

# Bell Aliant Regional Communications Holdings, Limited Partnership

Management's discussion and analysis	51
Management's report	104
Auditors' report	105
Consolidated balance sheets	106
Consolidated statements of earnings	107
Consolidated statements of comprehensive earnings	107
Consolidated statements of partners' equity	108
Consolidated statements of cash flows	109
Notes to the consolidated financial statements	110

# MD&A

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the year ended December 31, 2008, compared to 2007. This MD&A should be read together with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2008, and our MD&A for the fourth quarter of 2008. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.

Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries.

Quarterly reports, annual reports and supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on the Bell Aliant Regional Communications Income Fund (Bell Aliant Income Fund or the Fund) website at [www.bell.aliant.ca](http://www.bell.aliant.ca). These and other continuous disclosure documents are also available at [www.sedar.com](http://www.sedar.com).

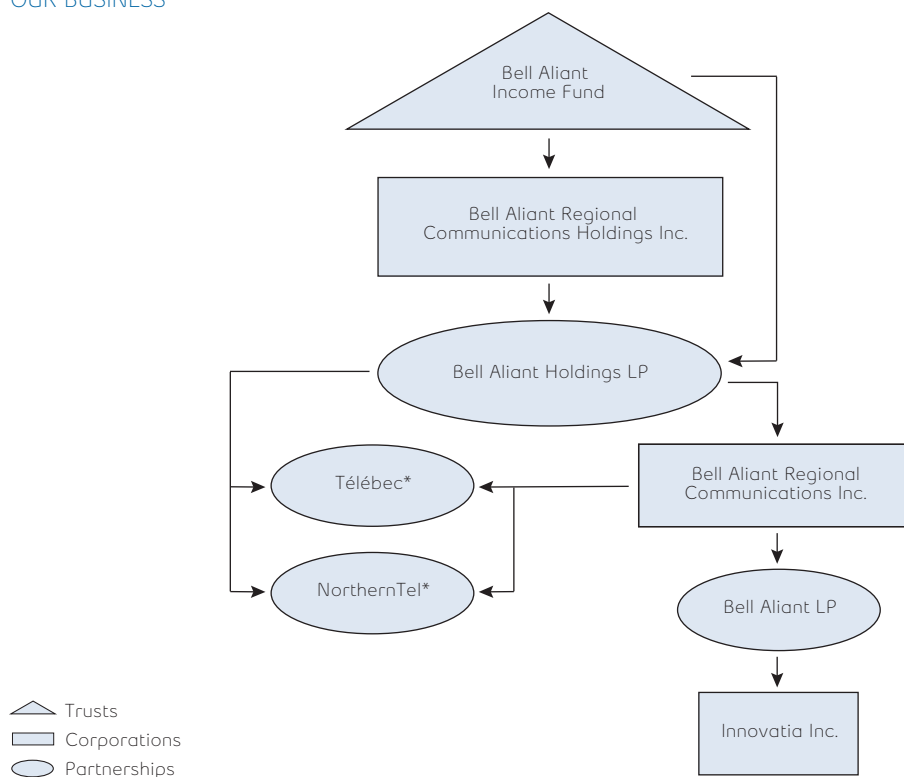
## **Forward-looking information**

This MD&A is dated March 10, 2009, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations. The purpose of this forward-looking information is to provide the reader with information about our expectations and plans for fiscal 2009 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at March 10, 2009. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve strategies and plans; general economic conditions; increasing competition; changing regulations; reliance on systems; dependence on key suppliers; changing technology; required operating and capital expenditures; our relationship with BCE Inc. (BCE) and Bell Canada; pension plan funding; liquidity and financing risk; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations; success of acquisitions and dispositions; legal contingencies and changes in laws. Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and risk factors. Should any risk factor affect us in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated,

forward-looking information does not take into account the effect that transactions or non-recurring or other special items announced or occurring after this information is provided may have on our business. All of the forward-looking information reflected in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Except as may be required by Canadian securities laws, we disclaim any intention and assume no obligation to update or revise any forward-looking information, even if new information becomes available, as a result of future events or for any other reason. Readers should not place undue reliance on any forward-looking information.

See also the "Forward-looking information" section of our news release dated February 2, 2009, relating to 2008 earnings results and 2009 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at [www.bell.aliant.ca](http://www.bell.aliant.ca) as well as [www.sedar.com](http://www.sedar.com) and incorporated by reference herein.

## OUR BUSINESS



\* Bell Nordiq Trust, owned 100 per cent by the Fund, owns a nominal one class B unit of each of Télébec and NorthernTel.

We are one of North America's largest regionally focused telecommunications service providers and have been serving customers for over a century. We offer customers across Atlantic Canada, Ontario and Quebec a complete range of voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions. Communications services we provide include local telephone, long distance, data and Internet, wireless, television and other products and services. Our IT services include system integration, application development, local and wide area network installations and management, data centre operations, computer hardware, package software and IT planning. We also provide complementary services in knowledge management, including e-learning, technical documentation and tele-web sales and services.

Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate these and other subsidiary partnerships and corporations in our financial statements. We operate as one reportable segment, which represents the manner in which we are organized and managed for planning, assessing performance and making resource allocation decisions. The organizational chart shown previously depicts Bell Aliant Income Fund, Bell Aliant Holdings LP and other significant entities within the Fund group as at December 31, 2008.

## OUR BUSINESS ENVIRONMENT

### Competitive landscape

We face a number of different competitors across the regions we service, with cable companies continuing to present our most significant competitive threat. Throughout 2008, cable competitors continued to expand their local service areas in our regions. Cable competitors offered telephony services, including local and long distance services, to approximately 57 per cent of households in our territories at the end of 2008, representing a 9 percentage point increase since December 31, 2007. We expect continued growth in the competitive footprint and, as competition increases, we remain focused on the successful execution of our strategic priorities.

The historical delineation between the provision of telecommunications and Internet services is now fading due to the constantly accelerating development of new technologies, services and products. Technology substitution and Voice over Internet Protocol (VoIP), in particular, have allowed competitors to launch new products and services and therefore gain market share with far less capital expenditure than we have historically incurred. In turn, these new technologies also present an opportunity for us to offer new services to our customers and to lower our future network development and maintenance costs.

Our long distance services continue to face intense competitive pressure given the expanded presence of cable telephony and the continuing impact from non-traditional suppliers, including prepaid card suppliers, dial-around services and VoIP providers, as well as from traditional competitors such as inter-exchange carriers and resellers.

We continue to face competition in our Internet and data services portfolios from both local and national players. In order to meet the needs of our customers for data and Internet services, we have invested heavily to build on our network capacity and are constantly evolving our product offerings to ensure that our bandwidth and value-added service offerings are competitive in our marketplace.

The intensity of competition in our market creates constant pressure to keep our prices and service offerings competitive, which could reduce our revenues and lower our profitability, or affect our ability to gain new customers and retain our existing ones. We constantly try to find the balance in our pricing mix, considering the prices our competitors are charging and the value we offer based on our superior products and services.

In response to competitive pressures, we continue to enhance our products and services, promote our bundled and Value Package™ service offerings, and work with customers to provide innovative and complete solutions to maintain the high level of customer service and innovative product offerings our customers expect. We continue to invest in our communities and support activities that are important to our customers and employees. Refer to our achievements as discussed in the "Strategy" section for further details.

### Regulatory landscape

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission) and the federal government, pursuant to the Telecommunications Act and the Broadcasting Act. During the past two years, the CRTC has followed the federal cabinet's 2006 policy direction to rely on market forces to the maximum extent feasible when making decisions, and to use regulation that interferes with market forces to the minimum extent necessary, which has resulted in major reforms of the regulatory framework. As an interested party, we regularly participate in the public processes leading up to these decisions, submitting evidence, opinions and comments to the CRTC. We also work with other industry and interested parties in lobbying for regulatory reform, where we feel necessary and warranted, while similarly opposing those parties seeking to raise the regulatory burdens in our industry.

For a discussion of these and other reforms, please refer to the "Regulatory developments" section.

### Planning for future changes in taxation rules

As a result of the federal government's October 31, 2006, announced changes to income tax legislation affecting publicly listed or traded income trusts, such as the Fund, starting January 1, 2011, the Fund will be taxed as if it were a corporation, at a blended federal/provincial tax rate we anticipate being in the range of 25.0 to 30.0 per cent of taxable income. While it is still early to precisely determine the effect that these changes will have on our cash flow in years after 2010, we are forecasting that we should have sufficient tax shelter to defer incurring an income tax liability until 2012. We are continuing to investigate strategies and options that could mitigate the effect that payment of income taxes will have on the distributions that we pay and are ultimately able to be paid to Fund unitholders. These options may include, among other things: planning to preserve or augment our tax loss carryforward amounts and other discretionary tax deduction or credit pools for utilization after 2010 to reduce taxable income or income taxes otherwise payable; strengthening our financial position to allow greater flexibility in our and the Fund's future distribution policy; investing in productivity initiatives to lower our overall expenses and contribute positively to our future cash flow growth; and utilizing excess cash in the period prior to 2011 to repurchase Fund units to reduce total future cash distribution requirements. It is uncertain whether these initiatives, if pursued, would allow us to avoid reducing our per unit cash distributions, and ultimately distributions made by the Fund.

During 2008, the Department of Finance (Finance) released proposed amendments to the Income Tax Act (Canada) (Tax Act) to facilitate the conversion of existing income trusts, such as the Fund, into corporations on a tax-deferred basis (Conversion Rules). On February 6, 2009, Finance introduced Bill C-10, which contained the amended Conversion Rules. These Conversion Rules, if implemented, would remain in effect until January 2013.

The Conversion Rules would permit two basic tax-efficient conversion methods. In general, income trusts may convert to a corporate structure by either (i) having unitholders directly exchange their income trust units for shares of a Canadian corporation (Exchange Method), or (ii) redeeming the outstanding income trust units by distributing to unitholders the shares of an underlying Canadian corporation that directly or indirectly owns the business (Distribution Method). The Conversion Rules would permit further rationalization of the organization's structure by allowing the dissolution of the income trust and certain subsidiary trusts on a tax-deferred basis. Under both methods, the conversion may be effected on a tax deferred basis for both trusts and their unitholders without the need to file any tax elections. Under the Conversion Rules, as amended, a unitholder may elect out of the tax deferral by filing a joint election with the Canadian corporation under the Tax Act, subject to certain conditions and limitations.

At this point, we do not anticipate that the Fund will propose a conversion transaction to its unitholders to be effective prior to January 1, 2011. However, the Conversion Rules are complex and technical, and Finance has proposed a number of alternatives for completing a conversion. The Conversion Rules may be further amended before being enacted into law. Accordingly, the Fund will be carefully considering its particular circumstances in order to determine whether to propose a conversion transaction to its unitholders and, if so, how to structure a conversion into a corporation.

### Key management changes

The following senior management changes occurred in 2008:

- Frank Fagan retired as chief operating officer;
- Stephen Wetmore left his position as president and chief executive officer (CEO); and
- Karen Sheriff was appointed president and CEO.

On January 12, 2009, we announced a new organizational structure. We will be organized more by function rather than geography and, as a result, the number of senior executive positions directly reporting to our CEO has been reduced from 11 to seven. Further details on this restructuring initiative can be found in the "Strategy" section.

### Changes to the board of directors

On July 11, 2008, George Cope, Siim Vanaselja and David Wells replaced Michael Sabia, Lawson Hunter and Patrick Pichette on the boards of directors of our general partner and main operating subsidiaries, and Mr. Cope was elected chair of these boards.

On November 3, 2008, Stephen Wetmore left the boards of directors of our general partner and main operating subsidiaries and Andrew Smith was appointed to these boards.

## YEAR IN REVIEW

### Summary of results

For the years ended December 31

(millions of dollars)	2008	2007 <sup>(2)</sup>	% change
Operating revenues	3,282.0	3,253.3	0.9
EBITDA <sup>(1)</sup>	1,450.9	1,438.4	0.9
Operating income <sup>(1)</sup>	595.8	504.0	18.2
Net earnings from continuing operations	331.9	310.4	6.9
Net earnings (loss) from discontinued operations	(9.7)	264.3	n.m.
Net earnings	322.2	574.7	(43.9)

n.m. – not meaningful

(1) EBITDA and operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

(2) Net earnings from discontinued operations were reduced by a non-cash adjustment of \$9.6 million to correct an error in the carrying value of the investment when Aliant Directory Services was sold.

Operating revenues and EBITDA both increased 0.9 per cent, or \$28.7 million and \$12.5 million, respectively, in 2008, compared to 2007, as growth in data and Internet, IT services and fulfillment, and wireless revenue more than offset declines in local and access, long distance, and other revenues. Despite a change in the mix of operating revenues during 2008, we were able to maintain our EBITDA margins and realized additional savings generated through our expense productivity initiatives.

Operating income increased 18.2 per cent or \$91.8 million, in 2008 compared to 2007. In addition to the contribution from EBITDA growth, the increase in operating income was due to a \$53.3 million decrease in net cost of benefit plans in 2008 and a \$59.3 million decrease in depreciation and amortization expense. The decline in net cost of benefit plans was primarily due to the reversal of a \$21.4 million pension valuation allowance that was established in 2007, while the decline in depreciation and

amortization mainly resulted from a one-time adjustment related to 2006, but recorded in 2007 upon the finalization of the purchase price allocation of the 2006 acquisition of Bell Canada's wireline operation in Quebec and Ontario and of Bell Nordiq Group Inc. Partially offsetting these transactions was a \$33.3 million increase in restructuring and other charges to reflect the continuation of productivity initiatives for operational efficiency.

Net earnings decreased by \$252.5 million in 2008 compared to 2007. This decrease is made up of a \$21.5 million increase in net earnings from continuing operations and a \$274.0 million decrease in net earnings from discontinued operations. In continuing operations, the \$91.8 million increase in operating income was offset by a \$102.1 million decline in income tax recovery, as the higher recovery reported in 2007 related primarily to recording the effect of tax rate changes enacted in that year. The lower income tax recovery was partially offset by higher other income, lower interest charges and a \$27.8 million decline in the non-controlling interest in 2008 earnings. This decline in non-controlling interest is due to higher operating income for the year, offset by the elimination of the non-controlling interest on the 36.7 per cent interest in Télébec and NorthernTel that was transferred to us from the Fund effective January 1, 2008.

The decline in net earnings (loss) from discontinued operations is mainly due to including in 2007 the results of operations of Aliant Directory Services (ADS) prior to the sale of its assets and operations in April 2007, when a \$248.6 million gain was recognized. The pre-tax gain on sale for ADS was reduced by \$9.6 million during the fourth quarter of 2008 due to an error in the calculation of the investment balance. In addition, in the first quarter of 2008, there was an \$11.2 million write-down of goodwill related to Atlantic Mobility Products (AMP).

### Distributable cash

Since our operations ultimately support distributions to unitholders of the Fund, distributable cash combines our cash performance with that of the Fund.

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the years ended December 31, 2008, and 2007, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared.

For the years ended December 31

(millions of dollars)	2008	2007	% change
Cash from operating activities	1,255.5	1,202.7	4.4
Add (deduct):			
Cash from operating activities of the Fund and discontinued operations	5.6	20.0	(72.0)
Capital expenditures	(528.8)	(541.6)	(2.4)
Standardized distributable cash <sup>(1)</sup>	732.3	681.1	7.5
Add (deduct):			
Operating items funded through cash reserves or borrowing	(24.2)	20.2	n.m.
Other adjustments	7.5	0.1	n.m.
Distributable cash <sup>(1)</sup>	715.6	701.4	2.0
Net earnings	322.2	574.7	(43.9)
Cash distributions declared <sup>(2)</sup>	657.9	651.1	1.0
Excess of cash from operating activities <sup>(3)</sup> over cash distributions declared	603.2	571.6	5.5
Shortfall of net earnings over cash distributions declared	(335.7)	(76.4)	339.4

n.m. – not meaningful

(1) Standardized distributable cash and distributable cash are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for a definition and complete reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

(2) Cash distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

(3) Cash from operating activities includes that generated by the Fund and discontinued operations.

Standardized distributable cash for the year ended December 31, 2008, was \$732.3 million. This represents an increase of \$51.2 million, or 7.5 per cent, over 2007, due to an increase in net earnings from continuing operations combined with an increase of \$92.5 million in cash flow from changes in operating assets and liabilities (working capital), and capital expenditures that were \$12.8 million lower in 2008, partially offset by a \$14.4 million increase in pension funding and \$17.8 million less operating cash from discontinued operations.

The increase in standardized distributable cash is largely due to the change in working capital. Our working capital requirements fluctuate throughout the year, and changes can be quite large from one quarter to the next. This variability is partially due to the large monthly cash settlements of transactions with Bell Canada and the seasonality that can be displayed in both our accounts receivable, prepayments and payables and accruals.

Since working capital requirements fluctuate throughout the year, but should reflect our normal growth over a full year, we do not include these cash flows in our distributable cash calculations. Instead, these amounts are financed throughout the year with cash reserves or short-term borrowing. However, these working capital requirements are included in the CICA's standardized distributable cash definition.

Both standardized distributable cash and our calculation of distributable cash reflect capital spending. During the third quarter of 2008, we revised our capital intensity target to reflect spending during the fourth quarter related to a new long-term agreement to supply network services to Bell Canada. Capital expenditures were 16.1 per cent of operating revenues in 2008 in line with our revised annual target of 15.5 per cent to 16.5 per cent and slightly lower than the prior year of 16.6 per cent. Capital expenditures were lower in 2008, compared to the prior year, due to accelerated spending on our fibre-to-the-node (FTTN) technology in 2007. Spending on this technology was still being made in 2008, although at a reduced pace.

We are committed to maintaining and enhancing our network assets in order to support growing demand for high bandwidth Internet protocol (IP) services. Our legacy telephony and related business continues to be our foundation, and notwithstanding recent technological advances and improvements in the lives and productive capacity of our telecommunications assets, our maintenance capital expenditures have remained relatively stable over time. Approximately 25.0 to 30.0 per cent of our capital expenditures are related to maintenance of base infrastructure, routine replacements and commitments driven by legal or regulatory requirements. The balance of our capital investments allows us to address growing customer demand for our newer products and services and evolve, at a measured pace, to the next generation of IP network capabilities to accommodate delivery of new services necessary to support sustainability and modest growth in our revenues.

The \$14.2 million, or 2.0 per cent, increase in distributable cash for the year ended December 31, 2008, compared to 2007, is primarily due to an increase in EBITDA in 2008, combined with lower capital expenditures, and partially offset by a reduction in distributable cash contributed by discontinued operations compared to 2007. The increase over 2007 is also due in part to a reduced deduction of normalized capital taxes from distributable cash. The governments of all Canadian provinces where we operate have announced intentions to phase-out corporate capital taxes by 2012. Therefore, we stopped making a deduction for normalized capital taxes in the third quarter of 2007. Consequently, 2008 reflects the first full year with no such deduction.

It is our expectation that our ongoing operations, net of normal capital expenditures, will generate sufficient distributable cash to provide stable cash distributions to the Fund and its unitholders until the year 2011, at which time we anticipate being subject to corporate income taxes on our earnings. Our objective is to target a long-term distribution payout ratio of approximately 90 per cent of the combined distributable cash of the Fund and us, although the payout ratio may differ from this range in any given year. The remaining 10 per cent of distributable cash is intended to fund such obligations as working capital, pension plan deficits, restructuring and other charges, cash capital taxes, and repaying long-term debt. In any single period, actual cash flow may differ from what we have determined to be distributable cash. These fluctuations in cash flow may also be funded through this 10 per cent cash reserve or through temporary borrowing. It is not our intention to borrow to fund regular distributions.

For the year ended December 31, 2008, cash distributions declared were 91.9 per cent of distributable cash, compared to 92.8 per cent for the comparable period in 2007. The annual rate of distributions to holders of Fund units is currently \$2.90 per unit. The decision not to increase the per unit distribution rate in 2009 was made by the Fund trustees in order to preserve liquidity and financial flexibility, considering current market conditions. With an anticipated increase in distributable cash in 2009, this is expected to result in a payout ratio of less than 90 per cent in 2009. This does not necessarily indicate a departure from the approximate 90 per cent long-term payout target, however, this target and the declaration of our future distributions is subject to the consideration of numerous factors and at the discretion of the Fund trustees.

Our distribution strategy and our financing plans are consistent with our objective of maintaining our debt levels in the range of two times EBITDA. We believe this is appropriate given our anticipated distributable cash stability and our desire to maintain investment grade credit ratings. Our use of a portion of our cash reserves and, if necessary, borrowing to fund working capital fluctuations, pension deficits and cash taxes in excess of normalized levels is consistent with our overall targets.

## STRATEGY

### Highlights of strategic achievements in 2008

Recognizing the need to address growing competitive pressures in our business, the strategic priorities that we focused our attention on in 2008 were providing a superior customer experience and driving operational efficiency.

Delivering a superior customer experience has been a cornerstone of our strategy since our formation. This experience is created by providing exceptional customer service, value through leading products and services and being recognized by our customers for our involvement in the community. The support of our employees and our commitment to internal process improvement enabled us to deliver on this strategic priority throughout 2008.

Improved operational efficiency was also a key area of focus for our organization. Our productivity initiatives provided the necessary operating cost savings to grow distributable cash and ultimately deliver value to Fund unitholders.

The following chart sets out our key strategic priorities for 2008 and how we met them.

Priority	Achievement
Customer service	<p>We focused on our system and network initiatives to enable customer service improvements.</p> <ul style="list-style-type: none"> <li>• We enhanced our customer care agent desktop tools, enabling improved appointment booking options and introduced a new option for moving customers, making it faster and easier for our customers to book their move orders. The enhancement also provides our agents with a complete view of the customer, enabling them to better serve customers needs.</li> <li>• We implemented internal process improvements which have enabled us to significantly reduce the repair waiting times for high-speed Internet customers in Atlantic Canada.</li> <li>• During the second quarter of 2008, we were recognized by the Contact Centre World Organization as having the best outbound sales and service program in North America. Four of our employees were ranked as top performers in the international contact centre industry.</li> </ul>
Value through leading products and services	<p>We developed and introduced new and innovative product and service bundles, offering convenience and ease of use for residential customers and a source of competitive advantage for business customers.</p> <ul style="list-style-type: none"> <li>• Residential – We launched several new services in Atlantic Canada including Voicemail Online, which allows our customers to stay connected to their personal voice messages whenever they have access to email; Personal Vault, a secure online product to store, manage, access and share pictures, music, videos and other files anytime and from anywhere; and Aliant Learning Centre, an online library of over 2,000 titles on educational, lifestyle and business topics. In Ontario and Quebec, we launched several new services including Start Surfing Sooner, a program which streamlines Internet account set up for new users; Kids Mania™, an online destination providing games, videos and comic books for children; and Bell Video Store, which offers movies and TV shows for purchase or rental. We continued the build-out of our fibre network and by December 31, 2008, reached approximately 236,000 homes in our territory with fibre. We also enhanced the quality of Aliant TV service and launched Aliant TV's high definition (HD) service with 20 HD content channels. We introduced High-Speed Service-Max and High-Speed Service-Professional, increasing speeds for our customers to 10 megabytes per second. We partnered with Apple® to become the first telecommunications provider in North America to offer a combined Internet access service and MacBook® computer package.</li> <li>• Small-to-medium businesses – We introduced Aliant PC Expert and IT Expert. IT Expert looks after our customers' entire IT infrastructure, while PC Expert provides comprehensive online, remote and onsite personal computer (PC) support for desktops, laptops and tablets. In addition, Security Monitor (PC Health Check), a Web application that provides extra security when surfing the Internet, was launched in November 2008. We also introduced Atlantic Deals, an online marketplace designed to help businesses promote themselves to thousands of Atlantic Canadian households.</li> <li>• Enterprise – In Atlantic Canada, we launched Personal Communications Manager and Centrex IP, both VoIP services available to enterprise and mid-market business customers. Personal Communications Manager gives our customers the ability to add features such as enhanced call management, where businesses can prioritize communications by originating telephone number, deliver voicemail to email and experience click-to-call convenience.</li> </ul>
Community involvement	<p>We continue to make a visible impact in the communities in which we live and work. We have a long-standing commitment to the communities we serve and a history of providing support to help strengthen communities socially, culturally and economically. During 2008, we contributed approximately \$7 million in support of over 1,000 programs in the communities we serve.</p> <ul style="list-style-type: none"> <li>• In March 2008, we announced we would be a major sponsor of the 2009 Canada Games to be held on Prince Edward Island.</li> <li>• We sponsored four Atlantic Canadian Olympians in their quest for gold.</li> <li>• Along with our employees, Aliant Pioneer volunteers and retirees, we helped raise funds for many worthwhile causes, including the 45<sup>th</sup> annual Christmas Daddies Telethon which raised over \$892,000, providing toys, gifts and necessities to over 16,000 children across the Maritime provinces. The Bell Aliant United Way campaign raised over \$430,000, for 26 chapters of the United Way in our service area. The money raised goes to hundreds of local agencies supporting a variety of youth programs, families in need and seniors' organizations. We also raised more than \$100,000 for the Bell Aliant Walk for Kids Help Phone.</li> </ul>

Priority	Achievement
Operational efficiency	<p>While pursuing top-line revenue growth, we also aggressively managed our cost structure through productivity initiatives.</p> <ul style="list-style-type: none"> <li>• In 2008, we used a multi-faceted approach to reducing our cost structure, which included focusing on right-sizing management; investing in our self service applications, cable network, and contact centre infrastructure; negotiating vendor contracts, with significant cost of service reductions realized in toll terminations and Internet traffic between carriers; implementing incremental process improvements, most notably in our high-speed business to enhance efficiencies; and reducing discretionary spending in areas such as travel and wireless communication.</li> <li>• On February 1, 2008, we completed the acquisition of Kenora Municipal Telephone Service (KMTS), which added approximately 5,100 residential and 4,100 business network access service (NAS) customers and 9,000 wireless customers to our existing base as of that date. We also leveraged adjacent networks and technologies and our scale of operations for purchasing and product development to achieve operating synergies.</li> </ul>

### Performance compared to 2008 financial guidance

Our 2008 results met our expectations and the financial guidance that was provided by us during 2008. The following table summarizes our 2008 revised guidance and our performance against these targets.

	2008 results	2008 revised guidance
Operating revenues	\$3,282.0 million	\$3,240 – \$3,310 million
Distributable cash <sup>(1)</sup>	\$715.6 million	\$700 – \$720 million
Capital intensity <sup>(2)</sup>	16.1 per cent	15.5 – 16.5 per cent

(1) Distributable cash is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for further details.

(2) Capital intensity is defined as capital expenditures per the statement of cash flows as a percentage of operating revenues.

In August 2008, our 2008 guidance for operating revenues was revised as a result of the reclassification of AMP and our defence, security and aerospace (DSA) businesses to discontinued operations.

In October 2008, we issued revised capital intensity and distributable cash guidance to reflect a long-term agreement with Bell Canada to provide an enhanced fibre transport network connecting Bell Mobility's cell sites in Atlantic Canada and regions of Quebec and Ontario. This capital investment will add high-speed packet access technology to the existing network, which will provide more wireless options to our customers through our agreements with Bell Mobility, and support Bell Canada's nationwide migration to the long-term evolution technology, the fourth generation global wireless standard. It will also allow us to economically extend fibre deeper into our access network, enhancing our service capabilities in the future.

### Highlights of strategic focus for 2009

Our 2009 strategy builds on our past strategies and the success we have been able to achieve in recent years. In response to the current difficult economic environment and the realities of the competitive marketplace we operate in, we have fine-tuned our vision and clearly articulated the strategic objectives that we believe will support our financial success in the future.

Our vision is simple and straightforward, but fundamental to everything we do:

**We will be recognized by customers as the leading communications provider in the markets we serve.**

Guiding us through 2009, our success will be dependent on pursuing five strategic objectives:

1. Improve the customer experience;
2. Retain our customers;
3. Grow broadband;
4. Reset our cost structure; and
5. Engage employees.

#### **Improve the customer experience**

Since our creation in July 2006, we have heightened our focus on improving the customer experience and this continues to be the cornerstone of our strategy. Our Customer Service Index (CSI) is an internal measure that is comprised of five key components, which we track to monitor the experience we are providing to our customers. We continue to improve the customer experience as evidenced by a 2 percentage point increase in CSI in 2008 from 2007, achieving a score of 82.5 per cent. Our program for 2009 is designed to build on that momentum, primarily by continuing improvements to service fundamentals, supported by operational improvements to our processes, tools and training.

#### **Retain our customers**

Our loyal customer base is one of our most important assets. The customers we have are very valuable to us and keeping them is one of our core strategic objectives in 2009. In order to reduce customer churn, or loss, we will increase our retention efforts, increase the penetration of all our products and services and focus on increasing the strength of our brands. Value Packages and bundles are proven tools to reduce customer churn, and in 2009 we will make enhancements to these offers to further improve our retention success.

#### **Grow broadband**

Broadband is the core growth area of our business. Our broadband network delivers the products and services that enable our customers to connect with each other and provides them with the information they need to be productive. In 2009, we plan to increase our investment in broadband expansion and new IP service development by 20 per cent over 2008. We will continue to roll out digital subscriber line (DSL) and bring fibre closer to our customers. Additionally, we will build on our current technology and broadband assets and further develop IP services such as video, residential high-speed Internet and fibre-related services.

#### **Reset our cost structure**

To sustain a successful business we will need to maintain profitability and become even more competitive. In the fourth quarter of 2008 we began a significant restructuring initiative and in early 2009, we announced a new organizational structure. The key benefit of this will be a more nimble organization with a leaner and more effective leadership team. By the end of the first quarter of 2009, we expect to have reduced the size of our management workforce by 15 per cent, with fewer management layers having greater spans of control. Additionally, throughout 2009, we will be focused on increasing productivity by reducing non-labour expenses and capital expenditures. While our capital spending on broadband is estimated to increase as discussed previously, we expect that overall capital intensity will decrease from 16.1 per cent in 2008 to the range of 13.5 per cent to 14.5 per cent in 2009. We will judiciously prioritize our capital investment to achieve our strategic objectives.

#### **Engage employees**

Our employees are critical to the successful execution of our strategy. In 2009, we will work to build a performance-based culture by more closely aligning personal performance with corporate objectives. Ensuring all employees understand our vision and strategic objectives and how they individually contribute to the achievement of the strategic objectives is required for our success. Building on current programs, we will continue to invest in new learning opportunities for our leaders and front-line managers.

## 2009 financial guidance

For 2009, we expect to achieve the following ranges of results for key financial reporting indicators. Guidance is presented on a basis consistent with reported results for 2008.

	2009 guidance
Operating revenues	\$3,180 – \$3,280 million
Distributable cash <sup>(1)</sup>	\$750 – \$780 million
Capital intensity <sup>(2)</sup>	13.5 – 14.5 per cent

(1) Distributable cash is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for further details.

(2) Capital intensity is defined as capital expenditures per the statement of cash flows as a percentage of operating revenues.

By building on our strengths as a leading communications provider and executing on the five strategic objectives we have set out during 2009, we expect to maintain operating revenue in line with 2008 levels, with growth in Internet and wireless revenues expected to mitigate declines in local, long distance and other revenues. We expect that productivity initiatives implemented in 2008 and new initiatives planned for 2009 will assist in improving EBITDA and reducing capital expenditures, resulting in an increase in distributable cash over 2008.

This "2009 financial guidance" section is forward-looking information and readers are cautioned that actual results may vary. Refer to "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" and the "Forward-looking information" statement at the beginning of this MD&A.

## RESULTS OF OPERATIONS

We consolidate the financial statements of all the entities we control. We manage our business and classify our operations for planning and performance measurement purposes as one segment. In addition to distributable cash, our financial performance is measured by operating revenues, EBITDA and operating income.

For the years ended December 31

(millions of dollars)	2008	2007 <sup>(2)</sup>	% change
Local and access	1,404.8	1,430.9	(1.8)
Long distance	452.3	474.8	(4.7)
Data and Internet	800.2	755.8	5.9
IT services and fulfillment	315.3	262.4	20.2
Wireless	80.8	64.4	25.5
Other revenues	228.6	265.0	(13.7)
Operating revenues	3,282.0	3,253.3	0.9
Operating expenses	1,831.1	1,814.9	0.9
EBITDA <sup>(1)</sup>	1,450.9	1,438.4	0.9
Net cost of benefit plans	78.3	131.6	(40.5)
Depreciation and amortization	716.1	775.4	(7.6)
Restructuring and other charges	60.7	27.4	121.5
Operating income <sup>(1)</sup>	595.8	504.0	18.2
Other expenses (income)	(2.3)	0.2	n.m.
Interest charges	156.9	158.4	(0.9)
Income tax recovery	(21.8)	(123.9)	(82.4)
Non-controlling interest	131.1	158.9	(17.5)
Net earnings from continuing operations	331.9	310.4	6.9
Net earnings (loss) from discontinued operations	(9.7)	264.3	n.m.
Net earnings	322.2	574.7	(43.9)

n.m. – not meaningful

(1) EBITDA and operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

(2) Net earnings from discontinued operations were reduced by a non-cash adjustment of \$9.6 million to correct an error in the carrying value of the investment when ADS was sold.

## Operating revenues

### Local and access

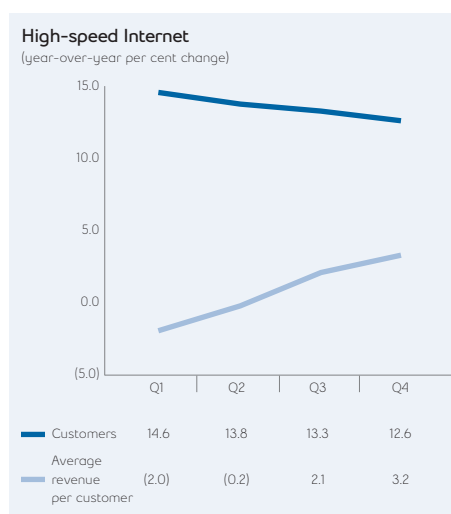
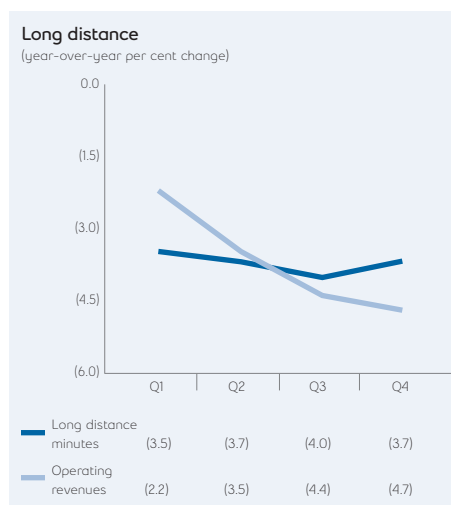
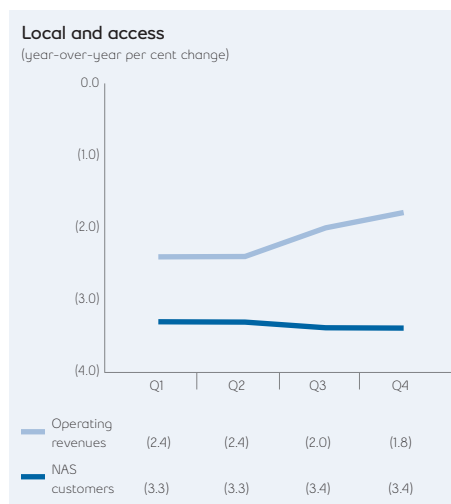
Our local and access revenue is earned primarily through the provision of NAS, along with enhanced service features, contribution payments and competitor network access payments. Despite a 3.4 per cent drop in our total NAS customers at December 31, 2008, compared to December 31, 2007, we have contained the local and access revenue decline to 1.8 per cent, or \$26.1 million, in 2008 compared to 2007 through programs targeted at retaining our highest value customers, pricing increases and increased features penetration. At December 31, 2008, the number of residential NAS customers was 4.3 per cent lower than at December 31, 2007, and the number of business NAS customers was 1.6 per cent lower than at December 31, 2007. These declines reflect competitive losses, driven by an expansion in the cable competitive footprint and substitution by other services, including wireless and VoIP services. As of December 31, 2008, approximately 57 per cent of households in our territory were passed by a competing cable telephony service versus 48 per cent at December 31, 2007.

### Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 4.7 per cent, or \$22.5 million in 2008 compared to 2007. Long distance minutes declined by 3.7 per cent during the year due to competitive losses and substitution by cellular calling and IP-based services. In addition, the average revenue per minute declined 1.0 per cent due to price reductions, primarily with our enterprise customers, and customers continuing to shift away from rate-per-minute plans in favour of set-price unlimited or large usage packages.

### Data

Data and Internet revenue is earned through data access, data circuits, high-speed and dial-up Internet services, managed services, and enhanced services and applications, such as security services, music download service, dial-up accelerator and IPTV. Revenue from these services increased 5.9 per cent, or \$44.4 million, in 2008 compared to 2007. Internet revenue, including IPTV services, grew by 11.8 per cent in 2008 compared to 2007 while other data revenues remained flat. At December 31, 2008, our high-speed Internet customer base was 10.7 per cent higher than at December 31, 2007,



with growth in both the residential and business markets. Marketing of higher value services to customers and selected price increases resulted in residential high-speed Internet average monthly revenue per customer (ARPC) of \$35.90 in 2008, up 3.3 per cent from \$34.75 in 2007.

### IT services and fulfillment revenue

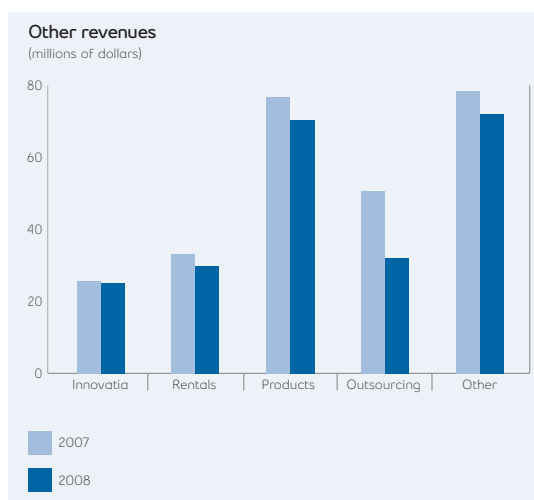
IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, software engineering, IT consulting, hardware and software fulfillment. IT services and fulfillment revenue was higher in 2008, increasing 20.2 per cent, or \$52.9 million, over 2007. This significant growth is primarily due to the start of revenue recognition for a major health care IT project in Quebec, which had been deferred through much of 2007, growth in the overall health care sector and significant one-time fulfillment sales to key customers.

### Wireless

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over analog and digital wireless networks in our Télébec, NorthernTel and KMTS-branded territories in Quebec and Ontario. Revenue increased by 25.5 per cent, or \$16.4 million, in 2008 compared to 2007. The increase is due to a 20.0 per cent increase in wireless customers, 9.5 per cent of which is related to the acquisition of KMTS earlier in the year, and a 4.2 per cent increase in total ARPC attributable to increased wireless data revenue.

### Other revenues

Other revenues consist of knowledge management provided through Innovatia, terminal rentals and sales, PC sales, revenue generated by our outsourcing arrangement with Bell Mobility and other sources. Other revenues declined 13.7 per cent, or \$36.4 million, in 2008 compared to 2007. This decline is mainly caused by a decrease in outsourcing revenue of 37.1 per cent, or \$18.8 million, due to repatriation of work by Bell Mobility that was previously performed by us. Telephone equipment rentals revenue declined \$3.7 million, or 11.1 per cent, in 2008 compared to 2007 as customers shift from renting to purchasing their own devices.



### Expenses

#### Operating expenses

For the years ended December 31

(millions of dollars)	2008	2007	% change
Cost of sales	549.5	538.7	2.0
Salaries, benefits, contract labour and consulting	664.7	644.0	3.2
Selling, general and administrative	606.5	622.8	(2.6)
Capital taxes	10.4	9.4	10.6
<b>Operating expenses</b>	<b>1,831.1</b>	<b>1,814.9</b>	<b>0.9</b>

Operating expenses increased by 0.9 per cent in 2008, compared to 2007, due to higher cost of sales and higher labour costs. The increased cost of sales was due to the increase in IT fulfillment revenues as growth in revenue drove higher costs of goods sold. Increased salaries, benefits, contract labour and consulting mainly represent annual wage increases and an increase in IT services contract labour costs, also related to revenue growth.

Partially offsetting these increases were declines in selling, general and administrative costs. Selling, general and administrative costs decreased mainly due to cost containment achieved through our productivity initiatives that continued throughout the year.

The increase in capital taxes was the result of an adjustment to lower the capital tax base in the fourth quarter of 2007 that was not repeated in 2008. The increase was partially offset by lower capital tax rates in 2008 compared to 2007.

#### **Net cost of benefit plans**

Net cost of benefit plans decreased 40.5 per cent, or \$53.3 million, in 2008 compared to 2007. A valuation allowance of \$21.4 million was recorded as pension expense in the fourth quarter of 2007 as we had an accounting surplus in one of our defined benefit (DB) pension plans. In 2008, this plan was in a deficit position and the allowance was no longer required so it was reversed against pension expense in the fourth quarter of 2008, resulting in a \$42.8 million change from year to year. The non-cash valuation allowance requirement under Canadian GAAP can lead to significant volatility in pension expense depending on the funded status of our most mature DB pension plans. In addition, during 2008 we recorded lower DB pension current service costs and lower amortization of actuarial losses, both of which resulted from an increase in the average rate used to discount the obligations in our DB pension and other post-employment benefit (OPEB) plans to 5.5 per cent from 5.3 per cent at December 31, 2007.

#### **Depreciation and amortization**

Depreciation and amortization decreased 7.6 per cent, or \$59.3 million, in 2008 compared to 2007 mainly due to recognizing a one-time depreciation and amortization adjustment in 2007 of \$62.0 million for the period from July 7, 2006, to December 31, 2006, relating to the finalization of the purchase price allocation for the 2006 acquisition of Bell Canada's wireline operation in Quebec and Ontario and of Bell Nordiq Group Inc. This was offset slightly by a \$2.8 million increase in adjustments related to the finalization of asset life studies, which required changes in the estimated useful lives of some of our assets, a \$1.2 million adjustment related to the finalization of the purchase price allocation related to our February 1, 2008, acquisition of KMTS, and the pattern of recognition of depreciation expense as our depreciable asset base ages.

#### **Restructuring and other charges**

Restructuring and other charges increased \$33.3 million, or 121.5 per cent, in 2008 compared to 2007, due to the continuation of productivity initiatives and organizational changes that commenced during the fourth quarter of 2008. As discussed in the "Highlights of strategic focus for 2009" section, we commenced restructuring our organization during the fourth quarter of 2008 and we recognized a related \$60.6 million charge in the fourth quarter of 2008.

### Interest charges

Interest charges in 2008 were comparable with 2007, decreasing a nominal 0.9 per cent, or \$1.5 million. Debt levels are virtually unchanged year over year and approximately 90 per cent of our debt is effectively subject to fixed rates of interest. The decrease reflects lower interest costs on the small proportion of our debt that is subject to floating rates of interest offset slightly by fees and costs associated with the renegotiation of certain relatively small bank credit facilities.

### Income tax recovery

A portion of our income is earned through limited partnerships. The taxable income earned through limited partnerships is not subject to tax at the limited partnership level, but is allocated directly to the respective partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. Our income tax recovery in 2008 decreased \$102.1 million, or 82.4 per cent, from 2007. The decrease was mainly the result of a \$101.5 million higher future tax recovery reported in 2007 to record the effect of tax rate changes enacted in that year.

### Non-controlling interest

On January 1, 2008, the Fund's 36.7 per cent indirect interest in Télébec and NorthernTel was transferred to us in exchange for 8,246,429 class 2 limited partnership units. Subsequently, Télébec and NorthernTel each issued one class B limited partnership unit to the Fund. We now directly or indirectly own, except for a nominal interest held by the Fund, 100.0 per cent of Télébec and NorthernTel and thus the non-controlling interest recorded by us at December 31, 2007, related to this investment has been eliminated. Non-controlling interest at December 31, 2008, represents Bell Canada's 37.9 per cent ownership interest in Bell Aliant LP (34.9 per cent on a proportionate cash distribution basis). The per unit distributions attributable and paid to Bell Canada equal, to the greatest extent practicable, the per unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

Non-controlling interest in our earnings decreased \$27.8 million, or 17.5 per cent, in 2008, compared to 2007, due to the elimination of the non-controlling interest related to Télébec and NorthernTel in 2008. Distributions paid by our subsidiaries to the non-controlling interest decreased by \$29.7 million in 2008, compared to 2007, mainly due to \$40.0 million paid to the Fund by Télébec and NorthernTel in 2007, compared to \$4.5 million paid in 2008, prior to this ownership interest being transferred to us. These decreases were partially offset by an increase in the distribution rate.

### Net earnings (loss) from discontinued operations

Net earnings (loss) from discontinued operations in 2008 reflect the results of our DSA business and AMP. The significant decrease in net earnings (loss) from discontinued operations in 2008, compared to 2007, is mainly a result of the inclusion of ADS's operating results prior to selling its assets and operations in April 2007 when an after-tax gain on disposal of \$248.6 million was recorded. In addition, in the first quarter of 2008, there was an \$11.2 million write-down of goodwill related to AMP.

### Selected quarterly financial information

The following table shows selected consolidated financial results by quarter for 2008 and 2007. This quarterly information is unaudited but has been prepared on the same basis as the annual consolidated financial statements.

For the eight quarters ended December 31 (millions of dollars, except per unit amounts)	2008				2007			
	Q1	Q2	Q3	Q4	Q1	Q2 <sup>(2)</sup>	Q3	Q4
Operating revenues	837.9	815.6	815.3	813.2	830.3	795.4	808.5	819.1
EBITDA <sup>(1)</sup>	353.3	361.0	371.0	365.6	347.8	355.2	369.8	365.6
Operating income <sup>(1)</sup>	153.9	161.5	169.3	111.1	169.9	53.1	139.8	141.2
Net earnings (loss):								
Continuing operations	74.2	84.8	93.1	79.8	82.0	42.9	71.0	114.5
Discontinued operations	(9.9)	(0.4)	0.4	0.2	6.5	252.7	2.2	2.9
Net earnings	64.3	84.4	93.5	80.0	88.5	295.6	73.2	117.4
Basic and diluted earnings per unit:								
Continuing operations	0.46	0.53	0.58	0.50	0.54	0.28	0.47	0.75
Discontinued operations	(0.06)	—	—	—	0.04	1.66	0.01	0.02
Basic and diluted earnings per unit	0.40	0.53	0.58	0.50	0.58	1.94	0.48	0.77
Distributable cash <sup>(1)</sup>	206.8	183.3	179.3	146.2	192.1	162.2	177.6	169.5
Cash distributions declared <sup>(3)</sup>	163.3	164.9	164.9	164.8	166.2	163.5	161.3	160.1

(1) EBITDA, operating income and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

(2) Net earnings from discontinued operations were reduced by a non-cash adjustment of \$9.6 million to correct an error in the carrying value of the investment when ADS was sold.

(3) Cash distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

The quarterly operating results for 2007 and 2008 reflect the following significant transactions and trends:

- The first quarter of every year typically experiences stronger IT fulfillment revenue from customers in the government sector.
- We finalized the purchase price allocation related to the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc. in the second quarter of 2007, which led to an increase in depreciation and amortization of \$125.3 million, of which \$62.0 million related to the period from July 7, 2006, to December 31, 2006, \$31.5 million related to the period from January 1, 2007, to March 31, 2007, and \$31.8 million related to the period from April 1, 2007, to June 30, 2007.
- We sold the net assets and operations of ADS in the second quarter of 2007, which generated \$248.6 million as our share of the after-tax gain. The gain was reflected in net earnings from discontinued operations.
- We commenced a restructuring program to advance our productivity initiatives, the total cost of which was \$27.4 million for 2007. The third quarter results for 2007 included \$20.8 million of restructuring and other charges with another \$5.2 million recorded in the fourth quarter. The restructuring initiative continued into 2008 when a \$60.6 million charge was recorded in the fourth quarter to facilitate a new organizational structure, which will provide substantial cost savings.
- We recorded a pension valuation allowance of \$21.4 million in the fourth quarter of 2007 against an accounting surplus in one of our pension plans, which was subsequently reversed during the fourth quarter of 2008.
- We recorded a future tax recovery of \$44.1 million in the second quarter of 2007, mainly due to the effect of tax rate changes as well as the amortization of intangible assets acquired as part of the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc., and a tax recovery of \$60.6 million in the fourth quarter of 2007, mainly related to the revaluation of net future tax assets and liabilities as a result of tax rate changes.
- We recorded an \$11.2 million write-down of goodwill in AMP during the first quarter of 2008, which was reflected in net earnings (loss) from discontinued operations. We commenced reporting AMP as discontinued operations in the second quarter of 2008.

- We announced during the third quarter of 2008 that we had entered into an asset purchase agreement for CAE Professional Services (Canada) Inc. (CAE) to acquire our DSA business, which currently operates under the xwave brand and commenced reporting our DSA business as discontinued operations. The proceeds on closing will be in the range of \$13.0 million to \$13.8 million, subject to the actual date of closing, with an additional \$11.0 million of proceeds contingent upon the occurrence of certain events, for potential total proceeds of \$24.0 million to \$24.8 million.

Further details regarding our results for 2008 are discussed throughout this document. Further information on our quarterly results can be found in the respective quarterly financial statements and related MD&A on our website at [www.bell.aliant.ca](http://www.bell.aliant.ca), and filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### Selected annual financial information

The following table provides summarized annual consolidated financial information for 2008, 2007 and 2006.

For the years ended December 31  
(millions of dollars)

	2008	2007	2006
Operating revenues	3,282.0	3,253.3	2,684.3
Net earnings from continuing operations	331.9	310.4	2,880.7
Net earnings (loss) from discontinued operations	(9.7)	264.3	21.3
Net earnings	322.2	574.7	2,902.0
Basic and diluted earnings (loss) per unit / share			
Continuing operations	2.08	2.04	20.72
Discontinued operations	(0.06)	1.73	0.15
Total basic and diluted earnings per share	2.02	3.77	20.87
Distributions declared per Fund unit	2.89	2.81	1.31
Dividends declared per Aliant Inc. common share	—	—	0.62
Total assets	10,753.0	10,472.9	10,692.5
Total long-term debt (including current portion)	2,568.7	2,573.6	2,811.2

### 2008 compared to 2007

The main reason for the increase in total assets in 2008, compared to 2007, is the transfer by the Fund of its 36.7 per cent interest in Télébec and NorthernTel to us on January 1, 2008, and the acquisition of the assets and operations of KMTS on February 1, 2008. The total goodwill, intangible assets and other assets recognized on the transaction dates was \$473.4 million.

The 2008 results compared to 2007 are discussed throughout this document.

### 2007 compared to 2006

The 2006 results represent our predecessor Aliant Inc. for the period up to July 6, 2006, and for Bell Aliant Holdings LP from July 7, 2006, to December 31, 2006. The significant increase in operating revenues in 2007 is due to our increased size in operations, reflecting our much larger geographic area and customer base since July 7, 2006.

The main reason for the decline in total assets in 2007, compared to 2006, was the sale of an additional \$100.0 million of accounts receivable to a securitization trust in 2007 combined with a \$460.9 million repayment of partner's capital to the Fund.

Long-term debt decreased in 2007, compared to 2006, as we repaid a large portion of our non-revolving term debt with proceeds from the sale of accounts receivable, the issuance of medium-term notes and short-term borrowing.

The 2006 results were not reclassified for the discontinued operations of our DSA business as the information was impracticable to determine.

## FINANCIAL AND CAPITAL MANAGEMENT

### Summary of cash flows

For the years ended December 31

(millions of dollars)	2008	2007	% change
Cash from (used in):			
Operating activities	1,255.5	1,202.7	4.4
Financing activities	(730.1)	(1,087.8)	(32.9)
Investing activities	(553.6)	(539.9)	2.5
Net decrease in cash from continuing operations	(28.2)	(425.0)	(93.4)
Net increase (decrease) in cash			
from discontinued operations	(5.3)	333.7	n.m.
Net decrease in cash for the period	(33.5)	(91.3)	(63.3)

n.m. – not meaningful

We used cash of \$33.5 million in 2008, compared to using cash of \$91.3 million in 2007.

#### Operating activities

Cash generated from operating activities increased \$52.8 million, or 4.4 per cent, in 2008 compared to 2007. Cash flow from working capital changes was \$92.5 million higher than in 2007, but was partially offset by higher pension funding requirements and lower cash contributed from net earnings from continuing operations. We are continuing to see the benefits of our initiatives to improve overall cash flow from working capital changes. Changes in working capital for the year positively contributed \$139.9 million to cash flows. This mainly reflects a \$42.3 million increase in the restructuring and other charges liability and increased accruals for capital expenditures near the end of the year, combined with a \$53.2 million net reduction in accounts receivable and a \$10.5 million reduction in deferred charges as we started revenue and expense recognition on a large IT contract in 2008 that was deferred in 2007.

Funding of our DB pension and OPEB plans is a significant use of cash from operating activities. In 2008, our contributions were \$111.8 million, compared to \$97.4 million in 2007, which included \$62.6 million for DB current service costs and \$49.2 million for special deficit-reducing payments, compared to \$60.8 million and \$36.6 million, respectively, in 2007. The increased funding of DB current service costs reflects the natural effects of a maturing workforce and general salary increases, offset slightly by retirements. Our 2007 special deficit-reducing payments were net of the application of a higher amount of prior years' voluntary contributions.

#### Financing activities

Cash used in financing activities decreased by \$357.7 million in 2008, compared to 2007. This decrease is primarily due to a \$460.9 million repayment of partners' capital to the Fund in 2007 in order to transfer cash to the Fund associated with the proceeds received on the sale of net assets of ADS and the borrowing required to acquire the non-controlling interests in Télébec and NorthernTel, which did not recur in 2008.

In 2008, we had net repayments of short-term advances on our revolving bank credit facilities, while in 2007 we had net draws of short-term advances on these facilities. These activities, combined with net repayments of long-term debt, capital lease obligations and related party lending activities used cash of \$14.8 million in 2008, compared to using cash of \$41.4 million in 2007. In 2008, our financing activities included refinancing \$50.0 million of maturing Télébec debentures with a new long-term bank debt facility in the same amount. In 2007, our financing activities included issuing \$1.0 billion of medium-term notes and using the proceeds along with the proceeds from short-term debt to repay term bank loans as well as a net \$24.1 million to settle related interest rate derivatives. Refer to the "Liquidity" section for further discussion on our short-term and long-term debt.

In 2008, we repurchased \$55.0 million of accounts receivable from the securitization trust, while in 2007, we sold a net \$100.0 million in additional receivables. We increase or decrease the amount of accounts receivable we sell to the securitization trust based on the amount of our eligible accounts receivable and our determination of the cost effectiveness of this program.

Total distributions paid to the Fund and non-controlling interests were \$659.9 million in 2008 and \$657.3 million in 2007. The slight increase in distributions was used to enable an increase in the Fund's per unit distribution rate effective February 2008, the cost of which was partially offset by a decrease in the average number of Fund units outstanding as a result of the Fund unit repurchase program completed in 2007.

#### Investing activities

Cash used in investing activities increased by \$13.7 million in 2008, compared to 2007. Capital investments were \$528.8 million in 2008, compared to \$541.6 million in 2007, representing a decrease of 2.4 per cent. Capital expenditures were higher in 2007, compared to 2008, due to a special accelerated spending program in 2007 related to our FTTN capital investment. Lower spending on FTTN in 2008 was offset slightly with the commencement of spending related to a long-term agreement with Bell Canada to provide an enhanced transport network connecting Bell Mobility's cell sites in Atlantic Canada and regions of Quebec and Ontario. While capital investment spending declined by \$12.8 million compared to 2007, we used net cash of \$28.2 million to purchase the assets and operations of KMTS on February 1, 2008.

#### Liquidity

##### Sources of liquidity

We derive most of our liquidity from cash from operating activities, as well as bank credit facilities, a commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities to pay for capital investments, distributions and other commitments. With an anticipated increase in pension deficit funding requirements for 2009, it is likely that we will draw on our dedicated pension reserve bank facility to supplement our operating cash flows to make these contributions. Bell Aliant LP's medium-term note shelf prospectus, which was active for the 25-month period up to October 14, 2008, has expired and we plan to prepare and file a new shelf prospectus that will be available to cover future medium-term note issuances for another 25-month period. Despite the difficulties experienced in credit markets since the third quarter of 2007, and the worsening of these conditions in the second half of 2008, we continue to have access to committed bank financing and our accounts receivable securitization program. We are currently unable to issue new commercial paper in the money markets on favourable terms. We also believe it may be difficult for us to issue medium-term notes in the public debt market on favourable terms in this environment. Therefore, access to our bank credit facilities has been an important source of backup liquidity during this time and may continue to be our primary source of debt funding through 2009. Our primary bank credit facilities are in place until July 2011 and are provided by a syndicate that

consists primarily of Canadian banks, with Canadian subsidiaries of Asian and European banks committed to approximately 18 per cent of the facility loans. To this point, none of the banks in the syndicate have been subject to bankruptcy or related proceedings or required nationalization by their governments. We continue to monitor the global credit situation and are prepared to take action to preserve our access to necessary liquidity. In addition, among other measures, we continue activities to mitigate capital market risks by diversifying funding sources, maintaining sufficient capacity on our backup bank lines of credit and diversifying our pension plan investments. As a result, we have not experienced any material adverse consequences to date from recent market events with respect to our liquidity capacity.

Our capital structure is as follows:

As at December 31 (millions of dollars)	2008		2007	
Partners' equity	4,882.9	52.4%	4,506.8	49.6%
Non-controlling interest	1,662.5	17.9	1,829.6	20.2
Net debt	2,768.5	29.7	2,744.1	30.2
Total capital	9,313.9	100.0%	9,080.5	100.0%

### Partners' capital

We have an unlimited number authorized of each of the three classes of units. The number of units issued and outstanding at December 31, 2008, is as follows:

- 28,168,803 class 1 exchangeable limited partnership units;
- 132,367,606 class 2 limited partnership units; and
- 54,000 general partnership units.

Our units are not publicly traded. On January 1, 2008, we issued 8,246,429 class 2 limited partnership units to the Fund in exchange for its 36.7 per cent indirect interest in Télébec and NorthernTel. For further details on the terms and conditions associated with our units, refer to note 17 of our audited consolidated financial statements for the year ended December 31, 2008, and our Limited Partnership Agreement as available on [www.sedar.com](http://www.sedar.com).

### Debt

Our long-term debt outstanding at December 31, 2008, is as follows:

As at December 31 (millions of dollars)	Maturity	Interest rates	2008	2007
Medium-term notes	2011 – 2037	4.72% – 6.17%	2,250.0	2,250.0
Debentures	2009 – 2020	5.34% – 11.00%	144.7	196.8
Non-revolving term	2009 – 2010	floating	150.0	100.0
Other	2009 – 2020	4.09% – 12.50%	24.0	26.8
Total			2,568.7	2,573.6

The unsecured and unsubordinated medium-term notes are outstanding under Bell Aliant LP's trust indenture dated September 14, 2006. As mentioned previously, we intend to file a renewal shelf prospectus to qualify additional medium-term notes to be issued under this trust indenture in the future. The debentures are outstanding under trust indentures of Télébec and NorthernTel. During the year, we repaid at maturity \$50.0 million of Télébec debentures, refinancing it with a new \$50.0 million non-revolving term facility. Amounts drawn under our non-revolving term bank facilities include \$100.0 million, which expires in July 2009, and \$50.0 million, which expires in June 2010. Other long-term debt as at December 31, 2008, includes \$24.8 million (2007 – \$24.1 million) under capital lease obligations and smaller amounts outstanding under various other long-term debt obligations, netted with debt issue costs of \$10.1 million (2007 – \$11.6 million).

Our bank credit facilities, their availability and usage, which are classified as short-term debt at December 31, 2008, are as follows:

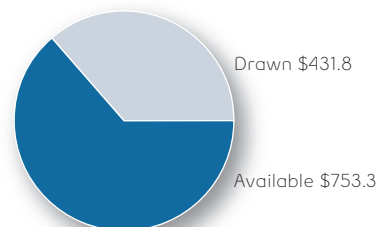
As at December 31, 2008 (millions of dollars)	Maturity	Size	Drawn	Letters of credit	Available
Revolving operating facilities	July 7, 2011	551.0	193.0	6.6	351.4
Non-revolving pension reserve facilities	July 7, 2011	450.0	15.0	51.3	383.7
Other demand operating facilities	various	16.0	0.2	5.0	10.8
Dedicated letter of credit facilities	annual	168.1	—	160.7	7.4
<b>Total</b>		<b>1,185.1</b>	<b>208.2</b>	<b>223.6</b>	<b>753.3</b>

During 2008, we increased the total size of our bank credit facilities by \$4.1 million to \$1,185.1 million as follows:

- Revolving operating facilities were decreased by \$25.0 million to a total of \$551.0 million;
- Dedicated letter of credit facilities were increased by \$30.1 million to a total of \$168.1 million; and
- Demand operating facilities were decreased by a net \$1.0 million to \$16.0 million.

Amounts drawn on our bank credit facilities were \$208.2 million at December 31, 2008, compared to \$216.7 million at December 31, 2007. During 2008, we made net repayments of \$17.0 million on our revolving operating facility and \$6.5 million net repayments on our other demand operating facilities. To preserve general liquidity and operating flexibility during this time of difficult credit conditions, during 2008, we used our non-revolving pension reserve facilities to finance special pension deficit payments, which resulted in draws of \$15.0 million outstanding at December 31, 2008. In addition, this facility supports \$51.3 million in letters of credit issued to support our 10-year pension solvency deficit-funding schedule.

**Short-term credit facilities**  
(as at December 31, 2008, in millions of dollars)



We also maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. There were no amounts issued under our commercial paper program at December 31, 2008, or December 31, 2007.

Our credit facilities contain customary covenants and provisions that could, if not satisfied, trigger an event of default. Continued access to our credit facilities under normal operating conditions is not contingent on the maintenance of a specific credit rating. However, the applicability of certain covenants is tied to maintaining investment grade credit ratings. For example, we would have a new financial ratio covenant to comply with and could be forced to restrict distributions if we were downgraded below an "investment grade" rating (generally below the "BBB" level). Also, there may be a "change of control" event of default if someone other than BCE or Bell Canada obtains control of us and our credit ratings are downgraded to below investment grade. The trust indentures of Télébec and NorthernTel also contain provisions that could restrict distributions by those partnerships if there were an event of default or, in certain cases, if certain financial tests are not met.

## Ratings

Standard and Poor's (S&P) and DBRS Limited (DBRS) have issued the following ratings for our subsidiaries:

	S&P	DBRS
Bell Aliant LP senior unsecured debt	BBB, negative outlook	BBB (high), stable trend
Bell Aliant LP commercial paper	Not rated	R-1 (low), stable trend
Télébec and NorthernTel debentures	BBB, negative outlook	BBB (high), stable trend

A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time. There have been no changes to our ratings during 2008; however, during the fourth quarter of 2008, S&P changed their outlook on our credit ratings from stable to negative.

### Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for 2008 consisted of distributions to unitholders, investments in capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. Cash requirements in 2009 are expected to be similar. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual rate of distributions to holders of Fund units is currently \$2.90 per unit. Monthly Fund distributions are approved at the discretion of the Fund trustees. The Fund is entirely dependent upon distributions from us to make its distributions. The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units was \$657.9 million for 2008 and, assuming declaration of distributions by the trustees of the Fund at the rate described above, is estimated to be in the range of \$655 million to \$660 million for 2009.
- Capital expenditures for 2008 were 16.1 per cent of operating revenues. We anticipate 2009 capital expenditures to be in the range of 13.5 to 14.5 per cent of operating revenues.
- We are required to repay short-term and long-term debt according to its terms. We intend to refinance much of this debt as it comes due through our bank facilities, as discussed in the "Sources of liquidity" and "Debt" sections. In 2009, we have a \$100.0 million non-revolving term facility that expires and we anticipate being able to finance this repayment by drawing on our revolving operating facilities.
- In 2008, we made \$49.2 million in special payments to fund our DB pension plan deficits. We anticipate that, with the negative returns experienced by plan assets in 2008, this funding requirement will increase in 2009. All of our DB pension plans have funding deficits. Declining equity markets and government bond yields have caused these deficits to increase. We were able to mitigate some of the effects of 2008 market conditions through our investment policy, with approximately 63 per cent of pension assets invested in fixed income securities at December 31, 2008. These investments are mainly designed to track the liabilities of our plans and protect the funded position. In addition, a change to the commuted value standard introduced by the Canadian Institute of Actuaries and proposed solvency funding relief announced by the federal government may also help to mitigate funding requirements for 2009. Despite these known and anticipated measures, we expect our required deficit funding for 2009 to increase to approximately \$90 to \$110 million. We plan to utilize our pension reserve bank facility to fund our pension deficit payments in 2009.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

### Other financial arrangements

#### Contractual obligations

As at December 31, 2008

(millions of dollars)	Total	2009	2010	2011	2012	2013	Thereafter
Long-term debt	2,554.0	107.8	53.1	755.4	5.7	71.3	1,560.7
Capital lease obligations	24.8	8.4	7.9	3.4	0.4	0.4	4.3
Operating leases	457.7	34.1	30.3	27.3	26.8	26.6	312.6
Purchase commitments <sup>(1)</sup>	3,745.8	359.6	317.7	302.4	300.0	291.8	2,174.3
Other long-term contractual obligations	34.4	10.3	17.2	0.3	0.3	0.3	6.0
<b>Total contractual obligations <sup>(2)</sup></b>	<b>6,816.7</b>	<b>520.2</b>	<b>426.2</b>	<b>1,088.8</b>	<b>333.2</b>	<b>390.4</b>	<b>4,057.9</b>

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

(2) We have other long-term liabilities that are not included in the table. They consist of accrued benefit liabilities, a future income tax liability, deferred revenue, and various other long-term liabilities.

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada.

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements, including those with a related party as described in note 24 to our annual consolidated financial statements for the year ended December 31, 2008.

Further details of these commitments are described in note 21 to our annual consolidated financial statements for the period ended December 31, 2008.

#### **Accounts receivable securitization**

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Under this agreement, the net cash proceeds received was \$165.0 million as at December 31, 2008, reflecting a decrease in net cash proceeds of \$55.0 million from December 31, 2007.

The accounts receivable that were sold must meet minimum performance targets. These are based on specific delinquency, default and receivable turnover ratio calculations, as well as minimum credit ratings. If these accounts receivable fail to meet these performance targets, we would no longer be able to sell our receivables and would need to repurchase the sold receivables from the trust. This repurchase would require cash, which may necessitate issuing additional debt as a source of financing.

We also have an agreement with Bell Canada whereby we sell certain of our Ontario and Quebec accounts receivable to Bell Canada and we purchase certain accounts receivable related to the wireless business in Atlantic Canada owned by Bell Canada.

Further details of these agreements are described in notes 1 and 3 to our annual consolidated financial statements for the year ended December 31, 2008.

#### **Use of derivative financial instruments**

We use derivative financial instruments in the management of interest rate and foreign currency exposures associated with our long and short-term debt and specific firm commitments. We do not use derivative instruments for speculative purposes. Since we do not trade actively in derivative instruments, we are not exposed to any significant liquidity risks relating to them. We have not used foreign currency derivative financial instruments during 2007 or 2008.

At December 31, 2008, we had outstanding fixed-floating interest rate swap contracts with notional values totalling \$250.0 million and fair values totalling \$15.2 million in favour of the counterparty. At December 31, 2007, these amounts were \$200.0 million and \$3.7 million, respectively. The fair values are recorded as derivative liabilities. These swap contracts are being accounted for as hedges of a portion of our floating-rate debt. Fair value is the amount that willing parties dealing at arm's length would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. Fair value is determined using future cash flows discounted at prevailing market rates. These estimates are affected significantly by assumptions we make about the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

Further details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 15 to our audited consolidated financial statements for the year ended December 31, 2008.

## RELATED PARTY TRANSACTIONS

### BCE and Bell Canada

BCE and Bell Canada own 100 per cent of our class 1 exchangeable limited partnership units and 100 per cent of the class B exchangeable limited partnership units of Bell Aliant LP. As the units are exchangeable into Fund units, BCE and Bell Canada beneficially owned and controlled 44.2 per cent of the Fund's outstanding units on a fully diluted basis as at December 31, 2008, the same level as at December 31, 2007.

Under a securityholders' agreement, BCE has certain rights in respect of the board of Bell Aliant Holdings LP's general partner, Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP), including the right to appoint up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, hold not less than 30 per cent of Fund units (on a fully diluted basis) and certain commercial agreements are in place. As a result of these rights, BCE controls the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP. The written consent of BCE is also required, along with a majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, hold not less than 20 per cent of Fund units (on a fully diluted basis).

We also have a series of long-term commercial agreements with Bell Canada, which provide us with a broad range of technical, operational and human resource support services required for us to operate our wireline and Internet access operations in our Ontario and Quebec territories. The agreements also provide Bell Canada with the telecommunications and support services from us required to operate its wireless operation in our Ontario and Quebec territories and in Atlantic Canada; however, this was largely in-sourced by Bell Canada during 2008. In addition, we have a commercial relationship management agreement with Bell Canada, which governs our general commercial relationship and addresses matters such as marketing co-operation, customer primership and non-competition, and branding. For greater detail on our commercial agreements, refer to note 24 of our consolidated financial statements for the year ended December 31, 2008.

In addition to the agreements described above, in the normal course of business, we enter into agreements with Bell Canada and its controlled investees to provide and purchase telecommunications and other support services, and purchase capital investments. All related party transactions are at the exchange amounts as follows:

For the years ended December 31

(millions of dollars)

	2008	2007
Operating revenues	308.8	328.1
Percentage of total operating revenues	9.41%	10.09%
Operating expenses	480.7	516.6
Net earnings (loss) from discontinued operations:		
Operating revenues	33.7	69.9
Operating expenses	40.3	84.0
Other expenses (income)	—	(0.1)
Capital investments	24.8	8.4

Balances with Bell Canada and its controlled investees are as follows:

For the years ended December 31

(millions of dollars)

	2008	2007
Accounts receivable:		
Trade	117.0	116.9
Wireless receivables	11.4	46.5
Prepayments	5.8	1.6
Long-term receivable, including current portion in accounts receivable	40.0	64.0
Payables and accruals	77.3	120.3
Distributions payable	24.2	23.5
Deferred credits	1.6	4.0

The accounts receivable from, and payables and accruals to, Bell Canada and its controlled investees are non-interest bearing and under normal credit terms and have arisen from the sale of products and provision of services referred to previously.

The long-term receivable from Bell Canada relates to consideration in respect of the deferral account agreement on the acquisition of Bell Canada's wireline operation in Ontario and Quebec and an IS/IT services plan, as discussed in notes 11 and 24 to our consolidated financial statements for the year ended December 31, 2008, and in the "Regulatory developments" section. The balance bears interest at 9.75 per cent per annum and is due over a period of 10 years.

The distributions payable to BCE and Bell Canada relate to their interest in exchangeable limited partnership units of Bell Aliant LP and Bell Aliant Holdings LP. In 2008, a total of \$289.8 million of distributions were paid to BCE and Bell Canada, compared to \$281.6 million in 2007.

Estimated future minimum payments under our contractual obligations with Bell Canada, which are included in purchase commitments in the "Contractual obligations" section, are as follows:

As at December 31, 2008

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter
Contractual obligations	308.8	291.4	285.4	285.4	284.8	2,137.7

#### The Fund

The Fund is entirely dependent on the distributions we pay to them to make their distributions. In 2008, we declared distributions payable to the Fund of \$372.8 million, compared to \$372.1 million in 2007. At December 31, 2008, \$31.2 million was included in distributions payable, compared to \$28.5 million at December 31, 2007.

In the normal course of business, we have an administration agreement with the Fund for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by the Fund trustees for administration of the Fund. The agreement has an initial term of 10 years and will be automatically extended for additional five year periods unless notice of termination is given.

These services are recorded at their exchange amounts as follows:

For the years ended December 31

(millions of dollars)	2008	2007
Management salaries	0.8	0.8
General and administrative expenses	3.2	4.7
Operating expenses	4.0	5.5

Management salaries are allocated based on estimated hours spent on our matters using actual salary rates. General and administrative expenses are based on actual expenses that are incurred on our behalf.

We have two employee unit purchase plans having similar terms for eligible full-time employees of our subsidiaries. Compensation expense related to the employee unit purchase plans of \$9.6 million was recorded in 2008, compared to \$9.9 million in 2007. Further details of the employee purchase plans are discussed in note 17 to our consolidated financial statements for the year ended December 31, 2008.

During 2007, we implemented a deferred Fund unit plan for certain executives and senior management of certain of our subsidiaries to further align long-term incentive compensation with total unitholder returns. In 2008, compensation expense of \$12.9 million related to the deferred units outstanding was recorded, compared to \$8.5 million in 2007. Further details of the deferred unit plan are discussed in note 17 to our consolidated financial statements for the year ended December 31, 2008.

At December 31, 2008, payables and accruals included \$13.6 million (2007 – \$3.0 million), which relates to the net of these operating expenses receivable as well as amounts payable to the Fund relating to the deferred unit plan.

The Fund loans us their excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The \$1.9 million promissory note that was payable to the Fund at December 31, 2007, was repaid on January 15, 2008. Subsequently issued promissory notes carried rates of interest from 1.81 per cent to 4.68 per cent per annum, resulting in \$0.1 million of interest expense being incurred during the year ended December 31, 2008. At December 31, 2008, a \$6.2 million promissory note was payable to the Fund, which carried interest at 1.81 per cent per annum. The note matured and was repaid on January 15, 2009.

#### SIGNIFICANT ACCOUNTING POLICIES

Our consolidated financial statements as at December 31, 2008, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those in effect in 2007, except for the adoption of new accounting standards as discussed herein. Further information on our significant accounting policies can be found in note 1 to our consolidated financial statements for the year ended December 31, 2008.

#### New accounting standards adopted in 2008

Commencing January 1, 2008, we adopted Section 1535, Capital Disclosures, which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed.

Commencing January 1, 2008, we adopted Section 3031, Inventories, which establishes new standards for the measurement, recognition and disclosure of inventories. There were no material effects as a result of this change.

#### Future changes in accounting policies

The Accounting Standards Board of the CICA continually updates certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

#### International financial reporting standards (IFRS)

In April 2008, the Accounting Standards Board released an exposure draft, Adopting IFRSs in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

We have developed a four-phase approach to transitioning to IFRS. A description of the phases and our progress in each phase is as follows:

**Phase 1 – Raise awareness and initial assessment**

This phase involves developing an initial project structure, establishing a formal project management process, developing initial operational and milestone conversion plans, raising awareness through education sessions, developing communications and training strategies, and performing a high-level initial assessment of key areas that are anticipated to have the greatest effect on our financial reporting and business.

We initiated a formal project plan that includes a charter, steering committee and multi-functional team, project manager, and developed an initial timeline. We have held educational awareness sessions. We performed a high-level initial assessment of the effect that conversion to the current form of IFRS will have on our operations and identified a modest number of topics possibly affecting either our financial results and/or the effort necessary to implement the changeover to IFRS. They include determining which first time adoption of IFRS exemptions we may choose to take advantage of and preparing the necessary disclosures and reconciliations on adoption; determining the comprehensiveness of our processes and procedures for property, plant and equipment in relation to IFRS; determining whether our off-balance sheet arrangements will continue to qualify under IFRS; and developing and maintaining two parallel sets of records in 2010.

**Phase 2 – Detailed assessment**

This phase involves performing a detailed analysis of the accounting and disclosure differences between Canadian GAAP and IFRS, analyzing the available accounting choices to be made and transitional options available, and modelling the initial assessment of the effect of the financial and disclosure differences on our financial statements and notes.

We have substantially completed our detailed assessments and identified the accounting and disclosure differences between Canadian GAAP and the current form of IFRS. We are currently evaluating the accounting policy choices necessary to convert to IFRS. Although we are tracking according to our project plan, continued progress is necessary before we can prudently disclose our accounting policy differences and choices available to us. We have developed an initial model of our financial statements and notes using IFRS presentation and disclosure standards, which will continue to be refined as we complete our conversion effort.

**Phase 3 – Design**

This phase involves making preliminary accounting policy decisions based on the detailed assessments, and designing the changes to be implemented to accounting, business and internal control processes and systems.

We are currently compiling and analyzing the information obtained in the detailed assessment phase and will be presenting our evaluation of and recommendations for appropriate accounting policy choices to our audit committee early in the second quarter of 2009. We have commenced designing operational process changes, which include IT and data systems, internal controls over financial reporting, and developing and maintaining two parallel sets of records in 2010. We anticipate substantially completing phase three by the end of the second quarter of 2009.

**Phase 4 – Implementation**

This phase involves finalizing accounting policy decisions, implementing the changes identified in the design phase throughout the organization, developing and monitoring revised internal control processes, delivering the required training on new processes and accounting standards, preparing external communications plans, and testing the system and process changes made through a parallel dry run process.

We anticipate commencing phase four in the second quarter of 2009. We expect phase four will run through to December 31, 2010.

#### Goodwill and intangible assets

The CICA issued Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard provides guidance on the measurement, recognition, presentation and disclosure of goodwill and intangible assets. The standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. We do not expect that the adoption of this standard will have a material effect on our operations and financial reporting.

#### Critical accounting estimates and assumptions

Under Canadian GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities in our consolidated financial statements.

We base our estimates and assumptions on past experience, current economic conditions and other factors that we believe are reasonable under the circumstances. This involves varying degrees of judgment about matters that may be inherently uncertain. The amounts currently reported in the consolidated financial statements could prove to be inaccurate or could be subject to change under different conditions or using different assumptions. We periodically evaluate the reasonableness of these estimates and assumptions.

We have reviewed the development, selection, and application of our key accounting policies and the critical accounting estimates and assumptions they involve, with the audit committee of the board of directors. We consider critical accounting estimates and assumptions to be an important part of understanding our significant accounting policies and consolidated financial statements.

#### Post-employment benefits

We maintain DB pension plans and OPEB plans for eligible employees and retirees. We perform a valuation of our DB pension plans at least every three years to determine the actuarial present value of the accrued pension and other OPEB plan benefits. The amounts reported in the consolidated financial statements in relation to the DB pension plans and OPEB plans are determined using the results of these valuations and several key assumptions determined by management. These key assumptions include the interest rate used to discount obligations, the expected rate of return on plan assets, the rate of compensation increase, the growth rate of per capita health care costs, and the expected average remaining years of service of employees. We believe that the assumptions we use are reasonable, but differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net cost of benefit plans. We account for the differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the estimated average remaining years of service of employees.

Our two most significant assumptions are the discount rate and the expected rate of return on plan assets. The rates are developed as follows:

- The discount rate is the interest rate used to determine the present value of future cash flows that we expect will be required to pay employee benefit obligations. For our plans that have predominantly active employee members, our discount rate is based on current interest rates on long-term debt of high quality corporate fixed income investments with maturities matching the estimated cash flows of the plan. For our plans consisting primarily of retired members, we base the discount rate on current annuity rates. We determine the appropriate discount rates at the end of each year.

For our plans having predominately active employee members, at December 31, 2008, our assumed discount rate was 7.0 per cent, compared to 5.6 per cent at December 31, 2007. For our plans consisting primarily of retired members, our assumed discount rate at December 31, 2008, was 4.25 per cent, compared to 5.3 per cent at December 31, 2007. The weighted average of our assumed discount rates at December 31, 2008, was 5.5 per cent. Although this weighted average rate is consistent with the prior year, the changes in discount rates within the individual plans caused a net decrease of approximately \$171 million in our DB pension plan and OPEB plan obligations at December 31, 2008, compared to December 31, 2007.

At December 31, 2007, the weighted average of our assumed discount rates was 5.5 per cent, an increase of 0.2 per cent over the prior year, which decreased our total DB pension plan and OPEB plan obligations by approximately \$93 million, compared to December 31, 2006.

- The expected rate of return on plan assets is a weighted average rate based on our long-term return expectation for capital markets and active investment management, given our plans' policy asset mix. We determine the appropriate expected rate of return at the end of every year.

For 2008, the weighted average of our assumed rates of return on plan assets was 6.3 per cent, a decrease from the rate of 6.7 per cent assumed in 2007, due to a shift in the investment policy of our pension plans away from equities toward fixed income investments with characteristics that more closely match the pension obligations. This change in our assumed rates of return resulted in an increase to the annual net benefit plans cost for DB pension plans of approximately \$11 million in 2008.

For 2007, our assumed rate of return on plan assets was 6.7 per cent, a decrease from the rate of 7.5 per cent assumed in 2006, due largely to changes in investment policy implemented in 2007. This change in assumptions increased the annual net benefit plans cost for DB pension plans by approximately \$19 million in 2007.

#### Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of net benefit plans cost for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated effect for the year ended December 31, 2008, on the value of the accrued benefit obligation and the annual net cost of benefit plans for a 0.25 percentage point change in the discount rate and the expected rate of return on plan assets.

(millions of dollars, except as otherwise noted)	Assumption	Rate change	DB pension plans		OPEB plans	
			Obligation	Cost	Obligation	Cost
Discount rate	4.25% – 7.00%	+/- 0.25%	94.0	3.0	7.0	—
Expected rate of return on plan assets	5.25% – 7.50%	+/- 0.25%	—	6.0	—	—

#### Amortization of net actuarial losses

Our accounting policies with respect to the amortization of net actuarial losses follow Canadian GAAP and recognize that future investment returns on plan assets and actuarial changes in the plans can influence the amount of the gains or losses and can reverse them over time. Specifically, amortization occurs when the size of the actuarial loss (or gain) exceeds a "corridor", which is the greater of 10.0 per cent of the accrued benefit obligation or 10.0 per cent of the market-related value of the plan assets. Using a market-related value of assets to determine this corridor smoothes the effect of actual gains and losses in certain of the plans' assets over a three year period. The effect of these accounting policies is to limit the amount of amortization of both gains and losses recognized in our earnings, except in situations when they become exceedingly large. We have unamortized actuarial losses

totalling \$871.7 million in our DB pension plans and OPEB plans at December 31, 2008 (\$634.8 million at December 31, 2007). This balance reflects new actuarial losses incurred in 2008 and the amortization of \$17.3 million of the past accumulated losses through pension expense in 2008 (\$28.7 million in 2007). Additional information regarding our accounting for post-employment benefits is included in note 9 to our consolidated financial statements for the year ended December 31, 2008.

### Long-lived assets

Our long-lived assets consist of capital investments, goodwill and indefinite-life intangibles. We make certain estimates relating to the values recorded for these assets, including determinations of useful life, the allocation of acquisition purchase prices between capital investments, goodwill, and indefinite-life intangible assets, and assessments of long-lived asset recoverability through impairment testing.

#### Estimations of useful lives

We depreciate and amortize our capital investments based on their estimated useful lives. We estimate the useful life when an asset is acquired, based on past experience with similar assets and our expectations of technological changes or other circumstances that may affect the usefulness of the asset. We review our estimates of useful life on an ongoing basis. When events or changes in circumstances indicate that asset lives do not reflect the expected remaining period of benefit, we make prospective changes to their depreciable useful lives. This could result in a change in the depreciation and amortization expense in future periods.

In 2007 and 2008, we changed the estimated useful life of some of our telecommunications equipment as a result of independent studies. These changes in accounting estimates have been applied prospectively and resulted in an increase in depreciation and amortization expense of \$18.9 million and \$9.2 million for the years ended December 31, 2008, and 2007, respectively.

#### Purchase price allocation for business acquisitions

Goodwill represents, at the date of acquisition, the excess of the costs of an acquired business over the fair values of the net amounts assigned to the individual assets acquired and liabilities assumed. Intangible assets other than goodwill are recognized at their estimated or appraised values when they arise from contractual or other legal rights or are capable of being individually sold, transferred, licensed, rented or exchanged. The identification and valuation of intangible assets of an acquired business involves the evaluation of all significant terms of the purchase that explicitly or implicitly suggest the presence of intangible assets apart from goodwill.

Goodwill recorded in 2008 related to the acquisition of the 36.7 per cent interest in Télébec and NorthernTel and the assets and operations of KMTS. The purchase price allocation for these business acquisitions was complete at December 31, 2008, which resulted in recording \$201.6 million of goodwill.

At December 31, 2006, we had not completed the purchase price allocation for the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc. and as such, the excess of the purchase price over the net assets identified as at December 31, 2006, was allocated to goodwill in the amount of \$5.4 billion. Upon finalization of the purchase price allocation in the second quarter of 2007, we reallocated \$2.9 billion from goodwill into finite-life intangibles, indefinite-life intangibles, capital investments, and future tax liabilities. The final balance of goodwill related to this acquisition as at December 31, 2007, was \$2.5 billion.

In the third quarter of 2008, this goodwill was increased by \$21.7 million as an adjustment was made to the purchase price related to the revised estimated value of the long-term receivable from Bell Canada.

## Impairment

We annually assess goodwill and indefinite-life intangibles for impairment, and when events or changes in circumstances indicate that they might be impaired. We assess the value associated with our capital investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the capital investment may not be recoverable. We assess impairment by comparing the long-lived asset's recoverable value to its carrying value. If the recoverable value is less than the carrying value, the long-lived asset is deemed impaired and the difference between fair value and carrying value is charged to other expenses in the period that the assessment is performed.

Recoverable value for goodwill and indefinite-life intangibles is based on estimates of discounted cash flows, external factors, or a combination of both. Recoverable value of capital investments is based on undiscounted cash flows. The determination of fair value requires management to make estimates and assumptions at the date of the assessment, which are by their nature subject to measurement uncertainty. As such, actual results could differ from the estimates used.

We assess goodwill in two steps. The first step involves the identification of any potential impairment by comparing the fair value of a reporting unit to its carrying value. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value of a reporting unit is less than its carrying value, we perform the second step, which involves determining the fair value for all of the reporting unit's identifiable assets and liabilities to determine the fair value of goodwill. If the fair value of the goodwill is less than its carrying value, the goodwill is deemed to be impaired by the excess of its carrying value over its fair value.

We conducted our annual goodwill and indefinite-life intangible impairment tests in the fourth quarter of 2008. We used a combination of discounted cash flows and external factors in assessing fair value of goodwill. Significant assumptions used in determining the fair value of goodwill included the weighting of external and internal information, the weighted average cost of capital and anticipated future growth rates, pension funding, capital investments and savings from productivity initiatives. The assumptions used were consistent with those outlined in the "Assumptions made in the preparation of forward-looking information" section. The annual testing of goodwill and indefinite-life intangibles in 2008 and 2007 has indicated no impairment.

We are unable to predict whether an event that triggers impairment will occur, when it will occur, or how it will affect the carrying value of the long-lived assets. During 2008 and 2007, the following events occurred triggering an impairment assessment for goodwill:

- In the first quarter of 2008, as a result of Bell Canada notifying us of their intent to discontinue using AMP as its exclusive distributor of mobility products in Atlantic Canada, we assessed the carrying value of goodwill related to AMP. An impairment charge of \$11.2 million was recorded, which reduced the carrying value of the goodwill related to AMP to zero.
- In the second quarter of 2007, upon completion of the purchase price allocation of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc., we assessed goodwill for impairment. No impairment was identified.

There were no events or changes in circumstances in 2008 or 2007 indicating that the carrying amount of the capital investment may not be recoverable.

## Income taxes

A portion of our income is earned through limited partnerships and as such is not subject to tax. The taxable income is allocated directly to our partners.

Our corporate subsidiaries are subject to tax on their taxable income. Income taxes are accounted for using the asset and liability method. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying values and income tax basis of assets and liabilities reported on the balance sheet of our subsidiaries, as well as the benefit of our subsidiaries' losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are expected to be realized. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded, when necessary, to reduce future income tax assets to the amount more likely than not to be realized.

The future tax consequences of the temporary differences, which affect the classification and calculation of our tax assets and liabilities, are based on assumptions and estimates related to expectations of future results of operations, the timing of the reversal of temporary differences and our interpretation of applicable income tax legislation and regulations. The composition of our future income tax assets and liabilities are likely to change from period to period because of the significance of these assumptions.

The calculation of our income taxes also requires significant judgment and interpretation of tax regulations and legislation, which are continually changing, to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. As our tax filings are subject to audit by the Canada Revenue Agency, such audits could materially change the amount of current and future income tax assets and liabilities if different interpretations are used. Any change would be recorded as a charge or credit to income tax expense. Any cash payment or receipt would be included in cash from operating activities.

We use judgments and estimates when calculating income taxes. If these prove to be inaccurate, or if certain tax rates or laws change, our results of operations and financial position could be materially affected in future periods. We believe that we have adequately provided for income taxes based on all information currently available.

There were no significant changes to assumptions or estimates in 2008. In the second quarter of 2007, with the finalization of the purchase price allocation related to our acquisition of Bell Canada's wireline operations in Ontario and Quebec and Bell Nordiq Group Inc., we recorded a future tax liability of \$330.9 million. A significant portion of this future tax liability relates to temporary differences between the carrying value and income tax basis of goodwill and other intangible assets. In addition, as a result of the enactment of tax rate changes in 2007, we revalued our net future tax assets and liabilities, resulting in a \$94.7 million future tax recovery.

#### **Restructuring and other charges**

As circumstances require, we engage in restructuring activities to streamline our operations and improve productivity and profitability. The development of formal plans to execute these activities requires us to estimate costs related to post-employment benefits, severance and other employee related benefits, premise rationalization, technology lease cancellation penalties and other exit costs. We make these estimates based on the terms of any contracts involved, the number of employees, their pension eligibility and other related factors. Restructuring is a complex process that can take several months or longer to complete, requiring a periodic reassessment of original estimates. In addition, we constantly evaluate whether the estimates of the remaining liabilities under our restructuring program are appropriate. As a result, we may have to change previously reported estimates when the payments are made or activities are completed. There may also be additional charges for new restructuring initiatives.

In 2007, we executed a planned restructuring of our operations to improve productivity and incurred \$27.4 million in restructuring and other charges. During 2008, we reduced the estimated cost of the 2007 restructuring activities by \$5.6 million to reflect the final costs and we estimated and recorded restructuring and other charges totalling \$66.3 million to continue these productivity initiatives into 2009.

#### Legal and regulatory contingencies

We may become involved in various litigation and regulatory proceedings in the normal course of our business. Pending litigation, regulatory initiatives and regulatory proceedings may represent potential financial loss. We accrue potential losses if we believe the loss is probable and can be reasonably estimated. Estimates of loss are based on consultation with legal counsel and involve analyzing potential outcomes and assuming various litigation strategies. Note 22 to our consolidated financial statements for the year ended December 31, 2008, presents a discussion of significant contingencies outstanding at that date.

We did not have any significant provisions relating to pending litigation or regulatory initiatives and proceedings in 2008 or 2007.

During the fourth quarter of 2008, we settled a dispute with Voice Mobility Inc. that related to our claim pursuant to a promissory note and counterclaim of breach of contract, among other things.

During the fourth quarter of 2007, we settled a dispute with Emera Incorporated (formerly N.S. Power Holdings Inc.) that related to a services contract we had terminated early.

#### REGULATORY DEVELOPMENTS

Regulatory developments in 2008, up to and including March 10, 2009, which are, or may be, significant to our business, include the following:

- **Forbearance** – When forbearance is granted by the CRTC it eliminates most regulation, including the need to file and receive CRTC approval for new service features, terms and price changes. Since July 2007, the CRTC has granted forbearance from regulation of local telephone service in numerous communities throughout all six provinces where we operate, giving our business much more flexibility to compete effectively. As of March 10, 2009, forbearance has been granted in 157 exchanges for residential service and 41 exchanges for business service, of which 32 exchanges for residential service and four exchanges for business service were granted in 2008. On May 22, 2008, the CRTC granted forbearance for local exchange service promotions in regulated areas where the combined enrolment and benefit period of the promotion are less than 12 months and similar offers have not recently been provided in the geographical area. On April 10, 2008, and September 8, 2008, the CRTC granted forbearance for the provision of inter-exchange dark fibre and intra-exchange dark fibre, respectively, allowing for greater flexibility with respect to the terms and conditions under which these business services are offered.
- **Review of regulatory measures** – In 2007, the CRTC commenced reviewing existing regulatory measures in light of the federal cabinet's 2006 policy direction. The reviews conducted in 2007 resulted in the CRTC eliminating restrictions on bundling rules and removing the requirement for regulatory approval of market trials of regulated services. The CRTC continued reviewing the regulatory measures in 2008, which resulted in the CRTC simplifying the information required in support of applications to de-standardize or withdraw tariffed services, streamlining customer

notification requirements associated with service contracts with auto-renewal clauses, simplifying the licensing regime for the provision of international services, removing restrictions on the provision of 911 services to sharing groups, streamlining the approval process for retail tariff filings, eliminating the rate adjustment plan associated with below-standard quality of service results, and reducing reporting requirements significantly. The CRTC has also initiated a number of proceedings in 2008 for the review of various social and other non-economic regulatory measures in light of the 2006 policy direction, which will continue in 2009.

- **Wholesale services review** – On March 3, 2008, the CRTC issued Telecom Decision 2008-17, which prescribed a new regulatory framework for wholesale services. The decision redefined essential services, assigned individual wholesale services to six separate categories, set out the pricing rules for each, and established transition periods leading to forbearance for some services. While the balance of our wholesale services remain subject to regulation, competitor digital network and Ethernet services, which provide fibre access and transport, as well as certain other wholesale services, will ultimately be forborne from regulation in three to five years from the date of the decision, depending on the specific nature of the service.

In a series of applications filed on May 15, 2008, we along with Bell Canada and Saskatchewan Telecommunications Holdings Corporation (the Companies) filed a series of applications requesting that the CRTC review and vary certain portions of Telecom Decision 2008-17. Competitors also requested modifications to the decision. On December 11, 2008, the CRTC issued four wholesale services decisions. The CRTC denied the Companies' application to reclassify their wholesale billing and collection services in a manner which would permit less restrictive pricing for those services and is now examining the costs and potentially the price of such services. Further, the CRTC denied the Companies' requests for a forbearance framework for all new non-essential wholesale services. The CRTC also denied a competitor's application to reclassify as essential, and thus lower the price of, wholesale Ethernet services. On January 19, 2009, the CRTC accepted our proposal to allow for off-tariff negotiated agreements for various types of mandated wholesale services. Although we continue to be required to make these services available at the standard approved tariff rates, we also have the option of providing them "off-tariff" pursuant to an agreement. This provides more flexibility to negotiate non-standard terms and conditions to address such things as price, contract length and commitment. On January 26, 2009, the CRTC issued Telecom Regulatory Policy 2009-34 in which it approved the Companies' application to eliminate the requirement for the establishment of a new wholesale asymmetric digital subscriber line (ADSL) access service. The CRTC also denied a competitor's application to reclassify wholesale ADSL services and initiated a proceeding to consider issues regarding the appropriate configuration, classification, and feasibility of an unbundled ADSL access service for use by competitors.

- **Deferral accounts** – Telecom Decision 2007-27, which established a new pricing framework for regulated telecommunications services, also eliminated the deferral account mechanism. As a result, Bell Aliant LP's deferral account, which covered our territory in Atlantic Canada, was cleared and closed during 2007. However, we are still affected by Bell Canada's and Télébec's deferral accounts, as their accumulated deferral account and the recurring annualized commitment includes amounts that arose from customers located in Ontario and Quebec, which are now in our operating territory.

During the first quarter of 2008, the CRTC issued Telecom Decisions 2008-1 and 2008-21, approving the use of Bell Canada's deferral account funds to extend broadband service to an additional 86 communities in our and Bell Canada's service areas in Ontario and Quebec, for a total of 102 communities. The CRTC also indicated that 22 additional communities are still subject to further review. In Decision 2008-1, the CRTC also approved Bell Canada's proposed initiatives to improve access to telecommunications services to persons with disabilities. Finally, the CRTC directed Bell Canada to rebate any balance remaining in its deferral account to residential customers in urban, non-high-cost serving areas within the Ontario and Quebec portions of our and Bell Canada's service areas, and to file proposals to rebate such funds. Bell Canada's accumulated deferral account commitment at December 31, 2008, was estimated to be \$152 million, which takes into account the estimated deferral account drawdown during the first quarter of 2008 associated with a CRTC-approved broadband expansion program and the initiatives associated with improving access to communications services to persons with disabilities. The annualized recurring commitment in Bell Canada's deferral account is estimated at \$16.3 million. On October 30, 2008, the CRTC directed Bell Canada and us to implement rate reductions effective December 1, 2008, for stand-alone local residential telephone access services in non-high-cost service areas in Ontario and Quebec to clear this annualized recurring commitment. On December 1, 2008, Bell Canada filed an application to review and vary the order, arguing that its obligation is limited to \$11.7 million. A CRTC determination on the amount and timing of deferral account related rate reductions is expected in the first half of 2009.

As part of our 2006 acquisition of Bell Canada's wireline operation in Quebec and Ontario, Bell Canada agreed to compensate us for the effect on our revenue of certain CRTC-mandated rate reductions in relation to the elimination of Bell Canada's deferral account for Ontario and Quebec customer accounts we acquired. As a result, we had initially established a long-term receivable related to these deferral account rate reductions in the amount of \$44.0 million. During the third quarter of 2008, based on the CRTC deferral account decisions to date, we re-estimated the value of this long-term receivable at \$22.3 million. The final value of the long-term receivable will not be known until the CRTC has made its determination on the amount and timing of the deferral account rate reductions in the first half of 2009. Due to the interaction of the rate reductions and our agreement with Bell Canada with respect to the long-term receivable amount, the net effect of these rate reductions on our business is difficult to determine.

The issues of rebates and broadband expansion using deferral account funds were before the Federal Court of Appeal (Court) in connection with two separate appeals. In 2006, certain consumer groups filed an appeal challenging the legality of the deferral accounts and the use of deferral account funds for broadband and accessibility initiatives. They argued that the funds should instead be rebated to residential customers. Bell Canada filed an appeal as well, claiming that the CRTC does not have the jurisdiction to order rebates in connection with prices they had approved on a final basis. Both appeals were heard by the Court in late January 2008, and Telecom Decision 2006-9, which outlined the approved methods to dispose of funds in a deferral account, was stayed, effectively suspending the disposition of deferral account funds, except for funds for the improvement of accessibility to communications services to persons with disabilities.

In March 2008, the Court dismissed both Bell Canada's and the consumer groups' appeals. In May 2008, Bell Canada and a competitor filed applications seeking leave from the Supreme Court of Canada to appeal the Court's decision regarding rebates. Also in May 2008, the consumer groups filed a leave to appeal application with the Supreme Court of Canada related to the Court decision to permit the use of deferral account funds for broadband expansion.

On September 25, 2008, the Supreme Court of Canada granted leave to appeal to Bell Canada, a competitor and the consumer groups. The Supreme Court also approved the extension of the stay of Telecom Decision 2006-9, as it relates to the use of deferral account funds for broadband expansion and rebates, until it issues its final decision on the appeals that it has agreed to hear. Effectively, this will delay any broadband or rebate initiatives pursuant to the CRTC's decision until disposition of the appeals, which are scheduled to be heard on March 26, 2009.

Subject to the outcome of CRTC decisions and court proceedings, we will be affected by these and further proposals of Bell Canada to satisfy their deferral account obligations, as we have agreed to contribute to the economic spending portion of the project. We are unable to estimate the effect on our financial results at this time.

- **Other developments** – On May 15, 2008, the CRTC issued Broadcasting Public Notice CRTC 2008-44 to obtain comments on the scope of a future proceeding on Canadian broadcasting in new media. On October 15, 2008, the Commission announced the nature and scope of the proceeding. Among other things, it will further examine the role of broadcasting in the new media environment, what role this environment can be expected to play in the Canadian broadcasting system in the future, and consider whether and to what extent the Commission should implement regulatory measures or incentives for the creation and promotion of Canadian broadcasting content in new media in order to meet the policy objectives of the Broadcasting Act. Comments were due by December 5, 2008, and a public hearing commenced on February 17, 2009. Any decision by the CRTC to impose regulatory measures on Internet service providers (ISPs) could have a negative financial impact on our Internet services business.

On June 10, 2008, the CRTC initiated a proceeding to address issues related to the accessibility of telecommunications and broadcasting services to persons with disabilities. The CRTC sought comments on how it can improve, where appropriate, its existing initiatives and comments, with supporting rationale, on proposals for otherwise improving the accessibility of telecommunications and broadcasting services, including those provided via the Internet and to mobile devices. Comments were filed by July 24, 2008, and a public hearing concluded on November 26, 2008. A decision from the CRTC imposing additional obligations on telecommunications service providers and broadcasting services could have an effect on our business and financial results.

On November 20, 2008, the CRTC issued a telecom public notice initiating a proceeding to review Internet traffic management practices for retail and wholesale Internet services. In this proceeding, the CRTC is gathering data and examining the Internet traffic management practices, which have been, or may be, adopted by ISPs. The CRTC also intends to determine whether such practices are consistent with the Telecommunications Act, and whether any measures are required to ensure that such practices are in accordance with that Act. Comments were due on February 23, 2009, and a public hearing is scheduled to commence on July 6, 2009. A decision from the CRTC imposing restrictions on ISPs could have a negative impact on our Internet services business.

On June 19, 2008, Cybersurf Corp. filed an application requesting that the CRTC require incumbent telephone companies to provide aggregated wholesale DSL services at speeds equivalent to all of their retail Internet offerings, or determine the conditions under which these services should be made available to competitors. On December 11, 2008, the CRTC approved in part the application with respect to the speed of aggregated wholesale DSL service where there is demand by a competitor. We submitted that this requirement was limited to services provided entirely over copper-based facilities and that it did not apply to services provided over an FTTN network. On January 13, 2009, Cybersurf Corp. filed an application seeking an order requiring incumbent telephone

companies to provide aggregated wholesale DSL speeds equivalent to all of their retail wireline Internet offerings, including those services with a fibre component. On March 3, 2009, the CRTC ruled that the requirement applies wherever the service is provided over a path that includes copper facilities, and therefore the requirement will apply to our FTTN network. We are currently reviewing our options with respect to our aggregated wholesale DSL services obligations.

## ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING INFORMATION AND RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS

### Assumptions made in the preparation of forward-looking information

A number of factors or assumptions were applied or made by us in preparing our 2009 guidance, as presented in the "Highlights of strategic focus for 2009" section, and in providing the forward-looking information referred to throughout this MD&A. The material factors and assumptions are outlined in this section.

#### Economic assumptions

Our 2009 financial guidance and forward-looking information are based on various assumptions concerning the Canadian economy and, specifically, the economies of the regions in Canada where we operate, namely Ontario, Quebec, and the Atlantic provinces. First, we assume that Canadian gross domestic product (GDP) will essentially be flat in 2009, ranging from a decline of 0.5 per cent to growth of 0.5 per cent, lower than GDP growth experienced in 2008, and consistent with estimates from the Conference Board of Canada and the Bank of Canada. We also assume that the general inflation rates will be lower than those experienced in 2008, in the range of 1.0 to 1.5 per cent. We assume that interest rates will be fairly stable, as represented by the Government of Canada's 3 to 5-year bond yields of 1.5 to 3.0 per cent; Banker's acceptances rates of 1.5 to 3.0 per cent; and credit spreads on bonds for corporate issuers like Bell Aliant LP of 4.0 to 5.0 per cent.

The current economic conditions have not caused us to modify our risk management practices. The existing philosophy and framework contemplated and was designed with the expectation that it would be applicable in all market conditions. We continue to closely measure and monitor risks using best practice methodologies and manage exposures within the risk constraints of approved policies.

#### Market assumptions

Our 2009 financial guidance and forward-looking information also reflects various assumptions about the markets in which we operate. First, we have assumed growth in Internet revenue similar to that experienced in 2008 given slowing growth in high-speed penetration rates, offset by higher ARPC and accelerated growth in revenue from IPTV services. Second, we have assumed that residential competitive losses in local and long distance services will continue at approximately the same levels as experienced in 2008, but business competitive losses will increase with expansion of competitive territory, loss of some government contracts and a slowing economy.

#### Financial and operational assumptions

The financial and operational assumptions made by us apply on a consolidated basis consistent with the previous year.

First, operating revenue growth estimates for 2009 are based upon an assumption of increasing ARPC across various lines of service.

Second, we have assumed that the percentage of residential households in our territory that will have access to a competing cable telephony offering will increase at the same rate we have experienced in recent quarters. As discussed in the "Regulatory developments" section, forbearance eliminates most regulation, and we expect the number of forborne communities to continue to eventually grow to a level that essentially mirrors the competitive footprint. Freeing us from the constraints of regulation of local services in competitive markets allows us to more effectively design and deliver appropriate product bundles and service offerings to the market to compete on a level playing field with the cable telephony providers. This should enable us to mitigate our residential NAS loss rate despite the expanded competitive footprint.

Third, we anticipate being able to more than offset local and access revenue decline, and continued long distance revenue decline, with growth from Internet, wireless and IPTV revenues. We assume that IT revenue will be stable with 2008 levels. We anticipate that we will expand the portion of homes in our residential customer market that have access to our high-speed Internet network from a current level of 74.3 per cent at December 31, 2008. This expansion, along with greater penetration of Internet services within our existing footprint, select pricing increases and new product introductions, is anticipated to contribute to continued annual growth rates in 2009 for both Internet customers and revenues. This growth rate should be fairly consistent with overall expected industry growth rates for Internet services. In 2009, we expect our FTTN coverage to increase modestly from approximately 236,000 homes passed at the end of 2008. This technology allows us to provide higher bandwidth to support applications such as IPTV, music and music downloads, gaming, conferencing and other new applications, which will support revenue growth. Although these services each have a lower contribution to EBITDA margins than the voice telecommunications revenues, we anticipate being able to generate operating cost savings through productivity measures to help offset the lower margins and other expense pressures from normal inflationary growth.

We anticipate that, with the negative returns experienced by pension plan assets in 2008, our pension deficit funding for our DB pensions will increase in 2009. All of our DB pension plans have funding deficits, and declining equity markets and government bond yields have caused these deficits to increase. We were able to mitigate some of the effects of 2008 market conditions through our investment policy, with approximately 63 per cent of pension assets invested in fixed income securities at December 31, 2008. These investments are mainly designed to track the liabilities of our plans and protect the funded position. In addition, a change to the commuted value standard introduced by the Canadian Institute of Actuaries and proposed solvency funding relief announced by the federal government may also help to mitigate funding requirements for 2009. Despite these known and anticipated measures, we expect our required deficit funding for 2009 to increase to approximately \$90 to \$110 million. We plan to utilize our pension reserve bank facility to fund our pension deficit payments in 2009.

A normalized level of cash capital taxes is assumed to be zero, reflecting the future anticipated enactment of all previously announced provincial capital tax eliminations by all of the provinces in which we operate. However, we anticipate that cash capital taxes not deducted in calculating distributable cash for the year 2009 will be in the range of \$5 to \$10 million.

Our capital expenditures will be made as required to support our existing infrastructure and to advance our strategic initiatives. We anticipate that a normal level of capital intensity for 2009 will be in the range of 13.5 to 14.5 per cent of revenues, down from 16.1 per cent in 2008.

## Risk management

Risk management is fundamental to the long-term success of any organization. For us, risk is defined as the level of exposure to uncertainties that the organization must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our unitholders. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across the organization.

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we do not presently consider material to our consolidated operations.

### Ability to achieve strategies and plans

Our initiatives for 2009, as discussed in the "Highlights of strategic focus for 2009" section, will have a wide reaching effect on our customer interactions, our internal processes, our network and our people. If we are unable to attain these initiatives on a timely basis or achieve the desired effect, we may be unable to meet our business objectives.

Our strategies and plans require us to continue to transform our cost structure. Accordingly, we are continuing to implement several productivity improvements and initiatives to reduce costs while containing our capital expenditures:

- Our relationship and agreements with entities such as Bell Canada and Bell Mobility are instrumental in achieving our productivity goals. If our relationship or agreements with these parties change so as to reduce efficiencies, this will affect our productivity objectives. Refer to the "Related party transactions" section for more details on these relationships and agreements.
- In the past, we have had to reduce the price of certain services provided to competitors and customers due to regulatory directives and competitive pressures and may have to do so again in the future. If such actions result in lower revenues, we will need to reduce our expenses at the same rate to maintain profitability.
- Many productivity improvements and cost reduction initiatives require capital expenditures to implement systems that automate or improve our operations. There is no assurance that these investments will be effective in delivering the planned productivity improvements and cost reductions. Also, throughout these productivity and cost reduction initiatives, our employees must have the necessary skills and training to directly contribute towards achieving these goals. This employee engagement will be a critical factor in determining our level of success.
- Improved customer service is critical to increasing customer retention and ARPC. It may, however, be difficult to improve customer service while significantly reducing costs. If we are unable to achieve either or both of these objectives, it could have a material and negative effect on our results of operations.

There may be a material and negative effect on our profitability if we do not successfully implement these productivity initiatives and improvements and manage capital expenditures while maintaining the quality of our service.

There is also a risk that, should the pace of our broadband rollout be slower than is currently contemplated in our business plan, our Internet growth rate could be lower than current expectations, thereby adversely affecting our expected number of Internet subscribers and revenues in 2009.

Should the previously noted risks materialize, our financial performance, including our growth prospects, could be negatively affected. We strive to mitigate these risks by developing comprehensive strategic plans that are firmly supported by corporate wide initiatives and programs that are led by our senior leadership team. These initiatives and programs are continually monitored and adjusted, if required, through the year to ensure they achieve the desired results.

#### **General economic conditions**

There are general economic trends and factors beyond our control that affect our operations and business. Such trends and factors include adverse changes in the conditions in the specific markets for our products and services, the conditions in the broader market for telecommunications services and the conditions in the domestic or global economies generally.

Our performance, and the degree to which our expectations regarding future events are realized, is affected by the general condition of the economy, as the demand for telecommunication services tends to decline when economic growth and retail activity decline. Any further slowdown in global economic activity could make the overall economic environment more uncertain and could have a dampening effect on the performance of the Canadian economy, and the realization of our expectations. It is not possible to accurately predict economic fluctuations and the consequences of such fluctuations on our performance.

We constantly monitor economic conditions and developments in the markets where we operate. We use this information in our continuous strategic and operational reviews to adjust our initiatives as economic conditions dictate.

#### **Increasing competition**

In a series of decisions beginning in the late 1970s and ending in 1998, the CRTC opened up competition in all product and service segments in which we operate. The CRTC also imposed a number of competitor safeguards and marketing restrictions on the operations of our telecommunications business. We therefore face competition for most of the services we provide, with some of our operating territories having among the most competitive telecommunications markets in North America for local residential service.

In addition to the competition that has existed for many of our services for several years, recently, other competitors have launched competing services or announced their ability or intention to offer local telephony services in a growing proportion of the territories we serve. The local competitive footprint served by cable television competitors may evolve more quickly, and eventually to a larger proportion of our existing territory, than we currently expect. Additionally, competition from non-traditional entities that may be international in scope could converge into the telecom space faster and in more areas than we currently anticipate.

Our strategy includes enhancing services and packages to create value, working with customers to provide innovative and complete solutions, improving our cost structure to enable greater price competitiveness, and expanding our IP network and capabilities to provide broader access and innovative solutions. Competition, and particularly changes in the competitive landscape, can place these strategies at risk. Increased competition and the introduction of new services by competitors may have an effect on our expected growth or on the pricing of our current services that cannot be predicted.

If any of these situations occur, our market share and revenues may be negatively affected. We actively monitor and analyze developments in the markets where we operate to evaluate our competitiveness. We believe we have core strengths and initiatives that provide us with differentiation in the marketplace and enhance our competitive position, reducing our overall competitive risk. These unique strengths and strategies of our business are described in more detail in the "Highlights of strategic focus for 2009" section.

Further, the measurement and forecasting of the size of the competitive footprint itself is subject to risks of estimation error because it depends on market data that is not generated by us and on the business plans of our competitors, of which we have no direct knowledge or control. Therefore our estimates are subject to constant revision and risk that they may be materially inaccurate.

#### Local and long distance

Competitors offer local telephone service in a large portion of our marketplace. These competitors have the ability to offer multiple product bundles, consisting of various combinations of telephone, Internet, wireless and TV. We continue to pursue our customers' business by offering value, simplicity and competitive pricing. We are also continuing to improve our ability to compete for their business by pursuing further regulatory freedoms. However, there is no assurance that this will mitigate churn and market share erosion resulting from new competitive entrants to our marketplace.

In addition to cable competitors in our local service market, a threat to our customer base continues to be the slow and gradual replacement of local landline service with wireless-only service by certain customers. This puts pressure on revenues for local service and also leads to declining revenues for services and features that are carried on the local network, including Internet and long distance. Also, the ability to port telephone numbers between wireless carriers in Canada and between wireline and wireless services may further affect our local and long distance revenues.

The value of long distance as a stand-alone service has diminished but we believe that it is an integral component in the customer solution. In the telecommunications industry, long distance is increasingly offered within flat-rate calling plans while alternatives like VoIP, instant messaging and peer-to-peer applications replace traditional calling, contributing to continued price and minute erosion. Competition continues with dial-around and prepaid card providers, traditional primary inter-exchange carrier competitors and resellers, and most recently, VoIP providers. VoIP will continue to erode traditional long distance as the technology improves and managed VoIP services are launched, making the technology transparent and more attractive to the consumer. We continue to manage the implementation of VoIP solutions in our market as part of our voice evolution strategy.

#### Internet

Internet penetration continues to grow in our market. As IP becomes standard, we are experiencing an increasingly diverse and global group of competitors ranging from cable providers with excess network capacity to IT companies, equipment providers and system integrators that increasingly bundle telephony components and professional services into solutions at commodity prices. We are challenged by these competitors as they exert pressure on our pricing, revenues and market share. We will continue to build our expertise and to serve our customers holistically, helping them evolve their networks and providing them with industry-specific solutions.

### Wireless

Wireless service is becoming increasingly important to our customers as the service improves in reliability and features. It is therefore an important competitive differentiator within our suite of services, particularly as it pertains to our packages and bundles. We currently have an arrangement with Bell Mobility to provide these services to our customers (outside of the Télébec, NorthernTel and KMTS operating territories where we provide these services directly) and as such are dependent on Bell Mobility to provide satisfactory customer service to our customers. There is no guarantee that current arrangements will continue to be available indefinitely in their present form, or that the conditions under which these have been secured will not change.

The addition of new players in the Canadian wireless market, following the competitive auction of new wireless spectrum in 2008 may heighten competition in this market and could have a material and negative effect on our results of operations, including with respect to our local and long distance business.

### Changing regulations

We are affected by decisions made by the CRTC. We have highlighted recent key developments in the "Regulatory developments" section.

Collectively, several regulatory developments during 2007 and 2008 serve to lessen the regulatory burden and have improved our marketing flexibility and ability to compete effectively. There is no guarantee, however, that these new regulatory trends will continue. There is a risk that decisions of the CRTC, and in particular the decisions relating to prices at which we must provide our competitors with access to our facilities, and our ability to manage Internet traffic over our networks, may have a negative effect on our business and results of operations. We actively monitor CRTC decisions and participate in the regulatory arena to advocate for a balanced regulatory framework, which serves our customers and the industry at large.

Apart from CRTC regulatory developments, we may also be affected by changes in the policy approach to regulation taken by the Government of Canada. For example, in December 2006, the federal cabinet issued a policy direction, which directed the CRTC to rely on market forces to the maximum feasible extent and that interference with the operation of competitive market forces be kept to the minimum extent necessary. This shift in the Government of Canada's approach to regulation led to many of the recent changes referred to previously, and in the "Regulatory developments" section, including hastening and expanding local forbearance. However, there are no guarantees that further Government of Canada initiated changes in regulation will not have a negative effect on our business and financial results.

### Reliance on systems

We rely on various complex systems that are used in the provision of services to customers and the management of customer relationships, billings and inventory. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and related data. The success of our operations depends on how well these components are protected against damage from fire, adverse weather, natural disasters, power loss, hacking, computer viruses, disabling devices, deliberate acts of vandalism, acts of war or terrorism, and other events. Any of these things could cause operations to be shut down indefinitely.

Our operations also depend on timely replacement and maintenance of our networks and equipment. Our systems are connected to the systems of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the potential threats mentioned previously, as well as labour disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could be detrimental to both our customer relationships and operating results.

To mitigate the effect of this risk, we have developed disaster recovery plans, including redundancies that have been built into our network to reduce downtime arising from natural and other disasters; however, there can be no assurance that these plans will be effective.

In addition, many aspects of our business depend to a large extent on various IT systems and software, which must be improved and upgraded regularly and replaced from time to time, sometimes at significant cost. Implementing system and software upgrades and conversions is a very complex process, which may cause adverse consequences including billing errors and delays in customer service. Should adverse consequences occur, these events could significantly damage our customer relationships and business and have a material and negative effect on our results of operations.

#### **Dependence on key suppliers**

We operate a complex array of telecommunications networks and infrastructure, which relies on access to critical products and services that are provided by third parties. Many of these products and services are highly specialized and available from a single or a limited number of suppliers. Should our access to critical products or services be impaired or interrupted, for example, due to general economic and credit market conditions, bankruptcy or insolvency proceedings affecting the supplier, labour disruptions, changes in technical standards, or for any other reason, our business and results of operations could be materially and negatively affected.

#### **Changing technology**

The telecommunications industry is affected by rapidly evolving technology and the related changes in customer demands, product and service capabilities, and prices. Technological developments are also shortening product life cycles and facilitating convergence of different segments of the increasingly global information industry. For example, VoIP, substitution of wireline services with wireless and other evolving technologies will increase the competition we face and could negatively affect future revenues. Our future success will be influenced by our ability to anticipate, invest in, and implement new technologies with the service level and prices that customers demand. Technological advances may also affect our cash flow by shortening the useful life of some of our assets. There can be no assurance that our existing technologies will satisfy future customer needs, that our existing technologies will not become obsolete in light of future technological developments, or that we will not have to incur additional capital expenditures to upgrade or replace our technology. In addition, technological advances could emerge that could reduce the costs of plant and equipment, thereby facilitating entry by potential competitors. While we believe that the level of capital investment we plan to make in 2009 is sufficient to maintain the productive capacity of our network and other assets, the effect of changing technology could result in greater investment being required in the future.

We want to provide our customers with leading edge technology, so we monitor technological advancements and consumer purchasing trends. We use this information in our continuous strategic and operational reviews to adjust our initiatives as required. In doing so, we also periodically assess the useful lives of our capital investments in light of our expectations of technological advances and make changes as required.

#### **Expenditures, capital and demand for services**

Significant expenditures on new technologies are required to remain competitive in the rapidly evolving telecommunications industry. As we update our networks, products and services, we may be exposed to incremental financial risks associated with acquiring assets that may be subject to accelerated obsolescence, and which therefore have little or short-lived commercial or economic value.

An increasingly important factor influencing network and infrastructure investments is the growth of Internet traffic and the resulting significant increase in bandwidth demand. This growth in traffic is from greater residential and business Internet usage, which has overtaken the volume of voice telephony traffic on many routes. It is uncertain to what extent this traffic will continue to exhibit high growth rates as high-speed Internet services are deployed and bandwidth intensive applications, such as video, are increasingly used by customers. While we monitor bandwidth demand and seek to optimize network performance, if these efforts are unsuccessful, or if future regulatory changes restrict our ability to manage our network, it could have a material and negative effect on our results of operations. The failure to make continued investments in our Internet networks to match or exceed higher speed services, and offer new products and services compared to our competitors, could have a detrimental effect on the pricing of our products, our future revenues and our results of operations.

We constantly evaluate the cost and benefit of our network and infrastructure investments to ensure they remain reliable for our customers and meet their increasing technical needs.

#### **Relationship with Bell Canada and the availability of business opportunities**

Bell Canada and certain of its affiliates and associates have substantial global operations and greater financial, technical and operational resources than us. We have entered into a series of long-term commercial agreements with Bell Canada, including a commercial relationship management agreement, which is discussed in further detail in the "Related party transactions" section. In the event that this agreement were to be terminated, we, Bell Canada, and our respective affiliates, associates or operating companies could thereafter compete with each other.

In addition, we have access to technical, operational and human resources from Bell Canada and its affiliates, as well as wireless products and services for our customers through Bell Mobility, under formal arrangements. Access to those resources is not exclusive and there is no guarantee that current arrangements will continue to be available indefinitely in their present form, or that the conditions under which these have been secured will not change.

We have a mutually beneficial relationship with Bell Canada and are operating under the commercial relationship management agreement and other agreements according to the agreed upon terms.

#### **Pension plan funding**

We maintain a number of DB pension plans that have funding deficiencies. Negative returns from investments in global equity markets during 2008 added to our DB pension plan deficits at the end of 2008, though the impact of the prevailing market conditions was somewhat mitigated by our investment policy, which resulted in us having approximately 63 per cent of pension assets invested in fixed income securities at December 31, 2008. This increase to our pension plan deficits has added to cash funding requirements in 2009, which we plan to fund using our pension plan reserve bank facility, and may add to cash funding requirements in future years. Refer to "Cash requirements" section for further discussion.

The DB pension plans are exposed to general future valuation risk and required funding levels for 2009 and beyond may change as required actuarial valuations are completed. If the future return on plan assets, interest on the obligations, or actual experience of the plans are better or worse than anticipated, valuations can result in either lower or higher minimum required contributions, and such differences may be material.

Pension funding relief measures first introduced in the May 2006 federal budget, and proposed again for new deficits by the federal Minister of Finance in January 2009, allow plan sponsors to extend the funding period of solvency deficits from five to 10 years under certain conditions. We are currently able to take advantage of these relief measures, in part, because we have bank facilities that allow us to issue letters of credit in lieu of making cash funding payments. If we were unable to continue to access these credit facilities or otherwise failed to qualify for the solvency funding relief, there may be an immediate requirement for higher cash funding of our DB plans.

Up until the general downturn in global equity markets in 2008, cash funding and positive investment experiences had been gradually contributing to an improved funded position for our DB pension plans. We had also shifted the asset mix and strategies in the pension plan funds to mitigate the effect that future interest rate changes and investment returns could have on the plans' funded position. As well, most of our DB pension plans are closed to new entrants, placing an eventual cap on the future growth of these obligations. However, while we continue to exercise conservatism and diligence in the management of our pension plan assets, we remain susceptible to further downturns in the global and domestic economies and equity markets, which could have a material and negative effect on our pension plan funding levels, and our business and financial results generally, and require significant increases in our future contribution requirements.

#### Liquidity and financing risk

If actual results differ from our expectations or if the assumptions in our business plan change, we may have to raise more funds than expected by issuing debt, raising equity capital, or selling or otherwise disposing of assets. Financing through equity offerings would dilute the holdings of existing equity investors. An increased level of debt financing could lower our credit ratings, increase our borrowing costs and give us less flexibility to take advantage of business opportunities.

Our ability to raise financing depends on our ability to access the capital markets and the commercial loan market. The cost of funding depends largely on market conditions, and the outlook for our business and credit ratings at the time capital is raised. If our credit ratings are downgraded, our cost of funding could significantly increase. In addition, participants in the capital and commercial loan markets have internal policies limiting their ability to invest in, or extend credit to, any single borrower or group of borrowers or to a particular industry.

Since the third quarter of 2007, the commercial paper (CP) market and the public term debt market in Canada have experienced severe disruption to normal market operations and a dramatic widening of the interest rate spreads charged for corporate credits. A so-called "liquidity crunch" occurred when many CP issuers could not reissue new CP on maturity of existing outstanding debt or to finance their growth. Many issuers were forced to use backup bank lines in place of CP, while others may not have had secure backup sources.

During 2008, credit markets around the world generally experienced a significant deterioration, resulting in what has been referred to as the "global credit crisis". In these extraordinary circumstances, the ability of businesses to access new credit and capital sources has generally become far more restricted. At the same time, these prevailing economic conditions have affected the broader economy, including dampening consumer demand for products and services generally.

While we could not have foreseen the specific events that precipitated this situation, our risk management policies do contemplate the potential for disruptions in capital markets and periods of reduced availability of credit. We are dependent on the capital markets and the commercial loan market to finance our operations. As such, our risk management efforts include diversifying funding sources, utilizing Canadian chartered banks as counterparties and liquidity providers in our hedging and securitization programs, maintaining sufficient capacity on our backup bank lines of credit to support our CP program, specifying issuer and rating limits and counterparty restrictions on our money market investments and diversifying our pension plan investments. These measures have helped to avoid any material negative effects from the recent situation. However, these unforeseen events have had some impact on our operations by causing us to rely on our revolving and term bank facilities for financing and delaying our access to public debt markets to refinance this short-term borrowing with fixed-rate long-term debt issues.

If the prevailing economic conditions persist for a long period or broaden in their scope, or if there are other shocks to financial markets, we may incur increased costs or an inability to raise financing when needed for repayments of maturing debt or for growth. If we cannot raise the capital we need, we may have to limit our ongoing capital expenditures, limit our investment in new businesses, or sell or otherwise dispose of assets. Any of these possibilities could have a material and negative effect on our cash flow from operations and growth prospects.

Strategies in place for our capital requirements are also discussed in the "Financial and capital management" section.

#### **Leverage and restrictive covenants**

We have debt service obligations in connection with the trust indentures for the issuance of debt by our operating subsidiaries and in their respective lines of credit. The degree to which we are leveraged could have important consequences:

- Our ability to make distributions, and our subsidiaries' ability to make distributions to us, may be limited if we are unable to meet the financial tests provided in these indentures and lines of credit.
- Our ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future is limited by the restrictive covenants of these indentures and lines of credit.
- A substantial portion of our cash flow from operations may be dedicated to the payment of the principal and interest on indebtedness, thereby reducing funds available for future operations.
- Certain of our borrowings are at variable rates of interest, which exposes us to the risk of increased interest rates.
- We may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures.

These trust indentures and lines of credit also contain restrictive covenants that limit management's discretion in terms of certain business matters.

Although we are currently in compliance with our restrictive covenants, failure to comply with the obligations in the trust indentures and lines of credit could result in a default that may require us to repay our debt in full. We continually consider the effect that our strategies and plans have on our leverage and restrictive covenants and monitor our compliance.

### **BCE has governance rights**

In connection with the arrangement transaction completed on July 6, 2006, to form the Fund, we entered into a securityholders' agreement with BCE and Bell Canada. Under the terms of the securityholders' agreement, for so long as BCE, directly or indirectly, holds not less than 20 per cent of the units of the Fund on a fully diluted basis, the Fund and its operating subsidiaries must obtain BCE's consent prior to entering into various transactions such as, among other things, certain mergers, joint ventures, asset sales and other material transactions. In addition, BCE and its affiliates have certain rights in terms of the nomination of trustees of the Fund and the appointment of the directors of the Fund's material operating subsidiaries. BCE and its affiliates are entitled to appoint up to a majority of the directors of the Fund's material operating subsidiaries and nominate a majority of the trustees of the Fund for so long as BCE, directly or indirectly, holds not less than 30 per cent of the units of the Fund on a fully diluted basis and our significant commercial agreements are in place. If such commercial agreements are terminated by any of the parties thereto in accordance with their terms or if BCE and its affiliates, directly or indirectly, hold less than 30 per cent of the units of the Fund on a fully diluted basis, then BCE will be entitled to appoint its proportionate share of the directors of the Fund's material operating subsidiaries and the trustees of the Fund based on its fully diluted direct and indirect ownership units of the Fund. In any event, BCE will be entitled to nominate two directors to the board of Bell Aliant Holdings GP, Bell Aliant Holdings LP's general partner, for as long as such commercial agreements are in place, irrespective of its ownership interest in the Fund (on a fully diluted basis) or its subsidiaries. BCE has complete discretion in terms of the exercise of these rights. As a result of this, the Fund and its operating subsidiaries may be restricted from entering into or carrying out transactions or activities that they may otherwise wish to do.

### **Reliance on key personnel and labour relations**

Skilled and experienced telecommunications and information technology personnel are in high demand as a result of the strong growth and competitiveness of the telecommunications industry. We may find it increasingly difficult to attract and retain the necessary resources to meet our needs. It is possible that additional incentives may be required, and that certain business initiatives may be at risk if skill shortages occur.

Approximately 54 per cent of our employees are represented by unions and are covered by collective agreements. Our unions in Atlantic Canada represent approximately 70 per cent of our total number of bargaining unit employees. The Common Interest Forum, which comprises senior executives from both Bell Aliant Holdings LP and the CEP Atlantic Communications Council (CEPACC) has been meeting regularly for more than a year, and is making progress dealing with issues that are of mutual interest to both parties. The current collective agreement expires at the end of 2011.

The remaining 30 per cent of our unionized employees work in Quebec and Ontario and are covered by nine collective agreements. An agreement, representing seven sales employees, expired at the end of 2008 and renegotiations are expected to be complete by the end of March 2009. We also have an agreement with 30 employees represented by the Teamsters in Quebec, which expires at the end of March 2009. An agreement covering approximately 150 clerical employees represented by Communications, Energy and Paperworkers Union of Canada (CEP), expires in May 2009 and we also have an agreement for the 17 technical and clerical employees represented by the International Brotherhood of Electrical Workers in the former KMTS operation, which expires at the end of 2009. We expect to successfully renegotiate all of these collective agreements during the year.

Bell Canada has a collective agreement with CEP representing approximately 7,800 clerical employees that expires in May 2009. Many of these employees provide service to us and our customers. Similarly, Bell Canada has a collective agreement with approximately 3,000 technical solutions employees, who are represented by CEP that also expires in May 2009. These employees provide service to our customers in Quebec and Ontario. Work disruptions at our significant service providers, including Bell Canada, such as work slowdowns and work stoppages due to strikes, could significantly affect our business, including our customer relationships and results of operations. To minimize the effect on our operations, we develop contingency plans that would be implemented in the event of such disruptions.

#### **Success of acquisitions and dispositions**

We may undertake the acquisition or disposition of businesses or other operations as part of our business strategies, though we have recently indicated that consolidation of our regional telecommunications industry through acquisitions is no longer one of our core business objectives. In the case of acquisitions, success is often dependent upon the efficient integration of acquired operations into our business and finding synergies in the combined undertaking. Likewise, the success of divestitures is dependent upon obtaining fair value for the operations that are sold and mitigating the financial effects of the removal of those operations from the overall enterprise. These activities also involve the investment of significant time and transactional resources, which may be lost if we are unable to complete transactions as planned. We seek to mitigate these risks through detailed planning and analysis of all such transactions and by employing skilled professional consultants and advisors.

#### **Legal contingencies and changes in laws**

We review all legal proceedings and make assessments of the likelihood of a negative result and the estimated effects. Losses are accrued for when a potential loss is deemed probable and its consequence can be reasonably estimated. However, pending or future litigation could still have a material and negative effect on results of operations, cash flows and financial position in the period in which the judgment or settlement occurs. Significant outstanding legal contingencies are described in note 22 to our consolidated financial statements for the year ended December 31, 2008.

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, and the recent changes in securities laws, which introduced statutory civil liability for misrepresentations in continuous disclosure, could materially or negatively affect our results of operations, cash flows and financial position.

#### **Tax related risks**

##### **Interest expense deduction**

Income fund structures generally involve significant amounts of subordinated intercompany or similar debt, generating substantial interest expense, which serves to reduce earnings and therefore income taxes payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed against Bell Nordinq Group Inc. (with respect to its taxation years prior to its June 30, 2007, windup) or Bell Aliant Regional Communications Inc., it would materially adversely affect the amount of cash available to us for distribution to the Fund and ultimately by the Fund to its unitholders. We believe that the interest expense inherent in our organizational structure is supportable and reasonable in light of the terms of the related indebtedness.

### Allocation of partnership income

The general partners of Bell Aliant Holdings LP, Bell Aliant LP, NorthernTel and Télébec allocate the respective incomes of such partnerships among their respective partners in accordance with the terms of the related partnership agreements. The Tax Act contains provisions which permit a reallocation of partnership income or loss among members of a partnership where the agreed-upon allocation is not reasonable in the circumstances. Although such allocations are believed to be reasonable in the circumstances, there can be no assurance that taxation authorities will not seek to challenge such allocation. If such challenge were to succeed, the amount of cash available to us for distribution to the Fund and ultimately by the Fund to its unitholders could be adversely affected.

### NON-GAAP FINANCIAL MEASURES

The terms operating income, EBITDA, standardized distributable cash and distributable cash do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. Operating income, EBITDA, standardized distributable cash and distributable cash are presented on a consistent basis from period to period.

### Operating income

Operating income represents operating revenues less expenses. We use operating income, among other measures, to assess the operating performance of our ongoing business.

The following table provides a reconciliation of operating revenues and expenses to operating income on a consolidated basis.

For the years ended December 31  
(millions of dollars)

	2008	2007
Operating revenues	3,282.0	3,253.3
Expenses	2,686.2	2,749.3
Operating income	595.8	504.0

Operating income allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use operating income to measure our ability to grow, or as a common valuation measurement in the telecommunications industry.

Operating income should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP financial measures.

### EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. Operating income is calculated before interest and taxes are deducted.

The following table provides a reconciliation of operating income to EBITDA on a consolidated basis.

For the years ended December 31  
(millions of dollars)

	2008	2007
Operating income	595.8	504.0
Add:		
Net cost of benefit plans	78.3	131.6
Depreciation and amortization	716.1	775.4
Restructuring and other charges	60.7	27.4
EBITDA	1,450.9	1,438.4

We use EBITDA, among other measures, to assess the operating performance of our ongoing business without the effects of interest, taxes, depreciation and amortization expense, net cost of benefit plans, and restructuring and other charges. We exclude depreciation and amortization expense and net cost of benefit plans because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital investments and the performance of a company's pension plan assets. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance.

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use this measure to assess our ability to service debt, make distributions to unitholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry.

EBITDA should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP measures.

#### **Standardized distributable cash and distributable cash**

Standardized distributable cash and distributable cash are both measures of cash generated from operating activities that may be available for distribution. We calculate standardized distributable cash from a cash flow perspective following CICA guidance, which uses cash from operating activities and adds or deducts the following items that affect cash flow:

- (i) Cash from operating activities of discontinued operations and the Fund, as this represents operating cash from activities, other than our continuing operations, which is available for distribution; and
- (ii) Capital expenditures.

CICA guidance on the calculation of standardized distributable cash measures would also include deductions related to any restrictions imposed on the amount of cash distributions as a result of compliance with financial covenants restrictions at the date of calculation. Our credit agreements only impose a restriction that distributions cannot exceed distributable cash over the last year if our credit ratings fall below investment grade. Since our ratings are within the investment grade categories, we are under no such restrictions.

We further adjust standardized distributable cash by the following items to determine our distributable cash:

- (i) Operating items funded through cash reserves or borrowings, such as changes in operating assets and liabilities (working capital), pension deficit funding, restructuring and other charges, and cash capital taxes in excess of normalized levels;
- (ii) Current income tax provisions (recoveries) are added back (deducted) as we have tax strategies in place to ensure that they are not payable (receivable) in cash; and
- (iii) Other elements of working capital changes that should not result in actual current or future cash flows.

All of these adjustments to determine standardized distributable cash and distributable cash can be found in our consolidated financial statements or records or the Fund's consolidated financial statements or records, with the exception of the normalization of cash capital taxes. This adjustment is a calculation where some management judgment is exercised in estimating the level of capital taxes that we will pay when future tax rate changes come into effect. We have assumed a stable capital base and the future enactment of all previously announced provincial capital tax rate reductions or eliminations by the provinces of Ontario, Quebec, New Brunswick and Nova Scotia. At this point, all of these provinces have announced phased elimination of capital taxes in prior budgets; therefore, beginning with the third quarter of 2007, our determination of distributable cash includes no cash capital taxes. The actual tax rates may differ materially as they are subject to future enacted tax laws.

The following table provides a reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

For the years ended December 31  
(millions of dollars)

	2008	2007
Cash from operating activities	1,255.5	1,202.7
Add (deduct):		
Cash from operating activities of discontinued operations	4.9	22.7
Cash from operating activities of the Fund	0.7	(2.7)
Capital expenditures	(528.8)	(541.6)
Standardized distributable cash	732.3	681.1
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Change in operating assets and liabilities (working capital)	(139.9)	(47.4)
Change in operating assets and liabilities (working capital) of the Fund	(4.6)	(2.2)
Pension deficit funding	49.2	36.6
Restructuring and other charges	60.7	27.4
Cash capital taxes in excess of normalized levels	10.4	5.8
Other adjustments:		
Current income tax expense (recovery)	(7.6)	(9.9)
Other non-cash items provided for in working capital changes	15.1	10.0
Distributable cash	715.6	701.4

The calculation of standardized distributable cash and distributable cash has been prepared using reasonable and supportable assumptions, all of which reflect our planned courses of action given management's judgement about the most probable set of economic conditions. Actual results may vary, perhaps materially, from the forward-looking assumptions used.

One of the primary metrics of our financial performance is distributable cash generated in a period. We use distributable cash, among other measures, to assess the financial performance of our ongoing business. We report standardized distributable cash to meet compliance with the CICA guidance for income trusts and other flow-through entities. These measures should not be seen as measures of liquidity or as substitutes for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to assess our ability and that of the Fund to generate a sustainable return for unitholders. Standardized distributable cash and distributable cash should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.

## CONTROLS AND PROCEDURES

### **Disclosure controls and procedures**

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities law. An evaluation of the effectiveness of our disclosure controls and procedures as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was performed under the supervision and participation of our management, including the CEO and chief financial officer (CFO). Based on the evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2008.

### **Internal control over financial reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in NI 52-109. Our internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management evaluated the design and operation of our internal control over financial reporting as of December 31, 2008, and has concluded that our internal control over financial reporting is effective. There are no material weaknesses that have been identified by management.

No changes were made in our internal control over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Management's report

## TO THE UNITHOLDERS

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that include written policies, procedures and a comprehensive internal audit program. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of directors on recommendation from the audit committee. The audit committee is also responsible for making recommendation with respect to the appointment of the independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include meeting periodically with the independent auditors, management and the internal auditors to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The internal auditors and the external auditors have free access to the audit committee both with and without management present.

Our independent auditors, Deloitte & Touche LLP, have audited our financial statements. The accompanying auditors' report outlines the scope of their examination and their opinion.



Karen H. Sheriff  
President and chief executive officer  
Bell Aliant Regional Communications  
Holdings Inc., General Partner of  
Bell Aliant Regional Communications  
Holdings, Limited Partnership



Glen LeBlanc  
Chief financial officer  
Bell Aliant Regional Communications  
Holdings Inc., General Partner of  
Bell Aliant Regional Communications  
Holdings, Limited Partnership

March 10, 2009

# Auditors' report

TO THE DIRECTORS OF BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS INC, GENERAL PARTNER OF BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP

We have audited the consolidated balance sheets of Bell Aliant Regional Communications Holdings, Limited Partnership (the "Partnership") as at December 31, 2008 and 2007, and the consolidated statements of earnings, comprehensive earnings, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche* LLP

Deloitte & Touche LLP  
Chartered Accountants  
Halifax, Nova Scotia  
March 10, 2009

# Statements

## CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

	Notes	2008	2007 (as restated, note 6)
<b>Assets</b>			
Current assets			
Cash and cash equivalents		14.6	48.1
Accounts receivable	3, 24	348.4	353.8
Inventory	4	13.3	25.7
Prepayments	24	16.5	17.3
Future income tax asset	5	40.8	27.7
Income tax receivable	5	9.1	13.4
Current assets of discontinued operations	6	15.0	—
		457.7	486.0
Capital investments			
Property, plant and equipment	7	3,726.1	3,730.1
Finite-life intangibles		3,218.3	3,154.5
		6,944.4	6,884.6
Other assets			
Long-term receivables	11, 24	34.9	66.5
Deferred charges	8	15.9	27.5
Future income tax asset	5	7.1	7.1
Accrued benefit asset	9	398.9	363.9
Indefinite-life intangibles	10	125.2	82.8
Goodwill	11	2,766.6	2,554.5
Non-current assets of discontinued operations	6	2.3	—
		3,350.9	3,102.3
<b>Total assets</b>		<b>10,753.0</b>	<b>10,472.9</b>
<b>Liabilities and partners' equity</b>			
Current liabilities			
Notes payable to related party	24	6.2	1.9
Payables and accruals	12, 24	451.2	404.1
Distributions payable	24	55.4	52.0
Future income tax liability	5	0.5	0.3
Short-term debt	13	208.2	216.7
Long-term debt due within one year	14	114.7	59.8
Current liabilities of discontinued operations	6	7.6	—
		843.8	734.8
Future income tax liability	5	453.2	455.6
Long-term debt	14	2,454.0	2,513.8
Derivative liabilities	15	15.2	3.7
Accrued benefit liability	9	421.9	410.5
Deferred credits	24	19.5	18.1
		4,207.6	4,136.5
Non-controlling interest	16	1,662.5	1,829.6
Partners' equity		4,882.9	4,506.8
<b>Total liabilities and partners' equity</b>		<b>10,753.0</b>	<b>10,472.9</b>

See accompanying notes to the consolidated financial statements

Approved on behalf of the board of directors of Bell Aliant Regional Communications Holdings Inc.,  
general partner of Bell Aliant Regional Communications Holdings, Limited Partnership

Charles White  
Director

Edward Reevey  
Director

**CONSOLIDATED STATEMENTS OF EARNINGS**

For the years ended December 31

(millions of dollars, except earnings per unit)	Notes	2008	2007 (as restated, note 6)
Operating revenues	18	3,282.0	3,253.3
Expenses			
Operating expenses		1,909.4	1,946.5
Depreciation and amortization	7, 8	716.1	775.4
Restructuring and other charges	12	60.7	27.4
		2,686.2	2,749.3
		595.8	504.0
Other expenses (income)			
Financial derivative gain	15	—	(6.4)
Other expenses (income)		(2.3)	6.6
		(2.3)	0.2
Interest charges			
Interest on long-term debt		138.0	142.1
Other interest expense		18.9	16.3
		156.9	158.4
Earnings before underlisted items		441.2	345.4
Income taxes	5		
Current tax recovery		(7.6)	(9.9)
Future tax recovery		(14.2)	(114.0)
		(21.8)	(123.9)
Earnings before non-controlling interest		463.0	469.3
Non-controlling interest		131.1	158.9
Net earnings from continuing operations		331.9	310.4
Net earnings (loss) from discontinued operations	6	(9.7)	264.3
<b>Net earnings</b>		<b>322.2</b>	<b>574.7</b>
<b>Earnings per unit</b>	<b>19</b>		
Basic from continuing operations		2.08	2.04
Basic from discontinued operations		(0.06)	1.73
Basic		2.02	3.77

See accompanying notes to the consolidated financial statements

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**

For the years ended December 31

(millions of dollars)	Note	2008	2007 (as restated, note 6)
Net earnings		322.2	574.7
Other comprehensive earnings (losses), net of tax	20	(5.5)	3.0
<b>Comprehensive earnings</b>		<b>316.7</b>	<b>577.7</b>

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

For the year ended December 31, 2008 (millions of dollars)	Notes	Partners' capital	Contri- buted surplus	Accu- mulated earnings	Distri- butions declared to unit- holders	Retained earnings	Accu- mulated other compre- hensive earnings (losses)	Total partners' equity
Balance December 31, 2007, as restated		1,548.0	0.2	734.0	(611.4)	2,873.2	(37.2)	4,506.8
Net earnings		—	—	322.2	—	—	—	322.2
Issuance of class 2 limited partnership units on business combination	2, 17	513.5	—	—	—	—	—	513.5
Distributions declared on:								
Class 1 exchangeable limited partnership units		—	—	—	(81.5)	—	—	(81.5)
Class 2 limited partnership units		—	—	—	(372.8)	—	—	(372.8)
Stock options expense		—	0.2	—	—	—	—	0.2
Other comprehensive earnings (losses), net of tax	20	—	—	—	—	—	(5.5)	(5.5)
<b>Balance December 31, 2008</b>		<b>2,061.5</b>	<b>0.4</b>	<b>1,056.2</b>	<b>(1,065.7)</b>	<b>2,873.2</b>	<b>(42.7)</b>	<b>4,882.9</b>

For the year ended December 31, 2007 (millions of dollars)	Notes	Partners' capital	Contri- buted surplus	Accu- mulated earnings	Distri- butions declared to unit- holders	Retained earnings	Accu- mulated other compre- hensive earnings (losses)	Total partners' equity
Balance December 31, 2006		2,008.9	—	158.5	(201.1)	2,870.3	—	4,836.6
Net earnings		—	—	584.3	—	—	—	584.3
Distributions declared on:								
Class 1 exchangeable limited partnership units		—	—	—	(79.1)	—	—	(79.1)
Class 2 limited partnership units		—	—	—	(331.2)	—	—	(331.2)
Stock options expense		—	0.2	—	—	2.9	—	3.1
Repayment of partners' capital	17	(460.9)	—	—	—	—	—	(460.9)
Reclassification adjustment for gains (losses) on derivatives designated as cash flow hedges		—	—	0.8	—	—	(40.2)	(39.4)
Other comprehensive earnings, net of tax	20	—	—	—	—	—	3.0	3.0
Balance December 31, 2007, as reported		1,548.0	0.2	743.6	(611.4)	2,873.2	(37.2)	4,516.4
Correction of an error	6	—	—	(9.6)	—	—	—	(9.6)
<b>Balance December 31, 2007, as restated</b>		<b>1,548.0</b>	<b>0.2</b>	<b>734.0</b>	<b>(611.4)</b>	<b>2,873.2</b>	<b>(37.2)</b>	<b>4,506.8</b>

See accompanying notes to the consolidated financial statements

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31

(millions of dollars)	Notes	2008	2007 (as restated, note 6)
<b>Cash from (used in) operating activities</b>			
Net earnings from continuing operations		331.9	310.4
Adjustments to reconcile net earnings to cash from operating activities			
Depreciation and amortization		716.1	775.4
Gain on disposal of assets		(2.5)	—
Future income tax recovery		(14.2)	(114.0)
Net cost of benefit plans	9	70.5	124.3
Funding of defined benefit pension and other post-employment benefit plans	9	(111.8)	(97.4)
Non-controlling interest		131.1	158.9
Other		(5.5)	(2.3)
Change in operating assets and liabilities		139.9	47.4
		<b>1,255.5</b>	<b>1,202.7</b>
<b>Cash from (used in) financing activities</b>			
Repurchase of accounts receivable	3	(55.0)	—
Net proceeds on sale of accounts receivable	3	—	100.0
Net proceeds (repayments) of short-term debt	13	(8.5)	208.2
Net proceeds of notes payable to related party	24	4.3	1.9
Proceeds of long-term debt	14	50.0	994.5
Repayment of long-term debt	14	(53.8)	(1,238.5)
Repayment of capital lease obligations	14	(6.8)	(7.5)
Payment to non-controlling interest	16	(0.4)	(4.1)
Net settlement of financial derivatives	15	—	(24.1)
Repayment of partners' capital	17	—	(460.9)
Distributions paid by subsidiaries to non-controlling interest	16	(213.0)	(242.7)
Distributions paid		(446.9)	(414.6)
		<b>(730.1)</b>	<b>(1,087.8)</b>
<b>Cash from (used in) investing activities</b>			
Purchase of capital investments		(528.8)	(541.6)
Proceeds on sale of capital investments		3.4	1.7
Business acquisition, net of cash received	2	(28.2)	—
		<b>(553.6)</b>	<b>(539.9)</b>
Net decrease in cash from continuing operations		(28.2)	(425.0)
Net increase (decrease) in cash from discontinued operations		(5.3)	333.7
Cash and cash equivalents, beginning of year		48.1	139.4
<b>Cash and cash equivalents, end of year</b>		<b>14.6</b>	<b>48.1</b>
<b>Supplementary disclosure</b>			
Interest paid		149.3	163.8
Income taxes recovered, net		(7.1)	(4.6)

See accompanying notes to the consolidated financial statements

# Notes

Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) was established in 2006 under the laws of the Province of Quebec, and holds the principal operations of Bell Aliant Regional Communications Income Fund (the Fund). All references to “we”, “us” or “our” refer to Bell Aliant Holdings LP and its subsidiaries.

Our operations are principally focused on regional telecommunications services primarily in Atlantic Canada, Quebec and Ontario. We provide a wide range of innovative and traditional voice and data communications services and an array of information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions.

## 1 SIGNIFICANT ACCOUNTING POLICIES

### Consolidated financial statements

We have prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

We consolidate the financial statements of all the entities we control. At December 31, 2008, our principal subsidiaries include Bell Aliant Regional Communications Inc., Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Innovatia Inc., Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). All transactions and balances between these entities have been eliminated on consolidation.

Our non-controlling interest consists of equity of our subsidiary Bell Aliant LP, held by Bell Canada.

### Comparative figures

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2008, including the discontinued operations as discussed in note 6.

### Use of accounting estimates

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates and assumptions are subject to measurement uncertainty and as such, actual results could differ from estimates used in these financial statements. We use estimates for certain items such as revenues, allowance for doubtful accounts, useful life of capital investments, asset impairments, legal and tax contingencies, employee benefit plans, income taxes, restructuring and other charges, intangible assets and goodwill. We also use estimates when recording the fair value of assets acquired and liabilities assumed in a business combination.

## 1. Significant accounting policies (continued)

During 2008, we performed asset life studies on some of our telecommunications equipment and as a result, we shortened their estimated useful lives from a range of seven to sixteen years to a range of three to fourteen years. This change in estimate was applied prospectively and resulted in an increase in depreciation and amortization expense of \$12.0 million in 2008. On an annual basis, the estimated impact of this change is a \$16.9 million increase in depreciation and amortization expense.

In the third quarter of 2008, we decreased the estimated long-term receivable associated with the acquisition of Bell Canada's wireline operation in Ontario and Quebec from \$44.0 million to \$22.3 million. The revised estimate of the long-term receivable is based on current information available but the final resolution of this matter may result in us receiving an amount that is materially different from this estimate. Refer to note 11 for further discussion.

In the third quarter of 2008, we reduced the estimate of the restructuring and other charge liability recorded in 2007 related to productivity initiatives by \$5.6 million. As departing employees had options that affected their severance, the final cost of the restructuring initiatives was materially different from our estimate. Refer to note 12 for further discussion.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments with a maturity of less than 90 days, all of which are readily convertible to cash and subject to an insignificant risk of change in fair value.

### **Transfer of receivables**

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. We record the sale when we transfer and give up control over the accounts receivable and receive net cash proceeds from the trust. The gains or losses that result from these transactions and program administration fees are recognized as other expenses (income). The gain or loss calculated is partly dependent on the carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest based on their relative fair value at the date of the transfer. We determine fair value of the accounts receivable transferred based on the value of future expected cash flows using management's best estimate of key assumptions, such as the weighted average life of accounts receivable and credit loss ratios.

We also have purchase and sale agreements to purchase certain wireless trade accounts receivable (wireless receivables) from Bell Canada and sell our Ontario and Quebec wireline trade accounts receivable to Bell Canada. We transfer these receivables at their billed amount, less a deduction for defaulted amounts. Our normal provisions for bad debts are made against the wireless receivables purchased.

### **Inventory**

Commencing January 1, 2008, we adopted Section 3031, Inventories, which was issued by the CICA, and establishes new standards for the measurement, recognition and disclosure of inventories. There were no material effects as a result of this change. Refer to note 4 for further information on inventory.

Inventory represents products or equipment purchased for resale. We measure inventory at the lower of cost and net realizable value, with cost being determined by using the specific identification method for major equipment or items that are not normally interchangeable, and the weighted average cost formula for all other inventory items. Net realizable value represents the estimated selling price for inventories less all estimated costs to sell.

## 1. Significant accounting policies (continued)

**Income taxes**

A portion of our income is earned through partnerships and as such is not subject to tax as the taxable income is allocated directly to the partners.

The income that is earned through corporate subsidiaries is subject to tax. Income taxes are accounted for using the asset and liability method. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and their corresponding tax values, as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are to be realized for tax purposes. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded, when necessary, to reduce future income tax assets to the amount more likely than not to be realized.

**Capital investments**

Capital investments are carried at cost, less accumulated depreciation and amortization. Most of our property, plant and equipment assets are amortized using the group depreciation method. When we retire assets in the ordinary course of business, we charge their original cost to accumulated depreciation and amortization. We review our estimates of the useful lives of the assets periodically and adjust them if needed. We calculate depreciation and amortization over the useful lives of the capital investments as follows:

Capital investments	Method	Estimated useful life
Property, plant and equipment		
Buildings and towers	Straight-line	10 – 40 years
Telecommunications facilities and equipment	Straight-line	3 – 40 years
Other equipment	Straight-line	3 – 20 years
Finite-life intangibles		
Software	Straight-line	2 – 7 years
Customer relationships	Straight-line	9 – 30 years
Bilateral license agreement	Straight-line	40 years
Roaming agreements	Straight-line	4.5 years

Costs capitalized on our self-constructed assets classified as plant under construction or software under development include contracted costs, labour and overhead. We do not capitalize interest costs. Depreciation commences when our plant under construction or software under development becomes operational.

We assess capital investments for impairment when events or changes in circumstances indicate that we may not be able to recover their carrying value. An impairment loss is recognized when the carrying value of the capital investment exceeds the total undiscounted cash flows expected from its use and disposition. The amount of the loss is determined by deducting the asset's fair value from its carrying value.

## 1. Significant accounting policies (continued)

**Deferred charges and credits**

Deferred charges and credits mainly include the following and are being recognized as noted:

	Recognition period	Income statement account
Deferred charges:		
Long-term customer contract costs, such as bid pursuit and other upfront costs	Length of the customer contract	Operating expenses
Costs related to short-term and long-term debt facilities	Period to maturity of the debt facilities	Other interest expense
Deferred credits:		
Deferred revenue	Length of the customer contract	Operating revenues

**Post-employment benefits**

We provide pension plans and non-pension post-employment benefits to qualified employees. These include defined benefit (DB) pension plans, defined contribution (DC) pension plans, retirement savings plans and other post-employment benefit (OPEB) plans such as life insurance and health care plans.

**DC pension and other retirement savings plans**

DC pension plan and other retirement savings plan costs are recognized and funded as employees provide services to us during the year.

**DB pension and OPEB plans**

We accrue our obligations under these plans. In the case of DB pension plans, we record the liability and any deferred actuarial gains and losses in the plans net of the fair value of plan assets, which are invested to fund that liability.

December 31 is the measurement date for our employee benefit plans. Our actuaries perform a valuation of each plan at least every three years to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits for funding purposes. The most recent actuarial valuations were performed as of December 31, 2007. The next required actuarial valuations for funding purposes will be as of December 31, 2008, and will be completed during 2009.

The cost of DB pensions and OPEBs earned by employees are actuarially determined using:

- The projected benefit method, prorated on years of service, which takes into account future salary levels;
- Management's best estimate of expected plan investment performance, salary increases, retirement age of employees and expected health care costs; and
- Discount rates that are based on current interest rates on the long-term debt of high-quality corporate issuers or, in case of certain closed plans consisting primarily of retired members, on current annuity rates.

For the purpose of calculating the expected return on plan assets, equity securities are valued at market-related value, where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years. Fixed income securities are valued at their fair value. The expected rate of return on plan assets is based on long-term forecasts of capital market returns, given our policy asset mix.

## 1. Significant accounting policies *(continued)*

We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active at the date of amendment. Certain of our plans have transitional assets or obligations that arose upon implementation of new accounting standards for employee future benefits and these assets or obligations are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan.

We use the corridor approach to calculate actuarial gains and losses that are reflected in earnings. This involves deducting the greater of 10 per cent of the benefit obligation or 10 per cent of the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees, or the average remaining lifetime of retired employees, 10 years and 23 years, respectively, at December 31, 2008 (2007 – 10 years and 23 years, respectively).

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, we account for the curtailment prior to the settlement.

### **Goodwill and indefinite-life intangibles**

Goodwill represents the excess of the cost of an acquired business over the fair value of the net amount assigned to individual assets acquired and liabilities assumed at the date of acquisition. Indefinite-life intangibles, which are not being amortized, consist of brands, and telecommunications and cable licenses.

We annually assess our goodwill and indefinite-life intangibles for impairment and when events or changes in circumstances indicate that an asset might be impaired. We assess impairment by comparing the asset's fair value to its carrying value. If the fair value is less than the carrying value, the asset is deemed to be impaired and the difference is charged to other expenses in the period that the assessment is performed.

Fair value is based on estimates of discounted cash flows, external factors, or a combination of both. The determination of fair value requires management to make estimates and assumptions at the date of the assessment, which are by their nature subject to measurement uncertainty. As such, actual results could differ from the estimates used. Significant assumptions used in determining the fair value of our goodwill and indefinite-life intangibles could include the weighting of external and internal information, the weighted average cost of capital and anticipated future growth rates, pension funding, capital investments and savings from productivity initiatives.

We assess goodwill in two steps. The first step involves the identification of any potential impairment by comparing the fair value of a reporting unit to its carrying value. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value of a reporting unit is less than its carrying value, we perform the second step which involves determining the fair value for all of the reporting unit's identifiable assets and liabilities to determine the fair value of goodwill. If the fair value of the goodwill is less than its carrying value, the goodwill is deemed to be impaired by the excess of its carrying value over its fair value.

The goodwill and indefinite-life intangibles impairment test conducted as at October 31, 2008, revealed no impairment.

## 1. Significant accounting policies (continued)

**Leases**

Leases are classified as either capital or operating leases depending on the terms of the contracts. Capital investments acquired under capital leases are depreciated consistent with their nature. Obligations under capital leases are reduced by lease payments net of imputed interest costs.

**Financial instruments**

Financial assets and financial liabilities, including derivatives, are recognized when we become a party to the contractual provisions of a financial instrument or derivative contract. All financial instruments are measured at fair value on initial recognition.

**Non-derivative financial assets and financial liabilities**

For purposes of ongoing measurement, we classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto. Subsequent measurement for these financial assets and financial liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification.

Our non-derivative financial assets and liabilities are generally classified and measured as follows:

Balance sheet account	Classification	Subsequent measurement
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost
Notes payable to related party	Other liabilities	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Short-term debt	Other liabilities	Amortized cost
Long-term debt, including amount due within one year	Other liabilities	Amortized cost

**Held for trading**

Held for trading financial assets are typically acquired with the objective to generate revenue from short-term fluctuations in price. Interest earned, gains and losses realized on disposal and unrealized gains and losses from changes in fair value are recorded in net earnings as incurred.

**Loans and receivables**

Loans and receivables result from the delivery of cash or other assets by us to counterparties in return for a promise to repay on demand or on a specified date(s). Gains and losses are recognized in net earnings in the period that the asset is derecognized or impaired. Accounts receivable are assessed for impairment at each balance sheet date and a provision for doubtful accounts is recorded based on individual account circumstances, aging of accounts receivable, historical trends and general economic conditions. Long-term receivables are periodically assessed for impairment. Where there is objective evidence that an impairment of these assets has occurred, the carrying amount of these assets is reduced with the loss being recognized in net earnings in the period of assessment. The impairment loss is measured as the difference between the carrying amount of the assets and the present value of the estimated cash flows discounted at the original effective interest rate of the assets.

**Other liabilities**

Other liabilities include all financial liabilities other than derivatives or liabilities that have been classified as held for trading.

## 1. Significant accounting policies *(continued)*

### Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Held for trading – expensed as incurred; and
- Loans and receivables, and other liabilities – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method.

As it is impracticable to use the effective interest method for transaction costs directly attributable to short-term and long-term debt facilities, which are drawn on or repaid frequently, these transaction costs are deferred and amortized on a straight-line basis over the period to maturity of the debt facilities.

### Derivative financial instruments

We may use derivative financial instruments in the management of our foreign currency and interest rate exposure. We do not use derivative financial instruments for trading or speculative purposes.

For each derivative, a determination is made whether hedge accounting can apply. Where hedge accounting can be applied, a hedge relationship is designated and documented at the inception of the derivative contracts to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in achieving its objective of offsetting either changes in the fair value or anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Currently, our derivative financial instruments consist of cash flow hedges for interest rate exposure. We do not currently use fair value or foreign currency hedges.

### Cash flow hedges

We use interest rate swap agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing or to hedge the interest rate exposure on future refinancing of existing debt or anticipated debt issuance. We designate these agreements as hedges of the anticipated future cash flows of the underlying debt. Interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment to interest charges on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

For cash flow hedges, the changes in the fair value of the effective portion of the hedging derivative, net of taxes, is recognized in other comprehensive income (loss), while the ineffective portion is recognized in interest charges. When hedge accounting is discontinued, the amounts previously recognized in accumulated other comprehensive income (loss) are reclassified to interest charges during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains and losses on derivatives are reclassified immediately to other expenses (income) when the hedged item is sold or terminated early.

## 1. Significant accounting policies (continued)

### Economic hedges

Derivatives that are economic hedges but do not qualify for hedge accounting are recognized at fair value with the change in fair value recorded in other expenses (income).

### Embedded derivatives

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are separated out of the non-derivative host contract and accounted for as a derivative unless certain criteria are met. We do not currently have any significant embedded derivatives in our contracts that require separate accounting and disclosure.

### Revenue recognition

We recognize operating revenues when they are earned, specifically, when services are provided, products are delivered to customers, persuasive evidence of an arrangement exists, amounts are fixed or determinable, and collectability is reasonably assured.

For arrangements where sub-contractors perform services for our customers, we recognize revenue based on the amounts billed to the customers when we act as the principal in the arrangement. When we act as the sub-contractor, we recognize the net amount as revenue when we perform the service.

We defer revenue recognition for payments received in advance until we provide the service or deliver the product to customers.

For fixed-price contracts, we recognize revenue using the percentage of completion method, based on performance as services are provided or contract milestones are met. If it is determined during the performance of the contract that a loss will result, a provision for the estimated loss is immediately recognized.

For transactions involving multiple products or services, we determine the separate units of accounting and allocate revenue to each based on their relative fair value, being the value it can be sold for on a stand-alone basis or other reliable evidence. Our relevant revenue recognition policies are then applied to the separate units of accounting.

We record sales revenue on sales-type leases of equipment at the inception of the lease. Finance income is recognized over the term of the lease.

### Earnings per unit

Earnings per unit is based on the weighted average number of units outstanding during the period.

### Unit-based compensation plans

Certain employees are eligible to participate in employee unit purchase plans and a deferred unit plan, which are described in note 17. Compensation expense is recorded for our contributions to the employee unit purchase plans and as units vest under our deferred unit plan.

1. Significant accounting policies *(continued)***Distributions**

The distributions per unit paid by Bell Aliant Holdings LP to holders of exchangeable LP units are equal to the distributions per unit paid to the holders of Fund units. Distributions payable to our unitholders are recorded when declared.

**Regulation of the telecommunications industry**

Certain of our subsidiaries, including Bell Aliant LP, Télébec and NorthernTel, are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act and the Broadcasting Act. The CRTC ensures that Canadians have access to reliable telephone and other telecommunications services at affordable prices, and licenses and regulates the activities of broadcasting distribution undertakings. Our business is affected by CRTC decisions over the prices we charge for specific services, primarily local and access telephone service, and other operating requirements. Refer to note 21 for further information on the deferral account, a mechanism introduced under the CRTC's Price Cap Decision of 2002.

**Future changes in accounting policies**

The Accounting Standards Board of the CICA continually amends certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

**Goodwill and intangible assets**

The CICA issued Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard provides guidance on the measurement, recognition, presentation and disclosure of goodwill and intangible assets. The standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. We do not expect any material effects on our operations and financial reporting due to the adoption of this new standard.

**International Financial Reporting Standards**

Effective January 1, 2011, International Financial Reporting Standards will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines the standards. We are currently assessing the effect that this transition will have on our operations and financial reporting.

## 2 BUSINESS COMBINATION AND ACQUISITION

**Télébec and NorthernTel**

On January 1, 2008, the Fund transferred its 36.7 per cent interest in Télébec and NorthernTel to us, in exchange for 8,246,429 class 2 limited partnership units (note 17), resulting in us recording 100 per cent of their net earnings and eliminating the non-controlling interest previously reported as of that date. The value of our units issued was determined using a combination of discounted cash flow methodology and comparable public company earnings multiple analysis.

## 2. Business combination and acquisition (continued)

As there was no substantive change in ownership of the 36.7 per cent interest in Télébec and NorthernTel, the transfer was accounted for at its carrying value on January 1, 2008. The Fund retains a nominal one unit ownership interest in each of Télébec and NorthernTel. As the Fund had accounted for its investment in Télébec and NorthernTel on an equity basis, the carrying value of the assets transferred and liabilities assumed was determined based on their respective estimated fair values on January 30, 2007, the date that the Fund acquired the remaining 36.7 per cent interest in Télébec and NorthernTel from Bell Nordiq Income Fund. The fair values of the assets transferred were adjusted for the depreciation and amortization of such assets for the period February 1, 2007, to December 31, 2007. The remainder of the consideration paid has been allocated to goodwill. This resulted in an adjustment to the carrying values of the assets and liabilities as follows:

(millions of dollars)

Assets acquired and liabilities assumed	
Property, plant and equipment (note 7)	30.2
Finite-life intangibles (note 7)	181.9
Indefinite-life intangibles (note 10)	40.6
Goodwill (note 11)	191.8
Long-term debt (note 14)	(2.3)
Non-controlling interest (note 16)	89.0
Other long-term liabilities	(17.7)
<b>Net assets acquired</b>	<b>513.5</b>

Property, plant and equipment mainly represent telecommunications facilities and equipment, and buildings. Finite-life intangibles include \$178.4 million related to customer relationships and \$3.2 million related to roaming agreements. These assets will be depreciated and amortized using the same methods and over the same useful lives as our existing capital investments of Télébec and NorthernTel. Indefinite-life intangibles include \$26.6 million related to the Télébec and NorthernTel brands and \$14.0 million related to telecommunications licenses.

Goodwill recognized in this business combination is not deductible for tax purposes.

**Kenora Municipal Telephone System (KMTS)**

On February 1, 2008, we purchased the assets and operations of KMTS for total cash consideration of \$27.1 million in addition to paying direct acquisition costs of \$1.1 million. The results of operations have been included in our consolidated financial statements since that date.

The total consideration paid has been allocated to the assets acquired and liabilities assumed based on their respective fair values on February 1, 2008. The allocation process requires an analysis of the value of customer relationships, acquired contractual rights, assumed contractual commitments and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to: quoted market prices, where available; expected future cash flows and growth rates; current replacement cost for similar capacity for certain capital assets; market rate assumptions for contractual obligations; and appropriate discount rates. The purchase price allocation also requires the calculation of future income tax assets or liabilities associated with the assets acquired and liabilities assumed. The excess purchase price over the fair value of the identifiable assets and liabilities has been allocated to goodwill.

2. Business combination and acquisition *(continued)*

The purchase price allocation was finalized in the fourth quarter of 2008 and resulted in assets acquired and liabilities assumed as follows:

(millions of dollars)

Assets acquired and liabilities assumed	
Current assets	1.2
Property, plant and equipment <i>(note 7)</i>	10.2
Finite-life intangibles <i>(note 7)</i>	5.9
Indefinite-life intangibles <i>(note 10)</i>	1.8
Goodwill <i>(note 11)</i>	9.8
Liabilities	(0.7)
<b>Net assets acquired</b>	<b>28.2</b>

Finite-life intangibles relate to customer relationships and will be amortized on a straight-line basis over 9 to 25 years. Indefinite-life intangibles include \$1.2 million related to the KMTS brand and \$0.6 million related to telecommunications licenses.

Upon finalizing the purchase price allocation in the fourth quarter of 2008, we recorded a \$1.2 million adjustment relating to periods from February 1, 2008, to December 31, 2008, for depreciation and amortization on the property, plant and equipment and finite-life intangibles.

Goodwill recognized in this business combination is not deductible for tax purposes.

### 3 TRANSFER OF RECEIVABLES

We have a revolving accounts receivable purchase and sale agreement with a securitization trust to sell an interest in a pool of trade accounts receivable owned by our subsidiary Bell Aliant LP. The pool of accounts receivable also includes wireless receivables purchased from Bell Canada of approximately \$11.4 million at December 31, 2008 (2007 – \$46.5 million) or approximately 3.2 per cent (2007 – 12.6 per cent) of the total pool of accounts receivable. In June 2007, we amended the agreement to increase the maximum amount of trade accounts receivable we can sell to the trust from \$125.0 million to \$220.0 million, which continued to be in effect throughout 2008.

As part of the securitization agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the net cash proceeds received, which is held and owned by the trust. This security, or retained interest, is transferred back to us upon the expiry of the agreement in July 2011. The retained interest is recorded in accounts receivable.

We continue to service these accounts receivable and collect the amounts owing, but the trust's interest in the collection of these accounts receivable, including accounts receivable that make up the retained interest, ranks ahead of our interest. We do not recognize a servicing asset or liability separate from the accounts receivable sold. The trust and its investors have no recourse to our other assets for failure of the customer to pay the amounts when due.

3. Transfer of receivables *(continued)*

Under the securitization agreement, the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During the term of the securitization agreement, we remain subject to certain risks of default which, should they occur, could cause the securitization agreement to end early.

The details of our trade accounts receivable sold, certain cash flows received from and paid to the trust during the year and the assumptions that were used in determining the fair value on the date of transfer are as follows:

<i>(millions of dollars, except as otherwise noted)</i>	Range 2008	2008	2007
As at December 31:			
Securitized interest in trade accounts receivable		209.3	281.0
Net cash proceeds		165.0	220.0
Retained interest		44.3	61.0
Servicing liability		0.5	0.7
For the years ended December 31:			
Collections reinvested in revolving sales		2,109.0	2,207.9
Increase (decrease) in net cash proceeds		(55.0)	100.0
Average trade accounts receivable managed		343.5	291.9
Pre-tax loss and administration fees		7.6	8.0
Assumptions:			
Average cost of funds	3.40% – 5.49%	4.24%	4.74%
Average delinquency ratio	13.67% – 19.53%	15.65%	20.79%
Average net credit loss ratio	0.30% – 0.95%	0.48%	0.87%
Weighted average life in days	40 – 50	43	46

The sensitivity of these assumptions to an immediate 10 to 20 per cent change in the amount of trade receivables is not material.

## 4 INVENTORY

For the year ended December 31, 2008, the cost of inventory recognized as an operating expense, in respect of continuing operations, was \$27.9 million (December 31, 2007 – \$30.8 million). This includes an immaterial amount of inventory write-downs (December 31, 2007 – immaterial amount). There were no material reversals of inventory write-downs in the period. A portion of the inventory of our discontinued operations is pledged as security for certain uncommitted lines of credit, which had an outstanding balance of nil at December 31, 2008 (December 31, 2007 – \$5.7 million) (note 13).

## 5 INCOME TAXES

A provision for income taxes is recognized for our corporate subsidiaries that are subject to tax. Future income taxes reflect the net tax effects of temporary differences between the carrying value and income tax basis of assets and liabilities reported on the balance sheets of our subsidiaries as well as the benefit of our subsidiaries' losses that will more likely than not be realized and carried forward to future years to reduce income taxes. The income tax effects of temporary differences in our corporate subsidiaries that give rise to significant portions of the future tax assets (liabilities) are as follows:

As at December 31 (millions of dollars)	2008	2007
Capital investments	(17.8)	(7.7)
Goodwill and other intangible assets	(456.6)	(477.0)
Pension and other post-employment benefits	(18.1)	(12.3)
Deferred charges	22.6	42.3
Loss carryforwards	167.5	203.8
Partnership income deferral	(116.8)	(182.8)
Derivative liabilities and debt issue costs	3.1	0.8
Severance and benefits	1.9	5.0
Other	8.4	6.8
<b>Total future income taxes</b>	<b>(405.8)</b>	<b>(421.1)</b>

The total future income taxes are composed of the following:

As at December 31 (millions of dollars)	2008	2007
Future income tax assets:		
Current portion	40.8	27.7
Long-term portion	7.1	7.1
Future income tax liabilities:		
Current portion	(0.5)	(0.3)
Long-term portion	(453.2)	(455.6)
<b>Total future income taxes</b>	<b>(405.8)</b>	<b>(421.1)</b>

A portion of our income is earned through partnerships. Therefore, that portion of our income is not subject to tax at the partnership level and the taxable income is allocated directly to their respective partners. These partnerships have temporary differences between the carrying value and income tax basis of assets and liabilities which flow to the partners and that would result in future tax assets and liabilities if the partnerships were subject to income tax.

## 5. Income taxes (continued)

Our portion of these temporary differences is as follows:

As at December 31 (millions of dollars)	2008	2007
Deductible temporary differences:		
Pension and other post-employment benefits	138.0	141.2
Derivative liabilities and debt issue costs	47.3	52.6
Severance and benefits	6.3	12.1
Other	11.4	1.8
	<u>203.0</u>	<u>207.7</u>
Taxable temporary differences:		
Capital investments	(1,280.6)	(1,301.0)
Deferred charges	(17.7)	(4.3)
	<u>(1,298.3)</u>	<u>(1,305.3)</u>

Significant components of income tax expense (recovery) are as follows:

For the years ended December 31 (millions of dollars)	2008	2007
Current tax recovery	(7.6)	(9.9)
Future tax expense (recovery):		
Change in temporary differences	(21.0)	(19.3)
Change in statutory rate	6.8	(94.7)
Income tax recovery	<u>(21.8)</u>	<u>(123.9)</u>

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

For the years ended December 31	2008	2007
Combined statutory income tax rate (including surtax)	33.49 %	35.74 %
Inter-company interest income earned in non-taxable entities	(29.82)	(37.25)
Income allocated to non-controlling interest	(13.24)	(15.92)
Effect of enacted future tax rates on temporary differences	1.54	(26.55)
Non-taxable gain	0.84	—
Non-deductible goodwill, amortization of intangible assets	2.77	4.72
Other permanent differences	(0.52)	3.39
Effective income tax rate	<u>(4.94)%</u>	<u>(35.87)%</u>

### Tax losses

At December 31, 2008, our corporate subsidiaries had \$546.9 million (2007 – \$640.9 million) in non-capital tax losses that are available to reduce taxable income in future years. The tax benefit associated with \$510.5 million of these losses (2007 – \$605.0 million) has been recognized as part of the future tax asset. These losses expire in varying annual amounts from 2011 to 2028. No tax benefit has been recognized for \$36.4 million (2007 – \$35.9 million) of these losses. The losses for which no tax benefit has been recognized expire in varying annual amounts from 2011 to 2026.

At December 31, 2008, our corporate subsidiaries have no capital losses available to be carried forward to reduce capital gains in future years (2007 – nil).

## 6 DISCONTINUED OPERATIONS

### Defence, security and aerospace business (DSA)

On August 5, 2008, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) announced that they entered into an asset purchase agreement for CAE to acquire our DSA business unit, which currently operates under the xwave brand. The proceeds on closing will be in the range of \$13.0 million to \$13.8 million, subject to the actual date of closing, with an additional \$11.0 million of proceeds contingent upon the occurrence of certain events, for potential total proceeds in the range of \$24.0 million to \$24.8 million. The transaction is subject to the satisfaction of certain conditions and is anticipated to close in the second quarter of 2009. As a result, we reclassified the results of DSA's operations as discontinued operations. Accordingly, prior period consolidated statements of earnings and cash flows have been reclassified to reflect this change.

On the consolidated balance sheet as at December 31, 2008, the net assets of the DSA business unit were presented as assets and liabilities of the discontinued operations at their carrying amounts. The following table shows the major categories of the assets and liabilities of the discontinued operations:

As at December 31, 2008

Current assets of discontinued operations	
Accounts receivable	14.9
Prepayments	0.1
	15.0
Non-current assets of discontinued operations	
Property, plant and equipment	0.7
Finite-life intangibles	0.1
Deferred charges	1.5
	2.3
Current liabilities of discontinued operations	
Payables and accruals	7.6
	7.6

### Atlantic Mobility Products Limited Partnership (AMP)

AMP had an arrangement with Bell Canada to be their exclusive distributor of mobility products in Atlantic Canada, which Bell Canada discontinued effective July 4, 2008. The loss of the exclusive arrangement has resulted in the elimination of our wholesale distribution of mobility hardware and accessories business. Accordingly, the results of operations of AMP have been presented as discontinued operations. In 2008, AMP sold \$3.7 million of inventory to Bell Canada at cost as part of the winding down activities.

### SalesBridge Canada Corp. (SalesBridge) and Aliant Directory Services (ADS)

In 2007, the results of operations of SalesBridge and ADS were reported as discontinued operations. SalesBridge is being wound up and had no operating activity during 2008, and the net assets and operations of ADS were sold in April 2007.

The summarized statements of earnings for the discontinued operations are as follows:

For the years ended December 31 (millions of dollars)	2008			2007				
	DSA	AMP	Total	DSA	AMP	Sales- Bridge	ADS	Total
Operating revenues	26.8	50.6	77.4	26.6	93.5	—	19.8	139.9
Expenses	25.4	47.3	72.7	23.3	85.5	1.0	7.7	117.5
Write-down of goodwill (note 11)	—	11.2	11.2	—	—	—	—	—
Gain on sale, as restated	—	—	—	—	—	—	304.5	304.5
Income tax expense (recovery)	0.4	2.8	3.2	0.8	2.2	(0.3)	60.2	62.9
Non-controlling interest	—	—	—	—	—	(0.3)	—	(0.3)
Net earnings (loss) from discontinued operations	1.0	(10.7)	(9.7)	2.5	5.8	(0.4)	256.4	264.3

## 6. Discontinued operations (continued)

**Correction of an error**

In the fourth quarter of 2008, we determined that the gain on sale of ADS, reported in the second quarter of 2007, was overstated by \$9.6 million due to an error in the carrying value of net assets of ADS at the time of the sale. Accordingly, the 2007 financial results were restated to reduce the gain on sale included in net earnings (loss) from discontinued operations by \$9.6 million and to decrease the 2008 opening partners' equity by the same amount. This reduced basic earnings per unit from discontinued operations by \$0.07 for the year ended December 31, 2007.

## 7 CAPITAL INVESTMENTS

As at December 31, 2008 (millions of dollars)	Cost	Accumulated depreciation and amortization	Net book value
<b>Property, plant and equipment</b>			
Land	24.6	—	24.6
Buildings and towers	604.5	258.3	346.2
Telecommunications facilities and equipment	7,498.3	4,406.7	3,091.6
Other equipment	363.9	243.8	120.1
Plant under construction	138.0	—	138.0
Materials and supplies	5.6	—	5.6
	<b>8,634.9</b>	<b>4,908.8</b>	<b>3,726.1</b>
<b>Finite-life intangibles</b>			
Software	467.9	274.5	193.4
Customer relationships	2,878.4	295.4	2,583.0
Bilateral license agreement	464.5	28.9	435.6
Roaming agreements	12.4	6.1	6.3
	<b>3,823.2</b>	<b>604.9</b>	<b>3,218.3</b>
	<b>12,458.1</b>	<b>5,513.7</b>	<b>6,944.4</b>

As at December 31, 2007 (millions of dollars)	Cost	Accumulated depreciation and amortization	Net book value
<b>Property, plant and equipment</b>			
Land	24.5	—	24.5
Buildings and towers	572.6	240.1	332.5
Telecommunications facilities and equipment	7,099.7	3,978.4	3,121.3
Other equipment	353.3	228.1	125.2
Plant under construction	121.1	—	121.1
Materials and supplies	5.5	—	5.5
	<b>8,176.7</b>	<b>4,446.6</b>	<b>3,730.1</b>
<b>Finite-life intangibles</b>			
Software	443.0	263.8	179.2
Customer relationships	2,694.1	172.2	2,521.9
Bilateral license agreement	464.5	17.2	447.3
Roaming agreements	9.2	3.1	6.1
	<b>3,610.8</b>	<b>456.3</b>	<b>3,154.5</b>
	<b>11,787.5</b>	<b>4,902.9</b>	<b>6,884.6</b>

## 7. Capital investments *(continued)*

As a result of the acquisition of the 36.7 per cent interest in Télébec and NorthernTel and the assets and operations of KMTS, as discussed in note 2, we recorded an additional \$40.4 million in property, plant and equipment and \$187.8 million in finite-life intangibles in 2008.

Capital investments include the cost of assets acquired under capital leases of \$37.6 million (2007 – \$33.0 million) and the related accumulated amortization of \$9.9 million (2007 – \$8.3 million).

We recorded aggregate depreciation and amortization expenses on property, plant and equipment and finite-life intangibles for the year ended December 31, 2008, of \$514.5 million and \$201.2 million, respectively (December 31, 2007 – \$523.2 million and \$251.7 million, respectively).

## 8 DEFERRED CHARGES

As at December 31  
(millions of dollars)

	2008	2007
Customer contract costs	1.7	11.7
Debt issue costs <i>(note 1)</i>	2.4	3.5
Other	11.8	12.3
	15.9	27.5

We recorded aggregate amortization expense on deferred charges for the year ended December 31, 2008, of \$0.4 million (2007 – \$0.5 million).

## 9 POST-EMPLOYMENT BENEFITS

We provide pension and non-pension post-employment benefits to most of our employees. These include DC pension plans, DB pension plans, retirement savings plans and OPEB plans.

### DC pension plans and other retirement savings plans

For most member-employees, our DC pension plans and other retirement savings plans require employer contributions and employee contributions of between nil and 6 per cent of pensionable earnings, depending on the plan. For some executives, there is a DC retirement savings plan that requires employer contributions of up to 15 per cent of the executive's eligible earnings. The total cost of our DC pension plans is equal to our required contributions and was \$7.9 million for the year ended December 31, 2008 (2007 – \$7.3 million).

### DB pension plans

Our DB pension plans provide pensions to employees who retire after meeting certain age and service conditions. Pensions are based on specified pension rates applied to the employees' years of service and best five-year average earnings. Our DB pension plans are contributory for certain members and non-contributory for others, depending on the plan. All DB pensions are integrated with the Canada Pension Plan and include limited indexing to help protect the income of retired members from inflation.

9. Post-employment benefits *(continued)***OPEB plans**

The OPEB plans we provide to eligible retiring employees include health care coverage, life insurance and certain other benefits. We do not maintain a trust fund to pay for OPEBs, rather we pay the benefits directly to the plan carrier or to the retired employees.

In January 2007, we made changes to certain of our OPEB plans that will limit future benefits. These changes resulted in a reduction in past service costs of \$14.8 million, which is being amortized on a straight-line basis over the expected average remaining service lives of affected employees.

**Components of accrued benefit asset (liability)**

The following table shows the status of and changes in the obligations and assets related to the DB pension and the OPEB plans for the years ended December 31:

(millions of dollars)	DB pension plans		OPEB plans	
	2008	2007	2008	2007
Plan obligations:				
Accrued benefit obligation, beginning of year	2,964.3	2,940.6	208.3	220.3
Employee current service contributions	4.2	4.3	—	—
Current service cost	62.1	64.6	2.2	2.5
Interest on the obligation	161.1	154.6	11.2	10.9
Past service costs relating to plan amendments	—	—	—	(14.8)
Actuarial (gains) losses	(171.4)	(88.5)	4.0	(3.4)
Transfers from other plans	—	9.5	—	—
Benefits paid out of the plan	(120.2)	(120.8)	(7.4)	(7.2)
Accrued benefit obligation, end of year	2,900.1	2,964.3	218.3	208.3
Plan assets:				
Fair value of plan assets, beginning of year	2,516.7	2,443.8	—	—
Actual return on plan assets	(282.1)	89.7	—	—
Benefits paid out of the plans	(120.2)	(120.8)	(7.4)	(7.2)
Employee current service contributions	4.2	4.3	—	—
Transfers from other plans	—	9.5	—	—
Employer cash contributions to the plans	104.4	90.2	7.4	7.2
Fair value of plan assets, end of year	2,223.0	2,516.7	—	—
Plan deficit, end of year	(677.1)	(447.6)	(218.3)	(208.3)
Unamortized actuarial losses	823.8	587.8	47.9	47.0
Unamortized past service costs	52.8	58.3	(52.1)	(60.2)
Unamortized transitional (asset) obligation	—	(3.0)	—	0.8
Valuation allowance	—	(21.4)	—	—
Accrued benefit asset (liability), end of year	199.5	174.1	(222.5)	(220.7)
Accrued benefit asset	398.9	363.9	—	—
Accrued benefit liability	(199.4)	(189.8)	(222.5)	(220.7)

## 9. Post-employment benefits (continued)

Effective July 7, 2006, we created a new DB pension plan for employees who transferred employment to us from Bell Canada. The accrued benefit obligation and the fair value of the plan assets relating to the prior service earned while participating in Bell Canada's pension plan are included in our DB pension assets and accrued benefit obligation reflected in the previous table. The asset transfer values have been calculated per the agreed upon terms, but the transfer of assets from Bell Canada's pension plan has not yet received regulatory approval. As well, on January 1, 2005, certain management and unionized employees had transferred membership and past service benefits from the DC to the DB pension plans. The DC assets of these employees and the corresponding obligation were reflected as transfers to DB pension plans in that year but we are awaiting regulatory approval for the plan amendments and corresponding asset transfers.

All of our individual DB pension plans have deficits where the accrued benefit obligation exceeds the fair value of plan assets, therefore, the previous table also reflects the aggregated values of the DB pension plans with deficits.

**Net cost of benefit plans**

The following table shows the components of the net cost of benefit plans:

For the years ended December 31 (millions of dollars)	DB pension plans		OPEB plans	
	2008	2007	2008	2007
Current service cost	62.1	64.6	2.2	2.5
Interest on the accrued benefit obligation	161.1	154.6	11.2	10.9
Actual return on plan assets	282.1	(89.7)	—	—
Actuarial (gains) losses	(171.4)	(88.5)	4.0	(3.4)
Past service costs relating to plan amendments	—	—	—	(14.8)
Elements of employee future benefit plans cost, before recognizing its long-term nature	333.9	41.0	17.4	(4.8)
Deficiency of actual return over expected return	(441.5)	(65.9)	—	—
Deferral of amounts arising during the year:				
Actuarial gains (losses) on accrued benefit obligation	171.4	88.5	(4.0)	3.4
Past service costs relating to plan amendments	—	—	—	14.8
Amortization of deferred amounts:				
Past service costs	5.5	5.5	(8.1)	(7.9)
Net actuarial losses	15.7	26.4	1.6	2.3
Transitional (asset) obligation	—	(0.6)	—	0.2
Adjustments to recognize long-term nature of employee future benefit plans cost	(248.9)	53.9	(10.5)	12.8
Increase (decrease) in valuation allowance	(21.4)	21.4	—	—
<b>Net cost of benefit plans</b>	<b>63.6</b>	<b>116.3</b>	<b>6.9</b>	<b>8.0</b>

**Assumptions**

The measurement of the accrued benefit obligation and the annual net benefit plans cost for the DB pension plans and OPEB plans requires an actuary to perform the calculations. We make several assumptions, which are used as input to the actuarial calculations. The key assumptions are:

	2008	2007
Discount rate, end of year	5.50%	5.50%
Discount rate, end of preceding year	5.50	5.30
Expected rate of return on plan assets	6.30	6.70
Rate of compensation increase	3.00	3.00
Growth rate of per capita health care costs, first five years	10.00	8.00
Growth rate of per capita health care costs, thereafter	4.50%	4.50%

## 9. Post-employment benefits (continued)

The discount rate is a weighted average of the discount rates used to value the accrued benefit obligations of our individual DB pension and OPEB plans. We have certain plans that predominantly have only active employee members and others with only retiree members. Our DB pension plans are closed to new members. For plans that have predominantly active employee members, we base the discount rate on current interest rates for the long-term debt of high-quality corporate issuers. In the case of plans that have only retiree members, we base the discount rate on current annuity rates. Similarly, these demographic factors affect our investment policies for plan assets and therefore our expected rates of return on plan assets. At December 31, 2008, our individual plans are discounted at rates that range from 4.25 per cent to 7.00 per cent (December 31, 2007 – 5.30 per cent to 5.60 per cent). The 2008 net actuarial gains of \$167.4 million relate primarily to changes made to our discount rate assumptions at December 31, 2008. For the year ended December 31, 2008, we used expected rates of return on individual plan asset portfolios that ranged from 5.25 per cent to 7.50 per cent (2007 – 6.00 per cent to 7.50 per cent).

**Sensitivity to changes in assumptions**

The value of the accrued benefit obligation and the amount of net benefit plans cost for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated effect on the value of the accrued benefit obligation and the annual net cost of benefit plans for a 0.25 percentage point change in the discount rate, the expected rate of return on plan assets and rate of compensation increase. The table also shows the sensitivity of a 1.0 percentage point change in the assumed growth in per capita health care costs.

(millions of dollars, except as otherwise noted)	Assumption	Rate change	DB pension plans		OPEB plans	
			Obligation	Cost	Obligation	Cost
Discount rate	4.25 – 7.00%	+/-0.25%	94.0	3.0	7.0	—
Expected rate of return on plan assets	5.25 – 7.50	+/-0.25	—	6.0	—	—
Rate of compensation increase	3.00	+/-0.25	17.0	1.0	—	—
Growth rate of per capita health care costs	4.50 – 10.00%	+1.00 -1.00%	— —	— —	26.0 (22.0)	1.0 (1.0)

**Investment of DB pension plans assets**

Our investment policy is to maintain a diversified portfolio of assets, invested in a prudent manner to balance the security of the funds with long-term growth objectives for the assets. We strive to maximize long-term returns while maintaining a desired range of surplus and funding volatility. The asset mix policy includes the following targets and actual allocations as at December 31:

Asset category	Target weight	Percentage of plan assets	
		2008	2007
Domestic bonds/fixed income securities	55 – 65%	63%	59%
Canadian equity securities	10 – 15	10	15
Non-Canadian equity securities	25 – 30	27	26
Total		100%	100%

The asset mix policy is established through consideration of many factors, including plan funded ratios, plan demographics, tolerance for fluctuations in market value, portfolio diversification and the targeted long-term rate of return for the assets. Foreign exchange risk is inherent in the asset mix policy and foreign currency fluctuations may significantly affect the Canadian dollar returns on the portfolio, especially over short time periods. Our policy is to hedge a portion of the risk of foreign currency fluctuations within the asset portfolios.

## 9. Post-employment benefits (continued)

Over the 10 year period ended December 31, 2008, our weighted average rate of return for our DB pension plans was 5.2 per cent per annum (December 31, 2007 – 7.2 per cent).

Our portfolios are not permitted to directly hold units of the Fund or debt instruments of Bell Aliant LP. Our portfolios do hold units of index funds that may hold units of the Fund or debt instruments of Bell Aliant LP by virtue of the fact that these securities are included in the indices.

The total value of our securities and those of our related issuers held directly or indirectly in our portfolios was as follows:

As at December 31 (millions of dollars, except as otherwise noted)	2008		2007	
	Approximate value	Approximate per cent of total plan assets	Approximate value	Approximate per cent of total plan assets
Plan assets held				
Common shares of BCE Inc. (BCE)	4.4	0.20%	4.1	0.20%
Debentures of BCE and Bell Canada	4.8	0.20	7.4	0.30
Securities of the Fund or Bell Aliant LP, held indirectly	0.4	—	1.3	—
	9.6	0.40%	12.8	0.50%

**Benefit plan contributions**

We are responsible for adequately funding our DB pension plans. The required contributions to the registered plans are made to a trust fund that is used to pay benefits under the plans. These contributions are determined by actuarial funding valuations and reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are funding the registered DB pension plans through contributions that meet or exceed the applicable statutory funding rules and regulations governing the particular plans. Part of the funding for our DB pension plans is satisfied through the purchase of letters of credit (note 13) held in trust for the benefit of the plans.

The DB and DC pension arrangements for executives and OPEB plans are not registered pension plans. We fund payments under these plans directly when the benefits are paid. Certain benefits under the executive DB and DC pension arrangements are secured by letters of credit (note 13) held in trust for the benefit of the named current and retired executives.

Our contributions to DB and DC pension plans as well as OPEB plans are as follows:

For the years ended December 31 (millions of dollars)	2008	2007
DB pension plans contributions	104.4	90.2
OPEB plans contributions	7.4	7.2
Funding of DB pension and OPEB plans	111.8	97.4
DC pension plans contributions	7.9	7.3
Total contributions	119.7	104.7

## 10 INDEFINITE-LIFE INTANGIBLES

For the years ended December 31

(millions of dollars)

	2008	2007
Télébec and NorthernTel brands	72.8	46.2
KMTS brand	1.2	—
Telecommunication licenses	35.5	20.9
Cable licenses	15.7	15.7
	125.2	82.8

In 2008, as a result of the acquisition of the 36.7 per cent interest in Télébec and NorthernTel and the assets and operations of KMTS, as discussed in note 2, we recorded an additional \$42.4 million in indefinite-life intangibles related to the Télébec and NorthernTel brands, KMTS brand, and telecommunication licenses.

## 11 GOODWILL

(millions of dollars)

Goodwill as at December 31, 2006	5,446.2
Allocations to assets and liabilities as a result of the finalization of purchase price allocation	
on the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc.	(2,891.7)
Goodwill as at December 31, 2007	2,554.5
Acquisition of interest in Télébec and NorthernTel (note 2)	191.8
Acquisition of assets and operations of KMTS (note 2)	9.8
Write-down related to AMP goodwill	(11.2)
Change in estimate of the value of the long-term receivable from Bell Canada	21.7
Goodwill as at December 31, 2008	2,766.6

During the first quarter of 2008, as a result of Bell Canada notifying us of their intent to discontinue using AMP as its exclusive distributor of mobility products in Atlantic Canada, we assessed the carrying value of goodwill related to AMP. An impairment charge of \$11.2 million was recorded, which reduced the carrying value of the goodwill related to AMP to nil. AMP has been reclassified as discontinued operations as discussed in note 6.

We are continuing discussions with Bell Canada on an estimated long-term receivable to be paid to us in relation to the acquisition of Bell Canada's wireline operation in Ontario and Quebec. The estimated long-term receivable relates to the effect of a 2006 CRTC decision on our operating revenues, which required Bell Canada to reduce rates charged for services in certain regions, some of which affected customer accounts that we acquired. During the third quarter of 2008, we decreased the estimated long-term receivable from \$44.0 million to \$22.3 million and increased goodwill (note 24). The long-term receivable from Bell Canada is based on an estimated amount of rate reductions, which have not been finally determined by the CRTC at this time, and which could be different from current estimates. Once the rate reductions are finalized by the CRTC, the long-term receivable from Bell Canada will be adjusted accordingly and this amount could be materially different from the current estimate.

## 12 RESTRUCTURING AND OTHER CHARGES

In 2007, we estimated and recorded a pre-tax restructuring charge of \$27.4 million related to costs to continue advancing the organization's productivity initiatives leading into 2008. As departing employees had options that affected the amount of their severance and real estate rationalization costs were incurred, during the third quarter of 2008, we reduced the estimated cost of the 2007 restructuring initiative by \$5.6 million to reflect the final costs.

During 2008, we recorded \$5.6 million of severance and benefit costs related to the announced departure of a senior executive and continued our organizational productivity initiatives, which resulted in a \$60.7 million pre-tax restructuring charge. The charge included \$54.2 million of severance and benefit costs and \$6.5 million of real estate rationalization costs.

The liability included in payables and accruals for restructuring and other charges is as follows:

As at December 31 (millions of dollars)	2008	2007
Liability, beginning of year	22.8	4.0
Restructuring and other charges:		
Employee costs	59.8	23.1
Real estate costs	6.5	4.3
Change in the 2007 restructuring charge estimate	(5.6)	—
	60.7	27.4
Cash payments	(18.4)	(8.6)
Liability, end of year	65.1	22.8

The restructuring and other charges liability for employee costs is anticipated to be expended in 2009, and real estate rationalization will be drawn down as lease vacancy and other real estate costs are incurred.

## 13 SHORT-TERM DEBT

We have the following operating facilities available to us:

As at December 31 (millions of dollars)	2008	2007
Committed lines of credit:		
Revolving operating facilities	551.0	576.0
Non-revolving pension reserve facilities	450.0	450.0
Dedicated letter of credit facilities	168.1	138.0
Uncommitted operating lines of credit:		
Demand operating facilities	16.0	17.0
Total operating facilities	1,185.1	1,181.0

Included in the amounts available under operating credit facilities is \$1.0 million (December 31, 2007 – \$12.0 million) for discontinued operations.

We also maintain a \$400.0 million commercial paper program. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support outstanding issuances of commercial paper.

## 13. Short-term debt (continued)

The status of our operating facilities is as follows:

As at December 31 (millions of dollars)	2008	2007
Letters of credit and guarantee issued:		
Letters of credit	223.6	168.1
Letters of guarantee	—	2.0
	223.6	170.1
Drawn amounts:		
Revolving operating facilities	193.0	210.0
Non-revolving pension reserve facilities	15.0	—
Uncommitted operating lines of credit (note 4)	—	5.7
Other	0.2	1.0
Short-term debt	208.2	216.7
Unused available credit facilities	753.3	794.2
Total operating facilities	1,185.1	1,181.0

Our operating facilities are unsecured except as discussed in note 4.

Bankers' Acceptance advances of \$208.0 million (December 31, 2007 – \$210.0 million) outstanding under our revolving operating and non-revolving pension reserve facilities bear interest at rates from 2.19 to 2.90 per cent per annum and mature on dates from January 8 to 30, 2009.

## 14 LONG-TERM DEBT

As at December 31 (millions of dollars, except as otherwise noted)	Interest rate	Maturity	2008	2007
Notes				
Bell Aliant LP	4.72% to 6.17%	2011 – 2037	2,250.0	2,250.0
Debtentures				
Télébec	5.34% to 5.75%	2013 – 2020	100.0	150.0
NorthernTel	6.00% to 11.00%	2009 – 2020	44.7	46.8
			144.7	196.8
Total – notes and debtentures			2,394.7	2,446.8
Non-revolving term	Floating	2009 – 2010	150.0	100.0
Obligations under capital leases	4.09% to 5.91%	2009 – 2017	24.8	24.1
Note payable	6.70%	2009	1.5	2.9
Mortgage – Télébec	12.50%	2011	2.9	3.1
Other		2009 – 2020	4.9	8.3
Debt issue costs			(10.1)	(11.6)
Total long-term debt			2,568.7	2,573.6
Less: portion due within one year			114.7	59.8
			2,454.0	2,513.8

Interest rates on the non-revolving term debt depend upon the form of borrowing selected and our credit rating. Prime rate based loans bear interest at the prime rate per annum while Canadian Bankers' Acceptance, US LIBOR loans, Letters of credit and Letters of guarantee bear interest at the base rate plus a spread of 0.50 to 0.85 per cent per annum. These rates may vary based on the credit ratings of our long-term debt.

## 14. Long-term debt (continued)

All notes are issued in series and certain series are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The notes are issued under trust indentures and are unsecured.

Télébec's debentures are secured by a mortgage on land and buildings located in Val D'Or, Quebec. The NorthernTel debentures and the non-revolving term debt are unsecured.

During the year ended December 31, 2008, we:

- Repaid at maturity, \$50.0 million of Télébec's Series Z debentures, bearing interest at 5.85 per cent per annum;
- Drew \$50.0 million on a new non-revolving term facility by means of Bankers' Acceptances, which currently bear interest at 2.50 per cent;
- Entered into capital lease obligations totalling \$7.5 million for telecommunications and other equipment and bearing interest at rates ranging from 4.26 per cent to 5.75 per cent per annum;
- Repaid principal amounts as they came due for obligations under capital leases, mortgage, note payable and other long-term debt totalling \$10.6 million;
- Renegotiated the terms of a long-term obligation totalling \$4.3 million in connection with the acquisition in 2006 of software licenses to be a monthly royalty payment agreement with the vendor. Consequently, this amount was removed from long-term debt with the corresponding removal of the net book value of the software licenses from intangible assets.

As a result of the acquisition of the 36.7 per cent interest in Télébec and NorthernTel, as discussed in note 2, in 2008 other long-term debt includes \$2.3 million (2007 – \$5.4 million) related to the fair market value of long-term debt issued by Télébec and NorthernTel. We recorded amortization of these amounts of \$1.4 million in 2008 (2007 – \$1.4 million).

No debt issue costs were incurred for 2008 (2007 – \$5.5 million). We recorded amortization of debt issue costs of \$1.5 million in 2008 (2007 – \$6.7 million).

The aggregate amount of payments required in each of the next five years to meet principal repayments and maturities of our long-term debt and the future minimum lease payments under capital leases presently outstanding are as follows:

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter
Long-term debt	107.8	53.1	755.4	5.7	71.3	1,560.7
Capital leases	8.4	7.9	3.4	0.4	0.4	4.3
	116.2	61.0	758.8	6.1	71.7	1,565.0

## 15 FINANCIAL INSTRUMENTS

### Cash and cash equivalents

We hold highly liquid money market instruments as short-term, cash equivalent investments. We follow a policy for making these investments that ensures they are highly diversified by issuer and face minimal credit exposure, as they are required to be placed with issuers that have strong short-term credit ratings. Interest rate exposure is limited as all instruments have terms less than 90 days.

## 15. Financial instruments (continued)

**Accounts receivable**

We are exposed to credit risk from customer accounts receivable, but the concentration of this risk is minimized because we have a large and diverse customer base. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis. Refer to notes 1 and 3 for details on the transfer of receivables.

**Derivative financial instruments**

We use derivative financial instruments to manage our exposure to interest rate risk. We do not use derivative instruments for speculative purposes. Since we do not trade actively in derivative instruments, we are not exposed to any significant liquidity risks relating to them.

We are exposed to credit risks if counterparties to our derivative financial instruments are unable to meet their obligations. We expect that they will be able to meet their obligations, as we deal only with Canadian chartered banks and their subsidiaries. There was minimal credit risk relating to derivative financial instruments at December 31, 2008.

We use interest rate swaps to manage the interest rate exposure between fixed and floating interest rates on our outstanding debt, and to hedge the interest rate exposure on future refinancing of existing debt. The fixed-floating interest rate swaps outstanding were as follows:

As at December 31 (millions of dollars, except as otherwise noted)	Fixed interest rate	2008		2007	
		Fair value	Notional principal	Fair value	Notional principal
August 20, 2010	4.98%	6.6	100.0	1.9	100.0
August 23, 2010	4.98%	6.6	100.0	1.8	100.0
June 23, 2010	3.75%	2.0	50.0	—	—
		15.2	250.0	3.7	200.0

Under these swaps, which are being accounted for as cash flow hedges, we pay a fixed rate of interest and receive the floating Bankers' Acceptance rate, which is reset quarterly. The fair values are in favour of the counterparty and are recorded as derivative liabilities.

At December 31, 2008, a one per cent increase (decrease) in the interest rates used to value our interest rate swaps would cause the derivative liability to decrease (increase) by approximately \$4.4 million.

In 2007, we settled \$1.25 billion of fixed-floating interest rate swaps. We paid \$30.5 million to the counterparty on settlement of swaps to which hedge accounting applied, which was included in other comprehensive earnings (losses). We received \$6.4 million from the counterparty on settlement of swaps to which hedge accounting did not apply, which was included in other expenses (income).

**Long-term debt**

Long-term debt is normally issued at fixed rates of interest and remains outstanding until maturity. Therefore, both liquidity and interest rate risk is considered minimal once issued. We address refinancing risk for upcoming long-term debt maturities, including the current portion of long-term debt, by staggering maturity dates, conducting long-term cash flow planning and maintaining access to various credit facilities, including bank credit facilities (note 13). Refer to note 14 for details of our long-term debt.

## 15. Financial instruments (continued)

**Fair value of financial instruments**

Fair value is the amount that willing parties dealing at arm's length would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. Fair value is determined using future cash flows discounted at prevailing market rates. These estimates are affected significantly by assumptions we make about the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The carrying value of all financial instruments approximate fair value with the exception of long-term debt and the amount due within one year, which at December 31, 2008, has a carrying value of \$2,568.7 million and a fair value of \$2,318.3 million (December 31, 2007 – \$2,573.6 million and \$2,422.8 million, respectively).

## 16 NON-CONTROLLING INTEREST

As at December 31  
(millions of dollars)

	2008	2007
Bell Aliant LP	1,662.5	1,740.2
Télébec and NorthernTel (note 2)	—	89.0
SalesBridge (note 6)	—	0.4
	1,662.5	1,829.6

Distributions declared and paid by subsidiaries to non-controlling interest were as follows:

For the years ended December 31 (millions of dollars)	2008		2007	
	Declared	Paid	Declared	Paid
Bell Aliant LP	208.9	208.5	203.1	202.7
Télébec and NorthernTel	—	4.5	40.9	40.0
	208.9	213.0	244.0	242.7

## 17 PARTNERS' CAPITAL

**Authorized**

Our partners' capital is authorized to include an unlimited number of three classes of units:

- Class 1 exchangeable limited partnership units;
- Class 2 limited partnership units; and
- General partnership (GP) units.

## 17. Partners' capital (continued)

The class 1 exchangeable limited partnership units, which are held by BCE and Bell Canada, are intended to be, to the greatest extent practicable, the economic equivalent of Fund units. Both classes of limited partnership units are voting and share equally in all distributions from the partnership whether of net earnings (losses), taxable income (losses), net realized capital gains or other amounts; provided that, for so long as Fund units are outstanding, holders of class 1 exchangeable limited partnership units are entitled to receive distributions on a per unit basis from the partnership equal to, the greatest extent practicable, distributions on a per unit basis paid by the Fund to holders of Fund units. Both classes of limited partnership units are also entitled to share equally in the net assets of the partnership in the event of its termination or winding up; provided that, for so long as Fund units are outstanding, holders of class 1 exchangeable limited partnership units are entitled to a liquidation entitlement, on a per unit basis, equivalent to that of a Fund unit. Except as otherwise specified in the partnership agreement, both classes of limited partnership units rank among themselves equally and ratably without preference or priority. Both classes of limited partnership units are transferable, subject to certain restrictions. In addition, each class 1 exchangeable limited partnership unit is exchangeable for a Fund unit on a one-for-one basis.

The GP units, as a class, are entitled to a distribution of 0.001 per cent of distributable cash for any distribution period in priority to the class 1 exchangeable and class 2 limited partnership units, and are entitled to 0.001 per cent of the net assets of the partnership in the event of its termination or winding up in priority to the class 1 exchangeable and class 2 limited partnership units.

**Issued and outstanding**

(millions of dollars, except as otherwise noted)	Class 1 units		Class 2 units		GP units		Total stated capital
	Number	Stated capital	Number	Stated capital	Number	Stated capital	
Units as at December 31, 2006	28,168,803	1,017.1	124,121,177	991.8	54,000	—	2,008.9
Return of capital	—	—	—	(460.9)	—	—	(460.9)
Units as at December 31, 2007	28,168,803	1,017.1	124,121,177	530.9	54,000	—	1,548.0
Business combination (note 2)	—	—	8,246,429	513.5	—	—	513.5
Units as at December 31, 2008	28,168,803	1,017.1	132,367,606	1,044.4	54,000	—	2,061.5

In 2007, we made a payment to return capital on the class 2 limited partnership units to Bell Aliant Holdings Trust in an amount of \$460.9 million.

**Employee unit purchase plans**

We have two employee unit purchase plans for eligible employees. Under the terms of the plans, employees can choose each year to have up to 10 or 12 per cent of their annual base earnings withheld to purchase Fund units. We will also contribute to the plan on behalf of participants based upon employee contributions, using a prescribed formula. Depending on which plan the employee participates in, the purchase price of the Fund units is the arithmetic average of the closing price of the units traded on the Toronto Stock Exchange (TSX) on the last five days up to, and including, the investment date, or the value paid by the plan trustee to purchase the units on the open market. Participants in the plans receive additional Fund units in lieu of receiving cash distributions from the Fund. To satisfy employee purchases of Fund units under these plans, the Fund may issue up to 2,079,527 additional Fund units out of treasury or purchase them on the open market.

## 17. Partners' capital (continued)

The total number of Fund units bought on the open market for our employees during the year ended December 31, 2008, was 1,941,439 (December 31, 2007 – 1,766,276). Compensation expense related to the employee unit purchase plans of \$9.6 million was recorded for the year ended December 31, 2008 (December 31, 2007 – \$9.9 million).

**Deferred unit plan**

During 2007, the Fund implemented a deferred unit plan (DUP) for certain of our executives and senior management to further align their long-term incentive compensation with total unitholder value. Under this DUP, the Fund may grant deferred units to eligible plan members in such number and at such times as is determined as a bonus or in respect of services rendered by the plan member in the year of the grant. On the grant date, plan members will be credited with the deferred units granted to them. Grantees are also entitled to receive additional deferred units based on cash distributions that would have been received had the deferred units been converted to Fund units. The deferred units vest over a period of three years and are subject to certain performance criteria, with the exception of the 2006 grant, which was not made subject to performance criteria, as it was awarded in recognition of 2006 performance. Plan members are eligible to receive one Fund unit for each vested deferred unit upon their departure from the company or may hold the vested deferred units in an account until the end of the second year following their departure. There is no exercise price paid by the grantee for deferred units. The Fund may issue up to 3,559,280 additional Fund units out of treasury to satisfy awards under this DUP. Any unvested deferred units of a plan member upon their departure are forfeited.

A summary of the status of the deferred units and changes during the period are as follows:

For the years ended December 31	2008	2007
Deferred units outstanding, beginning of year	794,980	—
Granted:		
Service period fiscal 2006 to 2008	—	316,717
Service period March 2007 to March 2010	—	453,742
Service period fiscal 2008 to 2010	431,055	—
Reinvested distributions	106,609	52,581
	537,664	823,040
Forfeited	(114,346)	(23,680)
Exercised	(36,340)	(4,380)
Deferred units outstanding, end of year	1,181,958	794,980
Deferred units vested, end of year	686,145	108,174

The weighted average grant-date fair value of the 537,664 deferred units granted in the year ended December 31, 2008, totals \$15.8 million (December 31, 2007 – 823,040 deferred units granted totals \$24.1 million). For the year ended December 31, 2008, compensation expense of \$12.9 million (December 31, 2007 – \$8.5 million) was recorded related to the deferred units outstanding.

## 18 SEGMENTED INFORMATION

We operate as one reportable business segment, which is driven by our products and services, in order to provide customers with integrated communications services. This represents the manner in which we are organized and managed for planning and assessing performance and making resource allocation decisions. Our operations, including all revenues from customers, capital investments and goodwill are concentrated in Canada.

### Revenue from external customers by product and service

For the years ended December 31

(millions of dollars)

	2008	2007
Local and access	1,404.8	1,430.9
Long distance	452.3	474.8
Data	800.2	755.8
Information technology	315.3	262.4
Wireless	80.8	64.4
Product	70.5	76.7
Rentals	29.6	33.3
Service agreements	31.9	50.7
Innovatia Inc.	24.8	25.8
Other revenues	71.8	78.5
	3,282.0	3,253.3

## 19 EARNINGS PER UNIT

For the years ended December 31

(millions of dollars, except as otherwise noted)

	2008	2007
Net earnings from continuing operations	331.9	310.4
Net earnings from discontinued operations	(9.7)	264.3
Net earnings	322.2	574.7
Basic:		
Weighted average number of units outstanding	159,902,068	152,289,979
Basic from continuing operations	2.08	2.04
Basic from discontinued operations	(0.06)	1.73
Basic earnings per unit	2.02	3.77

## 20 OTHER COMPREHENSIVE EARNINGS (LOSSES)

Components of other comprehensive earnings (losses) and the related income tax effects are as follows:

For the years ended December 31 (millions of dollars)	2008			2007		
	Amount arising	Income taxes	Net	Amount arising	Income taxes	Net
Gains (losses) on derivatives						
designated as cash flow hedges	(11.5)	(2.5)	(9.0)	5.0	0.5	4.5
Reclassification to net earnings	4.5	1.0	3.5	(1.8)	(0.3)	(1.5)
Other comprehensive earnings (losses)	(7.0)	(1.5)	(5.5)	3.2	0.2	3.0

The reclassification to net earnings represents the portion of gains or losses on derivatives designated as cash flow hedges in prior periods that were transferred to interest charges in the year.

## 21 COMMITMENTS

### Operating leases and purchase commitments

The estimated future minimum lease payments under operating leases and purchase commitments are as follows:

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter
Operating leases	34.1	30.3	27.3	26.8	26.6	312.6
Purchase commitments	359.6	317.7	302.4	300.0	291.8	2,174.3
	393.7	348.0	329.7	326.8	318.4	2,486.9

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements, including those with a related party as described in note 24.

### Deferral account

Bell Aliant LP's deferral account which covered our territory in Atlantic Canada was cleared and closed in 2007.

Bell Canada's deferral account includes amounts that arose from customers located in what is now our territory in Ontario and Quebec. Bell Canada's accumulated deferral account commitment at December 31, 2008, was estimated to be \$152.0 million. The accumulated deferral account commitment takes into account the estimated deferral account drawdown during the first quarter of 2008 associated with the CRTC approved broadband expansion program and the initiatives associated with improving access to communications services for persons with disabilities. The annualized recurring amount in Bell Canada's deferral account is estimated at \$16.3 million. On October 30, 2008, the CRTC issued Telecom Order 2008-305 directing Bell Canada and Bell Aliant to implement rate reductions effective December 1, 2008, for stand-alone local residential telephone access services in the non-high-cost serving area (non-HCSA) portions of their Ontario and Quebec serving areas to clear this amount. On December 1, 2008, Bell Canada filed an application to review and vary Telecom Order 2008-305, arguing that its obligation is limited to \$11.7 million. A CRTC determination on the amount and timing of deferral account related rate reductions is expected in the first half of 2009.

## 21. Commitments (continued)

The CRTC has approved a total of 102 communities within the Ontario and Quebec portions of the servicing areas of Bell Canada and Bell Aliant in which Bell Canada and Bell Aliant can deploy broadband using the funds in Bell Canada's deferral account. In January 2008, the CRTC also approved Bell Canada's proposed initiatives to improve access to telecommunications services for persons with disabilities. Finally, the CRTC directed Bell Canada to rebate any balance remaining in its deferral account to residential subscribers in urban, non-HCSAs within the Ontario and Quebec portions of the servicing areas of Bell Canada and Bell Aliant.

The issues of rebates and broadband expansion using deferral account funds were before the Federal Court of Appeal in connection with two separate appeals launched by Bell Canada and by certain consumer groups. Bell Canada had appealed the legality of the CRTC jurisdiction to order retroactive rebates while the consumer groups had appealed the decision to permit the use of deferral account funds to expand the availability of broadband services. In an order dated March 7, 2008, the Federal Court of Appeal dismissed both Bell Canada's and the consumer groups' appeals. Subsequently, Bell Canada and Telus Corporation (Telus) sought leave to appeal to the Supreme Court of Canada the Federal Court's decision as it relates to rebates while the consumer groups sought leave to appeal the decision as it relates to broadband services. On September 25, 2008, the Supreme Court of Canada granted Bell Canada, Telus and the consumer groups leave to appeal the Federal Court of Appeal's decision, which had upheld the CRTC decision regarding disposition of funds in the deferral accounts. The appeals are scheduled to be heard on March 26, 2009.

Subject to the outcome of these proceedings, we will be affected by these and further proposals of Bell Canada to satisfy their deferral account obligations, as we have agreed to contribute to the economic spending portion of the broadband project.

On September 14, 2007, the CRTC directed Télébec to amortize its cumulative deferral account shortfall in equal amounts over a four year period and also approved an exogenous factor of \$3.0 million for the recovery of the recurring shortfall each year. As of December 31, 2008, Télébec's cumulative deferral account shortfall is estimated at \$2.2 million (2007 – \$3.0 million) and the recurring shortfall is now estimated at \$1.8 million (2007 – \$2.2 million), considering the rate increase approved by the CRTC on June 23, 2008.

Due to the nature and number of uncertainties which remain concerning the disposition of the accumulated balance in the deferral accounts, we are unable to estimate the effect of the CRTC's decision on our financial results at this time.

## 22 CONTINGENCIES

Outstanding litigation matters as at December 31, 2008, include the following:

- (a) On August 9, 2004, a lawsuit was filed in Saskatchewan against several Canadian wireless and cellular service providers, including one of our predecessor companies, Aliant Telecom Inc., by several alleged customers or former customers of the defendants. In the claim, the plaintiffs alleged, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the Competition Act (Canada) in relation to the system access fees that the defendants charge to their customers, and sought unspecified damages. On September 17, 2007, the court granted class action certification to the plaintiffs. We, as well as the other defendants, have appealed this decision granting certification. The court has also denied our motion seeking dismissal of the action against us on the basis that the Saskatchewan court does not have jurisdiction over disputes between us and our customers. We are also appealing this decision. We have defences to this claim, but the outcome of the matter is not determinable at this time.
- (b) On November 28, 2005, a lawsuit was filed against us in the Supreme Court of Nova Scotia by Ellph.com Solutions Inc. and Ellph.com Technologies Inc. seeking approximately \$9.0 million for alleged breach of a software license contract. The contract had been terminated by one of our predecessor companies, Aliant Telecom Inc., due to perceived technical defects in the software. This proceeding is at the discovery stage. We have defences to this claim, but the outcome of the matter is not determinable at this time.
- (c) On June 26, 2008, a proposed class action was filed in the Saskatchewan Court of Queen's Bench against various Canadian telephone companies, including Bell Aliant LP, in relation to the charging of 911 fees. The suit alleges, among other things, breach of contract, negligence, collusion, and breach of fiduciary duty, and generally claims that the defendants have misrepresented the nature of 911 fees, and that the charges levied on customers are excessive. The plaintiffs claim unspecified damages. This matter involves many of the same parties and legal issues as presented in the system access fee matter referred to in paragraph (a) above. Therefore, the parties have tentatively agreed to hold this matter in abeyance pending disposition of the appeal of the certification order in the system access fee matter. We have defences to this claim, but the outcome of the matter is not determinable at this time.

In December 2008, the litigation related to the claim filed by Aliant Telecom Inc. against Voice Mobility Inc. in April 2006, and counterclaim filed by Voice Mobility Inc. in November 2006, was settled with an immaterial amount received from Voice Mobility Inc.

We become involved in various other claims and litigation as a regular part of our business. While we cannot predict the final outcome of claims and litigation that were pending at December 31, 2008, management believes that the resolution of these claims and litigation will not have a material effect on our consolidated financial position or results of operations.

### Guarantees

As a regular part of our business, we enter into agreements that provide for indemnifications and guarantees to counterparties that may require us to pay for costs and losses incurred by the counterparties as a result of intellectual property infringement, misrepresentations, and losses of or damages to property. We cannot reasonably estimate the maximum potential amount we could be required to pay counterparties. While the majority of the agreements specify a maximum potential exposure, the amount also depends on the outcome of future events and conditions that cannot be predicted reliably. In the past, we have not made any significant payments under these guarantees.

At December 31, 2008, there are no accruals related to the guarantees (December 31, 2007 – nil).

## 23 CAPITAL MANAGEMENT

Our capital structure includes all components of partners' equity, the non-controlling interest in the equity of our controlled subsidiaries, long-term and short-term debt, net of cash and cash equivalents.

Our objectives in managing our capital structure are to:

- Maintain financial flexibility to preserve our ability to meet existing commitments and invest as necessary in the future development of the business;
- Provide access to sufficient cash flow to operate the business;
- Mitigate the impact of volatility in financing costs on the cash flows of the business; and
- Optimize the return to unitholders by utilizing an appropriate mix of debt and equity in the capital structure given our level of business risk.

When managing our capital structure we consider changes in economic conditions or the level of business risk and, from time to time, we consider and may adjust our distribution policy, enter into hedging transactions, issue or redeem debt, issue or repurchase partnership units or raise cash through our accounts receivable securitization program.

The non-GAAP financial metric we use to monitor our capital structure is the net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio. This financial ratio is calculated using a trailing twelve-month period for EBITDA. We define net debt as short-term and long-term debt less cash and cash equivalents. We define EBITDA as operating revenues less operating expenses, excluding the amount included in operating expenses for net benefit plans costs as a significant component of these costs reflect the amortization of past costs. Our capital management objective, which is unchanged from the prior year, is to maintain this ratio at approximately 2.0: 1.

Our net debt to EBITDA ratios were as follows:

As at December 31

(millions of dollars, except as otherwise noted)

	2008	2007
Short-term debt (including notes payable to related party)	214.4	218.6
Long-term debt, including amount due within one year	2,568.7	2,573.6
Less: cash and cash equivalents	(14.6)	(48.1)
Net debt	2,768.5	2,744.1
Operating revenues	3,282.0	3,253.3
Less: operating expenses	(1,909.4)	(1,946.5)
Add: net cost of benefit plans included in operating expenses	78.3	131.6
EBITDA	1,450.9	1,438.4
Net debt to EBITDA ratio	1.9:1	1.9:1

We are subject to certain covenants in our bank credit facilities, including maintenance of a ratio of total debt to EBITDA (as defined in our credit facilities) of no more than 3.0:1. Under a Securityholders' Agreement with BCE and Bell Canada, we would need to seek their prior approval if we were to increase our debt to EBITDA ratio (as defined in the Securityholders' Agreement) above 2.5:1. In addition, we are subject to a new issuance test under our note trust indenture whereby new long-term debt can only be issued if it would result in a ratio of long-term debt to total capital (as defined in the trust indenture) of 75 per cent or less. We are in compliance with all these debt covenants and are not subject to any other externally imposed capital requirements.

**BCE and Bell Canada**

BCE and Bell Canada own 100 per cent of our class 1 exchangeable limited partnership units and 100 per cent of the class B exchangeable limited partnership units of Bell Aliant LP. As the units are exchangeable into Fund units, BCE and Bell Canada beneficially own and control 44.2 per cent of the Fund's outstanding units on a fully diluted basis as at December 31, 2008 (2007 – 44.2 per cent).

Under the Securityholders' Agreement, BCE has certain rights in respect of the board of Bell Aliant Holdings GP including the right to appoint up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, hold not less than 30 per cent of Fund units (on a fully diluted basis) and certain commercial agreements are in place. As a result of these rights, BCE controls the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP. The written consent of BCE is also required, along with the majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, hold not less than 20 per cent of Fund units (on a fully diluted basis).

In 1999, we entered into a Memorandum of Agreement (MOA) with BCE and Bell Canada. This long-term strategic alliance agreement describes the understanding among us, BCE and Bell Canada with respect to the offering, marketing and provisioning of certain telecommunications services on a cooperative basis. Through this MOA, we gained access to Bell Canada's technology, the exclusive right to use specified Bell Canada trademarks in our territory and a license to use Bell Canada's promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by us. We agreed to provide each other with support services, including operational, technical, marketing, training and other support services. The MOA continues to apply to our operations in Atlantic Canada, subject to certain amendments that were made to the MOA in connection with the acquisition in 2006 of Bell Canada's wireline operations in Ontario and Quebec and Bell Nordinq Group Inc.

In 2006, we entered into a series of long-term commercial agreements with Bell Canada, which provide us with a broad range of technical, operational and human resource support services required for us to operate the wireline and Internet access operations previously operated by Bell Canada in the Ontario and Quebec regional territory (Bell Aliant Central Territory).

These agreements permit us to continue to receive the commercial and telecommunications services that Bell Canada was providing to us in Atlantic Canada prior to 2006. Any pre-existing commercial agreements between Bell Canada and us, which were not amended or replaced by the commercial agreements entered into in 2006, continue to apply. The commercial agreements also provide Bell Canada with the telecommunications and support services required to operate its wireless operation in the Bell Aliant Central Territory and in Atlantic Canada.

In 2006, we also entered into a Commercial Relationship Management Agreement (CRMA) with Bell Canada, which governs our general commercial relationship and addresses matters such as marketing co-operation, customer primeship and non-competition, and branding. The CRMA, together with certain agreements it refers to, also amends certain provisions of the MOA and extends the term of the MOA to that of the CRMA.

## 24. Related party transactions (continued)

The CRMA will automatically terminate upon termination or expiration of the Connecting and Operating Agreement, which we entered into with Bell Canada in 2006. Pursuant to the Connecting and Operating Agreement, the parties have agreed to interconnect their respective telecommunications systems for the exchange of telecommunications traffic. This agreement has an original term of 15 years from July 7, 2006, with automatic renewals for consecutive five year periods, unless four years prior notice of non-renewal is provided by one of the parties. The Connecting and Operating Agreement may be terminated for material breach at any time by a party, if (a) the parties mutually agree that the breach has occurred and has not been cured, or (b) a court or arbitrator makes a final and unappealable determination that the other party has materially breached the agreement and has not cured the breach within the appropriate contractual timeframe.

The CRMA and the other commercial agreements may also be terminated by Bell Canada in the event that, without Bell Canada's prior consent, a competitor of Bell Canada acquires, directly or indirectly, more than 30 per cent of Bell Aliant LP or de facto control of it or its business. In addition, Bell Canada is entitled to terminate, at its sole discretion, its provision of services to us in circumstances where Bell Canada is ceasing to offer the corresponding services to its customers. Further, Bell Canada is entitled to terminate at its discretion many of the commercial agreements by giving two years prior notice of its intention to terminate the relevant commercial agreement, provided that such notice is not given prior to a fixed date, which is generally July 7, 2011. Generally, we are permitted to terminate and repatriate services to us by Bell Canada in the Bell Aliant Central Territory upon two years notice.

We also have an agreement with Bell Canada that provides access to certain of each other's intellectual property, in addition to providing us with access to Bell Canada's engineering and network intellectual property. In 2006, we entered into trademark license agreements with Bell Canada whereby each party and its affiliates are permitted to use the trademarks of the other party in accordance with the terms of the license for 30 years (subject to an additional 10 year renewal on request by the licensee, at the licensor's discretion).

In 2006, we entered into a distribution agreement with Bell Distribution Inc. (BDI), a subsidiary of Bell Canada, under which BDI acts as our agent for sales and distribution of our wireline and Internet access telecommunications services and related products in Atlantic Canada and the Bell Aliant Central Territory. We also entered into a corresponding distribution agreement with BDI under which we act as BDI's agent for the distribution of Bell Canada's wireless and satellite telecommunications services and related products and services in the same territory.

We also have an IS/IT agreement with Bell Canada under which Bell Canada provides information technology (IT) services to us in the Bell Aliant Central Territory. A part of this agreement requires the parties to jointly fund a plan to develop further IT services for us. The total capital anticipated to be expended on this plan is \$90.0 million, of which Bell Canada has agreed to fund the first \$32.0 million with the remaining \$58.0 million being equally funded by Bell Canada and us.

During 2008, we announced a long-term agreement with Bell Canada to provide an enhanced transport network connecting Bell Mobility's cell sites in Atlantic Canada and in the Bell Aliant Central Territory. Our total capital expenditure over 2008 and 2009 will be approximately \$50 million.

## 24. Related party transactions (continued)

In the normal course of business, we enter into agreements with Bell Canada and its controlled investees to provide and purchase telecommunications and other support services, and purchase capital investments. All related party transactions are measured at the exchange amounts as follows:

For the years ended December 31

(millions of dollars, except as otherwise noted)

	2008	2007
Operating revenues	308.8	328.1
Percentage of total operating revenues	9.41%	10.09%
Operating expenses	480.7	516.6
Net earnings (loss) from discontinued operations:		
Operating revenues	33.7	69.9
Operating expenses	40.3	84.0
Other income	—	(0.1)
Capital investments	24.8	8.4

Balances with Bell Canada and its controlled investees are as follows:

As at December 31

(millions of dollars)

	2008	2007
Accounts receivable:		
Trade	117.0	116.9
Wireless receivables (note 3)	11.4	46.5
Prepayments	5.8	1.6
Long-term receivables, including current portion in accounts receivable	40.0	64.0
Payables and accruals	77.3	120.3
Distributions payable	24.2	23.5
Deferred credits	1.6	4.0

The accounts receivable from, and payables and accruals to, Bell Canada and its controlled investees are non-interest bearing and under normal credit terms and have arisen from the sale of products and provision of services referred to previously.

The long-term receivable from Bell Canada of \$22.3 million (2007 – \$44.0 million) relates to consideration in relation to the acquisition of Bell Canada's wireline operation in Ontario and Quebec, as discussed in note 11. The balance bears interest at 9.75 per cent per annum and is due over a period of 10 years. Long-term receivables also include the capital funding commitment by Bell Canada in relation to the IS/IT services plan, as previously discussed, of \$17.7 million (2007 – \$20.0 million).

The distributions payable to BCE and Bell Canada relate to their interest in exchangeable limited partnership units of Bell Aliant LP and Bell Aliant Holdings LP. For the year ended December 31, 2008, \$289.8 million of distributions were paid to BCE and Bell Canada (2007 – \$281.6 million).

Estimated future minimum payments under our contractual obligations with Bell Canada, which are included in commitments in note 21, are as follows:

(millions of dollars)	2009	2010	2011	2012	2013	Thereafter
Contractual obligations	308.8	291.4	285.4	285.4	284.8	2,137.7

## 24. Related party transactions (continued)

**The Fund**

The Fund is entirely dependent on the distributions we pay to them to make their distributions. In 2008, we declared distributions to them of \$372.8 million, compared to \$372.1 million in 2007. At December 31, 2008, \$31.2 million was included in distributions payable, compared to \$28.5 million at December 31, 2007.

In the normal course of business, we have an administrative agreement with the Fund for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by the Fund trustees, for the administration of the Fund. The agreement has an initial term of 10 years, and will be automatically extended for additional five year periods unless notice of termination is given. These services are recorded at their exchange amount of \$4.0 million (2007 – \$5.5 million).

Several of our unit-based compensation plans, as discussed in note 17, are based on Fund units. All compensation expense for these plans is recorded in Bell Aliant Holdings LP.

Included in payables and accruals is a net amount due to the Fund of \$13.6 million (2007 – \$3.0 million), which includes the administrative expenses as well as unit-based compensation plans.

On January 1, 2008, the Fund transferred its 36.7 per cent ownership interest in Télébec and NorthernTel to us in return for 8,246,429 class 2 limited partnership units of Bell Aliant Holdings LP (note 2). The transfer was accounted for at its carrying value.

The Fund loans us their excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The \$1.9 million promissory note that was payable to the Fund at December 31, 2007, was repaid on January 15, 2008. Subsequently issued promissory notes carried rates of interest from 1.81 per cent to 4.68 per cent per annum, resulting in \$0.1 million of interest expense being incurred during the year ended December 31, 2008. At December 31, 2008, a \$6.2 million promissory note was payable to the Fund, which bears interest at 1.81 per cent per annum and matures on January 15, 2009.