the policy and regulatory process governing communications services in Canada. We have always maintained that competitive market forces drive innovation in telecom, and innovation delivers the greatest benefit to Canadians and Canadians businesses.

We announced our endorsement of the definition of essential facilities released by the Canadian Radio-television and Telecommunications Commission ("CRTC") early in the year and worked through the balance of the year to persuade the CRTC to realize that broadband Internet access is essential for competitors to spur investment, innovation and choice in the Canadian telecommunications sector, particularly in business markets.

Given the CRTC's unwillingness to vary their decision to ensure businesses in Canada realize the benefits of more competition in broadband Internet services and pricing, we have petitioned the Canadian government to intervene in the same way they did to ensure greater competition in the wireless industry.

OUTLOOK

Despite the challenging economy we expect to face in 2009, we continue to believe that we are well-positioned to create and deliver value for our shareholders, and we remain focused on the execution of our long-term strategy.

We expect our Consumer Markets division to perform solidly and deliver growth in 2009, supported by continued strong performance from wireless, high-speed Internet and digital television services. This division has continued to deliver a "best-in-class" in-region margin performance in Manitoba for its residential customer base, and we expect this to continue in 2009 as MTS Allstream deploys its new and innovative MTS HDTV service to customers.

We expect to see stable performance in 2009 from our Enterprise Solutions division as the business continues to benefit from a well-diversified customer base, a solid sales funnel, and the efficiency initiatives launched in the third quarter of 2008.

Over the past three years, MTS Allstream has achieved significant annualized cost savings and shifted its product mix toward growth services while at the same time increasing EBITDA by 2%. We will continue to look for ways to eliminate costs from our business in 2009. In fact, we have doubled our target cost reduction range for 2009 to between $35 million and $45 million. We expect to achieve these cost reductions by refocusing our sales team and enhancing productivity through the optimization of internal business processes, which will also enable us to improve customer service by improving order execution times.

MTS Allstream continues to benefit from the significant past investments made in our network infrastructure, a strong balance sheet, and healthy free cash flows that are expected to be more than sufficient to support all of our ongoing cash flow requirements. We have adopted an expenditure and investment strategy that is prudent, scalable, and provides the flexibility to adjust the pace of investment according to economic conditions.

We also continue to ensure the compensation of our executive leadership is in line with the performance of the business and the realities of the marketplace. The base salaries of almost all of our senior executives have been frozen for 2009. Bonuses and longer term equity-based awards in 2008, which were targeted on MTS Allstream's business performance exceeding certain elevated targets beyond achieving our guidance, have been either significantly reduced or not paid out. Our compensation plans also ensure that the members of the senior executive leadership maintain a personal stake in the performance of our company through the acquisition and holding of equity based units and common shares of the company.

WELL POSITIONED TO MEET THE CHALLENGES OF 2009

In 2009, we remain committed to the strategic priorities that served us well in 2008 – smart, profitable growth, improving the customer experience, gaining market share nationally, and continuing to align our cost structure to our new market realities. We believe this strategy will enable us to continue driving long-term profitable growth and value for shareholders, even in the face of economic challenges the world expects to continue in 2009. Our purpose remains the same – to be the best communications solutions provider in Canada.

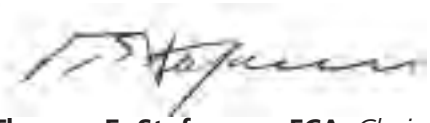
Once again, we could not have made the progress that we have without the experienced counsel of our Board of Directors. We acknowledge the time and effort they have committed, and thank them for the dedication and guidance they have provided. At this time, we would like to recognize the contributions of Arthur R. Sawchuk and James S.A. MacDonald, both of whom will be retiring from the Board of Directors at the annual general meeting of shareholders on May 6, 2009. Both of these individuals have provided tremendous guidance for the business during their service with the Board, and we thank them for their efforts and their commitment to MTS Allstream.

We are pleased to announce that David G. Leith has been nominated for election as a new director at the annual meeting. With more than 20 years of extensive equity, debt, government finance, and mergers and acquisition experience at CIBC World Markets, Mr. Leith will be a strong addition to our Board.

We also want to recognize John A. MacDonald, who retired from the post of President, Enterprise Solutions division, MTS Allstream, on December 1, 2008, concluding a 30-year career as a senior executive and highly regarded leader in the Canadian telecommunications industry. John has been a valued and important contributor in our success in recent years. We thank him for his contributions, and wish him continued success and happiness in his retirement.

Finally, we also want to recognize the contributions and commitment of our management team and the resourcefulness and exceptional skills of our many employees across Canada. In 2009, we move forward as a strong and stable business, and one focused on continuing to build value for you, our fellow shareholder.

Sincerely,



Thomas E. Stefanson, FCA, *Chairman*

Pierre Blouin, *Chief Executive Officer*

March 5, 2009

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of our financial results for the year ended December 31, 2008 is prepared as at March 5, 2009. 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, 2008. 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 and information (collectively, the "statements") about our corporate direction, business opportunities, operating and dispute resolution activities, 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 statements. 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", "see", "set", "pending", and other similar terms. Factors that could cause anticipated opportunities and 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 statements, 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 5, 2009. 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 except as required by law. Additional information relating to our company, including our Annual Information Form, is available on SEDAR at www.sedar.com. Unless otherwise stated, all amounts are expressed in Canadian dollars.

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.

  Continuing operations in 2008 excludes restructuring costs; the impact of changes in statutory income tax rates and other rate adjustments on our tax asset; the costs of transitioning certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform, as well as costs associated with the advanced wireless services ("AWS") spectrum auction; the refund of a directors' and officers' trust (the "directors' and officers' trust") that was established in 2002 by Allstream Inc.; and solvency funding to our pension plans.

  Continuing operations in 2007 excluded restructuring costs; certain tax recoveries; the retroactive adjustment related to Telecom Decision CRTC 2007-10 ("Decision 2007-10") in which the Canadian Radio-television and Telecommunications Commission ("CRTC") determined that we had been billed twice over the past several years for basic service extension features charges; the impact of changes in statutory income tax rates and other adjustments on our tax asset; solvency funding to our pension plans; and a reduction to our tax asset valuation allowance and other adjustment.

- ***EBITDA*** – We define EBITDA as earnings before interest, taxes, amortization, other income 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.

OVERVIEW

MTS is a leading national communications provider in Canada. The company is organized into two reportable 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.

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.

Enterprise Solutions division

The Enterprise Solutions division, which operates under the Allstream brand nationally and under the MTS Allstream 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, and professional services. The Enterprise Solutions division operates an extensive national broadband fibre optic network that spans more than 27,900 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 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 our markets. In addition, the Consumer Markets division is an important service provider in the national small business telecommunications market

in Manitoba as well as outside the province, providing customers in targeted major Canadian centres with a range of innovative business Internet, data and voice services under the Allstream brand.

Core Strengths

Our core strengths are:

- an extensive IP national network, including 27,900 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 mid-market business customers;
- a cost structure that supports 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 regional wireless franchise with significant continuing growth potential;
- an unrivalled high-speed Internet market share of approximately 60% in the Manitoba market;
- a thriving digital television service offering, with a success rate that is unparalleled in North America, gaining a 34% market share in five years of operation in Winnipeg, Manitoba, the largest market in which we offer digital television services;
- a dedicated, talented team of people, having the latest in skills and expertise with next generation products 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:

- ***Wireless*** – Our wireless portfolio consists of cellular, wireless data, paging and group communications, such as FleetNet 800™, services that we offer in the Manitoba market.
- ***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.
- ***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.

Year in Review

In 2008, we continued to successfully build upon the significant work efforts that we had undertaken in previous years to refocus and revitalize our business. 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. Later that year, we announced the completion of this process, and unveiled a strategy that has been serving as our blueprint for creating and delivering sustainable long-term value for our investors and customers. Through this approach, we have continued to make consistent gains with our strategy to increase our revenues from growth services while maintaining revenues from profitable legacy services, and have achieved twelve consecutive quarters of solid business performance during the period ended December 31, 2008. These efforts resulted in the achievement of full-year revenue growth for the first time since 2005.

As a strong company well able to succeed in competitive markets, we plan to maintain and build on this momentum throughout 2009, assuming that the current projected economic conditions are sustained, by making our internal processes more efficient and cost effective. To assist with our ongoing cost reduction initiatives, we began a further review of certain major processes primarily in our Enterprise Solutions division in the second quarter of 2008. Through this analysis, a number of process improvement opportunities were identified, which could significantly enhance the way products and solutions are delivered to customers and contribute to our cost reduction initiatives; we began to undertake the steps to pursue these opportunities in the latter part of 2008.

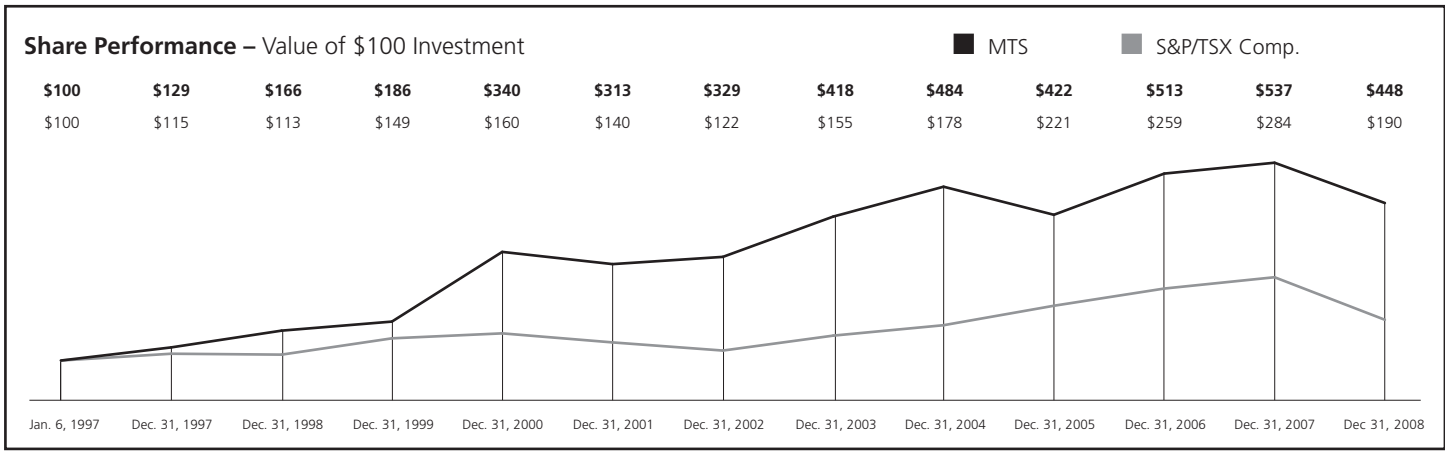
In 2008, we made further progress as follows:

- Our business strategy to increase the proportion of our revenues from growth services led to an increase in our overall revenue.
- Growth services drove the increase in our overall revenue, contributing 44.0% of total revenue from continuing operations, which is up from 39.8% a year ago.
- Our Enterprise Solutions division continued to demonstrate the success of our strategy to target our business to specific segments and profitable customers by delivering a year of solid performance. The division set a record for contract wins in 2008 with $331.5 million in new contracts, representing an increase of approximately 38% over last year. Contract wins at the end of the third quarter of 2008 had surpassed the value of all contracts won in 2007.
- Our Consumer Markets division continued to lead the Canadian telecommunications industry with the highest in-region EBITDA margin as compared to our major competitors.
- The performance of our consumer growth services products was recognized with the awarding of the *Global Telecom Business Innovation Award* in fixed and mobile communications strategy, and with the prestigious *2008 Frost and Sullivan Competitive Strategy Leadership Award* in the North American Consumer Communication and Entertainment Wallet Share Growth category.
- We demonstrated a strong ability to maintain the lowest rate in the industry of telephone customer losses to cable operator competitors, and built upon our leading position as a broadband television service provider.
- In August 2008, we received approval from the CRTC to offer television service in Portage la Prairie, Manitoba, and in January 2009, we launched Microsoft Mediaroom Internet Protocol Television, a new digital television service, which provides the next generation of high definition television, personal video recorder, improved guide features and many other exciting advancements. We plan to offer this premium service to our digital television customers in Winnipeg and Brandon early in 2009.
- We successfully renegotiated collective agreements with our five unions in 2008, which provided us with the ability to remain competitive in our markets.
- We achieved annualized cost savings of $29.7 million through various initiatives, reaching the higher end of our guidance range.

The Canadian telecommunications industry continued to be extremely competitive throughout 2008 due to the continuing convergence of telecommunications providers and cable operators that are capable of bundling multiple consumer services under one brand. In business markets, we experienced 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.

In 2008, we delivered results from continuing operations that achieved our guidance ranges for all key financial metrics and surpassed our results in 2007. We achieved growth in our overall revenues from continuing operations for the first time since 2005. The success of our growth services portfolio underpins this significant achievement and reflects our business strategy to increase growth services revenues in our Enterprise Solutions and Consumer Market divisions to offset declines in legacy business, as well as the loss of business revenue from Rogers Communications Inc. ("Rogers") and AT&T Corp. ("AT&T"). Our revenues from continuing operations grew by 0.8% or $14.9 million on a year-over-year basis in 2008, as compared to a decline of 0.5% or $9.9 million in 2007. In addition, EPS from continuing operations increased by 3.1% to $2.98, while EBITDA from continuing operations increased by 1.0% to $661.8 million, and free cash flow from continuing operations increased by 1.1% to $261.3 million.

As illustrated in the share performance graph below, although the 2008 decline has followed the trend of the overall index, our stock price has significantly outperformed the S&P/TSX Composite Index over the past 12 years.



This graph compares the cumulative total return on our Common Shares over the last 12 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.

(in millions $, except EPS)	**2008 actual**	2008 outlook	2007 actual
Revenues	**1,921.5**	1,920 – 1,980	1,906.6
EBITDA	**661.8**	660 – 680	655.1
Free cash flow	**261.3**	250 – 280	258.5
EPS	**2.98**	2.95 – 3.15	2.89

Key Developments

Wireless Transition

On March 5, 2008, we notified Bell Mobility that we were terminating certain wireless alliance agreements in accordance with the terms of these agreements. This transition away from Bell Mobility to other suppliers and/or our own wireless platform is not expected to impact our wireless operating cost structure and will give us additional flexibility to succeed in a rapidly changing telecommunications landscape. In the third quarter of 2008, we started activating new wireless customer additions and handset upgrades on new service platforms that are independent of Bell Mobility. As at December 31, 2008, we had successfully transitioned approximately 250,000 customers to our own wireless platform, and we are continuing with the execution of this transition. For further detail, please refer to the "Risks and Uncertainties".

AWS Spectrum Auction

On March 10, 2008, we announced, together with the Canada Pension Plan Investment Board and The Blackstone Group L.P., the formation of a consortium to make a deposit and submit an application to bid as a new entrant in an upcoming AWS spectrum auction. However, on May 21, 2008, we announced that the consortium would be dissolved, and that we would proceed independently with a clear and disciplined strategy utilizing all of the advantages that flow from our position as a leading national telecommunications services provider with significant wireless assets and expertise.

Industry Canada conducted an auction of AWS spectrum, which commenced on May 27, 2008 and concluded on July 21, 2008. We participated in this auction as a qualified new entrant through our wholly owned subsidiary 6934242 Canada Limited. We successfully bid for, and were the provisional licensees with respect to, licenses representing 35 MHz of spectrum in the province of Manitoba, at an auction price of approximately $41 million. Subsequently, we tendered payment and filed documentation demonstrating compliance with the foreign investment restrictions applicable to prospective licensees as required by the federal government. On December 15, 2008, we were issued these licenses by Industry Canada, which have an initial 10-year term commencing December 15, 2008 and expiring December 14, 2018.

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 we have a leading presence in national enterprise markets. During 2008, we continued to strengthen our positions in both of our market segments.

Within our Consumer Markets division, our success in growing wireless and broadband services, our strong bundling strategy that generates higher revenue and lower churn, and our winback success, combined with an efficient operation and ongoing cost reductions, drove growth in revenue and EBITDA. Our growth services strategy helped us compete effectively using our full service bundle, by retaining existing revenues, as well as up-selling new services that assist with offsetting revenue impacts from competition in our legacy services. This strategy continued to be a key element in our success in Manitoba, and has placed us at the forefront of the consumer market. Our winback strategies continued to prove effective. Through disciplined offers of bundled services, 71% of returning customers brought their voice services plus at least two additional growth products with them.

Local forbearance granted in Winnipeg and in Portage la Prairie in 2007 gave us the flexibility to respond to our competition with targeted promotional initiatives, while still continuing our disciplined pricing approach.

We responded as required in competitive markets where cable telephone competition has been launched. In 2008, we implemented price increases for digital and select wireless features. Our bundled product strategy continues to contribute to the success of our Consumer Markets division with the number of customers choosing our product bundles increasing by 10.4% and the average revenue per user ("ARPU") for these customers increasing by 4.0% year-over-year at the end of 2008. In addition, our Manitoba consumer business margins are the best in the industry. We remain confident that this strategy will continue to drive growth in our Consumer Markets division.

In the national small business market, we focused on implementing selected price increases and increasing the percentage of higher margin on-net customers, while taking actions to improve margins by reducing costs. We also are utilizing small business bundles that are sold under the Allstream brand in the Vancouver, Edmonton, Toronto and Montreal markets, with positive responses.

Within enterprise markets, we achieved positive momentum and positioned ourselves in this segment for further improvements in 2009. We achieved strong performance in our growth services, which include such services as converged IP and business wireless services, although our unified communications, security and professional services did experience modest declines in the fourth quarter of 2008. Our mid-market program, which began in late 2006 with a new sales team focused on securing new accounts in key urban centres, generated a positive contribution in 2008. Revenues from our converged IP services product line increased by 12.6% during the year as we continued to generate progress with our state-of-the-art multiprotocol label switching ("MPLS") network. We achieved growth of 21.7% this year in our revenues from unified

communications, partly as a result of the acquisition in 2007 of MCS-Multinet Communications Services Inc. ("Multinet"), a Montreal-based telephony systems and customer network solutions provider.

In 2008, we launched an enhanced cross-selling program, which targeted specific single-product customers of our Enterprise Solutions division where we feel we have the best chance to up-sell additional services from our product lines.

We also are focused on cost reductions through our continuing concentration on process improvements as well as targeted improvements to our internal information technology ("IT") platforms to achieve ongoing operating efficiencies. We also are working on the regulatory front to obtain access to more cost effective pricing, and we continue to look for ways to optimize the usage of competitor networks.

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 telecommunications market will continue to exhibit moderate 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 that 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 households as well with their 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 continue to 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. We have had considerable success in reducing our costs, as demonstrated by the $29.7 million in annualized expense savings we achieved with our 2008 efficiency program.

We have been very effective at achieving cost efficiencies over the last two years, and we expect to continue to find cost savings going forward. To assist with our ongoing cost reduction initiatives, we began a further review of certain major processes, primarily in our Enterprise Solutions division, in the second quarter of 2008. Through this analysis, a number of process improvement opportunities were identified which could significantly enhance the way products and solutions are delivered to customers and contribute to our cost reduction initiatives. In part as a result of this initiative, we have eliminated approximately 170 positions in our Enterprise Solutions division and the supporting corporate group. We are working to maximize internal redeployment of the affected employees through retraining and employee relocation, which will help to minimize the related severance cost. Our Enterprise Solutions division achieved stable year-over-year revenues for the first time in several years along with improved momentum in EBITDA, and we plan to maintain and build on this momentum through 2009, in part by making our internal processes more efficient and cost effective, assuming that the current projected economic conditions are sustained.

Competitive Intensity

The evolving dynamics among incumbents and alternative telecommunications providers, the entry of cable providers in the local voice market, and the ability for Bell Canada to compete within Manitoba continues to change our competitive landscape. In addition, two new entrants became provisional licensees with spectrum in Manitoba. However, these new entrants have indicated publicly that they initially will focus their efforts on more densely populated areas of Canada where they also acquired spectrum, and one announced that it will delay entry into our market in Manitoba. We believe that we are well-positioned to face these new competitors.

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 unique "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 for consumer customers. 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.

Economic Outlook

The business prospects and performance of the Canadian economy, and to a greater extent, the Manitoba economy, have an impact on us. When we were developing our financial outlook from continuing operations for 2009 in October 2008, the Conference Board of Canada was forecasting a national growth rate of approximately 1.5% for gross domestic product and a growth rate of 2.4% for gross domestic product for the province of Manitoba. More recent forecasts such as the February 10, 2009, Manitoba Department of Finance forecasts for gross domestic product included a decrease of 0.7% for the national average and growth of 0.8% for Manitoba. The actual performance of the Canadian economy and the Manitoba economy may impact the assumptions we used in the development of our business plan, which may have a negative impact on our actual results in 2009.

Performance Drivers Affecting Specific Businesses

Wireless

Our wireless portfolio consists of cellular, wireless data, paging, FleetNet 800™, 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. 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 solid growth. The expansiveness and sophistication of our wireless infrastructure in Manitoba 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.

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 large 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 medium-sized 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.

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 IP ("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.

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 84,500 at the end of 2008, representing a market share of approximately 34%. We are one of the best-positioned telecommunications providers in North America in the digital television market. Digital television service and our recently launched next generation IP television product will be key pillars in formulating the "quadruple play" of our consumer bundle. Our ability to drive strong growth from 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. We offer video-on-demand, pay-per-view and games services as well as several 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. In January 2009, we were the first company in Canada to launch a new digital television service with combined technology from Alcatel-Lucent Canada Inc. and the award-winning Microsoft Mediaroom Internet Protocol Television. We launched this new digital television service, which provides the next generation of high definition television, personal video recorder, improved guide features and many other exciting advancements, in Portage la Prairie, and we to plan to offer this premium service to our digital television customers in Winnipeg and Brandon early in 2009.

We continue to provide innovation through our digital television service and in 2008, we were awarded the *Global Telecoms Business Innovation Award* in fixed and mobile communications strategy, for having the most-successfully deployed telephone line-based television service in North America based on technology and market share growth.

Selected Financial Information
Consolidated *(in millions $, except EPS and cash dividends declared per share)*

	2008	2007	2006
Revenues	**1,921.5**	1,905.8	1,926.4
Net income	**144.0**	169.7	299.4
Total assets	**2,653.0**	2,739.3	2,926.2
Long-term liabilities	**549.2**	776.0	878.6
Basic EPS	**2.23**	2.61	4.40
Diluted EPS	**2.23**	2.60	4.39
Cash dividends declared per share	**2.60**	2.60	2.60

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 innovative 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 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 aligned more closely 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 2008 and 2007, please see "Consolidated Quarterly Data", and for 2006, the following is reflected in our results:

- The recording of amounts relating to regulatory decisions, consisting of a $9.9 million retroactive positive impact from the Band F Decision[1] and a $6.7 million retroactive positive impact from the Direct Connect/Access Tandem Decisions[2], which both occurred in the second quarter of 2006.
- The recognition of restructuring expenses for a workforce restructuring initiative that we undertook in the fourth quarter of 2006 in the amount of $8.5 million.
- An adjustment in the amount of $11.8 million for reductions to 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 charge in the amount of $58.6 million in the second quarter of 2006 to reflect a decrease in the value of our income tax asset as a result of reductions in future income tax rates.
- The recognition of restructuring costs for our Transition Phase II 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. Included in the amount recognized in the fourth quarter of 2006 are costs associated with an additional workforce reduction initiative that was announced in October 2006, which resulted in restructuring charges of $19.0 million.

Notes:

[1] Band F Decision means Telecom Decision CRTC 2006-20 in which the 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 *Aliant 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 *Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Direct Connection service*, Telecom Decision CRTC 2006-23

Consolidated Quarterly Data

Unaudited quarterly financial data for 2008 and 2007 is presented below:

(in millions $, except earnings per share)	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Operating revenues	476.4	479.9	486.4	478.8
Operating income	50.3	66.6	78.8	88.2
Net income and comprehensive income	13.7	38.1	38.0	54.2
Earnings per share	0.21	0.59	0.59	0.84
Diluted earnings per share	0.21	0.59	0.58	0.83

(in millions $, except earnings per share)	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Operating revenues	489.2	475.9	474.1	466.6
Operating income	72.1	82.5	92.2	91.2
Net income and comprehensive income	14.3	45.5	57.0	52.9
Earnings per share	0.22	0.70	0.88	0.80
Diluted earnings per share	0.22	0.70	0.88	0.80

Our consolidated financial results for the eight most recently completed quarters reflect the ongoing performance of our business in the marketplace, as well as the following:

- The recording of amounts in relation to the transitioning of certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform, as well as costs associated with the AWS spectrum auction, consisting of $10.3 million, $7.5 million and $9.3 million in the second, third and fourth quarters of 2008, respectively.
- The recognition of restructuring expenses for our 2008 efficiency program in the amounts of $7.1 million and $13.7 million in the third and fourth quarters of 2008, respectively; and restructuring expenses for our 2007 efficiency program in each of the four quarters of 2007 in the amounts of $3.9 million, $2.7 million, $2.3 million and $3.0 million, listed chronologically.
- The recording of amounts respecting a number of regulatory decisions: a $5.0 million positive impact in the second quarter of 2007 and a $9.9 million positive impact in the first quarter of 2007, which are related to Decision 2007-10.
- Adjustments in the amounts of $12.8 million and $25.7 million for reductions to our tax asset valuation allowance in the second and fourth quarters of 2007, respectively.
- The recording of charges to reflect decreases in the value of our income tax asset as a result of reductions in future income tax rates or rate differential on temporary differences, consisting of $7.5 million and $9.0 million in the second and fourth quarters of 2008, respectively, and $6.0 million and $49.6 million in the second and fourth quarters of 2007, respectively.

RESULTS OF OPERATIONS

Strong performance in our growth services portfolio continues to underpin our financial performance. During the year, double-digit growth in our growth services revenues, which include revenues from converged IP, unified communications, wireless, consumer Internet and digital television services, higher EBITDA from continuing operations and lower debt charges resulted in an increase of 3.1% in our EPS from continuing operations in 2008. In addition, share purchases made in the first six months of 2007 under our normal course issuer bid (the "Issuer Bid") positively impacted EPS from continuing operations with lower shares outstanding for the twelve months ended December 31, 2008. The strategies that we have in place to manage customer migration to new generation IP-based technology services and our residential bundling programs continue to add value and reinforce our relationships with customers in the highly competitive markets in which we do business. In addition, the successful execution of our ongoing cost control initiatives, along with targeted business strategies, contributed to our performance. We expect to achieve solid EPS from continuing operations in 2009 through the continued success of our growth services and our internal cost reduction programs.

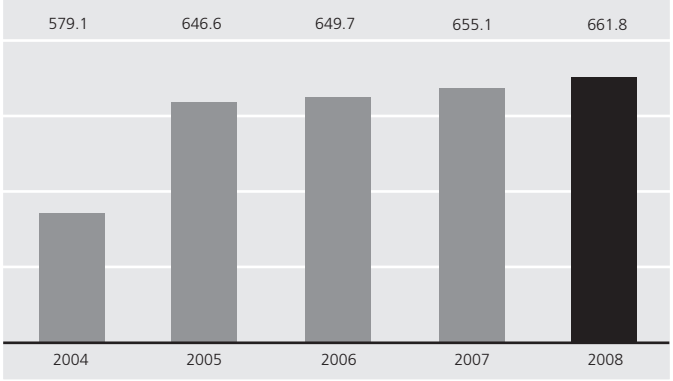
As we disclosed in the second quarter of 2008, we are in the process of transitioning certain wireless service requirements away from Bell Mobility. The costs associated with this transition, in addition to the costs related to our participation in the AWS spectrum auction and certain restructuring costs impacted our basic EPS performance. In addition, the decrease in basic EPS in 2008 reflects the impacts of Decision 2007-10, adjustments to our tax asset allowance, future tax rate adjustments, restructuring costs, and the costs associated with the AWS spectrum auction. The financial impact of each of these items is detailed in the following table:

EPS ($)	**2008**	2007	% change
EPS (continuing operations)	**2.98**	**2.89**	**3.1**
Wireless transition and AWS spectrum auction costs	**(0.28)**	–	n.m.
Restructuring costs	**(0.21)**	(0.12)	75.0
Future statutory tax rate adjustment and other rate adjustments	**(0.26)**	(0.86)	(69.8)
Reduction in tax asset allowance and other adjustment	**–**	0.55	n.m.
Decision 2007-10	**–**	0.15	n.m.
Basic EPS	**2.23**	**2.61**	**(14.6)**

Note: EPS for 2008 is based on weighted average shares outstanding of 64.6 million, and 65.0 million for 2007.

EPS – continuing operations

EBITDA – continuing operations
(in millions $)



EBITDA *(in millions $)*	**2008**	2007	% change
EBITDA (continuing operations)	**661.8**	**655.1**	**1.0**
Wireless transition and AWS spectrum auction costs	**(27.1)**	–	n.m.
Decision 2007-10	**–**	13.5	n.m.
Restructuring costs	**(20.8)**	(11.9)	74.8
EBITDA	**613.9**	**656.7**	**(6.5)**

Key to our overall financial performance in the year are the revenues from our growth services portfolio. We experienced strong growth in consumer Internet, converged IP, digital television and wireless services revenues throughout 2008. Also providing solid support to our EBITDA from continuing operations is our ongoing ability and initiative towards controlling our costs.

The costs of transitioning certain wireless service requirements away from Bell Mobility to new suppliers and our wireless platform, the costs associated with our participation in the AWS spectrum auction, higher year-over-year restructuring costs as well as the positive one-time impact in 2007 of Decision 2007-10 are the primary drivers of the decrease in consolidated EBITDA on a year to date basis. We are disputing certain costs being charged by Bell Mobility associated with transitioning away from Bell Mobility, and we are of the opinion that these costs are recoverable from them. We have commenced formal proceedings to recover such costs, however, there is no certainty that these costs will be recovered. These wireless transition costs are a one-time charge and do not impact our continuing operations.

Revenues

Operating Revenues *(in millions $)*	**2008**	2007	% change
Revenue (continuing operations)	**1,921.5**	**1,906.6**	**0.8**
Decision 2007-10	–	(0.8)	n.m.
Revenue	**1,921.5**	**1,905.8**	**0.8**

Significant year to date increases in revenues from our converged IP, unified communications, wireless, consumer Internet and digital television services, which are included in our growth services portfolio, drove the increase in our revenues from continuing operations as compared to 2007. In addition, the strong performance of our growth services more than offset the decline in revenues from our legacy services. We achieved growth in our overall revenues this year for the first time since 2005. The success of our growth services portfolio underpins this significant achievement.

Both of our operating divisions achieved solid revenues from continuing operations during the year. Our Consumer Markets division continued to provide "best in class" results against our competitors in all lines of business, achieving double-digit growth in its growth services revenues. Contributing to this strong performance is the continued growth in popularity of the product offers we provide. Year-over-year at the end of 2008, the number of customers choosing our product bundles increased by 10.4%. We are pleased with the success of our bundled product strategy, and we are confident in its ability to continue to drive growth within our Consumer Markets division.

Our Enterprise Solutions division is also achieving success through its offering of growth services products. Double-digit growth in growth services revenues offset decreases to legacy services revenues for the division to attain flat revenues for the year. This achievement is significant after experiencing several years of declines in revenues. While Rogers and AT&T have continued to transition their business to their own networks, the impact of their reduced traffic on our network has been lessening due to the gains we are achieving in our

growth services revenues. Solid demand in 2008 for the converged IP and unified communications services that our Enterprise Solutions division provides is demonstrated by this division's performance during the year.

Segmented Revenues (continuing operations)

(in millions $)	**2008**	2007	% change
Growth services	**845.4**	759.5	11.3
Legacy services	**1,076.1**	1,147.1	(6.2)
Total	**1,921.5**	1,906.6	0.8

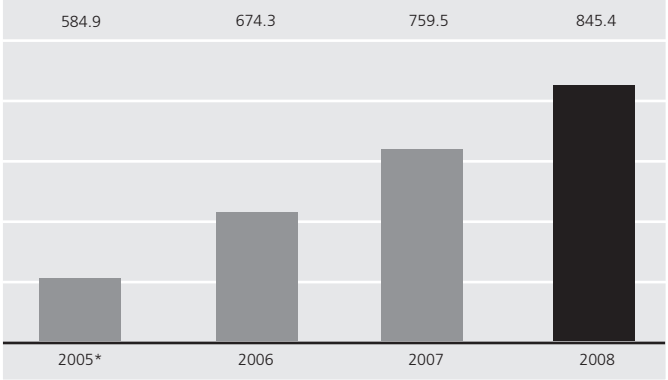
Growth Services Revenues

We are continuing to be successful with our business strategy to increase the proportion of our revenues from growth services while maintaining solid operating margins. For the year, revenues from our growth services contributed 44.0% to our total revenues as compared to 39.8% last year.

Contributing significantly to our success is the strong demand for the products that we offer within our growth services portfolio. During 2008, we saw strong increases in revenues from unified communications, consumer Internet, digital television, converged IP, and wireless services.

Growth Services Revenues

for the years ended December 31 (in millions $)



**estimated*

Legacy Services Revenues

We have effective strategies in place to manage the impacts of re-pricing and customer churn on our legacy services products. Strategies such as targeted marketing initiatives and our popular service bundle packaging are contributing to new and growing revenue streams and, in addition, are profitably managing the transition of customers from legacy services products to growth services and products.

As expected, Rogers and AT&T have continued with the migration of communications traffic to their own networks, however, the year-over-year impact of this migration slowed to declines in revenue of $27.5 million for the twelve months ended December 31, 2008. If this impact was excluded, legacy services revenues would have decreased by 4.2% in 2008.

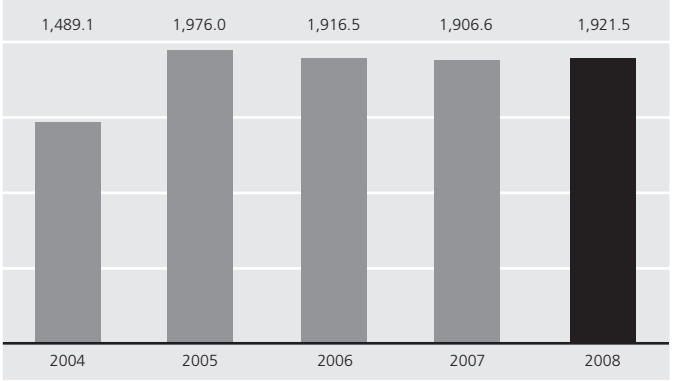
Operating Revenues (continuing operations)

(in millions $)	**2008**	2007	% change
Wireless	**289.7**	269.1	7.7
Data	**692.2**	667.7	3.7
Local	**527.5**	533.3	(1.1)
Long distance	**328.2**	358.3	(8.4)
Other	**83.9**	78.2	7.3
Total	**1,921.5**	1,906.6	0.8

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

Operating Revenues – continuing operations

(in millions $)



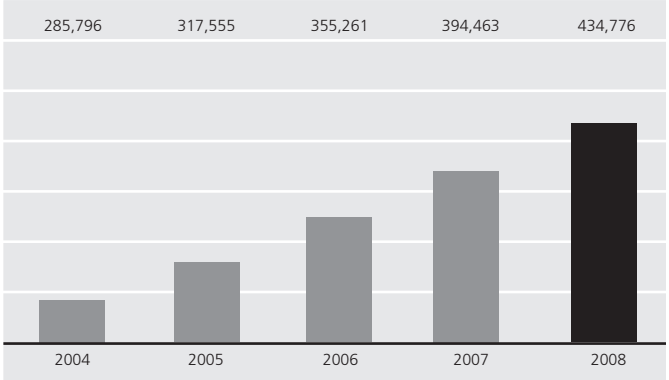
Wireless Services

(in millions $)	**2008**	2007	% change
Revenues	**289.7**	269.1	7.7

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

Primarily driving the year-over-year increase in our wireless services revenues is our success with continuing to add new subscribers to our wireless subscriber base. As at December 31, 2008, our wireless subscriber base had reached 434,776 subscribers, growing by 10.2% over last year's level. The success of our holiday campaign contributed to this overall increase in subscribers in 2008. In addition, not only do we provide the largest wireless coverage in Manitoba, our strategy of offering high-value product bundles that are unmatched by our principal competitors contributes to the popularity and usage of our wireless services.

Wireless Services Customers

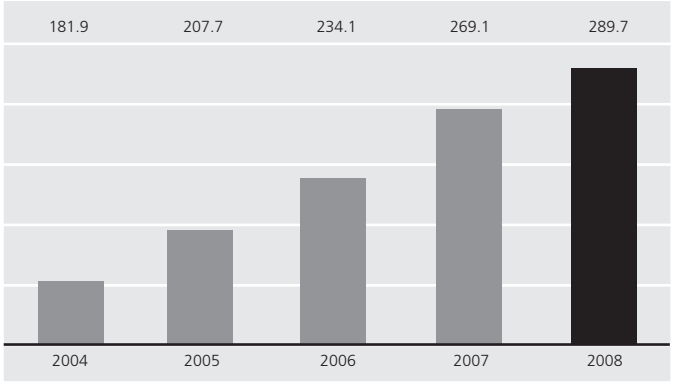


We continue to see strong potential for growth in our wireless services revenues in Manitoba. At the end of the fourth quarter of 2008, wireless penetration in Manitoba was approximately 61% as compared to our estimate of the Canadian penetration rate of approximately 66%. These penetration rates provide the right conditions for continued growth in the province as consumer adoption of wireless products continues to expand.

Our revenues from wireless data services increased significantly for the year, growing by 55.6%. Subscribers are increasingly utilizing our next generation wireless data services and service features, such as text messaging and Web browsing services, which is driving these increases. Although our ARPU decreased by 2.7% to $57.40 for the twelve months ended December 31, 2008, we have one of the leading ARPUs among our principal competitors. Time limited promotional offers, which have lower airtime usage and a lower network access price, along with lower wholesale revenue, impacted wireless ARPU in 2008, however these plans have attracted thousands of new first-time users, thereby increasing our customer base, and have contributed positively to both revenues and EBITDA.

Wireless Services Revenues

(in millions $)



Data Services

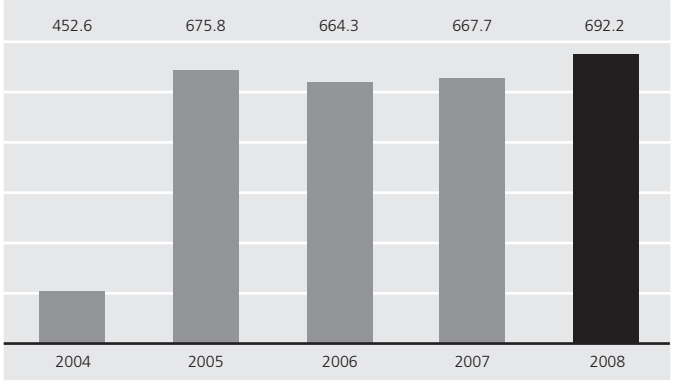
(in millions $)	**2008**	2007	% change
Revenues	**692.2**	667.7	3.7

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.

For the year, we achieved a solid increase in our data services revenues, which was driven primarily by strong increases in revenues from next generation services, which includes converged IP and unified communications services, and consumer Internet services.

Data Services Revenues

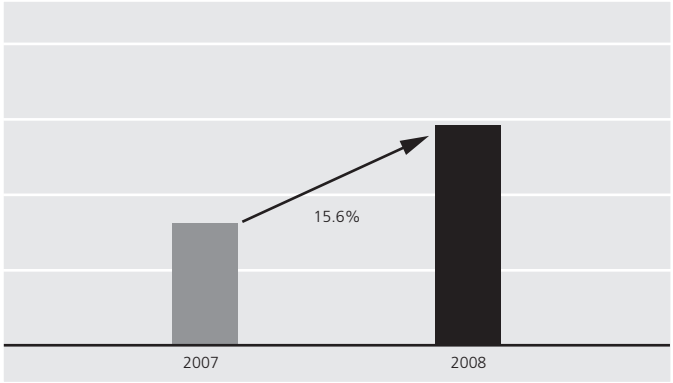
(in millions $)



The impact of customers transitioning from legacy services to growth services, and reduced traffic on our network by Rogers and AT&T continued to be felt this quarter. If the data services revenues of Rogers and AT&T were excluded from our performance, our data services revenues would have shown an increase of 6.0% for the year, which reflects the growing attractiveness of our next generation products and services. We are achieving our desired results as customers are continuing to migrate to IP solutions that utilize our state-of-the-art IP MPLS network and customer service capabilities.

Solid growth in our next generation data services, which include converged IP and unified communications services, was demonstrated with an increase of 15.6% in 2008, as compared to last year. New customer growth along with higher year-over-year volume usage from business IP domestic MPLS, network resident IP telephony, switched Ethernet, wavelength, IP trunking and consumer high-speed Internet services and higher sales of unified communications contributed to our solid performance in the year.

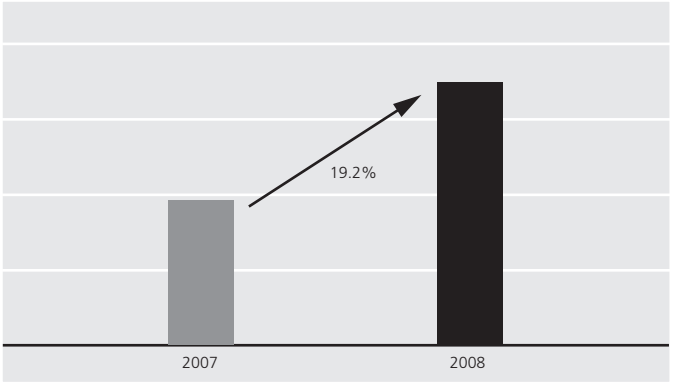
Next Generation Data Services Revenues



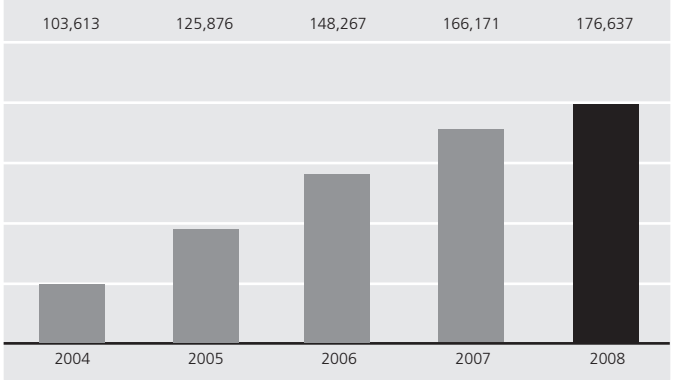
The capabilities of the suite of products offered by our Enterprise Solutions division continued to be demonstrated by strong growth in our IP-virtual private network ("IP-VPN") customer base. As at December 31, 2008, we were supporting 311 IP-VPN customers, which is 19.2% more than last year.

In the year, our consumer Internet services revenue continued its strong growth, increasing year-over-year by 19.2%. Our consumer high-speed Internet customer base grew by 6.3% and reached 176,637 customers as at December 31, 2008. In addition, higher average revenue per customer with an 11.0% year-over-year increase also contributed to the increase in consumer Internet services revenues.

Consumer Internet Services Revenues



High-speed Internet Services Customers



Local Services

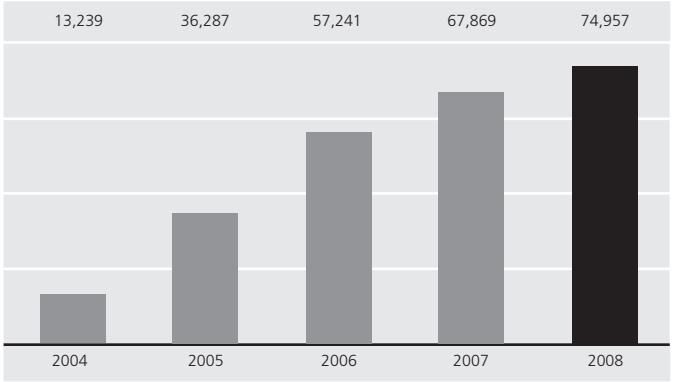
(in millions $)	**2008**	2007	% change
Revenues	**527.5**	533.3	(1.1)

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.

The popularity of our residential service offerings, which include local, long distance, wireless, Internet, digital television and alarm services and our bundle package, continue to provide a unique value proposition for our customers, and positions us for long-term success in our markets. Customers utilizing our bundled service packages grew by 10.4% in 2008 versus 2007. Through the success of these programs, we continued to deliver "best in class" performance against cable company competitors, and are minimizing the reduction in our local services revenues. For example, in the fourth quarter of 2008, our residential line loss was less than 3,500, after adjusting for cottage-country seasonality. We are confident in our ability to compete across Manitoba and win in this competitive local services environment. This level of line loss demonstrates the success of our service bundle and consumer marketing strategies in this market. In addition, the

revenues from our business local services are relatively flat year-over-year and continue to perform well in the markets in which we do business. Our overall customer connections, which include network access services, high-speed Internet, wireless and digital television subscribers, increased by 2.9% as compared to 2007.

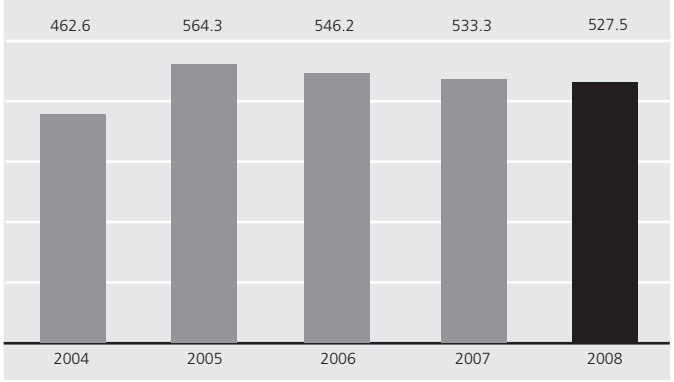
Service Bundle Customers*



*Purchases at least two of wireless, high-speed Internet, and digital television services.

Local Voice Services Revenues

(in millions $)



Long Distance Services

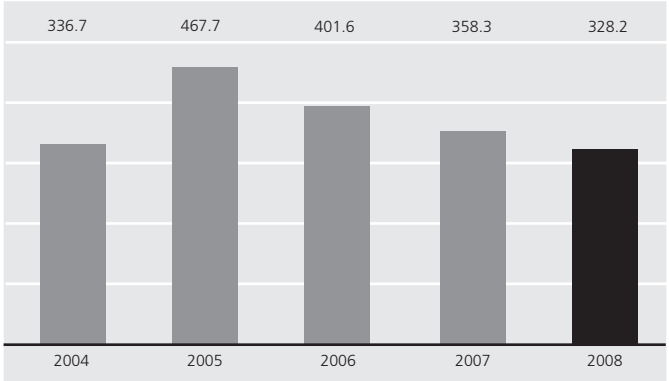
(in millions $)	**2008**	2007	% change
Revenues	**328.2**	358.3	(8.4)

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.

More customers are choosing the long distance services that our Consumer Markets division provides over dial-around competitor services, and this impact is partly offsetting the effects of competitive pricing and customer losses. In addition, higher international rates in our Enterprise Solutions division were offset by competitive losses, lower rates and volumes in the domestic and cross-border markets contributing to the decreases in our revenues from long distance services.

Long Distance Services Revenues

(in millions $)



Other Revenues

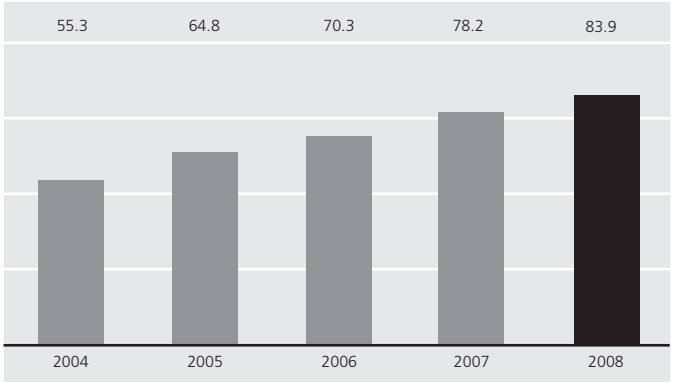
(in millions $)	**2008**	2007	% change
Revenues	**83.9**	78.2	7.3

Other revenues consist of revenues earned from our digital television and home security 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 the sale and maintenance of terminal equipment.

Strong revenues and subscriber growth from our digital television services continued to drive increases in our other revenues.

Other Revenues

(in millions $)

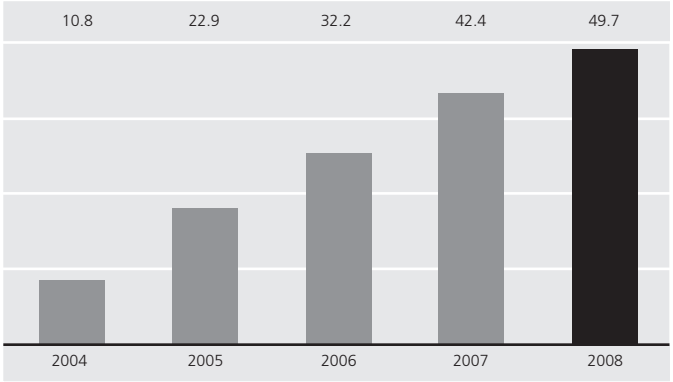


Revenues from our digital television services increased by 17.2% or $7.3 million to $49.7 million for the year. Strong growth in subscribers throughout the year contributed to these increases. In addition, average revenue per subscriber strongly increased by 5.3% to reach $49.88 through increased subscriber usage of pay-per-view, video-on-demand, and high definition services, as well as price increases and a decrease in the number of subscribers on promotional pricing plans.

In January 2009, we were the first company in Canada to launch a new digital television service with combined technology from Alcatel-Lucent Canada Inc. and the award-winning Microsoft

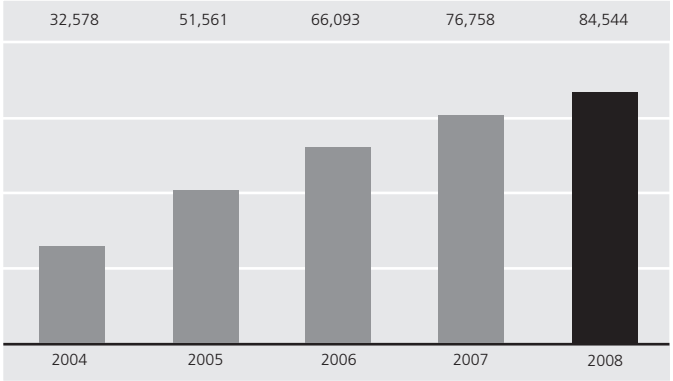
Mediaroom Internet Protocol Television. We launched this new digital television service, which provides the next generation of high definition television, personal video recorder, improved guide features and many other exciting advancements, in Portage la Prairie and plan to offer it in Winnipeg and Brandon early in 2009.

Digital Television Services Revenues
(in millions $)



As at December 31, 2008, our digital television subscriber base increased by 10.1% to reach 84,544, representing a 34% market share, increasing from 32% last year.

Digital Television Services Installed Customers



OPERATING EXPENSES

Operations Expense *(in millions $)*	**2008**	2007	% change
Operations expense	**1,286.8**	1,237.2	4.0

We continue to focus on our cost reduction initiatives. Our 2008 efficiency program achieved $29.7 million in annualized savings as at December 31, 2008, which is at the top of the range of our 2008 objective for annualized expense savings of $20 million to $30 million with this program. Partly offsetting these savings were higher expenses from our growth operations related to the corresponding revenue increases. In addition, the year to date increase in our operations expense was impacted by a one-time net positive adjustment in 2007 of $14.3 million related to Decision 2007-10, which reflects the retroactive impact of a competitor service for which we had been double-billed by incumbent carriers, and resulted in a positive one-time impact of $13.5 million to consolidated operating expenses and a $0.8 million negative impact to consolidated revenues. If this amount and the $27.1 million cost associated with the wireless transition and our participation in the AWS spectrum auction in 2008 are excluded, expenses from continuing operations were up by 0.7% due to increases in revenue.

We have been very effective at achieving cost efficiencies over the last three years and we expect to continue to improve our cost structure going forward. To assist with our ongoing cost reduction initiatives, we began further review of certain major processes in our Enterprise Solutions division in the second quarter of 2008. Through this analysis, a number of process improvement opportunities have been identified, which could significantly enhance the way products and solutions are delivered to customers and strongly contribute to our cost reduction initiatives. In part as a result of this initiative, we have eliminated approximately 170 positions in our Enterprise Solutions division and the supporting corporate group. We are working to maximize internal redeployment of the affected employees through retraining and employee relocation, which also will help to minimize the related severance cost to us. Our Enterprise Solutions division achieved stable year-over-year revenues for the first time in several years along with improved momentum in the EBITDA line, and we plan to maintain and build on this momentum throughout 2009 by making our internal processes more efficient and cost effective, assuming that the current projected economic conditions are sustained.

In the twelve months ended December 31, 2008, we incurred one-time costs in the amount of $27.1 million, relating to the costs of transitioning certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform, as well as costs associated with the AWS spectrum auction. We expect these one-time costs to be $40 million to $50 million in aggregate, including the amount we have incurred in 2008. These costs are non-recurring, will be recorded as a one-time cost, and will not impact our continuing operations. We are disputing certain costs being charged by Bell Mobility associated with transitioning away from Bell Mobility, and we are of the opinion that these costs are recoverable from them. We have commenced formal proceedings to recover the disputed costs.

This transition away from Bell Mobility to other suppliers and/or to our own wireless platform is not expected to impact our wireless operating cost structure and will give us additional flexibility to succeed in a rapidly changing telecommunications landscape.

Restructuring Expenses (in millions $)	2008	2007	% change
Restructuring expenses	**20.8**	11.9	74.8

We have incurred costs of $20.8 million under our 2008 efficiency program. These costs relate to the process improvement assessment and implementation initiative that we commenced in the second quarter of 2008, and include severance and other employee-related expenses, costs to review and improve efficiencies in our current processes, and facilities consolidation of select real estate. The workforce costs include severance associated with a number of smaller initiatives that were undertaken throughout the year, as well as severance associated with the elimination of approximately 170 positions in the fourth quarter of 2008. In 2008, cash payments of $17.2 million were applied against restructuring liabilities including prior years' workforce reduction liabilities. This is outlined in Note 2 to our consolidated financial statements.

Amortization Expense (in millions $)	2008	2007	% change
Amortization expense	**330.0**	318.7	3.5

The year-over-year increase in our amortization expense is due to increases in property, plant and equipment, as well as the intangible asset additions from our acquisitions of Multinet and ICU Technologies Inc. ("ICU Technologies").

Other Income (in millions $)	2008	2007	% change
Other income	**7.1**	6.7	6.0

Year-over-year, other income in the year was higher primarily due to foreign exchange gains which were offset partly by a decrease in interest income.

Debt Charges (in millions $)	2008	2007	% change
Debt charges	**48.9**	51.7	(5.4)

The decreases in debt charges resulted from lower year-over-year long-term debt levels that were refinanced with short-term debt at a lower interest rate, which was offset partially by higher costs related to our accounts receivable securitization program and syndicated credit facility.

Our debt to total capitalization ratio as at December 31, 2008 was 39.0%, and continues to provide us with financial strength and flexibility going forward. In addition, providing us with sufficient liquidity for our refinancing needs in 2009 and 2010, we signed an agreement on January 5, 2009 with a group of Canadian banks to increase the size of our syndicated credit facility from $350 million to $600 million, and to extend the term of the facility to 2012.

Income Tax Expense (in millions $)	2008	2007	% change
Income tax expense	**98.1**	123.3	(20.4)

We are able to reduce our taxable income to zero without utilizing our substantial and growing capital cost allowance ("CCA") pools as a result of our acquisition of Allstream Inc. in 2004 along with its income tax loss carryforwards. Through the utilization of these loss carryforwards, followed by the utilization of our deferred CCA deduction, we project that we will not pay cash taxes before 2015.

The decreases in our income tax expense were primarily driven by lower income before tax and lower statutory tax rates this year. Further impacting income tax expense on a year to date basis were charges of $7.5 million and $9.0 million relating to changes in statutory tax rates or rate differential on temporary differences in the second and fourth quarters of 2008, respectively, as compared to $6.0 million and $49.6 million in the second and fourth quarters of 2007. These were offset by favourable adjustments in our tax asset valuation allowance of $12.8 million and $25.7 million, which occurred in the second and fourth quarters of 2007, respectively, resulting from higher forecasted taxable income.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities (in millions $)	2008	2007	$ change
Cash flows from operating activities	**526.0**	588.7	(62.7)

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

For the year, the decrease in our cash flows from operating activities is mainly due to wireless transition costs, restructuring costs, the one-time recovery related to Decision 2007-10 in 2007 and increased pension funding, which were offset partially by the refund of the directors' and officers' trust and increased cash from working capital due to the net impact of utilizing our accounts receivable securitization program, and a decrease in current liabilities. The directors' and officers' trust was established in 2002 to provide additional coverage to directors and officers of Allstream Inc. in the event of any legal claim arising before December 31, 2008, at which time the trust terminated and the trust funds were returned to us.

Cash Flows used in Investing Activities (in millions $)	2008	2007	$ change
Cash flows used in investing activities	**343.5**	323.0	20.5

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

The increase in cash flows used in investing activities was higher as compared to last year mainly due to our purchase of 35 MHz of wireless spectrum during the AWS spectrum auction earlier this year. In the third quarter, we incurred $48.6 million in costs related to this spectrum, which will cover 1.2 million people in Manitoba and strengthens our already leading position in this market. Our capital expenditures are further explained in "Capital Expenditures". In addition, we had acquisitions in the amounts of $4.4 million in 2008 for the purchase of ICU Technologies as compared to $8.1 million for the purchase of Multinet in 2007.

Capital Expenditures

In 2008, capital was allocated principally to fund our higher growth segments, as well as to maintain our network and business systems. Capital expenditures totalled $335.7 million for the year, as compared to $312.0 million in 2007. Our capital expenditures from continuing operations were $282.5 million in 2008 as compared to $287.2 million in 2007. In addition, our capital expenditures for 2008 include $48.6 million related to our acquisition of 35 MHz of spectrum during the AWS spectrum auction and $4.6 million related to our wireless transition. We incurred no restructuring capital expenditures in 2008 versus $24.8 million in 2007.

Free Cash Flow *(in millions $)*	**2008**	2007	% change
Free cash flow (continuing operations)	**261.3**	**258.5**	**1.1**
Spectrum license costs	**(48.6)**	–	n.m.
Pension solvency funding	**(30.6)**	(3.2)	n.m.
Wireless transition and AWS spectrum auction costs	**(27.1)**	–	n.m.
Restructuring expense	**(20.8)**	(11.9)	74.8
Wireless transition capital expenditures	**(4.6)**	–	n.m.
Directors' and officers' trust refund	**14.8**	–	n.m.
Restructuring capital expenditures	–	(24.8)	n.m.
Decision 2007-10	–	14.9	n.m.
Tax recoveries	–	14.2	n.m.
Consolidated free cash flow	**144.4**	**247.7**	**(41.7)**

Free cash flow refers to cash flow from operating activities, less capital expenditures, and excluding changes in working capital.

The increase in 2008 in our free cash flow from continuing operations is primarily due to higher EBITDA from continuing operations and lower capital expenditures, which were offset partially by increased normal pension funding.

For the year, the decrease to our consolidated free cash flow is primarily due to higher pension solvency funding, spectrum license costs in 2008, wireless transition and AWS spectrum auction costs, and higher restructuring costs, as well as certain regulatory and tax recoveries noted above, partly offset by the recovery of the directors' and officers' trust and lower restructuring capital expenditures.

Cash Flows used in Financing Activities *(in millions $)*	**2008**	2007	% change
Cash flows from financing activities	**165.9**	382.5	(216.6)

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

The decrease in our cash flows used in financing activities is primarily due to our purchase for cancellation of 2,377,500 common shares for $111.0 million in the first half of 2007, along with a $5.3 million net issuance of debt in 2008 versus a net repayment of $106.5 million in 2007.

In 2008, we paid cash dividends of $168.0 million, issued net notes payable in the amount of $95.0 million and repaid long-term debt in the amount of $89.7 million. In 2007, we paid cash dividends of $170.6 million, repaid long term debt in the amount of $106.5 million and purchased common shares for cancellation in the amount of $111.0 million.

Credit Facilities *(in millions $)*	capacity	utilized at December 31/08
Medium term note program	350.0	–
Accounts receivable securitization	150.0	127.0
Revolving credit facility*	600.0	201.9
Total	1,100.0	328.9

** Increased to $600.0 million effective January 5, 2009.*

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

We established our $350.0 million medium term note program on January 18, 2008. On January 5, 2009, our revolving credit facility was increased from $350.0 million to $600.0 million, of which $150.0 million is available to back-stop our commercial paper program. In addition to these programs and facilities, we have an accounts receivable securitization program of $150.0 million.

As at December 31, 2008, we utilized $127.0 million of our accounts receivable securitization program, and $201.9 million of our revolving credit facility, which includes $106.9 million in undrawn letters of credit. Of this amount, $80.7 million represents letters of credit issued under the *Solvency Funding Relief Regulations* enacted in 2006 under the *Pension Benefits Standards Act, 1985* (Canada), 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 *(in millions $ as at December 31)*	**2008**	2007
(Cash and cash equivalents) bank indebtedness	**(6.5)**	10.1
Proceeds from accounts receivable securitization	**127.0**	43.0
Notes payable	**95.0**	–
Capital lease obligations, including current portion	**18.8**	22.5
Long-term debt, including current portion	**650.2**	739.5
Total debt	**884.5**	815.1
Shareholders' equity	**1,382.0**	1,404.0
Total capitalization	**2,266.5**	2,219.1
Debt to capitalization	**39.0%**	36.7%

Our capital structure illustrates the amount of our assets that are financed by debt versus equity. Our debt to total capitalization ratio of 39.0% as at December 31, 2008 continues to represent excellent financial strength and flexibility.

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 DBRS Limited ("DBRS"), analyze us and assign ratings based on their assessments. We consistently have been assigned solid investment grade credit ratings. On December 16, 2008, 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. DBRS confirmed our credit ratings on December 19, 2008 at "BBB" on our senior debentures and "R-2 (high)" on our commercial paper, and maintained its stable outlook.

Outstanding Share Data as at February 24, 2009

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	64,659,917	1,266.8

Stock Options:

Options	Number	Weighted Average Exercise Price Per Share
Outstanding	2,296,740	$41.39
Exercisable	1,171,160	$41.10

Contractual Obligations

(in millions $)	2009	2010	2011	2012	2013	After
Long-term debt	220.0	11.9	220.0	–	–	200.0
Capital leases	3.8	2.4	2.5	2.6	2.6	8.5
Operating leases	68.2	57.6	43.0	36.2	33.4	228.1
Purchase obligations	130.9	49.0	33.7	18.8	14.9	4.3
Total	422.9	120.9	299.2	57.6	50.9	440.9

Our contractual obligations as at December 31, 2008 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 foreign currency exchange expense. These instruments hedge anticipated transactions and are not recorded on our balance sheet. As at December 31, 2008, we do not have any outstanding foreign currency forward contracts to purchase U.S. dollars. During the year ended December 31, 2007, we recorded a $1.2 million loss in other income relating to our accounting policy of adjusting outstanding foreign currency forward contracts from book value to fair value. During the year ended December 31, 2008, we recorded a $1.2 million recovery of expense in other income.

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 $24 million. The final balance is subject to change depending on 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 "Risks and Uncertainties".

Accounts Receivable Securitization

Under the terms of our accounts receivable securitization program, we have the ability to sell, on a revolving basis, an undivided interest in our accounts receivable to a securitization trust, 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, 2008, we had received $127.0 million on the sale of our accounts receivable to the trust.

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.

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 2004. These audits include a review of loss carryforwards accumulated by Allstream Inc. prior to its acquisition by us. Future tax assets as at December 31, 2008 and 2007 were reduced by valuation allowances of $64.0 million and $64.4 million, respectively.

Capital Assets

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 asset life 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.

Indefinite life intangible assets are tested for recoverability on an annual basis or earlier when events or changes in circumstances indicate that the carrying value might not be recoverable. A change in our estimates could impact the carrying value of our 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 and other contractual arrangements over periods of two 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.

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

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

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 policies that were adopted in 2008.

Financial Instruments

We have adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3862 Financial Instruments – Disclosures and section 3863 Financial Instruments – Presentation. These standards outline the presentation requirements for financial instruments and require us to disclose information that enables users to evaluate the significance of financial instruments for our financial position and performance, the nature and extent of risks arising from those financial instruments to which we are exposed and how we manage those risks.

Commencing with the 2009 fiscal year, we have adopted the recommendations of CICA Handbook section 3064 Goodwill and Intangible Assets, and the updates to CICA Handbook section 1000 Financial Statement Concepts. This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of intangible and deferred assets. Our first reporting period under the new recommendations will be the first quarter of 2009, and we do not expect to be materially affected by these changes.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace Canadian GAAP for publicly accountable enterprises. Currently, there are a number of areas where accounting standards under IFRS are different from those under Canadian GAAP. Also, because IFRS continues to evolve, it is expected that IFRS at the transition date will differ from current IFRS. Our first financial statements under IFRS will be for periods commencing January 1, 2011.

We have commenced our IFRS changeover project, which consists of four phases, namely, IFRS diagnostic gap assessment, design and planning, solution development and implementation. We have completed phase one of the project, which consisted of the identification of the key differences between IFRS and Canadian GAAP. We currently are working on phases two and three, including the evaluation and selection of accounting policies, the assessment of implications to systems, processes and controls, and training. During these phases, we will complete the necessary work required to quantify the impact of the changeover to IFRS on our financial position and results of operations. These impacts may be material to our financial statements and we expect the impacts to be of similar nature to our competitors. Based on our work to date, we believe that the areas of highest impact are property, plant and equipment and employee benefits.

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, it is expected that the broad market segment trends in the industry that we have encountered over the past few years will continue in 2009. 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 are experiencing competition from incumbent cable providers, Shaw Communications Inc. which entered the local residential telephony market in Manitoba in 2005 and Westman Communications Group which entered in 2007. We also expect continuing competitive pressure in the large business, long distance, wireless and Internet markets. As a result of the AWS spectrum auction which occurred in mid-2008, two new entrants became the provisional licensees for sufficient spectrum in Manitoba to enable them to offer wireless services in competition with us. These new entrants have indicated publicly that they initially will focus their efforts on more densely populated areas of Canada where they also acquired spectrum, and one announced that it will delay entry into our market in Manitoba. In addition, Bell Canada has the ability to compete in Manitoba using parties other than us. As a result of a recent arrangement between Bell Canada and TELUS Communications Inc. ("TELUS") related to wireless networks, there is a possibility that Bell Canada may use the limited wireless footprint of TELUS in Manitoba and potentially enter the market. Based on this limited footprint, we are not expecting a material impact in 2009. We are well-positioned to face these new competitors. 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 2007, our growth services accounted for approximately 40% of our overall revenue, which increased to 44% in 2008.

AT&T Relationship

Effective January 1, 2009, our Enterprise Solutions division and AT&T extended 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 and customer care platforms. The MSA extends to June 30, 2013. As is typical in such commercial agreements, provisions exist for early termination of the MSA. The MSA may be terminated upon the occurrence of 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 2008, AT&T continued the transitioning of its data traffic onto its own networks, resulting in loss of revenue for us as had been forecasted. We anticipate that this impact will continue to be felt in 2009 as AT&T continues this transition. However, the revenue loss now has been reduced to the point where the impact has diminished and we expect the impact to continue diminishing in 2009. We have strategies underway to facilitate the migration of our 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 and Bell Mobility have been parties to a wireless alliance that addresses competition and reciprocal services in our respective territories and provides us with access to various wireless-related platforms and products. On March 5, 2008, we provided notice of termination to Bell Mobility of certain of these wireless agreements relating to the framework underpinning this wireless alliance. These agreements provide for the continuation of services following such notice during a notice period and, thereafter, during a transition period. Bell Mobility disputes that it has any remaining obligations under these agreements. We have commenced formal proceedings to resolve this disagreement. Notwithstanding this dispute, we have entered into a transition agreement with Bell Mobility which will ensure continuity of services to our customers, while reserving all rights to our respective entitlements under these agreements. Effective September 29, 2008, we started activating new wireless customer additions and handset upgrades on new service platforms independent of Bell Mobility. As at December 31, 2008, we have migrated approximately 250,000 existing wireless customers to our new service platforms. We plan to complete moving all of our wireless customers to the new service platforms in 2009, and in accordance with the transition agreement we signed with Bell Mobility, we have given Bell Mobility notice of termination of that agreement, with such termination to be effective June 24, 2009.

We anticipate that the one-time costs of transitioning certain wireless services requirements away from Bell Mobility to new suppliers and to our wireless platform, as well as the costs associated with the AWS spectrum auction, to be an aggregate of $40 million to $50 million, which includes the amount we have incurred year to date this year. As noted above, we are disputing certain costs being charged by Bell Mobility in relation to the transition away from Bell Mobility, and we are of the opinion that such costs are recoverable from Bell Mobility, however, there is no certainty that such costs will be recovered.

While there is always a risk associated with any transition, we have plans to execute our transition of wireless services in a manner that will be seamless to our customers.

Changes in Telecommunications Policy and CRTC Regulation

The telecommunications and broadcast industries in which we operate are federally regulated. 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.

Deferral Account

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 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 $24 million. The final calculation of the balance to be cleared is dependent upon certain other CRTC proceedings.

In two subsequent decisions relating to the use of deferral account funds, Telecom Decision CRTC 2007-50 dated July 6, 2007 and Telecom Decision CRTC 2008-1 dated January 17, 2008 ("Decision 2008-1"), the CRTC approved various proposals submitted for the expansion of broadband services in certain rural and remote communities, and for improved access to telecommunications services for persons with disabilities. In Decision 2008-1, the CRTC directed that the remaining balance of the deferral accounts of the ILECs be rebated to residential customers in non-high-cost serving areas.

Bell Canada and certain consumer groups have been granted leave to appeal Decision 2006-9 to the Supreme Court of Canada. Bell Canada also has sought leave from the Federal Court of Appeal to appeal Decision 2008-1.

The final disposition of deferral account balances will be dependent upon the outcome of these appeals. In the interim, Decision 2006-9 and Decision 2008-1 have been stayed by order of the Supreme Court of Canada.

Wireless Spectrum Auction

Between May 27 and July 21, 2008, the federal government conducted an auction for wireless spectrum licenses in the 2 GHz range, pursuant to a policy and licensing framework issued in late 2007.

We participated in the auction as a qualified new entrant through our wholly owned subsidiary 6934242 Canada Limited. We successfully bid for, and became the provisional licensees with respect to, licenses representing 35 MHz of spectrum in the province of Manitoba, at an auction price of approximately $41 million. We subsequently tendered payment and filed documentation demonstrating compliance with the foreign investment restrictions applicable to prospective licensees as required by the federal government, and on December 15, 2008, we were issued these licenses by Industry Canada. The initial term of the licenses runs from December 15, 2008 to December 14, 2018.

As a result of the AWS spectrum auction, two new entrants became the provisional licensees for sufficient spectrum in Manitoba to enable them to offer wireless services in competition with us. These new entrants have indicated publicly that they will initially focus their efforts on more densely populated areas of Canada where they also acquired spectrum.

Competition Policy Review

On June 26, 2008, the Competition Policy Review Panel (the "Panel") appointed by the federal government to review competition and investment policy in Canada submitted its report, entitled *Compete to Win*, to the Minister of Industry. In its report, the Panel recommended the immediate removal of foreign investment restrictions applicable to new entrant telecommunications companies, including existing companies having less than a 10% market share in Canada, and broader liberalization for all broadcasting and telecommunications companies subsequent to further review of broadcasting and cultural policies. The Panel noted that its recommendations are consistent with those of the Telecommunications Policy Review Panel that had been established by the federal government in 2005. We support the Panel's recommendations.

Essential Facilities

On March 3, 2008, the CRTC issued *Revised regulatory framework for wholesale services and definition of essential service*, Telecom Decision CRTC 2008-17, in which it adopted a new broadened definition of an essential service or facility as one that (i) is required by competitors to provide a retail telecommunications service; (ii) is controlled by a company that could use its market power to lessen or prevent competition; and (iii) provides a functionality that would not be practical or feasible for competitors to duplicate. In addition, the CRTC adopted six categories of mandated competitor services, with differing approaches as to when and how mandated access could or, in the case of one category of services will, be phased out. This decision ensures that pricing for competitor services will remain, for the most part, unchanged for a period of five years. On April 2, 2008, Bell Canada and other carriers applied for leave to appeal this decision to the Federal Court of Appeal. We successfully opposed this application, which was dismissed by the Federal Court of Appeal on June 20, 2008. On May 15, 2008, Bell Canada filed four separate applications asking the CRTC to review and vary elements of its decision. We opposed those applications, and applied separately to have the decision reviewed and varied with respect to the treatment of Ethernet and asymmetric digital subscriber line ("ADSL"). On December 11, 2008 and January 26, 2009 in Telecom Decision CRTC 2008-118 pertaining to Ethernet and Telecom Decision 2009-34 pertaining to ADSL, the CRTC dismissed our applications, and initiated a further proceeding concerning the appropriate unbundling of ADSL. On December 11, 2008, we expressed our intention to petition Cabinet, which is the next statutorily prescribed level of appeal. We expect to file our petition during the first quarter of 2009 when we will have another opportunity to present our position.

New Media and Internet Traffic Management Practices (Net Neutrality)

On October 15, 2008, by way of Broadcasting Notice of Public Hearing CRTC 2008-11, and on November 20, 2008, by way of Telecom Public Notice CRTC 2008-19, the CRTC commenced consultations to consider issues relating to the regulation of so-called new media and issues relating to wholesale and retail Internet trafficking practices (net neutrality), respectively. The issues raised in these two proceedings are interrelated in our view, and bear on the essential services framework that was established by the CRTC in 2008. Determinations to be made as a result of these proceedings will have implications for companies that, like us, are Internet service providers or BDUs, and for content providers. As in the essential services proceeding initiated by the CRTC, we intend to argue that

rules adopted by the CRTC should recognize that competitive market forces are key to ongoing innovation and investment both in network infrastructure and in services and content being offered over that infrastructure. We will argue that subsidies that tax BDUs do not promote Canadian content, and that a competitively and technologically neutral and transparent wholesale regime is the best means of addressing concerns around Internet traffic management practices. Both proceedings will involve public hearings in 2009, with decisions to be received likely before year-end.

Wireless 911 Services

On February 2, 2009, the CRTC, in Telecom Decision CRTC 2009-40 ("Decision 2009-40"), directed all wireless service providers ("WSPs") to implement location coordinate identification for enhanced 911 service ("E911") by February 2010. We and other WSPs currently are mandated to provide only public safety answering points with a routing number which can be used to determine the location of the cell tower and the caller's direction from that tower. The network and systems upgrades mandated by the CRTC in Decision 2009-40 will enable WSPs to provide location coordinates for the caller which, in most cases, will assist emergency response workers by narrowing the geographical area in which the caller is located. This effort will require modifications to our wireline and wireless network and systems. As this is an industry-wide initiative, we, through the Canadian Wireless Telecommunications Association and the CRTC's emergency services working group, will work with the industry to ensure the smooth implementation of the required enhancements to the E911 services provided by WSPs. We are currently analyzing the financial impact of this decision.

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.

We have filed January 1, 2008 actuarial valuations for our defined benefit pension plans, which are in a deficit position, in accordance with federal pension legislation under the *Pension Benefits Standards Act, 1985* (Canada). As one of our defined benefit pension plans is in a surplus position, solvency funding is not required for this plan. We have two defined benefit pension plans with solvency deficiencies for which a total of $30.6 million in solvency and special funding payments were made in 2008.

In 2006, we elected to extend the amortization period of our solvency funding payments from five years to 10 years based on the *Solvency Funding Relief Regulations*. In accordance with the requirements of these regulations, we have obtained letters of credit, which are amended annually, 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. In addition, the federal government recently announced new temporary solvency relief for federally regulated pension plans in 2009. The impact on our funding will be determined once the detailed regulations are released.

In the second half of 2008, worldwide equity markets experienced unprecedented volatility and losses in value. Our pension plans are invested in a well-diversified portfolio of assets, which has demonstrated, over the long-term, the ability to provide a return on plan assets that meets or exceeds the long-term assumptions used by our actuaries to value these plans. However, since challenging market conditions persisted to the end of 2008, we expect increased solvency funding requirements will be determined in the January 1, 2009 actuarial 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, by conditions in the domestic or global economy generally. The business prospects and performance of the Canadian economy have a direct impact on us. As competition in the overall marketplace escalates, the broad market segment trends that have taken shape in recent years also will persist in 2009. A slowdown in the Canadian and global economies could impact our business, including 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 - International Federation of Professional and Technical Engineers, Local 161 ("TEAM-IFPTE"); 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, TC Local 1976 ("USW"). Our collective agreements have expiry dates ranging from April 2009 to January 2011. It is anticipated that our collective agreements will be renewed without a labour disruption.

The collective agreement with TEAM-IFPTE expires on February 19, 2010. We have two collective agreements with IBEW, one of which expires on April 27, 2009 and the other which expires on January 31, 2011. Of our two collective agreements with CEP, one expires on November 20, 2010 and the other expires on December 19, 2010. Our collective agreement with CAW expires on December 31, 2009, and our collective agreement with USW expires on December 31, 2009.

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 that our network represents a leading technology, all aspects of voice, data and video telecommunications are undergoing rapid technological change.

Allstream Inc./Inukshuk/NR Communications Venture

In 2003, Allstream Inc. 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 Inc. had a period of time to evaluate the technology and its potential commercial acceptance. While the results of this 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. In January 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 Inc., 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 Inc. 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 defense to this claim, and we are defending our position vigorously.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of MTS is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting, as these terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* as adopted by the Canadian securities regulatory authorities.

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, 2008. Based on this evaluation, our CEO and CFO have concluded that, as of the evaluation date, our disclosure controls and procedures are effective.

Internal Control over Financial Reporting

Internal control over financial reporting is a process designed by, or designed under the supervision of, the CEO and CFO 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. Our process includes those policies and procedures that (i) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions relating to our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are made only in accordance with authorizations of management and our directors; and (iii) provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. As well, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Under the direction of our Audit Committee and our CEO and CFO, we have assessed the effectiveness of our internal control over financial reporting as at December 31, 2008 based on the criteria set forth in the *Internal Control – Integrated Framework* issued by the

Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has concluded that, as at December 31, 2008, our internal control over financial reporting is effective and that there were no material weaknesses in our internal control over financial reporting.

There have been no changes in our internal control over financial reporting during the interim period ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SOCIAL RESPONSIBILITY

We have long been recognized as one of Canada's most responsible corporate citizens, and as a top socially responsible corporation in the country's telecommunications industry.

Over the past several years, we have been ranked number one in the Canadian telecommunications industry by *Report On Business* magazine and by Jantzi Research, and as one of the 50 Best Corporate Citizens in Canada by *Corporate Knights* magazine. In November 2007, we tied for first place as the top socially responsible telecommunications company in Canada as ranked by *Maclean's* magazine and Jantzi Research. We have been a constituent of the Jantzi Social Index since it was established in January 2000. In addition, we are part of the Desjardins Environment Fund, which is a fund that invests in Canadian businesses that are carefully selected for their environmental policies.

Our community investment strategy, employee giving and volunteerism programs, corporate environmental strategy, and Aboriginal program all contribute to our strong corporate social responsibility ranking. The following is an overview of each of these programs:

Community Investment

We are committed to being a strong contributor to the communities in which our employees live and work. This commitment takes many forms, including financial contributions, in-kind products and services, such as our recent commitment to the Canadian Museum for Human Rights, and supporting the volunteer activities of our employees.

Employee Giving

In 2008, our Employee Charity Trust program in Manitoba matched our employees' donations to the United Way and other community organizations. In addition, we support employee fundraising initiatives by matching funds raised by our employees for certain charitable causes.

Employee Volunteerism

Our employees and retirees are involved as volunteers in a wide range of causes and organizations across Canada. Through the company's "MTS Volunteers" and "My Community" programs, more than 3,000 employee volunteers contribute over 70,000 volunteer hours to community events and organizations every year.

Corporate Environmental Strategy

Long considered an environmental leader in the Canadian telecommunications industry, we continued to strengthen our focus on the environment in 2008. Championed directly from the very top of our organization by our CEO and Executive Committee, our "Green Plan" includes initiatives which further reduce our impact on the environment and help our customers and employees to do the same. In addition to reducing our carbon footprint from our operations, we provide products and services that enable green behaviours by customers and provide incentives and information that enable employees to reduce their personal impact on the environment.

Aboriginal Program

We are committed to working with the Assembly of Manitoba Chiefs ("AMC") to address the telecommunications needs of Aboriginal communities. Working together, we explore opportunities for the potential development and implementation of initiatives that enhance the participation of Aboriginal people, communities and businesses in Manitoba's economy. There are four initial areas of focus under this program, consisting of employment, education and training, business development and procurement, and information technology and communication. We are working with the AMC to develop improved telecommunications services and infrastructure in rural and remote communities, which could lead to other social and economic benefits.

OUTLOOK

Forward-looking statements disclaimer

This outlook includes forward-looking statements and information (collectively, the "statements") about our corporate direction, business opportunities, operating and dispute resolution activities, 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 statements. Forward-looking statements reflect our expectations as at March 5, 2009. 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", "see", "set", "pending", and other similar terms. Factors that could cause anticipated opportunities and 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 statements, 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 except as required by law. Additional information relating to our company, including our Annual Information Form, is available on SEDAR at www.sedar.com.

Factors that could cause anticipated opportunities and 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 or to enter into new business opportunities (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); fluctuations in pension plan funding requirements (pension solvency funding); 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 17, 2008:

2009 Financial Outlook – Continuing Operations	
Revenues	$1.900 billion to $1.980 billion
EBITDA	$645 million to $685 million
EPS	$2.90 to $3.20
Free cash flow	$250 million to $280 million
Capital expenditures	13% to 15% of revenues

We expect to deliver growth of up to 2% in overall revenue, EBITDA, EPS and free cash flow in 2009 as we continue to execute on our long-term strategy.

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 we have a leading presence in national enterprise markets.

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 strong growth in our Internet, digital television and wireless services in 2009 in a more competitive and deregulated market. We have been forborne in a few markets, including the local market in Winnipeg, which has enhanced our ability to compete against new market entrants. With respect to transitioning our wireless network to UMTS/HSPA, we are in discussions with the wireless incumbents and once these discussions are completed, we expect to be in a position to announce our plans. However, we continue to forecast the cost to be between $30 million to $50 million of incremental capital for network conversion beginning in 2009 and extending over a few years.

In our Enterprise Solutions division, we will build on our established leadership in advanced IP, MPLS solutions and unified communications services. 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 product line are forecasted to grow at a double-digit rate.

Material Assumptions

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

Economic Assumptions

The general economic activity in the national and regional markets in which we operate influences our performance. Consistent with the Conference Board of Canada, as of October 2008, we assumed a national growth rate of approximately 1.5% for gross domestic product and a growth rate of 2.4% for gross domestic product for the province of Manitoba. However, these assumptions may be impacted by current economic conditions and the uncertainty in the Canadian economy, which may have a negative impact on our actual results in 2009.

Market Assumptions

As competition in the overall marketplace continues, the broad market segment trends that have taken shape in recent years will also persist in 2009. Growth in service areas such as Internet, digital television, and IP-based next generation services, specifically for business customers, are expected to continue at similar levels in 2009. We are assuming that there will not be any material changes to the continued growth of wireless services in 2009, notwithstanding anticipated changes to relationships and market dynamics. In addition, we have forecasted no meaningful new competitor in wireless services in Manitoba in 2009. 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 2008. Likewise, it is anticipated that customer demand will continue to migrate to next generation services. To face the continued strong competition in the enterprise markets, we have been refining our market focus, creating innovative IP solutions, reducing our cost structure, and investing selectively in high-margin opportunities. Although competition from an 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:

- continuing strong overall growth from growth services; and
- overall revenue growth of up to 2%.

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 2009.

Cost Reduction Assumptions
Key to our operating and financial progress will be our strong track record of controlling costs. We have doubled our target cost reduction for 2009 over that of 2008, and we expect to achieve further cost reductions this year of between $35 million and $45 million. We expect to reduce operating costs and enhance productivity by optimizing certain key internal business processes and refocusing our sales team. To capture these additional savings, we expect to incur one-time costs of approximately $15 million to $20 million in 2009. These costs are not included in our 2009 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 2009. 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. We have adopted a prudent expenditure and investment strategy that is scalable and provides flexibility to adjust the pace of investment according to economic conditions. 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 has positioned 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 2009, our capital program is expected to comprise 13% to 15% of our revenues.

We expect that we will have to convert our wireless network from CDMA to HSPA following recent announcements of a technology conversion by our Canadian CDMA roaming partners. The time lines that they have indicated publicly provide us with time to complete our own evaluation and to make an announcement regarding our plans at the appropriate time. We anticipate the incremental costs for such a conversion would be approximately $30 million to $50 million spread over a few years, depending on the conversion scenario, a portion of which has been included in our capital spending plans for 2009. Depending on the timing of the conversion among other factors, all or a portion of the costs may be incremental to our typical capital program of 13% to 15% of our revenues.

Our cash requirements for 2009 include two non-recurring obligations of approximately $15 million to $20 million for restructuring programs; and approximately $10 million to $15 million for wireless transition costs. We expect our pension solvency funding requirement to be approximately $40 million to $50 million.

REPORT ON MANAGEMENT'S RESPONSIBILITY

The accompanying consolidated financial statements of Manitoba Telecom Services Inc. (the "Company") and all the information in the Management's Discussion and Analysis are the responsibility of management.

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 judgments. The information presented in the Management's Discussion and Analysis, and elsewhere in the annual report is consistent with the information contained in the consolidated financial statements.

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 the Management's Discussion and Analysis.

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.

Management has implemented a structured program to evaluate the design and operating effectiveness of disclosure controls and procedures, and internal control over financial reporting, in accordance with the requirements of the Canadian securities regulatory authorities.

The Board of Directors carries out its responsibility for the consolidated financial statements and the Management's Discussion and Analysis 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 and the Management's Discussion and Analysis 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. The accompanying auditors' report outlines the scope of their examination and their opinion.

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 financial 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 Company'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 2008, 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. In addition, during 2008, as part of fulfilling its responsibilities relating to financial reporting, the Audit Committee provided oversight for the transition to International Financial Reporting Standards.

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

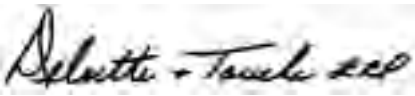
AUDITORS' REPORT

To the Shareholders
Manitoba Telecom Services Inc.

We have audited the consolidated balance sheets of Manitoba Telecom Services Inc. as at December 31, 2008 and 2007 and the consolidated statements of net income and comprehensive 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, 2008 and 2007 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
February 4, 2009

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Years ended December 31 (in millions, except earnings per share)	**2008**	2007
Operating revenues	**$ 1,921.5**	$ 1,905.8
Operating expenses		
Operations	**1,286.8**	1,237.2
Restructuring (Note 2)	**20.8**	11.9
Amortization	**330.0**	318.7
	1,637.6	1,567.8
Operating income	**283.9**	338.0
Other income	**7.1**	6.7
Debt charges	**(48.9)**	(51.7)
Income before income taxes	**242.1**	293.0
Income tax expense (recovery) (Note 4)		
Current	**0.3**	(14.0)
Future	**97.8**	137.3
	98.1	123.3
Net income and comprehensive income for the year	**$ 144.0**	$ 169.7
Basic earnings per share (Note 12)	**$ 2.23**	$ 2.61
Diluted earnings per share (Note 12)	**$ 2.23**	$ 2.60

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31 (in millions)	**2008**	2007
Retained earnings, beginning of year	**$ 120.8**	$ 183.9
Net income for the year	**144.0**	169.7
Dividends declared	**(168.0)**	(168.3)
Purchase of outstanding shares (Note 12)	**–**	(64.5)
Retained earnings, end of year	**$ 96.8**	$ 120.8

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED BALANCE SHEETS

December 31 (in millions)	**2008**	2007
Assets		
Current assets		
Cash and cash equivalents	**$ 6.5**	$ –
Accounts receivable (Notes 3 and 14)	**62.2**	176.1
Future income taxes (Note 4)	**90.5**	109.1
Other current assets (Note 5)	**73.5**	55.8
	232.7	341.0
Capital assets (Note 6)	**1,555.9**	1,505.1
Other assets (Note 7)	**385.9**	334.8
Future income taxes (Note 4)	**436.8**	517.9
Goodwill	**41.7**	40.5
	$ 2,653.0	$ 2,739.3
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	**$ –**	$ 10.1
Accounts payable and accrued liabilities (Note 14)	**351.6**	404.2
Advance billings and payments	**51.4**	49.2
Current portion of long-term debt (Notes 9 and 14)	**220.0**	89.7
Notes payable (Notes 8 and 14)	**95.0**	–
Current portion of capital lease obligations (Note 10)	**3.8**	6.1
	721.8	559.3
Long-term debt (Notes 9 and 14)	**430.2**	649.8
Long-term portion of capital lease obligations (Note 10)	**15.0**	16.4
Deferred employee benefits	**44.2**	45.0
Other long-term liabilities (Notes 11 and 14)	**58.1**	62.1
Future income taxes (Note 4)	**1.7**	2.7
	1,271.0	1,335.3
Shareholders' equity		
Share capital (Note 12)	**1,265.8**	1,265.5
Contributed surplus (Note 13)	**19.4**	17.7
Retained earnings	**96.8**	120.8
	1.382.0	1,404.0
	$ 2,653.0	$ 2,739.3

Approved on behalf of the Board

Thomas E. Stefanson, FCA
Chairman

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

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31 (in millions)	**2008**	2007
Cash flows from operating activities		
Net income	**$ 144.0**	$ 169.7
Add items not affecting cash		
Amortization	**330.0**	318.7
Future income taxes (Note 4)	**97.8**	137.3
Deferred wireless costs	**(40.2)**	(41.0)
Pension funding and net pension credit	**(56.6)**	(23.3)
Other, net	**5.1**	(1.7)
Changes in non-cash working capital	**45.9**	29.0
Cash flows from operating activities	**526.0**	588.7
Cash flows from investing activities		
Capital expenditures, net	**(335.7)**	(312.0)
Acquisitions (Note 15)	**(4.4)**	(8.1)
Other, net	**(3.4)**	(2.9)
Cash flows used in investing activities	**(343.5)**	(323.0)
Cash flows from financing activities		
Dividends paid	**(168.0)**	(170.6)
Repayment of long-term debt	**(89.7)**	(106.5)
Issuance of notes payable, net	**95.0**	–
Issuance of share capital (Note 12)	**0.2**	5.9
Purchase of outstanding shares (Note 12)	**–**	(111.0)
Other, net	**(3.4)**	(0.3)
Cash flows used in financing activities	**(165.9)**	(382.5)
Change in cash and cash equivalents	**16.6**	(116.8)
(Bank indebtedness) cash and cash equivalents, beginning of year	**(10.1)**	106.7
Cash and cash equivalents (bank indebtedness), end of year	**$ 6.5**	$ (10.1)

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 as 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 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.

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.

Inventories
The Company's inventory balance consists of wireless handsets, parts and accessories and communications equipment held for resale. The Company values its inventory at the lower of cost and net realizable value, with cost being determined on an average cost basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets include property plant and equipment and intangible assets.

Property, plant and equipment is recorded at original cost, which includes 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, 2008 was 7.8% (2007 – 7.9%).

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

	Estimated useful life
Network equipment and outside plant	4 to 45 years
General equipment and other	2 to 20 years
Buildings	8 to 40 years
Equipment under capital lease	4 to 20 years

Intangible assets represent customer contracts and relationships, and other contractual arrangements, which are amortized on a straight-line basis over the estimated periods of benefit of two to 10 years, as well as a broadcasting certificate and wireless spectrum licenses, which are not amortized. The amortization of finite life intangible assets charged to operations amounts to $4.6 million in 2008 (2007 – $3.1 million). 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.

Asset retirement obligations

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 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. 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 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 are presented in other assets on the balance sheet.

Goodwill

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.

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 historical exchange rates; and
- revenues and expenses at rates prevailing at the respective transaction dates.

From the translation of foreign currencies into Canadian dollars, the Company recognized a pre-tax gain in operations expense of $1.8 million (2007 – $0.1 million) during the year ended December 31, 2008.

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. Under Canadian Institute of Chartered Accountants ("CICA") Handbook section 3865 Hedges, the application of hedge accounting is optional. The Company has elected not to designate any of its foreign currency forward contracts as accounting hedges. Foreign exchange gains and losses on these foreign currency forward contracts are recorded in the consolidated balance sheet as an asset or liability, with changes in fair value recognized in the consolidated statement of net income.

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 as 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 post-retirement medical and dental benefits programs for which 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Effective January 1, 2008, the Company adopted CICA Handbook section 3862 Financial Instruments – Disclosures and CICA Handbook section 3863 Financial Instruments – Presentation. These standards outline the presentation requirements for financial instruments and require the Company to disclose information that enable users to evaluate the significance of financial instruments for the Company's financial position and performance, the nature and extent of risks arising from those financial instruments to which the Company is exposed, and how the Company manages those risks. The management of these risks is discussed in Note 14.

The following is a summary of the Company's financial instruments, their classification and measurement basis:

- Cash and cash equivalents (bank indebtedness) are classified as held-for-trading and are measured at fair value with changes in fair value recognized in net income.
- Accounts receivable are classified as loans and receivables and are measured at amortized cost.
- Accounts payable, notes payable, long-term debt and other long-term liabilities are classified as other liabilities and are measured at amortized cost.

The Company's financial assets and liabilities are recorded initially 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 fair value of long-term debt, including the current portion, is $639.4 million (2007 – $740.3 million) as at December 31, 2008. The fair value of long-term debt, which has fixed interest rates, is estimated by discounting the expected future cash flows using the relevant risk-free interest rate adjusted for an appropriate risk premium for the Company's credit profile.

The Company has elected to account for deferred costs associated with the issuance of long-term debt as a reduction in the carrying value of long-term debt. These costs, which are amortized over the life of long-term debt using the effective interest rate method, are included in debt charges and are disclosed in Note 9.

Accounting policy developments

Commencing with the Company's 2009 fiscal year, the recommendations of CICA Handbook section 3064 Goodwill and Intangible Assets and the updates to CICA Handbook section 1000 Financial Statement Concepts will apply to the Company. This guidance establishes updated standards for the recognition, measurement, presentation and disclosure of intangible and deferred assets. The Company does not expect to be materially affected by the new recommendations.

2. RESTRUCTURING

For the years ended December 31, 2008 and 2007, the Company recorded restructuring expenses as follows:

	2008	2007
Workforce	**11.2**	–
Other	**9.6**	11.9
	20.8	11.9

The liability for restructuring costs as at December 31, 2008 is as follows:

Balance December 31, 2007	**7.9**
2008 restructuring costs	**20.8**
Less	
Cash payments	**(17.2)**
Reversals of provisions	**(0.2)**
Balance December 31, 2008	**11.3**

The efficiency program in 2008 is aimed at achieving process improvements and implementing further cost reduction initiatives. Restructuring costs include severance and other employee-related expenses, costs to review and improve efficiencies in current processes, and facility consolidation of select real estate. The workforce costs include severance associated with a number of smaller initiatives undertaken throughout the year, as well as severance associated with the reduction of approximately 170 positions in the fourth quarter of the year. These charges were offset partly by the reversal of previously recorded restructuring expenses as a result of actual payments being lower than estimated. The initiative in the fourth quarter of 2008 is part of the Company's current cost reduction initiative which will continue in 2009.

3. ACCOUNTS RECEIVABLE SECURITIZATION

Under the terms of the Company's accounts receivable securitization program, the Company has the ability to sell, on a revolving basis, an undivided ownership interest in its accounts receivable to a securitization trust, up to a maximum of $150.0 million. As a result of selling the interest in certain of the trade receivables on a fully-serviced basis, a service liability of $0.2 million (2007 – $0.2 million) has been recognized by the Company as at December 31, 2008.

The terms of the Company's accounts receivable securitization program also require the Company to maintain reserve accounts, the fair value of which approximates carrying value. As at December 31, 2008, the Company had received $127.0 million (2007 – $43.0 million) on the sale of its accounts receivable to the trust, which is comprised of the outstanding undivided ownership interest held by the trust of $161.1 million (2007 – $55.2 million) and the reserve accounts of $34.1 million (2007 – $12.2 million).

During the year ended December 31, 2008, the Company recognized a pre-tax loss of $0.2 million (2007 – $0.4 million) on the sale of accounts receivable, which is recorded in other income.

During the year ended December 31, 2008, cash flows received and paid to the trust in revolving period securitizations were $2,775.5 million (2007 – $845.0 million).

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:

	2008	2007
Annual discount rate	**3.19%**	5.27%
Weighted average life of receivables sold (days)	**39**	37
Credit loss ratio	**0.58%**	0.60%
Servicing fee liability	**1.0%**	1.0%

4. INCOME TAXES

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

	2008	2007
Combined basic federal and provincial statutory income tax rate	**32.9%**	35.7%
Change in substantively enacted tax rates	**3.1**	18.9
Rate differential on temporary differences	**3.7**	–
Reduction of valuation allowance	**–**	(13.1)
Other items	**0.8**	0.6
Effective tax rate	**40.5%**	42.1%

The balances of future income taxes as at December 31, 2008 and December 31, 2007 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:

	2008	2007
Non-capital loss carryforwards	**169.4**	360.6
Property, plant and equipment	**488.8**	374.6
Employee Benefits	**(69.7)**	(55.0)
Other	**1.1**	8.5
Total future income tax asset	**589.6**	688.7
Valuation allowance	(64.0)	(64.4)
Net future income tax asset	**525.6**	624.3

Future income taxes are comprised of:

	2008	2007
Current future income tax asset	**90.5**	109.1
Long-term future income tax asset	**436.8**	517.9
Long-term future income tax liability	**(1.7)**	(2.7)
Net future income tax asset	**525.6**	624.3

During the year ended December 31, 2008, the Company recovered $0.5 million in cash income taxes (2007 – recovered $3.0 million).

As at December 31, 2008, the Company had non-capital loss carryforwards available to reduce future years' taxable income, which expire as follows:

2009	**450.9**
2014	**7.9**
2026 and beyond	**84.1**
	542.9

5. OTHER CURRENT ASSETS

	2008	2007
Prepaid expenses	**43.0**	42.1
Inventories	**30.5**	13.7
	73.5	55.8

The Company performs periodic reviews of inventory for obsolescence and, during the year ended December 31, 2008, expensed $1.7 million in obsolete inventory (2007 – $0.6 million). During the year ended December 31, 2008, the Company expensed $47.9 million of inventory relating to cost of goods sold (2007 – $42.0 million).

6. CAPITAL ASSETS

	2008			2007		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Property, plant and equipment						
Network equipment and outside plant	**2,750.2**	**1,777.4**	**972.8**	2,698.1	1,739.7	958.4
General equipment and other	**659.1**	**384.9**	**274.2**	642.3	394.5	247.8
Buildings	**262.4**	**142.9**	**119.5**	248.5	128.3	120.2
Equipment under capital lease	**5.4**	**0.6**	**4.8**	3.2	1.9	1.3
Plant under construction	**91.4**	**–**	**91.4**	131.6	–	131.6
Materials and supplies	**21.3**	**–**	**21.3**	22.0	–	22.0
Land	**6.3**	**–**	**6.3**	5.8	–	5.8
	3,796.1	**2,305.8**	**1,490.3**	3,751.5	2,264.4	1,487.1
Intangible assets						
Customer contracts and relationships	**27.1**	**13.8**	**13.3**	23.5	9.3	14.2
Other contractual relationships	**1.3**	**0.5**	**0.8**	1.3	0.4	0.9
Spectrum licenses	**48.6**	**–**	**48.6**	–	–	–
Broadcasting certificate	**2.9**	**–**	**2.9**	2.9	–	2.9
	79.9	**14.3**	**65.6**	27.7	9.7	18.0
Total	**3,876.0**	**2,320.1**	**1,555.9**	3,779.2	2,274.1	1,505.1

7. OTHER ASSETS

	2008	2007
Pension asset (Note 17)	**294.8**	238.3
Deferred wireless activation costs	**40.7**	39.8
Long-term prepaid costs	**18.1**	16.1
Investment tax credits receivable	**15.0**	11.8
Other deferred costs	**8.3**	4.0
Deferred alarm installation costs	**7.5**	7.5
Long-term disability fund, at cost	**1.1**	2.1
Restricted cash	**0.4**	15.2
	385.9	334.8

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 $40.9 million in 2008 (2007 – $36.6 million).

The market value of the long-term disability fund was $3.9 million as at December 31, 2008 (2007 – $5.5 million).

8. NOTES PAYABLE

As at December 31, 2008, the Company has a $350 million bank credit facility with a syndicate of financial institutions which consists of $150 million to support the Company's commercial paper program, and a $200 million revolving credit facility for cash management purposes and the issuance of letters of credit. As at December 31, 2008, the Company had utilized $95.0 million in notes payable under its revolving credit facility and had not utilized the commercial paper back-stop facility. As at December 31, 2008, the Company had $106.9 million in undrawn letters of credit outstanding. The Company paid short-term interest costs of $2.5 million (2007 – nil) for the year ended December 31, 2008.

On January 5, 2009, the Company's bank credit facility was increased to $600 million, which consists of $150 million to support the Company's commercial paper program, and a $450 million revolving credit facility for cash management purposes and the issuance of letters of credit.

9. LONG-TERM DEBT

	2008	2007
Medium Term Note, 9.125%, due April 3, 2008	**–**	27.7
Medium Term Note, 5.90%, due June 2, 2008	**–**	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
	651.9	741.6
Less: deferred costs associated with the issuance of long-term debt	**(1.7)**	(2.1)
	650.2	739.5
Less: current portion of long-term debt	**(220.0)**	(89.7)
	430.2	649.8

Interest expense on long-term debt, including amortization of debt issue costs, amounts to $39.4 million in 2008 (2007 – $46.8 million). During the year ended December 31, 2008, the Company paid interest on long-term debt of $39.8 million (2007 – $49.8 million).

10. CAPITAL LEASE OBLIGATIONS

The Company's future minimum lease payments under capital leases as at December 31, 2008 are summarized in the following table:

2009	**3.8**
2010	**2.4**
2011	**2.5**
2012	**2.6**
2013	**2.6**
2014 and thereafter	**8.5**
Total minimum lease payments	**22.4**
Less: imputed interest at 4.78%	**(3.6)**
Balance of the obligations	**18.8**
Less: current portion of capital lease obligations	**(3.8)**
	15.0

Interest expense on capital leases totaled $0.9 million in 2008 (2007 – $0.9 million).

11. OTHER LONG-TERM LIABILITIES

	2008	2007
Deferred gain on sale-leaseback of buildings	**23.6**	25.3
Rights-of-way and network access contracts	**9.0**	11.1
Deferred revenue	**10.9**	12.6
Asset retirement obligations – long-term portion	**5.3**	7.3
Other	**9.3**	5.8
	58.1	62.1

11. OTHER LONG-TERM LIABILITIES (continued)

The deferred pre-tax gain arose from the 2006 disposition of certain property under the term, 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 remaining deferred pre-tax gain in 2008, $1.9 million has been classified as current.

A reconciliation of the asset retirement obligation is provided below:

	2008	2007
Balance, beginning of year	**7.4**	8.4
Liabilities incurred	**–**	–
Liabilities settled	**(0.4)**	(1.4)
Accretion expense	0.4	0.4
Balance, end of year	**7.4**	7.4
Less: current portion	**(2.1)**	(0.1)
	5.3	7.3

The undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately $11.6 million (2007 – $11.6 million). A credit adjusted interest rate ranging from 5.53% to 5.93% (2007 – 5.18% to 5.93%) was used to calculate the present value of the asset retirement obligations, over periods ranging from one month to 43 years (2007 – one month to 44 years).

12. 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.

12. SHARE CAPITAL (continued)

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	**2008**		2007	
	Number	**Value**	Number	Value
Common Shares				
Balance, beginning of year	**64,631,667**	**1,265.5**	66,817,707	1,305.1
Issued pursuant to stock options	**6,250**	**0.3**	191,460	6.9
Purchased for cancellation	**–**	**–**	(2,377,500)	(46.5)
Balance, end of year	**64,637,917**	**1,265.8**	64,631,667	1,265.5

During the year ended December 31, 2008, 6,250 stock options were exercised (2007 – 191,460 stock options) for cash consideration of $0.2 million (2007 – $5.9 million), of which $0.3 million was credited to share capital (2007 – $6.9 million) and $0.1 million was charged to contributed surplus (2007 – $1.0 million).

During the year ended December 31, 2007, the Company purchased 2,377,500 Common Shares for cancellation for cash consideration of $111.0 million pursuant to its normal course issuer bid. The excess of the purchase price over the stated capital in the amount of $64.5 million was charged to retained earnings in 2007.

Earnings per share reconciliation

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

	2008	2007
Net income		
Basic and diluted	**144.0**	169.7
Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic	**64.6**	65.0
Dilutive effect of outstanding stock options	**–**	0.2
Weighted average number of shares outstanding – diluted	**64.6**	65.2
Earnings per share ($)		
Basic earnings per share	**2.23**	2.61
Diluted earnings per share	**2.23**	2.60

13. CONTRIBUTED SURPLUS

	2008	2007
Contributed surplus, beginning of year	**17.7**	16.9
Stock option expense	**1.8**	1.8
Exercise of stock options	**(0.1)**	(1.0)
Contributed surplus, end of year	**19.4**	17.7

14. FINANCIAL INSTRUMENTS

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. The following table provides an aging analysis of the Company's accounts receivables as at December 31, 2008:

0-30 days	**125.4**
31-60 days	**43.5**
61-90 days	**10.2**
Past 90 days	**10.5**
Total	**189.6**
Less: accounts receivable securitization	**(127.4)**
Accounts receivable outstanding	**62.2**

The Company maintains an allowance for doubtful accounts for potential credit losses. This allowance is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written-off.

The Company's allowance for doubtful accounts for non-large business accounts receivable represents all non-large business accounts over 90 days past due. For large business accounts receivable, the allowance is calculated as a specific percentage of total large business accounts outstanding plus an additional provision for certain high-risk large business accounts.

The following table provides a continuity of the Company's accounts receivable allowance for doubtful accounts:

	2008	2007
Balance, beginning of the year	**13.3**	10.8
(Decrease) increase in allowance (net of recoveries and accounts written-off)	**(2.7)**	2.5
Balance, end of the year	**10.6**	13.3

Liquidity Risk

The Company is exposed to liquidity risk from its debt. This risk is minimized by the Company's capital structure management policies, and by maintaining bank credit facilities. The following table provides a summary of the maturity dates for various financial liabilities:

	Less than 1 year	**1 – 2 years**	**2 – 3 years**	**3+ years**
Accounts payable and accrued liabilities	**351.6**	**–**	**–**	**–**
Notes payable	**95.0**	**–**	**–**	**–**
Long-term debt, including current portion	**220.0**	**11.9**	**219.1**	**199.2**
Other long-term liabilities	**–**	**9.3**	**8.3**	**40.5**
	666.6	**21.2**	**227.4**	**239.7**

Market Risk

The Company is exposed to market risk from interest rates related to its debt, and from foreign exchange rates related to normal business operations in foreign currencies.

Interest rate risk is minimized by the Company's capital structure management policies outlined in Note 19.

The Company enters into foreign currency forward contracts to manage foreign currency exposure which arises in the normal course of business operations. The Company's accounting policy is to adjust outstanding foreign currency forward contracts from book value to fair value as at the balance sheet date. As at December 31, 2008, the Company does not have any outstanding foreign currency forward contracts to purchase U.S. dollars (2007 – $59.7 million U.S.). During the year ended December 31, 2007, the Company recorded a $1.2 million loss in other income relating to the adjustment of outstanding foreign currency forward contracts to fair value. During the year ended December 31, 2008, the Company recorded a $1.2 million recovery of expense in other income.

Reasonable fluctuations in market interest rates and foreign currency exchange rates would not have a material impact on the Company's net income and comprehensive income.

15. ACQUISITIONS

2008

Effective January 1, 2008, the Company acquired all of the outstanding shares of ICU Technologies Inc., a provider of video conferencing solutions in Ontario, for a purchase price of $4.4 million. This acquisition was accounted for using the purchase method, and the purchase price has been allocated to assets of $4.6 million, liabilities of $1.4 million, and goodwill of $1.2 million. The acquired assets included intangible assets of $3.6 million. These intangible assets represent customer contracts and relationships of $1.9 million, brand name of $0.5 million and a non-competition agreement of $1.2 million. The intangible assets are being amortized over estimated periods of benefit of three to five 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.

2007

Effective October 31, 2007, the Company acquired all of the outstanding shares of MCS-Multinet Communications Services Inc., a provider of telephony systems and customer network solutions based in Montreal, for a purchase price of $8.1 million. This acquisition was accounted for using the purchase method, and the purchase price was allocated to assets of $9.6 million, liabilities of $6.0 million, and goodwill of $4.5 million. The acquired assets included intangible assets of $5.4 million. The intangible assets represent customer contracts and relationships of $4.7 million and a non-competition agreement of $0.7 million. The intangible assets are being amortized over estimated periods of benefit of two to five 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.

16. 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 the year ended December 31, 2008, the Company contributed $2.8 million (2007 – $2.6 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 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 7.0 million Common Shares to meet rights outstanding under the stock option plan. The Company also has 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 stock option plan described above.

The following tables provide further information on outstanding stock options:

	2008		2007	
	Number of shares	**Weighted average exercise price per share**	Number of shares	Weighted average exercise price per share
Outstanding, beginning of year	**1,876,090**	**42.12**	1,721,150	40.01
Granted	**508,000**	**42.24**	413,000	47.18
Exercised	**(6,250)**	**29.91**	(191,460)	30.14
Terminated	**(203,900)**	**44.05**	(66,600)	44.90
Outstanding, end of year	**2,173,940**	**42.00**	1,876,090	42.12
Exercisable, end of year	**1,039,460**	**40.54**	725,070	39.39

16. STOCK-BASED COMPENSATION (continued)

Year granted	Options outstanding	Options exercisable	Weighted average exercise price per share	Range of exercise price per share	Expiry date
2008	**455,000**	**–**	**42.24**	**42.24**	**2018**
2007	**357,000**	**82,600**	**47.20**	**44.00 – 49.37**	**2017**
2006	**266,300**	**120,500**	**39.85**	**38.78 – 47.76**	**2016**
2005	**621,700**	**389,300**	**42.77**	**40.44 – 49.03**	**2015**
2004	**147,280**	**120,400**	**45.61**	**45.61**	**2014**
2003	**102,160**	**102,160**	**34.84**	**34.75 – 35.81**	**2013**
2002	**122,100**	**122,100**	**34.29**	**33.58 – 34.71**	**2012**
2001	**56,500**	**56,500**	**37.07**	**36.42 – 38.81**	**2011**
2000	**40,000**	**40,000**	**31.89**	**23.81 – 35.60**	**2010**
1999	**5,900**	**5,900**	**16.99**	**16.99**	**2009**

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:

	2008	2007
Risk-free interest rate	**3.5%**	4.1%
Expected volatility	**19.82%**	20.1%
Expected dividend yield	**6.32%**	5.5%
Expected life (years)	**6**	6
Weighted average grant date fair value	**$3.41**	$5.75

17. EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries provide pension, supplemental pension and other non-pension employee future benefits to its employees. The pension benefits are provided through 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 except for a supplemental pension arrangement for certain current and retired senior management employees for which the Company has assets set aside in trust to fund benefits.

The Company also 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 on the Company's financial statements.

The Company withdrew surplus assets of $0.9 million from a non-contributory supplemental executive pension plan in 2008. The assets contributed entirely by the Company were in excess of the amount required to fund the supplemental benefits.

The Company recognized a loss of $0.3 million in 2007 benefit expense as a result of an ad hoc retirement benefit increase granted to certain retired members who did not qualify for the automatic increase under one of the contributory defined benefit pension plans.

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, 2008 for the two defined benefit plans with solvency deficiencies, and as at January 1, 2007 for the defined benefit plan in a surplus position on a solvency basis. The next funding valuations are required to be completed as at January 1, 2009 for the two defined benefit plans with solvency deficiencies. The defined benefit plan in a surplus position on a solvency basis will not require a funding valuation until January 1, 2010. 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.

17. EMPLOYEE FUTURE BENEFITS (continued)

In 2006, the Government of Canada enacted Solvency Funding Relief Regulations for defined benefit pension plans regulated under the *Pension Benefits Standards Act*, *1985* (Canada), which enabled the extension of solvency funding payments from five years to 10 years. The Company filed January 1, 2008 actuarial valuations for the two defined benefit plans with solvency deficiencies to enable continued funding under the Solvency Funding Relief Regulations. To facilitate the solvency funding relief, the Company has arranged for $80.7 million (2007 – $52.5 million) in letters of credit to be held by RBC Dexia Investor Services Trust, the trustee for the defined benefit pension plans.

Defined benefit plans

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

	Pension benefits		**Other benefits**	
	2008	2007	**2008**	2007
Current service cost	**26.5**	26.7	**2.1**	2.1
Interest on accrued benefit obligation	**104.8**	100.7	**1.6**	1.5
Actual return on plan assets	**253.0**	0.1	**0.8**	(0.1)
Actuarial gain on accrued benefit obligation	**(191.6)**	(14.8)	**(6.6)**	(0.5)
Plan amendment	**–**	0.3	**–**	–
Difference between expected return and actual return on plan assets for the year	**(392.5)**	(135.2)	**(1.2)**	(0.3)
Difference between actuarial loss recognized for the year and actual actuarial gain on accrued benefit obligation for the year	**203.2**	28.1	**6.7**	0.6
Difference between amortization of past service costs for the year and actual past service costs for the year	**0.1**	(0.3)	**–**	–
Amortization of transitional asset	**(10.9)**	(10.9)	**(0.1)**	(0.1)
Benefit (credit) expense	**(7.4)**	(5.3)	**3.3**	3.2

17. EMPLOYEE FUTURE BENEFITS (continued)

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	
	2008	2007	**2008**	2007
Accrued benefit obligation, beginning of year	**1,846.1**	1,841.7	**28.9**	28.0
Current service cost	**26.5**	26.7	**2.1**	2.1
Employee contributions	**12.2**	12.1	**–**	–
Interest on accrued benefit obligation	**104.8**	100.7	**1.6**	1.5
Actuarial gain on obligation	**(191.6)**	(14.8)	**(6.6)**	(0.5)
Plan amendment	**–**	0.3	**–**	–
Benefit payments and transfers	**(102.0)**	(120.6)	**(2.6)**	(2.2)
Accrued benefit obligation, end of year	**1,696.0**	1,846.1	**23.4**	28.9
Fair value of plan assets, beginning of year	**1,849.4**	1,940.0	**5.5**	5.7
Employee contributions	**12.2**	12.1	**–**	–
Employer contributions	**50.1**	18.0	**1.8**	1.9
Actual return on plan assets	**(253.0)**	(0.1)	**(0.8)**	0.1
Asset withdrawal	**(0.9)**	–	**–**	–
Benefit payments and transfers	**(102.0)**	(120.6)	**(2.6)**	(2.2)
Fair value of plan assets, end of year	**1,555.8**	1,849.4	**3.9**	5.5
Plan (deficit) surplus	**(140.2)**	3.3	**(19.5)**	(23.4)
Unamortized net actuarial loss (gain)	**480.8**	291.6	**(3.7)**	1.8
Unamortized past service costs	**0.4**	0.4	**–**	–
Unamortized net transitional asset	**(59.7)**	(70.6)	**(0.4)**	(0.5)
Accrued benefit asset (liability), end of year	**281.3**	224.7	**(23.6)**	(22.1)
Accrued benefit asset – recorded in Other assets	**294.8**	238.3	**1.1**	2.1
Accrued benefit liability – recorded in Deferred employee benefits	**(13.5)**	(13.6)	**(24.7)**	(24.2)
Accrued benefit asset (liability), end of year	**281.3**	224.7	**(23.6)**	(22.1)

For defined benefit pension plans with accrued benefit obligations that were more than plan assets, the accrued benefit obligations as at December 31, 2008 were $1,696.0 million (2007 – $129.5 million) and the fair value of the plan assets as at December 31, 2008 were $1,555.8 million (2007 – $105.1 million).

Total cash payments for pension and other post-retirement benefits for 2008, consisting of cash contributed by the Company to its funded pension plans, other post-retirement benefit plans and the defined contribution plan were $55.3 million (2007 – $23.0 million).

The plans' assets are comprised of:

	2008	2007
Equity securities	**46%**	53%
Debt securities	**48%**	41%
Real estate	**6%**	6%
	100%	100%

17. EMPLOYEE FUTURE BENEFITS (continued)

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	
	2008	2007	**2008**	2007
Accrued benefit obligation				
Discount rate on accrued benefit obligation	**6.75%**	5.75%	**6.50-6.75%**	5.50-5.75%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Net benefit expense (credit)				
Discount rate	**5.75%**	5.50%	**5.50-5.75%**	5.25-5.50%
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, 2008 amounts to $3.4 million (2007 – $3.1 million).

18. SEGMENTED INFORMATION

As at December 31, 2008, the Company had two reportable operating segments: the Consumer Markets division and the Enterprise Solutions division. The Consumer Markets division provides a full range of wireless, high-speed Internet and data, digital television, and wireline voice services to residential and small business customers in Manitoba. The Consumer Markets division also provides alarm monitoring services to residential and small business customers in the western provinces, and Internet, data, and voice services to small business customers in Canada. The Enterprise Solutions division provides Internet protocol-based communications, unified communications, voice, and data connectivity services to medium and large business customers in Canada. In 2008, the Company changed the basis for its allocation of certain expenses across divisions. These changes reflect improvements in the Company's ability to capture expenses by division for 2008. Accordingly, segmented information for 2007 has been restated to conform with these changes.

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.

18. SEGMENTED INFORMATION (continued)

The following tables provide further segmented information:

Years ended December 31

	Consumer Markets		Enterprise Solutions		Other		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Operating revenue								
External	**818.0**	802.3	**1,103.5**	1,103.5	**–**	–	**1,921.5**	1,905.8
Internal	**0.4**	0.4	**0.1**	0.1	**39.4**	38.1	**39.9**	38.6
EBITDA	**389.2**	405.0	**227.2**	258.5	**(2.5)**	(6.8)	**613.9**	656.7
Restructuring	**–**	2.4	**19.9**	9.5	**0.9**	–	**20.8**	11.9
Amortization	**235.8**	234.1	**93.9**	84.1	**0.3**	0.5	**330.0**	318.7
Goodwill	**11.8**	11.8	**29.9**	28.7	**–**	–	**41.7**	40.5
Assets	**1,758.0**	1,966.5	**1,719.5**	1,481.6	**59.3**	46.5	**3,536.8**	3,494.6
Capital expenditures, net	**216.2**	167.5	**119.0**	144.4	**0.5**	0.1	**335.7**	312.0

Reconciliations of net income and assets are as follows:

Years ended December 31	**2008**	2007
Consolidated net income		
Total EBITDA	**613.9**	656.7
Amortization	**(330.0)**	(318.7)
Other income	**7.1**	6.7
Debt charges	**(48.9)**	(51.7)
Income tax expense	**(98.1)**	(123.3)
	144.0	169.7
Assets		
Assets for operating segments	**3,536.8**	3,494.6
Eliminations	**(1,411.1)**	(1,382.3)
Future income taxes	**527.3**	627.0
Consolidated total assets	**2,653.0**	2,739.3

19. CAPITAL STRUCTURE FINANCIAL POLICIES

Effective January 1, 2008, the Company adopted CICA Handbook section 1535 Capital Disclosures. These disclosure standards require the Company to provide disclosure on how the Company manages its capital.

The Company's objectives when managing capital are (i) to maintain an acceptable level of liquidity risk so that the Company can continue to cover its financial obligations and investment requirements under the current business model; and (ii) to enhance shareholder value by maintaining an efficient cost of capital.

The Company manages capital through the monitoring of a number of measures, with the primary one being debt to capitalization. This metric illustrates the amount of assets that are financed by debt versus equity. As part of managing the capital structure, the Company will make adjustments to it based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain an optimal capital structure, the Company may buy back shares to reduce shareholders' equity or sell assets to reduce debt.

19. CAPITAL STRUCTURE FINANCIAL POLICIES (continued)

The following table provides information on the Company's debt to capitalization ratio:

	2008	2007
(Cash and cash equivalents) bank indebtedness	**(6.5)**	10.1
Proceeds from accounts receivable securitization (Note 3)	**127.0**	43.0
Notes payable	**95.0**	–
Capital lease obligations, including current portion	**18.8**	22.5
Long-term debt, including current portion	**650.2**	739.5
Total debt	**884.5**	815.1
Shareholders' equity	**1,382.0**	1,404.0
Total capitalization	**2,266.5**	2,219.1
Debt to capitalization	**39.0%**	36.7%

The Company must comply with two types of covenants regarding capital structure. The first is an earnings coverage covenant on the Company's medium term notes and bank credit facility that requires the Company to maintain a minimum ratio of earnings before interest and taxes over debt charges. The second is a level of debt covenant on the Company's medium term notes and bank credit facility that requires the Company not to exceed a specified debt to total capitalization level. The Company continually monitors these covenants and is in full compliance.

20. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Commitments

The Company's commitments as at December 31, 2008 are summarized in the following table:

	2009	**2010**	**2011**	**2012**	**2013**	**Beyond**	**Total**
Long-term debt	**220.0**	**11.9**	**220.0**	**–**	**–**	**200.0**	**651.9**
Capital leases	**3.8**	**2.4**	**2.5**	**2.6**	**2.6**	**8.5**	**22.4**
Operating leases	**68.2**	**57.6**	**43.0**	**36.2**	**33.4**	**228.1**	**466.5**
Purchase obligations	**130.9**	**49.0**	**33.7**	**18.8**	**14.9**	**4.3**	**251.6**
Total	**422.9**	**120.9**	**299.2**	**57.6**	**50.9**	**440.9**	**1,392.4**

The Company has entered into operating lease agreements for buildings, operating facilities, construction equipment 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 $23.7 million as at December 31, 2008, and is not recognized in these financial statements.

20. COMMITMENTS, GUARANTEES AND CONTINGENCIES (continued)

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, 2008, the Company had undrawn letters of credit outstanding in the amount of $106.9 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 defense 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 local access wireline services in Manitoba, excluding local residential voice services offered in Winnipeg, Southport and Portage La Prairie which have been forborne, competitor services and public telephone services in Manitoba 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.

Five Years in Review

(Not subject to Auditors' Report)

FINANCIAL INFORMATION

(in $ millions, except earnings per share & ratios)	2008	2007	2006	2005	2004
Consolidated operations [1]					
Total operating revenues	**1,921.5**	1,905.8	1,926.4	1,980.3	1,489.1
Total operating expenses	**1,637.6**	1,567.8	1,647.5	1,701.2	1,194.2
Operating income	**283.9**	338.0	278.9	279.1	294.9
Debt charges	**48.9**	51.7	60.6	60.8	47.8
Gain on sale of investment in Bell West [2]	**–**	–	–	–	232.6
Equity losses in Bell West [2]	**–**	–	–	–	2.5
Income before discontinued operations	**144.0**	169.7	97.1	198.8	290.5
Income from discontinued operations [3]	**–**	–	202.3	14.9	14.6
Net income	**144.0**	169.7	299.4	213.7	305.1
Basic earnings per share, before discontinued operations ($)	**2.23**	2.61	1.43	2.94	4.10
Basic earnings per share ($)	**2.23**	2.61	4.40	3.16	4.31
EBITDA [4]	**613.9**	656.7	609.5	595.2	573.6
Dividends	**168.0**	168.3	176.9	176.1	119.0
Capital expenditures, net [9]	**335.7**	312.0	271.4	337.8	277.0
Continuing operations [5]					
Operating revenues	**1,921.5**	1,906.6	1,916.5	1,976.0	1,489.1
Net income	**192.4**	187.9	169.6	170.4	160.6
Basic earnings per share ($)	**2.98**	2.89	2.50	2.52	2.26
EBITDA	**661.8**	655.1	649.7	646.6	579.1
Free cash flow	**261.3**	258.5	287.3	244.4	196.8
Consolidated balance sheet					
Total assets [9]	**2,653.0**	2,739.3	2,926.2	2,987.4	2,934.1
Property, plant and equipment, net book value [9]	**1,490.3**	1,487.1	1,453.5	1,498.1	1,441.5
Long-term debt and notes payable [6]	**745.2**	739.5	845.9	1,001.5	953.0
Shareholders' equity	**1,382.0**	1,404.0	1,505.9	1,429.8	1,384.6
Debt to capitalization (%) [10]	**39.0**	36.7	33.6	41.9	40.5
OPERATIONAL STATISTICS					
Long distance minutes (in thousands)	**10,133,110**	10,042,643	9,437,704	9,348,246	5,422,335
Cellular customers	**434,776**	394,463	355,261	317,555	285,796
Internet customers [7]	**204,239**	198,396	184,227	166,049	149,546
MTS TV customers	**84,544**	76,758	66,093	51,561	32,578
Number of employees [8]	**6,055**	5,906	5,951	6,491	6,567

1 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.

2 Bell West Inc. ("Bell West"), owned 60% by Bell Canada and 40% by Manitoba Telecom Services Inc., operated as a telecommunications provider in Alberta and British Columbia. The Company accounted for its 40% investment on an equity basis. 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 sale of its investment and discontinued the use of equity accounting.

3 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 2004 to 2006 as discontinued operations.

4 Earnings before interest, taxes, amortization, gain on sale of investment in Bell West, equity losses, goodwill revaluation, other (expense) income, and discontinued operations.

5 Continuing operations for 2008, 2007, 2006 and 2005 is described in Management's Discussion and Analysis on page 10. In 2004 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.

6 Includes current portion of long-term debt.

7 Includes consumer and business customers.

8 Represents number of regular full-time and regular part-time employees.

9 Prior year figures have been restated to conform with 2008 presentation.

10 Effective January 1, 2008, the Company adopted the recommendations of CICA Handbook section 1535 Capital Disclosures. As a result of the adoption of this new section, the Company has revised its definition and calculation of debt to capitalization (%).

Officers of the Company and Executive Committee

OFFICERS OF MANITOBA TELECOM SERVICES INC.

Pierre J. Blouin
Chief Executive Officer
Winnipeg, Manitoba

Dean L. Prevost
President Enterprise Solutions
Toronto, Ontario

Kelvin A. Shepherd, P.Eng.
President Consumer Markets
Winnipeg, Manitoba

Wayne S. Demkey, CA
Chief Financial Officer
Winnipeg, Manitoba

Christopher W. Peirce
Chief Corporate Officer
Ottawa, Ontario

Peter J. Falk, Q.C.
Corporate Secretary
Winnipeg, Manitoba

Brenda M. McInnes, CA
Vice-President & Treasurer
Winnipeg, Manitoba

EXECUTIVE COMMITTEE

Pierre J. Blouin
Chief Executive Officer
Winnipeg, Manitoba

Paul C. Frizado, P.Eng.
Chief Technology & Information Officer
Toronto, Ontario

Dean L. Prevost
President Enterprise Solutions
Toronto, Ontario

Christopher W. Peirce
Chief Corporate Officer
Ottawa, Ontario

Kelvin A. Shepherd, P.Eng.
President Consumer Markets
Winnipeg, Manitoba

Helen Reeves
Chief Communications Officer
Toronto, Ontario

Wayne S. Demkey, CA
Chief Financial Officer
Winnipeg, Manitoba

Aliana Rozenek
Chief Human Resources Officer
Toronto, Ontario

Board of Directors

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 and the Strategic Planning 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 and the Strategic Planning 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 has been a member of the MTS Board of Directors since 2006.

Gregory J. Hanson, FCA, FCIP, FLMI
Corporate Director

Mr. Hanson was elected to the MTS Board of Directors in May 2007. He is a member of the Governance & Nominating Committee and the Human Resources & Compensation Committee.

Arthur R. Sawchuk
Corporate Director

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.

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.

Kishore Kapoor, CA
President, Wellington West Holdings Inc.

Mr. Kapoor has been a member of the MTS Board of Directors since 2006. He is Chairman of the Strategic Planning Committee and is a member of the Audit 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.

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, the Human Resources & Compensation Committee and the Strategic Planning Committee.

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

Mr. MacDonald has been a member of the MTS Board of Directors since 2006. He is a member of the Audit Committee and the Strategic Planning Committee.

Carol M. Stephenson
Dean, Richard Ivey School of Business, University of Western Ontario

Ms Stephenson was elected to the MTS Board of Directors effective May 22, 2008. She is a member of the Governance & Nominating Committee and the Human Resources & Compensation Committee.

Investor Information

Corporate headquarters

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

Operating subsidiaries

MTS Allstream Inc.
AAA Alarm Systems Ltd.
Delphi Solutions Corp.

Contact information

For investor inquiries, please contact:

e-mail: investor.relations@mtsallstream.com
P.O. Box 6666
Room MP20B – 333 Main Street
Winnipeg, Manitoba R3C 3V6
Telephone: 1-888-544-5554 or (204) 958-3549
Or, visit the Investors section on our Web site at
www.mtsallstream.com

For media inquiries, please contact:

Corporate Communications
e-mail: corporate.communications@mtsallstream.com
P.O. Box 6666
Room MP18C – 333 Main Street
Winnipeg, Manitoba R3C 3V6
Telephone: (204) 941-8576 or (416) 345-3576

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 16, 2009	April 15, 2009
June 15, 2009	July 15, 2009
September 15, 2009	October 15, 2009
December 15, 2009	January 15, 2010

*Subject to approval by Board of Directors

Duplicate annual reports

If you have received duplicate copies of this Annual Report, please call Computershare Investor Services Inc. at 1-800-564-6253.

Auditors

Deloitte & Touche LLP
Winnipeg, Manitoba

Our ambassador

proud sponsor of Cindy Klassen, Canada's greatest Olympian

Our environment

+6,600
Diverted wireless devices from the landfill, sending them for recycling and directing the proceeds to not-for-profit environmental organizations

1,000,000
Played a key role in helping One Million Acts of Green reach its goal, www.onemillionactsofgreen.com

550
Employee teleworking initiative, with over 400 participants, reduced GhG emissions by 550 metric tonnes in 2008 alone, with 90% of surveyed employees indicating that teleworking has made them more productive

67,000
Led the way for other Canadians in the Commuter Challenge and Clean Air Commute events, with almost 1,000 employees eliminating more than 67,000 km of car travel and reducing greenhouse gas emissions by over 64 metric tonnes – about the same as taking 13 cars off the road for a year

50
Replaced environmentally unfriendly plastic bags at MTS Connect locations with oxo-biodegradable bags. Customers are also given the option of a re-useable bag that is made from 50% post-consumer recycled waste

Our community

One of Canada's most responsible corporate citizens, and top socially responsible corporations in the country's telecommunications industry. In 2008, MTS Allstream employees and retirees across Canada → Contributed more than 50,000 volunteer hours to community organizations and events → Donated more than $850,000 to the United Way and other community organizations, including corporate matching

Our commitments

Committed to giving back to our communities, in 2008 MTS Allstream → Invested over $1.6 million along with employees and retirees in communities across the country → Sponsored 20 community festivals across Manitoba → $1 million contribution of state-of-the-art telecommunications technology to the Canadian Museum for Human Rights → Sponsor of Winnipeg's MTS Centre, one of the 20 busiest entertainment venues in the world → Sponsor of Toronto's state-of-the-art Allstream Centre at Exhibition Place, Canada's most environmentally responsible conference and convention centre, opening in fall 2009

Our national broadband fibre optic network spans more than

27,900 kms

Business network access service connections across Canada in 2008

854,763

Cellular customer connections in Manitoba in 2008

434,776

Our environmental commitment

At MTS Allstream, we are committed to reducing our impact on the environment – and to helping our customers, employees and stakeholders do the same.

As part of this commitment, the papers selected for this report are certified by the Forest Stewardship Council (FSC), which means it comes from well-managed forests and known sources, ensuring local communities benefit and sensitive areas are protected.

The text of this report is printed using acid free and elemental chlorine free paper.

The cover of this report is printed using acid free and elemental chlorine free paper, which contains 50% recycled content including 25% post-consumer waste.

By using this cover paper, we are
→ Saving 1,092 gallons of wastewater
→ Eliminating 181 pounds of solid waste
→ Preventing 333 pounds of CO_2 equivalent
→ Saving 2 million BTUs of energy
→ Preserving 3 trees

Please consider the environment and recycle this annual report, which can also be viewed at www.mtsallstream.com/annualreport2008.

For more information about our commitment to the environment and our communities, please go to www.mtsallstream.com/green.

Our awards and recognition

One of Manitoba's Top 20 Employers for 2009 → 2008 Global Telecoms Business Innovation Award, consumer category: IPTV Service Innovation → 2008 Special Recognition Award for significant contribution to Canada's telecommunications industry from Canada's Telecommunications Hall of Fame → 2008 Frost & Sullivan Competitive North American Consumer Communications Strategy Leadership Award → Jantzi Social Index® Constituent (2000–2008): MTS Allstream ranked as one of Canada's top socially responsible corporate citizens → 2008 Microsoft Partner of the Year for Information Worker Solutions, Unified Communications → 2009 Canadian Women in Communications Excellence in Leadership Award: Lesley McFarlane, Director, Network Services Business Planning and Operational Performance → 2008 Manitoba Chambers of Commerce Lieutenant Governor's Award for Outstanding Contribution to the Community → 2008 Community Contribution Award from The Winnipeg Chamber of Commerce → 2008 Cisco Partner Regional Market Mover Award for Canada → 2008 Community Service Award from the City of Winnipeg → 2008 Canadian Women in Communications Mentor of the Year Award: Pat Solman, Vice-President Customer Care → 2008 recipient of the Manitoba Historical Society Centennial Business Award → 2008 Mitel® premierPARTNER of the year in Canada recognition for strong revenue performance and exceptional growth in the field of Unified Communications

www.mtsallstream.com

Pour obtenir la version français du présent rapport, prière d'accéder au site www.mtsallstream.com/rapportannuel2008

Printed in Canada