



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

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

### **Fourth 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 twelve months ended December 31, 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 issued during 2008 and our audited consolidated financial statements and accompanying notes as at and for the year ended December 31, 2007, and related MD&As.*

*This MD&A is dated February 2, 2009, and is current to that date unless otherwise stated. The consolidated financial information contained herein is unaudited as of February 2, 2009, and has 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 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.*

*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 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 management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at February 2, 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 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; changing technology; required operating and capital expenditures; the relationship with BCE and Bell Canada; pension plan funding; liquidity and financing risk; leverage and restrictive covenants; BCE governance rights; reliance on key personnel and labour relations and legal contingencies and changes in laws. 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.*

## Our business

We are one of North America's largest regionally focused telecommunications service providers and have been serving customers for over a century. We offer a complete range of voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions to our customers across Atlantic Canada, Ontario and Quebec.

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 planning, assessing performance and making resource allocation decisions.

## Our business environment

### Competitive landscape

Throughout the fourth quarter of 2008, competitive intensity in our territory continued to increase with cable competitors expanding their local service areas in our markets and continuing aggressive promotional campaigns, which include bundled service offerings. Cable competitors offered telephony services to approximately 57 per cent of households in our territories at the end of December 2008, representing a 2 percentage point increase since the preceding quarter, and 9 percentage points of growth since the fourth quarter of 2007.

In order to combat competitive pressures, we continue to enhance our products and services, promote our bundled service packages and work with customers to provide innovative and complete solutions. We continue to invest in our communities and support activities that are important to our customers and employees. We also continually evaluate our cost structure to ensure maximum profitability is reached while still maintaining the high level of customer service and innovative product offerings our customers expect. 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, June 30 and September 30, 2008, for a complete discussion of regulatory developments, which occurred in 2007 and up to and including October 28, 2008. Regulatory developments in the fourth quarter of 2008, up to and including February 2, 2009, which are significant to our business, include the following:

- On October 30, 2008, the CRTC issued Telecom Order 2008-305 directing Bell Canada and us to implement rate reductions effective December 1, 2008, for stand-alone local residential telephone access services in the non-high-cost serving area portions of our Ontario and Quebec serving areas. The purpose is to clear the annualized recurring amount, which is estimated at \$16.3 million, in Bell Canada's deferral account. Since Bell Canada's deferral account obligation arose prior to our acquisition of Bell Canada's wireline operation in Quebec and Ontario, the deferral account obligation is to be satisfied for the benefit of Bell Canada's and our customers in Ontario and Quebec. On December 1, 2008, we and Bell Canada filed an application to review and vary Telecom Order 2008-305, arguing that the 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.
- 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 Internet service providers (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 are due on February 16, 2009, and a public hearing is scheduled to commence on July 9, 2009. A decision from the CRTC imposing restrictions on ISPs, including us, could have a negative 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 for 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 on 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.
- As discussed in more detail in our second quarter 2008 MD&A, on May 15, 2008, we along with Bell Canada,

Saskatchewan Telecommunications Holdings Corporation and Télébec (the Companies) filed a series of applications requesting that the CRTC review and vary certain portions of Telecom Decision 2008-17 which prescribed a new regulatory framework for wholesale services. 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 which would have avoided regulation of future non-essential services. The CRTC also denied a competitor's application to reclassify as essential, and thus lower the price of, wholesale Ethernet services. The CRTC also approved in part, a competitor's application, requiring incumbent local exchange carriers to provide wholesale "copper-based" digital subscriber line services at speeds equivalent to their retail Internet offerings where there is a demand by a competitor. On January 19, 2009, the CRTC accepted our proposal to allow for off-tariff negotiated agreements for various types of mandated wholesale services (specifically, those classified as "conditional essential" and "conditional mandated non-essential"). 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 such 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.

### **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 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 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, would 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). On November 28, 2008, Finance tabled a Notice of Ways and Means Motion which contained the Conversion Rules, amended to address areas of concern under the initial version of the draft legislation. 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. 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.

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

During the fourth quarter of 2008:

- Stephen Wetmore left his position as President and CEO; and
- Karen Sheriff was appointed President and CEO effective November 3, 2008.

On January 12, 2009, Bell Aliant 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 to seven. Further details on this restructuring initiative can be found in the "Operational Efficiency" section.

## Changes to board of directors

On November 3, 2008, Mr. Andrew Smith replaced Mr. Stephen Wetmore on the boards of directors of our general partner and main operating subsidiaries.

## Fourth quarter in review

### Summary of results

For the period ended December 31 (millions of dollars)	Three months			Twelve months		
	2008	2007	% change	2008	2007 <sup>(2)</sup>	% change
Operating revenues	\$813.2	\$819.1	(0.7)	\$3,282.0	\$3,253.3	0.9
EBITDA <sup>(1)</sup>	\$365.6	\$365.6	-	\$1,450.9	\$1,438.4	0.9
Operating income <sup>(1)</sup>	\$111.1	\$141.2	(21.3)	\$595.8	\$504.0	18.2
Net earnings from continuing operations	\$79.8	\$114.5	(30.3)	\$331.9	\$310.4	6.9
Net earnings (loss) from discontinued operations	\$0.2	\$2.9	(93.1)	(\$9.7)	\$264.3	n.m.
Net earnings	\$80.0	\$117.4	(31.9)	\$322.2	\$574.7	(43.9)

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.

<sup>(2)</sup> Net earnings from discontinued operations in the second quarter of 2007 was 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 decreased by \$5.9 million during the fourth quarter of 2008, compared to the same period in 2007. Declines in local and access, long distance, IT fulfillment and other revenues were partially offset by growth in data and Internet, wireless and IT services. On a year-over-year basis, operating revenues grew \$28.7 million as the first nine months of 2008 had higher IT services and fulfillment revenues compared to the same period in 2007, in addition to favourable one-time revenue adjustments occurring in 2008.

EBITDA for the fourth quarter of 2008 was consistent with the fourth quarter of 2007 at \$365.6 million, with declines in operating revenue offset by declines in operating expenses. EBITDA increased \$12.5 million for the year with EBITDA margins in 2008 consistent with 2007 EBITDA margins. A change in the mix of operating revenues during 2008 resulted in lower margins that were offset by our expense productivity measures as initiatives that commenced early in the year had begun to provide full savings by the fourth quarter.

Operating income for the fourth quarter of 2008 declined by \$30.1 million compared to the fourth quarter of 2007. Although EBITDA was consistent with 2007, there was a \$44.2 million decrease in net cost of benefit plans due to the reversal of a pension valuation allowance that was set up in 2007 which was more than offset by an \$18.9 million increase in depreciation and amortization due to adjustments to useful lives of assets and a \$55.4 million increase in restructuring and other charges to reflect the continuation of productivity initiatives for operational efficiency. On a year-over-year basis, operating income increased by \$91.8 million. In addition to similar trends discussed for the fourth quarter decline, in 2007 a one-time depreciation and amortization adjustment of \$62.0 million, related to the period from July 7, 2006, to December 31, 2006, was recognized upon 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.

Net earnings from continuing operations for the fourth quarter of 2008 decreased by \$34.7 million compared to the fourth quarter of 2007. In the fourth quarter of 2008, the decline in operating income and a \$44.4 million lower income tax recovery was offset by a \$34.2 million lower non-controlling interest. The lower income tax recovery recorded in the fourth quarter of 2008 relates mainly to a higher amount booked in the fourth quarter of 2007 to record the effect of tax rate changes. The lower non-controlling interest in the fourth quarter of 2008 is due to lower operating income for the quarter and 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. On a year-over-year basis, the same trends as discussed for the fourth quarter of 2008 were evident in the income tax recovery and non-controlling interest, but the operating income increase led to a \$21.5 million increase in net earnings from continuing operations.

Net earnings from discontinued operations decreased by \$2.7 million during the fourth quarter of 2008 compared to the fourth quarter of 2007, due primarily to Atlantic Mobility Products Limited Partnership (AMP) and our Defence, Security and Aerospace (DSA) business generating less earnings in 2008. On a year-over-year basis, net earnings from discontinued operations decreased \$274.0 million mainly due to 2007 including 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 AMP.

## Distributable cash

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

For the period ended December 31 (millions of dollars)	Three months			Twelve months		
	2008	2007	% change	2008	2007	% change
Distributable cash <sup>(1)</sup>	\$146.2	\$169.5	(13.7)	\$715.6	\$701.4	2.0
Cash distributions declared <sup>(2)</sup>	\$164.8	\$160.1	2.9	\$657.9	\$651.1	1.0

<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 declined by \$23.3 million, or 13.7 per cent, in the fourth quarter of 2008, compared to the fourth quarter of 2007. The decrease is primarily due to a planned increase in capital expenditures, which were \$23.8 million higher in the last three months of 2008 compared to the last three months of 2007.

The following table provides a summary reconciliation of cash from operating activities to distributable cash for the three and twelve months ended December 31, 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.

For the period ended December 31 (millions of dollars)	Three months			Twelve months		
	2008	2007	% change	2008	2007	% change
Cash from operating activities	\$360.1	\$320.4	12.4	\$1,255.5	\$1,202.7	4.4
Add (deduct): Cash from operating activities of the Fund and discontinued operations	0.4	3.5	(88.6)	5.6	20.0	(72.0)
Capital expenditures	(167.4)	(143.6)	16.6	(528.8)	(541.6)	(2.4)
Standardized distributable cash <sup>(1)</sup>	\$193.1	\$180.3	7.1	\$732.3	\$681.1	7.5
Add (deduct): Operating items funded through cash reserves or borrowing	(46.9)	(16.5)	184.2	(24.2)	20.2	n.m.
Other adjustments	-	5.7	(100.0)	7.5	0.1	n.m.
Distributable cash <sup>(1)</sup>	\$146.2	\$169.5	(13.7)	\$715.6	\$701.4	2.0
Net earnings	\$80.0	\$117.4	(31.9)	\$322.2	\$574.7	(43.9)
Cash distributions declared <sup>(2)</sup>	\$164.8	\$160.1	2.9	\$657.9	\$651.1	1.0
Excess of cash from operating activities over cash distributions declared <sup>(3)</sup>	\$195.7	\$163.8	19.5	\$603.2	\$571.6	5.5
Shortfall of net earnings over cash distributions declared	(\$84.8)	(\$42.7)	98.6	(\$335.7)	(\$76.4)	339.3

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 fourth quarter of 2008 increased by \$12.8 million, or 7.1 per cent, when compared to the same period in 2007. The increase is due to the higher level of cash from operating activities, which was only partially offset by an increase in capital expenditures and lower cash from discontinued operations. Cash from operating activities increased \$39.7 million in the fourth quarter of 2008 compared to the fourth quarter of 2007. The increase was mainly driven by an increase in cash flows from changes in operating assets and liabilities (working capital) of \$91.9 million partially offset by \$2.6 million in higher pension funding and lower net earnings due to the \$60.6 million restructuring charge recorded in the fourth quarter of 2008. For the full year 2008 compared to 2007, standardized distributable cash increased by \$51.2 million, or 7.5 per cent, due to capital expenditures that were \$12.8 million lower in 2008, combined with an increase of \$92.5 million in

cash flow from working capital and partially offset by a \$14.4 million increase in pension funding and \$17.8 million less operating cash from discontinued operations.

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 calculation of standardized distributable cash. Changes in working capital increased due to adding \$60.6 million to the restructuring and other charges liability at December 31, 2008, in relation to planned productivity initiatives. This represents a \$42.3 million increase in the restructuring and other charges liability as compared to the prior year, and a \$53.1 million increase when compared to September 30, 2008.

Both standardized distributable cash and our calculation of distributable cash include capital spending. Capital expenditures in the fourth quarter of 2008 were 20.6 per cent of operating revenues, approximately 3.1 percentage points higher than the comparative quarter of 2007 at 17.5 per cent. During the third quarter of 2008, our capital intensity target was revised to reflect the commencement in the fourth quarter of 2008 of a long-term capital investment agreement with Bell Canada. On an annual basis, capital expenditures as a percentage of operating revenues for 2008 were 16.1 per cent, 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.

We are committed to maintaining and enhancing our network assets in order to support growing demand for high bandwidth Internet protocol (IP) services. Capital expenditures were higher for the year ended December 31, 2007, compared to 2008 due to extra spending on our fibre-to-the-node capital investment. Spending on this project was still being made in 2008, however at a reduced pace.

Cash distributions declared for the fourth quarter of 2008 were 112.7 per cent of distributable cash for the quarter, exceeding our targeted payout ratio of 90.0 per cent on an annual basis. Quarterly fluctuations of this magnitude are not unusual due to the pattern of capital spending that occurs through the year and our declared cash distributions are based on annual targets. The excess of cash distributions declared over distributable cash available in the fourth quarter of 2008 was funded through cash and cash equivalents on hand. 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, which remains reflective of our long-term targeted payout ratio of 90.0 per cent.

## **Focus and Strategy for 2008**

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

Delivering a superior customer experience has been a cornerstone of our strategy. 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 enables us to deliver on this strategic priority.

#### *Customer service*

In the fourth quarter of 2008, we continued to enhance our system and network initiatives to drive customer service improvements.

A key initiative included enhancements to our Enterprise Service Desk solution, where we can now provide enterprise customers with one contact number for every service request or incident from network and server support to voice over Internet protocol (VoIP) and Internet issues. In addition, residential and small to medium business (SMB) customers can now activate our Voicemail Online service 24 hours a day, seven days a week. This service allows customers to access their voicemails through email and online, providing customers a range of options to meet their communication needs.

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

We continued to develop and introduce innovative products and services for our customers during the fourth quarter of 2008.

By December 31, 2008, we reached approximately 236,000 homes in our territory with fibre. During the fourth quarter of 2008, in Atlantic Canada we launched Aliant TV's High Definition (HD) service with 20 HD content channels.

During the fourth quarter, we also launched Aliant PC Expert for our SMB customers. Following on the success of our recently launched IT Expert, which looks after our customers' entire IT infrastructure, 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.

#### *Community involvement*

During the fourth quarter of 2008, among other community initiatives, we partnered with the Aliant Pioneer Volunteers during their annual Christmas campaign donating over \$91,000 to support over 56 charities in communities throughout Newfoundland and Labrador. Also, with more than 200 Aliant Pioneer Volunteers, employees and their families, we helped raise over

\$892,000 for the 45th annual Christmas Daddies Telethon, which provides toys, gifts and necessities such as clothing and food to over 16,000 children across the Maritime provinces. Our annual United Way campaign also concluded in the fourth quarter, and contributed over \$430,000 to 26 United Way chapters.

### ***Operational Efficiency***

We are aggressively managing our cost structure to increase distributable cash and deliver value to our unitholders and ultimately, unitholders of the Fund. During the fourth quarter of 2008, we achieved additional productivity savings through process, system and technology enhancements, infrastructure replacement, and consolidation of operations. These productivity savings enabled us to maintain EBITDA in the fourth quarter of 2008 at the same level as the corresponding period in 2007, despite slightly lower revenues.

### **Focus and Strategy for 2009**

In 2009, we will build on the solid plan that has been in place since our creation. On January 12, 2009, we announced highlights of our 2009 Business Plan, including the new vision for Bell Aliant which is to be recognized by customers as the leading communications provider in the markets we serve. We will achieve this vision, and thereby create strong value for our investors, through the successful execution of five strategic objectives:

- Improve the customer experience by continuing to invest in service improvements and deliver programs designed to meet our customers' specific needs.
- Retain our customers by focusing on increasing our customer retention efforts, improving penetration of our products and further strengthening our brand.
- Grow broadband by working to acquire new customers and increase revenue by offering more value-added IP based services, further expanding our footprint and investing in bringing fibre closer to our customers.
- Reset our cost structure while increasing productivity in all processes and operations, including our organizational structure.
- Engage employees through building a performance-based culture by more closely aligning personal performance with corporate objectives, and continuing to invest in learning opportunities and leadership development.

As part of our 2009 Business Plan, we have also introduced a leaner organizational structure and new executive team that will enable us to be more nimble. The new organizational structure affects all levels of our management and will result in a reduction of approximately 500 management positions, representing about 15 per cent of management or 5 per cent of our overall workforce. At December 31, 2008, we accrued \$60.6 million related to the initiative and anticipate approximately a one year payback on operating cost savings. These changes are expected to provide annualized savings of approximately \$60 million.

## Results of operations

For the period ended December 31 (millions of dollars)	Three months			Twelve months		
	2008	2007	% change	2008	2007 <sup>(2)</sup>	% change
Local and access	\$350.0	\$354.3	(1.2)	\$1,404.8	\$1,430.9	(1.8)
Long distance	109.8	116.4	(5.7)	452.3	474.8	(4.7)
Data & Internet	209.2	193.0	8.4	800.2	755.8	5.9
IT services and fulfillment	62.5	62.3	0.3	315.3	262.4	20.2
Wireless	21.5	17.0	26.5	80.8	64.4	25.5
Other revenues	60.2	76.1	(20.9)	228.6	265.0	(13.7)
Operating revenues	\$813.2	\$819.1	(0.7)	\$3,282.0	\$3,253.3	0.9
Operating expenses	447.6	453.5	(1.3)	1,831.1	1,814.9	0.9
EBITDA <sup>(1)</sup>	\$365.6	\$365.6	-	\$1,450.9	\$1,438.4	0.9
Net cost of benefit plans	3.6	47.8	(92.5)	78.3	131.6	(40.5)
Depreciation and amortization	190.3	171.4	11.0	716.1	775.4	(7.6)
Restructuring and other charges	60.6	5.2	1,065.4	60.7	27.4	121.5
Operating income <sup>(1)</sup>	\$111.1	\$141.2	(21.3)	\$595.8	\$504.0	18.2
Other expenses (income)	(4.2)	1.9	n.m.	(2.3)	0.2	n.m.
Interest charges	39.4	38.9	1.3	156.9	158.4	(0.9)
Income tax expense (recovery)	(17.2)	(61.6)	(72.1)	(21.8)	(123.9)	(82.4)
Non-controlling interest	13.3	47.5	(72.0)	131.1	158.9	(17.5)
Net earnings from continuing operations	\$79.8	\$114.5	(30.3)	\$331.9	\$310.4	6.9
Net earnings from discontinued operations	0.2	2.9	(93.1)	(9.7)	264.3	n.m.
Net earnings	\$80.0	\$117.4	(31.9)	\$322.2	\$574.7	(43.9)

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.

<sup>(2)</sup> Net earnings from discontinued operations in the second quarter of 2007 was 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 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 December 31, 2008, compared to December 31, 2007, we have contained the local and access revenue decline to 1.2 per cent, or \$4.3 million, in the fourth quarter of 2008 compared to the same period in 2007 through pricing changes and increased feature 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 of other services, including wireless and VoIP services. As of December 31, 2008, approximately 57 per cent of households in our territory were passed by cable telephony versus 48 per cent at December 31, 2007.

#### Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 5.7 per cent, or \$6.6 million, in the fourth quarter of 2008, compared to the fourth quarter of 2007. Long distance minutes declined by 2.9 per cent over the same period due to competitive losses and substitution by cellular calling and IP-based services. In addition, the average revenue per minute declined 2.1 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-over-year decline in long distance revenue from 2008 to 2007 of 4.7 per cent, or \$22.5 million, was mitigated by new product

offerings and various pricing changes.

#### *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 8.4 per cent, or \$16.2 million, for the fourth quarter of 2008 compared to the same period in 2007. Data revenue growth was driven mainly by a sizeable data product sale during the fourth quarter of 2008. We also experienced growth in each of our high-speed Internet, enhanced data solutions and television revenues which were partially offset by declines in dial-up Internet and legacy data services. 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 \$36.71 during the fourth quarter of 2008, up 6.7 per cent from \$34.42 during the fourth quarter of 2007. The fourth quarter of 2008 represented our fifth consecutive quarter of increasing ARPC for high-speed Internet.

#### *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 were consistent with the prior year, increasing 0.3 per cent, or \$0.2 million, when comparing the fourth quarter of 2008 to the fourth quarter of 2007. Although the fourth quarter of 2008 reflected IT services revenue growth of 16.2 per cent, primarily due to a major healthcare IT project in Quebec, IT fulfillment revenue decreased by 9.3 per cent as the fourth quarter of 2007 included significant product sales to governments that were not repeated to the same extent in the fourth quarter of 2008. On a year-over-year basis, IT services and fulfillment revenue grew 20.2 per cent, or \$52.9 million, which reflects significant growth and the recognition of certain contract revenue earlier in 2008 that had been deferred through much of 2007.

#### *Wireless*

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over analog and digital wireless networks in some of our territories in Quebec and Ontario. Revenue increased by 26.5 per cent, or \$4.5 million, in the fourth quarter of 2008 compared to the fourth quarter of 2007. The increase is due to a 20.0 per cent year-over-year increase in wireless customers, 9.5 per cent of which is related to the acquisition of Kenora Municipal Telephone System (KMTS) earlier in the year, and a 4.9 per cent quarter-over-quarter increase in total ARPC attributable to increased wireless data revenue. The quarterly wireless revenue growth is consistent with the year-over-year growth of 25.5 per cent, or \$16.4 million.

#### *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 20.9 per cent, or \$15.9 million, in the fourth quarter of 2008, compared to the same period in 2007, and by 13.7 per cent or \$36.4 million on a year-over-year basis. This decline is mainly caused by a decrease in outsourcing revenue of 64.7 per cent, or \$10.9 million, on a quarter-over-quarter basis and 37.1 per cent, or \$18.8 million, on a year-over-year basis, due to repatriation of work by Bell Mobility that was previously performed by us. Telephone equipment rentals revenue continues to decline, by approximately 12.5 per cent during the fourth quarter of 2008 compared to the same period in 2007, as customers shift from renting to purchasing their own devices. In addition, the fourth quarter of 2007 was positively affected by a number of favourable revenue adjustments that did not recur in 2008.

## **Expenses**

#### *Operating expenses*

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	<b>Three months</b>			<b>Twelve months</b>		
	<b>2008</b>	<b>2007</b>	<b>% change</b>	<b>2008</b>	<b>2007</b>	<b>% change</b>
Cost of sales	<b>\$134.4</b>	\$140.2	(4.2)	<b>\$549.5</b>	\$538.7	2.0
Salaries, benefits, contract labour and consulting	<b>160.4</b>	163.9	(2.1)	<b>664.7</b>	644.0	3.2
Selling, general and administrative	<b>150.7</b>	151.1	(0.2)	<b>606.5</b>	622.8	(2.6)
Capital taxes	<b>2.1</b>	(1.7)	n.m.	<b>10.4</b>	9.4	10.6
<b>Operating expenses</b>	<b>\$447.6</b>	\$453.5	(1.3)	<b>\$ 1,831.1</b>	\$1,814.9	0.9

n.m. not meaningful

Operating expenses, excluding net benefit plan costs, decreased 1.3 per cent, or \$5.9 million, in the fourth quarter of 2008, compared to the corresponding period in 2007. The quarter-over-quarter decrease in cost of sales is mainly due to lower negotiated Internet transiting service rates, lower toll terminating settlement rates against less volume, a lower level of Bell Mobility outsourcing and lower product costs in conjunction with decreased IT fulfillment sales. On a year-over-year basis, the cost of sales increase also reflects costs associated with large IT fulfillment sales in the second quarter of 2008.

Salaries, benefits, contract labour and consulting costs decreased on a quarter-over-quarter basis due to a lower headcount in 2008, a reduction in consulting expenses and less outsourcing to support Bell Mobility call volumes. The decrease in these expenses was partially offset by higher IT services contract costs in relation to the increase in IT services revenue in 2008. On a year-over-year basis, salaries, benefits, contract labour and consulting expense increased due to annual wage increases and an increase in outsourcing activity that 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 on a quarterly and annual basis. During the fourth quarter of 2008, these savings have been offset by costs associated with an extensive advertising campaign launched in advance of the holiday period in an attempt to mitigate the impact of increasing competitive pressures.

The increase in capital taxes in 2008 for the fourth quarter and year compared to the same periods for 2007 was the result of an adjustment to 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 as compared to 2007.

#### *Net cost of benefit plans*

Net cost of benefit plans decreased 92.5 per cent, or \$44.2 million, in the fourth quarter of 2008 compared to the same period in 2007. On a year-over-year basis, net cost of benefit plans decreased 40.5 per cent, or \$53.3 million. 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 our obligations in our DB pension and other post-employment benefit (OPEB) plans to 5.5 per cent from 5.3 per cent in 2007.

#### *Depreciation and amortization*

Depreciation and amortization increased 11.0 per cent, or \$18.9 million, in the fourth quarter of 2008 compared to the same period in 2007. The quarter-over-quarter increase was driven mainly by a \$9.9 million adjustment 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 of KMTS, and the pattern of recognition of depreciation expense as our depreciable asset base ages. On a year-over-year basis, depreciation decreased 7.6 per cent, or \$59.3 million, 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.

#### *Restructuring and other charges*

Restructuring and other charges increased \$55.4 million in the fourth quarter of 2008 compared to the same period in 2007, and increased \$33.3 million on a year-over-year basis, due to the continuation of productivity initiatives and cost structure changes that commenced during the fourth quarter of 2008. As discussed in our "Focus and Strategy for 2009" section, we commenced restructuring our organization during the fourth quarter of 2008 and recognized a related \$60.6 million charge.

#### *Interest charges*

Interest charges in 2008 were comparable with the same period in 2007, increasing a nominal 1.3 per cent, or \$0.5 million in the fourth quarter and decreasing a nominal 0.9 per cent, or \$1.5 million on a year-over-year basis. 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 fourth quarter increase reflects the payment of some fees and costs for the renegotiation of certain relatively small bank credit facilities, offset by lower interest costs on the small proportion of our debt that is subject to floating rates of interest.

#### *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 fourth quarter of 2008 decreased \$44.4 million, or 72.1 per cent, from the same period in 2007. The decrease in our income tax recovery on a quarter-over-quarter basis is the result of a \$59.9 million higher future tax recovery reported in the fourth quarter of 2007 to record the effect of tax rate changes. This was partially offset by a \$3.7 million higher current income tax recovery

reported in the fourth quarter of 2008 relating to a favourable settlement of prior years' tax issues, combined with a \$12.0 million higher future tax recovery in 2008 related to reduced income deferrals for tax purposes in 2008 compared to 2007. The significant decrease of \$102.1 million, or 82.4 per cent, in our income tax recovery on a year-over-year basis is mainly a result of the \$101.5 million higher future tax recovery recorded in 2007 as compared to 2008 to report the effect of tax rate changes.

#### *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 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.

Non-controlling interest in our earnings decreased \$34.2 million in the fourth quarter and \$27.8 million on a year-over-year basis due to the elimination of the non-controlling interest related to Télébec and NorthernTel as well as the lower earnings of Bell Aliant LP in the fourth quarter of 2008, compared to the same period in 2007. Distributions paid by our subsidiaries to the non-controlling interest decreased by \$9.5 million in the fourth quarter of 2008 and \$29.7 million on a year-over-year basis due to \$10.9 million paid to the Fund by Télébec and NorthernTel in the fourth quarter of 2007, and \$40.0 million in 2007, prior to this ownership interest being transferred to us.

#### *Net earnings (loss) from discontinued operations*

Net earnings (loss) from discontinued operations in 2008 reflect the results of our DSA business and AMP. These discontinued operations generated \$2.7 million less earnings in the fourth quarter of 2008 compared to the same period in 2007.

The significant year-over-year decrease in net earnings (loss) from discontinued operations 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 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 December 31</i> <i>(millions of dollars, except per unit amounts)</i>	<b>2007</b>				<b>2008</b>			
	<b>Q1</b>	<b>Q2 <sup>(2)</sup></b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Operating revenues	\$830.3	\$795.4	\$808.5	\$819.1	\$837.9	\$815.6	\$815.3	\$813.2
EBITDA <sup>(1)</sup>	\$347.8	\$355.2	\$369.8	\$365.6	\$353.3	\$361.0	\$371.0	\$365.6
Operating income <sup>(1)</sup>	\$169.9	\$53.1	\$139.8	\$141.2	\$153.9	\$161.5	\$169.3	\$111.1
Net earnings (loss):								
Continuing operations	\$82.0	\$42.9	\$71.0	\$114.5	\$74.2	\$84.8	\$93.1	\$79.8
Discontinued operations	6.5	252.7	2.2	2.9	(9.9)	(0.4)	0.4	0.2
<b>Net earnings (loss)</b>	<b>\$88.5</b>	<b>\$295.6</b>	<b>\$73.2</b>	<b>\$117.4</b>	<b>\$64.3</b>	<b>\$84.4</b>	<b>\$93.5</b>	<b>\$80.0</b>
Basic and diluted earnings per unit:								
Continuing operations	\$0.54	\$0.28	\$0.47	\$0.75	\$0.46	\$0.53	\$0.58	0.50
Discontinued operations	0.04	1.66	0.01	0.02	(0.06)	0.00	0.00	0.00
<b>Basic and diluted earnings per unit</b>	<b>\$ 0.58</b>	<b>\$ 1.94</b>	<b>\$ 0.48</b>	<b>\$ 0.77</b>	<b>\$ 0.40</b>	<b>\$ 0.53</b>	<b>\$ 0.58</b>	<b>\$ 0.50</b>
Distributable cash <sup>(1)</sup>	\$192.1	\$162.2	\$177.6	\$169.5	\$206.8	\$183.3	\$179.3	\$146.2
Cash distributions declared	\$166.2	\$163.5	\$161.3	\$160.1	\$163.3	\$164.9	\$164.9	\$164.8

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

<sup>(2)</sup> Net earnings from discontinued operations in the second quarter of 2007 was 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.

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

#### 2007

- We finalized the purchase price allocation related to the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordinq 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, 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, 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 Nordinq Group Inc., 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, which was reflected in net earnings (loss) from discontinued operations. We commenced reporting AMP as discontinued operations in the second quarter of 2008.
- During the third quarter of 2008, we announced 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.

Details regarding our results for the fourth quarter of 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 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## Financial and capital management

### Summary of cash flows

For the period ended December 31 (millions of dollars)	Three months			Twelve months		
	2008	2007	% change	2008	2007	% change
Cash from (used in):						
Operating activities	\$360.1	\$320.4	12.4	\$1,255.5	\$1,202.7	4.4
Financing activities	(202.6)	(134.8)	50.3	(730.1)	(1,087.8)	(32.9)
Investing activities	(166.0)	(143.1)	16.0	(553.6)	(539.9)	2.5
Net increase (decrease) in cash from continuing operations	(\$8.5)	\$42.5	n.m.	(\$28.2)	(\$425.0)	(93.4)
Net increase (decrease) in cash from discontinued operations	(1.8)	(2.5)	(28.0)	(5.3)	333.7	n.m.
Net increase (decrease) in cash for the period	(\$10.3)	\$40.0	n.m.	(\$33.5)	(\$91.3)	(63.3)

n.m. - not meaningful

We used net cash of \$10.3 million in the fourth quarter of 2008, compared to generating \$40.0 million in the fourth quarter of 2007. On an annual basis, 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 in the fourth quarter of 2008 includes a \$121.4 million positive contribution to cash from changes in operating assets and liabilities (working capital) compared to \$29.5 million in the fourth quarter of 2007. The fourth quarter of the year is typically a strong one for cash flow from working capital changes, with such seasonal cash flow

changes coming from reducing prepayments and increasing interest payable. In the fourth quarter of 2008 this seasonal cash flow was combined with the \$60.6 million accrual for restructuring charges and larger accruals for capital expenditures incurred, but not yet paid before the end of the year. The \$91.9 million increase in cash flow from changes in operating assets and liabilities was partially offset by higher pension funding requirements and lower cash contributed from net earnings in the fourth quarter of 2008 compared to the same period in 2007.

For the full year 2008, growth in cash flow from operating activities of \$52.8 million, or 4.4 per cent, compared to 2007 is due to similar trends as experienced in the fourth quarter plus the benefits we experienced throughout the year from initiatives to improve overall cash flow from working capital changes, particularly in collecting accounts receivable. On a year-over-year basis, in 2008 we generated \$92.5 million more cash from changes in working capital compared to 2007. This was partially offset by \$14.4 million higher pension funding in 2008 and lower cash from net earnings. Cash from working capital changes contributed \$139.9 million to cash flows in 2008 compared to \$47.4 million in 2007. The 2008 cash flow reflects a \$42.3 million increase in the restructuring 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 the 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, and for the fourth quarter of 2008, contributions were \$28.4 million, compared to \$25.8 million for the same period in 2007. Included in the funding for the fourth quarter of 2008 is \$16.1 million for DB current service cost funding and \$12.3 million for special deficit-reducing payments, compared to \$15.6 million and \$10.1 million, respectively, in the fourth quarter of 2007. On an annual basis, 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 increased by \$67.8 million in the fourth quarter of 2008, compared to the same period in 2007 and decreased by \$357.7 million on a year-over-year basis.

In the fourth quarter of 2008, our net issuances and repayments of short-term and long-term debt, including capital lease obligations and related party lending activities used \$36.5 million of cash compared to adding \$2.4 million in the fourth quarter of 2007. In 2008, we repaid short-term advances on our revolving bank credit facilities, while in 2007 we drew short-term advances on these facilities in the fourth quarter. On an annual basis, these activities used \$14.8 million in 2008 compared to using \$41.4 million in 2007. In 2008, our financing activities included refinancing \$50.0 million of maturing Télébec debentures with a new long-term debt facility in the same amount. In 2007, our financing activities included issuing \$1.0 billion medium-term notes and using the proceeds and 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 the fourth quarter of 2007, we received net proceeds of \$20.0 million from increasing the amount of accounts receivable sold to the securitization trust, with no similar transaction in the fourth quarter of 2008. On an annual basis, we repurchased \$55.0 million of accounts receivable from the securitization trust in 2008, 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.

In 2007, we made a \$460.9 million repayment of partners' capital to the Fund in order to transfer cash to the Fund associated with the proceeds received on the sale of net assets by ADS and the borrowing required to acquire the non-controlling interests in Télébec and NorthernTel.

Total distributions paid to the Fund and non-controlling interests for the fourth quarter of 2008, and for the corresponding period in 2007, were \$166.1 million and \$156.7 million, respectively. On a year-over-year basis, total distributions were \$659.9 million in 2008 and \$657.3 million in 2007. The increase in both quarter-over-quarter and year-over-year distributions is due primarily to enable an increase in the Fund's per unit distribution rate effective February 2008, 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 \$22.9 million in the fourth quarter of 2008, compared to the fourth quarter of 2007, primarily due to higher capital investments. Comparing the year ended December 31, 2008, to the year ended December 31, 2007, cash used in investing activities was \$13.7 million higher in 2008. 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 our 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 back-up 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 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 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 to date from recent market events with respect to our liquidity capacity.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	December 31, 2008		December 31, 2007	
Partners' equity	<b>\$4,882.9</b>	52.5%	\$4,506.8	49.7%
Non-controlling interest	<b>1,662.5</b>	17.8%	1,829.6	20.1%
Net debt	<b>2,768.5</b>	29.7%	2,744.1	30.2%
Total capital	<b>\$9,313.9</b>	100.0%	\$9,080.5	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 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 16 of our audited consolidated financial statements for the year ended December 31, 2007.

### Debt

We have a total of \$2.25 billion in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006. As mentioned above, we intend to file a renewal shelf prospectus to qualify additional medium-term notes to be issued under this trust indenture in the future. We have \$150.0 million drawn under our non-revolving term bank facilities, \$100.0 million of which expires in July 2009 and \$50.0 million in June 2010. We also have \$144.7 million in debentures outstanding under trust indentures of Télébec and NorthernTel, \$24.8 million under capital lease obligations and smaller amounts outstanding under various other long-term debt obligations.

The following table summarizes our bank credit facilities, their availability and usage, classified as short-term debt, as at December 31, 2008.

<i>As at December 31, 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 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>

We also maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. At December 31, 2008, we had no amounts issued under our commercial paper program. To preserve general liquidity and operating flexibility during this time of difficult credit conditions, 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.

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.

Further details of our short-term and long-term debt can be found in notes 12 and 13 to our audited consolidated financial statements for the year ended December 31, 2007, and our quarterly unaudited financial statements issued during 2008.

#### *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 term bank loan facility that expires and we anticipate being able to refinance this repayment through drawing on our revolving bank credit 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, 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.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure, as discussed below under the "Contractual obligations" 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 21 to our annual consolidated financial statements for the period ended December 31, 2007, and our quarterly unaudited financial statements issued during 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 million from December 31, 2007.

Further details of this agreement are described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2007, and our quarterly unaudited financial statements issued during 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 and short-term debt and specific firm commitments. The significant assumptions made in determining the fair value of our financial instruments remain 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 15 to our audited consolidated financial statements for the year ended December 31, 2007, and our quarterly unaudited financial statements issued during 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. 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 our quarterly unaudited financial statements issued during 2008.

## 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. There were no material effects as a result of this change.

### *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.

At December 31, 2008, the first two phases were essentially completed and we are currently underway in phase three. We anticipate substantially completing phase three by the end of the second quarter of 2009, and 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 has 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 a material impact on our operations and financial reporting due to the adoption of this new standard in 2009.

## 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.

### Guidance

On February 2, 2009, we announced our 2009 Guidance as follows:

	2009 Guidance	2008 Revised Guidance
<b>Operating Revenue</b>	\$3,180 - \$3,280 million	\$3,240 - \$3,310 million
<b>Distributable Cash <sup>(1)</sup></b>	\$750 - \$790 million	\$700 - \$720 million
<b>Capital Intensity <sup>(2)</sup></b>	13.5 – 14.5 per cent	15.5 – 16.5 per cent

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

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

In 2009, we will build on our strengths as a leading communications provider and execute on the five strategic objectives outlined in the "Focus and Strategy for 2009" section. By doing so, operating revenue is expected to be in line with 2008, with growth in Internet and wireless revenues expected to mitigate declines in local, long distance and other revenues. Productivity is expected to improve EBITDA and reduce capital expenditures, resulting in an increase in distributable cash over 2008.

For more information concerning our guidance and for a discussion of assumptions and risk factors associated with the use of forward-looking information, refer to the "Forward-looking information" section, and our press release dated February 2, 2009.

### 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.

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 2008, many of the risks we have previously identified are emerging as potentially having a more imminent impact on our business. In particular, the general economic downturn could affect demand for telecommunication products and consumer spending. As well, negative returns from investments in the global equity markets have added to our pension plan deficits at year-end 2008, which will in turn add to cash funding requirements in 2009. We have estimated the 2009 deficit funding requirements to be in the range of \$90 million to \$110 million. Our actual 2009 funding requirements will be formally established during our annual valuations, which must be filed with the federal pension regulator by June 30, 2009. Actual requirements may differ materially from our estimates due to a number of factors including assumptions used in the valuation process and the actual experience of plan members since the date of the last valuation.

## 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.

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	<b>Three months</b>		<b>Twelve months</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Operating revenues	\$813.2	\$819.1	<b>\$3,282.0</b>	\$3,253.3
Expenses	<b>702.1</b>	677.9	<b>2,686.2</b>	2,749.3
<b>Operating income</b>	<b>\$111.1</b>	\$141.2	<b>\$595.8</b>	\$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.

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	<b>Three months</b>		<b>Twelve months</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Operating income</b>	<b>\$111.1</b>	\$141.2	<b>\$595.8</b>	\$504.0
Add: Net cost of benefit plans	<b>3.6</b>	47.8	<b>78.3</b>	131.6
Depreciation and amortization	<b>190.3</b>	171.4	<b>716.1</b>	775.4
Restructuring and other charges	<b>60.6</b>	5.2	<b>60.7</b>	27.4
<b>EBITDA</b>	<b>\$365.6</b>	\$365.6	<b>\$1,450.9</b>	\$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 period ended December 31 (millions of dollars)	Three months		Twelve months	
	2008	2007	2008	2007
Cash from operating activities	\$360.1	\$320.4	\$1,255.5	\$1,202.7
Add (deduct):				
Cash from operating activities of discontinued operations	0.4	4.0	4.9	22.7
Cash from operating activities of the Fund	-	(0.5)	0.7	(2.7)
Capital expenditures	(167.4)	(143.6)	(528.8)	(541.6)
<b>Standardized distributable cash</b>	<b>193.1</b>	<b>180.3</b>	<b>732.3</b>	<b>681.1</b>
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilities (working capital)	(121.4)	(29.5)	(139.9)	(47.4)
Change in operating assets and liabilities (working capital) of the Fund	(0.5)	(0.6)	(4.6)	(2.2)
Pension deficit funding	12.3	10.1	49.2	36.6
Restructuring and other charges	60.6	5.2	60.7	27.4
Cash capital taxes in excess of normalized levels	2.1	(1.7)	10.4	5.8
Other adjustments:				
Current income tax expense (recovery)	(3.7)	-	(7.6)	(9.9)
Other non-cash items provided for in working capital changes	3.7	5.7	15.1	10.0
<b>Distributable cash</b>	<b>\$146.2</b>	<b>\$169.5</b>	<b>\$715.6</b>	<b>\$701.4</b>

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.