

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**

**March 31, 2009**

**Bell Aliant**

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Consolidated balance sheets**

<b>(Unaudited)</b>		<b>As at</b>	<b>As at</b>
<i>(millions of dollars)</i>	<b>Notes</b>	<b>March 31, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 23.7	\$ 14.6
Accounts receivable		351.1	348.4
Inventory		14.1	13.3
Prepayments		34.4	16.5
Future income tax asset		48.8	40.8
Income tax receivable		13.8	9.1
Current assets of discontinued operations	2	17.4	15.0
		<b>503.3</b>	<b>457.7</b>
Capital investments			
Property, plant and equipment		3,693.6	3,726.1
Finite-life intangibles	3	3,183.1	3,218.3
		<b>6,876.7</b>	<b>6,944.4</b>
Other assets			
Long-term receivables		34.7	34.9
Deferred charges		15.1	15.9
Future income tax asset		6.9	7.1
Accrued benefit asset	4	402.9	398.9
Indefinite-life intangibles		125.2	125.2
Goodwill		2,766.6	2,766.6
Non-current assets of discontinued operations	2	2.1	2.3
		<b>3,353.5</b>	<b>3,350.9</b>
<b>Total assets</b>		<b>\$ 10,733.5</b>	<b>\$ 10,753.0</b>
<b>Liabilities and partners' equity</b>			
Current liabilities			
Notes payable to related party	10	\$ 1.2	\$ 6.2
Payables and accruals	5	401.1	451.2
Distributions payable	10	55.4	55.4
Future income tax liability		0.7	0.5
Short-term debt	6	293.4	208.2
Long-term debt due within one year		114.8	114.7
Current liabilities of discontinued operations	2	5.0	7.6
		<b>871.6</b>	<b>843.8</b>
Future income tax liability		452.0	453.2
Long-term debt		2,451.5	2,454.0
Derivative liabilities		14.7	15.2
Accrued benefit liability	4	416.9	421.9
Deferred credits and other long-term liabilities	5	27.5	19.5
		<b>4,234.2</b>	<b>4,207.6</b>
Non-controlling interest		1,646.4	1,662.5
Partners' equity		4,852.9	4,882.9
<b>Total liabilities and partners' equity</b>		<b>\$ 10,733.5</b>	<b>\$ 10,753.0</b>

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**

**Consolidated statements of earnings**

**For the three months ended March 31**

**(Unaudited)**

<i>(millions of dollars, except earnings per unit)</i>	<b>Notes</b>	<b>2009</b>		<b>2008</b>
Operating revenues		\$	<b>828.0</b>	\$ 837.9
Expenses				
Operating expenses			<b>494.5</b>	509.4
Depreciation and amortization			<b>177.2</b>	174.5
Restructuring and other charges	5		<b>10.3</b>	0.1
			<b>682.0</b>	684.0
			<b>146.0</b>	153.9
Other expenses (income)			<b>(0.4)</b>	1.9
Interest charges				
Interest on long-term debt			<b>34.4</b>	34.3
Other interest expense			<b>3.1</b>	5.3
			<b>37.5</b>	39.6
Earnings before underlisted items			<b>108.9</b>	112.4
Income taxes				
Current tax recovery			-	(3.9)
Future tax expense (recovery)			<b>(9.1)</b>	5.7
			<b>(9.1)</b>	1.8
Earnings before non-controlling interest			<b>118.0</b>	110.6
Non-controlling interest			<b>36.3</b>	36.4
Net earnings from continuing operations			<b>81.7</b>	74.2
Net earnings (loss) from discontinued operations	2		<b>0.8</b>	(9.9)
<b>Net earnings</b>		<b>\$</b>	<b>82.5</b>	<b>\$ 64.3</b>
<b>Earnings per unit</b>				
Basic from continuing operations		<b>\$</b>	<b>0.51</b>	<b>\$ 0.46</b>
Basic from discontinued operations			-	(0.06)
Basic		<b>\$</b>	<b>0.51</b>	<b>\$ 0.40</b>

*See accompanying notes to the consolidated financial statements*

**Consolidated statements of comprehensive earnings**

**For the three months ended March 31**

**(Unaudited)**

<i>(millions of dollars)</i>	<b>2009</b>		<b>2008</b>
Net earnings	\$	<b>82.5</b>	\$ 64.3
Other comprehensive earnings (losses), net of tax:			
Gains (losses) on derivatives designated as cash flow hedges, net of tax of \$0.1 (2008 - \$0.9)		<b>0.4</b>	(3.4)
Reclassification to net earnings of losses on derivatives designated as cash flow hedges, net of tax of \$0.3 (2008 - \$0.2)		<b>1.0</b>	1.0
		<b>1.4</b>	(2.4)
<b>Comprehensive earnings</b>	<b>\$</b>	<b>83.9</b>	<b>\$ 61.9</b>

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Consolidated statements of partners' equity**  
(Unaudited)

For the three months ended March 31, 2009	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Retained earnings	Accumulated other comprehensive earnings (loss)	Total partners' equity
Balance December 31, 2008		\$ 2,061.5	\$ 0.4	\$ 1,056.2	\$ (1,065.7)	\$ 2,873.2	\$ (42.7)	\$ 4,882.9
Net earnings		-	-	82.5	-	-	-	82.5
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(20.4)	-	-	(20.4)
Class 2 limited partnership units	10	-	-	-	(93.5)	-	-	(93.5)
Other comprehensive earnings, net of tax		-	-	-	-	-	1.4	1.4
<b>Balance March 31, 2009</b>		<b>\$ 2,061.5</b>	<b>\$ 0.4</b>	<b>\$ 1,138.7</b>	<b>\$ (1,179.6)</b>	<b>\$ 2,873.2</b>	<b>\$ (41.3)</b>	<b>\$ 4,852.9</b>

For the three months ended March 31, 2008	Notes	Partners' capital	Contributed surplus	Accumulated earnings	Distributions declared to unitholders	Retained earnings	Accumulated other comprehensive earnings (loss)	Total partners' equity
Balance December 31, 2007		\$ 1,548.0	\$ 0.2	\$ 734.0	\$ (611.4)	\$ 2,873.2	\$ (37.2)	\$ 4,506.8
Net earnings		-	-	64.3	-	-	-	64.3
Issuance of class 2 limited partnership units on business combination		513.5	-	-	-	-	-	513.5
Distributions declared on:								
Class 1 exchangeable limited partnership units		-	-	-	(20.2)	-	-	(20.2)
Class 2 limited partnership units	10	-	-	-	(92.2)	-	-	(92.2)
Other comprehensive losses, net of tax		-	-	-	-	-	(2.4)	(2.4)
<b>Balance March 31, 2008</b>		<b>\$ 2,061.5</b>	<b>\$ 0.2</b>	<b>\$ 798.3</b>	<b>\$ (723.8)</b>	<b>\$ 2,873.2</b>	<b>\$ (39.6)</b>	<b>\$ 4,969.8</b>

See accompanying notes to the consolidated financial statements

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Consolidated statements of cash flows**  
**For the three months ended March 31**  
**(Unaudited)**

<i>(millions of dollars)</i>	<b>Notes</b>	<b>2009</b>	<b>2008</b>
<b>Cash from (used in) operating activities</b>			
Net earnings from continuing operations	\$	81.7	\$ 74.2
Adjustments to reconcile net earnings to cash from operating activities			
Depreciation and amortization		177.2	174.5
Future income tax expense (recovery)		(9.1)	5.7
Net cost of benefit plans	4	20.3	23.0
Funding of defined benefit pension and other post-employment benefit plans	4	(29.3)	(27.6)
Non-controlling interest		36.3	36.4
Other		(0.2)	(1.0)
Change in operating assets and liabilities		(66.7)	(49.1)
		<b>210.2</b>	<b>236.1</b>
<b>Cash from (used in) financing activities</b>			
Repurchase of accounts receivable		-	(55.0)
Net proceeds of short-term debt		85.2	68.7
Net repayments of notes payable to related party		(5.0)	(0.8)
Repayment of long-term debt		(0.9)	(0.8)
Repayment of capital lease obligations		(2.2)	(1.9)
Distributions paid by subsidiaries to non-controlling		(52.4)	(55.9)
Distributions paid		(113.9)	(105.1)
		<b>(89.2)</b>	<b>(150.8)</b>
<b>Cash used in investing activities</b>			
Purchase of capital investments		(107.5)	(95.1)
Business acquisition, net of cash received		-	(27.6)
		<b>(107.5)</b>	<b>(122.7)</b>
Net increase (decrease) in cash from continuing		13.5	(37.4)
Net increase (decrease) in cash from discontinued operations	2	(4.4)	0.2
Cash and cash equivalents, beginning of year		14.6	48.1
<b>Cash and cash equivalents, end of year</b>	<b>\$</b>	<b>23.7</b>	<b>\$ 10.9</b>
<b>Supplementary disclosure</b>			
Interest paid	\$	63.8	\$ 64.2
Income taxes paid (recovered), net	\$	0.2	\$ (0.9)

*See accompanying notes to the consolidated financial statements*

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**March 31, 2009**

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

Our operations are principally focused on regional telecommunications services in Atlantic Canada, Quebec and Ontario. We provide a wide range of innovative and traditional voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions. We provide these services through our principal operating subsidiaries which include Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec), NorthernTel, Limited Partnership (NorthernTel), and Innovatia Inc.

## **1. SIGNIFICANT ACCOUNTING POLICIES**

### ***Consolidated financial statements***

We have prepared these unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) using the same basis of presentation and accounting policies as our audited consolidated financial statements for the year ended December 31, 2008, with the exception of the adoption of a new accounting policy discussed below. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008.

### ***Goodwill and intangible assets***

Commencing January 1, 2009, we adopted Section 3064, Goodwill and intangible assets, issued by the Canadian Institute of Chartered Accountants (CICA), which provides guidance on the measurement, recognition, presentation and disclosure of these items. The adoption of this Section did not have a material effect on our operations or financial reporting.

### ***Future changes in accounting policies***

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

### ***Business combinations, Consolidated financial statements, and Non-controlling interests***

The CICA issued Section 1582, Business combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition except for those dealing with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are currently assessing the effect of the new standards on our consolidated financial statements.

## **2. DISCONTINUED OPERATIONS**

### ***Defence, Security and Aerospace business (DSA)***

In 2008, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) entered into an asset purchase agreement for CAE to acquire our DSA business unit, which currently operates under the xwave brand. The transaction closed on May 1, 2009. The proceeds on closing were \$16.3 million, with an additional \$8.5 million of proceeds contingent upon the occurrence of certain events, for potential total proceeds of \$24.8 million.

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
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**2. DISCONTINUED OPERATIONS (Continued)**

*Atlantic Mobility Products Limited Partnership (AMP)*

Effective July 4, 2008, Bell Canada discontinued using AMP as their exclusive distributor of mobility products in Atlantic Canada, which resulted in the elimination of our mobility hardware and accessories wholesale distribution business. As a result, the results of operations of this business were presented as discontinued operations in 2008.

*Presentation of discontinued operations*

The net assets of our DSA business unit are presented in the consolidated balance sheets as assets and liabilities of discontinued operations at their carrying amounts. The following table shows the major categories of the assets and liabilities of the discontinued operations:

<i>(millions of dollars)</i>	<b>As at</b>		<b>As at</b>	
	<b>March 31, 2009</b>		<b>December 31, 2008</b>	
Current assets of discontinued operations				
Accounts receivable	\$	17.0	\$	14.9
Prepayments		0.4		0.1
	\$	17.4	\$	15.0
Non-current assets of discontinued operations				
Capital investments				
Property, plant and equipment	\$	0.5	\$	0.7
Finite-life intangibles		-		0.1
Deferred charges		1.6		1.5
	\$	2.1	\$	2.3
Current liabilities of discontinued operations				
Payables and accruals	\$	5.0	\$	7.6

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

<i>(millions of dollars)</i>	<b>2009</b>		<b>2008</b>		
	<b>DSA</b>		<b>DSA</b>	<b>AMP</b>	<b>Total</b>
For the three months ended March 31					
Operating revenues	\$	7.2	\$	7.0	\$
Expenses		6.3		6.9	18.8
Write-down of goodwill		-		-	11.2
Income tax expense		0.1		-	0.5
Net earnings (loss) from discontinued operations	\$	0.8	0.1	(10.0)	(9.9)

The cash used in the operating activities of the DSA business during the three months ended March 31, 2009, was \$4.4 million (March 31, 2008 – cash used in the operating activities of our DSA business was \$1.5 million, and cash from operating activities of AMP was \$1.7 million).

**3. FINITE-LIFE INTANGIBLES**

During the three months ended March 31, 2009, the cost of the acquired finite-life intangibles was \$5.4 million (March 31, 2008 – \$5.3 million), and the cost of the internally developed finite-life intangibles was \$12.3 million (March 31, 2008 – \$11.5 million). In the first quarter of 2008, we also acquired \$181.9 million in finite-life intangibles related to the transfer by the Fund of their 36.7 per cent interest in Télébec and NorthernTel to us.

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
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**4. POST-EMPLOYMENT BENEFITS**

*Accrued benefit asset (liability)*

The following table shows the status of the defined benefit (DB) pension and other post employment benefit (OPEB) plans and changes during the period.

<i>(millions of dollars)</i>	DB pension plans	OPEB plans	Total
Accrued benefit asset (liability) as at December 31, 2008	\$ 199.5	\$ (222.5)	\$ (23.0)
Net cost of benefit plans	(18.8)	(1.5)	(20.3)
Contributions	27.5	1.8	29.3
Accrued benefit asset (liability) as at March 31, 2009	\$ 208.2	\$ (222.2)	\$ (14.0)
Accrued benefit asset	\$ 402.9	\$ -	\$ 402.9
Accrued benefit liability	(194.7)	(222.2)	(416.9)
	\$ 208.2	\$ (222.2)	\$ (14.0)

*Net cost of benefit plans*

The following table shows the net cost of DB pension and OPEB plans.

<i>(millions of dollars)</i>	2009	2008
<i>For the three months ended March 31</i>		
<i>DB pension plans</i>		
Current service cost	\$ 11.7	\$ 15.5
Interest on the accrued benefit obligation	39.9	40.3
Expected return on plan assets	(38.6)	(39.8)
Amortization of deferred amounts:		
Past service costs	1.4	1.4
Net actuarial losses	4.4	3.9
	\$ 18.8	\$ 21.3
<i>OPEB plans</i>		
Current service cost	\$ 0.4	\$ 0.5
Interest on the accrued benefit obligation	2.7	2.8
Amortization of deferred amounts:		
Past service costs	(2.0)	(2.0)
Net actuarial losses	0.4	0.4
	\$ 1.5	\$ 1.7
Total net cost of DB pension and OPEB plans	\$ 20.3	\$ 23.0

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
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**(Unaudited)**  
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**4. POST-EMPLOYMENT BENEFITS (Continued)**

*Benefit plan contributions*

Our contributions to DB and defined contribution (DC) pension plans as well as OPEB plans are as follows:

For the three months ended March 31 <i>(millions of dollars)</i>	<b>2009</b>	2008
DB pension plans contributions	<b>\$ 27.5</b>	\$ 25.9
OPEB plans contributions	<b>1.8</b>	1.7
Funding of DB pension and OPEB plans	<b>\$ 29.3</b>	\$ 27.6
DC pension plans contributions	<b>1.9</b>	1.8
Total contributions	<b>\$ 31.2</b>	\$ 29.4

**5. RESTRUCTURING AND OTHER CHARGES**

On March 26, 2009, we offered a voluntary retirement incentive to a limited number of our unionized employees in Atlantic Canada. The offer supports our productivity initiatives and will create a more efficient cost structure. As a result, we estimated and recorded a pre-tax restructuring charge of \$9.4 million in employee costs, which will be paid as employees retire in 2009.

During 2008, we recorded pre-tax restructuring and other charges of \$60.7 million related to our continued organizational productivity initiatives and the departure of senior executive. The charge included \$59.8 million of severance and benefit costs, \$6.5 million of real estate rationalization costs, and a \$5.6 million reduction to the estimated cost of the 2007 restructuring liability to reflect its final costs.

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

<i>(millions of dollars)</i>		
Restructuring charge liability as at December 31, 2008	<b>\$</b>	<b>65.1</b>
Employee costs		<b>9.4</b>
Cash payments		<b>(19.4)</b>
Restructuring charge liability as at March 31, 2009	<b>\$</b>	<b>55.1</b>

As at March 31, 2009, the restructuring charge liability included \$6.5 million in real estate rationalization costs, which are included in other long-term liabilities as they will be drawn down after 2009.

During the three months ended March 31, 2009, we incurred \$0.9 million of other charges, which mainly related to rebranding.

**6. SHORT-TERM DEBT**

Amounts drawn under operating facilities are as follows:

<i>(millions of dollars)</i>	<b>As at March 31, 2009</b>	As at December 31, 2008
Drawn amounts:		
Revolving operating facilities	<b>\$ 250.0</b>	\$ 193.0
Non-revolving pension reserve facilities	<b>25.0</b>	15.0
Commerical paper program	<b>17.8</b>	-
Other	<b>0.6</b>	0.2
	<b>\$ 293.4</b>	\$ 208.2

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
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**6. SHORT-TERM DEBT (Continued)**

Bankers' Acceptance advances of \$275.0 million (December 31, 2008 - \$208.0 million) outstanding under our revolving operating and non-revolving pension reserve facilities bear interest at rates from 0.95 to 1.19 per cent per annum and mature on dates from April 1 to May 22, 2009.

We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support issuances of commercial paper. Short-term promissory notes issued under our commercial paper program bear interest at 0.90 per cent per annum and mature on April 28, 2009.

**7. FINANCIAL INSTRUMENTS**

*Fair value of financial instruments*

The carrying value of all financial instruments approximate fair value with the exception of long-term debt and the amount due within one year, which at March 31, 2009, has a carrying value of \$2,566.3 million and a fair value of \$2,388.9 million (December 31, 2008 – \$2,568.7 million and \$2,318.3 million, respectively).

**8. UNIT-BASED COMPENSATION PLANS**

*Employee unit purchase plans*

The total number of Fund units bought on the open market for our employees during the three months ended March 31, 2009, was 577,203 (March 31, 2008 – 489,949). Compensation expense related to the employee unit purchase plans of \$2.3 million was recorded for the three months ended March 31, 2009 (March 31, 2008 – \$2.3 million).

*Deferred unit plan*

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

For the three months ended March 31	2009	2008
Deferred units outstanding, beginning of period	1,181,958	794,980
Granted:		
Service period fiscal 2009 to 2011	350,492	-
Reinvested distributions	30,909	19,621
	381,401	19,621
Forfeited	(34,608)	(5,087)
Exercised	(245,545)	(3,412)
Deferred units outstanding, end of period	1,283,206	806,102
Deferred units vested, end of period	437,769	358,232

The weighted average grant-date fair value of the 381,401 deferred units granted in the three months ended March 31, 2009, totals \$10.0 million (March 31, 2008 – 19,621 deferred units granted totals \$0.6 million). For the three months ended March 31, 2009, compensation expense of \$2.9 million (March 31, 2008 – \$3.7 million) was recorded related to the deferred units outstanding.

**BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**  
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**(Unaudited)**  
**March 31, 2009**

**9. COMMITMENTS**

*Operating leases and purchase commitments*

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

<i>(millions of dollars)</i>	Remainder of					
	2009	2010	2011	2012	2013	Thereafter
Operating leases	\$ 29.7	\$ 37.2	\$ 34.6	\$ 32.2	\$ 32.0	\$ 322.8
Purchase commitments	268.8	324.0	306.1	304.3	292.2	2,188.3
	\$ 298.5	\$ 361.2	\$ 340.7	\$ 336.5	\$ 324.2	\$ 2,511.1

**10. RELATED PARTY TRANSACTIONS**

The Fund is entirely dependent on the distributions we pay to them to make their distributions. For the three months ended March 31, 2009, we declared distributions to them of \$93.5 million (March 31, 2008 – \$92.2 million). At March 31, 2009, \$31.2 million was included in distributions payable (December 31, 2008 – \$31.2 million).

The Fund loans us their excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The \$6.2 million promissory note that was payable to the Fund at December 31, 2008, was repaid on January 15, 2009. Subsequently issued promissory notes carried rates of interest from 0.76 per cent to 1.81 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the three months ended March 31, 2009. At March 31, 2009, a \$1.2 million promissory note was payable to the Fund, which bears interest at 0.76 per cent per annum and matures on April 15, 2009.

**11. SUBSEQUENT EVENTS**

*Future taxes*

On April 14, 2009, the New Brunswick provincial government introduced legislation to enact tax changes, which called for a phased-in reduction in the provincial general corporate income tax rate from 13 per cent in 2008 to 8 percent by 2012. We estimate these substantively enacted tax rates will reduce our future tax liability, as reported at March 31, 2009, by approximately \$9.6 million.