



## **Bell Aliant Regional Communications Holdings, Limited Partnership**

### **Management's Discussion and Analysis**

### **Third Quarter 2008**

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and nine months ended September 30, 2008, compared to the corresponding periods in 2007. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2008, and our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2007, and related MD&A. 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.*

*This MD&A is dated October 28, 2008, and is current to that date unless otherwise stated.*

*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. The term "Aliant" refers to our predecessor, Aliant Inc., 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 (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 contains forward-looking information related to our future financial condition and results of operations. The purpose of forward-looking information is to provide the reader with information about management's expectations and plans for fiscal 2008 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 management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at October 28, 2008. 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 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; the changing competitive environment; changing regulatory conditions or requirements; reliance on IT systems; changing technology; and changing laws and regulations. Some of these factors are largely beyond our control. In addition, a number of assumptions were made 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 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 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 our Notice concerning forward-looking information dated February 5, 2008, which is available at [www.bell.aliant.ca](http://www.bell.aliant.ca) as well as at [www.sedar.com](http://www.sedar.com).*

## **Our business**

We are one of the largest regionally focused telecommunications service providers in North America, with operations primarily in Atlantic Canada, Quebec and Ontario. We have been serving customers for over a century and 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.

Our principal operations are carried out through Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate the financial results of 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 assessing performance and making resource allocation decisions.

## **Our business environment**

### **Competitive landscape**

Throughout the third quarter of 2008, cable competitors continued to expand their local service areas in our territory and launched aggressive promotional campaigns, which included bundled services. Cable competitors offered telephony services to approximately 55 per cent of households in our territory at the end of September 2008.

In order to combat competitive pressures, we continue to enhance our products and services, promote our bundled service packages and innovate with customers to provide complete solutions. 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 "Focus and Strategy for 2008" section for further detail.

### **Telecommunications regulatory developments**

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC) and the Federal Government. Refer to our MD&A for the year ended December 31, 2007, and for the quarters ended March 31, 2008, and June 30, 2008, for a complete discussion of regulatory developments which occurred in 2007 and up to and including August 5, 2008. Regulatory developments in the third quarter of 2008 and up to and including October 28, 2008, which are significant to our business, include the following:

#### *Forbearance*

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 October 28, 2008, forbearance has been granted in 157 exchanges for residential service and 41 exchanges for business service (two of which are subject to delayed implementation).

#### *Other Developments*

On July 23, 2008, the CRTC approved our request for a retroactive contribution subsidy adjustment and directed the Central Fund Administrator to remit \$2.4 million to us, which we recognized in local and access revenues in the third quarter.

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's decision regarding disposition of funds in the deferral accounts (Telecom Decision 2006-9). Effectively, this will delay any broadband or rebate initiatives pursuant to the CRTC's decision until resolution of the appeal.

As discussed in more detail in our second quarter 2008 MD&A, 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 are due by December 5, 2008, and a public hearing is scheduled to commence on February 17, 2009. Any decision by the CRTC to implement regulatory measures could have a negative financial impact on Internet Service Providers (ISPs), including our internet services.

### **Privatization of BCE**

As announced on June 30, 2007, our significant unitholder, BCE Inc. (BCE), entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc., Madison Dearborn Partners, LLC, and Merrill Lynch Global Private Equity. We are not a party to the transaction and cannot predict the effect that a change of ownership of BCE may have on our organization.

## **Changes to board of directors**

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

## **Planning for future changes in taxation**

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 too early to precisely determine the effect that these changes will have on our cash flow in years after 2010, we are forecasting that we will 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, will allow us to avoid reducing our per-unit cash distributions, and ultimately distributions made by the Fund.

On July 14, 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). These Conversion Rules, if implemented, would be available until January 2013.

The Conversion Rules, as proposed, would permit two basic tax-efficient conversion strategies. In general, income trusts may convert 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 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.

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, we will be carefully considering our particular circumstances in order to determine whether to propose a conversion transaction to Fund unitholders and, if so, how to structure a conversion into a corporation.

## **Key Management Changes**

The following senior management changes were announced in the third quarter of 2008:

- Stephen Wetmore will be leaving his position as President and CEO effective December 31, 2008.
- Frank Fagan retired as Chief Operating Officer.
- Karen Sheriff, former President of Small and Medium Business with Bell Canada, was appointed to the role of Chief Operating Officer.

On October 27, 2008, we announced that Karen Sheriff was appointed President and CEO effective November 3, 2008.

## Third quarter in review

### Summary of results

For the period ended September 30 (millions of dollars)	Three months			Nine months		
	2008	2007	% change	2008	2007	% change
Operating revenues	<b>\$815.3</b>	\$808.5	0.8	<b>\$2,468.8</b>	\$2,434.2	1.4
EBITDA <sup>(1)</sup>	<b>\$371.0</b>	\$369.8	0.3	<b>\$1,085.3</b>	\$1,072.8	1.2
Operating income <sup>(1)</sup>	<b>\$169.3</b>	\$139.8	21.1	<b>\$484.7</b>	\$362.8	33.6
Net earnings from continuing operations	<b>\$93.1</b>	\$71.0	31.1	<b>\$252.1</b>	\$195.9	28.7
Net earnings from discontinued operations	<b>\$0.4</b>	\$2.2	(81.8)	<b>(\$9.9)</b>	\$271.0	n.m.
Net earnings	<b>\$93.5</b>	\$73.2	27.7	<b>\$242.2</b>	\$466.9	(48.1)

n.m. not meaningful

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

Operating revenues increased by \$6.8 million, or 0.8 per cent, during the third quarter of 2008, compared to the same period in 2007. Growth in data and Internet, wireless and IT services and fulfillment revenues more than offset declines in local and access, long distance and other revenues. EBITDA increased by \$1.2 million, or 0.3 per cent, as a portion of the growth in operating revenue carried lower margins that were not completely offset by our expense productivity measures. Also, there was an adjustment to the provincial capital tax base in the third quarter of 2008 that resulted in a higher provincial capital tax expense compared to the same period in 2007. The growth in operating revenues and EBITDA in the third quarter of 2008 is slightly lower than the year-to-date growth as the first half of 2008 had higher IT revenues and one-time adjustments. As well, on a year-to date basis, the provincial capital tax has decreased mainly due to an overall lower provincial capital tax rate.

Operating income for the third quarter of 2008 improved by \$29.5 million compared to the third quarter of 2007. The quarter-over-quarter improvement reflects the higher EBITDA, \$20.8 million lower restructuring charges in 2008 due to a higher level of productivity initiatives in 2007, a decrease of \$6.6 million in depreciation and amortization due to the pattern of recognition of depreciation expense as our fixed asset base ages, and a \$0.9 million decrease in net cost of benefit plans due to an increase in the average rate used to discount our obligations effective December 31, 2007. Operating income for the nine month period ended September 30, 2008, increased \$121.9 million, or 33.6 per cent, over the same period in 2007. In addition to similar trends discussed for the third quarter of 2008, in 2007 a one-time depreciation and amortization adjustment of \$62.0 million was recognized 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. through our Plan of Arrangement (Arrangement), completed in July 2006.

Net earnings from continuing operations increased by \$22.1 million during the third quarter of 2008 compared to the third quarter of 2007, as the \$29.5 million improvement in operating income was partially offset by a reduction in other income and a lower current income tax recovery. Net earnings from discontinued operations decreased by \$1.8 million during the third quarter of 2008, compared to the third quarter of 2007, as there was no income from Atlantic Mobility Products Limited Partnership (AMP) in 2008 compared to \$1.5 million in 2007. During the third quarter 2008, we also commenced reporting our Defence, Security and Aerospace (DSA) business unit as discontinued operations and reclassified prior periods' results. For the nine month period ended September 30, 2008, compared to September 30, 2007, the decrease in net earnings of \$224.7 million is mainly attributed to discontinued operations which includes the \$258.2 million gain on sale by Aliant Directory Services (ADS) of its assets and operations on April 30, 2007, mitigated by an increase in net earnings from continuing operations.

### Distributable cash

Since our operations ultimately support distributions to unitholders of the Fund, we present distributable cash on a basis that combines our cash performance with that of the Fund.

For the period ended September 30 (millions of dollars)	Three months			Nine months		
	2008	2007	% change	2008	2007	% change
Distributable cash <sup>(1)</sup>	<b>\$179.3</b>	\$177.6	1.0	<b>\$569.4</b>	\$531.9	7.1
Cash distributions declared <sup>(2)</sup>	<b>\$165.3</b>	\$161.3	2.5	<b>\$493.1</b>	\$491.0	0.4

<sup>(1)</sup> Distributable cash is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for further detail.

<sup>(2)</sup> 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.

Distributable cash grew by \$1.7 million, or 1.0 per cent, in the third quarter of 2008, compared to the third quarter of 2007. The increase is primarily due to the \$1.2 million increase in EBITDA, combined with slightly lower capital expenditures but partially offset by a reduction in distributable cash contributed by discontinued operations compared to the third quarter of 2007.

The following table provides a summary reconciliation of cash from operating activities to distributable cash for the three and nine months ended September 30, 2008 and 2007. The table provides additional information on the relationship between cash from operating activities, net earnings and cash distributions declared for the periods. In addition, we present standardized distributable cash, as defined by the Canadian Institute of Chartered Accountants (CICA).

For the period ended September 30 (millions of dollars)	Three months			Nine months		
	2008	2007	% change	2008	2007	% change
Cash from operating activities	<b>\$310.8</b>	\$301.4	3.1	<b>\$895.4</b>	\$872.7	2.6
Add (deduct): Cash from operating activities of the Fund and discontinued operations	<b>1.6</b>	3.0	(46.7)	<b>5.2</b>	16.5	(68.5)
Capital expenditures	<b>(138.8)</b>	(139.7)	(0.6)	<b>(361.4)</b>	(398.0)	(9.2)
Standardized distributable cash <sup>(1)</sup>	<b>\$173.6</b>	\$164.7	5.4	<b>\$539.2</b>	\$491.2	9.8
Add (deduct): Operating items funded through cash reserves or borrowing	<b>1.8</b>	28.7	(93.7)	<b>22.7</b>	46.3	(51.0)
Other adjustments	<b>3.9</b>	(15.8)	n.m.	<b>7.5</b>	(5.6)	n.m.
Distributable cash <sup>(1)</sup>	<b>\$179.3</b>	\$177.6	1.0	<b>\$569.4</b>	\$531.9	7.1
Net earnings	<b>\$93.5</b>	\$73.2	27.7	<b>\$242.2</b>	\$466.9	(48.1)
Cash distributions declared <sup>(2)</sup>	<b>\$165.3</b>	\$161.3	2.5	<b>\$493.1</b>	\$491.0	0.4
Excess of cash from operating activities over cash distributions declared <sup>(3)</sup>	<b>\$147.1</b>	\$143.1	2.8	<b>\$407.5</b>	\$398.2	2.3
Shortfall of net earnings over cash distributions declared	<b>(\$71.8)</b>	(\$88.1)	(18.5)	<b>(\$250.9)</b>	(\$24.1)	n.m.

n.m. not meaningful

<sup>(1)</sup> Refer to the "Non-GAAP financial measures" section for a definition and detailed reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

<sup>(2)</sup> 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.

<sup>(3)</sup> Cash from operating activities includes cash generated by the Fund and discontinued operations.

Standardized distributable cash for the third quarter of 2008 increased by \$8.9 million, or 5.4 per cent, when compared to the same period in 2007. The increase is mainly due to the higher level of cash from operating activities combined with a slight decrease in capital expenditures. The increase in cash from operating activities was driven by higher net income from continuing operations and an increase of \$8.1 million in cash flow from changes in operating assets and liabilities (working capital), which was offset by higher pension funding requirements in the third quarter of 2008 compared to the same period in 2007. The same trends are evident when comparing the year-to-date results for the nine month period ended September 30, 2008, to September 30, 2007, as standardized distributable cash increased by \$48.0 million or 9.8 per cent due to EBITDA growth, an increase of \$10.2 million in cash flow from working capital offset by higher pension contributions, combined with capital expenditures that were \$36.6 million lower than the same period in 2007.

Since working capital cash requirements fluctuate during 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 fluctuations are included in the CICA's standardized distributable cash definition.

Both standardized distributable cash and our calculation of distributable cash include capital spending. Capital expenditures in the third quarter of 2008 were 17.0 per cent of operating revenues, slightly higher than the comparative quarter on a percentage basis, but for the nine months ended September 30, 2008, were 14.6 per cent of operating revenues, which is in line with our original annual target of 14.5 to 15.5 per cent. Subsequent to quarter end, we have issued revised guidance on our capital intensity target. Further details can be found in the "Assumptions made in the preparation of forward-looking information" section. 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 useful lives and productive capacity of our telecommunications assets, our maintenance capital expenditures have remained relatively stable over time. Capital expenditures in 2007 included extra spending on our accelerated investment in fibre-to-the-node, which are still being made but at a reduced pace during 2008.

Cash distributions declared in the third quarter of 2008 were 92.2 per cent of distributable cash, compared to 90.8 per cent for the comparable period in 2007, which remains reflective of our annual 90.0 per cent targeted payout ratio. For the year-to-date period ended September 30, 2008, the payout ratio was 86.6 per cent compared to 92.3 per cent for the same nine-month period in 2007.

## **Focus and Strategy for 2008**

### ***Superior Customer Experience***

Delivering a superior customer experience is the cornerstone of our strategy. We believe this is created by providing exceptional customer service, value through leading products and services and being recognized by our customers for strong community involvement. The support of our workforce and our commitment to internal process improvements should enable us to deliver on this strategic priority.

#### *Customer service*

In the third quarter of 2008, numerous system and network initiatives were completed to drive customer service improvements.

In Atlantic Canada, these improvements included enhancements to our customer care agent desktop tools, enabling improved appointment booking options; the introduction of a new option for moving customers, making it faster and easier for our customers to book their move orders; and the roll out of a bulk cable pair testing and record verification system to enhance the accuracy of auto provisioning service orders. In Quebec and Ontario, we have been working closely with Bell Canada and our other partners on a number of action plans targeted to enhance the customer experience, including initiatives to improve customer care centre access levels and reduce call transfers and repeat calls.

#### *Providing value through leading products and services*

During the third quarter of 2008, we continued to develop and introduce innovative products and services for our customers.

In Atlantic Canada, we launched Personal Communications Manager and Centrex IP, both premier voice-over-IP (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 ability, where businesses can prioritize communications by originating telephone number, delivers voicemail to email and offers click-to-call convenience. In the residential market we launched Personal Vault service, which protects digital photos, videos, music and important documents. This is the fifth in a suite of services providing online security and peace of mind for our customers. We also introduced seasonal suspension of high-speed Internet service, which allows customers to suspend service for up to 6 months while retaining their email address and webmail access.

In Quebec and Ontario, we extended our integrated data network to enterprise customers, enabling them to reduce costs, be more productive and more competitive. New services such as advanced phone service and higher Internet speed are being offered in certain areas to provide more value to our customers. In addition, end user support (a remote support service to small business customers) and 511 (providing customers with free, simple access to real time provincial traffic and travel information) have been made available to our customers. We also introduced Internet Talk, our new enhanced online communication service.

#### *Community involvement*

We believe that the sustained success and growth of our business is directly linked to the well-being of the communities we serve. Everyday, many of our employees, retirees and Aliant Pioneers volunteer in local events and charities, mentoring children, coaching minor sports and much more. During the third quarter of 2008, some highlights of our initiatives included sponsoring four Atlantic Canadian Olympians, Backpack Adoption Day in which 3,400 backpacks were adopted, filled and delivered to over 130 school and community organizations across all of our territories, and the North Bay Bell Charity Golf Gala which raised funds for the Learning Library, a joint initiative between North Bay's Canadore College and Nipissing University.

### ***Operational Efficiency***

We are aggressively managing our cost structure to grow distributable cash and deliver value to our unitholders and ultimately, unitholders of the Fund. During the third quarter of 2008, we achieved additional productivity savings of \$32.2 million through process, system and technology enhancements, infrastructure replacement, and consolidation of operations. These productivity savings enabled us to grow EBITDA in the third quarter of 2008 compared to the corresponding period in 2007,

despite our continued shifts in our revenue mix.

## Results of operations

For the period ended September 30 (millions of dollars)	Three months			Nine months		
	2008	2007	% change	2008	2007	% change
Local and access	\$356.5	\$361.4	(1.4)	\$1,054.8	\$1,076.6	(2.0)
Long distance	117.0	124.7	(6.2)	342.5	358.4	(4.4)
Data & Internet	199.2	192.1	3.7	591.0	562.8	5.0
IT services and fulfillment	65.8	50.8	29.5	252.8	200.1	26.3
Wireless	21.9	17.3	26.6	59.3	47.4	25.1
Other revenues	54.9	62.2	(11.7)	168.4	188.9	(10.9)
Operating revenues	\$815.3	\$808.5	0.8	\$2,468.8	\$2,434.2	1.4
Operating expenses	444.3	438.7	1.3	1,383.5	1,361.4	1.6
EBITDA <sup>(1)</sup>	\$371.0	\$369.8	0.3	\$1,085.3	\$1,072.8	1.2
Net cost of benefit plans	25.1	26.0	(3.5)	74.7	83.8	(10.9)
Depreciation and amortization	176.6	183.2	(3.6)	525.8	604.0	(12.9)
Restructuring and other charges	-	20.8	(100.0)	0.1	22.2	(99.5)
Operating income <sup>(1)</sup>	\$169.3	\$139.8	21.1	\$484.7	\$362.8	33.6
Other expenses (income)	(0.6)	(4.3)	n.m.	1.9	(1.7)	n.m.
Interest charges	38.2	38.5	(0.8)	117.5	119.5	(1.7)
Income tax expense (recovery)	(1.0)	(9.6)	(89.6)	(4.6)	(62.3)	(92.6)
Non-controlling interest	39.6	44.2	(10.4)	117.8	111.4	5.7
Net earnings from continuing operations	\$93.1	\$71.0	31.1	\$252.1	\$195.9	28.7
Net earnings from discontinued operations	0.4	2.2	(81.8)	(9.9)	271.0	n.m.
Net earnings	\$93.5	\$73.2	27.7	\$242.2	\$466.9	(48.1)

n.m. not meaningful

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

### Operating revenues

#### Local and access

Our local and access revenue is earned primarily through the provision of network access services (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 September 30, 2008, compared to September 30, 2007, pricing changes, feature penetration and \$2.4 million of retroactive contribution subsidy revenue recognized in the quarter contained the local and access revenue decline to 1.4 per cent, or \$4.9 million, for the third quarter of 2008 compared to the same period in 2007. Without the one-time contribution subsidy, local access revenues would have decreased by 2.0 per cent and 2.2 per cent for the three and nine months ended September 30, 2008, respectively, compared to September 30, 2007.

At September 30, 2008, the number of residential NAS customers was 4.4 per cent lower than at September 30, 2007, and the number of business NAS customers was 1.2 per cent lower than at September 30, 2007. These declines reflect competitive losses, driven by an expansion in the cable competitive footprint and substitution of other services, including wireless and VoIP services. As of September 30, 2008, households in our territory passed by cable telephony were 55 per cent versus 46 percent at September 30, 2007.

#### Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 6.2 per cent, or \$7.7 million, in the third quarter of 2008, compared to the third quarter of 2007. Long distance minutes declined by 4.7 per cent in the third quarter of 2008 compared to the third quarter of 2007 due to competitive losses, substitution by cellular calling and IP-based services. In addition, the average revenue per minute declined 1.5 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. The year-to-date decline of 4.4 per cent, or \$15.9 million, was mitigated by new product offerings and

various pricing changes throughout the year.

#### *Data and Internet*

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 Aliant TV. Revenue from these services increased 3.7 per cent, or \$7.1 million, for the third quarter of 2008 compared to the same period in 2007. Growth in high-speed Internet, enhanced data solutions and television revenues were partially offset by declines in dial-up Internet and legacy data services. At September 30, 2008, our high-speed Internet customer base was 12.4 per cent higher than at September 30, 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 \$36.03 during the third quarter of 2008, up 6.9 per cent from \$33.70 during the third quarter of 2007. Other data revenue declined by 4.3 per cent in the third quarter of 2008 and 0.4 per cent in the first nine months of 2008, as compared to the prior year, which reflects offsetting one-time adjustments that occurred in the second and third quarters of 2007 and 2008.

#### *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, as well as infrastructure services such as data centre, help desk, security and technical support services. IT services and fulfillment revenue grew \$15.0 million, or 29.5 per cent, in the third quarter of 2008, compared to the same period in 2007. IT services revenue grew 41.6 per cent, primarily due to the continuation of a major healthcare IT project in Quebec and our growth in the overall healthcare sector when compared to the third quarter of 2007. IT fulfillment revenue increased by 23.3 per cent in the third quarter of 2008, compared to the third quarter of 2007, which was driven by significant sales with key customers. On a year-to-date basis, IT services and fulfillment revenue grew \$52.7 million, or 26.3 per cent, compared to the same period in the 2007, which reflects the timing of recognition of certain contract revenue.

As of the third quarter of 2008, our DSA business, which was previously reported with IT revenue, has been accounted for as discontinued operations and previous quarters have been reclassified to reflect this change.

#### *Wireless*

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over the analog and digital wireless networks in certain of our territories in Quebec and Ontario. Revenue increased by 26.6 per cent, or \$4.6 million, in the third quarter of 2008, compared to the third quarter of 2007, due to a 23.6 per cent increase in wireless customers and a 2.6 per cent increase in total ARPC. The ARPC growth is attributable to increased wireless data revenue. The quarterly growth is consistent with the year-to-date growth of 25.1 per cent, or \$11.9 million, when compared to the same period in the prior year.

#### *Other revenues*

Other revenues consist of knowledge management, terminal rentals and sales, PC sales, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined by 11.7 per cent, or \$7.3 million, in the third quarter of 2008, compared to the same period in 2007 and consistent with the decline of 10.9 per cent, or \$20.5 million, on a year-to-date 2008 over 2007 basis. This decline is mainly caused by a decrease in outsourcing revenue of 35.3 per cent, or \$3.6 million, in the third quarter and 23.2 per cent, or \$7.9 million on a year-to-date basis due to repatriation of work by Bell Mobility that was previously performed by us. As well, during the third quarter there was a 10.8 per cent decrease in revenue from telephone equipment rentals as customers continue to shift to owning their own equipment.

## **Expenses**

#### *Operating expenses*

<i>For the period ended September 30</i> <i>(millions of dollars)</i>	<b>Three months</b>			<b>Nine months</b>		
	<b>2008</b>	<b>2007</b>	<b>% change</b>	<b>2008</b>	<b>2007</b>	<b>% change</b>
Cost of sales	<b>\$126.1</b>	\$122.2	3.2	<b>\$415.1</b>	\$398.6	4.1
Salaries, benefits, contract labour and consulting	<b>165.9</b>	159.8	3.8	<b>504.3</b>	480.1	5.0
Selling, general and administrative	<b>149.4</b>	155.0	(3.6)	<b>455.8</b>	471.6	(3.4)
Capital taxes	<b>2.9</b>	1.7	70.6	<b>8.3</b>	11.1	(25.2)
<b>Operating expenses</b>	<b>\$444.3</b>	\$438.7	1.3	<b>\$ 1,383.5</b>	\$1,361.4	1.6

Operating expenses, excluding net benefit plan costs, increased 1.3 per cent in the third quarter of 2008, compared to the

corresponding period in 2007. Cost of sales and salaries, benefits, contract labour and consulting costs increased 3.2 per cent and 3.8 per cent, respectively, when comparing activity in the third quarter of 2008 to the third quarter of 2007. The significant increase in IT services and fulfillment revenue during the third quarter of 2008 generated a related increase in operating expenses, particularly IT services contract labour costs and costs of sales from fulfillment sales. On a year-to-date basis, the cost of sales increase of 4.1 per cent over the prior year reflects large IT fulfillment sales in the second quarter of 2008, and salaries, benefits, contract labour and consulting expenses include annual wage increases and an increase in outsourcing activity which occurred in the first quarter of 2008.

Our productivity initiatives introduced in previous quarters have continued to result in declines in our selling, general and administrative costs. The reduction in capital taxes on a year to date basis is a result of a reduction in statutory provincial capital tax rates, the shifting of our capital tax base to lower capital tax rate provinces and a reduction in our capital tax base compared to the same period in 2007. During the third quarter of 2008, capital taxes increased compared to the same period in 2007 as a result of an adjustment to increase our 2008 capital tax base which more than offset the effect of lower capital tax rates.

#### *Net cost of benefit plans*

Net cost of benefit plans declined by 3.5 per cent in the third quarter of 2008, mainly due to lower defined benefit (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 our obligations in our DB pension and other post-employment benefit (OPEB) plans to 5.5 per cent from 5.3 per cent in the prior year. The net cost of benefit plans for the third quarter of 2007 was also lower than the first two quarters of 2007 as the actuarial valuations for December 31, 2006, were completed in June and July of 2007 and resulted in lower expense for the third quarter.

#### *Depreciation and amortization*

Depreciation and amortization decreased \$6.6 million, or 3.6 per cent, when comparing the third quarter of 2008 to the same period in 2007, which was driven mainly by the pattern of recognition of depreciation expense as our depreciable asset base ages. This was offset slightly by an increase of \$1.3 million and \$2.1 million for the three and nine months ended September 30, 2008, respectively, compared to the same periods in 2007, related to changes in estimated useful lives of some of our telecommunications equipment as a result of performing asset life studies.

#### *Restructuring and other charges*

Restructuring and other charges decreased \$20.8 million in the third quarter of 2008 when compared to the third quarter of 2007 due to a higher level of productivity initiatives in 2007. In 2008, we incurred \$5.6 million of restructuring charges, which were offset by a \$5.6 million adjustment to the 2007 restructuring liability as a result of finalizing the costs of that initiative.

#### *Interest charges*

Interest charges of \$38.2 million for the third quarter of 2008 represents a decrease of approximately 0.8 per cent when compared to the corresponding period in 2007. Debt levels are virtually unchanged year over year and approximately 90 per cent of our debt is effectively subject to fixed rates of interest. Therefore, this decline in interest expense is primarily due to the small portion of our debt that remains subject to floating rates and the decline in average short-term interest rates that has been experienced this year compared to the previous year.

#### *Income tax expense (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 for the third quarter of 2008 was \$1.0 million, a significant decrease from the income tax recovery of \$9.6 million for the same period in 2007. This decrease is mainly the result of a \$12.3 million lower current income tax recovery for the three month period ended September 2008, as compared to the same period in 2007, which was a result of a reduction in income taxes otherwise payable by Bell Nordiq Group Inc. for 2007, its final taxation year prior to wind-up, on its share of taxable income from Télébec and NorthernTel as a result of our income trust structure. The significant decrease of \$57.7 million, or 92.6 per cent, in our income tax recovery for the nine month period ended September 30, 2008, compared to the same period in 2007, is mainly a result of the \$44.1 million higher future tax recovery recorded in 2007 as a result of the finalization of our purchase price allocation and tax rate changes combined with higher capital investment-related deductions for tax purposes year to date in 2008 compared to the same period in 2007.

#### *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. We now directly or indirectly own 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. For more information relating to the transfer of the Fund's indirect interest to us, refer to note 2 of our unaudited interim consolidated financial statements for the period ended September 30, 2008. Non-controlling interest at September 30, 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 are equal, to the greatest extent practicable, to 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.

During the third quarter of 2008, we recorded non-controlling interest in our earnings of \$39.6 million compared to \$44.2 million for the corresponding period in 2007. This reduction in non-controlling interest in our earnings is a result of higher operating income for the third quarter of 2008 compared to the same period in 2007, offset by the elimination of the non-controlling interest related to Télébec and NorthernTel. Distributions declared by our subsidiaries to the non-controlling interest in the third quarter of 2008 and the corresponding period in 2007 were \$52.4 million and \$60.5 million, respectively. This decline in distributions is due to \$9.6 million paid to the Fund by Télébec and NorthernTel in the third quarter of 2007, or \$28.7 million on a year-to-date basis for 2007, prior to this interest being transferred to us and resulting in the elimination of that non-controlling interest previously reported.

#### *Net earnings from discontinued operations*

Net earnings from discontinued operations in the third quarter of 2008 reflect the results of our DSA business and AMP. During the quarter, we and CAE Professional Services (Canada) Inc. (CAE) announced that we entered into an asset purchase agreement for CAE to acquire our DSA business, which currently operates under the xwave brand. The purchase price paid on closing will be \$15.1 million with an additional \$11.0 million to be paid contingent upon the occurrence of certain events, for a potential total purchase price of \$26.1 million. The transaction is subject to the satisfaction of certain conditions and is anticipated to close before the end of the year. As a result, in the third quarter of 2008 we commenced reporting the results of DSA operations as discontinued operations.

AMP had an arrangement with Bell Canada to be the exclusive distributor of mobility products in Atlantic Canada, which Bell Canada discontinued effective July 4, 2008. The loss of the exclusive arrangement resulted in the elimination of our wholesale distribution of mobility hardware and accessories business. As a result, in the second quarter of 2008, we commenced reporting AMP as a discontinued operation.

Net earnings from discontinued operations in 2007 reflect the results of AMP, DSA, Salesbridge Canada Corp., which is being wound up, and ADS, which sold its assets and operations in April 2007.

### **Selected quarterly financial information**

The following table shows selected consolidated financial results by quarter for the most recent eight quarters. The quarterly information is unaudited but has been prepared on the same basis as our annual and interim consolidated financial statements.

<i>For the eight quarters ended September 30</i>	<b>2006<sup>(1)</sup></b>	<b>2007</b>				<b>2008</b>		
<i>(millions of dollars, except per unit / share amounts)</i>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>
Operating revenues	\$816.8	\$830.3	\$795.4	\$808.5	\$819.1	\$837.9	\$815.6	\$815.3
EBITDA <sup>(2)</sup>	\$361.8	\$347.8	\$355.2	\$369.8	\$365.6	\$353.3	\$361.0	\$371.0
Operating income <sup>(2)</sup>	\$183.9	\$169.9	\$53.1	\$139.8	\$141.2	\$153.9	\$161.5	\$169.3
Net earnings (loss):								
Continuing operations	(\$133.8)	\$82.0	\$42.9	\$71.0	\$114.5	\$74.2	\$84.8	\$93.1
Discontinued operations	6.8	6.5	262.3	2.2	2.9	(9.9)	(0.4)	0.4
Net earnings (loss)	(\$127.0)	\$88.5	\$305.2	\$73.2	\$117.4	\$64.3	\$84.4	\$93.5
Basic and diluted earnings per unit / share:								
Continuing operations	(\$0.88)	\$0.54	\$0.28	\$0.47	\$0.75	\$0.46	\$0.53	\$0.58
Discontinued operations	0.05	0.04	1.72	0.01	0.02	(0.06)	0.00	0.00
Basic and diluted earnings per unit / share	(\$0.83)	\$0.58	\$2.00	0.48	0.77	\$0.40	\$0.53	\$0.58
Distributable cash <sup>(2)</sup>	\$186.8	\$192.1	\$162.2	\$177.6	\$169.5	\$206.8	\$183.3	\$179.3
Cash distributions declared	\$153.8	\$166.2	\$163.5	\$161.3	\$160.1	\$162.8	\$165.0	\$165.3

<sup>(1)</sup> 2006 information was not reclassified for the discontinued operations of the DSA business as it was impracticable to determine.

<sup>(2)</sup> EBITDA, operating income and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

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

#### **2006**

- In the fourth quarter of 2006, net earnings were negatively affected by future tax expense of \$225.1 million related to the third quarter gain on disposal of Aliant's wireless operation.

## 2007

- We finalized the purchase price allocation related to the Arrangement 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 \$258.2 million as our share of the after-tax gain, and 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.
- 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.
- 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 Arrangement, and a tax recovery of \$60.7 million in the fourth quarter, mainly related to the revaluation of net future tax assets and liabilities as a result of tax rate changes.

## 2008

- During the first quarter of 2008, we recorded an \$11.2 million write-down of goodwill in AMP, now reflected in net earnings from discontinued operations.
- During the second quarter of 2008, we commenced reporting AMP as discontinued operations.

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

## Financial and capital management

### Summary of cash flows

For the period ended September 30 (millions of dollars)	Three months			Nine months		
	2008	2007	% change	2008	2007	% change
Cash from (used in):						
Operating activities	\$310.8	\$301.4	3.1	\$895.4	\$872.7	2.6
Financing activities	(153.1)	(186.8)	(18.0)	(527.5)	(953.0)	(44.6)
Investing activities	(138.9)	(139.6)	(0.5)	(387.6)	(396.8)	(2.3)
Net increase (decrease) in cash from continuing operations	\$18.8	(\$25.0)	n.m.	(\$19.7)	(\$477.1)	(95.9)
Net increase (decrease) in cash from discontinued operations	(2.8)	2.8	n.m.	(3.5)	345.8	n.m.
Net increase (decrease) in cash for the period	\$16.0	(\$22.2)	n.m.	(\$23.2)	(\$131.3)	(82.3)

n.m. - not meaningful

We generated net cash of \$16.0 million in the third quarter of 2008, compared to using \$22.2 million in the third quarter of 2007. On a year-to-date basis, we used cash of \$23.2 million for the nine months ended September 30, 2008, compared to using cash of \$134.1 million for the nine months ended September 30, 2007.

#### Operating activities

Cash generated from operating activities increased by \$9.4 million in the third quarter of 2008, compared to the same period in 2007, mainly due to an increase in cash flow of \$8.1 million from changes in operating assets and liabilities, or working capital, from \$2.4 million in the third quarter of 2007 to \$10.5 million in the current period. The third quarter of the year is normally neutral for cash inflow from working capital changes, with low seasonal impacts from accounts receivable and payable changes, combined with high outflows due to timing of interest coupon payments on long-term debt offset by low requirements from prepaid expenditures and other items that are typically paid in the first half of the year. In the third quarter of 2008, we are continuing to see the benefits of our initiatives to improve overall cash flow from working capital changes, with reduced

receivable balances contributing \$7.0 million and higher trade accounts payable contributing \$8.9 million to operating cash flow. Year-to-date in 2008, cash generated from operating activities is \$22.7 million or 2.6 per cent greater than the comparable period in 2007 as higher net cash earnings from continuing operations were also combined with \$10.2 million in higher cash flow from working capital changes over the same nine-month period in the prior year.

Funding of our DB pension and OPEB plans is a significant use of cash from operating activities, and for the third quarter of 2008, contributions were \$27.9 million, compared to \$25.3 million for the same period in 2007. Included in the funding for the third quarter of 2008 is \$16.0 million (2007 - \$15.4 million) for DB current service cost funding and \$11.9 million (2007 - \$9.8 million) for special deficit-reducing payments. 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 and our 2008 payments reflect updated actuarial valuation reports completed during the third quarter.

#### *Financing activities*

Cash used in financing activities decreased by \$33.7 million for the third quarter of 2008, compared to the same period in 2007 and decreased by \$425.5 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007.

In the third quarter of 2008, our net issuance and repayment of short-term and long-term debt, including related party lending activities, added \$13.1 million to our financing cash flows, while in the third quarter of 2007 these activities used \$21.7 million in cash but were offset by \$6.4 million received on the settlement of an interest rate derivative contract. As well, in the third quarter of 2007 we used \$10.0 million in cash to repurchase a portion of our receivables from the securitization trust, with no similar transaction in the third quarter of this year. On a year-to-date basis, we have repurchased \$55.0 million of accounts receivable from the securitization trust in 2008, while in 2007 we had sold a net \$80.0 million in additional receivables in the first nine months. Net issuance and repayment of short-term and long-term debt, including related party lending activities, in the year-to-date period in 2008 resulted in \$21.7 million added to our cash flow, and includes the refinancing of a \$50.0 million maturing Télébec debenture with a new long-term bank loan in the same amount. The first nine months of 2007 used net cash of \$67.9 million, which included a \$1.0 billion issuance of medium term notes and the use of these proceeds and the proceeds from short-term debt to repay term bank loans as well as a net \$24.1 million being paid to counterparties on the settlement of related interest rate derivatives.

Total distributions paid to the Fund and non-controlling interests for the third quarter of 2008, and for the corresponding period in 2007, were \$166.2 million and \$161.5 million, respectively. For the first nine months of 2008, and for the corresponding period in 2007, distributions were \$493.8 million and \$500.6 million, respectively. The decrease year-over-year is due mainly to the Fund requiring less cash from us as the average number of Fund units outstanding was decreased as a result of Fund unit repurchases completed in 2007, partially offset by the increase in the Fund's per unit distribution rate effective February 2008. As well, January 2007 includes the final distribution paid by Télébec and NorthernTel to the minority holders in Bell Nordiq Income Fund. In addition to distributions to unitholders, we also paid \$460.9 million as a return of partners' capital in 2007, which did not occur in 2008.

#### *Investing activities*

Cash used in investing activities decreased by \$0.7 million in the third quarter of 2008, compared to the third quarter of 2007, as our capital investment was consistent with the prior year, as discussed in the "Distributable cash" section.

For the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, in addition to the reduced capital investment spending during the first two quarters of 2008, we used net cash of \$28.1 million to purchase the assets and operations of Kenora Municipal Telephone System on February 1, 2008.

## **Liquidity**

#### *Sources of liquidity*

We derive most of our liquidity from our recurring 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, pension plan funding and other commitments. 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 issuance 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 most recent quarter, 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. Therefore, access to our bank credit facilities has been an important source of back-up liquidity during this time. Our primary bank credit facilities are in place until July 2011 and are provided by a syndicate that consists primarily of Canadian banks, with Asian and European banks committed to approximately 18 per cent of the facility loans. To this point, none of the banks in our 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 which seek to mitigate capital market risks by diversifying funding sources, maintaining sufficient capacity on our back-up bank lines of credit and diversifying our pension plan investments. As a result, we have not experienced any material adverse consequences with respect to our liquidity capacity from recent market events.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	<b>September 30, 2008</b>		<b>December 31, 2007</b>	
Partners' equity	<b>\$4,931.1</b>	52.3%	\$4,516.4	49.7%
Non-controlling interest	<b>1,701.5</b>	18.1%	1,829.6	20.1%
Net debt	<b>2,788.3</b>	29.6%	2,744.1	30.2%
Total capital	<b>\$9,420.9</b>	100.0%	\$9,090.1	100.0%

#### *Partners' capital*

We have an unlimited number authorized of each of the three classes of units and the number of units issued and outstanding at September 30, 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 16 of our audited consolidated financial statements for the year ended December 31, 2007, and to note 13 of our unaudited consolidated financial statements for the quarter ended September 30, 2008.

#### *Debt*

We have issued a total of \$2.25 billion in medium-term notes under Bell Aliant LP's \$3.0 billion medium-term note shelf prospectus that expired on October 14, 2008. As mentioned above, we intend to file a renewal shelf prospectus under which we may issue additional medium-term notes in the future. We have \$100.0 million drawn under our non-revolving term bank facility, which expires in July 2009. In June 2008, we entered into a new \$50.0 million non-revolving term bank facility, expiring in June 2010, which was drawn by Télébec to refinance its Series Z debenture that had matured.

We maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving bank facilities. As at September 30, 2008, we had \$92.2 million issued under our commercial paper program and another \$150.2 million drawn on our bank facilities. Our general bank facilities also support \$167.7 million in issued letters of credit (off balance-sheet obligations) to support our operations as at September 30, 2008. Our operating bank facilities have various terms, but the majority expire in July 2011.

We also have a \$450.0 million non-revolving pension reserve bank facility that may be used to finance pension deficit funding. At September 30, 2008, there were no amounts drawn on this facility, but we have reduced its capacity by \$42.4 million with the issuance of letters of credit to support our application of federal 10-year solvency funding relief regulations. To preserve general liquidity and operating flexibility during this time of difficult credit conditions, we expect to use our pension reserve facility to finance an anticipated \$11.3 million of special deficit payments during the fourth quarter of 2008.

The following table summarizes our credit facilities, their availability and usage as at September 30, 2008.

<i>As at September 30, 2008</i>					
<i>(millions of dollars)</i>	<b>Maturity</b>	<b>Size</b>	<b>Drawn</b>	<b>Letters of Credit</b>	<b>Available</b>
Revolving bank operating line	July 7, 2011	\$576.0	\$242.2	\$6.6	\$327.2
Pension reserve bank facility	July 7, 2011	450.0	-	42.4	407.6
Other bank demand facilities	various	15.0	0.2	5.5	9.3
Other bank letter of credit facilities	annual	163.0	-	155.6	7.4
<b>Total</b>		<b>\$1,204.0</b>	<b>\$242.4</b>	<b>\$210.1</b>	<b>\$751.5</b>

Our credit facilities contain customary covenants and provisions that could 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.

Further details of our long-term debt can be found in note 13 to our audited consolidated financial statements for the year ended December 31, 2007, and in note 10 to our unaudited consolidated financial statements for the period ended September 30, 2008.

#### *Cash requirements*

We require a significant amount of cash to execute our business strategy. Our cash requirements for 2008 consist of distributions to unitholders, investments in capital, pension plan funding, repayment of short and long-term debt, and payments of other commitments. 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 \$2.90 per unit. Fund distributions are approved monthly 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 is estimated to be in the range of \$655 to \$660 million for 2008.
- Capital expenditures in the range of 15.5 to 16.5 per cent of operating revenues will be made as required to support our existing infrastructure and to advance our initiatives.
- For 2008, we are required to make approximately \$50 million in special payments to fund our DB pension plans' deficits.
- We are required to repay short 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 "Liquidity" section.

#### **Other financial arrangements**

##### *Contractual obligations*

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. Further details of these commitments are described in note 15 to our unaudited interim consolidated financial statements for the period ended September 30, 2008, which are incorporated by reference herein.

##### *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 September 30, 2008.

Further details of this agreement is described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2007, and in note 3 to our unaudited interim consolidated financial statements for the period ended September 30, 2008.

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

We use derivative financial instruments periodically in the management of interest rate and foreign currency exposures associated with our long-term debt and specific firm commitments. The significant assumptions made in determining the fair value of our financial instruments remains unchanged from December 31, 2007. Details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 14 to our audited consolidated financial

statements for the year ended December 31, 2007, and in note 11 to our unaudited interim consolidated financial statements for the period ended September 30, 2008. At September 30, 2008, we had outstanding fixed-floating interest rate swap contracts with notional values totalling \$250.0 million and fair values totalling \$7.6 million in favour of the counterparty. These swap contracts are being accounted for as hedges of a portion of our floating-rate debt.

## **Related party transactions**

Our significant related parties continue to be BCE, Bell Canada and the Fund. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 23 to our audited consolidated financial statements for the year ended December 31, 2007, and to note 18 of our unaudited interim consolidated financial statements for the period ended September 30, 2008, which are incorporated by reference herein.

## **Significant accounting policies**

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our audited consolidated financial statements for the year ended December 31, 2007, with the exception of the adoption on January 1, 2008, of new accounting policies under CICA Handbook Section 1535, Capital Disclosures, and Section 3031, Inventories.

### *Capital disclosures*

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.

### *Inventories*

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 amends and improves 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.

### *Transition to IFRS*

Effective January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian GAAP. The Accounting Standards Board has released an exposure draft that outlines IFRS. We have developed a four phase approach to transitioning to IFRS as follows:

- Phase 1 – Raise awareness and initial assessment
- Phase 2 – Detailed assessment
- Phase 3 – Design
- Phase 4 – Implementation

The first two phases involve the development of an initial project plan and structure, training and educating, and performing impact assessments on the various aspects of our operations and financial reporting. In the third phase, we will begin to make accounting policy decisions based on the assessments and design any related implementation plans. The final phase is the actual implementation of the conversion. Our preliminary timeline is to complete the first two phases in 2008 and the final two phases by December 31, 2009, with minor changes in 2010.

At September 30, 2008, the majority of the first phase was completed and we are currently in the second phase, assessing the effect that this transition will have on our operations and financial reporting.

### *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 are currently assessing the effect that this new standard will have on operations and financial reporting.

## 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

Forward-looking statements made in our MD&A for the year ended December 31, 2007, and in this MD&A are based on a number of assumptions that we believe were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2007, we outlined the principal assumptions that we made in the preparation of our forward-looking statements relating to our expected financial and operational performance in 2008. These assumptions include economic, market, financial and operational assumptions, and except as outlined below, and in our MD&A for the first three quarters of 2008, have not changed significantly up to October 28, 2008.

### Revised guidance

We have entered into 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. This investment will add high speed packet access (HSPA) 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 nation-wide migration to the Long Term Evolution (LTE) technology, the fourth generation (4G) global wireless standard. It will also allow us to economically extend fibre deeper into our access network, enhancing our service capabilities in the future. In August 2008, our 2008 Guidance for operating revenues was revised as a result of the reclassification of AMP and our DSA businesses to discontinued operations.

2008 Guidance	Issued August 2008	Revision October 2008
Operating Revenue	\$3,240 million to \$3,310 million	no change
Capital Intensity <sup>(1)</sup>	14.5 to 15.5 percent	15.5 to 16.5 percent
Distributable Cash <sup>(2)</sup>	\$720 million to \$740 million	\$700 million to \$720 million

(1) Capital intensity equals capital expenditures per the statement of cash flows divided by operating revenues.

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

### 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 enterprise 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. Refer to our MD&A for the year ended December 31, 2007, and our 2007 Annual Information Form, for a list of significant risks to which we believe we are exposed. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we presently consider immaterial to our consolidated operations.

During the first three quarters of 2008, we have not identified significant changes to the nature of the risks that we are exposed to in our current business, as described in our MD&A for the year ended December 31, 2007, and our 2007 Annual Information Form. We have provided updates to our regulatory and competitive environments in the "Our business environment" section. While the nature of the risks we face as participants in the capital markets has not changed during the first three quarters of 2008, many of the risks we have previously identified are emerging as potentially having a more imminent impact on our business. In particular, negative returns from investments in the global equity markets are likely to add to our pension plan deficits at year-end 2008, which will in turn add to cash funding requirements in 2009. We are currently assessing the potential range of incremental funding requirements but the impact will continue to change as interest rates and markets change through to the end of the year. We have the pension reserve bank facility to access any incremental cash requirements this may impose. The risk of continued access to liquidity and the impacts we are seeing from current capital market conditions was discussed in the "Liquidity" section above.

### Internal controls over financial reporting

Management has designed internal controls over financial reporting (as defined in Canadian Securities Administrators'

Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the nine months ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## 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 period ended September 30 (millions of dollars)	Three months		Nine months	
	2008	2007	2008	2007
Operating revenues	\$815.3	\$808.5	\$2,468.8	\$2,434.2
Expenses	646.0	668.7	1,984.1	2,071.4
Operating income	\$169.3	\$139.8	\$484.7	\$362.8

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 period ended September 30 (millions of dollars)	Three months		Nine months	
	2008	2007	2008	2007
Operating income	\$169.3	\$139.8	\$484.7	\$362.8
Add: Net cost of benefit plans	25.1	26.0	74.7	83.8
Depreciation and amortization	176.6	183.2	525.8	604.0
Restructuring and other charges	-	20.8	0.1	22.2
EBITDA	\$371.0	\$369.8	\$1,085.3	\$1,072.8

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.

<i>For the period ended September 30</i> <i>(millions of dollars)</i>	<b>Three months</b>		<b>Nine months</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Cash from operating activities	<b>\$310.8</b>	\$301.4	<b>\$895.4</b>	\$872.7
Add (deduct):				
Cash from operating activities of discontinued operations	<b>0.5</b>	2.3	<b>4.5</b>	18.7
Cash from operating activities of the Fund	<b>1.1</b>	0.7	<b>0.7</b>	(2.2)
Capital expenditures	<b>(138.8)</b>	(139.7)	<b>(361.4)</b>	(398.0)
<b>Standardized distributable cash</b>	<b>173.6</b>	164.7	<b>539.2</b>	491.2
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilities (working capital)	<b>(10.5)</b>	(2.4)	<b>(18.5)</b>	(8.3)
Change in operating assets and liabilities (working capital) of the Fund	<b>(2.5)</b>	(1.2)	<b>(4.1)</b>	(1.6)
Pension deficit funding	<b>11.9</b>	9.8	<b>36.9</b>	26.5
Restructuring and other charges	-	20.8	<b>0.1</b>	22.2
Cash capital taxes in excess of normalized levels	<b>2.9</b>	1.7	<b>8.3</b>	7.5
Other adjustments:				
Current income tax (expense) recovery	-	(12.3)	<b>(3.9)</b>	(9.9)
Other non-cash items provided for in working capital changes	<b>3.9</b>	(3.5)	<b>11.4</b>	4.3
<b>Distributable cash</b>	<b>\$179.3</b>	\$177.6	<b>\$569.4</b>	\$531.9

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 new 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.