

consolidated statements of income

Years ended December 31 (millions)	2004	2003
Operating Revenues	\$ 7,581.2	(restated – Note 2(b)) \$ 7,146.0
Operating Expenses		
Operations	4,438.0	4,301.9
Restructuring and workforce reduction costs (Note 5)	52.6	28.3
Depreciation	1,307.8	1,272.9
Amortization of intangible assets	335.3	379.9
	6,133.7	5,983.0
Operating Income	1,447.5	1,163.0
Other expense, net	8.7	23.3
Financing costs (Note 6)	613.3	639.3
Income Before Income Taxes and Non-Controlling Interest	825.5	500.4
Income taxes (Note 7)	255.1	172.7
Non-controlling interest	4.6	3.3
Net Income	565.8	324.4
Preference and preferred share dividends	1.8	3.5
Common Share and Non-Voting Share Income	\$ 564.0	\$ 320.9
Income Per Common Share and Non-Voting Share (\$) (Note 8)		
– Basic	1.58	0.92
– Diluted	1.57	0.91
Dividends Declared Per Common Share and Non-Voting Share (\$)	0.65	0.60
Total Weighted Average Common Shares and Non-Voting Shares Outstanding (millions)		
– Basic	355.3	349.3
– Diluted	357.6	351.8



The accompanying notes are an integral part of these consolidated financial statements.

consolidated statements of retained earnings

Years ended December 31 (millions)	2004	2003
Balance at Beginning of Year	\$ 741.7	\$ 630.4
Transitional amount for share-based compensation arising from share options (Note 2(a))	(25.1)	–
Adjusted opening balance	716.6	630.4
Net income	565.8	324.4
	1,282.4	954.8
Less: Common Share and Non-Voting Share dividends paid, or payable, in cash	204.7	165.8
Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury	26.9	43.8
Cost of purchase of Common Shares and Non-Voting Shares in excess of stated capital (Note 15(i))	38.6	–
Preference and preferred share dividends	1.8	3.5
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 15(b))	2.3	–
Balance at End of Year (Note 15)	\$ 1,008.1	\$ 741.7

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consolidated balance sheets

As at December 31 (millions)	2004	2003
		<i>(restated – Note 2(b))</i>
Assets		
Current Assets		
Cash and temporary investments, net	\$ 896.5	\$ 6.2
Accounts receivable (Notes 10, 17(b))	863.5	723.8
Income and other taxes receivable	132.5	187.4
Inventories	133.3	123.5
Prepaid expenses and other (Note 17(b))	183.4	172.4
Current portion of future income taxes (Note 7)	438.4	304.0
	2,647.6	1,517.3
Capital Assets, Net (Note 11)		
Property, plant, equipment and other	7,528.2	7,764.3
Intangible assets subject to amortization	737.0	844.7
Intangible assets with indefinite lives	2,955.8	2,954.6
	11,221.0	11,563.6
Other Assets		
Deferred charges (Note 17(b))	704.4	610.7
Future income taxes (Note 7)	99.8	626.0
Investments	38.4	41.9
Goodwill (Note 12)	3,126.8	3,118.0
	3,969.4	4,396.6
	\$ 17,838.0	\$ 17,477.5
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities (Note 17(b))	\$ 1,362.6	\$ 1,294.5
Restructuring and workforce reduction accounts payable and accrued liabilities (Note 5)	70.7	141.0
Dividends payable	–	53.5
Advance billings and customer deposits (Note 17(b))	531.5	445.0
Current maturities of long-term debt (Note 14)	4.3	221.1
	1,969.1	2,155.1
Long-Term Debt (Note 14)	6,332.2	6,609.8
Other Long-Term Liabilities (Note 17(b))	1,506.1	1,173.7
Future Income Taxes (Note 7)	991.9	1,007.0
Non-Controlling Interest	13.1	10.7
Shareholders' Equity (Note 15)		
Convertible debentures conversion option	8.8	8.8
Preference and preferred shares (Note 15(b))	–	69.7
Common equity	7,016.8	6,442.7
	7,025.6	6,521.2
	\$ 17,838.0	\$ 17,477.5
Commitments and Contingent Liabilities (Note 16)		
<i>The accompanying notes are an integral part of these consolidated financial statements.</i>		
Approved by the Directors:		
		
Director: Brian F. MacNeill	Director: Brian A. Canfield	

consolidated statements of cash flows

Years ended December 31 (millions)	2004	2003
		<i>(restated – Note 2(b))</i>
Operating Activities		
Net income	\$ 565.8	\$ 324.4
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,643.1	1,652.8
Future income taxes	380.9	394.4
Share-based compensation	23.8	–
Net employee defined benefit plans expense	18.4	53.0
Employer contributions to employee defined benefit plans	(136.8)	(99.8)
Restructuring and workforce reduction costs, net of cash payments (Note 5)	(70.3)	(259.4)
Payment received from Verizon Communications Inc. (Note 20)	33.3	–
Other, net	27.9	45.1
Net change in non-cash working capital (Note 17(c))	52.0	23.3
Cash provided by operating activities	2,538.1	2,133.8
Investing Activities		
Capital expenditures (Note 11(a))	(1,319.0)	(1,252.7)
Proceeds from the sale of property and other assets	27.6	51.2
Other	(8.1)	3.7
Cash used by investing activities	(1,299.5)	(1,197.8)
Financing Activities		
Common Shares and Non-Voting Shares issued	148.8	86.6
Dividends to shareholders	(248.7)	(172.0)
Purchase of Common Shares and Non-Voting Shares for cancellation (Note 15(i))	(78.0)	–
Payment for redemption of preference and preferred shares (Note 15(b))	(72.8)	–
Payment received from Verizon Communications Inc. (Note 20)	114.8	–
Long-term debt issued (Note 14)	39.8	373.0
Redemptions and repayment of long-term debt (Note 14)	(248.6)	(1,201.7)
Other	(3.6)	(6.7)
Cash used by financing activities	(348.3)	(920.8)
Cash Position		
Increase in cash and temporary investments, net	890.3	15.2
Cash and temporary investments, net, beginning of year	6.2	(9.0)
Cash and temporary investments, net, end of year	\$ 896.5	\$ 6.2
Supplemental Disclosure of Cash Flows		
Interest (paid)	\$ (632.9)	\$ (657.5)
Interest received	\$ 27.3	\$ 41.6
Income taxes (inclusive of Investment Tax Credits (Note 7)) received	\$ 194.6	\$ 165.5
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