MANITOBA TELECOM SERVICES INC.
2010 ANNUAL REPORT

STRONG FOUNDATION STRONG FUTURE

MTS allstream

As one of Canada's leading communications providers, MTS Allstream is moving forward committed to growing profitably in a changing telecommunications industry. In Manitoba, MTS is the undisputed market leader. Allstream, the leading competitor in the national business sector, is poised for profitable growth in the expanding market for IP-based solutions. As a company, we're committed to delivering value to all our stakeholders by leveraging robust, dependable cash flows, strategic investments and operating approaches focused on optimizing our business.

MTS ALLSTREAM IS BUILDING ON A STRONG FOUNDATION TOWARD A STRONG FUTURE.

MTS ALLSTREAM

OUR MISSION IS TO DELIVER TRUE VALUE AS SEEN THROUGH THE EYES OF OUR CUSTOMERS

Manitoba Telecom Services Inc., through its wholly-owned subsidiary MTS Allstream Inc., is one of Canada's leading national communication solutions companies. We provide innovative communications for the way Canadians live and work today, serving all market segments in Manitoba through our MTS division and business customers across Canada through our Allstream division. Our common shares are listed on the TSX (trading symbol: MBT).

$1.8 BILLION

ANNUAL REVENUES

$592 MILLION

EBITDA FROM CONTINUING OPERATIONS

1,949,567

CUSTOMER CONNECTIONS NATIONALLY

IP FIBRE

30,000 KM NATIONAL BROADBAND NETWORK

4G

ADVANCED WIRELESS NETWORK IN MANITOBA

5,500

EMPLOYEES ACROSS CANADA

100

RECOGNIZED AS ONE OF CANADA'S TOP 100 EMPLOYERS

10

CONSECUTIVE YEARS ON THE JANTZI SOCIAL INDEX FOR LEADERSHIP IN SOCIAL RESPONSIBILITY

STRONG FOUNDATION

MTS—THE UNDISPUTED MARKET LEADER IN MANITOBA

MTS is the leading full-service communications provider for residential and business customers across Manitoba—and one of the most efficient, innovative and profitable regional providers in North America. MTS has the best distribution channels and the richest bundling capabilities among its competitors, which are supported by pervasive infrastructure and exceptional brand recognition.

SERVICES
- Wireless (CDMA and 4G)
- High-speed Internet
- MTS TV
- Wireline voice
- Home security

483,754
Wireless customers in Manitoba

184,806
High-speed Internet customers in Manitoba

89,967
MTS TV customers in Manitoba

BEST MARKET SHARE FOR A CANADIAN INCUMBENT TELCO
- Wireless 55%
- Internet 58%
- MTS TV 34%
- Local voice 78%

ALLSTREAM—THE LEADING COMPETITOR IN THE NATIONAL BUSINESS SECTOR

Allstream is the largest national communications provider that works exclusively with business customers. A Canadian industry leader in innovative IP-based solutions, Allstream leverages our nationwide high-performance network to help businesses of all sizes unify the many ways they connect to serve customers better, improve efficiency and productivity, and maximize payback on communications and IT resources.

IP-BASED SOLUTIONS:
- IP connectivity
- Unified communications
- Managed services
- Security services

1 OF ONLY 3
Truly national providers in business markets

62,000+
Customers (large enterprise, mid market, small business)

620,000+
Customer connections

STRONG FUTURE

We are striving to be the best communications provider in Canada, leveraging the entrepreneurial spirit and skills of our employees, our close customer and partner relationships, and our national fibre optic network. MTS Allstream is building on a strong foundation toward a strong future.

OUR PRIORITIES:

SMART GROWTH
- Invest strategically for long-term profitability
- Focus on on-net, IP growth in national business markets
- Maintain share of consumer market in Manitoba

IMPROVE OUR CUSTOMER EXPERIENCE
- Deliver value as seen through the customer's eyes
- Be responsive, agile and easy to do business with
- Raise the bar on the competition

GAIN AND PROTECT MARKET SHARE
- Own the broadband home in Manitoba
- Drive to the mid market in business markets nationally
- Protect the base in profitable legacy services

OUR 2011 OUTLOOK*:

CORPORATE OBJECTIVES
- Drive continued strong revenue and subscriber growth in strategic areas (converged IP, wireless, high-speed Internet, TV)
- Free cash flow expected to increase to $110 million to $150 million
- Maintain capital intensity in the 16% to 18% of revenue range
- EBITDA and EPS expected to improve in 2011
- Maintain strong cash flows and attractive dividend
- Cost structure planned to be lowered by additional $25 million to $35 million

MTS DIVISION
- Build on our market leader position in wireless and broadband
- Maintain the best margins and cash flows in the Canadian telecom industry
- Launch 4G wireless network and new billing platform
- Deploy FTTH technology to four new communities in Manitoba
- Wireless and broadband/converged IP forecast approaching 60% of revenues by 2013
- 65% of Manitoba households expected to be covered by VDSL or FTTH by 2013

ALLSTREAM DIVISION
- Return to long-term growth and profitability
- EBITDA expected to increase substantially in 2011
- Converged IP revenues expected to climb by 10% to 12%
- Converged IP revenues anticipated to grow to 40% of Allstream revenues by 2013
- Grow our national fibre footprint by 180 to 200 buildings
- Start delivering revenue growth in 2013

OUR NATIONAL IP NETWORK

OUR WORLD-CLASS IP NETWORK ENSURES THE DELIVERY OF HIGHLY RELIABLE, HIGHLY SECURE AND INNOVATIVE COMMUNICATIONS SERVICES ACROSS CANADA

30,000 KM

OUR NATIONAL IP FIBRE NETWORK

100 Mbps

SPEED CAPABILITY TO HOMES OF OUR FIBRE-TO-THE-HOME NETWORK IN MANITOBA

21 Mbps

SPEED OF OUR NEW 4G WIRELESS NETWORK

10 Gig

NATIONAL BUSINESS INTERNET BANDWIDTH SCALING FROM 10 Mbps TO 10 Gbps

97%

OF MANITOBA POPULATION WITH ACCESS TO OUR WIRELESS NETWORK

2,100

ALLSTREAM FIBRE-FED, MULTI-TENANT BUILDINGS

85%

OF MANITOBA HOUSEHOLDS WITH ACCESS TO OUR HIGH-SPEED INTERNET SERVICE

8

U.S. NETWORK ACCESS POINTS

CONTENTS

FINANCIAL HIGHLIGHTS

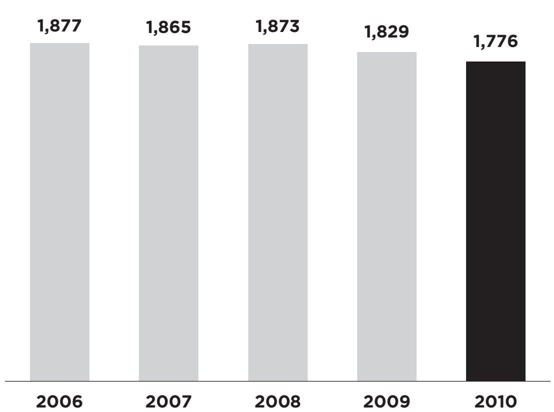
Financial highlights	Years ended December 31		
(in millions $, except earnings per share)	**2010**	2009	% Change
Consolidated			
Revenues	**1,780.9**	1,815.2	(1.9%)
EBITDA[1]	**571.8**	562.1	1.7%
Net income	**99.7**	101.7	(2.0%)
Earnings per share	**$ 1.54**	$ 1.57	(1.9%)
Continuing operations[2]			
Revenues	**1,775.9**	1,828.7	(2.9%)
EBITDA	**592.3**	627.3	(5.6%)
Net income	**130.5**	171.0	(23.7%)
Earnings per share	**$ 2.02**	$ 2.64	(23.5%)

1 Earnings before interest, taxes, amortization, other income, goodwill revaluation and discontinued operations.

2 We provide information that refers to our performance from continuing operations to assist investors in understanding the performance of our company. Continuing operations is described in our Management's Discussion and Analysis on page 8.

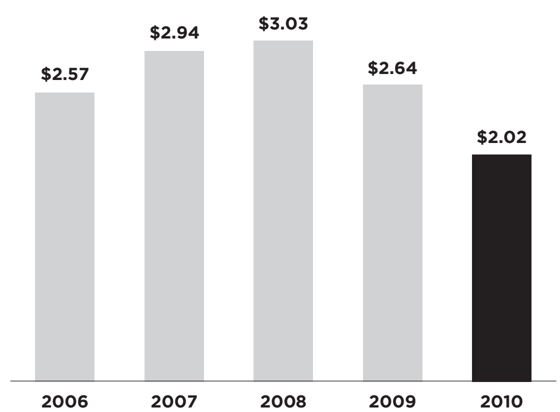
Revenues

Continuing operations (in millions $)



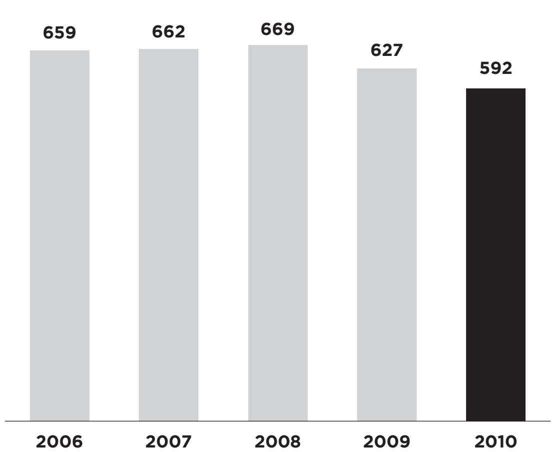
Earnings per share

Continuing operations



EBITDA

Continuing operations (in millions $)

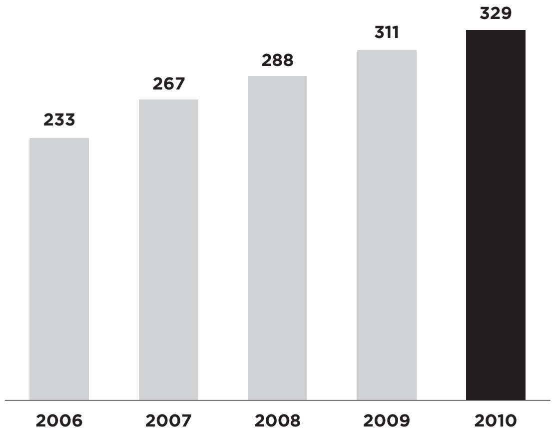


2010 Annual Report

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. Within this document we may also refer to ourselves as the "Company", or "MTS Allstream".

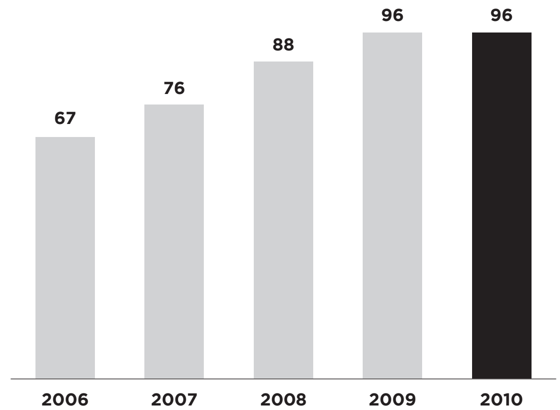
BUILDING OUR FUTURE

Wireless services revenues: MTS
Continuing operations (in millions $)



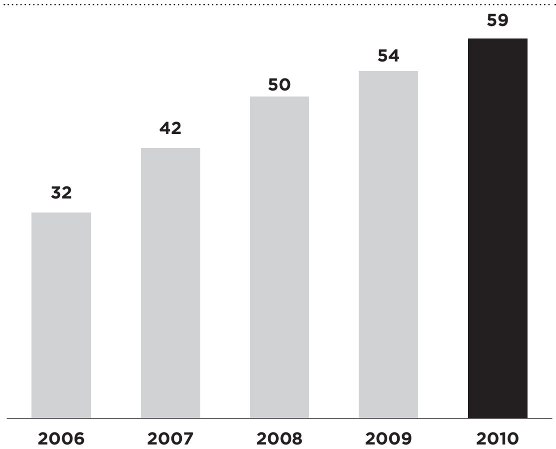
MTS's wireless revenues now represent 35 per cent of the division's total revenues and 55 per cent of the wireless market share in Manitoba.

High-speed Internet services revenues: MTS
Continuing operations (in millions $)



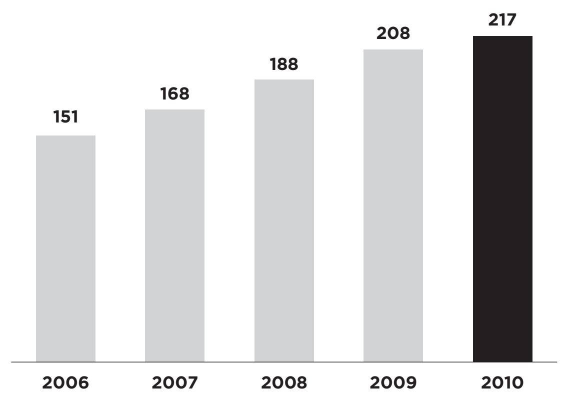
MTS is proud to provide high-speed Internet access to 85 per cent of Manitoba households, and we continue to expand our network reach.

Digital television services revenues: MTS
Continuing operations (in millions $)



MTS holds 34 per cent share of the television market in Winnipeg. In 2009, MTS became the first company in Canada to launch a television service using Microsoft Media room technology.

Converged IP services revenues: Allstream
Continuing operations (in millions $)



Allstream's converged IP revenues, the division's flagship product line, represents 26 per cent of the division's annual revenues.

Non-GAAP measures of performance
We provide information concerning continuing operations, EBITDA, and free cash flow in our 2010 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 8.

Forward-looking statements
Our 2010 Annual Report includes forward-looking statements and information (collectively, the "statements") about our corporate direction, business opportunities, operations, financial objectives, future financial results and performance, and future cash flows and distributions to shareholders 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", "should", "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 include, but are not limited to, matters identified in the "Risks and uncertainties" section and elsewhere in this annual report. Please note that forward-looking statements reflect our expectations as at March 3, 2011. 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 expressed in this report are in Canadian dollars.

CHAIR'S MESSAGE TO SHAREHOLDERS

David Leith
Chair

Dear fellow shareholders,

2010 was a year of progress for MTS Allstream in taking action to address significant challenges in a changing telecommunications industry in Canada. While our industry has a positive outlook, given its pivotal role in Canadian life and our economy, it is likewise true that telecommunications is capital intensive, more competitive than ever, and currently operating in an uncertain regulatory and policy environment.

Our Board endorses the view that our company is well-positioned today to move forward on a strong foundation toward a strong future. The actions taken by the Company in 2010 to strengthen its competitiveness and to invest for future success are already delivering benefits. That is evident in the continued strength of MTS as the market leader in Manitoba. After several difficult years, we are pleased that Allstream is now on a path, we believe, to stronger performance in business markets nationally.

The Company's financial performance in 2010 was solid. Even so, the Board acknowledges there were disappointments for our shareholders. We understand the importance of the dividend to our shareholders. We recognize that it represents a meaningful part of shareholders' total return for investing in our company. The Board made the decision to revise our dividend policy based on our ongoing assessment of business conditions, our outlook, our capital requirements and our commitment to a dividend that is both attractive and sustainable. The current dividend is fully supported by the free cash flows from our highly profitable MTS division. We believe we have taken the appropriate actions with our dividend.

Looking ahead, the Board understands the challenges in our industry, which are not exclusive to MTS Allstream. Networks require investment over time to deliver new and better services. Innovation is continuous across all aspects of the business. Customers have rising expectations, particularly for more responsive customer experience. In some markets, competition has intensified from established and new players alike. And there remains a pressing need, we believe, for direction in the policy and regulatory environment that will ensure the competitiveness and the ability to attract investment to the telecommunications industry – a sector that is vital to Canada's future.

These challenges notwithstanding, the strong foundation of the Company – built on our people, our competitive and market strategies, our network assets, our products and services, and our financial depth and stability – positions us to capitalize on opportunities for improving our business performance.

We believe the right conditions are now in place for a strong future.

As Chair, let me emphasize the Board's commitment to sound and effective corporate governance, itself built on a strong foundation of best practices.

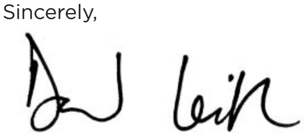
In 2010, the Board worked with management and our external advisors on several noteworthy initiatives. Among them was the completion of a comprehensive review of and improvement to our executive compensation philosophy, which are outlined in detail in our Management Proxy Circular. We have made major changes to our Proxy to make it both more informative and easier to read. Effective at our 2012 Annual General Meeting, we are also adopting a new "say on pay" program. We are proud to be an early adopter of "say on pay" within our peer group, as this reflects our philosophy of regularly engaging with our shareholder base. In these activities and others, the Board has served with great competence and commitment, reflected in 100 per cent Board attendance in 2010. I am proud of the dedication and strong performance of my fellow Board members, and know that they all take their responsibilities to you very seriously.

On behalf of the Board and the Company, I am pleased to welcome H. Sanford (Sandy) Riley as our newest Board member, to be nominated for election to the Board at our annual meeting on May 4, 2011. Sandy brings a wealth of business experience and a valued perspective as one of the most accomplished financial services executives in Canada.

In closing, the Board believes that the strategic direction of the Company is sound and that the momentum in the business has improved considerably in the past year. We believe the tough choices and the difficult decisions made during the recession will enable the Company to deliver improved business performance in the future.

On behalf of the Board, I would like to thank the management team led by Pierre Blouin, and all our employees, for being resilient, adaptable and dedicated to helping MTS Allstream achieve its goals today and in our outlook for tomorrow.

Sincerely,



David Leith
Chair
March 15, 2011

CEO'S MESSAGE TO SHAREHOLDERS

Pierre Blouin
Chief Executive Officer

Dear fellow shareholders,

The theme of our annual report this year is "Strong Foundation, Strong Future." Just like it sounds, this is a strong statement about our confidence in MTS Allstream. This confidence comes from seeing clear evidence that our strategy is working.

We finished 2010 on a solid note. In the fourth quarter of 2010, our strategic growth products – wireless, high-speed Internet, television and converged IP – all posted very favourable results. Overall, MTS Allstream's financial results for the year were in line with our August 2010 outlook. Equally important to achieving our financial guidance was the momentum we saw developing, especially at Allstream. This bodes well for a strong future.

MTS Allstream has entered 2011 with positive momentum. We have a clear strategy to maintain market leadership in Manitoba, accelerate the turnaround at Allstream and reduce our cost structure while improving customer experience. There is still a lot of work ahead, but we are on the right track and are excited about the future.

To help you see what we see when we look at our business, I've chosen to use my letter this year to answer the questions we get most often from investors.

CAN MTS MAINTAIN ITS MARKET LEADERSHIP IN MANITOBA AGAINST ITS COMPETITION?

Yes. Competition is nothing new for us. We have been dealing with it for several years and MTS has maintained market leadership with some of the highest market share in Canadian telecom, continued to deliver growth in wireless, broadband and television, and maintained industry-leading EBITDA margins, which exceed 50 per cent. We are confident we can continue to build on this solid foundation in Manitoba in 2011.

Why? Several reasons. We have a number of advantages over our peers. First, because we enjoy product leadership, unique bundled offerings and customer loyalty in Manitoba that our competitors cannot match. I believe we have the best distribution channels, unparalleled brand recognition in the province, and an unmatched ability to bundle five products that creates the kind of customer value and brand loyalty that can beat discount pricing.

We are building on these advantages in a number of ways, not the least of which is by making a $125 million capital investment in fibre-to-the-home (FTTH) technology. Not only does FTTH enable us to deliver better and more innovative services, it gives us opportunities for more growth and far greater bandwidth at lower operating costs.

In 2011, we are deploying FTTH technology into Manitoba communities where our cable telephony competitors have a presence but where we currently do not have next generation capabilities. We see FTTH as the quickest and the most cost effective way to improve our broadband capabilities in these locations. Customers in Steinbach, Dauphin, Thompson and The Pas will have access to some of the fastest high-speed Internet experiences and the most feature-rich television service in Canada. By providing these state-of-the-art services, MTS is creating an opportunity to grow its broadband revenues and expand its bundled service offers to more customers.

In Winnipeg, more than 95 per cent of households are covered with a very advanced VDSL network allowing us to provide these customers with high-speed Internet and IPTV services coupled with the most reliable voice network in Manitoba.

By 2013, we expect to serve 65 per cent of Manitoba households with very high speed broadband, using a VDSL or FTTH network. With this, we believe Manitobans will have access to the most pervasive deployment of next generation very high speed broadband services in Canada.

MTS has made investments like this before. In 2003, we took the lead in Canada and invested to build our first-generation VDSL broadband network in Winnipeg to launch a new television service. It was a risk worth taking. As a result, we have earned and maintained a 34 per cent television market share, the highest compared to any telecom provider in North America.

But we're not just focusing on our wired network; we are building a world-class 4G wireless network in Manitoba. We expect to launch this on March 31, 2011. The future of telecom is in high-quality wireless, broadband and converged services and they are our priority.

So, yes, we believe that with these exciting investments, we are well equipped to face our competition.

HAS ALLSTREAM REALLY TURNED THE CORNER?

With four consecutive quarters of EBITDA growth under its belt in 2010 and a 14.6 per cent increase in EBITDA from continuing operations in the fourth quarter of 2010, yes, we believe Allstream is on a path toward stronger performance. Beyond the numbers, we believe Allstream has demonstrated that we have the right strategy for success.

You can see the results most clearly in Allstream's flagship product line, converged IP, which now represents 26 per cent of the division's overall revenues on an annual basis. Converged IP grew by 9.7 per cent in the fourth quarter of 2010 and is expected to grow over 10 per cent annually for the next three years.

Allstream is continuing to execute a number of initiatives to build on its IP momentum and create revenue growth and increase profitability. These include focusing its strategy even more on winning high-margin on-net IP contracts, accelerating plans to exit various legacy services, and reinvesting cash flows from legacy services into IP platforms. To that end, Allstream launched a strategic investment program in 2010 to expand its IP fibre access to multi-tenant buildings. We expect to invest approximately $45 million in this program over a three-year period.

Again, the results and our 2011 outlook indicate our strategy is working. As of December 31, 2010, Allstream won an additional 139 IP contracts and achieved another 102 IP contracts through co-location. In 2010, year over year, we more than doubled our sales to on-net customers. In fact, in the last half of 2010, we sold 30 per cent more IP connectivity than in 2009.

In 2011, expect to see Allstream's EBITDA grow, both in absolute dollar terms and in margin percentages. In three years, we expect the fast growing IP product line to account for nearly 40 per cent of Allstream's revenues.

ARE YOU WAITING FOR FOREIGN INVESTMENT RULES TO CHANGE TO REALIZE GROWTH IN ALLSTREAM?

We believe Allstream can stay competitive and increase its revenues and profitability over time under the current rules. Allstream is supported by strong IP market trends and solid cost reductions as we exit our legacy product lines. We are forecasting a return to positive cash flows in the next two years.

That said, we believe opening Canada's telecom sector up to greater foreign investment would be good for Canada, for the competitiveness and productivity of small and large businesses and for consumers. There is no question changes in foreign investment rules would also open new avenues of opportunity for Allstream, but we are not counting on those as part of our strategy going forward or in our financial outlook for 2011.

WHAT IS YOUR FINANCIAL OUTLOOK FOR 2011?

We delivered a complete outlook in December 2010, which you can find at www.mtsallstream.com/2011outlook, where we announced our expectation for stable performance in 2011 when compared to 2010, EBITDA, EPS and cash flow improving slightly in 2011 and our free cash flow to cover MTS Allstream's dividend payment and other cash requirements. We have also announced that beginning with the first quarter 2011 results, we will report under the IFRS methodology and on a consolidated basis to ensure ease of comparison with peers and more clarity for investors.

IS THE DIVIDEND SUSTAINABLE?

MTS Allstream's dividend policy is based only on the free cash flow of our Manitoba business. That business remains the market leader in Manitoba with the largest market share and EBITDA margins of any large telecom provider in Canada. It continues to deliver solid and stable results and cash flows. We expect it will deliver strong cash flow again in 2011, and for our capital expenditures to decline as compared to 2010. So yes, we currently believe the dividend remains sustainable.

WHAT ARE YOU DOING FOR YOUR COMMUNITY AND THE ENVIRONMENT?

We are committed to positively impacting the lives of our 5,500 employees across Canada, our customers, and stakeholders. We do this by investing in people, in the communities where we operate, and in the environment. We are a significant contributor to Manitoba's economy through our network infrastructure investments, the salaries we provide and the local suppliers we use.

We are a proud sponsor of community events and a responsible environmental citizen. At the Vancouver 2010 Olympic Winter Games, our hearts swelled with pride when Cindy Klassen, who has been part of the MTS Allstream family since 2006 and is Canada's most decorated Olympian, was named Canada's official flag bearer.

Across the country, at MTS and Allstream alike, we are a strong supporter of the local United Ways in our communities, which are the primary recipients of our employee gift matching program. Together with our employees, we made a significant contribution to the United Ways across Canada.

In 2010, MTS Allstream employees volunteered more than 50,000 hours to organizations across Manitoba, as well as in our major urban centres across the country.

MTS Allstream is also a recognized leader in the telecom industry in promoting our commitment to the environment. Our actions are summarized in an annual environmental report available on our website. Our Environmental Policy ensures that we continue to operate our business in a manner that reflects our concern for the environment and supports the principles of sustainable development.

A company's true potential is found in the quality of people who work for it and the corporate culture it creates. Once again we were honoured to be named to the lists of: Canada's Top 100 Employers, Manitoba's Top 25 Employers and Canada's Best Diversity Employers. We are proud of this recognition, which we believe speaks to our commitment to our employees and our business.

MOVING FORWARD IN 2011

Going through the recession has been challenging for our company and our Allstream division, but MTS Allstream has demonstrated that it has a strong foundation to build on and emerged from these challenging times with a clear strategy for success.

I would like to thank all shareholders, our Board of Directors and all our employees for their continued support and confidence. It is my privilege to lead MTS Allstream through the changing landscape of telecom in Canada and I look forward to continue building long-term shareholder value for many years to come.

Sincerely,

Pierre Blouin
Chief Executive Officer
March 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unless otherwise indicated, this Management's Discussion and Analysis ("MD&A") of our financial results for the year ended December 31, 2010 is as at March 3, 2011. In this MD&A, "we", "our", and "us" refer to Manitoba Telecom Services Inc. (the "Company" or "MTS Allstream"). This annual MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2010. You will also find more about us, including our fourth quarter 2010 interim MD&A dated February 9, 2011 and our Annual Information Form for the year ended December 31, 2010 dated March 3, 2011, on our website at www.mtsallstream.com or SEDAR at www.sedar.com. Unless otherwise stated, all amounts are expressed in Canadian dollars.

REGARDING FORWARD-LOOKING STATEMENTS

This annual MD&A includes forward-looking statements and information (collectively, the "statements") about our corporate direction, business opportunities, operations, financial objectives, future financial results and performance, and future cash flows and distributions to shareholders 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", "should", "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 include, but are not limited to, matters identified in the "Risks and uncertainties" section and elsewhere in this MD&A. Please note that forward-looking statements reflect our expectations as at the date hereof. 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. This annual MD&A and the financial information contained herein have been reviewed by our Audit Committee and approved by our Board of Directors.

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 them 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 2010 excludes our non-telecommunications information technology ("IT") consulting business, which has been classified as discontinued operations; an adjustment to the rebate related to use of deferral account funds pursuant to Telecom Decision Canadian Radio-television and Telecommunications Commission ("CRTC") 2010-638 ("Decision 2010-638"); restructuring costs; certain legal costs associated with our appeal of a Court decision relating to one of the Company's pension plans; costs related to our high-speed packet access ("HSPA+") deployment and related billing implementation; a revaluation charge for Allstream goodwill; a one-time cash payment received as part of a comprehensive settlement agreement with Bell Mobility; and solvency funding to our pension plans.

Continuing operations in 2009 excludes our non-telecommunications IT consulting business, which has been classified as discontinued operations; the costs to transition certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform; costs related to our HSPA+ deployment and related billing implementation; costs related to certain regulatory proceedings; restructuring costs; certain costs associated with our transition from Canadian GAAP to IFRS; a rebate related to use of deferral account funds pursuant to Telecom Decision CRTC 2008-1 ("Decision 2008-1"); the impact of changes in statutory income tax rates and other rate adjustments on our tax asset; and solvency funding to our pension plans.

EBITDA

We define EBITDA as earnings before interest, taxes, amortization, other income, goodwill revaluation, 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 and/or retiring debt.

2011 ADOPTION OF IFRS AND CHANGE IN BASIS OF PRESENTATION

MTS Allstream's results for the fourth quarter of 2010 are reported in accordance with Canadian GAAP and discussed on a continuing operations basis. As of January 1, 2011, MTS Allstream will be reporting and discussing results in accordance with IFRS on a consolidated "all-in" basis. For comparative purposes, in our fourth quarter supplementary package, we have presented 2010 results by quarter as they would have been reported on a consolidated "all-in" IFRS basis. This fourth quarter supplementary package is available on our website at www.mtsallstream.com. More information on IFRS is available in the section entitled *Changes in accounting policies, including initial adoption.*

OVERVIEW OF OUR BUSINESS

MTS Allstream is a leading national communications provider in Canada and the market leader in Manitoba. Our company is organized into two principal business segments: MTS, operating in Manitoba; and Allstream, operating nationally. Our Common Shares are listed on the Toronto Stock Exchange (trading symbol: MBT), and our website is www.mtsallstream.com.

MTS

MTS leads every telecommunications market segment in Manitoba, delivering a full suite of wireless, broadband (high-speed Internet and digital television), converged Internet protocol ("IP"), unified communications, security, home alarm monitoring, local access, as well as long distance and legacy data services. This complete range of products is unmatched by any other provider in the province. MTS serves both residential and business customers in Manitoba.

Allstream

Allstream is a leading competitor in the national business and wholesale markets; offering small, medium and large businesses and government organizations a portfolio of telecommunications solutions tailored to meet their needs. Allstream's main products are IP-based communications, unified communications, voice and data connectivity, and security services. Allstream operates an extensive national broadband fibre optic network that spans almost 30,000 kilometres, and provides international connections through strategic alliances and interconnection agreements with other international service providers.

Core Strengths

Our core strengths include:

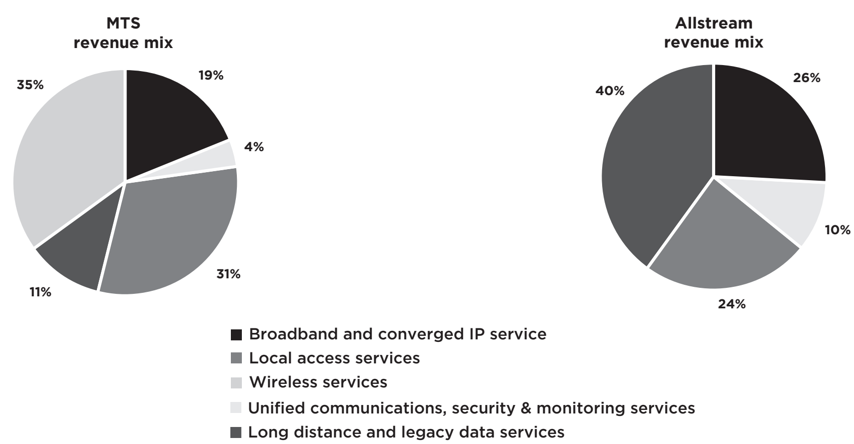
- a regional telecommunications franchise, which operates in Manitoba as the leading full-service provider, with very high brand recognition among residential customers and businesses;
- an extensive national IP fibre network, spanning almost 30,000 kilometres of fibre across the country;
- an innovative product portfolio of IP-based services and network solutions for large enterprise, mid-market and small business customers;
- a strong regional wireless franchise with significant continuing growth potential and the unmatched ability in Manitoba to bundle up to five services including wireline, wireless, high-speed Internet, television and alarm monitoring services;
- over 55% market share for each of high-speed Internet and wireless services in the Manitoba market;
- a leading-edge regional network with extensive broadband capabilities in Manitoba, which is being upgraded so that we will be able to provide MTS Ultimate TV and higher Internet speeds to an additional 120,000 homes in close to 20 Manitoba communities by 2015;
- a thriving digital television service offering, with a success rate that is unparalleled in North America; gaining a 34% market share in seven years of operation;
- a cost structure that supports profitable competitive success in our markets;
- 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.

Our Products and Services

We generate revenues from the following lines of business:

Revenues (continuing operations)

(in millions $)	MTS	Allstream	Total
Wireless services	329.0	—	329.0
Broadband and converged IP services	181.7	217.4	399.1
Unified communications, security and monitoring services	35.6	87.9	123.5
Local access services	288.5	201.5	490.0
Long distance and legacy data services	100.5	333.8	434.3
Total operating revenues	935.3	840.6	1,775.9



Wireless Services

Our wireless portfolio consists of voice, wireless data, paging and group communications services that we offer in the Manitoba market to both residential and business customers. We have arrangements with other international wireless service providers that allow our customers to access cellular and data services outside of Manitoba. With a market share of 55%, MTS is the leader in Manitoba. Due to the lower relative penetration rate in this market, along with the increasing demand for smartphones, we expect continuing solid growth in wireless revenues.

In Manitoba, we are launching our HSPA+ wireless data network on March 31, 2011. Our HSPA+ network is expected to provide high-speed data coverage that is 35% larger and deliver speeds that are up to seven times faster than what we could previously offer with our evolution data optimized (“EVDO”) network. With HSPA+, we will be able to deliver cellular voice and high-speed mobile data coverage of up to 21 megabits per second ("Mbps") to 97% of Manitobans. The expansiveness and sophistication of our wireless infrastructure in Manitoba is a significant competitive advantage which will be strengthened by the deployment of HSPA+ technology over our regional wireless network in Manitoba. Our wireless services set our bundle offering apart from our competitors and further cement the strength of the MTS brand.

Broadband and converged IP services

At Allstream, converged IP services include revenues earned from the provision of IP-based networking and related products and services to our business customers nationally. Increasingly, Canadian businesses require IP connectivity solutions, resulting in growth in the IP connectivity market. We have the strategic advantage of long-term business relationships with many large companies in Canada. We also currently have a national IP fibre network that spans more than 30,000 kilometres, with connection to metro fibre in all major Canadian markets. In 2010, we began to expand our IP fibre network to improve the profitability of Allstream and support future growth. As part of a three-year plan, we are making targeted, success-based investments to extend fibre to 675 select multi-tenant buildings that are within 200 metres of our existing national network and to enhance our Ethernet capabilities in our co-location areas. This investment will extend our on-net reach and provide us with significant incremental high margin revenue opportunities. Allstream's performance is expected to be positively affected by continued growth in IP services.

At MTS, broadband and converged IP services include revenues earned from providing high-speed Internet and digital television services to residential customers in Manitoba, as well as IP-based connectivity to business customers in Manitoba. A strong broadband network is essential for offering these services and delivering a strong bundle to our customers. We are well positioned with extensive fibre facilities in our regional Manitoba network, along with strong service development capabilities. In 2010, we announced an accelerated deployment of fibre-to-the-home technology ("FTTH"), beginning with Manitoban communities where MTS faces cable telephony competitors, but does not currently have a very-high-bit-rate digital subscriber line ("VDSL") network. Our expanded fibre-to-the-home network will provide residents in rural Manitoba with access to some of the fastest high-speed Internet speeds and make available the most feature-rich television service in Canada. Our fibre-to-the-home network is expected to improve MTS's competitive position and provide an opportunity for revenue growth by offering services that were not previously available to those communities.

Our digital television service is offered across our broadband network platform and has achieved a customer base of almost 90,000 since we launched this service in 2003. Our digital television service, which includes our premium service, MTS Ultimate TV, is an essential part of our five-product consumer bundle. Our ability to drive strong growth from television will depend on continuing consumer demand for digital television services, the availability of our broadband capabilities in the markets in which we compete, and our ability to offer attractive content and high definition services that appeal to our customer base. Revenue growth may also depend on our ability to successfully integrate digital television with other services that leverage our telecommunications portfolio. In 2009, we were the first in Canada to launch Microsoft Mediaroom and the first in Manitoba to launch a whole-home personal video recorder ("PVR"). In 2010, we further enhanced these services with an expanded line-up of standard and high definition channels. We also launched Ultimate Picks and My Picks, two new services that provide customers with a unique experience by allowing them to watch multiple channels simultaneously; multi-dwelling units lobby camera, which provides a front door view in apartment buildings; and Galaxie Interactive, which is an interactive music application.

Unified communications, security and monitoring services

Unified communications, security and monitoring services consist of revenues earned from the provision of IP telephony products and services to customers in Manitoba and nationally, along with revenues from our IP-based security offerings to national business customers. For certain customers, the ability to offer integrated security and equipment offerings is important for winning their business. At MTS, this line of business also includes revenues earned from the installation and monitoring of alarm services to residential, business and industrial customers in Manitoba.

Local access services

At MTS, local access services includes revenues earned from the provision of residential and business voice connectivity including 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 revenues. The quality of our local wireline connection remains a competitive 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. At Allstream, local access services includes revenues earned from the provision of business voice connectivity including calling features to national business and wholesale customers. Outside Manitoba, the cost and availability of local network access is a performance factor in serving our business customers. At Allstream, we have cost-effective access to 65% of Canadian businesses nationally with a presence in all major markets.

Long distance and legacy data services

Long distance and legacy data services include revenues earned from the provision of long distance calling along with legacy data services. Legacy data includes services such as private line networks to business customers. At MTS, 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. As well, the introduction of new technologies has resulted in customers shifting from legacy data services to broadband and IP-based 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. Given our focus on IP-based services overall, we believe that we can successfully address this competitive challenge.

2010 in Review

2010 results in summary (continuing operations)

(in millions $, except EPS and capital expenditures)	**2010 actual**	**2010 outlook** (as at August 6, 2010)	**2009 actual**
Revenues	**1,775.9**	1,740 to 1,790	1,828.7
EBITDA	**592.3**	570 to 600	627.3
Earnings per share ("EPS")	**$2.02**	$1.80 to $2.15	$2.64
Free cash flow	**193.2**	160 to 190	233.5
Capital expenditures	**15.1% of revenues**	14% – 16% of revenues	14.2% of revenues

In 2010, we delivered results that were in line with our August 6, 2010 financial outlook. Our results throughout 2010 reflect the slow pace of economic recovery nationally, higher non-cash pension expense, and declines in legacy revenues; partly offset by cost reductions, strong performance in wireless and television at MTS, and actions to increase high-margin, on-net IP revenues at Allstream.

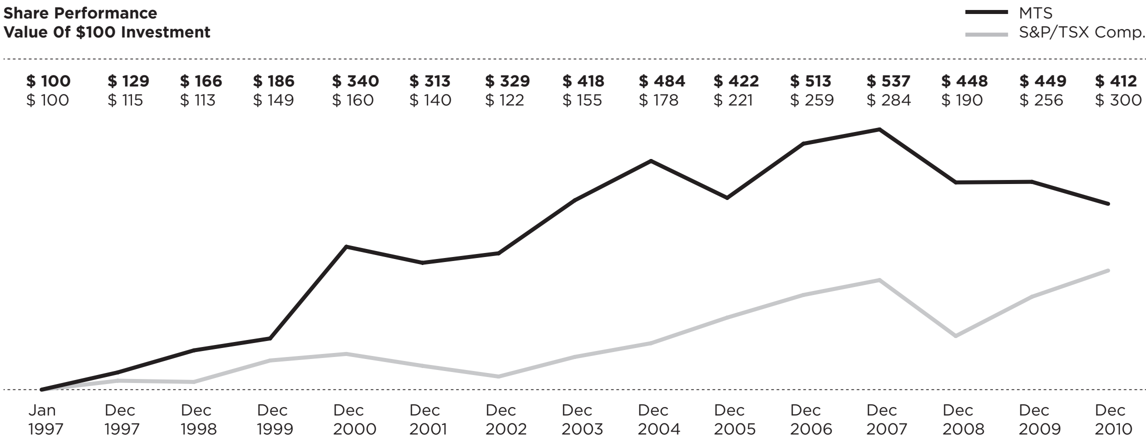
Building on over $300 million in annualized savings achieved since 2005, we continued to improve our cost structure in 2010, and had targeted an additional $30 million to $40 million in annualized cost reductions through operational efficiency and restructuring initiatives. We achieved this target, reaching $34.4 million in annualized cost savings by year end.

MTS continued to provide a solid and stable foundation for the Company throughout 2010. MTS used a disciplined approach, leveraging its bundling capabilities to face a highly competitive market, and successfully maintained its industry-leading EBITDA margin at 51.8%. MTS's 2010 results were also highlighted by strong performance in its strategic growth services – wireless and broadband services (which include high-speed Internet and television). Strong wireless services performance was driven mainly by 5.5% subscriber growth and 46.2% wireless data growth.

In 2010, Allstream's results demonstrated that its business had stabilized despite the slow pace of economic recovery nationally by achieving four sequential quarters of EBITDA growth. Throughout 2010, we took action to improve Allstream's revenue mix by focusing on higher-margin, on-net IP revenues; improving our cost structure; and exiting lines of business, such as various low-margin unified communications and security product resale, and low-margin wholesale long distance. Converged IP services have become Allstream's largest and most profitable revenue line item and represented 26% of Allstream's revenues in 2010. With 9.7% IP revenue growth in the fourth quarter of 2010, Allstream is well positioned to benefit from the increasing demand for IP-based services and further economic recovery.

In 2011, we remain well positioned to competitively deliver communications services to customers in Manitoba and across Canada and to further improve our cost structure. For further information regarding our plans and expectations for 2011, please see our "2011 Outlook" News Release dated December 15, 2010, which is available on our website at www.mtsallstream.com or SEDAR at www.sedar.com.

As illustrated in the share performance graph below, our stock price has outperformed the S&P/TSX Composite Index over the past 14 years.



This graph compares the cumulative total return on our Common Shares over the last 14 years to the cumulative total return of the S&P/TSX Composite Index, assuming a $100 investment at the initial offering price of $13 and reinvestment of dividends.

Key Developments in 2010

Deployment of fibre-to-the-home network

In 2010, we announced our plans to invest $125 million over the next five years as part of an accelerated deployment of FTTH, in Manitoba. This investment allows us to deliver enhanced broadband in communities where we do not currently have a VDSL network deployed and creates opportunities for revenue growth. FTTH allows customers to access our top-of-the-line digital television, high-speed Internet, and phone services. We were the first in Manitoba to launch fibre-to-the-home services in January 2010 in the Waverley West neighbourhood of Winnipeg. In July 2010, we began deploying FTTH in the City of Selkirk along with an adjacent portion of St. Andrews and St. Clements. By the end of 2015, we expect to deploy fibre to approximately 120,000 homes in close to 20 Manitoba communities. Once this plan is completed, 65% of Manitoba households will be covered by either VDSL or fibre-to-the-home service.

Development of HSPA+ wireless network

In 2009, we entered into a strategic wireless arrangement with Rogers Wireless that saw both companies share the cost to deploy an HSPA+ wireless network across Manitoba. We expect to launch HSPA+ services on March 31, 2011. Our new HSPA+ wireless network is expected to provide high-speed data coverage that is 35% larger and deliver speeds that are up to seven times faster than what we could previously offer with our EVDO network. With HSPA+, we will be able to deliver cellular voice and high-speed mobile data coverage of up to 21 Mbps to 97% of Manitobans. The expansiveness and sophistication of our wireless infrastructure in Manitoba is a competitive advantage which will be strengthened by the deployment of HSPA+ technology over our regional wireless network in Manitoba. The agreement also allows us to leverage Rogers Wireless' purchasing scope and scale to gain cost effective access to network technology and leading edge HSPA+ handsets. Our customers will have access to the best national and international roaming capabilities with Rogers Wireless as our primary roaming partner.

Growth of national IP services

During 2010, we executed our plans to grow our national IP services with a targeted investment program and an increased focus on winning high-margin, on-net IP services revenue.

In 2010, we have been expanding our Allstream IP fibre network to improve the profitability of Allstream and support further growth. As part of a three-year plan, we are making targeted investments to extend fibre to 675 multi-tenant buildings that are within 200 metres of our existing national network and enhance our Ethernet capabilities in our co-location areas. These success-based investments will extend our on-net reach and provide us with significant incremental high margin revenue opportunities. In 2010, we extended fibre to approximately 89 buildings. We expect to connect to approximately 180 buildings using a success-based approach in 2011.

In connection with our targeted investment program, Allstream won a total of 139 new IP contracts throughout 2010, with 52 new IP contracts in the fourth quarter of 2010. This includes several follow on sales that have increased our penetration into these newly connected buildings. We also achieved an additional 102 IP contracts in Allstream's expanded IP co-location footprint.

In addition to this targeted investment program, we made significant improvements to our operations at Allstream to increase high-margin IP sales and focus on customers that are on-net. We have a new leadership team in sales, marketing and customer operations and have implemented a new sales approach and performance metrics. Our targeted investments and our improved operations at Allstream began to produce results in the second quarter of 2010 with increased IP sales levels, and were evidenced by the 9.7% IP revenue growth in the fourth quarter of 2010.

Based on the sales cycle for enterprise customers, we anticipate these investments will positively impact our financial results in 2011. Converged IP revenues represent 26% of the division's overall revenues in 2010. For all of 2010, Allstream's IP revenues totaled $217.4 million.

Sale of non-telecommunications IT consulting group

In 2010, we completed the sale of the majority of our Allstream non-telecommunications IT consulting group to PricewaterhouseCoopers Canada. This transaction strengthened our competitive focus on our core enterprise telecommunications delivery and service capabilities across Canada. The portion of our business that we sold has been classified as discontinued operations, as prescribed in the Canadian Institute of Chartered Accountants' ("CICA") Handbook, with a loss from discontinued operations net of tax in the amount of $2.4 million in 2010. For comparative purposes, we restated our 2009 financial results to also present the portion of the business that we sold as discontinued operations.

Settlement with Bell Mobility

In 2010, we executed a comprehensive settlement agreement with Bell Mobility in respect of various historical disputes, including an arbitration proceeding relating to the provision of wireless services in Manitoba. Under this confidential settlement agreement, we received over $20 million of value from Bell Mobility and its affiliates, including a $10 million one-time cash payment received on August 5, 2010.

Establishment of Dividend Reinvestment Plan

In 2010, we established a Dividend Reinvestment Plan ("DRIP") with a 3% discount, which enables eligible holders of the Company's Common Shares to automatically reinvest their regular quarterly dividends in additional Common Shares of the Company without incurring brokerage fees. Participants in our DRIP also have the option to make cash payments to purchase additional Common Shares. Participation in our DRIP exceeded expectations, reaching 25% in the fourth quarter of 2010.

Subsequent Event

Pension solvency funding

In January and February 2011, the Company contributed a total of $19.7 million in pension solvency payments to meet its 2011 pension funding obligations. The new federal pension legislation, which allows letters of credit to satisfy a portion of pension solvency obligations, was passed in 2010 and the associated regulations were published for comment on December 18, 2010. The comment period has now expired and the regulations are expected to become effective in the near future. We will be required, however, to make additional pension solvency payments of approximately $5 million each month until the new regulations are in place.

Our Performance Drivers

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 true for businesses requiring a competitive edge in a globalizing economy and increasingly for households with their diversity of communications demands. Key factors driving our performance will be our fibre network reach and 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.

Network innovation

Our advanced broadband and wireless networks allow us to offer top-of-the-line products and services in Manitoba. In 2010, we developed our HSPA+ wireless network and began an accelerated deployment of fibre to the home in Manitoba. Our investments in these networks are important performance drivers for MTS's growth services and are expected to enable us to continue to be the market leader in the near and longer term. We expect to launch our HSPA+ network on March 31, 2011. We plan to continue our investment in our broadband network by deploying fibre to the home in four communities in Manitoba in 2011.

Allstream's national fibre network is an important asset for our company. Our ability to expand the network through targeted, success-based investments, and shift our focus toward higher margin, on-net IP revenues, is expected to create growth opportunities and have an important impact on the Company's performance.

Operational efficiency

Our long-term financial performance over the years is evidence of our commitment to efficiency. Since 2005, we have achieved over $300 million in annualized savings. Operational efficiency is an important part of maintaining our profitability in an industry that is increasingly competitive. Since the economic downturn in 2009, we have continued to focus on improving our cost structure and creating efficiencies in all areas of our business while maintaining or improving customer service. In 2010, we achieved annualized savings of $34.4 million, while we continued to deliver superior customer service. Allstream continues to be among industry leaders when it comes to customer satisfaction, and MTS continued to meet its targets for superior customer experience.

We believe there are further opportunities to streamline and gain additional efficiencies in our business in 2011, and we are targeting an additional $25 million to $35 million in annualized cost reductions in 2011. We expect the majority of the reductions to come from operational efficiency programs mainly associated with legacy product lines and restructuring initiatives.

Competitive intensity
MTS faced a competitive marketplace in 2010, largely due to the presence of our main cable competitor. High levels of competition are expected to continue in 2011. Competition levels may increase in the next few years, if new entrants launch wireless operations in Manitoba. We do not expect to see Shaw Communications Inc. ("Shaw") or other new entrant wireless providers enter the Manitoba market in 2011. We believe that we are well-positioned to face these new competitors, should they enter the market in future years. We expect to maintain our market leadership by leveraging our bundle capabilities, our strong brand recognition, customer loyalty, and our distribution channels. Nationally, in the business markets, all participants face competition and complex and continuously evolving customers' requirements. As an alternative to the incumbents, we remain focused on using Allstream's 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, we also operate as a licensed broadcasting distribution undertaking ("BDU") in parts of Manitoba, including Winnipeg and its surrounding areas. Decisions made by the CRTC may affect our operations and performance.

Economic outlook
The prospects and performance of the Canadian economy and the Manitoba economy have an impact on our results. When we were developing our financial outlook for 2011, the Bank of Canada was forecasting a 2011 national growth rate of approximately 2.3% for gross domestic product ("GDP"), as at October 20, 2010. More recently, the Bank of Canada was forecasting a national growth rate of 2.4% for GDP, as at January 19, 2011. The Manitoba Department of Finance forecasted 2011 GDP to increase 2.5% nationally and 2.7% for Manitoba, as at February 11, 2011. The actual performance of the Canadian and Manitoban economies may differ from the assumptions we used when developing our business plan, which may impact our actual results in 2011.

Selected Financial Information

Selected financial information (consolidated)

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

	2010	2009	2008
Revenues	**1,780.9**	1,815.2	1,873.4
Income before discontinued operations	**102.1**	103.9	147.4
Net income	**99.7**	101.7	144.0
Total assets	**2,875.3**	2,896.4	2,653.0
Long-term liabilities	**931.8**	1,152.8	549.2
Basic and diluted EPS before discontinued operations	**$1.58**	$1.61	$2.28
Basic and diluted EPS	**$1.54**	$1.57	$2.23
Cash dividends declared per share	**$2.15**	$2.60	$2.60

Over the past three years, our consolidated results reflect stabilization following the global recession which emerged in the second half of 2008, improvements in our strategic growth areas such as converged IP, wireless and broadband services, offset by increasing competition and declines in traditional telecommunications services. We achieved solid revenue and EBITDA results at MTS over the past three years, and EBITDA growth in 2010 at Allstream, following an EBITDA decline in 2009. We have focused on improving our cost structure, reducing expenses in our legacy services areas to preserve margins and to support expansion of our strategic growth areas.

MTS continues to provide a solid and stable foundation for the Company. Consistently strong growth in wireless, high-speed Internet and digital television offsets decreasing results in traditional telecommunications services of local access, long distance and legacy data services. We are investing in our growth areas with the development of our HSPA+ network and the deployment of our fibre-to-the-home network in Manitoba.

In 2010, Allstream began recovering from the adverse affects of the global recession. In the second quarter of 2009, we began to see the impact of the recessionary economic environment with a decline in long distance and legacy data services, lower revenues from our unified communications line of business, and reduced domestic and cross-border volumes of long distance activity by our customers based in or with operations in the U.S. Despite the slow pace of national economic recovery, in 2010, Allstream achieved four sequential quarters of EBITDA growth. This improvement reflects stabilizing performance primarily due to strong cost management and steady growth in our high-margin IP services. The consolidated results for the last three years also reflect the continuing expected migration of Rogers Communications Inc. ("Rogers") and AT&T Corp. ("AT&T") communications traffic to their own networks. Revenues from these customers were

$95.2 million in 2008; these revenues decreased by $24.7 million to $70.5 million in 2009, and by $10.1 million to $60.4 million in 2010.

The increase in long-term liabilities in 2009 occurred because we successfully raised debt in the amount of $625 million in 2009 at favourable rates while preserving our solid balance sheet. This essentially replaced all debt that was being carried on our short-term credit facilities due to the difficult credit markets in 2008, effectively balancing the maturity schedule for all of our debt capital.

In 2008, 2009, and the first two quarters of 2010, the Company's quarterly dividend as approved by the Board of Directors was $0.65 per outstanding Common Share. On August 6, 2010, the Board of Directors approved an update to the Company's 2010 financial outlook, and set a new dividend payout ratio target of 70% to 80% of free cash flows from its Manitoba operations. As a result, the Board of Directors set the quarterly dividend to $0.425 per outstanding Common Share for the third and fourth quarters of 2010.

In each of the last three years, a number of items have also affected our consolidated results. Further detail on these items in 2010 and 2009 is available in the section entitled *Consolidated Quarterly Data*. For 2008, the following items are also reflected in our results highlighted in "Selected financial information" above:

- Restructuring expenses for our 2008 efficiency program in the amount of $20.8 million.
- Costs in relation to the transition of certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform in the amount of $27.1 million.
- Charges to reflect decreases in the value of our income tax asset as a result of reductions in future income tax rates and rate differential on temporary differences totaling $16.5 million.

RESULTS OF OPERATIONS

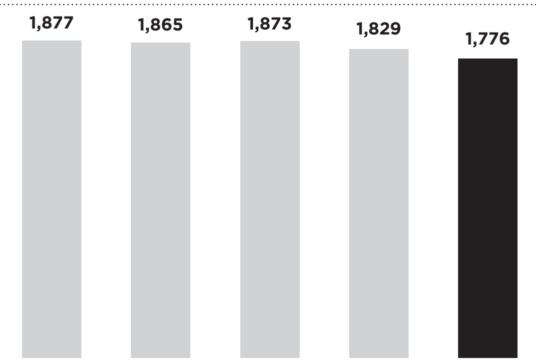
Operating revenues

(in millions $)	**2010**	2009	% change
Revenues (continuing operations)	**1,775.9**	1,828.7	(2.9)
Adjustment to deferral account rebate	**5.0**	(13.5)	n.m.
Revenues	**1,780.9**	1,815.2	(1.9)

Consolidated revenues include the impact of Decision 2008-1 and the recognition of a $13.5 million liability in 2009, and Decision 2010-638 and an adjustment to the liability of $5.0 million in 2010. As a result of Decision 2010-638, the Company's deferral account liability relating to customer rebates is $8.5 million.

Revenues (continuing operations)

(in millions $)



Revenues by business segment (continuing operations)

(in millions $)	**2010**	2009	% change
MTS revenues	**935.3**	937.2	(0.2)
Allstream revenues	**840.6**	891.5	(5.7)
Total revenues	**1,775.9**	1,828.7	(2.9)

Total revenues from continuing operations decreased by $52.8 million in 2010 as compared to 2009. These results reflect continued strong growth in our wireless, broadband and converged IP lines of business; offset by declines in long distance and legacy data lines of business, security and monitoring, and local access which was partially due to lower CRTC mandated local contribution revenue. Our results for the year of 2009 were also enhanced by a one-time $3.4 million wireless sale of FleetNet 800™ ("FleetNet") handsets. Further details on MTS and Allstream's revenue performance are described below.

MTS

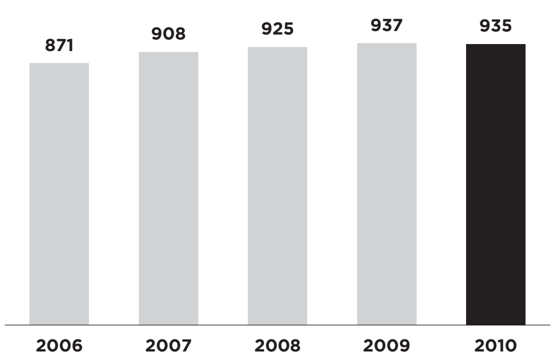
Operating revenues (continuing operations)

(in millions $)	**2010**	2009	% change
Wireless services	**329.0**	311.1	5.8
Broadband and converged IP services	**181.7**	176.1	3.2
Unified communications, security and monitoring services	**35.6**	33.2	7.2
Local access services	**288.5**	305.6	(5.6)
Long distance and legacy data services	**100.5**	111.2	(9.6)
Total MTS operating revenues	**935.3**	937.2	(0.2)

Total MTS operating revenues for the year decreased by $1.9 million compared to 2009, reflecting continued growth in our wireless, broadband and converged IP, and unified communications services; offset by declines in our local access, long distance and legacy data services, and the one-time $3.4 million wireless FleetNet sale that occurred in the first quarter of 2009. Our popular residential service bundles (which can include wireline, wireless, Internet, digital television, and alarm monitoring services) continue to provide a unique value proposition for our customers and cannot be matched by our competitors. Customers utilizing our bundled service offerings grew 2.8% year over year.

As an ILEC in the province of Manitoba, we receive a monthly subsidy per network access line for basic local access services we provide to customers in rural and remote parts of the province where the costs of providing service are higher. The CRTC reviews and adjusts ILEC subsidy rates annually. For 2010, the CRTC used a negative inflation rate in their calculation of subsidy rates, which had the effect of reducing our local contribution revenue by $5.0 million for the year. Excluding the impact of the one-time FleetNet sale in the first quarter of 2009 and lower local contribution revenues in 2010, MTS's revenues in 2010 would have increased by 0.7%.

MTS revenues (continuing operations)
(in millions $)



Wireless services

(in millions $)	**2010**	2009	% change
Revenues	**329.0**	311.1	5.8

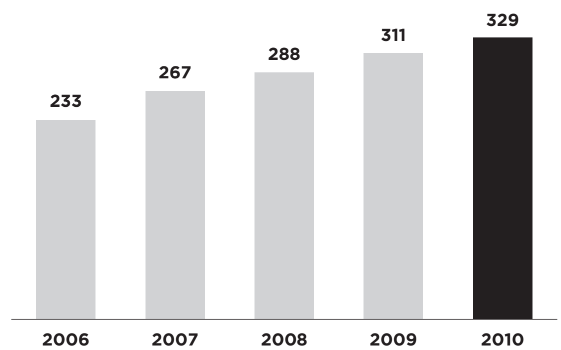
Our wireless portfolio consists of cellular, wireless data, paging and group communications services that we offer in the Manitoba market.

Our wireless services delivered strong growth in 2010 with revenues of $329.0 million increasing by $17.9 million from $311.1 million in 2009. This strong level of performance was driven mainly by solid growth in our subscriber base and significantly higher wireless data usage. At December 31, 2010, we had 483,754 wireless subscribers, up by 5.5% from December 31, 2009. Revenues from our wireless data services were also up strongly by 46.2% for the year ended December 31, 2010.

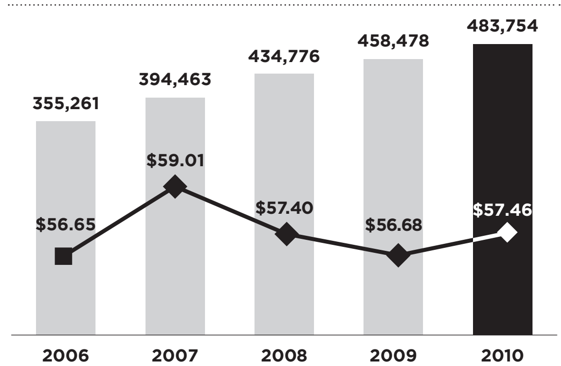
Wireless ARPU for the year ended December 31, 2010 of $57.46 grew by 1.4% or $0.78 from $56.68 in 2009. This ARPU growth is mainly due to continued strong growth in our wireless data services and calling-feature utilization, partly offset by lower air time revenue due to customer migration to plans with more inclusive minutes.

In 2010, wireless revenue growth was partly offset by a $3.4 million sale of FleetNet handsets to the City of Winnipeg in the first quarter of 2009. After adjusting for this sale, our wireless revenues increased by 6.9% year over year.

MTS wireless revenues
(in millions $)



MTS wireless customers & ARPU



Broadband and converged IP services

(in millions $)	**2010**	2009	% change
Revenues	**181.7**	176.1	3.2

Broadband and converged IP services include revenues earned from providing high-speed Internet and digital television services to residential customers in Manitoba, as well as IP-based connectivity to business customers based in Manitoba.

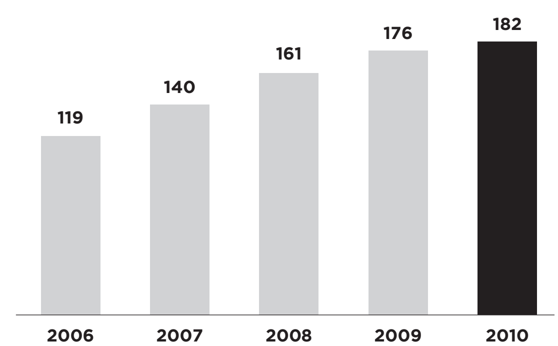
Revenues from our broadband and converged IP services were up by $5.6 million in 2010 as compared to a year earlier. This year-over-year increase reflects growth in digital television and stable high-speed Internet revenues.

Our digital television services revenues (including both MTS Classic TV and MTS Ultimate TV services) increased by $5.4 million or 10.0% in 2010 compared to 2009. This reflects an increase in MTS Ultimate TV subscribers and a 4.5% increase in ARPU, partly offset by an increase in subscribers on promotional plans. At the end of the year, there were more than 37,000 subscribers on our MTS Ultimate TV service, as compared to approximately 14,000 at the end of 2009. In total, we had 89,967 digital television subscribers at December 31, 2010, representing a 4.0% increase year over year.

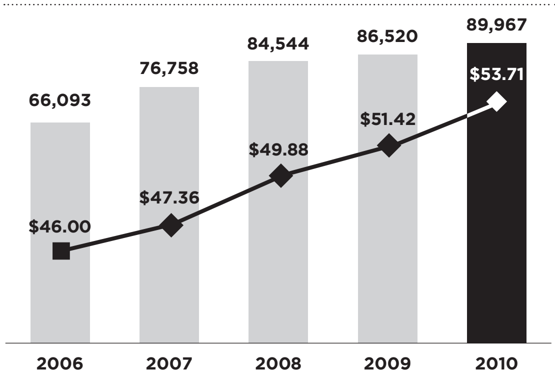
Our high-speed Internet services revenues were stable for the year, as compared to 2009. At December 31, 2010, our high-speed Internet subscriber base totaled 184,806, up 1.6% from last year.

Our converged IP revenues for 2010 increased by 0.8% compared to 2009.

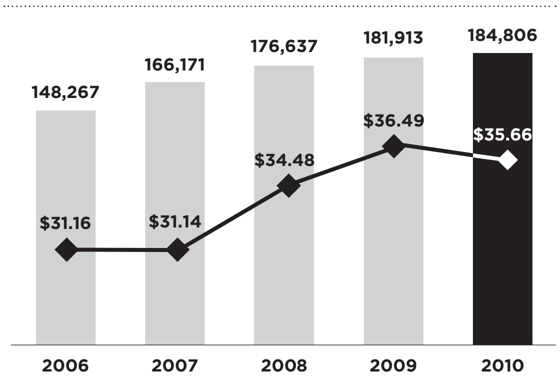
MTS broadband and converged IP revenues
(in millions $)



MTS digital television customers & ARPU



MTS high-speed Internet customers & ARPU



Unified communications, security and monitoring services

(in millions $)	**2010**	2009	% change
Revenues	**35.6**	33.2	7.2

Unified communications, security and monitoring services consist of revenues earned from the provision of IP products and services to business customers in Manitoba. This line of business also includes revenues earned from the installation and monitoring of alarm services to residential and business customers in Manitoba.

Unified communications, security and monitoring services revenues grew by $2.4 million in 2010, reflecting slight increases in unified communications sales and installations.

Local access services

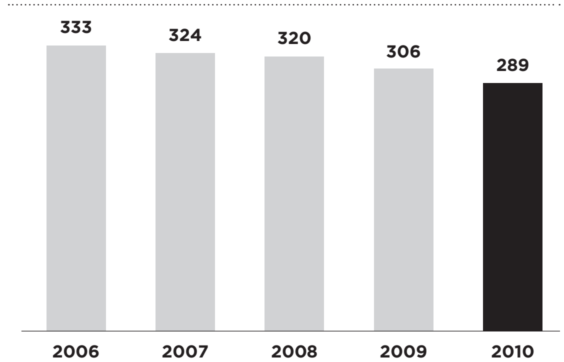
(in millions $)	**2010**	2009	% change
Revenues	**288.5**	305.6	(5.6)

Local access services include revenues earned for the provision of both residential and business voice connectivity including calling features, payphone revenue, and wholesale revenue within Manitoba.

Local access services revenues decreased by $17.1 million in 2010. Lower local access services revenues in 2010 reflect decreased residential network access lines due to local competition and substitution, as well as lower local contribution revenue relating to high-cost serving areas.

As an ILEC in the province of Manitoba, we receive a monthly subsidy per network access line for basic local access services we provide to customers in rural and remote parts of the province where the costs of providing service are higher. The CRTC reviews and adjusts ILEC subsidy rates annually. For 2010, the CRTC used a negative inflation rate in their calculation of subsidy rates, which had the effect of reducing our contribution revenue by $5.0 million in 2010.

MTS local access revenues
(in millions $)



Long distance and legacy data services

(in millions $)	**2010**	2009	% change
Revenues	**100.5**	111.2	(9.6)

Long distance and legacy data services include revenues earned from the provision of long distance calling along with legacy data services, such as private line networks, that we offer to business customers in Manitoba.

Revenues from our long distance and legacy data services decreased by $10.7 million to $100.5 million in 2010. Long distance services revenues declined mainly due to customer migration to lower-priced long distance plans, reduced volumes, and substitution. Our legacy data services revenues were also lower as a result of customers transitioning to broadband or other IP-based services.

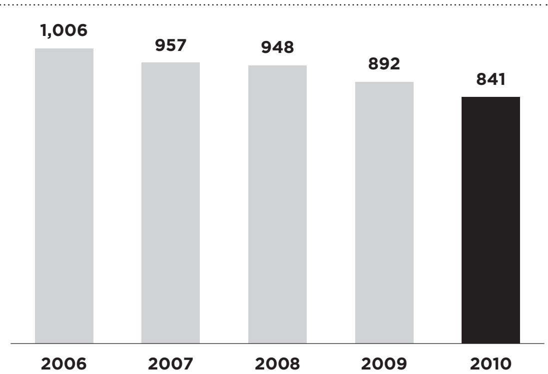
ALLSTREAM

Operating revenues (continuing operations)

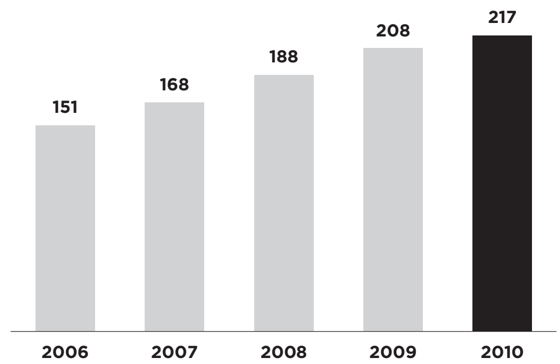
(in millions $)	**2010**	2009	% change
Converged IP services	**217.4**	208.3	4.4
Unified communications and security services	**87.9**	104.2	(15.6)
Local access services	**201.5**	208.0	(3.1)
Long distance and legacy data services	**333.8**	371.0	(10.0)
Total Allstream operating revenues	**840.6**	891.5	(5.7)

Revenues from continuing operations at Allstream were lower by $50.9 million in 2010 as compared to 2009. These results reflect growth in converged IP services, offset by lower unified communications and security, local access, as well as long distance and legacy data revenues. Throughout 2010, we have been taking action to improve Allstream's revenue mix by focusing on higher-margin, on-net revenues; improving our cost structure; and exiting unprofitable lines of business, such as low-margin unified communications and security product resale, and low-margin wholesale long distance.

Allstream revenues (continuing operations)
(in millions $)



Allstream converged IP revenues
for the years ended December 31 (in millions $)



Converged IP services

(in millions $)	**2010**	2009	% change
Revenues	**217.4**	208.3	4.4

Converged IP services include revenues earned from the provision of IP-based networking and related products and services to business customers nationally.

Converged IP revenues of $217.4 million in 2010 increased by $9.1 million from 2009. Throughout the second half of 2010, our sales team was successful in winning multiple service agreements with new customers. The solid increase in IP sales activity we experienced in the summer months continued through December, returning our sales to the level required to achieve double-digit revenue growth in 2011. We are starting to benefit from these increased sales levels with 9.7% revenue growth in the fourth quarter of 2010. We continue to see growth in our IP-Virtual Private Network ("IP-VPN") customer base; as at December 31, 2010, Allstream had 365 IP-VPN customers, a 9.3% increase over last year.

Building on our national IP fibre network that currently reaches over 2,100 multi-tenant buildings, we have undertaken a targeted expansion that will extend our on-net reach and provide us with significant incremental high-margin revenue opportunities. The results of this success-based investment are in line with our targets. Allstream won 52 new IP contracts through this initiative in the fourth quarter of 2010, including several follow on sales that have increased our penetration into these newly connected buildings. We have also achieved an additional 102 IP contracts in the expanded Allstream IP co-location footprint.

Unified communications and security services

(in millions $)	**2010**	2009	% change
Revenues	**87.9**	104.2	(15.6)

Unified communications and security services include revenues earned from the provision of IP products and services along with revenues from our IP-based security offerings to national business customers.

Unified communications and security services revenues declined by $16.3 million for the year as compared to 2009. This decrease reflects lower revenues from both unified communications and security services, due to lower product sales. Beginning with the second quarter of 2009, Allstream's unified communications and security services have been affected by the recession and slow pace of economic recovery as many enterprise customers experienced lower business volumes and postponed capital investment decisions. We are taking action to exit low-margin unified communications and security product resale.

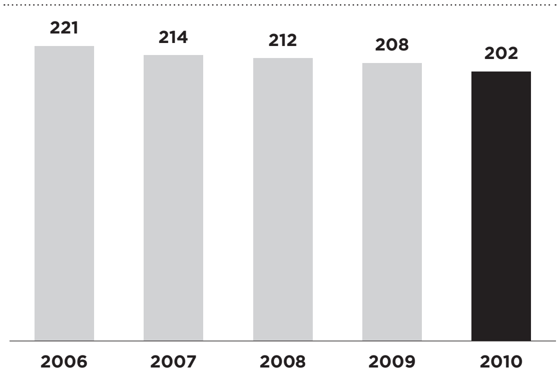
Local access services

(in millions $)	**2010**	2009	% change
Revenues	**201.5**	208.0	(3.1)

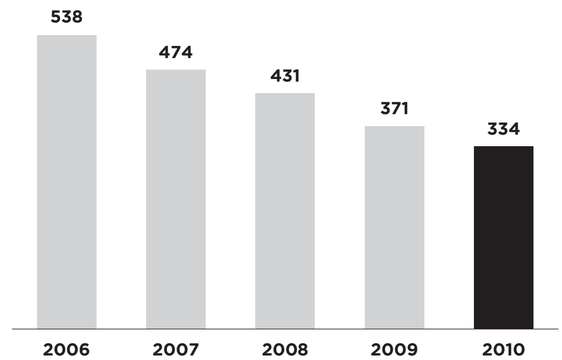
Local access services include revenues earned for the provision of business voice connectivity including calling features to national business and wholesale customers.

Local access services revenues declined by $6.5 million in 2010. The decrease mainly reflects lower pricing, partly offset by growth in the number of small- and medium-sized business customers selecting bundled services.

Allstream local access revenues
(in millions $)



Allstream long distance and legacy data revenues
(in millions $)



Long distance and legacy data services

(in millions $)	**2010**	2009	% change
Revenues	**333.8**	371.0	(10.0)

Long distance and legacy data services include revenues earned from the provision of long distance calling along with legacy data services, such as private line networks to business customers nationally.

Revenues from Allstream's long distance and legacy data services declined $37.2 million in 2010. This decline primarily reflects lower international and domestic rates, and lower cross-border long distance volumes. We expect further declines, but have implemented sales and marketing initiatives to identify new customers and retain our existing customer base. We are also exiting low-margin wholesale long distance services to improve the quality of Allstream's revenue mix. Our legacy data services revenues continue to be affected by customers' transitions to broadband and other IP-based services. In addition, the continuing migration of long distance and legacy data communications traffic by Rogers and AT&T to their respective networks has further impacted the year-over-year declines. Long distance and legacy data services revenues from these customers in 2010 totaled $60.4 million compared to $70.5 million in 2009.

EBITDA

(in millions $)	**2010**	2009	% change
MTS EBITDA (continuing operations)	**484.8**	511.5	(5.2)
Allstream EBITDA (continuing operations)	**107.1**	116.3	(7.9)
EBITDA* (continuing operations)	**592.3**	627.3	(5.6)
Restructuring and other costs	**(35.5)**	(33.6)	(5.7)
Deferral account rebate	**5.0**	(13.5)	n.m.
Wireless transition recovery (costs)	**10.0**	(18.1)	n.m.
EBITDA	**571.8**	562.1	1.7

* Contains EBITDA from corporate operations.

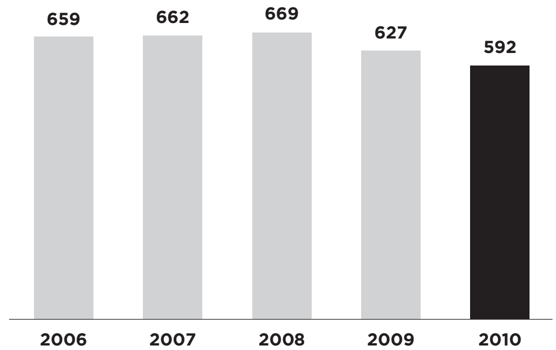
Our EBITDA from continuing operations of $592.3 million for 2010 was down by $35.0 million as compared to 2009. $19.1 million or 55% of the decrease is due to higher non-cash pension expense with the balance due to lower revenues, partly offset by lower direct costs.

Consolidated EBITDA for the year ended December 31, 2010 benefitted from a $5.0 million adjustment to our deferral account rebate, and a $10.0 million one-time cash payment received as part of a comprehensive settlement agreement with Bell Mobility.

On a segmented basis, MTS's 2010 EBITDA from continuing operations was impacted primarily by a $16.8 million increase in non-cash pension expense and additional costs to support growth lines of business in a competitive environment, partly offset by increased cost savings. MTS's EBITDA margin in 2010 continues to be strong and market leading at 51.8%.

Allstream's EBITDA from continuing operations in 2010 was $107.1 million, a 7.9% decrease from 2009. Beginning in the second quarter of 2009, Allstream's results were negatively affected by the global recession and slow pace of economic recovery. Due to strong cost management and steady growth in our IP services, however, fourth quarter 2010 EBITDA from continuing operations was $27.4 million, a 14.6% improvement over the $23.9 million EBITDA in the same quarter last year. During 2010, EBITDA results reflect stabilizing performance. On a sequential basis, Allstream's EBITDA from continuing operations improved by $0.3 million to $27.4 million in the fourth quarter, as compared to $27.1 million in the third quarter, $26.6 million in the second quarter and $26.0 million in the first quarter 2010.

EBITDA (continuing operations)
(in millions $)



Operations expense (continuing operations)

(in millions $)	**2010**	2009	% change
Operations expense	**1,183.6**	1,201.4	(1.5)

Operations expense from continuing operations decreased $17.8 million in 2010 compared to 2009. This decrease reflects savings from our ongoing cost reduction initiatives and lower direct costs associated with lower revenues and operational efficiency initiatives, partly offset by higher non-cash pension expense and higher costs to fund certain growth services.

Restructuring and transition expense

(in millions $)	**2010**	2009	% change
Restructuring and transition expense	**25.5**	51.7	(50.7)

We incurred $25.5 million of restructuring and transition expense in 2010, as compared to the $51.7 million incurred in 2009. Our lower costs in 2010 reflect the recovery of $10 million from Bell Mobility in 2010 as compared to wireless transition costs of $18.1 million incurred in 2009.

We continue to remove costs from our business. For 2010, we set a target of achieving between $30 million and $40 million of annualized savings from our operational efficiency programs. We met this target and achieved $34.4 million of annualized savings from these cost reduction initiatives throughout the year.

Amortization expense

(in millions $)	2010	2009	% change
Amortization expenses	**336.1**	322.7	4.2

Amortization expense in 2010 increased by $13.4 million as compared to 2009, reflecting an increase in depreciable assets and an increase in amortization of deferred wireless costs.

Other income

(in millions $)	2010	2009	% change
Other income	**5.7**	8.7	(34.5)

Other income of $5.7 million for 2010 was lower by $3.0 million. Other income in 2009 was positively impacted by a gain of $3.1 million related to the one-time sale of our alarm monitoring services customers outside of Manitoba in exchange for Manitoba-based customers of SecurTek Monitoring Solutions Inc., which occurred in the second quarter of 2009.

Goodwill revaluation

(in millions $)	2010	2009	% change
Goodwill revaluation	**14.1**	–	n.m.

During the year ended December 31, 2010, we recorded a $14.1 million goodwill revaluation charge, which reduced the carrying value of goodwill for Allstream to nil based on annual impairment testing. This charge results from the negative impact of the economic downturn on Allstream's operations.

Debt charges

(in millions $)	2010	2009	% change
Debt charges	**69.9**	59.5	17.5

Debt charges were higher by $10.4 million in 2010 as compared to 2009. This increase is primarily due to higher debt levels and higher average coupon rates, which is indicative of a greater proportion of our debt being long-term compared to the prior year.

Income tax expense

(in millions $)	2010	2009	% change
Income tax on continuing operations	**61.5**	82.8	(25.7)
Tax effect on one-time items	**(6.2)**	1.9	n.m.
Total income tax	**55.3**	84.7	(34.7)

Total income tax expense for the year ended December 31, 2010 decreased by $29.4 million as compared to the prior year. This decrease is primarily due to lower pre-tax income and no statutory tax rate adjustments in 2010, partly offset by the impact of goodwill impairment in the fourth quarter of 2010.

We used the last of our available tax losses associated with the acquisition of Allstream during the first half of 2009 by deferring the use of our substantial capital cost allowance ("CCA") pools. By utilizing our deferred CCA deductions, we expect to fully offset our taxable income and not pay cash taxes before 2019, with the present value of our tax asset being approximately $330 million.

EPS*

($)	2010	2009	% change
EPS (continuing operations)	**2.02**	2.64	(23.5)
Restructuring and other costs	**(0.37)**	(0.34)	(8.8)
Discontinued operations	**(0.04)**	(0.04)	–
Goodwill revaluation	**(0.22)**	–	n.m.
Deferral account rebate	**0.05**	(0.14)	n.m.
Wireless transition recovery (costs)	**0.10**	(0.19)	n.m.
Future statutory tax rate and other tax rate adjustments	**–**	(0.36)	n.m.
Basic EPS	**1.54**	1.57	(1.9)

*EPS for 2010 and 2009 is based on weighted average shares outstanding of 64.7 million.

EPS from continuing operations decreased by $0.62 to $2.02 for the year of 2010, mainly as a result of lower EBITDA, higher amortization expense and increased debt charges.

Basic EPS decreased by $0.03 to $1.54 for the year of 2010 mainly due to lower EPS from continuing operations and the revaluation charge for Allstream goodwill, mostly offset by the tax adjustment in the fourth quarter of 2009, an adjustment to our deferral account liability for customer rebates, and the $10.0 million one-time cash payment received as part of a comprehensive settlement agreement with Bell Mobility.

EPS (continuing operations)

Consolidated Quarterly Data

Quarterly financial data for 2010 and 2009 is presented below:

(in millions $, except EPS)	**Q4 2010**	**Q3 2010**	**Q2 2010**	**Q1 2010**
Operating revenues	444.5	451.3	443.1	442.0
Operating income	49.9	77.3	57.8	50.7
Income before discontinued operations	8.1	43.0	29.6	21.4
Net income and comprehensive income	8.1	43.0	28.2	20.4
Basic and diluted EPS before discontinued operations	$0.12	$0.66	$0.46	$0.33
Basic and diluted EPS	$0.12	$0.66	$0.44	$0.32

(in millions $, except EPS)	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**
Operating revenues	453.8	438.8	452.8	469.8
Operating income	59.4	52.5	59.5	68.0
Income before discontinued operations	9.0	28.1	30.0	36.8
Net income and comprehensive income	6.7	27.9	30.1	37.0
Basic and diluted EPS before discontinued operations	$0.14	$0.43	$0.47	$0.57
Basic and diluted EPS	$0.10	$0.43	$0.47	$0.57

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 items:

- Restructuring and other costs, including non-recurring amounts related to our HSPA+ deployment and related billing implementation, as well as certain legal costs to appeal a court decision relating to one of the Company's pension plans, were $12.6 million, $8.2 million, $1.7 million, and $13.0 million for each of the four quarters of 2010, listed chronologically. Restructuring and other costs in 2009 were $6.1 million, $12.7 million, $9.0 million, and $5.8 million, for each of the four quarters, listed chronologically.
- Losses, net of tax, associated with discontinued operations were $1.0 million and $1.4 million in the first and second quarters of 2010, respectively. For 2009, the results from discontinued operations were as follows: income, net of tax, for the first and second quarters of $0.2 million and $0.1 million, respectively; and losses, net of tax, for the third and fourth quarters of $0.2 million and $2.3 million, respectively.
- A reduction in the deferral account rebate liability of $5.0 million in relation to Decision 2010-638 in the third quarter of 2010, and charges of $13.5 million for the deferral account rebate in relation to Decision 2008-1 in the third quarter of 2009.
- A recovery of costs for $10 million relating to the one-time payment received from Bell Mobility in the third quarter of 2010 from the comprehensive settlement agreement; as well as costs incurred relating to the transition of certain wireless service requirements away from Bell Mobility to new suppliers and to our wireless platform in the first, second, third and fourth quarters of 2009, in the amounts of $7.4 million, $6.3 million, $0.7 million, and $3.7 million, respectively.
- Charges to reflect decreases in the value of our income tax asset as a result of reductions in future income tax rates and rate differential on temporary differences, consisting of $23.4 million in the fourth quarter of 2009.
- Revaluation charge for Allstream goodwill in the fourth quarter of 2010 in the amount of $14.1 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities

(in millions $)	**2010**	2009	$ change
Cash flows from operating activities	**455.5**	263.8	191.7

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

Cash flows from operating activities were $455.5 million for the year ended December 31, 2010, as compared to $263.8 million in 2009. The year-over-year increase was mainly due to a $127.0 million reduction in the use of our accounts receivable securitization program which impacts working capital and higher consolidated EBITDA (excluding non-cash pension expense) of $29.0 million.

Cash flows used in investing activities

(in millions $)	2010	2009	$ change
Cash flows used in investing activities	**(368.9)**	(297.9)	(71.0)

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

In 2010, we used $368.9 million of cash for investing activities as compared to $297.9 million in 2009, an increase of $71.0 million. This increase is primarily due to higher capital expenditures for the deployment of our HSPA+ network in Manitoba and capital costs related to our restructuring initiatives.

Capital expenditures

(in millions $)	2010	2009	$ change
Capital expenditures (continuing operations)	**268.8**	259.8	9.0
HSPA+ and related billing capital	**70.8**	32.6	38.2
Restructuring	**25.0**	2.8	22.2
Consolidated capital expenditures	**364.6**	295.2	69.4

We continue to focus on spending capital prudently by allocating capital to fund our higher growth services. Our capital expenditures from continuing operations for 2010 were $268.8 million.

Free cash flow

(in millions $)	2010	2009	% change
Free cash flow (continuing operations)	**193.2**	233.5	(17.3)
Pension solvency funding	**(41.7)**	(46.7)	10.7
HSPA+ and related billing capital expenditures	**(70.8)**	(32.6)	n.m.
Restructuring capital expenditures	**(25.0)**	(2.8)	n.m.
Restructuring and other costs	**(35.5)**	(33.6)	(5.7)
Deferral account rebate	**5.0**	(13.5)	n.m.
Wireless transition recovery (costs)	**10.0**	(18.1)	n.m.
Consolidated free cash flow	**35.2**	86.2	(59.2)

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

In 2010, free cash flow from continuing operations was $193.2 million compared to $233.5 million in 2009. The decrease is primarily due to lower EBITDA, higher debt charges, increased capital expenditures, and higher deferred wireless costs.

In 2010, consolidated free cash flow was $35.2 million, as compared to $86.2 million in 2009. Details of the items not included in continuing operations are shown in the preceding table.

Cash flows (used in) from financing activities

(in millions $)	2010	2009	$ change
Cash flows (used in) from financing activities	**(157.7)**	137.8	(295.5)

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

Cash flows used in financing activities in 2010 totaled $157.7 million, as compared to cash flows from financing activities of $137.8 million in 2009. The decrease in cash flows from financing activities is primarily due to a net increase in long-term debt in 2009, partly offset by dividend reductions and the issuance of Common Shares under our DRIP in 2010.

Credit facilities

(in millions $)	**Capacity**	**Utilized at December 31, 2010**
Medium term note program	500.0	200.0
Revolving credit facility	400.0	111.9
Letter of credit facility	150.0	27.9
Accounts receivable securitization	150.0	—
Total	1,200.0	339.8

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 renewed our medium term note program on October 16, 2009 for $500.0 million and we utilized $200.0 million of this facility to issue debt in December 2009. We also have a $400.0 million revolving credit facility, of which $150.0 million is available to back-stop our commercial paper program. At December 31, 2010, we utilized $111.9 million of our revolving credit facility for undrawn letters of credit. On September 20, 2010, we established an additional $150.0 million credit facility which is used solely for the issuance of letters of credit. As at December 31, 2010, we utilized $27.9 million of this facility for undrawn letters of credit. Of the $139.8 million in total letters of credit outstanding, $110.2 million represents letters of credit issued under the *Solvency Funding Relief Regulations* enacted in 2006 under the *Pension Benefits Standards Act*, 1985 (Canada), which permits the extension of pension solvency payments from a five-year amortization period to a 10-year amortization period for our defined benefit pension plans. In addition to these programs and facilities, we have a $150.0 million accounts receivable securitization program which was unutilized at December 31, 2010.

Capital structure

(in millions $)	**December 31, 2010**	December 31, 2009
(Cash and cash equivalents)	(50.0)	(110.2)
Capital lease obligations, including current portion	16.4	17.6
Long-term debt, including current portion	1,040.6	1,051.5
Total debt	1,007.0	958.9
Shareholders' equity	1,286.5	1,316.9
Total capitalization	2,293.5	2,275.8
Debt to capitalization	43.9%	42.1%

Our capital structure illustrates the amount of our assets that are financed by debt versus equity. Our debt to total capitalization ratio of 43.9% as at December 31, 2010 continues to represent financial strength and flexibility.

Credit ratings

S&P Senior debentures	BBB (stable)	DBRS Senior debentures	BBB (stable)
S&P Commercial paper	A-2	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 21, 2010, S&P confirmed their credit ratings on our long-term corporate credit and senior unsecured debt at "BBB" and confirmed our commercial paper rating of "A-2". S&P also confirmed its outlook as stable. DBRS confirmed its ratings on January 18, 2010, for our senior debentures as "BBB" and our commercial paper "R-2 (high)". DBRS's outlook remained stable.

Outstanding share data as at February 22, 2011

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:	Number	Book value (in millions $)
Common Shares	65,213,118	$1,282.0

Stock options:	Number	Weighted average price per share
Outstanding	3,122,695	$38.45
Exercisable	1,882,462	$40.60

Contractual obligations

(in millions $)	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**	**Total**
Long-term debt	220.0	100.0	275.0	450.0	1,045.0
Capital leases	4.9	5.2	5.5	2.9	18.5
Operating leases	56.6	106.5	94.8	269.3	527.2
Purchase obligations	126.0	178.1	13.3	1.7	319.1
Total	407.5	389.8	388.6	723.9	1,909.8

Our contractual obligations as at December 31, 2010 are provided in the table above. Our long-term debt consists of medium term notes and a loan payable. We issue medium term notes and obtain loans payable 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, 2010, we have outstanding foreign currency forward contracts to purchase $48.6 million U.S. During the year ended December 31, 2010, we recorded a $0.3 million recovery of expense 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, 2009, we recorded a $0.7 million loss in other income.

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, 2010, the Company had no outstanding balances from its accounts receivable securitization program.

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

Employee future benefits
We have two contributory defined benefit pension plans and one non-contributory defined benefit pension plan. These pension plans provide pensions based on length of service and best average earnings. These pension plans are funded as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits. We also have two defined contribution pension plans which cover certain of our employees. We also provide supplemental pension arrangements and other non-pension employee future benefits that are mainly unfunded.

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 2006. These audits include a review of loss carryforwards accumulated by Allstream Inc. prior to our acquisition of it.

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, other contractual arrangements, deferred wireless costs, installation costs, and specific software costs 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.

Goodwill

We test the recoverability of goodwill on an annual basis or earlier when events or changes in circumstances indicate that the carrying value might not be recoverable. In the fourth quarter of 2010, we completed our annual impairment testing using a discounted cash flow approach to determine fair value of goodwill. As a result, we recognized a $14.1 million revaluation charge to reduce the carrying value of goodwill for Allstream to nil. The results of our tests of goodwill for each of our other reporting units indicated that the fair values of goodwill were higher than the carrying values as at December 31, 2010. 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 for the year ended December 31, 2010 have been prepared in accordance with Canadian GAAP, using the same accounting policies as the previous year. As of January 1, 2011, our consolidated financial statements will be prepared in accordance with IFRS.

IFRS

The Canadian Accounting Standards Board ("AcSB") adopted a strategic plan in 2006, outlining plans for the convergence of Canadian GAAP with IFRS over a five-year period. In February 2008, the AcSB confirmed January 1, 2011 as the date IFRS will replace current Canadian GAAP for publicly accountable enterprises. As a Canadian reporting issuer, we will begin reporting our financial results under IFRS in the first quarter of 2011, which will include the 2010 comparative period.

Our IFRS changeover plan

We started our IFRS changeover activities in 2008 with the development of a detailed IFRS changeover plan. Our plan consists of four phases, which represent the activities we undertook from 2008 until 2011 to ensure we have the systems, business processes and controls in place to report our financial results on an IFRS basis effective January 1, 2011, with comparative information for 2010.

During 2008 and 2009, we completed phase one, Diagnostic Gap Assessment, and phase two, Design and Planning, of our IFRS changeover plan. In 2010, we completed the third phase of our plan: Solution Development, which included designing, developing and executing testing strategies for changes to our accounting business processes, controls, and IT solutions, including our dual reporting solution. In 2010 and the first quarter of 2011, we completed the fourth phase of our plan: Implementation. During this phase, we implemented IFRS-compliant accounting policies and related systems, processes and controls. The key activities associated with this phase included implementation of changes to our accounting policies; preparation of our IFRS opening balance sheet as at January 1, 2010, and development of IFRS financial statements and note disclosures. We also implemented the changes to systems, processes and controls, where necessary.

The key activities of our changeover plan are summarized in the following table:

	Key activities	Progress to date
Financial statement preparation	• Identify accounting and disclosure differences between IFRS and our existing policies. • Evaluate accounting policy options and select IFRS accounting policies, including policy choices under IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"). • Develop IFRS-compliant financial statements and note disclosure. • Quantify the impact of changeover to IFRS.	• We have identified accounting and disclosure differences. • We evaluated accounting policy alternatives and our senior management has selected initial IFRS accounting policies, including IFRS 1 policy choices. The Audit Committee of our Board of Directors reviewed these preliminary selections and will formally approve them upon approval of our consolidated financial statements for the three months ending March 31, 2011, our first set of interim financial statements under IFRS. These are the same accounting policies we expect to adopt in the preparation of our first annual IFRS financial statements for the year ending December 31, 2011. • We monitored the effects of new or amended IFRSs throughout our project and continue to do so as we report under IFRS going forward. • We drafted our preliminary IFRS financial statements format and note disclosures. • We quantified the preliminary impact of our IFRS changeover and disclose this impact below.
Systems and processes	• Identify impacts of IFRS conversion on IT systems and accounting and business processes. • Design, test, and implement IT solutions and changes to accounting and business processes. • Design, test, and implement a dual reporting system to maintain parallel records throughout 2010.	• We completed design and development activities related to IT system and process changes resulting from differences in accounting standards for property, plant, and equipment. We tested and implemented this solution. • We identified a dual reporting IT solution, and tested and implemented this solution. Our dual reporting system has maintained parallel records for 2010. • We designed and implemented changes to our accounting and business processes. • We implemented financial planning and forecasting capabilities under IFRS.
Controls and procedures	• Assess impact of changeover on disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). • Design and implement new or revised controls, as considered necessary, resulting from implementation of ongoing IFRS accounting policies and our one-time transition adjustments. • Evaluate the operating effectiveness of new and revised DC&P and ICFR for certification requirements in 2010 and 2011.	• We assessed the impact of changeover on our DC&P and ICFR. • We designed and implemented new and revised controls, as necessary. • We evaluated the operating effectiveness of new and revised DC&P and ICFR for 2010 certification requirements. We have developed plans to evaluate the operating effectiveness of our new and revised DC&P and ICFR in 2011.

	Key activities	Progress to date
Communication and training	• Communicate progress of IFRS changeover plan and impacts of changeover to internal and external stakeholders. • Provide specific training to employees affected by our IFRS changeover. • Provide general IFRS training to finance employees.	• We provided updates on our changeover plan and related impacts in our MD&A on an ongoing basis. • We provided regular updates to the Audit Committee of our Board of Directors, our IFRS Steering Committee and senior management on the progress made on our IFRS changeover plan. • We completed detailed training for employees involved with our IFRS changeover. • We provided general training to our finance employees.

Impact of IFRS

The implementation of IFRS for the year ending December 31, 2011 requires us to apply the accounting policies we expect to adopt retrospectively to January 1, 2010, our transition date to IFRS, and to the 2010 reporting period. The following preliminary reconciliations present the differences between Canadian GAAP and IFRS for our key performance indicators for the year ended December 31, 2010, the consolidated statements of financial position at each of January 1, 2010 and December 31, 2010, and the consolidated statement of net income and other comprehensive income for the year ended December 31, 2010. These reconciliations are based on the accounting policies we expect to adopt in our 2011 interim and annual consolidated financial statements.

Preliminary IFRS consolidated key performance indicators

		For the year ended December 31, 2010		
(in millions $, except EPS)	Note	**Canadian GAAP**	**Adjustments**	**IFRS**
Revenue		1,780.9	1.7	1,782.6
EBITDA	A, B, C	571.8	(7.0)	564.8
EPS	A to E	1.54	0.64	2.18
Free cash flow		35.2	(1.1)	34.1
Capital expenditures	B	364.6	(2.7)	361.9

Condensed preliminary IFRS consolidated statement of financial position as at January 1, 2010

		December 31, 2009		January 1, 2010	
(in millions $)	Note	**Canadian GAAP**	**Reclassifications**	**Adjustments**	**IFRS**
Assets					
Current assets		432.0	(79.0)	–	353.0
Property, plant and equipment	B, D	1,362.2	–	16.4	1,378.6
Intangible assets	B, D	322.9	–	(44.4)	278.5
Other assets	A	417.2	–	(374.9)	42.3
Deferred tax assets	E	362.1	79.0	132.8	573.9
Total assets		2,896.4	–	(270.1)	2,626.3
Liabilities					
Current liabilities		426.7	(1.2)	(3.2)	422.3
Long-term debt and lease obligations		1,053.0	–	–	1,053.0
Employee future benefits	A	43.1	(0.1)	119.5	162.5
Other long-term liabilities	C	56.7	1.3	(17.2)	40.8
Total liabilities		1,579.5	–	99.1	1,678.6
Shareholders' equity	A to E	1,316.9	–	(369.2)	947.7
Total liabilities and shareholders' equity		2,896.4	–	(270.1)	2,626.3

Condensed preliminary IFRS consolidated statement of financial position as at December 31, 2010

		December 31, 2010			
(in millions $)	Note	**Canadian GAAP**	**Reclassifications**	**Adjustments**	**IFRS**
Assets					
Current assets		332.0	(71.2)	–	260.8
Property, plant and equipment	B, D	1,446.5	–	51.1	1,497.6
Intangible assets	B, D	303.7	–	(24.2)	279.5
Other assets	A	477.2	–	(369.9)	107.3
Deferred tax assets	E	315.9	71.2	162.6	549.7
Total assets		2,875.3	–	(180.4)	2,694.9
Liabilities					
Current liabilities		657.0	(0.3)	(3.2)	653.5
Long-term debt and lease obligations		832.1	–	–	832.1
Employee future benefits	A	44.7	(0.2)	276.0	320.5
Other long-term liabilities	C	55.0	0.5	(14.7)	40.8
Total liabilities		1,588.8	–	258.1	1,846.9
Shareholders’ equity	A to E	1,286.5	–	(438.5)	848.0
Total liabilities and shareholders’ equity		2,875.3	–	(180.4)	2,694.9

Preliminary IFRS consolidated statement of net income and other comprehensive income for the year ended December 31, 2010

		For the year ended December 31, 2010			
(in millions $)	Note	**Canadian GAAP**	**Reclassifications**	**Adjustments**	**IFRS**
Operating revenues		1,780.9	–	1.7	1,782.6
Operating expenses					
Operations	A, B, C	1,183.6	–	8.7	1,192.3
Restructuring and transition		25.5	–	–	25.5
Depreciation and amortization	B, D	336.1	–	(45.4)	290.7
		1,545.2	–	(36.7)	1,508.5
Operating income		235.7	–	38.4	274.1
Other income (expense)		5.7	(9.2)	(1.7)	(5.2)
Goodwill revaluation	D	(14.1)	–	14.1	–
Finance costs, net		(69.9)	5.9	–	(64.0)
Income before income taxes		157.4	(3.3)	50.8	204.9
Income tax expense	E	55.3	(0.9)	9.2	63.6
Income before discontinued operations		102.1	(2.4)	41.6	141.3
Loss from discontinued operations		(2.4)	2.4	–	–
Net income for the year		99.7	–	41.6	141.3
Other comprehensive income					
Actuarial losses from defined benefit plans and other employee benefits	A	–	–	(149.8)	(149.8)
Deferred taxes on items in other comprehensive income	E	–	–	39.2	39.2
Other comprehensive loss for the year		–	–	(110.6)	(110.6)
Total comprehensive income for the year		99.7	–	(69.0)	30.7

Accounting policies under IFRS and first-time adoption of IFRS

As quantified in the preceding tables, we identified certain differences between Canadian GAAP and IFRS that impact our consolidated financial statements. The key areas where we expect changes in our accounting policies and any related optional exemptions we expect to apply are described below. The IFRS accounting policies we expect to adopt are based on the standards and interpretations currently issued and expected to be effective at December 31, 2011, the end of our first annual IFRS reporting period.

A. Employee benefits
International Accounting Standard ("IAS") 19, Employee Benefits, provides accounting options for the treatment of actuarial gains and losses with respect to defined benefit pension plans. We adopted an accounting policy whereby actuarial gains and losses are recognized immediately in equity rather than in net income. Under Canadian GAAP, we use the corridor approach to account for actuarial gains and losses and recognize the related expense in net income. As a first-time adopter of IFRS, we also elected to recognize all cumulative actuarial gains and losses related to our defined benefit pension plans and other non-pension future employee benefits in opening retained earnings as at January 1, 2010.

Unlike Canadian GAAP, IFRS provides guidance on the impact to pension assets and liabilities when there are contractual or statutory minimum funding requirements of defined benefit plans. As a result, we recognized a liability related to our minimum funding requirements.

In addition, under IFRS, we measure the expected return on plan assets at fair value of pension fund assets. This is different from Canadian GAAP, where we measure the expected return on plan assets using a moving-average of year-end market values of pension fund assets.

As a result, for the year ended December 31, 2010, pension expense, which is included in operations expense, is slightly higher under IFRS, and actuarial gains and losses are recognized in other comprehensive income.

B. Property, plant and equipment
IAS 16, Property, Plant and Equipment, requires that each item of property, plant and equipment with a cost that is significant in relation to the total cost of the item be depreciated separately. This requirement results in differences in the classification of individual components of property, plant and equipment. Additionally, we adopted a separate unit straight-line policy for depreciating items of property, plant and equipment. This is different than under Canadian GAAP, where we calculate depreciation expense based on the pooling of assets.

In addition, IFRS requires certain expenditures, which are appropriate to capitalize as property, plant and equipment under Canadian GAAP, to be expensed under IFRS.

For the year ended December 31, 2010, these changes in accounting policy result in a minor increase in operations expense and a decrease in depreciation and amortization expense.

C. Leases
IAS 17, Leases, requires that in a sale-leaseback transaction where the leaseback is classified as an operating lease, any gain on sale is recognized immediately in income. This differs from Canadian GAAP, where, any gain on sale is deferred and recognized in income over the term of the operating lease.

D. Impairment of assets
IAS 36, Impairment of Assets, requires that a one-step approach be used to test for, and to measure impairment of, long-lived assets, with the carrying value of assets compared to the higher of fair value less costs to sell and value in use, which is measured using discounted cash flows. This is different from the two-step approach followed under Canadian GAAP. This approach first requires an entity to compare carrying values to undiscounted future cash flows to assess whether any impairment exists, and then to measure the impairment using discounted cash flows. A first-time adopter of IFRS is required to test goodwill for impairment at the transition date to IFRS. Our impairment testing as at January 1, 2010 resulted in the recognition of an asset impairment loss to intangible assets and property plant and equipment in our Allstream division.

E. Income tax effect of other adjustments
As a result of the differences identified above, deferred taxes under IFRS have been adjusted where applicable.

OUR REGULATORY ENVIRONMENT

The telecommunications and broadcast industries in which we operate are federally regulated pursuant to both the *Telecommunications Act* and the *Broadcasting Act*. The primary regulatory agency we are subject to is the CRTC. The Government of Canada ("the Government'), through the Departments of Industry and Canadian Heritage, exercises legislative oversight of the CRTC. We are subject to policy decisions taken by the Government from time to time, as well as any amendments to applicable legislation or regulatory instruments. We operate as an ILEC in Manitoba and as a CLEC outside of Manitoba. We also operate as a BDU in parts of Manitoba, including Winnipeg and the surrounding area. The following describes significant regulatory and policy proceedings that were disposed of or commenced in 2010.

Broadcasting policy

On June 7, 2010, the Federal Court of Appeal determined that Internet service providers are not acting as BDUs and are not subject to the Broadcasting Act when they provide Internet access, which includes broadcasting content via the Internet. On September 30, 2010, opposing parties sought leave to appeal this decision to the Supreme Court of Canada, who has not yet indicated if it will grant leave. We agree with the Federal Court of Appeal's decision.

On February 28, 2011, the Federal Court of Appeal decided the CRTC has authority to require that BDUs pay broadcasters a fee for the carriage of local over the air signals. Certain BDUs have announced their intention to seek leave to appeal the decision to the Supreme Court. After the Court process is exhausted, the issue will be the subject of another CRTC process which means that, even if the CRTC were to finally determine that a fee should be imposed, this would likely not occur in 2011. If the CRTC were to impose such a fee, it is likely BDUs would pass the cost along to consumers.

Telecommunications policy

On January 28, 2010, the CRTC issued a notice of consultation to examine whether, given the changing competitive dynamic in the local residential market, ILECs like MTS Allstream within Manitoba should continue to have an obligation to serve and meet the basic service objective. In addition, the CRTC will examine whether that service objective should be expanded to include access to high-speed Internet. Currently, the basic service objective applies to all residential customers and includes the obligation for ILECs to provide local voice service with access to 911, message relay service, and local dial-up access to the Internet. While approximately 85% of the households in Manitoba already have access to high-speed Internet services, many rural customers, particularly those in remote areas, currently do not have such access. We participated in the proceeding, highlighting both the competitive situation in the residential Manitoba market and the potential benefit of a properly balanced subsidy mechanism for the extension of broadband access to rural and remote areas. A decision is expected in early 2011.

Essential facilities

On August 30, 2010, the CRTC issued Telecom Decision CRTC 2010-632 mandating incumbent telephone and cable service providers to offer their wholesale high-speed Internet access services to competitors on a technologically neutral basis and at the same speed these incumbents make available to retail customers. The decision was a positive one and included our views regarding the importance of wholesale access, especially in the business market. Through the mark-up allowed on the higher-speed wholesale Internet access services, the CRTC also recognized the increased risk for incumbents associated with investment in fibre facilities needed to bring higher-speed Internet access services to customers.

The Federal Cabinet had 90 days from the date of the CRTC decision to modify the decision or to give further direction to the CRTC in this regard. The Federal Cabinet did not act, so the decision remains in force.

On February 8, 2011, however, after approving the introduction of usage-based billing for wholesale services, the CRTC subsequently initiated a review of billing practices for wholesale residential high-speed access or broadband services. This issue has received significant public interest, and competitor groups have called on the CRTC to expand the scope of this proceeding to include a review of retail Internet pricing and the regulatory framework applicable to all wholesale high-speed access services.

Unbundled local loops

Throughout 2010, the CRTC conducted a detailed review of how to set prices for competitors who use the ILEC's copper facilities, known as unbundled local loops, to provide local telephone service to customers. The review, which was triggered by an application submitted on June 2, 2009 by Bell Canada and Bell Aliant Regional Communications, Limited Partnership, considered the issue of obsolescence of copper facilities in light of greatly expanded deployment of fibre in the applicants' access networks.

On January 12, 2011, the CRTC issued Telecom Decision CRTC 2011-24 approving new rates for unbundled local loops leased from the applicants. The new prices reflect recovery of the applicants' net book values of copper facilities over the assumed remaining useful life. There is also a possibility of additional applications for other services using copper facilities, or applications from other ILECs. We have identified certain issues with the CRTC's analysis and calculations, and are appealing the decision, with the expectation of reducing or eliminating the price increase.

Deferral account

On August 31, 2010, the CRTC issued Decision 2010-638 approving our plan to use the funds remaining in our deferral account to roll-out broadband to 16 rural Manitoban communities and to rebate any remaining deferral amounts to residential urban customers in Manitoba. This decision concludes the process associated with the Company's deferral account. As at December 31, 2010, the estimated balance of the Company's deferral account is approximately $21 million, and our deferral account liability for the residential customer rebate is approximately $8.5 million. These customer rebates were substantially paid out in February 2011.

Foreign investment restrictions

We are subject to the foreign ownership requirements outlined in the *Telecommunications Act* and the *Broadcasting Act*. On June 11, 2010, the Government announced a public consultation to examine how, and to what extent, foreign investment restrictions applicable to telecommunications carriers should be removed. In addition, on June 16, 2010, the House of Commons Standing Committee on Industry, Science and Technology (the "Committee") issued its report on the foreign investment restrictions, properly characterizing the concentration of market share amongst the three largest service providers and the challenges faced by smaller providers to attract capital at a reasonable cost.

On July 30, 2010, we filed our submission endorsing removal of the existing foreign investment restrictions. We believe the removal of the restrictions would spur investment, competition and innovation and contribute to Canadian leadership in the digital economy. The Minister of Industry has indicated the government will announce its intentions at the same time it releases its policy for the 700 megahertz ("MHz") wireless spectrum auction in the spring or early summer of 2011.

Government digital economy strategy

On May 10, 2010, the Government launched a consultation asking for comments and ideas on developing a digital economy strategy for Canada. We are advocating equitable wholesale access to ILECs' networks and the elimination of the foreign direct investment restrictions on telecommunications carriers. We also have highlighted the potential benefit of a properly funded subsidy mechanism for the purpose of extending broadband access to rural and remote areas.

Industry Canada radio spectrum consultations

In November 2010, the Government initiated consultations on the policy, technical framework and the rules that will govern the wireless spectrum auctions for the 700 MHz spectrum band. As well, on February 10, 2011, the Government initiated a similar consultation for the 2500-2690 MHz spectrum band. The timing and sequencing of the 700 MHz and 2500-2690 MHz wireless spectrum auctions remains to be determined. The Government has identified that making suitable spectrum available for next-generation wireless networks and services is a key component of its digital economy strategy. The Government also linked its decision on foreign investment to the policy and structure of these auctions. We are participating in both consultations, which we expect to conclude in March 2011.

RISKS AND UNCERTAINTIES

Risk management practices are part of our normal business operations to help identify and manage our principal risks. Governance of principal risks forms part of the mandate and the charters of our Board of Directors and its committees, including monitoring of our risk management program by the Audit Committee of our Board of Directors.

Our risk management program is enterprise-wide with focus on identification, assessment and mitigation of risks associated with achievement of our strategic objectives. Principal risks are identified and evaluated relative to their potential impact and likelihood, including consideration of mitigating activities. We perform an annual risk assessment that is linked to our yearly business plan process, and we conduct periodic updates to identify potential emerging risks arising from major business decisions, key initiatives and external factors.

Our risk management program is managed through an executive-level strategic risk committee in conjunction with our enterprise risk management and internal audit groups. Reports on principal risks are reviewed by our executive management, the Audit Committee and the Board of Directors. In addition, the scope of our internal audit plan is risk-based, taking into account the results of risk assessments as well as other factors such as internal control risks and operational risks.

The risks and uncertainties discussed below highlight the more important and relevant factors that could significantly affect our operations. They do not represent an exhaustive list of all potential issues that could affect our financial results.

Market conditions

Our business is affected by general economic conditions including consumer confidence and spending, enterprise confidence and spending, and the demand for, and prices of, our products and services.

MTS, which is based in Manitoba, has historically not been very sensitive to economic fluctuations and changes in market conditions. In addition, we continue to benefit from the resilience of the Manitoba economy. Allstream, which serves customers across Canada including some who operate in the U.S., is in aggregate more sensitive to economic fluctuations and changes in market conditions. For national enterprise customers, an extended economic downturn may cause postponed purchases and capital investments, reducing or discontinuing the usage of our services.

Economic conditions also affect the financial position of our customers and correspondingly, could affect our ability to collect receivables. Weak economic conditions could negatively affect our results of operations, including cash flows. We continuously monitor market conditions and proactively take steps to adjust our business plans and marketing efforts in light of such conditions.

Debt and equity market fluctuations

There are inherent risks associated with investing in the debt and equity markets. External factors over which we may not have any control could negatively impact the market price of our securities. Differences between our actual or anticipated financial results and the published expectations of financial analysts could contribute to volatility in our securities. Further, a major decline in the capital markets in general or an adjustment in the market price or trading volumes of our securities may adversely affect our ability to raise capital, issue debt, retain employees, make strategic acquisitions or enter into joint ventures.

Pension funding

We have legal funding requirements in respect of pension plans that we sponsor.

Valuations of our plans' assets and liabilities determine our funding requirements. These valuations depend on a number of factors including returns on pension plan assets, long-term interest rates, plan demographics and government pension regulations. Changes in these factors could cause actual future contributions to significantly differ from our current estimates and could require us to increase contributions to our pension plans in the future, and therefore, could have an adverse effect on our liquidity and results of operations. A material portion of our pension plans' assets are invested in equity and fixed income securities. As a result, the ability of our pension plans to earn our projected rates of return depends significantly on the performance of the capital markets. Accordingly, there is no assurance that our pension plans will be able to earn their projected rates of return. These same market conditions also impact the discount rate used to calculate our pension solvency obligations and thereby could significantly affect our pension solvency funding requirements.

Our pension solvency funding requirements are also affected by pension regulations. In 2010, new federal pension legislation, which allows letters of credit to satisfy a portion of pension solvency obligations, was passed, and the associated regulations were published for comment on December 18, 2010. The comment period has expired and the regulations are expected to become effective in the near future. The timing of when the new regulations become effective will impact our future pension solvency funding. We carefully monitor our anticipated pension funding requirements as part of our business planning process and take steps, as reasonably required, to ensure that we continue to meet our obligations.

We also announced in early 2010 that we received a court decision relating to one of our Manitoba pension plans, obligating us to make a one-time payment in the amount of $43 million plus interest retroactive to 1997, representing a total of approximately $100 million measured as of December 31, 2009. Based on legal advice received, we believed that key aspects of this decision were flawed and presented strong grounds for appeal. Our appeal on this matter was heard in December 2010, and the outcome is expected in mid-2011. Our ultimate obligation to make such payment, or any obligations arising under such litigation, will depend upon our success in such appeal.

Changes in regulation or legislation

The telecommunications and broadcast industries in which we operate are federally regulated. As a result, our business is affected by decisions made by various regulatory agencies of the federal government, including the CRTC and Industry Canada. The outcome of regulatory reviews, proceedings, appeals and other regulatory and policy developments could have a material positive or negative impact on our business and results of operations. We are generally interveners in all such proceedings that could have a material impact on our business. While historically we have had successes at many of such proceedings, there can be no assurances that we will continue to do so. For a description of the principal regulatory initiatives and proceedings affecting us, please see the section entitled *Our regulatory environment* in this MD&A.

Changes in legislation can also change the ability of our customers to use the products and services we offer. As an example, like others in the telecommunications industry, our Manitoba-based wireless customers became subject to stricter laws limiting the use of hand-held wireless devices while driving or in other situations. We did not see this have an adverse effect on our results or demand for our services, although there can be no assurances that this would not happen based on similar changes of legislation.

Competition

General

Like all of our industry peers, we continue to operate in a competitive environment. There can be no assurance that our current or future competitors will not provide services comparable or superior to those that we provide, or at lower prices, adapt more quickly to evolving industry trends or changing market requirements, enter the markets we operate, or introduce competing services. Any of these factors could adversely affect our market share and results of operations.

MTS faced a highly competitive marketplace in 2010, largely due to the presence of our main cable competitor. High levels of competition are expected to continue in 2011, although we are seeing a return to more disciplined pricing. Competition levels may increase in the next few years, if new entrants launch wireless operations in Manitoba. We do not expect, however, to see Shaw or other new entrant wireless providers enter the Manitoba market in 2011. We also may face competitive pressures from potential pricing competition between national wireless carriers, which, in turn may affect pricing in the Manitoba market regardless of whether new entrants ultimately launch in Manitoba. We believe that we are well-positioned to face these new competitors, should they enter the market in future years. We expect to maintain our market leadership by leveraging our bundle capabilities, our strong brand recognition, customer loyalty, and our distribution channels. Nationally, in the business markets, all participants face competition and complex and continuously evolving customers' requirements. As an alternative to the incumbents, we remain focused on exploiting Allstream's market-ready IP capabilities to profitably win share in business markets.

MTS

In Manitoba, our operating environment is becoming increasingly competitive, which could potentially impact subscriber growth and put pressures on revenues and profitability.

Our primary competitors in the consumer and small business wireline market are incumbent cable providers. Cable competition and ongoing technology substitutions have contributed to the erosion of our residential network access lines, which is expected to continue.

Our primary competitor in the wireless markets is Rogers Wireless, and to a lesser extent Telus and Bell Canada's brand Virgin Mobile. In 2008, Shaw and Globalive, two "new entrant companies", acquired spectrum within Manitoba. We expect these companies may launch wireless operations in Manitoba in the future. In January 2011, Shaw announced it would not be launching wireless services until 2012. In the first quarter of 2011, we expect to launch our new HSPA+ wireless data network, which provides high-speed wireless coverage that is one-third larger and delivers speeds that are up to seven times faster than what we could previously provide. We believe that this network gives us an advantage to compete effectively in the wireless market.

Our primary competitors in the broadband market are the incumbent cable providers. We do not expect the competitive landscape to change significantly in the short-term. It is possible, however, that in the future, technologies such as wireless broadband will evolve to a level in which it affects the competitive landscape.

Our primary competitors in the television market are the incumbent cable providers, satellite television providers, and other new content providers, such as Netflix. Our television offering is available in Winnipeg, Brandon, Portage la Prairie and several smaller centres within Manitoba. With our fibre-to-the-home deployment, we will be able to provide residents in approximately 20 additional rural Manitoba communities with our digital television service. While our television offering provides significant interactivity and customization advantages as compared to the services offered by our primary competitors, there are no assurances that our television offering will continue its past successes. We continue to expand our broadband infrastructure in both coverage and speed, and to enhance our ability to deliver services.

As the leading full-service provider in Manitoba, we possess the unmatched ability to bundle up to five services: wireline, wireless, alarm monitoring, high-speed Internet, and television services. While other competitors are able to offer bundles, we believe the wider scope of our offerings allows us to differentiate ourselves. We expect to continue to leverage this advantage to compete effectively in the future.

Within Manitoba, we also operate as the ILEC and as a provider of wholesale services to other carriers and service providers. In this market, we face competition from certain CLECs who operate within Manitoba. As the incumbent carrier, we believe we are well-positioned to compete within this market.

Allstream

Nationally, we operate as a competitive provider of telecommunications services to businesses and as a provider of wholesale services to other carriers and service providers. All participants in the enterprise market face competition and customers' requirements are complex and continuously evolving. In areas where we offer services using our own network, we believe we face significantly less risk in our ability to offer competitive services to our customers. In areas where we offer our services outside of our footprint, we face greater risks because we are subject to the inferior service levels provided by the incumbent carriers. In such situations, we are also subject to the risks associated with any changes to the regulatory framework, which can alter our rights to access such networks at reasonable prices, if at all. We are also at risk that, in circumstances in which we operate outside of our footprint, the incumbent carriers will increase the prices they charge us for forborne services, which in turn could affect our profitability. We do take steps to attempt to manage this risk. We have been expanding our Allstream IP fibre network to extend fibre to 675 select multi-tenant buildings that are within 200 metres of our existing national network and to enhance our Ethernet capabilities in our co-location areas. This targeted investment will extend our on-net reach, allowing us to deliver services at lower costs, all while reducing our dependency on the incumbent carriers.

In response to the pressures in the enterprise markets, we have been refining our market focus, creating innovative IP solutions, reducing our cost structure and investing selectively in higher-margin opportunities. We also actively monitor and participate in all regulatory proceedings that could affect the profitability of our national operations.

Legacy services

The industry-wide transition from a legacy voice and data infrastructure to an IP-based infrastructure continues. We, along with our peers, are experiencing accelerated pressures in our legacy lines of business, such as long distance and private line data services, as technology changes are allowing our customers to have integrated telecommunications products that offer a wider range of functionalities. As a result, the revenues and margins associated with legacy services, for the most part, are declining. To date, these financial pressures have been partly offset by increased demand, migration of customers to wireless and IP-based platforms, and operating cost reductions. Our experience within the Manitoba wireline market, however, has been that our rate of losses has been lower than the Canadian average, which has helped to mitigate such financial pressures.

Our risk from this exposure has become less pronounced in recent years as we have deliberately focused on increasing our revenues from growth services across both divisions. As an example of our success, by the end of 2010, our revenues from wireless and broadband and IP services on a consolidated basis represented 41% of our total revenues, as compared to 38% at the end of 2009 and 34% in 2008. While we expect that a substantial portion of our future revenue growth will be achieved from IP-based services and we have invested significant capital resources in the development of our networks, there is a risk that this growth will not offset the decline in our legacy services.

We also continue to face the migration of certain customers' traffic from our legacy services either to new services or to their own respective networks. We also are acting on strategies to facilitate the migration of our customers to IP solutions in a manner that utilizes our existing capabilities and infrastructure to mitigate the impact on our financial performance.

Continuous rapid changes in technology

We operate in markets that are affected by constant and rapid technology change. Network technology continues to evolve at a pace that may enable competitors to enter our markets with increased flexibility, provide more choice for customers, and speeds up the obsolescence of our core technologies. At the same time, this provides us with new opportunities to exploit markets that were previously more difficult or costly for us to enter. These changes, however, could result in the displacement of products and services with substitutes and create a need for accelerated investment in our network evolution. Accordingly, we need to anticipate technological change and invest in, or develop new technologies, products and services. For example, we are deploying fibre to the home to approximately 120,000 homes in Manitoba over the next five years. As well, we may utilize partnerships or alliances to reduce our costs when making these important investments, such as our joint deployment of a new HSPA+ wireless network with Rogers Wireless in Manitoba. Nationally, we are making targeted investments to expand our Allstream IP fibre network. These investments are critical to drive growth, achieve our financial objectives and, in some cases, reduce our overall cost structure.

Like others in our industry, there can be no assurance that we will be successful in developing, implementing and marketing new technologies, products and services or that we will be able to fully realize the expected sales, cost savings and efficiencies from these new technologies, or that we will be able to make these necessary investments. Nor can we be assured that we will be able to gain access to such technologies and other business inputs at reasonable terms or prices. New products or services that use new or evolving technologies could reduce demand for our existing offerings or cause prices for those services to decline.

One of the key priorities in our business planning process is to ensure that we prudently manage technological changes in a manner that benefits our company and our shareholders.

Litigation and legal matters

Litigation

As is the case with any large operating company, investigations, claims and lawsuits seeking damages and other relief are often threatened or pending against us. In addition, plaintiffs within Canada are also able to launch class action claims on behalf of a large group of persons.

By way of indicative examples, MTS Allstream and other major telecommunication service providers are defendants in two large national class action claims. The first involves a claim relating to a class of subscribers for wireless or cellular services who are seeking recovery of fees that the carriers have categorized as system access fees or system licensing charges, and which the plaintiffs allege have been improperly characterized as government-related charges. The second major class action claim relates to allegations that customers for both land-line and wireless services have paid extra fees and charges in association with 911 or emergency service access fees that now ought to be repaid to those customers. We believe we will be successful in defending these specific claims. The outcome of any of such actions, or new actions that may arise, however, is always uncertain and, until the particular matter is resolved, there can be no assurance that our financial position will not be negatively impacted as the costs to us in losing such claims could be material. We work closely with expert outside counsel to vigorously defend all material litigation against us that we consider to be without merit or against which we have strong defences. In addition, we conduct our business with controls designed for compliance with legal obligations, thus reducing exposure to legal claims, or risk of loss of those claims, should they materialize.

Civil liability in the secondary market

Securities laws impose potential liability for misrepresentations by public companies in written disclosure and oral statements or the failure to make timely disclosure of a material change. We have well-documented processes in place, including a corporate disclosure policy, that we believe provides reasonable procedures and controls for all of our public disclosure. We also have a strong internal control certification program that we believe is a strong safeguard for our officers and Board of Directors to limit any exposure we may have in this area. We actively monitor legal developments and are prepared to make changes that we consider appropriate and prudent. While there can be no assurance that all of our processes will be followed by employees, officers, third parties and directors at all times, having processes in place is expected to provide the necessary risk mitigation one would expect for a company of our size.

Legal and regulatory compliance

As is the case with all companies, we necessarily rely on our senior management, Board of Directors, employees and key third-party contractors to conduct themselves according to legal and ethical standards. Situations might occur where individuals do not adhere to our policies or where legal requirements are inadvertently breached. Such events could expose us to damages, sanctions and fines, or negatively affect financial or operating results. We must handle our customers' personal information in a way that is compliant with all applicable privacy laws. Although we cannot predict outcomes with certainty, we believe we have reasonable policies, processes and awareness in place for proper compliance and that these programs reduce risks.

Applicable legislation and corporate articles

We are subject to certain legislation and our own articles of incorporation that limit the ability of individuals to own and trade our securities. In particular, there are constraints in respect of foreign ownership and ownership by individuals owning more than a specified percentage of our Common Shares. These restrictions could theoretically serve to deter a change of control of our company, limit the market demand, market price or liquidity of our securities, or affect our ability to access capital. Although we support the liberalization of foreign ownership as being in the best interests of our shareholders, this change could result in new foreign competitors or our existing competitors benefiting from new foreign investments or partnerships, which could result in increased competition.

Our Board of Directors and senior management are subject to fiduciary duties, corporate and securities laws, and stock exchange requirements, all of which provide protection to our investors.

Contractual provisions

Technology evolution also brings additional legal risks and uncertainties. The intellectual property and proprietary rights of owners and developers of hardware, software, business processes and other technologies may be protected under statute, such as trade-mark, patent, copyright and industrial design legislation, or under common law, such as trade secrets. Contractual provisions to which we are bound are generally becoming increasingly complicated and expose us to heightened risks, and we are not always able to fully limit our liability in respect of these matters. We also have exposure under contracts to our customers and vendors. We have reasonable processes and controls in place to ensure that contractual exposure is properly managed in consideration of the markets we operate.

Radio frequency

It has been suggested that the radio frequency emissions from wireless devices could be associated with health concerns. We are not aware of any credible information of real health concerns. In addition, this issue is monitored and regulated by the federal government and we comply with all applicable legislation and regulatory requirements. Actual or perceived issues associated with such suggestions, however, could affect our results and operations or could result in litigation.

Financing and debt requirements

We periodically raise capital through debt and equity offerings in the capital markets. Our business plans and growth could be negatively affected if existing financing is not sufficient to cover funding requirements or if we are unable to refinance maturing debt at favourable rates.

Our ability to raise debt financing depends on our ability to continue to access the public capital markets, the bank credit market, and our accounts receivable securitization program. The cost and amount of funding depend largely on market conditions and the outlook for our business and credit ratings at the time funds are raised, which in turn, is dependent on a wide range of factors.

Although our past experience has been that our strong balance sheet has afforded us continued access to these programs at favourable terms and that we have been able to refinance our maturing debt at competitive rates, there are no assurances that this will continue.

Dividend payments

We currently pay dividends in amounts approved on a quarterly basis by our Board of Directors. A more comprehensive discussion of our current dividend policy is set forth in our most recent Annual Information Form, which is available on our website www.mtsallstream.com or on SEDAR at www.sedar.com. Payment of a dividend is subject to the discretion of our Board of Directors, as well as legal requirements. On August 6, 2010 and November 4, 2010, the Board of Directors approved a cash dividend of $0.425 per share for the fourth quarter 2010 and the first quarter 2011, respectively. This was lower than the previous quarterly dividend level of $0.65. While we expect to have access to enough liquidity in 2011 to fund our current dividend policy, there can be no assurances that we will continue dividend payments at the current level or at all.

Operational execution

We define and implement both short- and long-term strategies to manage our business within a competitive, regulated and fast-evolving telecommunications environment. We develop business plans for our operating units that are aligned with long-term strategies. The implementation of our strategies requires shifts in employee skills, products and services, capital spending, and targeted cost reductions. If our management, employees or processes are not able to adapt to these changes or if required capital is not available on favourable terms, we may not achieve our business objectives, which could have a negative effect on our business and financial results. There also can be no assurance that we will be successful in reducing costs. If we are unable to implement operating unit business plans that are aligned with our strategic objectives, our business and results of operations could be negatively affected.

Our Board of Directors approves the Company's business plan, including business targets and budgets. Our leaders have specific goals, which are aligned with these objectives, and are incented to achieve their goals and are held accountable for their results. We feel that this fosters an environment where our leaders are most likely to achieve our overall objectives.

Security and network failures

Like all others in our industry, our operations depend on how well we and our suppliers protect our networks, equipment, IT systems, software and the information stored in data centres against damage from a number of threats, including, but not limited to, natural disasters, fire, power loss, hacking, computer viruses, vandalism, theft and other events. Our operations also depend on the timely maintenance, upgrade and replacement of our network and our suppliers' networks, equipment, IT systems and software. Any of these and other events could result in network failures, billing errors and delays in customer service. The failure of networks or a component of our networks would, in some circumstances, result in a loss of service for our customers and could adversely impact our results of operations. We rely on third parties to fulfill many of our customers' needs. Any of the above events affecting such third parties might also cause an interruption in service that would last until we could find alternative service delivery options and could also harm our customer relationships.

We have taken significant efforts to protect our networks against failure and interruption including implementing engineering designs with redundancy whenever commercially reasonable. We have also taken steps to protect ourselves against the impact of network failures such as holding insurance policies and preparing and testing disaster recovery plans. In 2009, we were recognized for leadership in disaster recovery planning with the Award of Excellence from the Disaster Recovery Institute of Canada, recognizing excellence in planning and preparedness in the areas of continuity management, technology recovery and crisis management – the first such recognition for a telecommunications provider.

Human resources

Collective agreements
A majority of our employees are covered by collective bargaining agreements. Historically, we have had a very positive and constructive working relationship with our unions. Although we have no reason to expect significant issues to arise, renegotiating collective bargaining agreements always has the risk to result in higher labour costs and work disruptions including work stoppages or work slowdowns. While we have not had a labour disruption in over a decade, there can be no assurance that should a strike or work disruption occur, it would not adversely affect the services that we provide to our customers and our results of operation. A work disruption at a service provider who carries portions of our traffic could harm our businesses, including our customer relationships and results of operations. Further information about our collective agreements is contained in our most recent Annual Information Form, which is available on our website www.mtsallstream.com or on SEDAR at www.sedar.com.

Reliance on key personnel
Our business depends on the efforts, abilities and expertise of our senior executives and employees. The loss of key individuals could impair our business and development until qualified replacements are found. There is no assurance that these individuals could quickly be replaced with persons of equal experience, skills and capabilities. To manage these risks, our management and Board of Directors regularly review the compensation structure, succession plans and career progression of such personnel to minimize the risks of any such potential disruption.

Tax matters

Our business activities are subject to tax legislation and regulations that frequently change. Changes in tax law or the adoption of new tax laws could result in higher tax rates or new taxes. Our tax filings are subject to government audits which could materially change the amount of current and future income tax assets and liabilities and could, in certain circumstances, result in an assessment of interest and penalties. We leverage internal and external expertise in order to manage this risk to the best of our ability. In addition, we have a substantial tax asset which is currently expected to enable us to offset the payment of cash income taxes until approximately 2019.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of MTS Allstream 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

Under the direction of our Audit Committee and our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), we evaluated the design and operation of our disclosure controls and procedures as at December 31, 2010. Based on this evaluation, and as approved by our Audit Committee, our CEO and CFO have concluded that, as of the evaluation date, our disclosure controls and procedures were effective 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 CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

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 GAAP. 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 GAAP, 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 can provide only reasonable assurance and may not prevent or detect misstatements. As well, projections of an 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 evaluated the design and operation of our internal control over financial reporting as at December 31, 2010 based on the criteria set forth in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our CEO and CFO have concluded that, as of the evaluation date, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. No material weaknesses in our internal control over financial reporting were identified.

There have been no changes in our internal control over financial reporting during the three month period ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SOCIAL RESPONSIBILITY

We believe that companies should contribute to the welfare of the communities where they operate. In 2010, MTS Allstream was the only telecommunications company in Canada to be named one of the 50 Best Corporate Citizens in Canada by the Corporate Knights, a media-based company that conducts and publishes an annual survey on corporate responsibility. This marks the fifth time MTS Allstream has made the list since the survey began in 2002. Corporate citizenship is a top priority for us, and we believe it is important to lead by example.

We strive to have a positive impact on the lives of our employees, our customers and other stakeholders. We do this by investing in people, communities where we operate, and the environment.

Investing in our people

In this fast-paced world where technology is always changing, we believe people make the difference. We are committed to equity and diversity in the workplace, and to the community as a whole. We offer our employees the potential for growth, development and advancement through education and career development programs. We recognize and value the contributions our employees make through employee engagement and recognition programs. For 2010, MTS Allstream was named one of Canada's top 100 employers, one of Canada's Best Diversity Employers, and one of Manitoba's top 25 employers.

We participate with our employees who give generously to the community with their time and money every year. In 2010, we matched funds raised by employees in campaigns for *United Way* across Canada. Through our "MTS Volunteers" and "My Community" programs, MTS Allstream employees, retirees and their families contribute more than 50,000 volunteer hours to community causes and events across Canada every year.

Investing in our community

We take our role in the community very seriously and we are making investments to strengthen our relationship with community members.

We sponsored nearly 30 community festivals across Canada, including the year-round celebrations of *Manitoba Homecoming 2010* and the French-Canadian winter festival, *Festival du Voyageur*. In addition to community festivals, there were three events that we played a significant role in: the *CN Canadian Women's Open*, the *Mike Weir Miracle Golf Drive for Kids* and the *2010 MasterCard Memorial Cup*. We also supported initiatives such as *Operation Red Nose*, a volunteer designated driver service; *Cybertip.ca*, a tip line for reporting online sexual exploitation of children; and *Red Cross Haiti Relief* efforts.

We believe it is important to invest in the people who make up the communities where we live and work. In 2010, we supported a number of educational institutions including the Aboriginal Business Education Program, St. Boniface College, University of Manitoba, and Red River College. We also supported organizations that promote learning and education, such as *Computers for Schools*, an organization that refurbishes donated computers and then distributes them across Canada to schools, libraries and registered not-for-profit learning organizations.

We have historically shown our support and increased our visibility in the communities through sponsorship programs. For example, we sponsor the MTS Centre which serves as an arena and a prominent entertainment venue in Winnipeg. In Toronto, we continue our sponsorship of the Allstream Centre, Canada's most environmentally responsible state-of-the-art conference and convention centre. In 2010, we continued to show our support through sponsorship. We signed a naming rights partnership agreement with True North Sports & Entertainment Limited to name and support a 172,000 square foot multi-plex facility serving the Winnipeg community – the MTS Iceplex. As part of the agreement, we provided a full suite of advanced communications services and MTS Ultimate TV service to the facility. In 2010, we also sponsored elite athletes in their pursuit of excellence, including Cindy Klassen, a six-time Olympic medalist in speed skating, and Adam Speirs, a Canadian Tour golf champion.

We recognize that some of the communities we serve may have particular needs. For example, we are committed to addressing 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. We are developing improved telecommunications services and infrastructure in rural and remote communities, which could lead to other social and economic benefits. In 2010, we launched cellular service to the following First Nation communities Fisher River, Split Lake, Oxford House and Ebb & Flow; and we continue to explore wireless opportunities for other communities using the community-funded model.

Investing in our environment

We are committed to reducing our impact on the environment and to helping our customers and employees do the same. In 2010, we continued to deliver on our corporate green objectives to: reduce our carbon footprint in the businesses we operate; help our customers reduce their footprint by providing communications solutions and information to facilitate sustainable behaviour; and enable employees to reduce their personal impact on the environment.

Our priorities in 2010 addressed a range of opportunities, including:

- Completed a comprehensive carbon inventory to verify our greenhouse gas emissions baseline and identify reduction opportunities;
- Reduced, reused and/or recycled paper, e-waste, automotive materials and decommissioned equipment;

- Increased energy efficiency of network sites, information technology infrastructure and communications equipment deployed with customers;
- Created greener work locations and optimized the use of our real estate;
- Enabled greener commuting options for employees by expanding our teleworking program and adding the Greater Toronto Area to our public transportation incentive program;
- Engaged employees, including the launch of a new "Green Action" internal website by our internal Green Team to provide information and resources to help employees reduce their personal impact on the environment, what the Company is doing to reduce its carbon footprint and how employees can raise questions or suggestions to "get greener";
- Promoted the green potential of innovative communications solutions to create customer awareness and influence behaviour; and
- Supported our communities by sponsoring and/or participating in green-themed events or programs.

We recognize the compelling responsibility to continue our long-standing commitment to the environment and continue to make progress through the solid foundation of our corporate strategy and policies, operating practices, management systems and green initiatives which are championed by our CEO and our employees across the Company.

Additional information on how we are integrating economic and environmental actions to support sustainability can be found in our Green Report, which is produced annually and is available on our website at www.mtsallstream.com.

FINANCIAL STATEMENTS AND OTHER RELATED INFORMATION

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Manitoba Telecom Services Inc. (“MTS”) and all the information in the Management’s Discussion and Analysis are the responsibility of management. 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.

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. In management’s opinion, these consolidated financial statements fairly present, in all material respects, MTS’s consolidated financial position, results of operations and cash flows.

In fulfilling its responsibilities, management, under the direction of the Chief Executive Officer and the Chief Financial Officer, is responsible for developing and maintaining a system of internal controls, including systems and processes, policies and procedures, and segregation of duties and responsibilities. The system of internal controls is supported by an internal audit function that reports to the Audit Committee. This system is designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects, that assets are adequately accounted for and safeguarded, transactions are properly authorized and recorded, and that the financial records are reliable for preparing the financial information included in the Management’s Discussion and Analysis.

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

The Board of Directors is responsible for overseeing management’s responsibility for financial reporting and for reviewing and approving the consolidated financial statements. It carries out its responsibility for the consolidated financial statements and the Management’s Discussion and Analysis principally through its Audit Committee.

The Audit Committee, which is comprised of independent directors, monitors MTS’s financial reporting functions and related internal control and management information systems. The Audit Committee has responsibility for establishing a governance process over the engagement of the external auditors; including the establishment of an *Auditor Independence Policy* and the requirement for pre–approval of all audit and 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 MTS’s Annual Information Form.

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 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

Donald H. Penny, C.M., FCA, LL.D.
Chair of the Audit Committee

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Manitoba Telecom Services Inc.

We have audited the accompanying consolidated financial statements of Manitoba Telecom Services Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of net income and comprehensive income, (deficit) retained earnings, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated finanical statements present fairly, in all material respects, the financial position of Manitoba Telecom Services Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
February 10, 2011
Winnipeg, Manitoba

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

Years ended December 31

(in millions, except earnings per share)	2010	2009
Operating revenues	**$ 1,780.9**	$ 1,815.2
Operating expenses		
Operations	**1,183.6**	1,201.4
Restructuring and transition (Note 2)	**25.5**	51.7
Amortization	**336.1**	322.7
	1,545.2	1,575.8
Operating income	**235.7**	239.4
Other income	**5.7**	8.7
Goodwill revaluation (Note 8)	**(14.1)**	–
Debt charges	**(69.9)**	(59.5)
Income before income taxes	**157.4**	188.6
Income tax expense (Note 3)		
Current	**0.4**	(1.0)
Future	**54.9**	85.7
	55.3	84.7
Income before discontinued operations	**102.1**	103.9
Loss from discontinued operations, net of tax (Note 4)	**(2.4)**	(2.2)
Net income and comprehensive income for the year	**$ 99.7**	$ 101.7
Basic and diluted earnings per share (Note 13)		
Income before discontinued operations	**$ 1.58**	$ 1.61
Net Income	**$ 1.54**	$ 1.57

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF (DEFICIT) RETAINED EARNINGS

Years ended December 31

(in millions)	2010	2009
Retained earnings, beginning of year	$ 30.4	$ 96.8
Net income for the year	99.7	101.7
Dividends declared	(139.3)	(168.1)
(Deficit) retained earnings, end of year	$ (9.2)	$ 30.4

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED BALANCE SHEETS

December 31

(in millions)	2010	2009
Assets		
Current assets		
Cash and cash equivalents	**$ 50.0**	$ 110.2
Accounts receivable (Note 15)	**152.3**	166.2
Future income taxes (Note 3)	**71.2**	79.0
Other current assets (Note 5)	**58.5**	58.0
Assets held for sale (Note 4)	**–**	18.6
	332.0	432.0
Capital assets (Note 6)	**1,722.5**	1,643.3
Other assets (Note 7)	**477.2**	417.2
Future income taxes (Note 3)	**315.9**	362.1
Goodwill (Note 8)	**27.7**	41.8
	$ 2,875.3	$ 2,896.4
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 15)	**$ 376.8**	$ 349.1
Advance billings and payments	**55.3**	52.5
Current portion of long–term debt (Note 10 and 15)	**220.0**	11.9
Current portion of capital lease obligations (Note 11)	**4.9**	4.2
Liabilities related to assets held for sale (Note 4)	**–**	9.0
	657.0	426.7
Long–term debt (Note 10 and 15)	**820.6**	1,039.6
Long–term portion of capital lease obligations (Note 11)	**11.5**	13.4
Deferred employee benefits	**44.7**	43.1
Other long–term liabilities (Note 12 and 15)	**53.9**	55.5
Future income taxes (Note 3)	**1.1**	1.2
	1,588.8	1,579.5
Shareholders' equity		
Share capital (Note 13)	**1,275.0**	1,266.9
Contributed surplus (Note 14)	**20.7**	19.6
(Deficit) retained earnings	**(9.2)**	30.4
	1,286.5	1,316.9
	$ 2,875.3	$ 2,896.4

Approved on behalf of the Board

David Leith
Chair

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

MANITOBA TELECOM SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

(in millions)	**2010**	2009
Cash flows from operating activities		
Income before discontinued operations	**$ 102.1**	$ 103.9
Add (deduct) items not affecting cash		
Amortization	**336.1**	322.7
Future income taxes (Note 3)	**54.9**	85.7
Goodwill revaluation (Note 8)	**14.1**	–
Gain on sale of intangible assets	**–**	(3.1)
Deferred wireless costs	**(50.0)**	(46.7)
Pension funding and net pension expense	**(58.4)**	(80.3)
Other, net	**1.0**	(0.8)
Changes in non–cash working capital	**55.7**	(117.6)
Cash flows from operating activities	**455.5**	263.8
Cash flows from investing activities		
Capital expenditures, net	**(364.6)**	(295.2)
Acquisition	**–**	(2.1)
Net proceeds from sale of intangible assets	**–**	1.4
Other, net	**(4.3)**	(2.0)
Cash flows used in investing activities	**(368.9)**	(297.9)
Cash flows from financing activities		
Dividends paid	**(153.7)**	(168.1)
Repayment of long–term debt	**(11.9)**	(220.0)
Issuance of long–term debt	**–**	625.0
Repayment of notes payable, net	**–**	(95.0)
Issuance of share capital (Note 13)	**8.1**	0.9
Other, net	**(0.2)**	(5.0)
Cash flows (used in) from financing activities	**(157.7)**	137.8
Cash flows before discontinued operations	**(71.1)**	103.7
Cash flows from discontinued operations (Note 4)	**10.9**	–
Change in cash and cash equivalents	**(60.2)**	103.7
Cash and cash equivalents, beginning of year	**110.2**	6.5
Cash and cash equivalents, end of year	**$ 50.0**	$ 110.2

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 transition costs, and income taxes.

Revenue recognition

Revenues from local, data connectivity, Internet, information technology ("IT") services and digital television services are recognized in the period in which the services are provided. 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

Cash and cash equivalents 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, 2010 was 6.3% (2009 – 6.5%).

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, other contractual relationships, deferred wireless costs, installation costs, and specific software costs, 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 $99.3 million in 2010 (2009 – $92.9 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.

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.

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 loss in operations expense of $0.3 million (2009 – $4.0 million) during the year ended December 31, 2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the 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 at the measurement date. The expected return on plan assets is based on a market–related value of pension fund assets. Market–related values of pension fund assets are calculated using a four–year moving average of year–end market values. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the market–related value of plan assets is amortized over the expected average remaining service life of active employees, except for the post–retirement medical and dental benefits programs where the average remaining life expectancy of former employees is used in the determination of the amortization period. Where applicable, past service costs for defined benefit plans are amortized on a straight–line basis over the remaining service period of participating employees expected to receive benefits. Transitional assets and obligations, arising upon implementation of the recommendations in CICA Handbook Section 3461, Employee Future Benefits, are amortized on a straight–line basis over the expected average remaining service life of active employees.

Financial Instruments

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

- Cash and cash equivalents 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; and
- 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 fair value. The fair value of financial assets designated as held–for–trading are determined based on quoted prices in active markets for identical assets, per Level I of the fair value hierarchy. 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 $1,111.0 million (2009 – $1,117.0 million) as at December 31, 2010. 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 10.

2. RESTRUCTURING AND TRANSITION

During the years ended December 31, 2010 and 2009, the Company recorded net restructuring and transition expenses as follows:

	2010	2009
Restructuring		
Workforce	**15.4**	12.8
Other	**20.1**	20.8
	35.5	33.6
Wireless transition	**(10.0)**	18.1
	25.5	51.7

The liability for restructuring costs as at December 31, 2010 is as follows:

Balance December 31, 2009	**13.9**
2010 restructuring costs, net of a $1.8 million reversal of previously recorded costs	**35.5**
Less:	
Cash payments	**(29.9)**
Adjustments to existing real estate facility consolidation reserves	**(1.2)**
Balance December 31, 2010	**18.3**

Restructuring activities are aimed at achieving further process improvements and overall expense reductions, and include costs for severance and other employee–related expenses that supported workforce reduction initiatives undertaken throughout the period, real estate facility consolidation charges, as well as costs to review and improve efficiencies in current processes. Also included are other non–recurring amounts associated with the high–speed packet access deployment and related billing implementation, as well as certain legal costs to appeal a court decision relating to one of the Company's pension plans.

Wireless transition includes costs of transitioning certain wireless service requirements away from Bell Mobility to new suppliers and to the Company's wireless platform. The current year's wireless transition recovery of $10.0 million represents a one–time cash payment received as part of a comprehensive settlement agreement with Bell Mobility.

3. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate on income before discontinued operations is as follows:

	2010	2009
Combined basic federal and provincial statutory income tax rate	**30.3%**	32.0%
Goodwill revaluation not tax effected	**2.7**	–
Rate differential on temporary differences	**0.6**	5.0
Federal and provincial statutory tax rate reductions	**–**	9.2
Other items	**1.5**	(1.3)
Effective tax rate on income before discontinued operations	**35.1%**	44.9%

3. INCOME TAXES (continued)

The balances of future income taxes as at December 31, 2010 and December 31, 2009 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:

	2010	2009
Non–capital loss carryforwards	**214.9**	142.7
Property, plant and equipment	**269.7**	383.9
Employee benefits	**(97.2)**	(86.6)
Reserves not currently deductible	**(1.4)**	(0.1)
Net future income tax asset	**386.0**	439.9

Future income taxes are comprised of:

	2010	2009
Current future income tax asset	**71.2**	79.0
Long–term future income tax asset	**315.9**	362.1
Long–term future income tax liability	**(1.1)**	(1.2)
Net future income tax asset	**386.0**	439.9

During the year ended December 31, 2010, the Company paid $1.2 million in cash income taxes (2009 – recovered $2.0 million).

As at December 31, 2010, the Company had non–capital loss carryforwards available to reduce future years' taxable income, which expire as follows:

2014	**22.0**
2025 and beyond	**799.7**
	821.7

4. DISCONTINUED OPERATIONS

On January 31, 2010, the Company sold the majority of its non–telecommunications information technology consulting group, which was a line of business within Allstream, to PricewaterhouseCoopers Canada for cash proceeds of $12.0 million. The sale was finalized on December 17, 2010. The financial results attributable to this line of business have been presented as discontinued operations.

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

	2010	2009
Revenue	**2.9**	51.2
(Loss) income from discontinued operations before income taxes	**(1.1)**	0.1
Loss on sale of discontinued operations before income taxes	**(2.3)**	–
Costs related to sale	**–**	(2.8)
Future income tax recovery related to discontinued operations	**1.0**	0.5
Loss from discontinued operations, net of tax	**(2.4)**	(2.2)

4. DISCONTINUED OPERATIONS (continued)

The following table provides further information on the composition of assets and liabilities held for sale:

	2010	2009
Assets		
Current assets	**–**	17.7
Property, plant and equipment, net	**–**	0.9
Assets held for sale	**–**	18.6
Liabilities		
Current liabilities	**–**	9.0
Liabilities related to assets held for sale	**–**	9.0

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

	2010	2009
Cash flows (used in) from operating activities	**(1.1)**	0.1
Cash flows from (used in) investing activities	**12.0**	(0.1)
Cash flows from discontinued operations	**10.9**	–

5. OTHER CURRENT ASSETS

	2010	2009
Prepaid expenses	**33.1**	34.1
Inventories	**25.4**	23.9
	58.5	58.0

The Company performs periodic reviews of inventory for obsolescence and, during the year ended December 31, 2010, expensed $2.2 million in obsolete inventory (2009 – $1.8 million). During the year ended December 31, 2010, the Company expensed $41.0 million of inventory relating to cost of goods sold (2009 – $43.2 million).

6. CAPITAL ASSETS

The following table provides details of the Company's capital assets:

	2010			2009		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Property, plant and equipment						
Network equipment and outside plant	**3,092.6**	**2,046.9**	**1,045.7**	2,924.6	1,913.6	1,011.0
General equipment and other	**453.7**	**341.0**	**112.7**	435.1	319.7	115.4
Buildings	**276.2**	**164.7**	**111.5**	267.7	152.9	114.8
Equipment under capital lease	**1.7**	**0.7**	**1.0**	5.4	1.0	4.4
Plant under construction	**156.2**	**–**	**156.2**	93.3	–	93.3
Materials and supplies	**13.0**	**–**	**13.0**	17.0	–	17.0
Land	**6.4**	**–**	**6.4**	6.3	–	6.3
	3,999.8	**2,553.3**	**1,446.5**	3,749.4	2,387.2	1,362.2
Intangible assets						
Software	**339.4**	**202.1**	**137.3**	302.7	158.0	144.7
Deferred wireless costs	**114.1**	**54.4**	**59.7**	86.2	33.4	52.8
Other deferred installation costs	**36.0**	**20.8**	**15.2**	34.0	17.9	16.1
Customer contracts and relationships	**26.3**	**14.4**	**11.9**	29.5	14.0	15.5
Other contractual relationships	**1.3**	**0.8**	**0.5**	1.3	0.7	0.6
Spectrum licenses	**48.5**	**–**	**48.5**	48.5	–	48.5
Broadcasting certificate	**2.9**	**–**	**2.9**	2.9	–	2.9
	568.5	**292.5**	**276.0**	505.1	224.0	281.1
Total	**4,568.3**	**2,845.8**	**1,722.5**	4,254.5	2,611.2	1,643.3

7. OTHER ASSETS

	2010	2009
Pension asset (Note 17)	**434.2**	374.9
Investment tax credits receivable	**21.9**	17.8
Long–term prepaid costs	**16.9**	18.9
Other long–term assets	**4.2**	5.5
Long–term disability fund, at cost	**–**	0.1
	477.2	417.2

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

The market value of the long–term disability fund was $3.0 million as at December 31, 2010 (2009 – $3.5 million).

8. GOODWILL

During the year ended December 31, 2010, the Company recorded a $14.1 million goodwill revaluation charge which reduced the carrying value of goodwill for its Allstream unit to nil based on annual impairment testing. This charge results from the negative impact of the economic downturn on Allstream's operations.

9. NOTES PAYABLE

As at December 31, 2010, the Company has a $400 million bank credit facility with a syndicate of financial institutions which is used for cash management purposes, the issuance of letters of credit and to support the Company's $150 million commercial paper program. As at December 31, 2010, the Company had $111.9 million in undrawn letters of credit outstanding under this facility. The Company also has a $150 million credit facility with a financial institution which is used solely for the issuance of letters of credit. As at December 31, 2010, the Company had $27.9 million in undrawn letters of credit outstanding under this facility. The Company paid short-term interest costs of nil (2009 – $2.5 million) for the year ended December 31, 2010.

10. LONG-TERM DEBT

	2010	2009
Medium Term Note, 8.625%, due September 8, 2010	**–**	11.9
Medium Term Note, 5.20%, due September 27, 2011	**220.0**	220.0
Medium Term Note, 5.05%, due May 11, 2012	**100.0**	100.0
Loan payable, 6.59%, due May 14, 2014	**75.0**	75.0
Medium Term Note, 6.15%, due June 10, 2014	**200.0**	200.0
Medium Term Note, 6.65%, due May 11, 2016	**250.0**	250.0
Medium Term Note, 5.625%, due December 16, 2019	**200.0**	200.0
	1,045.0	1,056.9
Less: deferred costs associated with the issuance of long-term debt	**(4.4)**	(5.4)
	1,040.6	1,051.5
Less: current portion of long-term debt	**(220.0)**	(11.9)
	820.6	1,039.6

During the year ended December 31, 2010, the Company incurred interest expense on long-term debt, including amortization of debt issue costs, of $64.0 million (2009 – $47.6 million) and paid interest on long-term debt of $62.7 million (2009 – $43.5 million).

11. CAPITAL LEASE OBLIGATIONS

The Company's future minimum lease payments under capital leases as at December 31, 2010 are summarized in the following table:

2011	**4.9**
2012	**2.6**
2013	**2.6**
2014	**2.7**
2015	**2.8**
2016 and thereafter	**2.9**
Total minimum lease payments	**18.5**
Less: imputed interest at 4.78%	**(2.1)**
Balance of the obligations	**16.4**
Less: current portion of capital lease obligations	**(4.9)**
	11.5

Interest expense on capital leases totaled $0.7 million in 2010 (2009 – $0.8 million).

12. OTHER LONG–TERM LIABILITIES

	2010	2009
Deferred gain on sale–leaseback of buildings	**20.2**	21.9
Deferred revenue	**10.6**	10.1
Rights–of–way and network access contracts	**5.8**	7.4
Asset retirement obligations — long–term portion	**4.1**	5.1
Other	**13.2**	11.0
	53.9	55.5

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 as at December 31, 2010, $1.7 million has been classified as current.

A reconciliation of the asset retirement obligation is provided below:

	2010	2009
Balance, beginning of year	**7.4**	7.4
Liabilities settled	**(0.8)**	(0.4)
Accretion expense	**0.3**	0.4
Balance, end of year	**6.9**	7.4
Less: current portion	**(2.8)**	(2.3)
	4.1	5.1

The undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately $11.6 million (2009 – $11.6 million). A credit adjusted interest rate ranging from 5.53% to 5.93% (2009 – 5.53% to 5.93%) was used to calculate the present value of the asset retirement obligations, over periods ranging from one month to 41 years (2009 – one month to 42 years).

13. 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.

13. SHARE CAPITAL (continued)

Class B Preference Shares

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

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

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

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

Common Shares

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

During the year ended December 31, 2010, the Company established a Dividend Reinvestment Plan and Share Purchase Plan ("the Plan") which enables eligible holders of its Common Shares to automatically reinvest their regular quarterly dividends in additional Common Shares of the Company. Participants in the Plan also have the option to make cash payments to purchase additional Common Shares. The shares are issued from treasury at a discount of 3% from the average market price.

Issued	**2010**		2009	
	Number	**Value**	Number	Value
Common Shares				
Balance, beginning of year	**64,667,817**	**1,266.9**	64,637,917	1,265.8
Issued pursuant to the Plan	**280,818**	**7.8**	–	–
Issued pursuant to stock options	**11,000**	**0.3**	29,900	1.1
Balance, end of year	**64,959,635**	**1,275.0**	64,667,817	1,266.9

During the year ended December 31, 2010, 280,818 Common Shares were issued as a result of participation in the Plan in exchange for $7.8 million, which was credited to share capital.

During the year ended December 31, 2010, 11,000 stock options were exercised for cash consideration of $0.3 million which was credited to share capital. During the year ended December 31, 2009, 29,900 stock options were exercised for cash consideration of $0.9 million, of which $1.1 million was credited to share capital and $0.2 million was charged to contributed surplus.

13. SHARE CAPITAL (continued)

Earnings per share reconciliation

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

	2010	2009
Net income – basic and diluted		
Income before discontinued operations	**102.1**	103.9
Loss from discontinued operations, net of tax	**(2.4)**	(2.2)
Net income	**99.7**	101.7

Weighted average shares outstanding (in millions)		
Weighted average number of shares outstanding – basic and diluted	**64.7**	64.7

Earnings per share – basic and diluted ($)		
Income before discontinued operations	**1.58**	1.61
Loss from discontinued operations, net of tax	**(0.04)**	(0.04)
Net income	**1.54**	1.57

14. CONTRIBUTED SURPLUS

	2010	2009
Contributed surplus, beginning of year	**19.6**	19.4
Stock option expense	**1.1**	0.4
Exercise of stock options	**–**	(0.2)
Contributed surplus, end of year	**20.7**	19.6

15. 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:

	2010	2009
0–30 days	**101.9**	100.8
31–60 days	**39.3**	44.0
61–90 days	**6.8**	9.2
Past 90 days	**4.3**	12.2
Accounts receivable outstanding	**152.3**	166.2

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.

15. FINANCIAL INSTRUMENTS (continued)

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

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

	2010	2009
Balance, beginning of the year	**11.0**	9.6
(Decrease) increase in allowance (net of recoveries and accounts written–off)	**(3.5)**	1.4
Balance, end of the year	**7.5**	11.0

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:

2010	**Less than 1 year**	**1 – 2 years**	**2 – 3 years**	**3+ years**
Accounts payable and accrued liabilities	**376.8**	**–**	**–**	**–**
Long–term debt, including current portion	**220.0**	**99.5**	**–**	**721.1**
Other long–term liabilities	**–**	**12.1**	**7.3**	**34.5**
	596.8	**111.6**	**7.3**	**755.6**

2009	Less than 1 year	1 – 2 years	2 – 3 years	3+ years
Accounts payable and accrued liabilities	349.1	–	–	–
Long–term debt, including current portion	11.9	218.9	99.4	721.3
Other long–term liabilities	–	12.7	7.5	35.3
	361.0	231.6	106.9	756.6

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, 2010, the Company has outstanding foreign currency forward contracts to purchase $48.6 million U.S. (2009 – $60.6 million U.S.). During the year ended December 31, 2010, the Company recorded a $0.3 million recovery of expense in other income relating to the adjustment of outstanding foreign currency forward contracts to fair value. These contracts mature periodically beginning in January 2011 and ending in December 2011. During the year ended December 31, 2009, the Company recorded a $0.7 million loss 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.

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, 2010, the Company contributed $2.8 million (2009 – $3.0 million) to this plan. During the year, all Common Shares purchased on behalf of employees under this plan were purchased at fair market value.

16. STOCK–BASED COMPENSATION (continued)

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 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:

	2010		2009	
	Number of shares	**Weighted average exercise price per share**	Number of shares	Weighted average exercise price per share
Outstanding, beginning of year	**2,321,835**	**40.70**	2,173,940	42.00
Granted	**866,215**	**33.67**	381,695	34.24
Exercised	**(11,000)**	**25.35**	(29,900)	30.67
Terminated	**(149,560)**	**41.72**	(203,900)	43.41
Outstanding, end of year	**3,027,490**	**38.70**	2,321,835	40.70
Exercisable, end of year	**1,525,919**	**41.30**	1,246,940	41.21

Year granted	**Options outstanding**	**Options exercisable**	**Weighted average exercise price per share**	**Range of exercise price per share**	**Expiry date**
2010	**866,215**	**–**	**33.67**	**33.67**	**2020**
2009	**357,835**	**72,879**	**34.19**	**32.93 – 35.19**	**2019**
2008	**374,200**	**162,400**	**42.24**	**42.24**	**2018**
2007	**282,000**	**178,800**	**47.34**	**47.03 – 49.37**	**2017**
2006	**200,900**	**165,500**	**39.37**	**38.78 – 46.85**	**2016**
2005	**575,500**	**575,500**	**42.31**	**40.44 – 49.03**	**2015**
2004	**126,280**	**126,280**	**45.61**	**45.61**	**2014**
2003	**93,760**	**93,760**	**34.83**	**34.75 – 35.81**	**2013**
2002	**95,600**	**95,600**	**34.19**	**33.58 – 34.71**	**2012**
2001	**55,200**	**55,200**	**37.03**	**36.42 – 38.81**	**2011**

16. STOCK–BASED COMPENSATION (continued)

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:

	2010	2009
Risk–free interest rate	**3.0%**	2.4%
Expected volatility	**20.18%**	20.56%
Expected dividend yield	**7.95%**	7.62%
Expected life (years)	**6**	6
Weighted average grant date fair value	**$1.75**	$2.03

17. EMPLOYEE FUTURE BENEFITS

The Company and its subsidiaries provide pension, supplemental pension and other non–pension 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 two defined contribution pension plan that covers certain employees of the Company. One plan requires the Company to contribute on behalf of each member an amount equal to 2.5% of the member's earnings. The second plan, which was implemented in 2010 for certain Manitoba based employees, requires members to contribute a minimum of 1% to a maximum of 9% of earnings. The Company is required to match member contributions subject to limits that vary by years of continuous service. The Company also provides supplemental pension arrangements and other non–pension 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.

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, 2010. The next funding valuations are required to be completed as at January 1, 2011. Future funding requirements will depend on the results of annual actuarial funding valuations which are affected by various factors, such as actuarial experience of the plans, return on plan assets and interest rate fluctuations.

In 2006, the Government of Canada 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 continued to fund two of its defined benefit plans under the *Solvency Funding Relief Regulations*. To facilitate the solvency funding relief, the Company has arranged for $110.2 million (2009 – $110.2 million) in letters of credit to be held by RBC Dexia Investor Services Trust, the trustee for the defined benefit pension plans. In 2009, the Federal Government once again enacted temporary solvency relief, the *Solvency Funding Relief Regulations, 2009*, which enabled companies to fund any new solvency deficiency over a period of 10 years. The Company funded one of its defined benefit plans in 2009 under the *Solvency Funding Relief Regulations, 2009*; however, this portion of Company funding reverted back to five year amortization in 2010. Commencing in 2011, new Federal pension regulations are expected to enable the use of letters of credit to meet solvency funding requirements.

17. EMPLOYEE FUTURE BENEFITS (continued)

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	
	2010	2009	**2010**	2009
Current service cost	**23.1**	17.9	**2.1**	1.8
Interest on accrued benefit obligation	**111.9**	112.6	**1.5**	1.5
Actual return on plan assets	**(156.3)**	(256.7)	**(0.1)**	(0.3)
Actuarial loss on accrued benefit obligation	**209.0**	156.7	**1.9**	1.6
Difference between expected return and actual return on plan assets for the year	**19.0**	120.7	**(0.2)**	–
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefit obligation for the year	**(189.5)**	(153.1)	**(2.0)**	(1.8)
Difference between amortization of past service costs for the year and actual past service costs for the year	**0.1**	0.1	**–**	–
Amortization of transitional asset	**(10.9)**	(10.9)	**(0.1)**	–
Benefit expense (credit)	**6.4**	(12.7)	**3.1**	2.8

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	
	2010	2009	**2010**	2009
Accrued benefit obligation, beginning of year	**1,882.0**	1,696.0	**25.4**	23.4
Current service cost	**23.1**	17.9	**2.1**	1.8
Employee contributions	**12.0**	12.5	**–**	–
Interest on accrued benefit obligation	**111.9**	112.6	**1.5**	1.5
Actuarial loss on accrued benefit obligation	**209.0**	156.7	**1.9**	1.6
Benefit payments and transfers	**(138.3)**	(113.7)	**(2.5)**	(2.9)
Accrued benefit obligation, end of year	**2,099.7**	1,882.0	**28.4**	25.4
Fair value of plan assets, beginning of year	**1,779.0**	1,555.8	**3.3**	3.9
Employee contributions	**12.0**	12.5	**–**	–
Employer contributions	**64.7**	67.7	**2.1**	2.0
Actual return on plan assets	**156.3**	256.7	**0.1**	0.3
Benefit payments and transfers	**(138.3)**	(113.7)	**(2.5)**	(2.9)
Fair value of plan assets, end of year	**1,873.7**	1,779.0	**3.0**	3.3
Plan deficit	**(226.0)**	(103.0)	**(25.4)**	(22.1)
Unamortized net actuarial loss (gain)	**683.7**	513.2	**0.2**	(1.9)
Unamortized past service costs	**0.3**	0.3	**–**	–
Unamortized net transitional asset	**(38.0)**	(48.9)	**(0.3)**	(0.4)
Accrued benefit asset (liability), end of year	**420.0**	361.6	**(25.5)**	(24.4)
Accrued benefit asset — recorded in Other assets	**434.2**	374.9	**–**	0.1
Accrued benefit liability — recorded in Deferred employee benefits	**(14.2)**	(13.3)	**(25.5)**	(24.5)
Accrued benefit asset (liability), end of year	**420.0**	361.6	**(25.5)**	(24.4)

17. EMPLOYEE FUTURE BENEFITS (continued)

For defined benefit pension plans with accrued benefit obligations that were more than plan assets, the accrued benefit obligations as at December 31, 2010 were $2,099.7 million (2009 – $1,882.0 million) and the fair value of the plan assets as at December 31, 2010 were $1,873.7 million (2009 – $1,779.0 million).

Total cash payments for pension and other post–retirement benefits for 2010, consisting of cash contributed by the Company to its funded pension plans, other post–retirement benefit plans and the defined contribution plan were $69.5 million (2009 – $73.0 million).

The plans' assets are comprised of:

	2010	2009
Equity securities	**56%**	55%
Debt securities	**39%**	39%
Real estate	**5%**	6%
	100%	100%

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

	Pension benefits		**Other benefits**	
	2010	2009	**2010**	2009
Accrued benefit obligation				
Discount rate on accrued benefit obligation	**5.25%**	6.00%	**5.00–5.25%**	5.75–6.00%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Net benefit expense (credit)				
Discount rate	**6.00%**	6.75%	**5.75–6.00%**	6.50–6.75%
Expected long–term rate of return on plan assets	**7.25%**	7.25%	**7.25%**	7.25%
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, 2010 amounts to $2.7 million (2009 – $3.3 million).

18. SEGMENTED INFORMATION

On January 1, 2010, the Company announced changes to its organizational structure. Under this new structure, the Company renamed its reportable operating segments as MTS and Allstream. MTS provides a full range of wireless, broadband Internet and data, digital television, wireline voice services, and security and alarm monitoring services to residential and business customers in Manitoba. Allstream provides Internet protocol–based communications, unified communications, voice and data connectivity, and security services to business customers in Canada. Accordingly, segmented information for 2010 and 2009 is provided under this new basis of segmentation.

The Company evaluates performance based on EBITDA (earnings before interest, taxes, amortization, and other income). 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 table provides further segmented information:

	MTS		Allstream		Other		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Operating revenue								
External	**940.3**	923.7	**840.6**	891.5	**–**	–	**1,780.9**	1,815.2
Internal	**0.3**	0.5	**–**	–	**37.9**	36.0	**38.2**	36.5
EBITDA	**488.3**	483.9	**86.8**	85.4	**(3.3)**	(7.2)	**571.8**	562.1
Restructuring and transition	**1.5**	14.1	**20.3**	30.9	**3.7**	6.7	**25.5**	51.7
Amortization	**238.7**	223.1	**97.0**	99.1	**0.4**	0.5	**336.1**	322.7
Goodwill	**27.7**	10.4	**–**	31.4	**–**	–	**27.7**	41.8
Assets	**1,951.9**	1,788.2	**1,760.5**	1,772.1	**139.9**	236.5	**3,852.3**	3,796.8
Capital expenditures, net	**234.0**	182.4	**129.9**	111.0	**0.7**	1.8	**364.6**	295.2

Reconciliations to consolidated net income and assets are as follows:

	2010	2009
Consolidated net income		
Total EBITDA	**571.8**	562.1
Amortization	**(336.1)**	(322.7)
Other income	**5.7**	8.7
Goodwill revaluation	**(14.1)**	–
Debt charges	**(69.9)**	(59.5)
Income tax expense	**(55.3)**	(84.7)
Income before discontinued operations	**102.1**	103.9
Loss from discontinued operations, net of tax	**(2.4)**	(2.2)
	99.7	101.7
Consolidated assets		
Assets for operating segments	**3,852.3**	3,796.8
Eliminations	**(1,364.1)**	(1,360.1)
Future income taxes	**387.1**	441.1
Assets held for sale	**–**	18.6
	2,875.3	2,896.4

19. CAPITAL STRUCTURE FINANCIAL POLICIES

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, including 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.

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

	2010	2009
Cash and cash equivalents	**(50.0)**	(110.2)
Capital lease obligations, including current portion	**16.4**	17.6
Long–term debt, including current portion	**1,040.6**	1,051.5
Total debt	**1,007.0**	958.9
Shareholders' equity	**1,286.5**	1,316.9
Total capitalization	**2,293.5**	2,275.8
Debt to capitalization	**43.9%**	42.1%

The Company must be in compliance with various debt covenants. Under the terms of its bank credit facility, the Company is required to maintain a minimum specified interest coverage ratio, as well as not exceed a specified level of debt to EBITDA. In regards to its medium term notes, the Company is required to maintain a minimum ratio of earnings before interest and taxes over debt charges, as well as to not 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, 2010 are summarized in the following table:

	2011	**2012**	**2013**	**2014**	**2015**	**Beyond**	**Total**
Long–term debt	**220.0**	**100.0**	**–**	**275.0**	**–**	**450.0**	**1,045.0**
Capital lease obligations	**4.9**	**2.6**	**2.6**	**2.7**	**2.8**	**2.9**	**18.5**
Operating leases	**56.6**	**54.9**	**51.6**	**48.7**	**46.1**	**269.3**	**527.2**
Purchase obligations	**126.0**	**100.3**	**77.8**	**12.6**	**0.7**	**1.7**	**319.1**
Total	**407.5**	**257.8**	**132.0**	**339.0**	**49.6**	**723.9**	**1,909.8**

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 provided the regulatory framework for local rates charged to residential and business customers and the rates that incumbent telephone companies charged their competitors. As part of this framework, the CRTC established a regulatory deferral account. On January 17, 2008, the CRTC issued *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2008–1, which required the funds that were accumulated in the Company's deferral account to 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 or credits. Aspects of Decision 2008–1, including the requirement for rate reductions or credits, were appealed to the Federal Court and then the Supreme Court of Canada by Bell Canada, TELUS Communications Inc. and the Public Interest Advocacy Centre with a decision by the Supreme Court ultimately upholding the CRTC's decision on September 18, 2009. On August 31, 2010, the CRTC issued *Follow–up to Telecom Decision 2008–1 – Proposal by MTS Allstream Inc*. to dispose of the funds remaining in its deferral account, Telecom Decision CRTC 2010–638. As a result of the decision, the estimated balance of the Company's deferral account is approximately $21 million and the Company's liability relating to the customer rebates is $8.5 million.

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, 2010, the Company had $139.8 million in undrawn letters of credit outstanding.

Contingencies

In September 1999, three of the Company's unions and a retiree suing on behalf of other retirees and their surviving spouses filed a claim in the Court of Queen's Bench of Manitoba against the Company in respect of the Manitoba Telecom Services Inc. and Participating Subsidiaries Employee Pension Plan (the "Pension Plan"). This claim sought various declarations to the effect that the Company was not entitled to use any portion of the surplus in the Pension Plan to reduce contributions, and that such utilization by the Company was a breach of the Company's obligations to its employees and former employees. The claim also sought, among other things, a mandatory order directing the Company to reimburse the Pension Plan for all amounts of the surplus that the Company has used to reduce its contributions, as well as an injunction prohibiting the Company from utilizing any future surplus in the Pension Plan.

The Company filed a statement of defence in this action in December 1999. This matter proceeded to trial in the fall of 2008, and the Company received a decision from the Court on January 19, 2010. In its decision, the Court upheld the governance of the pension plan and affirmed the position of the Company with respect to the issue of ongoing surplus. As a result, there will be no changes to the Company's expected future ongoing funding requirements and administration of the Pension Plan. The Court also ruled that the Company was obligated to make a $43 million one–time payment, retroactive to 1997, the year the Company was privatized and the Pension Plan was implemented, plus interest from that date at the effective rate of return earned by the Pension Plan during this period. The appeal of this decision was heard on December, 2010. A decision is not expected until 2011. Pending the outcome of this appeal, the financial implications of the Court's decision could result in a one–time future payment of approximately $100 million. This would be comprised of $43 million plus interest calculated at a rate equal to the Pension Plan's rate of return since 1997. The Company expects that such a payment, if any, would not be required until all appeals have been determined. There will be no increase to the Company's ongoing pension funding requirements as a result of this decision.

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 customers. 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)	2010[1]	2009[1]	2008[1]	2007[1,2]	2006[1,2]
Consolidated operations					
Total operating revenues[8]	**1,780.9**	1,815.2	1,873.4	1,863.8	1,887.1
Total operating expenses[8]	**1,545.2**	1,575.8	1,581.7	1,518.3	1,598.1
Operating income[8]	**235.7**	239.4	291.7	345.5	289.0
Debt charges	**69.9**	59.5	48.9	51.7	60.6
Income before discontinued operations	**102.1**	103.9	147.4	173.1	102.4
(Loss) income from discontinued operations	**(2.4)**	(2.2)	(3.4)	(3.4)	197.0
Net income	**99.7**	101.7	144.0	169.7	299.4
Basic earnings per share, before discontinued operations ($)	**1.58**	1.61	2.28	2.66	1.51
Basic earnings per share ($)	**1.54**	1.57	2.23	2.61	4.40
EBITDA[3, 8]	**571.8**	562.1	621.1	663.2	618.9
Dividends	**139.3**	168.1	168.0	168.3	176.9
Capital expenditures, net	**364.6**	295.2	335.4	310.2	268.4
Continuing operations[4]					
Operating revenues[8]	**1,775.9**	1,828.7	1,873.4	1,864.6	1,877.2
Net income	**130.5**	171.0	195.8	191.3	174.9
Basic earnings per share ($)	**2.02**	2.64	3.03	2.94	2.57
EBITDA[8]	**592.3**	627.3	669.0	661.6	659.1
Free cash flow	**193.2**	233.5	266.2	264.1	297.5
Consolidated balance sheet					
Total assets	**2,875.3**	2,896.4	2,653.0	2,739.3	2,926.2
Property, plant and equipment, net book value	**1,446.5**	1,362.2	1,359.2	1,366.5	1,349.4
Long-term debt and notes payable[5]	**1,040.6**	1,051.5	745.2	739.5	845.9
Shareholders' equity	**1,286.5**	1,316.9	1,382.0	1,404.0	1,505.9
Debt to capitalization (%)	**43.9**	42.1	39.0	36.7	33.6

OPERATIONAL STATISTICS	2010	2009	2008	2007	2006
Long distance minutes (in thousands)	**8,290,666**	8,852,695	10,133,110	10,042,643	9,437,704
Cellular customers	**483,754**	458,478	434,776	394,463	355,261
Internet customers[6]	**202,081**	203,877	204,239	198,396	184,227
MTS TV customers	**89,967**	86,520	84,544	76,758	66,093
Number of employees[7]	**5,418**	5,837	6,055	5,906	5,951

1 On January 31, 2010, the Company sold the majority of its non-telecommunications information technology consulting group, which was a line of business within Allstream, to PricewaterhouseCoopers Canada. The sale was finalized on December 17, 2010. The financial results attributable to this line of business are presented for each of the years 2006 to 2010 as discontinued operations.

2 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 2005 and 2006 as discontinued operations.

3 Earnings before interest, taxes, amortization, equity losses, goodwill revaluation, other (expense) income, and discontinued operations.

4 Continuing operations is described in Management's Discussion and Analysis on page 8.

5 Includes current portion of long-term debt.

6 Includes consumer and business customers.

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

8 Prior year figures have been restated to conform with 2010 presentation.

BOARD OF DIRECTORS

David G. Leith
Chair of each of Manitoba Telecom Services Inc. and MTS Allstream Inc.
Mr. Leith has been a member of the MTS Board of Directors since 2009. He became Chair of the Board in January 2010.

Gregory J. Hanson, FCA, FCIP, FLMI
Corporate Director
Mr. Hanson has been a member of the MTS Board of Directors since 2007. He is a member of the Governance & Nominating Committee and the Human Resources & Compensation 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.

Kishore Kapoor, CA
President, Wellington West Holdings Inc.
Mr. Kapoor has been a member of the MTS Board of Directors since 2006. He is a member of the Audit 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.

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 Chair of the Audit Committee.

N. Ashleigh Everett
President and Corporate Secretary, Royal Canadian Securities Limited
Ms. Everett has been a member of the MTS Board of Directors since 1997. She is the Chair of the Governance & Nominating Committee and is a member of the Human Resources & Compensation Committee.

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

The Honourable Gary A. Filmon, P.C., O.C., O.M.
Corporate Director
Mr. Filmon has been a member of the MTS Board of Directors since 2003. He is the Chair of the Human Resources & Compensation Committee and is a member of the Governance & Nominating Committee.

Carol M. Stephenson, O.C.
Dean, Richard Ivey School of Business, University of Western Ontario
Ms. Stephenson has been a member of the MTS Board of Directors since 2008. She is a member of the Governance & Nominating Committee and the Human Resources & Compensation Committee.

H. Sanford Riley, C.M., J.D.*
Board Nominee
President and Chief Executive Officer, Richardson Financial Group Limited

* to be nominated for election to the Board at the Company's annual meeting on May 4, 2011.

OFFICERS OF THE COMPANY AND EXECUTIVE COMMITTEE

EXECUTIVE COMMITTEE

Pierre J. Blouin
Chief Executive Officer

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

Dean L. Prevost
President, Allstream

Christopher W. Peirce
Chief Corporate Officer

Kelvin A. Shepherd, P.Eng.
President, MTS

Helen Reeves
Chief Communications Officer

Wayne S. Demkey, CA
Chief Financial Officer

Aliana Rozenek
Chief Human Resources Officer

OFFICERS OF MANITOBA TELECOM SERVICES INC.

Pierre J. Blouin
Chief Executive Officer

Dean L. Prevost
President, Allstream

Kelvin A. Shepherd, P.Eng.
President, MTS

Wayne S. Demkey, CA
Chief Financial Officer

Christopher W. Peirce
Chief Corporate Officer

Paul A. Beauregard
Vice–President, General Counsel & Corporate Secretary

Brenda M. McInnes, CA
Vice–President & Treasurer

INVESTOR INFORMATION

HEAD OFFICE

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333 Main Street
Winnipeg, MB R3C 3V6

OPERATING SUBSIDIARIES

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

CONTACT INFORMATION

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or, visit the Investors section on our website at
www.mtsallstream.com

Media
e-mail: corporate.communications@mtsallstream.com
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Customer Care
MTS customers: (204) 225-5687 (CALLMTS) or
Toll-free outside Manitoba: 1-800-883-2054

Allstream customers: 1-888-288-2273
or, visit the Customer Care sections on our websites at
www.mts.ca/customercare or
www.allstream.com/customercare

TRANSFER AGENT AND REGISTRAR

For shareholder inquiries or services (including share transfers or dividends, address change, lost certificates), please contact our Transfer Agent and Registrar:

Computershare Investor Services Inc.
600, 530 – 8th Avenue SW
Calgary, AB T2P 3S8
1-800-564-6253

SHARE FACTS

Trading Symbol
MBT

Listing
The common shares of Manitoba Telecom Services Inc. are listed on the Toronto Stock Exchange.

Common Shares Outstanding
64,959,635 as of December 31, 2010

2011 Expected Dividend Schedule*

Record Date	Payment Date
June 15, 2011	July 15, 2011
September 15, 2011	October 14, 2011
December 15, 2011	January 13, 2012

*Subject to approval by the Board of Directors

2011 Expected Quarterly Earnings Release Dates **

First Quarter	May 4, 2011
Second Quarter	August 5, 2011
Third Quarter	November 3, 2011
Fourth Quarter	February 9, 2012

** Subject to change

Annual General Meeting
May 4, 2011
11:00 a.m. Central Time
Fort Garry Hotel, Winnipeg, MB

Multiple Mailings
If you receive duplicate copies of this Annual Report, please contact Computershare Investor Services Inc. at 1-800-564-6253.

Independent Auditors
Deloitte & Touche LLP, Winnipeg, MB

CORPORATE OFFICES

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M5V 3G2

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Montreal, QC
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Quebec City
2710, rue Einstein
Quebec, QC
G1P 4R5

Ottawa
45 O'Connor Street
Suite 1400
Ottawa, ON
K1P 1A4

Calgary
255–5th Avenue SW
Calgary, AB
T2P 3G6

Edmonton
10250–101st Street
Suite 1300
Edmonton, AB
T5J 3P4

Vancouver
175 West Cordova Street
Vancouver, BC
V6B 1E1

Halifax
Purdy's Wharf Tower 1
1959 Upper Water Street
Suite 205
Halifax, NS
B3J 3N2

We are a leading socially responsible corporate citizen with a reputation as a great place to work.

SOCIAL RESPONSIBILITY

A constituent of the Jantzi Social Index since 2000. The Index ranks the top socially responsible and environmentally progressive companies in Canada. Our employees and retirees volunteered more than 50,000 hours to community organizations in 2010.

ENVIRONMENTAL COMMITMENT

As documented in our Green Report (available for download at mtsallstream.com/greenreport) we continue to make progress toward our goal of reducing our impact on the environment.

CORPORATE GOVERNANCE

For 2010, *The Globe and Mail* ranked MTS Allstream in the top tier of the telecommunications sector for corporate governance.

A GREAT PLACE TO WORK

In 2010, we were named one of Canada's Top 100 Employers and one of Manitoba's Top 25 Employers. These awards identify us as one of Canada's best organizations to work for.

AN AWARD-WINNING COMPANY

10th Anniversary Edition 2000–2010 · Canada's Top 100 Employers 2010

Manitoba's Top 25 Employers as featured in the Winnipeg Free Press 2010

Manitoba's Top 20 Employers as featured in the Winnipeg Free Press 2009

JSI · JANTZI SOCIAL INDEX

Corporate Knights · THE CANADIAN MAGAZINE FOR RESPONSIBLE BUSINESS · corporateknights.ca

Canada's Best Diversity Employers 2010 · Presented by BMO Financial Group

CISCO PARTNER · Gold Certified

AVAYA · BUSINESSPARTNER · Platinum

MITEL · premierPARTNER

SUNGARD Availability Services · Business Partner Program · Premier Solution Provider

The Chamber · The Winnipeg Chamber of Commerce · BDO Chartered Accountants and Advisors · Spirit of Winnipeg Awards · 2011 RECIPIENT

WWW.MTSALLSTREAM.COM

ENVIRONMENTALLY RESPONSIBLE CHOICES:
At MTS Allstream, we are committed to reducing our impact on the environment and helping our customers, employees and stakeholders do the same. As part of that commitment, the papers selected for this report are certified by the Forest Stewardship Council (FSC), which means they come 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 100% post-consumer fibre. By using this cover paper, we are: saving 40,192 litres of wastewater / eliminating 730 kilograms of solid waste / preventing 2,439 kilograms of air emissions / saving 16 million BTUs of energy / preserving 28 trees.

Please consider the environment and recycle this report, which can also be viewed at:
www.mtsallstream.com/annualreport2010

*Statistics based on MTS Allstream 2011 financial outlook. Our 2011 financial outlook is based on International Financial Reporting Standards on a consolidated basis, whereas other areas of our annual report are reported in accordance with Canadian GAAP on a continuing operations basis. Please refer to our 2011 financial outlook news release dated December 15, 2010 for further explanation. Please note that these forward-looking statements reflected our expectations as of December 15, 2010. Actual results may differ from expectations. 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.

All figures are as of December 31, 2010.

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