

Bell Aliant Regional Communications  
Holdings, Limited Partnership

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# Consolidated financial statements and notes

December 31, 2009



**Bell**Aliant

# Management's report

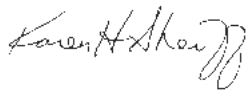
## TO THE UNITHOLDERS

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to Canadian generally accepted accounting principles and include amounts based on management's best estimates and judgments.

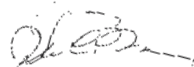
Management has established and maintains accounting and internal control systems that include written policies, procedures and a comprehensive internal audit program. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting primarily through the audit committee. The financial statements have been reviewed and approved by the board of directors on recommendation from the audit committee. The audit committee is also responsible for making recommendation with respect to the appointment of the independent auditors and for approving their remuneration and terms of engagement. Other responsibilities of the audit committee include meeting periodically with the independent auditors, management and the internal auditors to review accounting, auditing, internal controls, litigation, financial reporting and other matters. The internal auditors and the external auditors have free access to the audit committee both with and without management present.

Our independent auditors, Deloitte & Touche LLP, have audited our financial statements. The accompanying auditors' report outlines the scope of their examination and their opinion.



Karen H. Sheriff  
President and chief executive officer  
Bell Aliant Regional Communications Holdings Inc.,  
General Partner of Bell Aliant Regional  
Communications Holdings, Limited Partnership



Glen LeBlanc  
Chief financial officer  
Bell Aliant Regional Communications Holdings Inc.,  
General Partner of Bell Aliant Regional  
Communications Holdings, Limited Partnership

March 10, 2010

# Auditors' report

**TO THE DIRECTORS OF BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS INC,  
GENERAL PARTNER OF BELL ALIANT REGIONAL COMMUNICATIONS HOLDINGS, LIMITED PARTNERSHIP**

We have audited the consolidated balance sheets of Bell Aliant Regional Communications Holdings, Limited Partnership (the "Partnership") as at December 31, 2009 and 2008, and the consolidated statements of earnings, comprehensive earnings, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants  
Halifax, Nova Scotia  
March 10, 2010

# Statements

## CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

|   | Notes | 2009            | 2008            |
|---|-------|-----------------|-----------------|
| <b>Assets</b>                                 |       |                 |                 |
| Current assets                                |       |                 |                 |
| Cash and cash equivalents                     |       | 27.1            | 14.6            |
| Accounts receivable                           | 2, 25 | 304.0           | 348.4           |
| Inventory                                     | 3     | 14.4            | 13.3            |
| Prepayments                                   | 25    | 14.8            | 16.5            |
| Future income tax asset                       | 4     | 57.6            | 40.8            |
| Income tax receivable                         |       | 14.4            | 9.1             |
| Current assets of discontinued operations     | 5     | —               | 15.0            |
|   |       | <b>432.3</b>    | <b>457.7</b>    |
| Capital investments                           |       |                 |                 |
| Property, plant and equipment                 | 6     | 3,662.8         | 3,726.1         |
| Finite-life intangibles                       |       | 3,069.8         | 3,218.3         |
|   |       | <b>6,732.6</b>  | <b>6,944.4</b>  |
| Other assets                                  |       |                 |                 |
| Long-term receivables                         | 9, 25 | 23.8            | 34.9            |
| Deferred charges                              |       | 13.4            | 15.9            |
| Future income tax asset                       | 4     | 4.2             | 7.1             |
| Accrued benefit asset                         | 7     | 418.0           | 398.9           |
| Indefinite-life intangibles                   | 8     | 125.2           | 125.2           |
| Goodwill                                      | 9     | 2,768.3         | 2,766.6         |
| Non-current assets of discontinued operations | 5     | —               | 2.3             |
|   |       | <b>3,352.9</b>  | <b>3,350.9</b>  |
| <b>Total assets</b>                           |       | <b>10,517.8</b> | <b>10,753.0</b> |

See accompanying notes to the consolidated financial statements

## CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

|  | Notes  | 2009            | 2008            |
|--|--------|-----------------|-----------------|
| <b>Liabilities and partners' equity</b>          |        |                 |                 |
| <b>Current liabilities</b>                       |        |                 |                 |
| Notes payable to related party                   | 25     | 2.6             | 6.2             |
| Payables and accruals                            | 10, 25 | 416.2           | 451.2           |
| Distributions payable                            | 25     | 55.3            | 55.4            |
| Future income tax liability                      | 4      | —               | 0.5             |
| Short-term debt                                  | 11     | 40.0            | 208.2           |
| Long-term debt due within one year               | 12     | 17.2            | 114.7           |
| Current liabilities of discontinued operations   | 5      | —               | 7.6             |
|  |        | <b>531.3</b>    | <b>843.8</b>    |
| Future income tax liability                      | 4      | 421.6           | 453.2           |
| Long-term debt                                   | 12     | 2,759.9         | 2,454.0         |
| Derivative liabilities                           | 13     | —               | 15.2            |
| Accrued benefit liability                        | 7      | 382.9           | 421.9           |
| Deferred credits and other long-term liabilities | 10, 25 | 34.8            | 19.5            |
| <b>Total liabilities</b>                         |        | <b>4,130.5</b>  | <b>4,207.6</b>  |
| Non-controlling interest                         | 14     | 1,587.9         | 1,662.5         |
| Partners' equity                                 |        | 4,799.4         | 4,882.9         |
| <b>Total liabilities and partners' equity</b>    |        | <b>10,517.8</b> | <b>10,753.0</b> |

See accompanying notes to the consolidated financial statements

Approved on behalf of the board of directors of Bell Aliant Regional Communications Holdings Inc.,  
 general partner of Bell Aliant Regional Communications Holdings, Limited Partnership



Edward Reevey  
 Director



Louis Tanguay  
 Director

## CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31

| <i>(millions of dollars, except earnings per unit)</i> | Notes  | 2009         | 2008         |
|--|--------|--------------|--------------|
| Operating revenues                                     | 17     | 3,174.2      | 3,246.3      |
| Expenses   |        |              |              |
| Operating expenses                                     |        | 1,792.9      | 1,874.2      |
| Depreciation and amortization                          | 18     | 715.0        | 711.3        |
| Restructuring and other charges                        | 10     | 44.7         | 60.3         |
|  |        | 2,552.6      | 2,645.8      |
| Operating income                                       |        | 621.6        | 600.5        |
| Other expenses (income)                                |        |              |              |
| Financial derivatives loss                             | 13, 20 | 13.3         | —            |
| Other income   |        | (1.9)        | (2.4)        |
|  |        | 11.4         | (2.4)        |
| Interest charges                                       |        |              |              |
| Interest on long-term debt                             |        | 146.3        | 138.0        |
| Other interest expense                                 |        | 12.1         | 19.2         |
|  |        | 158.4        | 157.2        |
| Earnings before underlisted items                      |        | 451.8        | 445.7        |
| Income taxes   | 4      |              |              |
| Current tax recovery                                   |        | (2.0)        | (7.6)        |
| Future tax recovery                                    |        | (54.1)       | (14.4)       |
|  |        | (56.1)       | (22.0)       |
| Earnings before non-controlling interest               |        | 507.9        | 467.7        |
| Non-controlling interest                               |        | 134.9        | 131.1        |
| Net earnings from continuing operations                |        | 373.0        | 336.6        |
| Net loss from discontinued operations                  | 5      | (16.8)       | (14.4)       |
| <b>Net earnings</b>                                    |        | <b>356.2</b> | <b>322.2</b> |
| Earnings per unit                                      | 19     |              |              |
| Basic from continuing operations                       |        | 2.32         | 2.11         |
| Basic from discontinued operations                     |        | (0.10)       | (0.09)       |
| Basic  |        | 2.22         | 2.02         |

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

For the years ended December 31

| <i>(millions of dollars)</i>                    | Note | 2009         | 2008         |
|---|------|--------------|--------------|
| Net earnings                                    |      | 356.2        | 322.2        |
| Other comprehensive earnings (loss), net of tax | 20   | 15.7         | (5.5)        |
| <b>Comprehensive earnings</b>                   |      | <b>371.9</b> | <b>316.7</b> |

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

| <i>For the year ended December 31, 2009</i><br><i>(millions of dollars)</i> | Notes | Partners'<br>capital | Contri-<br>buted<br>surplus | Accu-<br>mulated<br>earnings | Accu-<br>mulated<br>other<br>compre-<br>hensive<br>loss | Total<br>accu-<br>mulated<br>earnings<br>and other<br>compre-<br>hensive<br>loss | Total<br>partners'<br>equity |
|---|-------|----------------------|-----------------------------|------------------------------|---|--|------------------------------|
|   |       |                      |                             |                              |   |  |                              |
| Balance December 31, 2008   |       | 2,061.5              | 0.4                         | 2,863.7                      | (42.7)  | 2,821.0  | 4,882.9                      |
| Net earnings  |       | —                    | —                           | 356.2                        | —   | 356.2  | 356.2                        |
| Distributions declared on:  |       |                      |                             |                              |   |  |                              |
| Class 1 exchangeable limited<br>partnership units                           |       | —                    | —                           | (81.7)                       | —   | (81.7)   | (81.7)                       |
| Class 2 limited partnership units   | 25    | —                    | —                           | (373.7)                      | —   | (373.7)  | (373.7)                      |
| Other comprehensive earnings, net of tax                                    | 20    | —                    | —                           | —                            | 15.7  | 15.7   | 15.7                         |
| <b>Balance December 31, 2009</b>  |       | <b>2,061.5</b>       | <b>0.4</b>                  | <b>2,764.5</b>               | <b>(27.0)</b>   | <b>2,737.5</b>   | <b>4,799.4</b>               |

| <i>For the year ended December 31, 2008</i><br><i>(millions of dollars)</i> | Notes  | Partners'<br>capital | Contri-<br>buted<br>surplus | Accu-<br>mulated<br>earnings | Accu-<br>mulated<br>other<br>compre-<br>hensive<br>loss | Total<br>accu-<br>mulated<br>earnings<br>and other<br>compre-<br>hensive<br>loss | Total<br>partners'<br>equity |
|---|--------|----------------------|-----------------------------|------------------------------|---|--|------------------------------|
|   |        |                      |                             |                              |   |  |                              |
| Balance December 31, 2007   |        | 1,548.0              | 0.2                         | 2,995.8                      | (37.2)  | 2,958.6  | 4,506.8                      |
| Net earnings  |        | —                    | —                           | 322.2                        | —   | 322.2  | 322.2                        |
| Issuance of class 2 limited partnership units<br>on business combination    | 15, 26 | 513.5                | —                           | —                            | —   | —  | 513.5                        |
| Distributions declared on:  |        |                      |                             |                              |   |  |                              |
| Class 1 exchangeable limited<br>partnership units                           |        | —                    | —                           | (81.5)                       | —   | (81.5)   | (81.5)                       |
| Class 2 limited partnership units   | 25     | —                    | —                           | (372.8)                      | —   | (372.8)  | (372.8)                      |
| Stock options expense   |        | —                    | 0.2                         | —                            | —   | —  | 0.2                          |
| Other comprehensive earnings, net of tax                                    | 20     | —                    | —                           | —                            | (5.5)   | (5.5)  | (5.5)                        |
| <b>Balance December 31, 2008</b>  |        | <b>2,061.5</b>       | <b>0.4</b>                  | <b>2,863.7</b>               | <b>(42.7)</b>   | <b>2,821.0</b>   | <b>4,882.9</b>               |

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

| <i>(millions of dollars)</i>                                   | Notes | 2009           | 2008           |
|--|-------|----------------|----------------|
| <b>Cash from (used in) operating activities</b>                |       |                |                |
| Net earnings from continuing operations                        |       | 373.0          | 336.6          |
| Adjustments to reconcile net earnings to cash                  |       |                |                |
| from operating activities                                      |       |                |                |
| Depreciation and amortization                                  | 18    | 715.0          | 711.3          |
| Gain on disposal of assets                                     |       | (0.8)          | (2.5)          |
| Future income tax recovery                                     |       | (54.1)         | (14.4)         |
| Net cost of benefit plans                                      | 7     | 77.4           | 70.5           |
| Funding of defined benefit pension                             |       |                |                |
| and other post-employment benefit plans                        | 7     | (135.5)        | (111.8)        |
| Non-controlling interest                                       |       | 134.9          | 131.1          |
| Financial derivatives loss                                     | 13    | 13.3           | —              |
| Change in operating assets and liabilities                     | 21    | 22.9           | 134.0          |
| Other  |       | (10.5)         | (5.5)          |
|  |       | <b>1,135.6</b> | <b>1,249.3</b> |
| <b>Cash from (used in) financing activities</b>                |       |                |                |
| Repurchase of accounts receivable                              | 2     | —              | (55.0)         |
| Net repayments of short-term debt                              | 11    | (168.2)        | (8.5)          |
| Net proceeds (repayments) of notes payable to related party    | 25    | (3.6)          | 4.3            |
| Proceeds of long-term debt                                     | 12    | 348.6          | 50.0           |
| Repayment of long-term debt                                    | 12    | (156.8)        | (53.8)         |
| Repayment of capital lease obligations                         | 12    | (8.8)          | (6.8)          |
| Net settlement of financial derivatives                        | 13    | (15.4)         | —              |
| Distributions paid by subsidiaries to non-controlling interest | 14    | (209.5)        | (213.0)        |
| Distributions paid   |       | (455.5)        | (446.9)        |
|  |       | <b>(669.2)</b> | <b>(729.7)</b> |
| <b>Cash from (used in) investing activities</b>                |       |                |                |
| Purchase of capital investments                                |       | (464.8)        | (526.9)        |
| Proceeds on sale of capital investments                        |       | 2.4            | 3.4            |
| Business acquisition, net of cash received                     | 26    | —              | (28.2)         |
|  |       | <b>(462.4)</b> | <b>(551.7)</b> |
| Net increase (decrease) in cash from continuing operations     |       | 4.0            | (32.1)         |
| Net increase (decrease) in cash from discontinued operations   | 5     | 8.5            | (1.4)          |
| Cash and cash equivalents, beginning of period                 |       | 14.6           | 48.1           |
| <b>Cash and cash equivalents, end of period</b>                |       | <b>27.1</b>    | <b>14.6</b>    |
| <b>Supplementary disclosure</b>                                |       |                |                |
| Cash and cash equivalents, end of period                       |       |                |                |
| Cash   |       | 20.1           | 8.5            |
| Cash equivalents   |       | 7.0            | 6.1            |
|  |       | <b>27.1</b>    | <b>14.6</b>    |
| Interest paid  |       | 144.4          | 149.3          |
| Income taxes paid (recovered), net                             |       | 0.3            | (7.1)          |

See accompanying notes to the consolidated financial statements

# Notes

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 operations 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.

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## SIGNIFICANT ACCOUNTING POLICIES

### Consolidated financial statements

We have prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

We consolidate the financial statements of all the entities we control. At December 31, 2009, our principal subsidiaries include Bell Aliant Regional Communications Inc., Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). All transactions and balances between these entities have been eliminated on consolidation.

### Comparative figures

Certain comparative financial information has been reclassified to be consistent with the presentation adopted for 2009 related to discontinued operations, as discussed in note 5.

### Use of accounting estimates

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates and assumptions are subject to measurement uncertainty and as such, actual results could differ from estimates used in these financial statements. We use estimates for certain items such as revenues, allowance for doubtful accounts, gain or loss on transfer of receivables, useful life of capital investments, asset impairments, legal and tax contingencies, employee benefit plans, income taxes, restructuring and other charges, goodwill and intangible assets. We also use estimates when recording the fair value of assets acquired and liabilities assumed in a business combination.

In the third quarter of 2009, we decreased the estimated long-term receivable associated with the acquisition of Bell Canada's wireline operation in Ontario and Quebec by \$5.6 million based on the final determination of the contingent consideration related to the acquisition. Refer to note 9 for further discussion.

In the fourth quarter of 2009, we increased the estimate of the restructuring and other charge liability recorded in 2008 related to productivity initiatives by \$6.8 million. As departing employees had options that affected their severance, the final cost of the restructuring initiatives was materially different from our estimate. Refer to note 10 for further discussion.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments with a maturity of less than 90 days, all of which are readily convertible to cash and subject to an insignificant risk of change in fair value.

### Transfer of receivables

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. We record the sale when we transfer and give up control over the accounts receivable and receive net cash proceeds from the trust. The gains or losses that result from these transactions and program administration fees are recognized as other expenses (income). The gain or loss calculated is partly dependent on the carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest based on their relative fair value at the date of the transfer. We determine fair value of the accounts receivable transferred based on the value of future expected cash flows using management's best estimate of key assumptions, such as the weighted average life of accounts receivable and credit loss ratios.

We also have purchase and sale agreements to purchase certain wireless trade accounts receivable (wireless receivables) from Bell Canada and sell our Ontario and Quebec wireline trade accounts receivable to Bell Canada. We transfer these receivables at their billed amount, less a deduction for defaulted amounts. Our normal provision for allowance for doubtful accounts is made against the wireless receivables purchased.

### Inventory

Inventory represents products or equipment purchased for resale. We measure inventory at the lower of cost and net realizable value, with cost being determined by using the specific identification method for major equipment or items that are not normally interchangeable, and the weighted average cost formula for all other inventory items. Net realizable value represents the estimated selling price for inventories less all estimated costs to sell.

### Income taxes

A portion of our income is earned through partnerships and as such is not subject to tax, as the taxable income is allocated directly to the partners.

The income that is earned through corporate subsidiaries is subject to tax. Income taxes are accounted for using the asset and liability method. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and their corresponding tax values, as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are to be realized for tax purposes. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded, when necessary, to reduce future income tax assets to the amount more likely than not to be realized.

### Capital investments

Capital investments are carried at cost, less accumulated depreciation and amortization. Most of our property, plant and equipment assets are amortized using the group depreciation method. When we retire assets in the ordinary course of business, we charge their original cost to accumulated depreciation and amortization. We review our estimates of the useful lives of the assets periodically and adjust them on a prospective basis, if needed. We calculate depreciation and amortization on a straight-line basis over the useful lives of the capital investments as follows:

| Capital investments                         | Estimated useful life |
|---|-----------------------|
| Property, plant and equipment               |                       |
| Buildings and towers                        | 10 – 30 years         |
| Telecommunications facilities and equipment | 3 – 40 years          |
| Other equipment                             | 3 – 20 years          |
| Finite-life intangibles                     |                       |
| Software                                    | 2 – 7 years           |
| Customer relationships                      | 9 – 30 years          |
| Bilateral license agreement                 | 40 years              |
| Roaming agreements                          | 4.5 years             |

Costs capitalized on our self-constructed assets classified as plant under construction or software under development include contracted costs, labour and overhead. Materials and supplies are measured at cost, determined by using the weighted average cost method. We do not capitalize interest costs. Depreciation commences when our plant under construction or software under development becomes operational.

We initially measure and record asset retirement obligations at fair value using a present value methodology, adjusted subsequently for any changes to the timing or amount of the original estimate of cash flows. We capitalize asset retirement costs as part of the related capital investment and record amortization expense over its useful life. We also increase the recorded asset retirement obligation and record a corresponding amount in depreciation and amortization expense to reflect the passage of time.

We assess capital investments for impairment when events or changes in circumstances indicate that we may not be able to recover their carrying value. An impairment loss is recognized when the carrying value of the capital investment exceeds the total undiscounted cash flows expected from its use and disposition. The amount of the loss is determined by deducting the asset's fair value from its carrying value.

### Deferred charges and credits

Deferred charges and credits mainly include the following and are recognized as noted:

|  | Recognition period                            | Income statement account              |
|--|---|---------------------------------------|
| Deferred charges:  |   |                                       |
| Long-term customer contract costs, such as bid pursuit and other upfront costs | Length of the customer contract               | Operating expenses                    |
| Costs related to short-term and long-term debt facilities                      | Period to maturity of the debt facilities     | Other interest expense                |
| Prepayments of long-term service contract cost                                 | Length of contract                            | Operating expenses                    |
| Customer loyalty credits   | Length of customer contract                   | Operating revenue                     |
| Deferred credits:  |   |                                       |
| Deferred revenue   | Length of the customer contract               | Operating revenues                    |
| Asset retirement obligations   | Useful life of the related capital investment | Depreciation and amortization expense |

### Post-employment benefits

We provide pension plans and non-pension post-employment benefits to qualified employees. These include defined benefit (DB) pension plans, defined contribution (DC) pension plans, retirement savings plans and other post-employment benefit (OPEB) plans such as life insurance and health care plans.

#### *DC pension and other retirement savings plans*

DC pension plan and other retirement savings plan costs are recognized and funded as employees provide services to us during the year.

#### *DB pension and OPEB plans*

We accrue our obligations under these plans. In the case of DB pension plans, we record the liability and any deferred actuarial gains and losses in the plans net of the fair value of plan assets, which are invested to fund that liability.

December 31 is the measurement date for our employee benefit plans. Our actuaries perform a valuation of each plan at least every three years to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits for funding purposes. The most recent actuarial valuations were performed as of December 31, 2008. The next required actuarial valuations for funding purposes will be as of December 31, 2009, and will be completed during 2010.

The cost of DB pensions and OPEBs earned by employees are actuarially determined using:

- The projected benefit method, prorated on years of service, which takes into account future salary levels;
- Management's best estimate of expected performance of plan investments, salary increases, retirement age of employees and expected health care costs; and
- Discount rates that are based on current interest rates on the long-term debt of high-quality corporate issuers or, in the case of certain closed plans consisting primarily of retired members, on current annuity rates.

For the purpose of calculating the expected return on plan assets, equity securities are valued at market-related value, where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years. Fixed income securities are valued at their fair value. The expected rate of return on plan assets is based on long-term forecasts of capital market returns, given our policy asset mix.

We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active at the date of amendment.

We use the corridor approach to calculate actuarial gains and losses that are reflected in earnings. This involves deducting the greater of 10 per cent of the benefit obligation or 10 per cent of the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees, or the average remaining lifetime of retired employees, 10 years and 23 years, respectively, at December 31, 2009 (2008 – 10 years and 23 years, respectively).

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, we account for the curtailment prior to the settlement.

#### **Goodwill and indefinite-life intangibles**

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.

Goodwill represents the excess of the cost of an acquired business over the fair value of the net amount assigned to individual assets acquired and liabilities assumed at the date of acquisition. Indefinite-life intangibles, which are not being amortized, consist of Télébec, NorthernTel, and Kenora Municipal Telephone System (KMTS) brands, and telecommunications and cable licenses.

We annually assess our goodwill and indefinite-life intangibles for impairment and when events or changes in circumstances indicate that an asset might be impaired.

We assess goodwill impairment in two steps. The first step involves the identification of any potential impairment by comparing the fair value of a reporting unit to its carrying value. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value of a reporting unit is less than its carrying value, we perform the second step which involves determining the fair value for all of the reporting unit's identifiable assets and liabilities to determine the fair value of goodwill. If the fair value of the goodwill is less than its carrying value, the goodwill is deemed to be impaired by the excess of its carrying value over its fair value.

We assess indefinite-life intangibles impairment by comparing the asset's fair value to its carrying value. If the fair value is less than the carrying value, the asset is deemed to be impaired and the difference is charged to other expenses in the period that the assessment is performed.

Fair value is based on estimates of discounted cash flows, external factors, or a combination of both. The determination of fair value requires management to make estimates and assumptions at the date of the assessment, which are by their nature subject to measurement uncertainty. As such, actual results could differ from the estimates used. Significant assumptions used in determining the fair value of our goodwill and indefinite-life intangibles could include the weighting of external and internal information, the weighted average cost of capital and anticipated future growth rates, pension funding, capital investments and savings from productivity initiatives.

The goodwill and indefinite-life intangibles impairment test conducted as at October 31, 2009, revealed no impairment.

### Leases

Leases are classified as either capital or operating leases depending on the terms of the contracts. Capital investments acquired under capital leases are depreciated consistent with their nature. Obligations under capital leases are reduced by lease payments net of imputed interest costs.

### Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized when we become a party to the contractual provisions of a financial instrument or derivative contract. All financial instruments are measured at fair value on initial recognition.

### *Non-derivative financial assets and financial liabilities*

For purposes of ongoing measurement, we classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto. Subsequent measurement for these financial assets and financial liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification.

Our non-derivative financial assets and liabilities are generally classified and measured as follows:

| Balance sheet account                                | Classification        | Subsequent measurement |
|--|-----------------------|------------------------|
| Cash and cash equivalents                            | Held for trading      | Fair value             |
| Accounts receivable                                  | Loans and receivables | Amortized cost         |
| Long-term receivables                                | Loans and receivables | Amortized cost         |
| Notes payable to related party                       | Other liabilities     | Amortized cost         |
| Payables and accruals                                | Other liabilities     | Amortized cost         |
| Distributions payable                                | Other liabilities     | Amortized cost         |
| Short-term debt                                      | Other liabilities     | Amortized cost         |
| Long-term debt, including amount due within one year | Other liabilities     | Amortized cost         |

### Held for trading

Held for trading financial assets are typically acquired with the objective to generate revenue from short-term fluctuations in price. Interest earned, gains and losses realized on disposal, and unrealized gains and losses from changes in fair value are recorded in net earnings as incurred.

### **Loans and receivables**

Loans and receivables result from the delivery of cash or other assets by us to counterparties in return for a promise to repay on demand or on a specified date(s). Gains and losses are recognized in net earnings in the period that the asset is derecognized or impaired. Accounts receivable are assessed for impairment at each balance sheet date and a provision for doubtful accounts is recorded based on individual account circumstances, aging of accounts receivable, historical trends and general economic conditions. Long-term receivables are periodically assessed for impairment. Where there is objective evidence that an impairment of these assets has occurred, the carrying amount of these assets is reduced with the loss being recognized in net earnings in the period of assessment. The impairment loss is measured as the difference between the assets' carrying amount and the present value of the estimated cash flows of the assets discounted at the original effective interest rate.

### **Other liabilities**

Other liabilities include all financial liabilities other than derivatives or liabilities that have been classified as held for trading.

### **Transaction costs**

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Held for trading – expensed as incurred; and
- Loans and receivables, and other liabilities – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest rate method.

As it is impracticable to use the effective interest method for transaction costs directly attributable to short-term debt facilities that are drawn on or repaid frequently, these transaction costs are deferred and amortized on a straight-line basis over the period to maturity of the debt facilities.

### ***Derivative financial instruments***

We may use derivative financial instruments in the management of our foreign currency and interest rate exposure. We do not use derivative financial instruments for trading or speculative purposes.

For each derivative, a determination is made whether hedge accounting can apply. Where hedge accounting can be applied, a hedge relationship is designated and documented at the inception of the derivative contracts to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in achieving its objective of offsetting either changes in the fair value or anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

### **Hedge accounting**

We use interest rate swap agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing or to hedge the interest rate exposure on future refinancing of existing debt or anticipated debt issuance. We designate these agreements as hedges of the anticipated future cash flows of the underlying debt. Interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment to interest charges on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

For cash flow hedges, the changes in the fair value of the effective portion of the hedging derivative, net of taxes, is recognized in other comprehensive earnings (loss), while the ineffective portion is recognized in interest charges.

When hedge accounting is discontinued, the amounts previously recognized in accumulated other comprehensive income (loss) are reclassified to interest charges during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains and losses on derivatives are reclassified immediately to other expenses (income) when the hedged item is sold or terminated early.

The cash flow hedges used in 2008 for interest rate exposure were settled in 2009 when the hedged long-term debt was repaid prior to its maturity. At December 31, 2009, we do not have any interest rate or foreign currency hedges.

### **Economic hedges**

Derivatives that are economic hedges but do not qualify for hedge accounting are recognized at fair value with the change in fair value recorded in other expenses (income).

### **Embedded derivatives**

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are separated out of the non-derivative host contract and accounted for as a derivative unless certain criteria are met. We do not currently have any significant embedded derivatives in our contracts that require separate accounting and disclosure.

### **Revenue recognition**

We recognize operating revenues when they are earned, specifically, when services are provided, products are delivered to customers, persuasive evidence of an arrangement exists, amounts are fixed or determinable, and collectability is reasonably assured.

For arrangements involving the sale of multiple products or services, we separately account for each product or service and allocate revenue to each based on their relative fair value, being the value it can be sold for on a stand-alone basis or other reliable evidence. Our relevant revenue recognition policies are then applied to the separate products or services. We defer revenue recognition for payments received in advance until we provide the service or deliver the product to customers.

For fixed-price contracts, we recognize revenue using the percentage of completion method, based on performance as services are provided or contract milestones are met. If it is determined during the performance of the contract that a loss will result, a provision for the estimated loss is immediately recognized.

For arrangements where sub-contractors perform services for our customers, we recognize revenue based on the amount billed to customers when we act as the principal in the arrangement. Otherwise, we recognize as revenue the net amount that we retain.

We record sales revenue on sales-type leases of equipment at the inception of the lease. Finance income is recognized over the term of the lease.

#### **Earnings per unit**

Earnings per unit is based on the weighted average number of units outstanding during the period.

#### **Unit-based compensation plans**

Certain employees are eligible to participate in employee unit purchase plans and a deferred unit plan, which are described in note 16. Compensation expense is recorded for our contributions to the employee unit purchase plans and as units vest under our deferred unit plan. We recognize the effect of forfeitures as they occur for our deferred unit plan.

#### **Distributions**

The distributions per unit paid by Bell Aliant Holdings LP to holders of exchangeable LP units are equal to the distributions per unit paid to the holders of Fund units. Distributions payable to our unitholders are recorded when declared.

#### **Regulation of the telecommunications industry**

Certain of our subsidiaries, including Bell Aliant LP, Télébec and NorthernTel, are regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) pursuant to the Telecommunications Act and the Broadcasting Act. The CRTC ensures that Canadians have access to reliable telephone and other telecommunications services at affordable prices, and licenses and regulates the activities of broadcasting distribution undertakings. Our business is affected by CRTC decisions over the prices we charge for specific services, primarily local and access telephone service, and other operating requirements. Refer to note 22 for further information on the deferral account, a mechanism introduced under the CRTC's Price Cap Decision of 2002.

#### **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 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.

**2** TRANSFER OF RECEIVABLES

We have a revolving accounts receivable purchase and sale agreement with a securitization trust to sell an interest in a pool of trade accounts receivable owned by our subsidiary Bell Aliant LP. The pool of accounts receivable also includes wireless receivables purchased from Bell Canada of approximately \$0.3 million at December 31, 2009 (2008 – \$11.4 million) or approximately 0.1 per cent (2008 – 3.2 per cent) of the total pool of accounts receivable. The maximum amount of trade accounts receivable we can sell to the trust is \$220.0 million.

As part of the securitization agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the net cash proceeds received, which is held and owned by the trust. This security, or retained interest, is transferred back to us upon the expiry of the agreement in July 2011. The retained interest is recorded in accounts receivable.

We continue to service these accounts receivable and collect the amounts owing, but the trust's interest in the collection of these accounts receivable, including accounts receivable that make up the retained interest, ranks ahead of our interest. We do not recognize a servicing asset or liability separate from the accounts receivable sold. The trust and its investors have no recourse to our other assets for failure of the customer to pay the amounts when due.

Under the securitization agreement, the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During the term of the securitization agreement, we remain subject to certain risks of default which, should they occur, could cause the securitization agreement to end early.

The details of our trade accounts receivable sold, certain cash flows received from and paid to the trust during the year and the assumptions that were used in determining the fair value of the accounts receivable on the date of transfer are as follows:

| <i>(millions of dollars, except as otherwise noted)</i> | Range<br>2009  | 2009    | 2008    |
|---|----------------|---------|---------|
| As at December 31:                                      |                |         |         |
| Securitized interest in trade accounts receivable       |                | 208.0   | 209.3   |
| Net cash proceeds                                       |                | 165.0   | 165.0   |
| Retained interest                                       |                | 43.0    | 44.3    |
| For the years ended December 31:                        |                |         |         |
| Collections reinvested in revolving sales               |                | 1,927.0 | 2,109.0 |
| Decrease in net cash proceeds                           |                | —       | (55.0)  |
| Average trade accounts receivable managed               |                | 316.0   | 343.5   |
| Pre-tax loss and administration fees                    |                | 2.5     | 7.6     |
| Assumptions:  |                |         |         |
| Average cost of funds                                   | 0.68% – 3.54%  | 1.53%   | 4.24%   |
| Average delinquency ratio                               | 8.10% – 14.54% | 11.16%  | 15.65%  |
| Average net credit loss ratio                           | 0.42% – 1.09%  | 0.55%   | 0.48%   |
| Weighted average life in days                           | 32 – 43        | 37      | 43      |

The sensitivity of the fair value of the retained interest to an immediate 10 to 20 per cent change in the above assumptions is not material.

### 3 INVENTORY

For the year ended December 31, 2009, the cost of inventory recognized as an operating expense, in respect of continuing operations, was \$28.2 million (December 31, 2008 – \$27.9 million). This includes an immaterial amount of inventory write-downs (December 31, 2008 – immaterial amount). There were no material reversals of inventory write-downs in the period.

## 4 INCOME TAXES

A provision for income taxes is recognized for our corporate subsidiaries that are subject to tax. Future income taxes reflect the net tax effects of temporary differences between the carrying value and income tax basis of assets and liabilities as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes. The income tax effects of temporary differences in our corporate subsidiaries that give rise to significant portions of the future tax assets (liabilities) are as follows:

As at December 31

(millions of dollars)

|   | 2009           | 2008           |
|---|----------------|----------------|
| Capital investments                         | (23.7)         | (17.8)         |
| Goodwill and other intangible assets        | (405.4)        | (456.6)        |
| Pension and other post-employment benefits  | (26.9)         | (18.1)         |
| Deferred charges                            | 14.1           | 22.6           |
| Loss carryforwards                          | 181.0          | 167.5          |
| Partnership income deferral                 | (118.2)        | (116.8)        |
| Derivative liabilities and debt issue costs | (0.8)          | 3.1            |
| Severance and benefits                      | 5.1            | 1.9            |
| Other                                       | 15.0           | 8.4            |
| <b>Total future income taxes</b>            | <b>(359.8)</b> | <b>(405.8)</b> |

The partnership income deferral is a result of the taxation year end for certain of our corporate subsidiaries differing from the partnership year end.

The total future income taxes are composed of the following:

As at December 31

(millions of dollars)

|                                  | 2009           | 2008           |
|----------------------------------|----------------|----------------|
| Future income tax assets:        |                |                |
| Current portion                  | 57.6           | 40.8           |
| Long-term portion                | 4.2            | 7.1            |
| Future income tax liabilities:   |                |                |
| Current portion                  | —              | (0.5)          |
| Long-term portion                | (421.6)        | (453.2)        |
| <b>Total future income taxes</b> | <b>(359.8)</b> | <b>(405.8)</b> |

A portion of our income is earned through partnerships. Therefore, that portion of our income is not subject to tax at the partnership level and the taxable income is allocated directly to their respective partners. These partnerships have temporary differences between the carrying value and income tax basis of assets and liabilities, which flow to the partners, and would result in future tax assets and liabilities if the partnerships were subject to income tax.

Our portion of these temporary differences is as follows:

As at December 31

| <i>(millions of dollars)</i>                | 2009             | 2008             |
|---|------------------|------------------|
| Deductible temporary differences:           |                  |                  |
| Pension and other post-employment benefits  | 115.6            | 138.0            |
| Derivative liabilities and debt issue costs | 17.1             | 22.1             |
| Severance and benefits                      | 17.1             | 6.3              |
| Other                                       | 19.6             | 11.4             |
|   | <b>169.4</b>     | <b>177.8</b>     |
| Taxable temporary differences:              |                  |                  |
| Capital investments                         | (1,243.0)        | (1,280.6)        |
| Deferred charges                            | (24.1)           | (17.7)           |
|   | <b>(1,267.1)</b> | <b>(1,298.3)</b> |

Significant components of income tax recovery are as follows:

For the years ended December 31

| <i>(millions of dollars)</i>    | 2009          | 2008          |
|---------------------------------|---------------|---------------|
| Current tax recovery            | (2.0)         | (7.6)         |
| Future tax expense (recovery):  |               |               |
| Change in temporary differences | (28.9)        | (21.2)        |
| Change in statutory rate        | (25.2)        | 6.8           |
| Income tax recovery             | <b>(56.1)</b> | <b>(22.0)</b> |

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

| <i>For the years ended December 31</i>                       | 2009            | 2008           |
|--|-----------------|----------------|
| Combined statutory income tax rate                           | 32.90 %         | 33.49 %        |
| Inter-company interest income earned in non-taxable entities | (28.51)         | (29.82)        |
| Income allocated to non-controlling interest                 | (13.33)         | (13.24)        |
| Effect of enacted future tax rates on temporary differences  | (5.57)          | 1.54           |
| Non-taxable loss   | 0.55            | 0.84           |
| Non-deductible goodwill, amortization of intangible assets   | 2.63            | 2.77           |
| Other permanent differences                                  | (1.09)          | (0.52)         |
| Effective income tax rate                                    | <b>(12.42)%</b> | <b>(4.94)%</b> |

### Tax losses

At December 31, 2009, our corporate subsidiaries had \$624.9 million (2008 – \$546.9 million) in non-capital tax losses that are available to reduce taxable income in future years. The tax benefit associated with \$592.6 million of these losses (2008 – \$510.5 million) has been recognized as part of the future tax asset. These losses expire in varying annual amounts from 2023 to 2029. No tax benefit has been recognized for \$32.3 million (2008 – \$36.4 million) of these losses. The losses for which no tax benefit has been recognized expire in varying annual amounts from 2011 to 2026.

At December 31, 2009, our corporate subsidiaries have \$17.5 million (2008 – nil) capital losses available to be carried forward to reduce capital gains in future years. No tax benefit has been recognized for these losses (2008 – nil).

## 5 DISCONTINUED OPERATIONS

### Innovatia Inc. (Innovatia)

On November 1, 2009, Bell Aliant Holdings LP concluded a share purchase agreement under which the senior leaders of Innovatia acquired 100 per cent of the outstanding shares of Innovatia. As a result, during the third quarter of 2009, we reclassified the results of Innovatia's operations as discontinued operations. Accordingly, prior period consolidated statements of earnings and cash flows have been restated to reflect this change. The proceeds on closing were \$1.5 million, resulting in a loss on sale of \$1.5 million recognized in net loss from discontinued operations.

### xwave New England Corp. (xwave NE)

On June 1, 2009, Bell Aliant Holdings LP and Abilis Solutions Inc. (Abilis) concluded a share purchase agreement for Abilis to acquire 100 per cent of the outstanding shares of xwave NE. Accordingly, during the second quarter of 2009, we reclassified the results of the xwave NE operations as discontinued operations and restated prior period consolidated statements of earnings and cash flows to reflect this change. The proceeds on closing were \$4.9 million, resulting in a \$3.5 million loss recognized in net loss from discontinued operations.

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

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, which operated under the xwave brand. The transaction closed on May 1, 2009. The proceeds on closing were \$16.3 million in cash and \$7.6 million in a receivable from CAE related to post-closing balance sheet adjustments. An additional \$8.5 million of proceeds is contingent upon the occurrence of certain future events, including the award of or resumption of work related to certain contracts, for potential total proceeds of \$32.4 million. A gain on sale of \$1.7 million, which is net of \$3.9 million allocated goodwill (note 9), has been recorded in net loss from discontinued operations.

### 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.

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

| For the years ended December 31<br>(millions of dollars) | 2009      |             |     |        | 2008      |             |      |        |        |
|--|-----------|-------------|-----|--------|-----------|-------------|------|--------|--------|
|  | Innovatia | xwave<br>NE | DSA | Total  | Innovatia | xwave<br>NE | DSA  | AMP    | Total  |
| Operating revenues                                       | 17.6      | 5.6         | 9.0 | 32.2   | 23.7      | 12.0        | 26.8 | 50.6   | 113.1  |
| Expenses   | 21.1      | 8.0         | 9.7 | 38.8   | 23.9      | 16.3        | 25.4 | 47.3   | 112.9  |
| Write-down of goodwill (note 9)                          | —         | —           | —   | —      | —         | —           | —    | 11.2   | 11.2   |
| Write-down of net assets                                 | 6.1       | —           | —   | 6.1    | —         | —           | —    | —      | —      |
| Gain (loss) on sale                                      | (1.5)     | (3.5)       | 1.7 | (3.3)  | —         | —           | —    | —      | —      |
| Income tax expense                                       | 0.3       | —           | 0.5 | 0.8    | 0.2       | —           | 0.4  | 2.8    | 3.4    |
| Net earnings (loss) from<br>discontinued operations      | (11.4)    | (5.9)       | 0.5 | (16.8) | (0.4)     | (4.3)       | 1.0  | (10.7) | (14.4) |

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

| For the years ended December 31<br>(millions of dollars)           | 2009      |          |       |        | 2008      |          |       |     |       |
|--|-----------|----------|-------|--------|-----------|----------|-------|-----|-------|
|  | Innovatia | xwave NE | DSA   | Total  | Innovatia | xwave NE | DSA   | AMP | Total |
| Cash from (used in):   |           |          |       |        |           |          |       |     |       |
| Operating activities   | —         | (4.8)    | (7.3) | (12.1) | 2.1       | 4.1      | (8.8) | 3.5 | 0.9   |
| Financing activities   | (0.9)     | —        | —     | (0.9)  | (0.4)     | —        | —     | —   | (0.4) |
| Investing activities   | 0.3       | 4.9      | 16.3  | 21.5   | (1.9)     | —        | —     | —   | (1.9) |
| Net increase (decrease)<br>in cash from discontinued<br>operations | (0.6)     | 0.1      | 9.0   | 8.5    | (0.2)     | 4.1      | (8.8) | 3.5 | (1.4) |

## 6 CAPITAL INVESTMENTS

| As at December 31, 2009<br>(millions of dollars) | Cost     | Accumulated<br>depreciation and<br>amortization | Net book<br>value |
|--|----------|---|-------------------|
| Property, plant and equipment                    |          |   |                   |
| Land   | 24.4     | —   | 24.4              |
| Buildings and towers                             | 609.0    | 278.7   | 330.3             |
| Telecommunications facilities and equipment      | 7,376.4  | 4,334.7   | 3,041.7           |
| Other equipment                                  | 374.0    | 244.4   | 129.6             |
| Plant under construction                         | 131.2    | —   | 131.2             |
| Materials and supplies                           | 5.6      | —   | 5.6               |
|  | 8,520.6  | 4,857.8   | 3,662.8           |
| Finite-life intangibles                          |          |   |                   |
| Software   | 456.4    | 274.5   | 181.9             |
| Customer relationships                           | 2,877.0  | 414.9   | 2,462.1           |
| Bilateral license agreement                      | 464.5    | 40.5  | 424.0             |
| Roaming agreements                               | 11.0     | 9.2   | 1.8               |
|  | 3,808.9  | 739.1   | 3,069.8           |
|  | 12,329.5 | 5,596.9   | 6,732.6           |

| As at December 31, 2008<br>(millions of dollars) | Cost     | Accumulated<br>depreciation and<br>amortization | Net book<br>value |
|--|----------|---|-------------------|
| Property, plant and equipment                    |          |   |                   |
| Land   | 24.6     | —   | 24.6              |
| Buildings and towers                             | 603.2    | 258.3   | 344.9             |
| Telecommunications facilities and equipment      | 7,499.6  | 4,406.7   | 3,092.9           |
| Other equipment                                  | 363.9    | 243.8   | 120.1             |
| Plant under construction                         | 138.0    | —   | 138.0             |
| Materials and supplies                           | 5.6      | —   | 5.6               |
|  | 8,634.9  | 4,908.8   | 3,726.1           |
| Finite-life intangibles                          |          |   |                   |
| Software   | 467.9    | 274.5   | 193.4             |
| Customer relationships                           | 2,878.4  | 295.4   | 2,583.0           |
| Bilateral license agreement                      | 464.5    | 28.9  | 435.6             |
| Roaming agreements                               | 12.4     | 6.1   | 6.3               |
|  | 3,823.2  | 604.9   | 3,218.3           |
|  | 12,458.1 | 5,513.7   | 6,944.4           |

During the year ended December 31, 2009, the cost of acquired finite-life intangibles was \$25.5 million (December 31, 2008 – \$18.5 million), and the cost of internally developed finite-life intangibles was \$50.8 million (December 31, 2008 – \$65.1 million). In 2008, we recorded \$40.4 million in property, plant and equipment and \$187.8 million in finite-life intangibles related to acquisition of the 36.7 per cent interest in Télébec and NorthernTel and the assets and operations of KMTS, as discussed in note 26.

Capital investments include the cost of assets acquired under capital leases of \$59.6 million (2008 – \$36.0 million) and the related accumulated amortization of \$16.0 million (2008 – \$9.9 million).

## 7

### POST-EMPLOYMENT BENEFITS

We provide pension and non-pension post-employment benefits to most of our employees. These include DC pension plans, DB pension plans, retirement savings plans and OPEB plans.

#### DC pension plans and other retirement savings plans

For most member-employees, our DC pension plans and other retirement savings plans require employer contributions and employee contributions of between nil and 6 per cent of pensionable earnings, depending on the plan. For some executives, there is a DC retirement savings plan that requires employer contributions of up to 15 per cent of the executive's eligible earnings. The total cost of our DC pension plans is equal to our required contributions and was \$7.7 million for the year ended December 31, 2009 (2008 – \$7.9 million).

#### DB pension plans

Our DB pension plans provide pensions to employees who retire after meeting certain age and service conditions. Pensions are based on specified pension rates applied to the employees' years of service and best five-year average earnings. Our DB pension plans are partially contributory for certain members and fully non-contributory for others, depending on the plan. Most DB pensions are integrated with the Canada Pension Plan and include limited indexing to help protect the income of retired members from inflation.

#### OPEB plans

The OPEB plans we provide to eligible retiring employees include health care coverage, life insurance and certain other benefits. As is common with non-registered plans of this nature, we do not maintain a trust fund to pay for OPEBs, rather these plans are funded only as benefits are paid.

### Components of accrued benefit asset (liability)

The following table shows the status of and changes in the obligations and assets related to the DB pension and the OPEB plans for the years ended December 31:

| <i>(millions of dollars)</i>                          | DB pension plans |                | OPEB plans     |                |
|---|------------------|----------------|----------------|----------------|
|   | 2009             | 2008           | 2009           | 2008           |
| <b>Plan obligations:</b>                              |                  |                |                |                |
| Accrued benefit obligation, beginning of year         | 2,900.1          | 2,964.3        | 218.3          | 208.3          |
| Employee current service contributions                | 4.1              | 4.2            | —              | —              |
| Current service cost                                  | 44.0             | 62.1           | 1.7            | 2.2            |
| Interest on the obligation                            | 159.0            | 161.1          | 10.8           | 11.2           |
| Actuarial losses (gains)                              | 82.0             | (171.4)        | 16.8           | 4.0            |
| Benefits paid out of the plan                         | (135.7)          | (120.2)        | (7.8)          | (7.4)          |
| <b>Accrued benefit obligation, end of year</b>        | <b>3,053.5</b>   | <b>2,900.1</b> | <b>239.8</b>   | <b>218.3</b>   |
| <b>Plan assets:</b>                                   |                  |                |                |                |
| Fair value of plan assets, beginning of year          | 2,223.0          | 2,516.7        | —              | —              |
| Actual return on plan assets                          | 274.5            | (282.1)        | —              | —              |
| Benefits paid out of the plans                        | (135.7)          | (120.2)        | (7.8)          | (7.4)          |
| Employee current service contributions                | 4.1              | 4.2            | —              | —              |
| Employer cash contributions to the plans              | 127.7            | 104.4          | 7.8            | 7.4            |
| <b>Fair value of plan assets, end of year</b>         | <b>2,493.6</b>   | <b>2,223.0</b> | <b>—</b>       | <b>—</b>       |
| Plan deficit, end of year                             | (559.9)          | (677.1)        | (239.8)        | (218.3)        |
| Unamortized actuarial losses                          | 768.3            | 823.8          | 63.1           | 47.9           |
| Unamortized past service costs                        | 47.3             | 52.8           | (43.9)         | (52.1)         |
| <b>Accrued benefit asset (liability), end of year</b> | <b>255.7</b>     | <b>199.5</b>   | <b>(220.6)</b> | <b>(222.5)</b> |
| Accrued benefit asset                                 | 418.0            | 398.9          | —              | —              |
| Accrued benefit liability                             | (162.3)          | (199.4)        | (220.6)        | (222.5)        |

Effective July 7, 2006, we created a new DB pension plan for employees who transferred employment to us from Bell Canada. The accrued benefit obligation and the fair value of the plan assets relating to the prior service earned while participating in Bell Canada's pension plan are included in our DB pension assets and accrued benefit obligation reflected in the previous table. On March 11, 2009, regulatory approval was received to transfer the assets from Bell Canada's pension plan. The transfer occurred on April 30, 2009. As well, on January 1, 2005, certain management and unionized employees had transferred membership and past service benefits from the DC to the DB pension plans. The DC assets of these employees and the corresponding obligation were reflected as transfers to DB pension plans in that year. Regulatory approval for these transfers was received on March 13, 2009, with the transfer in-kind completed on April 22, 2009.

All of our individual DB pension plans have deficits where the accrued benefit obligation exceeds the fair value of plan assets; therefore, the previous table also reflects the aggregated values of the DB pension plans with deficits.

## Net cost of benefit plans

The following table shows the components of the net cost of benefit plans:

| For the years ended December 31<br>(millions of dollars)                                   | DB pension plans |         | OPEB plans |        |
|--|------------------|---------|------------|--------|
|  | 2009             | 2008    | 2009       | 2008   |
| Current service cost   | 44.0             | 62.1    | 1.7        | 2.2    |
| Interest on the accrued benefit obligation   | 159.0            | 161.1   | 10.8       | 11.2   |
| Actual return on plan assets   | (274.5)          | 282.1   | —          | —      |
| Actuarial losses (gains)   | 82.0             | (171.4) | 16.8       | 4.0    |
| Elements of employee future benefit plans cost,<br>before recognizing its long-term nature | 10.5             | 333.9   | 29.3       | 17.4   |
| Excess (deficiency) of actual return over expected return                                  | 120.5            | (441.5) | —          | —      |
| Deferral of amounts arising during the year:   |                  |         |            |        |
| Actuarial gains (losses) on accrued benefit obligation                                     | (82.0)           | 171.4   | (16.8)     | (4.0)  |
| Amortization of deferred amounts:  |                  |         |            |        |
| Past service costs   | 5.5              | 5.5     | (8.1)      | (8.1)  |
| Net actuarial losses   | 16.9             | 15.7    | 1.6        | 1.6    |
| Adjustments to recognize long-term nature<br>of employee future benefit plans cost         | 60.9             | (248.9) | (23.3)     | (10.5) |
| Decrease in valuation allowance  | —                | (21.4)  | —          | —      |
| Net cost of benefit plans  | 71.4             | 63.6    | 6.0        | 6.9    |

## Assumptions

The measurement of the accrued benefit obligation and the annual net benefit plans cost for the DB pension plans and OPEB plans requires an actuary to perform the calculations. We make several assumptions, which are used as inputs to the actuarial calculations. The key assumptions are:

|   | 2009  | 2008  |
|---|-------|-------|
| Discount rate, end of year                                    | 5.50% | 5.50% |
| Discount rate, end of preceding year                          | 5.50  | 5.50  |
| Expected rate of return on plan assets                        | 6.40  | 6.30  |
| Rate of compensation increase                                 | 3.00  | 3.00  |
| Growth rate of per capita health care costs, first five years | 8.00  | 8.00  |
| Growth rate of per capita health care costs, thereafter       | 4.50% | 4.50% |

The discount rate reflected above is a weighted average of the discount rates used to value the accrued benefit obligations of our individual DB pension and OPEB plans. We have certain plans that predominantly have only active employee members and others with only retiree members. Our DB pension plans are closed to new members. For plans that have predominantly active employee members, we base the discount rate on current interest rates for the long-term debt of high-quality corporate issuers. In the case of plans that have only retiree members, we base the discount rate on current annuity rates. Similarly, these demographic factors affect our investment policies for plan assets and therefore our expected rates of return on plan assets. At December 31, 2009, our individual plans are discounted at rates that range from 4.50 per cent to 6.50 per cent (December 31, 2008 – 4.25 per cent to 7.00 per cent). The 2009 combined net actuarial losses of \$98.8 million relate primarily to changes made to our discount rate assumptions at December 31, 2009. For the year ended December 31, 2009, we used expected rates of return on individual plan asset portfolios that ranged from 5.50 per cent to 7.50 per cent (2008 – 5.25 per cent to 7.50 per cent).

### Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of net benefit plans cost for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated effect on the value of the accrued benefit obligation and the annual net cost of benefit plans for a 0.25 percentage point change in the discount rate, the expected rate of return on plan assets and rate of compensation increase. The table also shows the sensitivity of a 1.0 percentage point change in the assumed growth in per capita health care costs.

| <i>(millions of dollars, except as otherwise noted)</i> | Assumption   | Rate change | DB pension plans |      | OPEB plans |      |
|---|--------------|-------------|------------------|------|------------|------|
|   |              |             | Obligation       | Cost | Obligation | Cost |
| Discount rate   | 4.50 – 6.50% | +/-0.25%    | 107.0            | 8.0  | 8.0        | —    |
| Expected rate of return on plan assets                  | 5.50 – 7.50  | +/-0.25     | —                | 6.0  | —          | —    |
| Rate of compensation increase                           | 3.00         | +/-0.25     | 17.0             | 1.0  | —          | —    |
| Growth rate of per capita health care costs             | 4.50 – 8.00% | +1.00       | —                | —    | 26.0       | —    |
|   |              | -1.00%      | —                | —    | (22.0)     | —    |

### Investment of DB pension plans assets

Our investment policy is to maintain a diversified portfolio of assets, invested in a prudent manner to balance the security of the funds with long-term growth objectives for the assets. We strive to maximize long-term returns while maintaining a desired range of surplus and funding volatility. We have different asset mix policies for each DB pension plan. The asset mix policies result in the following overall targets and actual allocations as at December 31:

| Asset category                         | Target weight | Percentage of plan assets |      |
|--|---------------|---------------------------|------|
|  |               | 2009                      | 2008 |
| Domestic bonds/fixed income securities | 55 – 65%      | 58%                       | 63%  |
| Canadian equity securities             | 10 – 15       | 12                        | 10   |
| Non-Canadian equity securities         | 25 – 30       | 30                        | 27   |
| Total                                  |               | 100%                      | 100% |

The asset mix policies are established through consideration of many factors, including plan funded ratios, plan demographics, tolerance for fluctuations in market value, portfolio diversification and the targeted long-term rate of return for the assets. Foreign exchange risk is inherent in the asset mix policies and foreign currency fluctuations may significantly affect the Canadian dollar returns on the portfolios, especially over short time periods. Our policy is to hedge a portion of the risk of foreign currency fluctuations within the asset portfolios.

Over the 10 year period ended December 31, 2009, our weighted average rate of return for our DB pension plans was 5.3 per cent per annum (December 31, 2008 – 5.2 per cent).

Our portfolios are not permitted to directly hold units of the Fund or debt instruments of Bell Aliant LP. Our portfolios do hold units of index funds that may hold units of the Fund or debt instruments of Bell Aliant LP by virtue of the fact that these securities are included in the indices.

The total value of our securities and those of our related issuers held directly or indirectly in our portfolios was as follows:

| <i>As at December 31</i><br><i>(millions of dollars, except as otherwise noted)</i> | 2009                 |  | 2008                 |  |
|---|----------------------|--|----------------------|--|
|   | Approximate<br>value | Approximate<br>per cent<br>of total<br>plan assets | Approximate<br>value | Approximate<br>per cent<br>of total<br>plan assets |
| Plan assets held  |                      |  |                      |  |
| Common shares of BCE Inc. (BCE)   | 3.5                  | 0.14%  | 4.4                  | 0.20%  |
| Debentures of BCE and Bell Canada   | 0.3                  | 0.01   | 4.8                  | 0.22   |
| Securities of the Fund or Bell Aliant LP, held indirectly                           | 0.2                  | 0.01   | 0.4                  | 0.02   |
|   | 4.0                  | 0.16%  | 9.6                  | 0.44%  |

### Benefit plan contributions

We are responsible for adequately funding our DB pension plans and paying DC pension plan and OPEB benefits as incurred. The required contributions to the registered DB pension plans are made to a trust fund that is used to pay benefits under the plans. These contributions are determined by actuarial funding valuations and reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are funding the registered DB pension plans through contributions that meet or exceed the applicable statutory funding rules and regulations governing the particular plans. Part of the funding for our DB pension plans is satisfied through the purchase of letters of credit held in trust for the benefit of the plans. At December 31, 2009, \$130.4 million in letters of credit was held in trust (December 31, 2008 – \$51.3 million). Refer to note 11 for further discussion on our short-term debt.

The DB and DC pension arrangements for executives and OPEB plans are not registered pension plans. We fund payments under these plans directly when the benefits are paid. Certain benefits under the executive DB and DC pension arrangements are secured by letters of credit (note 11) held in trust for the benefit of the named current and retired executives.

Our contributions to DB and DC pension plans as well as OPEB plans are as follows:

| <i>For the years ended December 31</i><br><i>(millions of dollars)</i> | 2009  | 2008  |
|--|-------|-------|
| DB pension plans contributions   | 127.7 | 104.4 |
| OPEB plans contributions   | 7.8   | 7.4   |
| Funding of DB pension and OPEB plans                                   | 135.5 | 111.8 |
| DC pension plans contributions   | 7.7   | 7.9   |
| Total contributions  | 143.2 | 119.7 |

## 8 INDEFINITE-LIFE INTANGIBLES

For the years ended December 31

(millions of dollars)

|                                | 2009  | 2008  |
|--------------------------------|-------|-------|
| Télébec and NorthernTel brands | 72.8  | 72.8  |
| KMTS brand                     | 1.2   | 1.2   |
| Telecommunications licenses    | 35.5  | 35.5  |
| Cable licenses                 | 15.7  | 15.7  |
|                                | 125.2 | 125.2 |

## 9 GOODWILL

(millions of dollars)

|  |         |
|--|---------|
| Goodwill as at December 31, 2007   | 2,554.5 |
| Acquisition of interest in Télébec and NorthernTel (note 26)                 | 191.8   |
| Acquisition of assets and operations of KMTS (note 26)                       | 9.8     |
| Write-down related to AMP goodwill (note 5)                                  | (11.2)  |
| Change in estimate of the value of the long-term receivable from Bell Canada | 21.7    |
| Goodwill as at December 31, 2008   | 2,766.6 |
| Disposal of DSA business (note 5)  | (3.9)   |
| Change in estimate of the value of the long-term receivable from Bell Canada | 5.6     |
| Goodwill as at December 31, 2009   | 2,768.3 |

With the acquisition of Bell Canada's wireline operation in Ontario and Quebec in 2006, we estimated and recorded a long-term receivable for contingent consideration. The contingent consideration related to a 2006 CRTC decision, which required Bell Canada to reduce rates charged for services in certain regions, some of which affected customer accounts that we acquired. In 2008, we decreased the estimated long-term receivable from \$44.0 million to \$22.3 million and increased goodwill, based on preliminary estimates of rate reductions by the CRTC. In 2009, the CRTC issued its final decision on the rate reductions, and the final value of the contingent consideration was determined. As a result, we decreased the estimated long-term receivable by \$5.6 million and increased goodwill accordingly.

## 10 RESTRUCTURING AND OTHER CHARGES

### Restructuring charges

During 2009, we offered a voluntary retirement incentive to a limited number of our unionized employees in Atlantic Canada, Ontario and Quebec. In October 2009, we announced a plan to consolidate certain contact centres in Atlantic Canada. Unionized employees based in the affected contact centres were offered relocation to the remaining contact centres. As a result of the restructuring initiatives during 2009, we estimated and recorded a pre-tax restructuring charge of \$34.9 million in employee severance and benefit costs, which will be paid as employees retire or leave the organization, and real estate rationalization costs.

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 executives. As departing employees had options that affected the amount of their severance, during the fourth quarter of 2009, we increased the estimated costs of the 2008 restructuring initiative by \$6.8 million to reflect the final costs.

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

| <i>As at December 31</i><br><i>(millions of dollars)</i> | 2009   | 2008   |
|--|--------|--------|
| Liability, beginning of year                             | 65.1   | 22.8   |
| Restructuring charges:                                   |        |        |
| Employee costs, included in continuing operations        | 33.2   | 59.4   |
| Real estate rationalization costs                        | 0.9    | 6.5    |
| Change in the 2007 restructuring charge estimate         | —      | (5.6)  |
| Change in the 2008 restructuring charge estimate         | 6.8    | —      |
|  | 40.9   | 60.3   |
| Employee costs, included in discontinued operations      | 0.8    | 0.4    |
| Cash payments  | (65.6) | (18.4) |
| Liability, end of year                                   | 41.2   | 65.1   |

As at December 31, 2009, the restructuring charge liability included \$8.4 million in real estate rationalization costs, of which \$3.9 million are included in other long-term liabilities as they will be drawn down after December 31, 2010.

### Other charges

During the year ended December 31, 2009, we incurred \$3.8 million of other charges (December 31, 2008 – nil), which mainly relate to rebranding for our operations.

## 11

### SHORT-TERM DEBT

We have the following operating facilities available to us:

| <i>As at December 31</i><br><i>(millions of dollars)</i> | 2009    | 2008    |
|--|---------|---------|
| Committed lines of credit:                               |         |         |
| Revolving operating facilities                           | 550.0   | 551.0   |
| Non-revolving pension reserve facilities                 | 447.6   | 450.0   |
| Dedicated letter of credit facilities                    | 110.7   | 168.1   |
| Uncommitted operating lines of credit:                   |         |         |
| Demand operating facilities                              | 13.6    | 16.0    |
| Total operating facilities                               | 1,121.9 | 1,185.1 |

There is no amount under operating credit facilities related to discontinued operations for 2009 (December 31, 2008 – \$46.5 million).

We also maintain a \$400.0 million commercial paper program. We ensure at all times that sufficient undrawn capacity exists on our committed revolving operating facilities to support outstanding issuances of commercial paper. There was no outstanding commercial paper as at December 31, 2009, or 2008.

The status of our operating facilities is as follows:

As at December 31

(millions of dollars)

|  | 2009    | 2008    |
|--|---------|---------|
| Letters of credit issued                 | 269.6   | 223.6   |
| Drawn amounts:                           |         |         |
| Non-revolving pension reserve facilities | 40.0    | 15.0    |
| Revolving operating facilities           | —       | 193.0   |
| Other                                    | —       | 0.2     |
| Short-term debt                          | 40.0    | 208.2   |
| Unused available credit facilities       | 812.3   | 753.3   |
| Total operating facilities               | 1,121.9 | 1,185.1 |

In May 2009, we repaid \$250.0 million of bankers' acceptance advances that were outstanding under our revolving operating facilities through proceeds from the issuance of medium-term notes (note 12).

Bankers' acceptance advances of \$40.0 million outstanding under our non-revolving pension reserve facility bear interest at rates of 0.92 per cent per annum and mature on January 29, 2010.

## 12 LONG-TERM DEBT

As at December 31

(millions of dollars, except as otherwise noted)

|                                    | Interest rate   | Maturity    | 2009    | 2008    |
|------------------------------------|-----------------|-------------|---------|---------|
| Notes                              |                 |             |         |         |
| Bell Aliant LP                     | 4.72% to 6.29%  | 2011 – 2037 | 2,600.0 | 2,250.0 |
| Debtentures                        |                 |             |         |         |
| Télébec                            | 5.34% to 5.75%  | 2013 – 2020 | 100.0   | 100.0   |
| NorthernTel                        | 6.00% to 10.25% | 2012 – 2020 | 39.6    | 44.7    |
|                                    |                 |             | 139.6   | 144.7   |
| Total notes and debtentures        |                 |             | 2,739.6 | 2,394.7 |
| Obligations under capital leases   | 4.09% to 5.91%  | 2010 – 2017 | 41.0    | 24.8    |
| Non-revolving term                 |                 |             | —       | 150.0   |
| Note payable                       |                 |             | —       | 1.5     |
| Mortgage – Télébec                 | 12.50%          | 2011        | 2.7     | 2.9     |
| Other                              |                 | 2012 – 2020 | 3.9     | 4.9     |
| Debt issue costs                   |                 |             | (10.1)  | (10.1)  |
| Total long-term debt               |                 |             | 2,777.1 | 2,568.7 |
| Long-term debt due within one year |                 |             | 17.2    | 114.7   |
|                                    |                 |             | 2,759.9 | 2,454.0 |

All notes are issued in series and certain series are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The notes are issued under a trust indenture and are unsecured.

Télébec's debentures are secured by a mortgage on land and buildings located in Val D'Or, Quebec. The NorthernTel debentures are unsecured.

During the year ended December 31, 2009, we:

- Issued \$350.0 million of unsecured medium-term notes, bearing interest at 6.29 per cent per annum and maturing on February 17, 2015. The notes were issued at a discount to provide net proceeds of \$348.6 million. Proceeds were used to repay \$250.0 million outstanding under the revolving operating facilities (note 11) and a \$100.0 million non-revolving term loan that was scheduled to mature in July 2009;
- Repaid a \$50.0 million non-revolving term bank loan;
- Entered into capital lease obligations totalling \$25.0 million for telecommunications and other equipment, which bear interest at rates ranging from 4.29 per cent to 5.73 per cent per annum.

Other long-term debt includes allocations related to the fair market value of long-term debt issued by Télébec and NorthernTel as a result of the Télébec and NorthernTel business combination and amounted to nil in 2009 (2008 – \$2.3 million). We recorded amortization of these amounts of \$1.0 million in 2009 (2008 – \$1.4 million).

Debt issue costs of \$1.8 million were incurred for 2009 (2008 – nil). We recorded amortization of debt issue costs of \$1.8 million in 2009 (2008 – \$1.5 million). Long-term debt due within one year is presented net of \$1.8 million of debt issue costs that will be amortized in the coming year.

The aggregate amount of payments required in each of the next five years and thereafter to meet principal repayments and maturities of our long-term debt and the future minimum lease payments under capital leases presently outstanding are as follows:

| <i>(millions of dollars)</i> | 2010 | 2011  | 2012 | 2013 | 2014  | Thereafter |
|------------------------------|------|-------|------|------|-------|------------|
| Long-term debt               | 3.2  | 755.4 | 5.7  | 72.5 | 409.8 | 1,499.6    |
| Capital leases               | 15.8 | 11.8  | 7.9  | 0.4  | 0.4   | 4.7        |
|                              | 19.0 | 767.2 | 13.6 | 72.9 | 410.2 | 1,504.3    |

## 13 FINANCIAL INSTRUMENTS

### Derivative financial instruments

In May 2009, we settled our outstanding fixed-floating interest rate swaps with notional principal values totalling \$250.0 million when the hedged variable interest rate debt was repaid upon the issuance of fixed-rate medium-term notes, as further detailed in notes 11 and 12. We paid \$15.4 million to the counterparties on the settlement of the swaps, which included \$2.1 million in accrued interest. As the hedged variable interest rate 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 expenses in the statement of earnings, as discussed in note 20.

## Fair value

Fair value is the amount that willing parties dealing at arm's length would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity, other than in a forced or liquidated sale. Fair value is determined using estimates that are affected significantly by assumptions we make about the amount and timing of estimated future cash flows and discount rates, which all reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments are not reflected in the fair values. As a result, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

The principal methods and assumptions applied in determining fair values, including valuation technique, are described below.

For cash and cash equivalents, trade receivables, trade payables and short-term loans and borrowings, the carrying value approximates their fair value due to the short-term maturity of these instruments.

The fair value of our long-term debt has been estimated based on calculations of the present value of future cash flows, using the appropriate discount rates in effect at the balance sheet dates for our long-term debt that is not actively traded, and quoted prices for our long-term debt that is actively traded.

The fair value of our long-term debt is estimated as follows:

| As at December 31<br>(millions of dollars) | 2009       |                | 2008       |                |
|--|------------|----------------|------------|----------------|
|  | Fair value | Carrying value | Fair value | Carrying value |
| Long-term debt                             | 2,844.1    | 2,777.1        | 2,318.3    | 2,568.7        |

## 14 NON-CONTROLLING INTEREST

At December 31, 2009, our non-controlling interest consists of equity of our subsidiary Bell Aliant LP, held by Bell Canada.

Distributions declared and paid by subsidiaries to non-controlling interest were as follows:

| For the years ended December 31<br>(millions of dollars) | 2009     |       | 2008     |       |
|--|----------|-------|----------|-------|
|  | Declared | Paid  | Declared | Paid  |
| Bell Aliant LP   | 209.5    | 209.5 | 208.9    | 208.5 |
| Télébec and NorthernTel (note 26)                        | —        | —     | —        | 4.5   |
|  | 209.5    | 209.5 | 208.9    | 213.0 |

## 15 PARTNERS' CAPITAL

### Authorized

Our partners' capital is authorized to include an unlimited number of three classes of units:

- class 1 exchangeable limited partnership units;
- class 2 limited partnership units; and
- general partnership (GP) units.

The class 1 exchangeable limited partnership units, which are held by BCE and Bell Canada, are intended to be, to the greatest extent practicable, the economic equivalent of Fund units. Both classes of limited partnership units are voting and share equally in all distributions from the partnership whether of net earnings (losses), taxable income (losses), net realized capital gains or other amounts; provided that, for so long as Fund units are outstanding, holders of class 1 exchangeable limited partnership units are entitled to receive distributions on a per-unit basis from the partnership equal, to the greatest extent practicable, distributions on a per-unit basis paid by the Fund to holders of Fund units. Both classes of limited partnership units are also entitled to share equally in the net assets of the partnership in the event of its termination or winding up; provided that, for so long as Fund units are outstanding, holders of class 1 exchangeable limited partnership units are entitled to a liquidation entitlement, on a per-unit basis, equivalent to that of a Fund unit. Except as otherwise specified in the partnership agreement, both classes of limited partnership units rank among themselves equally and rateably without preference or priority. Both classes of limited partnership units are transferable, subject to certain restrictions. In addition, each class 1 exchangeable limited partnership unit is exchangeable for a Fund unit on a one-for-one basis.

The GP units, as a class, are entitled to a distribution of 0.001 per cent of distributable cash for any distribution period in priority to the class 1 exchangeable and class 2 limited partnership units, and are entitled to 0.001 per cent of the net assets of the partnership in the event of its termination or winding up in priority to the class 1 exchangeable and class 2 limited partnership units.

### Issued and outstanding

|   | Class 1 units |                   | Class 2 units |                   | GP units |                   | Total<br>stated<br>capital |
|---|---------------|-------------------|---------------|-------------------|----------|-------------------|----------------------------|
|   | Number        | Stated<br>capital | Number        | Stated<br>capital | Number   | Stated<br>capital |                            |
| <i>(millions of dollars, except as otherwise noted)</i> |               |                   |               |                   |          |                   |                            |
| Units, as at December 31, 2007                          | 28,168,803    | 1,017.1           | 124,121,177   | 530.9             | 54,000   | —                 | 1,548.0                    |
| 2008 business combination <i>(note 26)</i>              | —             | —                 | 8,246,429     | 513.5             | —        | —                 | 513.5                      |
| Units, as at December 31, 2008                          | 28,168,803    | 1,017.1           | 132,367,606   | 1,044.4           | 54,000   | —                 | 2,061.5                    |

There was no change in the units issued and outstanding in the year ended December 31, 2009.

On January 1, 2008, the Fund transferred its 36.7 per cent interest in Télébec and NorthernTel to us, in exchange for 8,246,429 class 2 limited partnership units with a value of \$513.5 million.

## 16 UNIT-BASED COMPENSATION PLANS

### Employee unit purchase plans

We have two employee unit purchase plans for eligible employees. Under the terms of the plans, employees can choose each year to have up to 10 or 12 per cent of their annual base earnings withheld to purchase Fund units. We will also contribute to the plan on behalf of participants based upon employee contributions, using a prescribed formula. Depending on which plan the employee participates in, the purchase price of the Fund units is the arithmetic average of the closing price of the Fund units traded on the Toronto Stock Exchange (TSX) on the last five days up to, and including, the investment date, or the value paid by the plan trustee to purchase the units on the open market. Participants in the plans receive additional Fund units in lieu of receiving cash distributions from the Fund. To satisfy employee purchases of Fund units under these plans, the Fund may issue up to 2,079,527 (December 31, 2008 – 2,079,527) additional Fund units out of treasury or purchase them on the open market.

The total number of Fund units bought on the open market for our employees during the year ended December 31, 2009, was 2,024,152 (December 31, 2008 – 1,941,439). Compensation expense related to the employee unit purchase plans of \$9.4 million was recorded for the year ended December 31, 2009 (December 31, 2008 – \$9.6 million).

### Deferred unit plan

We have a deferred unit plan (DUP) for certain of our executives and senior management to further align their long-term incentive compensation with total unitholder value. Under this DUP, the Fund may grant deferred units to eligible plan members in such number and at such times as is determined as a bonus or in respect of services rendered by the plan member or otherwise as compensation. On the grant date, plan members will be credited with the deferred units granted to them. Grantees are also entitled to receive additional deferred units based on cash distributions that would have been received had the deferred units been converted to Fund units. The deferred units vest over a period of three years and are subject to certain performance criteria. Plan members are eligible to receive one Fund unit for each vested deferred unit upon qualifying for payout under the terms of the grant. There is no exercise price paid by the grantee for deferred units. The Fund may issue up to 3,276,150 (December 31, 2008 – 3,559,280) additional Fund units out of treasury to satisfy awards under this DUP. Any unvested deferred units of a plan member upon their departure are forfeited.

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

| <i>For the years ended December 31</i>             | 2009      | 2008      |
|--|-----------|-----------|
| Deferred units outstanding, beginning of year      | 1,181,958 | 794,980   |
| Granted:   |           |           |
| May 2008 – Service period fiscal 2008 to 2010      | —         | 431,055   |
| February 2009 – Service period fiscal 2009 to 2011 | 350,492   | —         |
| Reinvested distributions                           | 129,094   | 106,609   |
|  | 479,586   | 537,664   |
| Forfeited  | (84,715)  | (114,346) |
| Exercised  | (283,130) | (36,340)  |
| Deferred units outstanding, end of year            | 1,293,699 | 1,181,958 |
| Deferred units vested, end of year                 | 739,199   | 686,145   |

The grant-date fair value of the 479,586 deferred units granted in the year ended December 31, 2009, totals \$12.5 million (December 31, 2008 – 537,664 deferred units granted totals \$15.8 million). For the year ended December 31, 2009, we recorded compensation expense of \$7.6 million (December 31, 2008 – \$12.9 million) related to the cost of deferred units, recognized over the vesting period, and the change in the quoted market price of the Fund units between the grant date and the reporting period date.

## 17 SEGMENTED INFORMATION

We operate as one reportable business segment, which is driven by our products and services, in order to provide customers with integrated communications services. This represents the manner in which we are organized and managed for planning and assessing performance and making resource allocation decisions. Our operations, including all revenues from customers, capital investments and goodwill are concentrated in Canada.

### Revenue from external customers by product and service

For the years ended December 31

| (millions of dollars)  | 2009    | 2008    |
|------------------------|---------|---------|
| Local and access       | 1,356.9 | 1,406.3 |
| Data                   | 828.0   | 798.7   |
| Long distance          | 423.9   | 452.3   |
| Information technology | 304.7   | 303.3   |
| Wireless               | 88.8    | 80.8    |
| Product                | 61.8    | 70.5    |
| Rentals                | 25.1    | 29.6    |
| Service agreements     | 21.2    | 32.3    |
| Other revenues         | 63.8    | 72.5    |
|                        | 3,174.2 | 3,246.3 |

## 18 DEPRECIATION AND AMORTIZATION

For the years ended December 31

| (millions of dollars)                          | 2009  | 2008  |
|--|-------|-------|
| Property, plant and equipment depreciation     | 502.6 | 513.8 |
| Finite-life intangibles amortization           | 209.8 | 197.3 |
| Asset retirement obligations accretion expense | 2.4   | —     |
| Deferred charges amortization                  | 0.2   | 0.2   |
|  | 715.0 | 711.3 |

## 19 EARNINGS PER UNIT

For the years ended December 31

(millions of dollars, except as otherwise noted)

|  | 2009        | 2008        |
|--|-------------|-------------|
| Net earnings from continuing operations      | 373.0       | 336.6       |
| Net earnings from discontinued operations    | (16.8)      | (14.4)      |
| Net earnings                                 | 356.2       | 322.2       |
| Basic:                                       |             |             |
| Weighted average number of units outstanding | 160,536,409 | 159,902,068 |
| Basic from continuing operations             | 2.32        | 2.11        |
| Basic from discontinued operations           | (0.10)      | (0.09)      |
| Basic earnings per unit                      | 2.22        | 2.02        |

## 20 OTHER COMPREHENSIVE EARNINGS (LOSSES)

Components of other comprehensive earnings (losses) and the related income tax effects are as follows:

| For the years ended December 31<br>(millions of dollars) | 2009              |                 |      | 2008              |                 |       |
|--|-------------------|-----------------|------|-------------------|-----------------|-------|
|  | Amount<br>arising | Income<br>taxes | Net  | Amount<br>arising | Income<br>taxes | Net   |
| Losses on derivatives designated<br>as cash flow hedges  | (0.1)             | (0.1)           | —    | (11.5)            | (2.5)           | (9.0) |
| Reclassification to other expense                        | 13.3              | 2.9             | 10.4 | —                 | —               | —     |
| Reclassification to interest charges                     | 6.9               | 1.6             | 5.3  | 4.5               | 1.0             | 3.5   |
| Other comprehensive earnings (losses)                    | 20.1              | 4.4             | 15.7 | (7.0)             | (1.5)           | (5.5) |

In May 2009, we reclassified to net earnings \$15.4 million in net losses related to the cash flow hedges that were settled, composed of \$13.3 million loss on settlement and \$2.1 million interest charges. Hedge accounting no longer applies to these hedges, as discussed in note 13.

We also reclassified to net earnings the amortization of losses on forward fixed-floating interest rate swaps that were settled in 2007. These interest rate swaps were designated to hedge the coupon payments of anticipated long-term debt issuances, and the interest rate swaps were settled as the anticipated long-term debt issuances occurred. As such, the losses are being amortized as interest charges in conjunction with the long-term debt coupon payments in the year, in accordance with the application of hedge accounting.

As at December 31, 2009, the accumulated other comprehensive loss of \$27.0 million (December 31, 2008 – \$42.7 million) represents the unamortized portion of losses on these forward fixed-floating interest rate swaps that were settled in 2007.

## 21 CHANGES IN OPERATING ASSETS AND LIABILITIES

As at December 31

(millions of dollars)

|  | 2009   | 2008  |
|--|--------|-------|
| Accounts receivable                              | 49.3   | 74.2  |
| Inventory  | (1.9)  | 12.2  |
| Prepayments                                      | 4.5    | (1.0) |
| Income tax receivable                            | (5.3)  | 5.0   |
| Long-term receivables                            | 11.2   | 2.1   |
| Deferred charges                                 | 0.7    | 10.1  |
| Payables and accruals                            | (47.6) | 32.8  |
| Deferred credits and other long-term liabilities | 12.0   | (1.4) |
|  | 22.9   | 134.0 |

## 22 COMMITMENTS

### Operating leases and purchase commitments

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

| (millions of dollars) | 2010  | 2011  | 2012  | 2013  | 2014  | Thereafter | Total   |
|-----------------------|-------|-------|-------|-------|-------|------------|---------|
| Operating leases      | 39.1  | 35.0  | 32.8  | 33.0  | 33.2  | 315.7      | 488.8   |
| Purchase commitments  | 332.4 | 316.0 | 305.7 | 292.8 | 287.5 | 1,868.4    | 3,402.8 |
|                       | 371.5 | 351.0 | 338.5 | 325.8 | 320.7 | 2,184.1    | 3,891.6 |

Purchase commitments primarily relate to various information systems and technology agreements and obligations under service agreements, including those with a related party as described in note 25.

### Deferral account

Bell Canada's deferral account includes amounts that arose in relation to customers located in what is now our territory in Ontario and Quebec. Bell Canada's deferral account is estimated at \$488.0 million. The clearing of the deferral account is subject to CRTC approval.

The CRTC approved Bell Canada's proposed initiatives to improve access to telecommunications services for persons with disabilities using \$24.0 million from its deferral account. The CRTC also approved the use of deferral account funds to fund the uneconomic cost of expanding broadband services to 112 communities, and determined that the remainder in Bell Canada's deferral account should be returned to residential customers in urban, non-high-cost serving areas within the Ontario and Quebec portions of the serving area of Bell Canada and our territory.

On February 26, 2010, Bell Canada and we proposed to the CRTC that Bell Canada and we intended to provide wireless broadband services to the approved communities and indicated that the uneconomic costs of this program would be approximately \$454.0 million, leaving \$10.0 million for returns to eligible customers, for which a proposal was filed in January 2010. CRTC approval of these proposals is pending, and a decision is expected later in 2010.

These deferral account proposals will impact customers in our territory, but we do not expect them to materially affect our financial results in light of our arrangement with Bell Canada.

On September 14, 2007, the CRTC directed Télébec to amortize its cumulative deferral account shortfall in equal amounts over a four year period and also approved an exogenous factor of \$3.0 million for the recovery of the recurring shortfall each year. As of December 31, 2009, Télébec's cumulative deferral account shortfall is estimated at \$1.3 million (2008 – \$2.2 million) and the recurring shortfall is now estimated at \$0.8 million (2008 – \$1.8 million), considering the rate increase approved by the CRTC on June 1, 2009.

## 23 CONTINGENCIES

Outstanding litigation matters as at December 31, 2009, include the following:

- (a) On August 9, 2004, a lawsuit was filed in the Saskatchewan Court of Queen's Bench against several Canadian wireless and cellular service providers, including one of our predecessor companies, Aliant Telecom Inc., by several alleged customers or former customers of the defendants. In the claim, the plaintiffs alleged, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the *Competition Act* (Canada) in relation to the system access fees that the defendants charge to their customers, and sought unspecified damages. On September 17, 2007, the court granted class action certification to the plaintiffs. We, as well as the other defendants, have appealed this decision granting certification. The court has also denied our motion seeking dismissal of the action against us on the basis that the Saskatchewan court does not have jurisdiction over disputes between us and our customers. We are also appealing this decision.

On July 24, 2009, a new proposed class action was filed in the Saskatchewan Court of Queen's Bench, which was very similar to the certified claim referred to above. The new action is brought by the same law firm and names the same Canadian wireless and cellular service providers as defendants. The new action presents similar claims relating to the system access fees charged by those service providers. On July 27, 2009, the plaintiffs in the certified action filed a motion to discontinue that action. The defendants challenged the new court action as an abuse of process and on December 22, 2009, the court ordered that this action be conditionally stayed. The defendants also challenged the plaintiffs' motion to discontinue the certified action, as they have sought leave to appeal that certification to the Saskatchewan Court of Appeal, as noted above. On December 7, 2009, the plaintiffs withdrew their motion to discontinue the certified action. The applications for leave to appeal the original certification and the jurisdictional issue were heard on February 24, 2010, and we are awaiting the Court's decision. We have defences to these claims, but the outcome of these matters is not determinable at this time.

- (b) On November 28, 2005, a lawsuit was filed against us in the Supreme Court of Nova Scotia by Ellph.com Solutions Inc. and Ellph.com Technologies Inc. seeking approximately \$9.0 million for alleged breach of a software license contract. The contract had been terminated by one of our predecessor companies, Aliant Telecom Inc., due to perceived technical defects in the software. This proceeding is at the discovery stage. We have defences to this claim, but the outcome of the matter is not determinable at this time.

- (c) On June 26, 2008, a proposed class action was filed in the Saskatchewan Court of Queen's Bench against various Canadian telephone companies, including Bell Aliant LP, in relation to the charging of 911 fees. The suit alleges, among other things, breach of contract, negligence, collusion, and breach of fiduciary duty, and generally claims that the defendants have misrepresented the nature of 911 fees, and that the charges levied on customers are excessive. The plaintiffs claim unspecified damages. This matter involves many of the same parties and legal issues as presented in the system access fee matter previously referred to in paragraph (a). Therefore, the parties have tentatively agreed to hold this matter in abeyance pending disposition of the appeal of the certification order in the system access fee matter. We have defences to this claim, but the outcome of the matter is not determinable at this time.
- (d) On January 27, 2010, Nightingale Informatix Corporation commenced a court action in the Ontario Superior Court of Justice against xwave Healthcare, a division of Bell Aliant LP, and five physicians who are stated to be xwave Healthcare agents or consultants. Nightingale alleges that xwave Healthcare published defamatory statements about Nightingale's products and services, and claims damages of \$30.0 million, plus punitive damages of \$1.0 million. This proceeding is at a very early stage. We have defences to this claim, but the outcome is not determinable at this time.

We become involved in various other claims and litigation as a regular part of our business. While we cannot predict the final outcome of claims and litigation that were pending at December 31, 2009, management believes that the resolution of these claims and litigation will not have a material effect on our consolidated financial position or results of operations.

### Guarantees

As a regular part of our business, we enter into agreements that provide for indemnifications and guarantees to counterparties that may require us to pay for costs and losses incurred by the counterparties as a result of intellectual property infringement, misrepresentations, and losses of or damages to property. We cannot reasonably estimate the maximum potential amount we could be required to pay counterparties. While the majority of the agreements specify a maximum potential exposure, the amount also depends on the outcome of future events and conditions that cannot be predicted reliably. In the past, we have not made any significant payments under these guarantees.

At December 31, 2009, there are no accruals related to the guarantees (December 31, 2008 – nil).

The following table represents guarantees that we entered into that have a fixed maximum potential exposure, and their respective terms:

| <i>(millions of dollars)</i>  | 2010 | 2011 | 2012 | 2013 | 2014 and<br>thereafter | Indefinite | Total |
|-------------------------------|------|------|------|------|------------------------|------------|-------|
| Sale of assets and businesses | 25.8 | 0.5  | —    | 0.8  | —                      | 1.6        | 28.7  |
| Sale of services              | 0.3  | —    | —    | —    | —                      | —          | 0.3   |
| Other                         | 1.0  | 2.7  | 1.0  | 2.1  | 22.8                   | —          | 29.6  |
|                               | 27.1 | 3.2  | 1.0  | 2.9  | 22.8                   | 1.6        | 58.6  |

## 24 FINANCIAL AND CAPITAL MANAGEMENT

Our operating, investing and financing activities create exposure to a variety of financial risks. These risks include liquidity risk, interest rate risk, credit risk, foreign currency risk, and other market risks.

### Liquidity risk

We generate enough cash from our operating activities to fund our operations and fulfill our obligations as they become due. We have sufficient committed financing facilities in place should our cash requirements exceed cash generated from our operations. We anticipate being able to issue new long-term debt to refinance large maturing issues and we address the liquidity risk inherent in refinancing by staggering maturity dates of our long-term debt, conducting long-term cash flow planning, maintaining access to various credit facilities, including bank credit facilities (note 11), and following capital management objectives aimed at maintaining investment grade credit ratings, which provide us with good access to capital markets. Refer to note 12 for details of our outstanding long-term debt. A portion of our short-term and long-term debt is subject to covenants that would require its immediate repayment, prior to maturity, if we were subject to a change of control in our ownership and our credit ratings were consequently lowered below investment grade.

The following are the contractual maturities of our financial liabilities. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying amount. Carrying values and cash flows associated with payables and accruals exclude accrued interest on debt, which is presented in cash flows for the associated debt, and advanced billing, which represents cash received in advance for services not yet rendered but no future contractual cash flow.

|                                | Carrying amounts           |       | Contractual cash flows |       |       |       |            |
|--------------------------------|----------------------------|-------|------------------------|-------|-------|-------|------------|
|                                | As at<br>December 31, 2009 | 2010  | 2011                   | 2012  | 2013  | 2014  | Thereafter |
| <i>(millions of dollars)</i>   |                            |       |                        |       |       |       |            |
| Notes payable to related party | 2.6                        | 2.6   | —                      | —     | —     | —     | —          |
| Payables and accruals          | 349.9                      | 349.9 | —                      | —     | —     | —     | —          |
| Distributions payable          | 55.3                       | 55.3  | —                      | —     | —     | —     | —          |
| Short-term debt                | 40.0                       | 40.1  | —                      | —     | —     | —     | —          |
| Long-term debt                 | 2,777.1                    | 167.7 | 915.4                  | 125.5 | 184.4 | 507.7 | 1,582.1    |
|                                | 3,224.9                    | 615.6 | 915.4                  | 125.5 | 184.4 | 507.7 | 1,582.1    |

### Interest rate risk

Interest rate risk can be either price risk, which is the risk that the fair value of a financial asset or liability will change when interest rates change, or interest rate cash flow risk, which is the risk that the cash flows of the financial asset or liability will change when interest rates change.

Our interest bearing financial assets are comprised of cash equivalents and notes receivable, which bear interest at a fixed rate. These assets are subject to interest rate price risk; however, this risk is minimized because all instruments have terms less than 90 days and they are intended to be held to maturity.

Our interest bearing financial liabilities are composed of notes payable to related party, short-term and long-term debt. These liabilities are also intended to be outstanding and repaid only at maturity. We manage the interest rate cash flow risk inherent in our debt portfolio by balancing the mix of fixed and floating rate debt, as well as managing the term to maturity of our debt portfolio. At certain times, we may utilize derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt to appropriately determined levels.

#### Credit risk

We are exposed to credit risk from operating activities and certain financing activities, the maximum exposure of which is represented by the carrying amounts of our financial assets reported on the balance sheet.

We hold highly liquid money market instruments as short-term, cash equivalent investments. We follow a policy for making these investments that ensures they are diversified by the issuer and face minimal credit exposure, as they are required to be placed with issuers that have strong short-term credit ratings.

We are exposed to credit risk from customer accounts receivable, but the concentration of this risk is minimized because we have a large and diverse customer base. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis.

#### Foreign currency risk

Our exposure to foreign currency risk arises in our operations where we make certain capital and operating expenditures denominated in U.S. dollars. These purchases have not been significant and the U.S. dollar cash outflows required have typically been offset by a similar level of U.S. dollar cash inflows from operations that are now discontinued. At certain times, we may utilize derivative instruments such as foreign currency forward contracts to fix the exchange rates on U.S. dollar denominated purchases.

#### Other market risks

Other market risks arise from changes in the quoted Fund unit price and the effect it has on the expense that is recognized related to our DUP plan. The outstanding deferred units are classified as liabilities that are marked-to-market each period based on the current quoted Fund unit price; the compensation expense is calculated using the market price of the Fund units at the grant date, adjusted for the subsequent change in the quoted market price of the Fund units.

#### Capital management

Our capital structure includes all components of partners' equity, the non-controlling interest in the equity of our controlled subsidiaries, long-term and short-term debt, net of cash and cash equivalents.

Our objectives in managing our capital structure are to:

- maintain financial flexibility to preserve our ability to meet existing commitments and invest as necessary in the future development of the business;
- provide access to sufficient cash flow to operate the business;
- mitigate the impact of volatility in financing costs on the cash flows of the business; and
- optimize the return to unitholders by utilizing an appropriate mix of debt and equity in the capital structure given our level of business risk.

When managing our capital structure we consider changes in economic conditions or the level of business risk and, from time to time, we consider and may adjust our distribution policy, enter into hedging transactions, issue or redeem debt, issue or repurchase partnership units or raise cash through our accounts receivable securitization program.

The non-GAAP financial metric we use to monitor our capital structure is the net debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio. This financial ratio is calculated using a trailing 12-month period for EBITDA. We define net debt as short-term and long-term debt less cash and cash equivalents. We define EBITDA as operating revenues less operating expenses, excluding the amount included in operating expenses for net benefit plans costs as a significant component of these costs reflect the amortization of past costs. Our capital management objective, which is unchanged from the prior year, is to maintain this ratio at approximately 2.0:1.

Our net debt to EBITDA ratios were as follows:

*As at December 31*

*(millions of dollars, except as otherwise noted)*

|   | 2009      | 2008      |
|---|-----------|-----------|
| Short-term debt (including notes payable to related party)    | 42.6      | 214.4     |
| Long-term debt, including amount due within one year          | 2,777.1   | 2,568.7   |
| Less: Cash and cash equivalents                               | (27.1)    | (14.6)    |
| Net debt  | 2,792.6   | 2,768.5   |
| Operating revenues  | 3,174.2   | 3,246.3   |
| Less: Operating expenses                                      | (1,792.9) | (1,874.2) |
| Add: Net cost of benefit plans included in operating expenses | 85.1      | 78.2      |
| EBITDA  | 1,466.4   | 1,450.3   |
| Net debt to EBITDA ratio                                      | 1.9:1     | 1.9:1     |

We are subject to certain covenants in our bank credit facilities, including maintenance of a ratio of total debt to EBITDA (as defined in our credit facilities) of no more than 3.0:1. Under a securityholders' agreement with BCE and Bell Canada, we would need to seek their prior approval if we were to increase our debt to EBITDA ratio (as defined in the securityholders' agreement) above 2.5:1. In addition, we are subject to a new issuance test under our note trust indenture whereby new long-term debt can only be issued if it would result in a ratio of long-term debt to total capital (as defined in the trust indenture) of 75 per cent or less. We are in compliance with all these debt covenants and are not subject to any other externally imposed capital requirements.

### **BCE and Bell Canada**

BCE and Bell Canada own 100 per cent of our class 1 exchangeable limited partnership units and 100 per cent of the class B exchangeable limited partnership units of Bell Aliant LP. As the units are exchangeable into Fund units, BCE and Bell Canada beneficially own and control 43.95 per cent of the Fund's outstanding units on a fully diluted basis as at December 31, 2009 (2008 – 44.02 per cent).

Under the securityholders' agreement, BCE has certain rights in respect of the board of Bell Aliant Regional Communications Holdings Inc. (Bell Aliant Holdings GP) including the right to appoint up to a majority of directors for so long as BCE and Bell Canada, directly or indirectly, holds not less than 30 per cent of Fund units (on a fully diluted basis) and certain commercial agreements are in place. As a result of these rights, BCE controls the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP. The written consent of BCE is also required, along with the majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, holds not less than 20 per cent of Fund units (on a fully diluted basis).

In 1999, we entered into a memorandum of agreement (MOA) with BCE and Bell Canada. This long-term strategic alliance agreement describes the understanding among us, BCE and Bell Canada with respect to the offering, marketing and provisioning of certain telecommunications services on a cooperative basis. Through this MOA, we gained access to Bell Canada's technology, the exclusive right to use specified Bell Canada trademarks in our territory and a license to use Bell Canada's promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by us. We agreed to provide each other with support services, including operational, technical, marketing, training and other support services. The MOA continues to apply to our operations in Atlantic Canada, subject to certain amendments that were made to the MOA in connection with the acquisition in 2006 of Bell Canada's wireline operations in Ontario and Quebec and Bell Nordiq Group Inc.

In 2006, we entered into a series of long-term commercial agreements with Bell Canada, which provide us with a broad range of technical, operational and human resource support services required for us to operate the wireline and Internet access operations previously operated by Bell Canada in the Ontario and Quebec regional territory. These agreements also permit us to continue to receive the commercial and telecommunications services that Bell Canada was providing to us in Atlantic Canada prior to 2006. Any pre-existing commercial agreements between Bell Canada and us, which were not amended or replaced by the commercial agreements entered into in 2006, continue to apply. The commercial agreements also provide Bell Canada with the telecommunications and support services required to operate its wireless operation throughout our territory.

In 2006, we also entered into a commercial relationship management agreement (CRMA) with Bell Canada, which governs our general commercial relationship and addresses matters such as marketing co-operation, customer primeship and non-competition, and branding. The CRMA, together with certain agreements it refers to, also amends certain provisions of the MOA and extends the term of the MOA to that of the CRMA.

The CRMA will automatically terminate upon termination or expiration of the Connecting and Operating Agreement, which we entered into with Bell Canada in 2006. Pursuant to the Connecting and Operating Agreement, the parties have agreed to interconnect their respective telecommunications systems for the exchange of telecommunications traffic. This agreement has an original term of 15 years from July 7, 2006, with automatic renewals for consecutive five year periods, unless four years prior notice of non-renewal is provided by one of the parties. The Connecting and Operating Agreement may be terminated for material breach at any time by a party, if (a) the parties mutually agree that the breach has occurred and has not been cured, or (b) a court or arbitrator makes a final and unappealable determination that the other party has materially breached the agreement and has not cured the breach within the appropriate contractual timeframe.

The CRMA and the other commercial agreements may also be terminated by Bell Canada in the event that, without Bell Canada's prior consent, a competitor of Bell Canada acquires, directly or indirectly, more than 30 per cent of Bell Aliant LP or *de facto* control of it or its business. In addition, Bell Canada is entitled to terminate, at its sole discretion, its provision of services to us in circumstances where Bell Canada is ceasing to offer the corresponding services to its customers. Further, Bell Canada is entitled to terminate at its discretion many of the commercial agreements by giving two years prior notice of its intention to terminate the relevant commercial agreement, provided that such notice is not given prior to a fixed date, which is generally July 7, 2011. Generally, we are permitted to terminate and repatriate services provided to us by Bell Canada upon two years notice.

We also have an agreement with Bell Canada that provides access to certain of each other's intellectual property, in addition to providing us with access to Bell Canada's engineering and network intellectual property. In 2006, we entered into trademark license agreements with Bell Canada whereby each party and its affiliates are permitted to use the trademarks of the other party in accordance with the terms of the license for 30 years (subject to an additional 10 year renewal on request by the licensee, at the licensor's discretion).

In 2006, we entered into a distribution agreement with Bell Distribution Inc. (BDI), a subsidiary of Bell Canada, under which BDI acts as our agent for sales and distribution of our wireline and Internet access telecommunications services and related products. We also entered into a corresponding distribution agreement with BDI under which we act as BDI's agent for the distribution of Bell Canada's wireless and satellite telecommunications services and related products and services in the same territory.

We also have an IS/IT agreement with Bell Canada under which Bell Canada provides information technology (IT) services to us to allow us to serve our customers in Ontario and Quebec. A part of this agreement requires the parties to jointly fund a plan to develop further IT services for us. The total capital anticipated to be expended on this plan is \$90.0 million, of which Bell Canada will fund the first \$32.0 million with the remaining \$58.0 million being equally funded by Bell Canada and us.

In the normal course of business, we enter into agreements with Bell Canada and its controlled investees to provide and purchase telecommunications and other support services, and purchase capital investments. All related party transactions are measured at the exchange amounts as follows:

For the years ended December 31

(millions of dollars, except as otherwise noted)

|   | 2009  | 2008  |
|---|-------|-------|
| Operating revenues                                | 289.7 | 308.8 |
| Percentage of the total operating revenues        | 9.13% | 9.51% |
| Operating expenses                                | 474.9 | 480.7 |
| Net earnings (loss) from discontinued operations: |       |       |
| Operating revenues                                | 0.3   | 33.8  |
| Operating expenses                                | —     | 40.4  |
| Capital investments                               | 11.4  | 24.8  |

Balances with Bell Canada and its controlled investees are as follows:

As at December 31

(millions of dollars)

|  | 2009  | 2008  |
|--|-------|-------|
| Accounts receivable:   |       |       |
| Trade  | 127.9 | 117.0 |
| Wireless receivables (note 2)  | 0.3   | 11.4  |
| Prepayments  | 4.1   | 5.8   |
| Long-term receivable, including current portion in accounts receivable | 21.3  | 40.0  |
| Payables and accruals  | 76.7  | 77.3  |
| Distributions payable  | 24.3  | 24.2  |
| Deferred credits and other long-term liabilities                       | 4.4   | 1.6   |

The accounts receivable from, and payables and accruals to, Bell Canada and its controlled investees are non-interest bearing and under normal credit terms. They have arisen from the sale of products and provision of services referred to previously. They also include amounts arising from sales to customers and purchases from suppliers in our Ontario and Quebec regional territory that Bell Canada collects or pays on our behalf. We, in turn, settle the net payments with Bell Canada.

The long-term receivable, including current portion in accounts receivable, from Bell Canada of \$5.2 million (2008 – \$22.3 million) relates to contingent consideration in relation to the acquisition of Bell Canada's wireline operation in Ontario and Quebec as discussed in note 9. The balance bears interest at 8.00 per cent per annum and is expected to be repaid in the first half of 2010. The long-term receivable also includes the capital funding commitment by Bell Canada in relation to the IS/IT services plan, as previously discussed, of \$16.1 million (2008 – \$17.7 million).

The distributions payable to BCE and Bell Canada relate to their interest in exchangeable limited partnership units of Bell Aliant LP and Bell Aliant Holdings LP. For the year ended December 31, 2009, \$291.1 million of distributions were paid to BCE and Bell Canada (2008 – \$289.8 million).

Estimated future minimum payments under our contractual obligations with Bell Canada, which are included in commitments in note 22, are as follows:

| <i>(millions of dollars)</i> | 2010  | 2011  | 2012  | 2013  | 2014  | Thereafter |
|------------------------------|-------|-------|-------|-------|-------|------------|
| Contractual obligations      | 290.7 | 285.0 | 283.8 | 283.1 | 280.6 | 1,797.8    |

### The Fund

The Fund is entirely dependent on the distributions we pay to them to make their distributions. For the year ended December 31, 2009, we declared distributions to them of \$373.7 million (December 31, 2008 – \$372.8 million). At December 31, 2009, \$31.1 million was included in distributions payable (December 31, 2008 – \$31.2 million).

In the normal course of business, we have an administrative agreement with the Fund for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by the Fund trustees, for the administration of the Fund. The agreement has an initial term of 10 years, and will be automatically extended for additional five year periods unless notice of termination is given. These services are recorded at their exchange amount of \$4.0 million (2008 – \$4.0 million).

Several of our unit-based compensation plans, as discussed in note 16, are based on Fund units. All compensation expense for these plans is recorded in Bell Aliant Holdings LP.

Included in payables and accruals is a net amount due to the Fund of \$25.2 million (2008 – \$13.6 million), which includes the administrative expenses as well as amounts relating to the unit-based compensation plans.

The Fund loans us its 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 0.49 per cent to 1.81 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the year ended December 31, 2009. At December 31, 2009, a \$2.6 million promissory note was payable to the Fund, which bears interest at 0.50 per cent per annum and matures on January 15, 2010.

## 26 2008 BUSINESS COMBINATION AND ACQUISITION

On January 1, 2008, the Fund transferred its 36.7 per cent interest in Télébec and NorthernTel to us, in exchange for 8,246,429 class 2 limited partnership units (note 15), resulting in us recording 100 per cent of their net earnings and eliminating the non-controlling interest previously reported as of that date. As there was no substantive change in ownership of the 36.7 per cent interest in Télébec and NorthernTel, the transfer was accounted for at its carrying value on transfer date. The Fund retains a nominal one unit ownership interest in each of Télébec and NorthernTel.

On February 1, 2008, we purchased the assets and operations of KMTS for total cash consideration of \$27.1 million in addition to paying direct acquisition costs of \$1.1 million. The results of operations have been included in our consolidated financial statements since that date.

The total consideration paid for the interest in Télébec and NorthernTel and the assets and operations of KMTS was allocated to the assets acquired and liabilities assumed based on their respective fair values on purchase date. The purchase price allocation resulted in assets acquired and liabilities assumed as follows:

| <i>(millions of dollars)</i>                  | Télébec and<br>NorthernTel | KMTS  | Total  |
|---|----------------------------|-------|--------|
| Assets acquired and liabilities assumed       |                            |       |        |
| Current assets                                | —                          | 1.2   | 1.2    |
| Property, plant and equipment <i>(note 6)</i> | 30.2                       | 10.2  | 40.4   |
| Finite-life intangibles <i>(note 6)</i>       | 181.9                      | 5.9   | 187.8  |
| Indefinite-life intangibles                   | 40.6                       | 1.8   | 42.4   |
| Goodwill <i>(note 9)</i>                      | 191.8                      | 9.8   | 201.6  |
| Long-term debt <i>(note 12)</i>               | (2.3)                      | —     | (2.3)  |
| Non-controlling interest                      | 89.0                       | —     | 89.0   |
| Other long-term liabilities                   | (17.7)                     | (0.7) | (18.4) |
| Net assets acquired                           | 513.5                      | 28.2  | 541.7  |