



Bell Aliant Regional Communications Holdings, Limited Partnership

Management's Discussion and Analysis

Second Quarter 2009

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and six months ended June 30, 2009, compared to the corresponding periods in 2008. This MD&A should be read together with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2009, and our audited consolidated financial statements and accompanying notes for the year ended December 31, 2008, and related MD&A. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.

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

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

Forward-looking information

This MD&A is dated July 30, 2009, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations. The purpose of this forward-looking information is to provide the reader with information about our expectations and plans for fiscal 2009 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at July 30, 2009. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve strategies and plans; general economic conditions; increasing competition; changing regulations; reliance on systems; dependence on key suppliers; changing technology; required operating and capital expenditures; our relationship with BCE Inc. (BCE) and Bell Canada; pension plan funding; liquidity and financing risk; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations; success of acquisitions and dispositions; legal contingencies and changes in laws. Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, financial and operational assumptions, and assumptions about transactions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other

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

See also the “Forward-looking information” section of our news release dated February 2, 2009, relating to 2008 earnings results and 2009 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at www.bellaliant.ca as well as www.sedar.com.

Our business

We are one of North America’s largest regional telecommunications providers, serving a population of approximately 5.3 million Canadians. We offer customers across Atlantic Canada, Ontario and Quebec innovative information, communication and technology services including voice, data, Internet, video and value-added business solutions, as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions.

Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate these and other subsidiary partnerships and corporations in our financial statements. We operate as one reportable segment, which represents the manner in which we are organized and managed for planning, assessing performance and making resource allocation decisions.

Our business environment

Competitive landscape

Our most significant competitive threat continues to be from cable competitors expanding their local service areas and providing bundled offerings in our regions. The competitive footprint overlap with cable companies expanded to approximately 62 per cent of households in our territories at the end of June 2009, which represents an 8 percentage point increase since the same period a year ago. We expect continued growth in the footprint and intensity of competition we face, and as competition increases, we remain focused on the successful execution of our strategic priorities.

In response to these competitive pressures we continue to be committed to delivering the highest quality of customer service, choice and convenience to our customers. We are continually enhancing our products and services, promoting our own bundled and *Value Package*[™] service offerings, and working 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. Refer to our achievements as discussed in the “Strategy” section for further details.

Regulatory landscape

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission) and the federal government, pursuant to the Telecommunications Act and the Broadcasting Act. We regularly participate in the public processes leading up to these decisions, submitting evidence, opinions and comments to the CRTC. We also work with other industry and interested parties in lobbying for regulatory reform where we feel necessary and warranted, while similarly opposing those parties seeking to raise the regulatory burdens in our industry.

For a complete discussion, refer to the “Regulatory developments” section.

Planning for future changes in taxation rules

As a result of the federal government’s previously announced changes to income tax legislation, starting January 1, 2011, the Fund will be taxed as if it were a corporation. We anticipate that we will recommend a conversion transaction to Fund unitholders from an income trust to a corporation under the conversion rules proposed by the Department of Finance and enacted into law on March 12, 2009. The conversion would be effective on or by January 1, 2011, and we are carefully considering our particular circumstances and the alternatives available to us in order to determine how best to structure the conversion. At this time, we are forecasting that we will have sufficient tax shelter to defer incurring an income tax liability for at least 18 months and as much as 24 months after conversion to a corporation. We are also continuing to investigate strategies and options that could mitigate the effect that the eventual payment of income taxes will have on the distributions that are paid to Fund unitholders.

Second quarter in review

Summary of results

For the period ended June 30 (millions of dollars)	Three months			Six months ⁽²⁾		
	2009	2008 ⁽²⁾	% change	2009	2008	% change
Operating revenues	\$789.7	\$813.1	(2.9)	\$1,613.5	\$1,648.6	(2.1)
EBITDA ⁽¹⁾	\$368.1	\$361.2	1.9	\$723.9	\$714.7	1.3
Operating income ⁽¹⁾	\$164.9	\$161.7	2.0	\$311.5	\$315.9	(1.4)
Net earnings from continuing operations	\$93.5	\$85.0	10.0	\$175.8	\$159.5	10.2
Net earnings from discontinued operations	(\$4.2)	(\$0.6)	n.m.	(\$4.0)	(\$10.8)	(63.0)
Net earnings	\$89.3	\$84.4	5.8	\$171.8	\$148.7	15.5

n.m. not meaningful

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

⁽²⁾ Financial results for all prior periods have been restated to reflect our xwave New England business as discontinued operations.

Operating revenues for the second quarter of 2009 decreased by 2.9 per cent, or \$23.4 million, and year-to-date decreased by 2.1 per cent, or \$35.1 million, compared to the same periods in 2008. Although we are continuing to see revenue declines in local, long-distance and other revenues offset the growth in our data, Internet, and wireless revenues, the declines experienced in IT services and fulfillment revenues are masking an underlying improvement in the revenue trajectory from these services. For the three and six months ended June 30, 2009, IT revenues declined by \$12.8 million and \$5.4 million, respectively, when compared to the same periods in 2008. IT services revenue has declined mainly due to the recognition, in the first quarter of 2008, of previously deferred revenues associated with a major healthcare IT project in Quebec. IT fulfillment revenue has increased on a year-to-date basis and decreased on a quarter-over-quarter basis due to the timing of sales, as there were a larger number of significant product sales to customers in the first quarter and fewer in the second quarter. Excluding the decline in IT revenues, the net quarter-over-quarter decline in the remaining telecommunications related revenues in the second quarter of 2009 was \$10.6 million compared to a net quarter-over-quarter decline of \$19.1 million in the first quarter of 2009, representing an \$8.5 million improvement. This improvement primarily relates to lower declines in other revenues under our Bell Mobility outsourcing agreements and product sales. Refer to our “Results of operations” section for additional details.

Although operating revenues declined, we have also reduced operating expenses such that EBITDA has improved by 1.9 per cent, or \$6.9 million, during the second quarter of 2009, compared to the second quarter of 2008, and 1.3 per cent, or \$9.2 million, on a year-to-date basis. Labour-related cost reductions and cost containment initiatives accounted for most of the improvement. Beyond the benefits provided by the labour productivity initiatives, EBITDA improved slightly in the quarter by a one-time \$3.0 million

adjustment that reduced senior management long-term incentive plan expenses. Normalizing for this adjustment, EBITDA growth in the quarter was 1.1 per cent.

The growth in EBITDA led to an increase in operating income for the second quarter of 2009 by 2.0 per cent, or \$3.2 million, compared to the second quarter of 2008. The \$6.9 million increase in EBITDA, combined with a \$2.3 million reduction in the net cost of benefit plans, was partially offset by a \$2.8 million increase in depreciation and amortization expense and the recognition of \$3.2 million of restructuring and other charges. The additional restructuring and other charges taken in the second quarter of 2009 reflect retirement incentives offered to a limited number of our unionized staff in Ontario and Quebec and costs incurred for our re-branding initiatives announced during the first quarter of 2009. On a year-to-date basis, operating income decreased \$4.4 million, or 1.4 per cent, compared to the same period in 2008. The \$9.2 million increase in EBITDA and a \$4.9 million reduction in the net cost of benefit plans was more than offset by a \$5.0 million increase in depreciation and amortization expense and \$13.5 million of restructuring and other charges. The restructuring and other charges recognized in the first quarter of 2009 relate to a similar retirement incentive offered to a limited number of unionized staff in Atlantic Canada.

Net earnings increased by \$4.9 million in the second quarter of 2009, compared to the second quarter of 2008. This increase is made up of an \$8.5 million increase in net earnings from continuing operations and a \$3.6 million increase in net loss from discontinued operations.

The increase in net earnings from continuing operations during the second quarter of 2009 reflects the higher operating income of \$3.2 million combined with an \$8.8 million higher income tax recovery, \$8.0 million lower non-controlling interest, and \$0.7 million lower interest charges. These additions to net earnings were partially offset by an increase of \$12.2 million in other expenses, relating mainly to the recognition of a net loss arising on the settlement of interest rate derivative contracts terminated when we issued fixed rate long-term debt in May 2009. On a year-to-date basis, net earnings from continuing operations increased \$16.3 million, or 10.2 per cent, reflecting similar trends in expenses seen in the second quarter of 2009.

The increase in the net loss from discontinued operations in the second quarter of 2009 mainly relates to a \$1.1 million net after-tax loss recognized on the sale of xwave New England Corp. (xwave New England) business, which was reclassified as a discontinued operation due to its sale on June 1, 2009, and our defence, security and aerospace (DSA) business during the quarter. In addition, the discontinued operations generated a \$2.5 million higher loss from operations during the second quarter of 2009, compared to the second quarter of 2008. On a year-to-date basis, net loss from discontinued operations decreased \$6.8 million, or 63.0 per cent, reflecting a \$10.8 million loss from the operations of Atlantic Mobility Products (AMP) in 2008, which is not reported as discontinued operations in 2009, offset by a \$4.0 million higher loss from operations on a year-to-date basis in 2009 from xwave New England and DSA.

Distributable cash

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the three and six months ended June 30, 2009, and 2008, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared. Since our operations ultimately support distributions to Fund unitholders, distributable cash combines our cash performance with that of the Fund.

For the period ended June 30 (millions of dollars)	Three months			Six months ⁽⁴⁾		
	2009	2008 ⁽⁴⁾	% change	2009	2008	% change
Cash from operating activities	\$296.1	\$348.2	(15.0)	\$507.7	\$584.4	(13.1)
Add (deduct): Cash from operating activities of the Fund and discontinued operations	(2.1)	1.8	n.m.	(13.5)	3.1	n.m.
Capital expenditures	(122.0)	(127.5)	(4.3)	(229.5)	(222.6)	3.1
Standardized distributable cash ⁽¹⁾	\$172.0	\$222.5	(22.7)	\$264.7	\$364.9	(27.5)
Add (deduct): Operating items funded through cash reserves or borrowing	13.6	(42.3)	(132.2)	115.2	21.6	433.3
Other adjustments	1.0	3.1	(67.7)	3.2	3.6	(11.1)
Distributable cash ⁽¹⁾	\$186.6	\$183.3	1.8	\$383.1	\$390.1	(1.8)
Net earnings	\$89.3	\$84.4	5.8	\$171.8	\$148.7	15.5
Cash distributions declared ⁽²⁾	\$165.1	\$164.9	0.1	\$330.0	\$328.2	0.5
Excess of cash from operating activities over cash distributions declared ⁽³⁾	\$128.9	\$185.1	(30.4)	\$164.2	\$259.3	(36.7)
Excess (shortfall) of net earnings over cash distributions declared	(\$75.8)	(\$80.5)	(5.8)	(\$158.2)	(\$179.5)	(11.9)

n.m. not meaningful

(1) 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.

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

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

(4) Financial results for all prior periods have been restated to reflect our xwave New England business as discontinued operations.

Standardized distributable cash for the second quarter of 2009 was \$172.0 million, which represents a decrease of \$50.5 million, or 22.7 per cent, when compared to the same period in 2008. Although net earnings from continuing operations increased and capital spending decreased in the second quarter of 2009, compared to the second quarter of 2008, standardized distributable cash declined mainly due to \$31.1 million in cash payments required in the second quarter of 2009 to fund previously accrued restructuring charges. Further declines in cash flow generated from changes in operating assets and liabilities (working capital) as discussed in the "Summary of cash flows" section also contributed to the decline in standardized distributable cash. When comparing the year-to-date results for 2009 with the same period in 2008, standardized distributable cash decreased \$100.2 million, or 27.5 per cent, due to higher net earnings from continuing operations, offset by higher capital spending of \$6.9 million, \$50.5 million in cash payments to fund restructuring charges, other changes in working capital, and \$16.6 million less operating cash flow from the Fund and discontinued operations.

In contrast to standardized distributable cash, our calculation of distributable cash excludes working capital fluctuations, restructuring charges and certain other items we fund through cash reserves or short-term borrowings. On this basis, distributable cash of \$186.6 million for the second quarter of 2009 increased \$3.3 million, or 1.8 per cent, compared to the same period in 2008. The increase mainly reflects EBITDA growth of \$6.9 million and lower capital expenditures of \$5.5 million, offset by higher pension funding, Fund expenses, other expenses and losses from discontinued operations. On a year-to-date basis, distributable cash of \$383.1 million represents a decrease of \$7.0 million, or 1.8 per cent, as the growth in EBITDA was more than offset by higher capital spending and similar trends as shown in the second quarter for these other items.

For the three months ended June 30, 2009, cash distributions declared were 88.5 per cent of distributable cash, compared to 90.0 per cent for the comparable period in 2008. For the six months ended June 30, 2009, cash distributions declared were 86.1 per cent of distributable cash, compared to 84.1 per cent for the comparable period in 2008.

Strategy

Highlights of strategic achievements in the second quarter of 2009

Our 2009 strategy builds on the success we have been able to achieve in recent years. In response to the current economic environment and the realities of the competitive marketplace we operate in, we

have updated our vision and clearly articulated the strategic objectives that we believe will support our financial success in the future.

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

To be recognized by customers as the leading communications provider in the markets we serve.

In 2009, we are focused on achieving five strategic objectives:

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

Improve the customer experience

One of our key strategies for 2009 is a continuation of our focus on improving the customer experience.

During the second quarter of 2009, we launched three significant services including Same Day, Next Day Repair; Express Install and Service Appointment Calendar.

Our Same Day, Next Day Repair service provides our television (TV), Internet and wireline customers a service guarantee that if an issue cannot be resolved remotely, we will dispatch a technician that day or the next at no further charge.

Our Express Install service introduced to customers next day (or next day plus one) installation of Bell Aliant TV, Bell Aliant Internet and Bell Aliant home telephone service. This provides customers with earlier installation and more flexible options for appointment times.

We launched both of these services in our most competitive markets in Atlantic Canada; the service already exists in select areas of Ontario and Quebec under the Bell brand.

We improved our service appointment calendar capability enabling our customers to access appointments available through any of our channels, including on-line, in Atlantic Canada. For the first time, all customer appointments in Atlantic Canada will be booked through one integrated calendar and will offer customers increased flexibility in scheduling appointments.

Our efforts to improve the customer experience are driving improvements in our Customer Service Index (CSI), an internal measure of service performance. CSI in the second quarter of 2009 increased 1.9 percentage points over the same period in 2008, and the 2009 quarterly target was exceeded by one full percentage point over 2008. Our efforts to enhance service offerings and the underlying processes, tools and training are delivering improved results.

Retain our customers

During the second quarter of 2009, we engaged in a number of activities focused on retaining our customers. Customers who move residences are at a higher risk of switching to a competitor. As such, we launched an improved, proactive process to enhance the move experience and help mitigate these potential losses. We also improved two key processes that impact many new broadband customers. In Atlantic Canada, we developed a new self-install process for broadband customers with a new self-guided install process in a redesigned kit. In Ontario and Quebec, we implemented on-site installation by a customer service technician at no cost for new broadband customers. Additionally, we focused on increasing the penetration of our bundled services. We have enhanced many bundles to include new and improved services to increase the overall competitiveness and value of our bundle portfolio. In Atlantic Canada, we introduced targeted marketing campaigns focused on our single-price whole home Value Package which includes home phone, long distance, and Internet services plus offers a Bell Aliant or Bell TV option.

Grow broadband

On July 7, 2009, we announced our plan to deploy fibre -to-the-home (FTTH) technology in Fredericton and Saint John, making us the first operator in Canada to launch FTTH to an entire city. This \$60.0 million investment will extend an advanced broadband network, delivered through 100 per cent fibre-optic technology, directly to 70,000 homes and businesses. This new *FibreOP™* service will be fully deployed by mid 2010, with some customers gaining access to the service by the end of this year. The virtually 100 per cent aerial nature of our network infrastructure and the relatively low population densities of these cities make the cost of FTTH and fibre-to-the node (FTTN) very similar in these markets.

Considerable work was completed during the second quarter of 2009 to expand our broadband footprint. On Prince Edward Island, we completed a trial that, when implemented, will allow an extension of our broadband service to an additional 20,000 homes in Atlantic Canada. Throughout Atlantic Canada, digital subscriber line (DSL) expansion has continued to bring broadband service to more homes and communities. In the second quarter, we expanded our high-speed Internet footprint across all of Bell Aliant by about 20,000 homes using methods such as this as well as traditional service expansion.

We increased the number of Bell Aliant TV high definition (HD) channels to 38 with the launch of 18 new HD channels during the second quarter. In addition, improvements were made to channel change time, picture quality and search and reminder functions.

Reset our cost structure

Cost structure improvements continued in the second quarter of 2009, with a particular focus on a number of non-labour areas. We redesigned a number of processes in our customer service organization to be more efficient, which we expect will produce long term benefits. We also made IT and network investments that we anticipate will drive greater efficiency and automation. As a result of contracted price declines our outsourcing costs with Bell Canada have decreased. Finally, we are continuing to exercise prudence in discretionary spending. In particular, we have reduced spending on contractors, reduced the use of consultants, and have been able to reduce advertising spending as a result of our new market-facing brand, *Bell Aliant*. The new branding enables us to leverage Bell Canada's national advertising campaigns for our local markets.

Engage employees

In 2009, we are committed to reinforcing a performance-based culture by more closely aligning personal performance with corporate objectives, and by continuing to invest in leadership development.

Our focus in the second quarter of 2009 was to provide each employee an opportunity to ensure a full understanding of their business unit plans. We launched a performance planning program to provide our leaders with tools and training to help develop employees and build high-performance teams. The focus of this program is to help leaders work with employees to set appropriate goals, manage them throughout the year, and to build stronger communication skills in order to implement our business plan and achieve our vision and strategic objectives.

Results of operations

In addition to distributable cash, our financial performance is measured by operating revenues, EBITDA and operating income.

For the period ended June 30 (millions of dollars)	Three months			Six months ⁽²⁾		
	2009	2008 ⁽²⁾	% change	2009	2008	% change
Local and access	\$340.9	\$352.2	(3.2)	\$679.1	\$699.0	(2.8)
Long distance	106.3	112.8	(5.8)	212.3	225.5	(5.9)
Data & Internet	207.2	197.3	5.0	407.4	391.1	4.2
IT services and fulfillment	64.4	77.2	(16.6)	176.7	182.1	(3.0)
Wireless	21.2	19.5	8.7	41.0	37.4	9.6
Other revenues	49.7	54.1	(8.1)	97.0	113.5	(14.5)
Operating revenues	\$789.7	\$813.1	(2.9)	\$1,613.5	\$1,648.6	(2.1)
Operating expenses	421.6	451.9	(6.7)	889.6	933.9	(4.7)
EBITDA ⁽¹⁾	\$368.1	\$361.2	1.9	\$723.9	\$714.7	1.3
Net cost of benefit plans	22.5	24.8	(9.3)	44.7	49.6	(9.9)
Depreciation and amortization	177.5	174.7	1.6	354.2	349.2	1.4
Restructuring and other charges	3.2	-	n.m.	13.5	-	n.m.
Operating income ⁽¹⁾	\$164.9	\$161.7	2.0	\$311.5	\$315.9	(1.4)
Other expenses	12.8	0.6	n.m.	12.4	2.5	n.m.
Interest charges	39.0	39.7	(1.8)	76.5	79.3	(3.5)
Income tax expense (recovery)	(14.2)	(5.4)	163.0	(23.3)	(3.6)	n.m.
Non-controlling interest	33.8	41.8	(19.1)	70.1	78.2	(10.4)
Net earnings from continuing operations	\$93.5	\$85.0	10.0	\$175.8	\$159.5	10.2
Net earnings from discontinued operations	(4.2)	(0.6)	n.m.	(4.0)	(10.8)	(63.0)
Net earnings	\$89.3	\$84.4	5.8	\$171.8	\$148.7	15.5

n.m. not meaningful

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

⁽²⁾ Financial results for all prior periods have been restated to reflect our xwave New England business as discontinued operations.

Operating revenues

Local and access

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 4.3 per cent drop in our total NAS customers at June 30, 2009, compared to June 30, 2008, we have contained the local and access revenue decline to 3.2 per cent, or \$11.3 million, in the second quarter of 2009, and \$19.9 million, or 2.8 per cent, on a year-to-date basis, compared to the same periods in 2008. Revenue losses continued to be mitigated through programs targeted at retaining our highest value customers, pricing increases and increased features penetration.

At June 30, 2009, the number of residential NAS customers was 4.9 per cent lower than at June 30, 2008, and the number of business NAS customers was 3.1 per cent lower. We are continuing to experience competitive losses due to increased promotional activity and an expansion in the cable competitive footprint and substitution by other services, including wireless and voice over Internet protocol (VoIP). The business NAS decline was largely due to the continued migration of customers due to the loss of a federal government contract in 2008.

Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 5.8 per cent, or \$6.5 million, in the second quarter of 2009, and \$13.2 million, or 5.9 per cent, on a year-to-date basis, compared to the same periods in 2008. The quarter-over-quarter revenue decline was a result of a 4.7 per cent decline in long distance minutes and a 1.1 per cent decline in average revenue per minute. The decline in long distance minutes is due to customer losses and substitution by cellular calling and IP-based services, while the decline in average revenue per minute is due to price reductions, primarily with our enterprise customers, and customers continuing to shift away from rate-per-minute plans in favour of set-price unlimited or large usage packages.

Data and Internet

Data and Internet revenue is earned through the provision of 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 Bell Aliant TV. Revenue from these services increased 5.0 per cent, or \$9.9 million, for the second quarter of 2009, compared to the same period in 2008, substantially due to growth in Internet revenue of \$10.0 million, or 10.4 per cent. On a year-to-date basis, data and Internet revenue increased \$16.3 million, or 4.2 per cent, with \$20.0 million representing growth in Internet revenue.

At June 30, 2009, our high-speed Internet customer base grew 7.9 per cent over June 30, 2008, with growth in both the residential and business markets. We have experienced strong growth in our high-speed Internet customers although the growth rate over the last year is lower, a trend being experienced across the industry. We have mitigated this declining growth rate by marketing our higher value services to customers and selected price increases, which have resulted in an increase in residential high-speed Internet ARPC of \$2.14, or 6.0 per cent, to \$37.90 during the second quarter of 2009 and an increase of \$1.99, or 5.6 per cent, to \$37.42 for the year-to-date.

IT services and fulfillment revenue

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, IT consulting, and hardware and software fulfillment. Overall IT services and fulfillment revenue declined in the second quarter of 2009 by 16.6 per cent, or \$12.8 million, and on a year-to-date basis, 3.0 per cent, or \$5.4 million, compared to the same periods in 2008. Although IT fulfillment revenues have increased on a year-to-date basis by \$9.7 million, the decline in the second quarter of \$11.3 million, compared to the same periods in 2008, is due to having less large product sales in the second quarter of 2009 and more in the first quarter of 2009. IT services revenues declined in second quarter of 2009 and on a year-to-date basis by \$1.5 million and \$15.1 million, respectively, compared to the same periods in 2008, which reflects customer contract expirations in the second quarter of 2009 and the recognition in the first quarter of 2008 of previously deferred revenues associated with a major healthcare IT project in Quebec.

Wireless

Wireless revenue is earned through providing cellular, paging and mobile radio services over digital wireless networks in our Télébec, NorthernTel and Kenora Municipal Telephone Services (KMTS)-branded territories in Quebec and Ontario. Revenue increased by 8.7 per cent, or \$1.7 million, in the second quarter of 2009, and \$3.6 million, or 9.6 per cent, on a year-to-date basis compared to the same periods in 2008. This was mainly due to a 6.4 per cent increase in wireless customers at June 30, 2009, compared to June 30, 2008, and a 1.2 per cent increase in ARPC. Growth in ARPC is largely attributed to higher roaming revenues and features penetration.

Other revenues

Other revenues consist mainly of knowledge management services provided through our subsidiary, Innovatia Inc., terminal rentals and sales, personal computer sales, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined 8.1 per cent, or \$4.4 million, in the second quarter of 2009, compared to the same period in 2008. This decline is predominantly driven by a decrease in outsourcing revenue of \$2.7 million, or 34.6 per cent, due to repatriation of work in 2008 by

Bell Mobility that was previously performed by us. Telephone equipment rentals revenue and revenues earned through our subsidiary, Innovatia Inc., also reflected some decline but were partially offset by net growth in various other smaller sources of revenues. On a year-to-date basis, other revenues declined by 14.5 per cent, or \$16.5 million, mainly reflecting an \$8.8 million decrease in outsourcing revenue due to the repatriation of work by Bell Mobility.

Expenses

Operating expenses

For the period ended June 30 (millions of dollars)	Three months			Six months		
	2009	2008	% change	2009	2008	% change
Cost of sales	\$131.3	\$137.3	(4.4)	\$301.0	\$283.7	6.1
Salaries, benefits, contract labour and consulting	145.1	158.8	(8.6)	298.3	336.4	(11.3)
Selling, general and administrative	143.0	153.4	(6.8)	286.0	308.4	(7.3)
Capital taxes	2.2	2.4	(8.3)	4.3	5.4	(20.4)
Operating expenses	\$421.6	\$451.9	(6.7)	\$889.6	\$933.9	(4.7)

Cost of sales decreased 4.4 per cent, or \$6.0 million, in the second quarter of 2009, compared to the same period in 2008. Net declines in IT fulfillment and other product revenues directly result in declines in associated cost of goods sold. On a year-to-date basis, cost of sales increased 6.1 per cent, or \$17.3 million, compared to the same period in 2008, due primarily to the associated increase in IT fulfillment and other product revenue as well as costs associated with an IP access solution provided to certain wholesale customers during 2009.

Salaries, benefits, contract labour and consulting expenses decreased 8.6 per cent, or \$13.7 million, in the second quarter of 2009, compared to the same period in 2008, due to the continuation of productivity initiatives that were introduced in late 2008 and early 2009 related to workforce restructuring. The decrease in the second quarter also included a one-time \$3.0 million adjustment which reduced senior management long-term incentive plan expenses.

On a year-to-date basis, labour costs decreased 11.3 per cent, or \$38.1 million, compared to the same period in 2008, due to the implementation of these productivity initiatives, and also in part to the IT healthcare project in Quebec that was started in 2007 with both revenues and expenses deferred until 2008 when the contract was finalized.

Selling, general and administrative expenses decreased 6.8 per cent, or \$10.4 million, in the second quarter of 2009, compared to the same period in 2008, due in part to a \$2.0 million reduction in expenses in accordance with the commercial agreement in place with Bell Canada. The agreement calls for a reduction in expenses of 3.0 per cent annually until 2011. In addition, there were various cost containment and other expense reductions including bad debt expense, external professional fees, travel costs, property and municipal taxes and other discretionary expenses. On a year-to-date basis, selling, general and administrative costs decreased 7.3 per cent, or \$22.4 million, compared to the same period in 2008, which relates to the timing of recognition of professional costs associated with the Quebec healthcare project discussed above, together with \$6.0 million in savings realized in relation to the commercial agreement with Bell Canada, and other cost containment and expense reductions.

Net cost of benefit plans

Net cost of benefit plans declined 9.3 per cent, or \$2.3 million, in the second quarter of 2009, compared to the same period in 2008. The decrease is mainly due to lower current service costs resulting from an increase in the average rate used to discount the obligations of our defined benefit (DB) pension and other post-employment benefit plans. We also have fewer active employees in these plans than a year earlier.

Defined contribution pension costs were \$2.1 million in the second quarter of 2009, compared to \$1.9 million in the prior year, with the increase attributed to normal salary growth and a small increase in the

number of participants in these plans. The same factors have also contributed to the year-to-date decline in net cost of benefit plans of \$4.9 million, or 9.9 per cent, compared to the same period in 2008.

Depreciation and amortization

Depreciation and amortization increased 1.6 per cent, or \$2.8 million, in the second quarter of 2009, and 1.4 per cent, or \$5.0 million, on a year-to-date basis, compared to the same periods in 2008. Periodically, we perform studies on the useful lives of certain of our capital assets, which results in changes to our depreciation and amortization.

Restructuring and other charges

Restructuring and other charges for the second quarter of 2009 and on a year-to-date basis were \$3.2 million and \$13.5 million, respectively, with no such expense in the corresponding periods of 2008. The charges mainly relate to employee severance and related costs incurred for an early retirement incentive offered to a limited number of unionized staff in Atlantic Canada, Ontario and Quebec, and other charges related to rebranding.

Other expenses

Other expenses increased \$12.2 million in the second quarter of 2009, and \$9.9 million on a year-to-date basis, compared to the same periods in 2008, as \$13.3 million was reclassified from other comprehensive earnings related to the previously unrecognized portion of net losses on interest rate hedges that were settled during the second quarter of 2009. We settled these derivative contracts because we no longer required the fixed interest rate exposure we gained through these swaps after issuing fixed-rate long-term debt to refinance floating bank debt in May 2009.

Interest charges

Interest charges decreased 1.8 per cent, or \$0.7 million, in the second quarter of 2009, and 3.5 per cent, or \$2.8 million, on a year-to-date basis, compared to the same periods in 2008. Although we re-financed a total of \$350.0 million of debt in May 2009, total debt levels are largely unchanged year over year. The decrease reflects significantly lower interest costs on the portion of our debt that was subject to floating rates of interest prior to the re-financing.

Income tax recovery

A portion of our income is earned through limited partnerships. The taxable income earned through limited partnerships is not subject to tax at the limited partnership level, but is allocated directly to the respective partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. The income tax recovery in the second quarter of 2009 increased by \$8.8 million to \$14.2 million, compared to a recovery of \$5.4 million for the second quarter of 2008. There are a combination of factors that give rise to the \$8.8 million increase in income tax recovery in the second quarter of 2009, compared to the same period in 2008, including \$6.5 million related to tax rate changes and \$2.0 million related to a settlement of prior period audit issues with Canada Revenue Agency in the second quarter of 2009 that did not occur in the comparative period in 2008. On a year-to-date basis, income tax recovery increased by \$19.7 million compared to the same period in 2008, reflecting \$9.0 million higher recovery in 2009 due to tax rates changes, combined with lower severance and capital investment related deductions for tax purposes.

Non-controlling interest

Non-controlling interest in our earnings represents Bell Canada's 37.9 per cent ownership interest in our subsidiary, Bell Aliant LP (34.5 per cent on a proportionate cash distribution basis). The per unit distributions attributable to and paid to Bell Canada equal, to the greatest extent practicable, the per unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

Non-controlling interest in our earnings decreased 19.1 per cent, or \$8.0 million, in the second quarter of 2009, and 10.4 per cent, or \$8.1 million on a year-to-date basis, compared to the same periods in 2008, which mainly reflects Bell Canada's proportionate share of the decrease in net income of Bell Aliant LP for the period.

Net loss from discontinued operations

Discontinued operations in 2009 reflect the operating results and disposal of the shares of xwave New England and assets of our DSA business, while 2008 also includes the operating results of AMP. Net loss from discontinued operations increased \$3.6 million in the second quarter of 2009, but decreased \$6.8 million on a year-to-date basis, compared to the same periods in 2008.

On June 1, 2009, we concluded a share purchase agreement for Abilis Solutions Inc. (Abilis) to acquire 100 per cent of the outstanding shares of xwave New England for a sale price of \$5.1 million, resulting in a \$2.6 million loss on sale being recognized. As well, xwave New England generated a \$1.5 million larger loss from operations in the second quarter of 2009, compared to the same period in 2008.

On May 1, 2009, we closed the transaction to sell our DSA business. The proceeds on closing were \$16.3 million, resulting in recognizing a \$2.0 million pre-tax gain on sale, or \$1.5 million on an after-tax basis. As well, the DSA business generated a \$1.8 million larger loss from operations in the second quarter of 2009 compared to the same period in 2008.

In 2008, AMP generated a \$0.8 million loss from operations for the second quarter and a \$10.8 million loss from operations on a year-to-date basis, mainly due to an \$11.2 million write-down of goodwill recorded in the first quarter of 2008.

Selected quarterly financial information

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

<i>For the eight quarters ended June 30</i> <i>(millions of dollars, except per unit amounts)</i>	2009		2008 ⁽³⁾				2007 ⁽³⁾	
	Q2	Q1 ⁽³⁾	Q4	Q3	Q2	Q1	Q4	Q3
Operating revenues	\$789.7	\$823.8	\$809.1	\$812.3	\$813.1	\$835.5	\$817.9	\$807.0
EBITDA ⁽¹⁾	\$368.1	\$355.8	\$366.5	\$371.6	\$361.2	\$353.5	\$365.7	\$369.2
Operating income ⁽¹⁾	\$164.9	\$146.6	\$112.9	\$171.3	\$161.7	\$154.2	\$141.3	\$139.3
Net earnings (loss):								
Continuing operations	\$93.5	\$82.3	\$81.6	\$95.1	\$85.0	\$74.5	\$114.5	\$71.0
Discontinued operations	(4.2)	0.2	(1.6)	(1.6)	(0.6)	(10.2)	2.9	2.2
Net earnings	\$89.3	\$82.5	\$80.0	\$93.5	\$84.4	\$64.3	\$117.4	\$73.2
Basic and diluted earnings (loss) per unit:								
Continuing operations	\$0.58	0.51	0.51	\$0.59	\$0.53	\$0.46	\$0.75	\$0.47
Discontinued operations	(0.02)	-	(0.01)	(0.01)	-	(0.06)	0.02	0.01
Basic and diluted earnings per unit	\$0.56	\$0.51	\$0.50	\$0.58	\$0.53	\$0.40	\$0.77	\$0.48
Distributable cash ⁽¹⁾	\$186.6	\$196.5	\$146.2	\$179.3	\$183.3	\$206.8	\$169.5	\$177.6
Cash distributions declared	\$165.1	\$164.9	\$164.8	\$164.9	\$164.9	\$163.3	\$160.1	\$161.3

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

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

⁽³⁾ Financial results for all prior periods have been restated to reflect our xwave New England business as discontinued operations.

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

- The first quarter of every year typically experiences stronger IT fulfillment revenue from customers in the government sector.
- In 2007, we commenced a restructuring program to advance our productivity initiatives, the total cost of which was \$27.4 million. 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. A further restructuring initiative was launched in 2008 with a \$60.6 million charge recorded in the fourth quarter to facilitate a new organizational structure. These restructuring initiatives continued into 2009, with charges of \$9.4 million and \$2.7 million recognized in the first and second quarters, respectively.

- 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 tax recovery of \$60.6 million in the fourth quarter of 2007, mainly related to the revaluation of net future tax assets and liabilities as a result of tax rate changes.
- We recorded an \$11.2 million write-down of goodwill in AMP during the first quarter of 2008, which was reflected in net loss from discontinued operations.
- In 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 operated 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 future events, for potential total proceeds of \$24.8 million. A pre-tax gain on sale of \$2.0 million was recorded in the second quarter of 2009, which was reflected in net loss from discontinued operations.

Details regarding our results for the second quarter of 2009 are discussed throughout this document. Further information on our prior quarterly results can be found in the respective quarterly financial statements and related MD&A on our website at www.bellaliant.ca, and filed on SEDAR at www.sedar.com.

Financial and capital management

Summary of cash flows

For the period ended June 30 (millions of dollars)	Three months			Six months ⁽¹⁾		
	2009	2008 ⁽¹⁾	% change	2009	2008	% change
Cash from (used in):						
Operating activities	\$296.1	\$348.2	(15.0)	\$507.7	\$584.4	(13.1)
Financing activities	(197.3)	(223.6)	(11.8)	(286.5)	(374.4)	(23.5)
Investing activities	(120.3)	(126.0)	(4.5)	(227.8)	(248.7)	(8.4)
Net decrease in cash from continuing operations	(\$21.5)	(\$1.4)	n.m.	(\$6.6)	(\$38.7)	(82.9)
Net increase (decrease) in cash from discontinued operations	13.3	(0.6)	n.m.	7.5	(0.5)	n.m.
Net increase (decrease) in cash for the period	(\$8.2)	(\$2.0)	n.m.	\$0.9	(\$39.2)	n.m.

n.m. - not meaningful

⁽¹⁾ Financial results for all prior periods have been restated to reflect our xwave New England business as discontinued operations.

We used net cash of \$8.2 million in the second quarter of 2009, compared to using cash of \$2.0 million in the corresponding period of 2008. On a year-to-date basis, we generated cash of \$0.9 million compared to using cash of \$39.2 million for the same period in 2008.

Operating activities

Cash generated from operating activities decreased \$52.1 million, or 15.0 per cent, in the second quarter of 2009, compared to the same period in 2008. Cash flow generated from changes in operating assets and liabilities, or working capital, was \$3.0 million in the second quarter of 2009, compared to \$56.6 million in the second quarter of 2008. The reduction in cash flow from working capital changes compared to the second quarter of 2008 was largely due to the payment of \$31.1 million of restructuring charges, payment of other previously accrued expenditures and lower cash flow from inventory changes.

On a year-to-date basis, cash generated from operating activities was \$76.7 million, or 13.1 per cent lower than the same period in 2008, as higher net earnings from continuing operations of \$16.3 million was more than offset by a \$69.7 million decrease in cash flows generated from working capital changes over the same six-month period in the prior year. The year-to-date reduction in cash flow from working capital changes compared to 2008 was mainly due to the \$50.5 million paid year-to-date for previously accrued restructuring charges, greater reductions in accounts payable and other accrued charges during 2009, and lower cash flow from inventory changes.

Pension funding requirements also affect our operating cash flows. Total contributions to our DB pension plans for the second quarter and year-to date 2009 were \$27.5 million and \$55.0 million respectively, compared to \$26.2 million and \$52.1 million for the same periods in 2008. Increases in our special deficit-reducing payments of \$0.3 million in the second quarter and \$1.6 million on a year-to-date basis reflect higher contribution requirements to repay deficits incurred in 2007, as determined by our December 31, 2007 actuarial valuations which were filed in 2008. We have completed the actuarial valuations of our pension plans as of December 31, 2008, and are currently evaluating filing and funding options. These will be filed by the August 14, 2009, deadline and we will adjust our 2009 contributions to the plans based on the filed valuation results. While we anticipate a material increase in our funding requirements based on the results of these valuations, we expect the increase to be considerably lower than our earlier estimates indicated. Rather than an anticipated range of \$90 to \$110 million, we now expect that total special deficit-reducing payments for 2009 will be in the range of \$70 to \$80 million, compared to \$49.2 million for the full year 2008.

Financing activities

Cash used in financing activities decreased by \$26.3 million for the second quarter of 2009, compared to the same period in 2008 primarily due to less debt repayment in the second quarter of 2009. On a year-to-date basis, we used cash of \$286.5 million in our financing activities compared to using cash of \$374.4 million for the same period in 2008.

During the second quarter of 2009, we repaid net debt (including short and long-term debt, capital leases and notes payable to related parties) of \$15.6 million, compared to net debt repayments of \$56.6 million in the second quarter of 2008. Net proceeds of long-term debt issuance in the second quarter of 2009 was \$348.6 million compared to \$50.0 million in the second quarter of 2008. In the second quarter of 2009, we repaid net short-term advances on our bank credit facilities and other short-term borrowing of \$214.6 million, while in 2008 we had net repayments of \$55.6 million on these facilities. Net repayments of long-term debt, capital lease obligations and related party lending activities were \$149.6 million in the second quarter of 2009, compared to \$51.0 million in the same period in 2008.

In May 2009, we issued \$350.0 million of unsecured medium-term notes. Debt issue costs of \$1.2 million were incurred, and the notes were issued at a discount providing net proceeds of \$348.6 million. The proceeds were used to repay \$250.0 million of Bankers' Acceptance advances that were outstanding under our revolving operating facilities and a \$100.0 million non-revolving term loan that was scheduled to mature in July 2009. Associated with the repayment of these floating-rate obligations, we paid cash of \$15.4 million in the second quarter of 2009 to settle our outstanding fixed-floating interest rate swaps.

During the quarter, we also repaid the \$50.0 million long-term bank facility that was put in place during the second quarter of 2008 for Télébec.

Refer to the "Financing and liquidity" section for further discussion on our short-term and long-term debt.

On a year-to-date basis cash used in financing activities decreased \$87.9 million in the six months ended June 30, 2009, compared to the same period in 2008. In addition to the greater amount of net debt that was repaid in the second quarter of 2008 as discussed above, we also used cash of \$55.0 million in the first quarter of 2008 to repurchase accounts receivable from the securitization trust, with no similar activity occurring under the program in 2009. 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.

Financing activities also include total distributions paid to the Fund and non-controlling interests, which were \$166.3 million in the second quarter of 2009, and \$166.6 million in the same period in 2008. On a year-to-date basis, total distributions were \$332.6 million, compared to \$327.6 million in the same period in 2008.

Investing activities

Cash used in investing activities decreased by \$5.7 million in the second quarter of 2009, and \$20.9 million on a year-to-date basis, compared to the same periods in 2008. Capital investments were \$122.0 million in the second quarter of 2009, compared to \$127.5 million in the same period 2008, representing a decrease of \$5.5 million, or 4.3 per cent. On a year-to-date basis, capital investments increased \$6.9 million compared to the same period in 2008. Spending in the second quarter of 2009 was driven by completion of the enhanced transport network as well as continued rollout of our broadband network. The profile of spending in 2009 is somewhat different than 2008 with proportionately more spending in the first half of the current year compared to 2008. In addition, we used net cash of \$27.6 million in the first quarter of 2008 to purchase the assets and operations of KMTS, with no similar investment in 2009. Capital expenditures were 15.4 per cent of operating revenues in the second quarter of 2009 but on a year-to-date basis was 14.2 per cent, in line with our annual target of 13.5 per cent to 14.5 per cent.

Financing and 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 normally 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, we have drawn on our dedicated pension reserve bank facility to supplement our operating cash flows to make these contributions. Utilizing this special-purpose credit facility will preserve capacity and access to liquidity for general operating purposes under our revolving credit facilities.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	June 30, 2009		December 31, 2008	
Partners' equity	\$4,840.5	52.0%	\$4,882.9	52.5%
Non-controlling interest	1,627.8	17.5%	1,662.5	17.8%
Net debt	2,832.5	30.5%	2,768.5	29.7%
Total capital	\$9,300.8	100.0%	\$9,313.9	100.0%

Partners' capital

We have an unlimited number authorized of each of the three classes of units. Our units are not publicly traded. The number of units issued and outstanding at June 30, 2009, which is unchanged from 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.

Debt

We have a total of \$2.6 billion in unsecured and unsubordinated medium-term notes outstanding under Bell Aliant LP's trust indenture dated September 14, 2006. On April 28, 2009, we filed a new medium-term note shelf prospectus that will be available for future medium-term note issuances for a 25-month period. In May 2009, we issued \$350.0 million of medium-term notes, bearing interest at 6.29 per cent per annum and maturing on February 17, 2015.

We have decreased the amounts available for use under our short-term operating credit facilities since December 31, 2008. Dedicated letter of credit facilities supporting contracts that were transferred as part of the sale of the DSA business were decreased by \$45.5 million; the non-revolving pension reserve facility was decreased by \$2.4 million when letters of credit supporting the 10-year solvency funding schedule of certain of our pension plans were reduced. Amounts drawn under our revolving operating facility were fully repaid during the second quarter of 2009 through proceeds of the issuance of medium-term notes. Amounts drawn under our pension reserve facility increased by \$25.0 million from December 31, 2008, to June 30, 2009. We also maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. There was \$38.8 million issued under our commercial paper program at June 30, 2009, with no amounts issued at December 31, 2008.

There have been no changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2008.

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for the second quarter of 2009 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 to 2008. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units is estimated to be in the range of \$655 million to \$660 million for 2009.
- We anticipate 2009 capital expenditures to be in the range of 13.5 to 14.5 per cent of operating revenues.
- We repay short-term and long-term debt according to its terms. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support issuances of commercial paper.
- All of our DB pension plans have funding deficits. The deadline for filing December 31, 2008 actuarial valuations was extended from June 30, 2009, to August 14, 2009, to allow for proposed temporary funding relief regulations to be finalized and for plan sponsors to decide if and how to utilize the funding relief. Our funding valuations will be filed by the August deadline and we expect our deficit funding for 2009 to be in the range of \$70 to \$80 million, depending on the level of funding relief we choose to adopt. We plan to utilize our pension reserve bank facility to partially fund pension deficit payments in 2009, as well as to secure any letters of credit required under the funding relief regulations.
- Restructuring initiatives, announced during the fourth quarter of 2008 and first quarter of 2009 are expected to result in the use of cash of approximately \$70 million in fiscal 2009.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

Other financial arrangements

Contractual obligations

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 notes 21 and 24 to our audited consolidated financial statements for the year ended December 31, 2008, and in note 12 to our unaudited interim consolidated financial statements for the period ended June 30, 2009, which are incorporated by reference herein.

Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. During the second quarter of 2009, we received net cash proceeds of \$165.0 million, unchanged from December 31, 2008. Further details of these agreements are described in notes 1 and 3 to our audited consolidated financial statements for the year ended December 31, 2008, which are incorporated by reference herein.

Use of derivative financial instruments

We use derivative financial instruments in the management of interest rate exposures associated with our long and short-term debt and specific firm commitments. In the second quarter of 2009, we settled our outstanding fixed-floating interest rate swaps with notional principal values totalling \$250.0 million when the hedged variable interest short-term debt was repaid upon the issuance of fixed-rate medium-term notes. We paid \$15.4 million to the counterparties on settlement of the swaps. As the hedged debt was repaid, hedge accounting was discontinued and net losses of \$13.3 million that were previously recognized in other comprehensive earnings (losses) were reclassified to other expense in the statement of earnings.

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

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 24 to our audited consolidated financial statements for the year ended December 31, 2008, and to note 13 of our unaudited interim consolidated financial statements for the period ended June 30, 2009 which are incorporated by reference herein. During the second quarter of 2009, both Charles White and Andrew Smith left their positions on the board of directors. The Securityholders' Agreement was amended as of May 1, 2009, to reduce the minimum number of directors required on the principal operating boards from 11 to nine.

Significant accounting policies

Our consolidated financial statements as at and for the three and six months ended June 30, 2009, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our consolidated financial statements for the year ended December 31, 2008, except for the adoption of the new accounting standard related to goodwill and intangible assets.

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 management, recognition, presentation and disclosure of these assets. 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 updates certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

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 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.

International financial reporting standards (IFRS)

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

As discussed in our MD&A for the year ended December 31, 2008, 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

We have compiled and analyzed the information obtained in the detailed assessment phase and presented our preliminary evaluation of and recommendations for appropriate accounting policy choices to our audit committee in the second quarter of 2009. We will continue to refine these accounting policy choices as we continue through our conversion effort and will present our final accounting policy choices to the audit committee for approval later in 2009. We commenced designing operational process changes, which includes IT and data systems, internal controls over financial reporting, and developing and maintaining two parallel sets of records in 2010, during the first quarter of 2009. We have substantially completed the design phase at the end of the second quarter of 2009 and have commenced implementing the proposed system design changes. We expect the implementation phase will run through to December 31, 2010.

Regulatory developments

Regulatory developments in the second quarter of 2009, and up to and including July 30, 2009, which are, or may be, significant to our business, include the following:

Access to Next Generation Access Services

On January 26, 2009, the CRTC issued Telecom Regulatory Policy 2009-34, in which it initiated a proceeding to consider issues regarding the appropriate configuration, classification and feasibility of an unbundled asymmetric digital subscriber line (ADSL) service for use by competitors. On May 8, 2009, the CRTC issued Telecom Notice of Consultation 2009-261, combining the proceeding initiated in Telecom Regulatory Policy 2009-34 and a corresponding request by Internet service providers (ISPs) to unbundle access to the cable networks. The proceeding will include an oral public hearing beginning on November 16, 2009. The proceeding is expected to close by the end of this year and the CRTC expects to issue a final decision by the end of March 2010.

Deferral Account

Bell Canada's accumulated deferral account commitment at June 30, 2009, was estimated to be \$152.0 million, unchanged from December 31, 2008. With respect to the annualized recurring amount in

Bell Canada's deferral account, we together with Bell Canada implemented rate reductions for residential service in the Ontario and Quebec serving areas, effective June 1, 2009, which cleared the annualized recurring amount in Bell Canada's deferral account. As a result, as of June 30, 2009, Bell Canada does not have a future annualized commitment. As of June 30, 2009, Télébec's cumulative deferral account commitment is estimated at \$1.7 million (December 31, 2008 - \$2.2 million) and the annualized recurring amount is estimated at \$0.8 million (December 31, 2008 - \$1.8 million).

Broadcasting

On June 4, 2009, the CRTC issued Broadcasting Regulatory Policy 2009-329 in which it determined that broadcasting content distributed over the Internet and through mobile devices will continue to be exempt from broadcasting regulation and endorsed the call by the National Film Board for the Government of Canada to develop a national digital strategy. In addition, the CRTC referred to the Federal Court of Appeal the legal issue as to the applicability of the Broadcasting Act to ISPs.

In its October 2008 decision (Broadcasting Public Notice 2008-100), the CRTC rejected the over-the-air broadcasters' fee-for-carriage proposal, which would have required cable and satellite operators to pay for the right to carry local signals. However, the CRTC determined that cable and satellite operators would be required to contribute 1.0 per cent of their annual revenue to a new local programming improvement fund (LPIF) administered by an independent third party chosen by the Canadian Association of Broadcasters (CAB).

On July 6, 2009, the CRTC issued Broadcasting Regulatory Policy 2009-406 increasing the LPIF contribution to 1.5 per cent of annual revenue for the period September 2009 to August 2010. It announced that it would further undertake a review of the LPIF contribution levels in a public hearing in September 2009. The CRTC indicated it was predisposed to reducing the LPIF contribution to the former level of 1.0 per cent in 2010. There is no assurance that the LPIF contribution level will be reduced, maintained, or increased.

The CRTC also reversed its former rulings and determined that it would be appropriate for cable and satellite operators to negotiate with broadcasters for compensation for the distribution of local conventional television signals. Further, the CRTC stated that these negotiations should be completed by early 2010. In the absence of negotiated agreements, the CRTC stated that it would provide resolution through binding arbitration. In a public process in September 2009, the CRTC will consider certain parameters of the negotiation. The Company is currently reviewing its options with respect to Broadcasting Regulatory Policy 2009-406.

Traffic Management

In April 2008, the Canadian Association of Internet Providers (CAIP) filed an application requesting that the Commission order Bell Canada to cease and desist from traffic shaping of its wholesale ADSL services and, in particular, the wholesale service known as Gateway Access Service (GAS). In Decision 2008-108, the Commission denied CAIP's request but initiated a new proceeding (Telecom Public Notice 2008-19) to review concerns raised related to existing and emerging Internet traffic management practices with the objective of establishing guidelines for such practices. The Commission recently concluded an oral public hearing as part of this proceeding. A decision from the CRTC imposing restrictions on ISPs, including us, could have a negative impact on our Internet services.

In May 2009, two applications to review Telecom Decision 2008-108 were filed by Vaxination Informatique and, separately, the Consumers' Association of Canada and CAIP. On May 29, 2009, the Commission announced these two proceedings will be merged into one, and the record of the combined proceeding to consider the applications closed on July 2, 2009. A decision is expected within 8 months.

Other Developments

In Telecom Decision 2009-187, the Commission denied Rogers Communications Inc.'s ("Rogers") application to review and vary Telecom Decision 2008-62. The Commission determined that our obligations to Rogers under a 2002 Support Structure Agreement had ended in March 2004, when New Brunswick Power Distribution and Customer Service Corporation (NB Power) terminated the underlying Joint Sub-Agreement: Support Structure – Third Party Attachments between NB Power and ourselves, under which we administered certain NB Power support structures. Rogers has filed a motion with the Federal Court of Appeal seeking leave to appeal the CRTC's decision.

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, 2008, 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, 2008, 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 2009. These assumptions include economic, market, financial, operational and transaction assumptions, and except as outlined below, have not changed significantly up to July 30, 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 organization must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our unitholders. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across the organization.

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. Refer to our MD&A for the year ended December 31, 2008, and our 2008 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 do not presently consider material to our consolidated operations.

During the first two quarters of 2009, 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, 2008, and our 2008 Annual Information Form. We have provided updates on our regulatory and competitive environments in the "Regulatory developments" and "Our business environment" sections.

Non-GAAP financial measures

The terms operating income, EBITDA (earnings before interest, taxes, depreciation and amortization), 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 June 30</i> <i>(millions of dollars)</i>	Three months		Six months	
	2009	2008	2009	2008
Operating revenues	\$789.7	\$813.1	\$1,613.5	\$1,648.6
Expenses	624.8	651.4	1,302.0	1,332.7
Operating income	\$164.9	\$161.7	\$311.5	\$315.9

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 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 June 30</i> <i>(millions of dollars)</i>	Three months		Six months	
	2009	2008	2009	2008
Operating income	\$164.9	\$161.7	\$311.5	\$315.9
Add: Net cost of benefit plans	22.5	24.8	44.7	49.6
Depreciation and amortization	177.5	174.7	354.2	349.2
Restructuring and other charges	3.2	-	13.5	-
EBITDA	\$368.1	\$361.2	\$723.9	\$714.7

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 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 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, our determination of distributable cash includes no cash capital taxes. The actual tax rates may differ materially as they are subject to future enacted tax laws.

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

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months		Six months⁽¹⁾	
	2009	2008⁽¹⁾	2009	2008
Cash from operating activities	\$296.1	\$348.2	\$507.7	\$584.4
Add (deduct):				
Cash from operating activities of discontinued operations	(1.8)	2.0	(1.2)	3.6
Cash from operating activities of the Fund	(0.3)	(0.2)	(12.3)	(0.5)
Capital expenditures	(122.0)	(127.5)	(229.5)	(222.6)
Standardized distributable cash	172.0	222.5	264.7	364.9
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilities (working capital)	(3.0)	(56.6)	62.4	(7.3)
Change in operating assets and liabilities (working capital) of the Fund	(1.2)	(0.7)	9.8	(1.5)
Pension deficit funding	12.9	12.6	26.6	25.0
Restructuring charges	2.7	-	12.1	-
Cash capital taxes in excess of normalized levels	2.2	2.4	4.3	5.4
Other adjustments:				
Current income tax expense (recovery)	(2.0)	-	(2.0)	(3.9)
Other non-cash items provided for in working capital changes	3.0	3.1	5.2	7.5
Distributable cash	\$186.6	\$183.3	\$383.1	\$390.1

⁽¹⁾ Financial results for all prior periods have been restated to reflect our xwave New England business as discontinued operations.

The calculation of standardized distributable cash and distributable cash has been prepared using reasonable and supportable assumptions, all of which reflect our planned courses of action given

management's judgement about the most probable set of economic conditions. Actual results may vary, perhaps materially, from the forward-looking assumptions used.

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

Controls and Procedures

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*. Our system of internal control is based on the framework and criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.