Strategies for success

In this, my first annual message to investors, I am pleased to report that our year-end financial results continue to demonstrate the strength of our business model in a time of market uncertainty.

Revenue grew slightly less than 1 per cent to reach $3,282 million. Distributable cash climbed 2 per cent to reach $716 million, at the high end of our expectations. During the year, we returned $658 million, or 92 per cent, of our distributable cash to unitholders.

Karen Sheriff
President and chief executive officer

In addition to solid financial performance, we have made significant advancements in our service levels to customers and benefited from efficiency gains and network investments from previous years.

As we near the end of the first quarter of 2009, we are clearly on a positive trajectory. Our organization has a strong foundation and a great number of strengths that set us apart from competitors. It is upon these unique strengths that we have developed our business strategy for 2009.

Building on strengths

We have long-standing relationships in the communities we serve going back over 100 years. Despite increases in competition, our customer base remains significant in size with over 3 million customers in six provinces. Our brands are widely known and among the most respected in the areas we serve. We also have an extensive portfolio of products designed to meet the unique needs of our customers.

Our strong relationship with Bell Canada continues to provide access to leading edge technology and the benefits of scale of a much larger company. In the current economic environment, we are financially sound and well positioned to meet the challenging climate ahead. Finally, we have the strength of our people – strong talent across our territory.

It is on this foundation of strength that we will set the course for the future. We will focus the company on just a few key priorities, allowing us to invest in the areas most important to our future.

Setting strategies

In 2009, we are pursuing five key strategies:

Improve the customer experience. Providing a superior customer experience continues to be a cornerstone of our overall strategy for success. Our focus is on improvements in being easy to reach, keeping our commitments and doing it right the first time. We have made significant improvements in our customer experience in the last two years and we will continue this journey in 2009.

Retain our customers. Given the nature of our service areas, it is particularly important that we satisfy our existing customers. In order to improve our customer retention, we need to intervene earlier with at-risk customers, continue to enhance our Value Packages and bundles, strengthen our relationships and ensure our brands remain strong.

Grow broadband. Broadband is the principal growth area for our business. Our broadband network delivers the services that enable our customers to connect with each other and the information they need to be productive.

We will continue expanding our broadband coverage and invest in deploying fibre closer to our customers. In spite of a significant decrease in overall capital spending in 2009, our planned investment in broadband expansion and associated service development will increase by over 20 per cent.

Reset our cost structure. In order to be successful in the future, we need to improve our cost structure so that we can be more nimble and effective. Beginning in 2009, our strategic plan reflects a significant shift in our spending levels made possible by a new organizational structure and productivity initiatives.

In addition to these changes, we are also reducing our capital expenditures in 2009 to be between 13.5 and 14.5 per cent of revenues, down from 16.1 per cent in 2008. In 2009 and the coming years, our capital spending will be focused more on broadband, where we believe the returns will be greatest.

Engage employees. Our employees play a critical role in our success. They interact on a daily basis with our customers. With their support we deliver on our promise of providing an exceptional customer experience. With their commitment and personal engagement supporting our strategic objectives, we are well positioned for continued success.

Becoming leaner, more efficient

On January 12, 2009, we announced a new organizational structure where we will be organized by function rather than by geography. As a result, 500 management positions have been eliminated, including a significant number of senior executives. The new structure brings all employees closer to customers and makes the organization more nimble and efficient.

Funding pension plans

Like many other companies, the stock market performance of 2008 has had an impact on our pension plans. Fortunately, as a result of changes to our pension asset mix that we implemented in 2007, the impact on our pension deficit was somewhat mitigated and our returns were better than many others experienced. Along with most other companies that provide defined benefit plans, we expect to have significant increases in pension funding in 2009. Fortunately, we have access to credit facilities to fund our contributions. As such, I am confident we can safely navigate the current economic downturn.

Maintaining unitholder distributions

Given the current market uncertainty, we do not believe that raising our distributions would be prudent, or very well received by the market. As tight credit markets could continue for some time, we feel it is wise to preserve our liquidity and financial flexibility. For now, our distribution will continue at its current $2.90 per unit per year rate, which we expect will result in our payout ratio for 2009 falling below the 90 per cent level we have targeted in the past.

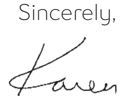
Looking forward

As we look beyond next year to 2011, it is likely that we will convert from an income trust to a corporation. In the meantime, we will strive to grow our distributable cash and, supported by announced reductions in corporate income tax rates, endeavour to minimize any change to our distributions with the onset of cash taxes. In the years to come, we expect to remain a low-growth, high free-cash generating business, returning a significant portion of our cash flow to our investors.

In closing, I want to thank our employees for their unwavering commitment to our customers, even as we were going through a restructuring that meant the departure of some colleagues and friends. I also want to thank Stephen Wetmore, my predecessor, for his mentorship and strong stewardship of the company. When I took over in early November as president and CEO, I received a company with a great history and a bright future.

And finally, I want to thank you, our unitholders, for trusting us with your investment.

Sincerely,



Karen Sheriff
President and chief executive officer
March 10, 2009