Bell Aliant Regional Communications
Holdings, Limited Partnership

Management's discussion and analysis

For the year ended December 31, 2010

March 9, 2011

MD&A

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the year ended December 31, 2010, compared to 2009. This MD&A should be read together with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2010, and our MD&A for the fourth quarter of 2010. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.

Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries. On January 1, 2011, our parent, Bell Aliant Regional Communications Income Fund (the Fund), completed its conversion from an income trust structure to a corporate structure at which time the Fund was dissolved and terminated and was succeeded by Bell Aliant Inc. As part of the conversion, Bell Aliant Holdings LP was dissolved and certain of its subsidiaries and affiliates amalgamated. Bell Aliant Holdings LP has been succeeded by Bell Aliant Regional Communications Inc. (Bell Aliant GP). Therefore, when the context indicates present or future tense, or events that occurred after completion of the conversion, "we", "us", and "our" refers to Bell Aliant GP and its subsidiaries.

Additional information about us, the Fund and the Fund's successor, Bell Aliant Inc., including quarterly and annual reports, supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on the Bell Aliant Inc. website at www.bellaliant.ca. These and other continuous disclosure documents are also available at www.sedar.com.

Forward-looking information

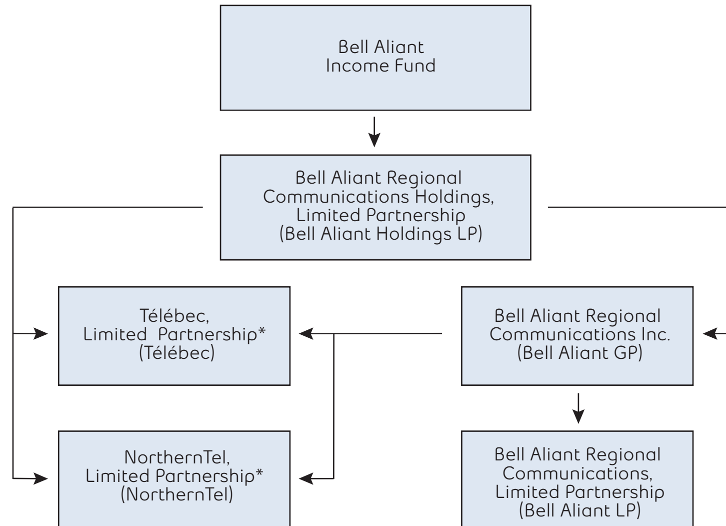
This MD&A is dated March 9, 2011, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances, including in particular under the sections "Conversion transaction", "Dividend policy" (with respect to our expectations regarding future dividends of Bell Aliant Inc.), "Highlights of strategic focus for 2011", "2011 financial guidance", "Cash requirements" and "Future changes in accounting policies". The purpose of this forward-looking information is to provide the reader with information about our expectations, plans and priorities for 2011 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at March 9, 2011. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", " expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions.

This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: increasing competition; management's ability to achieve strategies and plans, including expansion of fibre-to-the-home (FTTH) and managing the cost structure; general economic conditions; the market for preferred shares; the implementation of revised pension funding rules, pension valuation and investment risk; reliance on systems; changing technology; required operating and capital expenditures, and demand for our products and services; our business relationship with BCE Inc. (BCE) and Bell Canada and the allocation of business opportunities; changing regulations; dependence on key suppliers; maintenance of credit ratings; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations, including the requirement for effective business continuity planning; legal contingencies and changes in laws, including laws pertaining to privacy and security of customer information; success of acquisitions and dispositions and tax related risks. Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, as well as market, operational and financial assumptions. Refer to the "Assumptions made in the preparation of forward-looking information" and "Risks that could affect our business and results" sections of this MD&A for further discussion of these and other assumptions and risk factors.

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

See also the "Forward-looking information" section of Bell Aliant Inc.'s news release dated February 8, 2011, relating to 2010 financial results for the Fund and Bell Aliant Holdings LP and 2011 financial guidance for their successors, Bell Aliant Inc. and Bell Aliant GP, which is available at www.bellaliant.ca as well as www.sedar.com.

OUR BUSINESS



* Bell Nordiq Trust, owned 100 per cent by the Fund, owns one class B unit of each of Télébec and NorthernTel.

We are one of North America's largest regional communications service providers and have been serving customers for over a century. Through our operating entities, we offer a complete range of innovative information, communication and technology services including voice, data, Internet, video, wireless and value-added business solutions to our customers across Atlantic Canada, Ontario and Quebec.

We also offered information technology (IT) professional services and advanced technology solutions through our xwave division. On October 26, 2010, we announced the planned sale of our xwave business to Bell Canada and restated our financial results to reflect our xwave business in discontinued operations. On January 1, 2011, the sale was completed. Refer to the "Results of operations" section for further discussion under "Net loss from discontinued operations".

Throughout 2010 and 2009, our principal operations were carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidated these and other subsidiary partnerships and corporations in our financial statements. We operated as one reportable segment, which represents the manner in which we were organized and managed for planning, assessing performance and making resource allocation decisions. The organizational chart depicts the Fund, Bell Aliant Holdings LP and other significant entities within the Fund group as at December 31, 2010. On January 1, 2011, the Fund completed its conversion from an income trust structure to a corporate structure. As part of the conversion, Bell Aliant Holdings LP was dissolved and certain of its subsidiaries and affiliates amalgamated. Bell Aliant Holdings LP has been succeeded by Bell Aliant Regional Communications Inc. (Bell Aliant GP). Refer to the "Conversion transaction" section for further discussion of the conversion.

YEAR IN REVIEW

Although our traditional voice services continued to face increased competition, our net local network access service (NAS) customer declines in 2010 were lower than those experienced in 2009. We have experienced steady growth in our Internet, TV, and wireless customer bases, which mitigated the NAS customer declines. We continued to effectively manage our operating costs in 2010 to reduce the effects of declining operating revenue on EBITDA and to maintain strong EBITDA margins. A non-cash write-down of $1,540.7 million on our finite-life intangible assets related to customer relationships resulted in us reporting a significant decline in our operating income. Excluding the effect of this write-down, operating income would have declined by $13.8 million, or 2.2 per cent, in 2010 compared to 2009. We proactively managed our operating results to provide strong distributable cash of $710.5 million. This represents a decline of 8.1 per cent from 2009, primarily due to an additional $57.2 million in capital spending in 2010 relating to the repurchase of an interest in poles in Newfoundland.

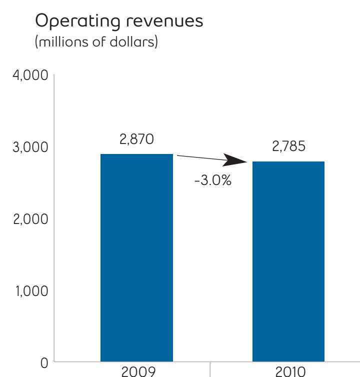
Summary of results

For the period ended December 31

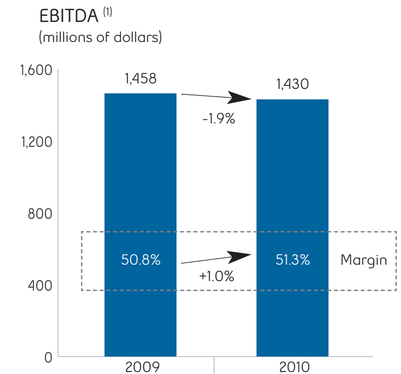
(millions of dollars)	2010	2009 [2]	% change
Operating revenues	2,785.1	2,870.2	(3.0)
EBITDA [1]	1,429.6	1,457.5	(1.9)
EBITDA margin [1]	51.3%	50.8%	1.0
Operating income (loss)	(932.8)	621.7	n.m.
Net earnings (loss) from continuing operations	(491.2)	370.8	n.m.
Net loss from discontinued operations	(5.9)	(14.6)	59.6
Net earnings (loss)	(497.1)	356.2	n.m.

n.m. not meaningful
(1) EBITDA and EBITDA margin are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.
(2) Financial results for all prior periods presented have been restated to reflect our xwave business as discontinued operations.

Operating revenues decreased 3.0 per cent, or $85.1 million, in 2010, compared to 2009. We continued to experience declines in local and long distance revenues in 2010, largely attributable to competitive losses and a substitution of wireless and Voice over Internet Protocol (VoIP) technologies. Declines in voice revenues were partially offset by increases in Internet and wireless revenues resulting from growth in our high-speed Internet, TV, and wireless customer bases. Other revenues remained relatively constant for 2010, compared to 2009. Refer to the "Results of operations" section for further details.



EBITDA decreased 1.9 per cent, or $27.9 million, in 2010, compared to 2009. The decline in EBITDA was primarily driven by the decline in operating revenues coupled with the ongoing shift in our operating revenue mix towards lower margin revenues. This was mitigated in part by savings in operating expenses, reflecting our commitment to labour-related cost reductions and other cost containment initiatives. As a result, EBITDA margin grew 0.5 percentage points, from 50.8 per cent in 2009 to 51.3 per cent in 2010.



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

Operating income decreased by $1,554.5 million in 2010, compared to 2009. This decline was driven primarily by the $1,540.7 million write-down of finite-life intangible assets. Excluding the effect of this write-down, operating income would have decreased by 2.2 per cent, or $13.8 million, in 2010, compared to 2009. The decline in EBITDA and higher net cost of benefit plans expense, mainly due to higher pension obligations, was almost entirely offset by lower restructuring and other charges, due to the timing of restructuring initiatives, as well as lower depreciation and amortization expense which reflects a declining depreciable asset base.

Net earnings decreased by $853.3 million in 2010, compared to 2009. This decrease is made up of an $862.0 million reduction in net earnings from continuing operations, offset slightly by an $8.7 million reduction in net loss from discontinued operations.

The decline in net earnings from continuing operations is mainly attributable to the impairment of finite-life intangible assets which, net of an increase to income tax recovery and a decline in the non-controlling interest in our earnings, amounted to $810.9 million. Excluding this, net earnings from continuing operations would have decreased by $51.1 million in 2010 compared to 2009, primarily due to the decline in operating income discussed above.

Net loss from discontinued operations was $5.9 million in 2010, compared to $14.6 million in 2009. Discontinued operations in 2010 and 2009 reflected the operating results of our xwave business, while 2009 also included the operating results of Innovatia Inc. (Innovatia), xwave New England Corp. (xwave New England) and our Defence, Security and Aerospace (DSA) business. The improvement in 2010 over the prior year is primarily due to the 2009 write-down of Innovatia's net assets.

Distributable cash

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the years ended December 31, 2010, and 2009, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared. Since our operations ultimately supported distributions to Fund unitholders, distributable cash combined our cash performance with that of the Fund.

For the period ended December 31 *(millions of dollars)*	**2010**	2009 [4]	% change
Cash from operating activities	**1,028.5**	1,126.4	(8.7)
Deduct:			
Cash from operating activities of the Fund and discontinued operations	**(26.3)**	(22.9)	14.8
Capital expenditures	**(494.0)**	(462.4)	6.8
Standardized distributable cash [1]	**508.2**	641.1	(20.7)
Add (deduct):			
Operating items funded through cash reserves or borrowing	**191.5**	119.1	60.8
Other adjustments	**10.8**	13.2	(18.2)
Distributable cash [1]	**710.5**	773.4	(8.1)
Net earnings (loss)	**(497.1)**	356.2	n.m.
Cash distributions declared [2]	**660.5**	660.2	—
Excess of cash from operating activities over cash distributions declared [3]	**341.7**	443.3	(22.9)
Shortfall of net earnings (loss) over cash distributions declared	**(1,157.6)**	(304.0)	n.m.

n.m. not meaningful
(1) Standardized distributable cash and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for further detail.
(2) Distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that were exchangeable into Fund units.
(3) Cash from operating activities includes cash generated by the Fund and discontinued operations.
(4) Financial results for all prior periods presented have been restated to reflect our xwave business as discontinued operations.

Standardized distributable cash for the year ended December 31, 2010, was $508.2 million. This represents a decrease of $132.9 million, or 20.7 per cent, over 2009, due to a decrease in EBITDA of $27.9 million, higher pension funding of $12.5 million, higher cash requirements to fund changes in operating assets and liabilities (working capital) of $68.4 million, and higher capital spending of $31.6 million all of which was slightly offset by lower restructuring and other charges of $12.3 million. Refer to the "Summary of cash flows" section for additional information on cash from operating activities and capital spending.

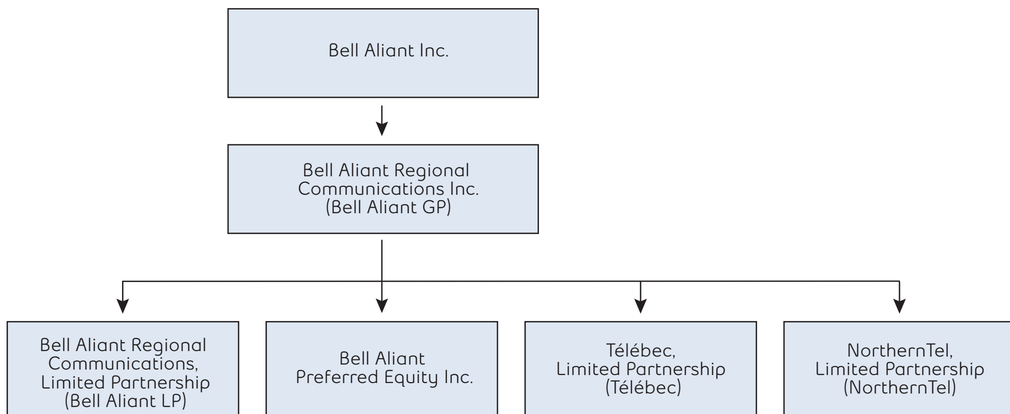
In contrast to standardized distributable cash, our calculation of distributable cash excludes working capital fluctuations, restructuring charges and certain other items we fund through cash reserves or short-term borrowing. On this basis, distributable cash decreased by $62.9 million, or 8.1 per cent, to $710.5 million in 2010, compared to 2009. The decrease is largely due to higher capital spending of $31.6 million and $27.9 million lower EBITDA, which is reflected in the decline in cash from operating activities.

Both standardized distributable cash and our calculation of distributable cash reflect capital spending. Capital expenditures were 17.7 per cent of operating revenues in 2010, compared to 16.1 per cent of operating revenues in 2009. This reflects both the timing of capital projects and a higher level of capital spending, attributable in large part to our repurchase of an interest in poles in Newfoundland.

We are committed to maintaining and enhancing our network assets in order to support growing demand for high bandwidth Internet protocol (IP) services. Our legacy telephony and related business continues to be our foundation, and notwithstanding recent technological advances and improvements in the lives and productive capacity of our telecommunications assets, our maintenance capital expenditures have remained relatively stable over time. Approximately 25 to 30 per cent of our capital expenditures are related to maintenance of base infrastructure, routine replacements and commitments driven by legal or regulatory requirements. The balance of our capital investments allows us to address growing customer demand for our newer products and services and evolve to the next generation of IP network capabilities to accommodate delivery of new services necessary to support sustainability and modest growth in our revenues. In 2011 and 2012, we plan to significantly accelerate our investment in FTTH technology, building a network that we believe will provide us with a clear competitive advantage which will position us for growth in the future.

For the year ended December 31, 2010, cash distributions declared were 93.0 per cent of distributable cash, or $660.5 million, compared to 85.4 per cent of distributable cash, or $660.2 million, for 2009. The increase in the distributable cash payout ratio is a result of the 2010 distributions being held consistent with the level established in 2009, while distributable cash has decreased compared to 2009.

CONVERSION TRANSACTION



On January 1, 2011, the Fund completed its conversion from an income trust structure to a corporate structure.

As part of the conversion, Fund unitholders received one common share of Bell Aliant Inc. for each Fund unit held, and BCE and Bell Canada exchanged 100 per cent of their respective class B exchangeable limited partnership units issued by Bell Aliant LP, 100 per cent of their class 1 exchangeable limited partnership units issued by us, 100 per cent of their special voting units issued by the Fund, and all but one voting common share of Bell Aliant GP for common shares in Bell Aliant Inc. Through a series of steps, the Fund's assets and liabilities were transferred to Bell Aliant Inc. and the Fund was dissolved and terminated. As well, Bell Aliant Holdings LP's assets and liabilities were ultimately transferred to Bell Aliant GP and Bell Aliant Holdings LP was then dissolved and its units cancelled. Bell Aliant Regional Communications Holdings Inc. and another related company were amalgamated with Bell Aliant GP, which is the general partner of Bell Aliant LP, Télébec and NorthernTel, our operating subsidiaries.

These transactions were accounted for at carrying values since there was no substantial change in control.

For unitholders resident in Canada and the United States, the exchange of Fund units for common shares of Bell Aliant Inc. was completed on a tax deferred basis. Unitholders' proportionate interests in Bell Aliant Inc. are effectively unchanged by the conversion. BCE and Bell Canada continue to have the same governance rights under the amended securityholders' agreement and percentage ownership in Bell Aliant Inc. as they had in the Fund (on an as-exchanged basis) before the conversion.

The conversion does not impact our underlying business model or operating plans, but is expected to reduce administrative costs previously associated with our more complex trust structure, improve comparability of our financial condition and results of operations to our peers, and broaden our potential investor base.

Bell Aliant Inc. common shares began trading on the Toronto Stock Exchange at the commencement of trading on January 4, 2011, with the trading symbol "BA".

We anticipate that Bell Aliant Inc. and Bell Aliant GP will be taxed at a blended federal and provincial rate of 29 per cent of taxable income in 2011, dropping to 27 per cent of taxable income by 2013.

Dividend policy

The objectives of Bell Aliant Inc. in establishing its dividend policy are to seek to ensure dividend sustainability while maintaining a high dividend payout to shareholders. We expect that our ongoing operations, net of normal capital expenditures, will generate sufficient free cash flow to provide stable cash dividends to Bell Aliant Inc.'s shareholders.

For 2011, Bell Aliant Inc. will target a payout ratio of 75 to 85 per cent of free cash flow, which is expected to result in an initial annual dividend rate of $1.90 per share. The first quarterly dividend of $0.475 per share was declared by the board of Bell Aliant Inc. on February 8, 2011, and will be paid in March 2011. Although the annual dividend is lower than the annual distribution paid by the Fund under the income trust structure, for taxable retail investors resident in Canada, dividends paid by a Canadian corporation are taxed at lower rates than the distributions of pre-2011 income paid by the Fund. As such, the dividend tax credit mechanism can be expected to mitigate, in large part, the after-tax effect of a lower dividend for those investors.

Our dividend policy and our financing plans are consistent with our objective of maintaining our debt levels in a range required to maintain investment grade credit ratings on our debt.

Free cash flow

On January 1, 2011, with the completion of the conversion to a corporate structure, Bell Aliant Inc. has adopted a dividend policy based on a targeted percentage of free cash flow, as noted above, rather than distributable cash, which was a financial measure used with the income trust structure. The main differences between distributable cash and free cash flow are that free cash flow excludes cash from discontinued operations and includes items we previously excluded from distributable cash as they were being funded through cash reserves and short-term borrowing, such as restructuring charges, regular pension deficit funding and working capital changes.

For information purposes, the following table provides a summary reconciliation of cash from operating activities to free cash flow, along with cash distributions declared, for the years ended December 31, 2010, and 2009. Since our operations supported cash distributions to Fund unitholders, and will continue to support dividends declared as payable to Bell Aliant Inc. shareholders, free cash flow combines our cash performance with that of the Fund.

For the period ended December 31

(millions of dollars)	2010	2009 [3]	% change
Cash from operating activities	1,028.5	1,126.4	(8.7)
Cash used in operating activities of the Fund	(3.7)	(15.8)	(76.6)
Total cash from operating activities	1,024.8	1,110.6	(7.7)
Capital expenditures	(494.0)	(462.4)	6.8
Free cash flow [1]	530.8	648.2	(18.1)
Add:			
Changes in operating assets and liabilities (working capital)	48.6	(19.8)	n.m.
Change in operating assets and liabilities (working capital) of the Fund	0.3	11.8	(97.5)
Free cash flow before changes in working capital	579.7	640.2	(9.5)
Cash distributions declared [2]	660.5	660.2	—

n.m. not meaningful

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

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

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

Free cash flow was $530.8 million in 2010, representing a $117.4 million, or 18.1 per cent decrease from $648.2 million in 2009. The year-over-year decline reflects $27.9 million lower EBITDA, $56.9 million greater cash requirements to finance our and the Fund's working capital changes, $12.5 million greater pension funding and $31.6 million higher capital expenditures in 2010. These were partially offset by lower restructuring and other charges of $12.3 million.

Working capital changes are normally a use of cash in the first quarter of the year, as we pay amounts related to annual incentives and interest that were accrued in the fourth quarter of the previous year, as well as large payments for property taxes. The effects of working capital on free cash flow typically reverse in later quarters, except for the payment of items such as previously accrued restructuring charges, to the extent they do not recur annually, and interest payments on our long-term debt which are predominantly made in the first and third quarters of the year. In 2010, our cash requirement to fund working capital changes was higher compared to 2009. This was primarily due to continued improvements in accounts receivable collections, albeit to a lesser degree than achieved in 2009, and higher payments of previously accrued expenses including restructuring charges. Refer to the "Summary of cash flows" section for additional information on cash from operating activities.

OUR BUSINESS ENVIRONMENT

Competitive landscape

We face competition from traditional and non-traditional sources. Cable companies remain our most significant competitive threat. They aggressively market multiple product bundled service offerings that are similar to ours and continue to expand their local service areas in our regions, although at a slower rate of expansion from what we have experienced in prior years. The competitive footprint overlap with cable companies grew to approximately 69 per cent of households in our territory at the end of 2010, representing a 2 percentage point increase since December 31, 2009. We expect that the cable companies will continue to increase their competitive coverage over the next several years, reaching a peak of 75 to 80 per cent. We anticipate this will result in continued gradual erosion of our market share in local and long distance voice services, and, to a lesser extent, Internet services, as we experience further competitive expansion into our territories and greater competitive intensity. In contrast, we expect to gain market share in TV services from cable companies as our footprint for offering these services expands.

The telecommunications industry is affected by rapidly evolving wireless, Internet and data technology services and products which has resulted in the decline in revenue from traditional voice and long distance services. In particular, competitors have gained market share as customers substitute new technologies such as wireless and VoIP services for the traditional voice and long distance services.

Our growth in operating revenue will come from our Internet and TV portfolios. In order to meet the needs of our customers for data and Internet services, we have made significant investments in fibre optic technology to increase our network capacity. We were the first and currently the only communications company to provide FTTH technology to an entire city in Canada on a 100 per cent fibre optic network. We expect to continue to invest in fibre and are constantly evolving our product offerings to ensure that our bandwidth and value-added service offerings are competitive in our marketplace.

The intensity of competition in our markets creates pressure to maintain aggressive prices and service offerings, which could reduce our revenues and lower our profitability, or affect our ability to gain new customers and retain our existing ones. We need to proactively anticipate and launch new service offerings and respond quickly to changes in the marketing strategies of our competitors. We constantly strive to find the right balance in our pricing mix, considering our competitors' pricing and the relative value we offer based on our products and services.

For a discussion of these and other competitive pressures, refer to the "Risks that could affect our business and results" section.

In response to these competitive pressures, we remain focused on investing in fibre technology to build our network capacity, promoting our bundled service offerings and working with customers to provide the highest quality of service and leading edge product offerings. We continue to use our local presence and insight to guide community investment and support activities that are important to our customers and employees. We conduct business with a clear and consistent focus on the successful execution of our strategic objectives. Refer to our achievements as discussed in the "Strategy" section for further details.

Regulatory landscape

The Canadian Radio-television and Telecommunications Commission (CRTC or the Commission), an independent agency of the Government of Canada, is responsible for regulating Canada's telecommunications and broadcasting industries. Our business is affected by decisions made by the CRTC and the Government of Canada, pursuant to the Telecommunications Act, the Broadcasting Act and the Radiocommunication Act.

The CRTC is expected to rely on market forces to the maximum extent feasible when making policy decisions, and should use regulation that interferes with market forces to the minimum extent necessary. As an interested party, we frequently participate in the public processes leading up to these decisions, submitting evidence, opinions and comments to the CRTC. We also work with other industry and interested parties in pressing for regulatory reform, where we feel necessary and warranted, while similarly opposing those parties seeking to gain unfair competitive advantages or raise the regulatory burdens in our industry.

For a discussion of these and other reforms, please refer to the "Regulatory developments" section.

Changes to the board of directors

On June 16, 2010, Victor Young retired as a trustee of the Fund and from the boards of directors of our operating subsidiaries and Andrew Smith was appointed to these boards.

On February 8, 2011, Catherine Bennett was appointed to the boards of directors of Bell Aliant Inc. and Bell Aliant GP.

Key management changes

As a result of the disposition of our xwave business on January 1, 2011, Paul Khawaja, president, xwave and vice-president, Bell Aliant, is no longer part of our organization.

On January 28, 2010, Dan McKeen joined our organization in the role of senior vice-president, customer solutions, with leadership and responsibility for all aspects of marketing, sales and contact centre operations.

STRATEGY

Highlights of strategic achievements in 2010

Our focus in 2010 was on our five strategic objectives, which we initially implemented in 2009 and continue to consider critical to our financial success in the future. Despite the realities of the economic environment and our competitive marketplace, our strategy has proven resilient, facilitating a crucial balance between improving services, offering enhanced solutions to our customers, and increasing productivity and profitability.

Our vision is simple and straightforward, and fundamental to everything we do:
To be recognized by customers as the leading communications provider in the markets we serve.

Our five strategic objectives are:
1. Improve the customer experience;
2. Retain our customers;
3. Grow broadband;
4. Reset our cost structure; and
5. Engage employees.

The following table sets out our five key strategic objectives and achievements we made in 2010.

Objective	Achievement
Improve the customer experience	We improved our service fundamentals through focusing on system and process improvement in our field operations and designing the model technician visit. As a result of continued improvements at all customer touch points, we are positively affecting the overall experience for customers. We are making great strides towards keeping our promises, doing it right the first time, and making each and every interaction consistent and exceptional. Specifically, during 2010: • In our Central region field services, we introduced a new support model to improve the productivity of our field technicians. Regionally based support centres have been established to resolve reported issues and reduce the time to complete a customer's service request. We also maintained a focus on proactive maintenance to reduce the number of potential problem areas and avoid future repair or trouble calls. • In our Atlantic region, we launched numerous initiatives to promote consistency in service levels. We enhanced TV technical training to ensure consistent practices and standards are used for all new installations. This increased the quality of the installations and facilitated improvements to trouble shooting and issue resolution by help desk agents.
Retain our customers	Our ability to retain our customers is challenged by aggressive competition in the markets where we operate, which we believe will continue. However, we have taken significant actions to mitigate the effect of competitive erosion to our customer base while maximizing opportunities to increase operating revenue. In 2010, we built on the strength of our brands across all markets we serve, and we listened to our customers who told us they wanted simplicity, choice and value in our products and services. During the year, we undertook numerous initiatives focused on increasing customer retention and the penetration of all our products and services. Through these initiatives, we were able to mitigate NAS declines and enhance operating revenue from customers by providing additional value-added products and services. • We refreshed and simplified our approach to bundles to increase the awareness and understanding of the value we offer. Particular focus was placed on promoting our three-product bundle, which includes home telephone, high-speed Internet and TV. • We enhanced our voicemail services by adding voicemail-to-email to all residential and business voicemail customers in the Atlantic region, providing our phone customers with additional value. • For our business customers in Ontario and Quebec, we simplified our bundle process as customers now sign one contract and see a single price on their bill. • We improved our Bell Aliant TV service by updating the user interface and guide, adding additional features to our Personal Video Recorder (PVR) and adding 10 new high-definition (HD) channels. • We launched new *FibreOP*™ bundles in areas with access to our FTTH service, providing customers with three simple choices – good, better, or best options.

Objective	Achievement
Grow broadband	Broadband is the core growth area of our business, with our FTTH expansion representing the cornerstone of our strategy. We expanded our high-speed digital subscriber line (DSL) and fibre Internet footprint and our TV footprint, increased bandwidth and enhanced value-added services, which assisted in growing our TV and high-speed Internet subscribers. Through these initiatives, our *FibreOP* service footprint reached approximately 138,000 home and businesses and our high-speed Internet service was available to 81 per cent of homes in our territory by the end of 2010. • We completed our *FibreOP* build in Fredericton, New Brunswick, making us the first company in Canada to launch this service to an entire city. Building on our success in NB, we continued expansion of *FibreOP* services to cover Saint John and the Greater Moncton Area. • With the support of the Government of Prince Edward Island, we announced our plan to invest $20 million to bring *FibreOP* products and services to PEI. By the end of 2011, approximately 30,000 homes and businesses in Charlottetown and Summerside will have the opportunity to connect to our *FibreOP* network. • With the support of the Government of Nova Scotia, we brought our *FibreOP* service to Sydney, the first community in NS to have access to our premium *FibreOP* bundles including premium Internet speeds and *FibreOP* TV. As well, on January 20, 2011, we announced that our *FibreOP* service was expanding to the Halifax Regional Municipality, to serve approximately 160,000 homes and businesses in our largest and most competitive market. On March 3, 2011, we announced an additional *FibreOP* expansion in Truro to serve approximately 14,000 homes and businesses. • We launched our fastest *FibreOP* Internet service, which offers exceptionally fast 170 Mbps download and 30 Mbps upload speeds. These speeds not only enable customers to download music, movies and share video or photos faster, but also can accommodate the growing need for multiple users sharing bandwidth within the home. • With the governments of Canada and Ontario and Nishnawbe Aski Nation (NAN), we jointly announced the Northwestern Ontario Broadband Expansion Initiative. This initiative will bring a state-of-the-art backbone fibre optic network to 26 NAN communities in Ontario's far north, enabling speeds up to 50 times faster than current systems. This network build will take place over four years at an estimated cost of $81 million, $55 million of which will be jointly funded by the governments of Canada and Ontario. We also announced that we and Bell Canada had been selected by the Eastern Ontario Warden's Caucus to build a core backbone fibre network in Eastern Ontario. This network build will cost approximately $82 million, $55 million of which will be jointly funded by the governments of Canada and Ontario. These partnerships allow us to expand our telecommunications infrastructure to areas where we might not normally be able to given that they are remote, complex, and costly to service.

Objective	Achievement
Reset our cost structure	Cost structure improvement continued to be imperative to the achievement of our corporate strategy. Company-wide management of our expenses continued in 2010, mainly through pursuing initiatives to optimize workforce productivity, controlling discretionary spending and renegotiating supplier contracts. The combination of these productivity and quality initiatives in 2010 enabled us to reduce our salaries, benefits, contract labour and consulting costs and lower selling, general and administrative expenses significantly. • Our contact centre consolidation in Atlantic Canada was completed, with many employees accepting voluntary retirement offers. We believe these restructuring initiatives place us in a strong position to accelerate and align the way we deliver results for our customers. • We continued to exercise prudence in discretionary spending of general and administrative expenses, reduced spending on contractors and consultants, advertising, real estate costs, and information system expenses. • Our focus on strengthening procurement through best practices in sourcing and pricing resulted in cost improvements in many contracts with our vendors, particularly in the areas of third party supplied communication and maintenance contracts. We believe our improved contract terms will continue to realize benefits in 2011 and beyond. • On September 15, 2010, our Atlantic Canadian union announced that it had accepted an early collective agreement. We believe this will allow us to achieve certainty in our labour costs and to realize significant efficiencies, which enables us to protect jobs and benefits. The new agreement replaces the current collective agreement, which was set to expire on December 31, 2011, with the changes effective from October 1, 2010, until December 31, 2014.
Engage employees	We focused on providing clear direction on our strategy, through increased communication from our senior leadership team, which helped to strengthen leadership development and drove a performance based culture, and in this way continued to engage employees in the business. • We reinforced a performance based culture by more closely aligning personal performance with corporate objectives and implementing a recognition program that allows us to celebrate our top performers while encouraging every employee to perform to the best of their ability. We are following through on development initiatives agreed on during employee reviews, particularly for top performers and talent identified for succession to key roles. • We focused on leadership development and improving our talent management to help leaders better identify employee skills, qualifications and experiences in order to respond more effectively to corporate priorities and achieve our strategic objectives. • Members of our leadership team met with more than 4,000 employees through in-person and Web sessions that provided the opportunity for employees to learn and ask questions about our vision and strategic objectives.

Performance compared to 2010 financial guidance

Our 2010 results met our expectations and the financial guidance that we provided during 2010. The following table summarizes our 2010 revised guidance and our performance against those targets.

	2010 results	2010 revised guidance [(3)]
Operating revenue	$2,785 million	$2,750 – $2,800 million
Capital intensity [(1)]	17.7 per cent	17.5 to 18.0 per cent
Distributable cash [(2)]	$711 million	$690 – $730 million

(1) Capital intensity equals capital expenditures per the statement of cash flows divided by operating revenues.
(2) Distributable cash is a non-GAAP financial measure. Refer to "Non-GAAP financial measures" section for further details.
(3) We revised our 2010 guidance for operating revenue and capital intensity as a result of our divesture of xwave and anticipated pole purchase in Newfoundland.

Highlights of strategic focus for 2011

We considered 2010 a successful year both financially and strategically. With similar business challenges facing us in 2011, our strategy remains focused on the five strategic objectives discussed above.

Improve the customer experience

We are committed to making each and every interaction consistent and exceptional, doing it right the first time and making it easier for customers to do business with us. We will seek to deliver on our service commitment in 2011 by continuing to focus on improving our service fundamentals, supported by operational enhancements to our system and process tools and training.

Retain our customers

We believe bundles are instrumental in retaining customers as they provide customers with what they want – simplicity, choice and value. In 2011, we will continue to aggressively promote our bundles, including our *FibreOP* bundles, which are offered in areas with access to our FTTH service, actively market our value-added services such as higher-speed Internet, HDTV programming and our PVR services, as well as implement internal retention programs. We are confident this approach will increase awareness and understanding of the value we offer and allow us to remain both competitive and relevant in the marketplace.

Grow broadband

In 2011, expanding our FTTH network is a top priority. Accelerating our investment in our *FibreOP* services allows us to give customers access to leading edge technology, including our fastest Internet speeds and an exceptional TV experience. This will include the introduction of *FibreOP* services to our largest market, the Halifax Regional Municipality, and others with a goal of 430,000 homes and businesses passed by the end of 2011. Additionally, work is underway in Ontario to build two significant core fibre networks that will enable better and faster broadband to communities. We will also continue to expand our DSL network providing more customers access to our broadband and TV services.

Reset our cost structure

Cost structure improvement is critical to us, as operating revenue margins come under pressure with the change in our operating revenue mix. In 2010, we made significant improvements primarily through gains in process and operational efficiency, procurement improvements and workforce restructuring. Although we believe we are well positioned to operate more efficiently in the future, further productivity initiatives are expected in 2011. In the coming year, we will continue to focus on cost containment as well as operational efficiencies for further improvements.

Engage employees

The engagement of our employees towards achievement of our corporate goals is fundamental to our success. It is important that all of our employees understand our strategic objectives and that their personal performance is aligned with them. Our efforts to strengthen employee engagement in 2010 have provided positive feedback from our employees throughout the organization and we will build on our successes in 2011. Regular and timely communication from our senior leadership team is of particular importance and has helped our employees strengthen their understanding of our strategic goals, the direction of our organization and the challenges we face. We also intend to further improve our performance and talent management, as well as our leadership development tools, ensuring alignment with corporate priorities and promotion of a high performance culture. We will continue to refine and simplify the tools provided to our leaders to help them coach, develop and foster the talent in our organization and provide us with a more accurate view of our needs and strengths.

2011 financial guidance

As a result of the conversion to a corporate structure and adoption of International financial reporting standards (IFRS) beginning in 2011, our financial guidance for 2011 has been modified from that provided in prior years to reflect these changes.

For 2011, we expect to achieve the following ranges of results for key financial reporting indicators:

	2010 IFRS restated results [2]	2011 guidance
Operating revenues	$2,807 million	$2,650 million – $2,750 million
EBITDA [3] before pension expense	$1,430 million	$1,360 million – $1,400 million
EBITDA [3] after pension expense	$1,377 million	$1,300 million – $1,340 million
Capital expenditures	$494 million	$520 million – $560 million
Free cash flow [3]	$531 million	$525 million – $575 million [1]
Earnings per share before purchase price allocation amortization [4]	not meaningful	$1.60 – $1.80

(1) Excludes anticipated $200 million voluntary pension contribution.
(2) IFRS restated results are unaudited. See "International financial reporting standards (IFRS)" section for more information.
(3) EBITDA and free cash flow are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.
(4) We estimate the purchase price allocation amortization in 2011 to approximate $90 million – $95 million, before tax, and earnings per share including the after tax effect of this amount for 2011 to approximate $1.30 – $1.50.

Operating revenues are expected to be between $2,650 million and $2,750 million in 2011, down from 2010 IFRS restated operating revenues of $2,807 million. Competitive activity and technology substitution continue to result in decreases in legacy local, long distance and data service revenues. Internet and TV revenues are expected to increase with the expansion of *FibreOP* services, contributing to expected positive growth in overall Atlantic residential revenues in 2011. However, growth from these services is not expected to have sufficient scale in 2011 to offset overall legacy operating revenue declines.

EBITDA before pension expense is expected to be between $1,360 million and $1,400 million in 2011, down from 2010 IFRS restated EBITDA of $1,430 million. Operating cost reductions are expected from the flow-through of actions taken in 2010 and further productivity initiatives in 2011. EBITDA in 2011 is also expected to be negatively affected by increased operating costs related to the short-term dilutive effects of strong *FibreOP* services subscriber growth. Accordingly, net operating cost reductions in 2011 are not expected to have the same mitigating effects on EBITDA margin erosion as experienced in recent years.

Under IFRS, EBITDA will include the current service cost of pension expense, which is expected to increase to between $60 million and $65 million in 2011, compared to $53 million in 2010. EBITDA after pension expense is expected to be between $1,300 million and $1,340 million, down from a comparable 2010 IFRS restated figure of $1,377 million in 2010.

Capital expenditures in 2011 are expected to be between $520 million and $560 million, up from $494 million in 2010, with the costs of the acceleration of the FTTH rollout in 2011 more than offsetting the non-recurring cost of the repurchase of poles in 2010.

Free cash flow is expected to be between $525 million and $575 million, excluding a voluntary pension contribution of $200 million, as discussed in the "Cash requirements" section. The reductions in free cash flow from the 2010 levels associated with the increased capital program and lower EBITDA are expected to be offset by increases in free cash flow from lower regular pension deficit funding and improvements in cash from working capital.

The amortization of certain finite-life intangible customer relationship assets acquired in previous business combinations relates to assets that will largely not be replaced through future capital spending. Once these assets were purchased as part of a business combination, further costs incurred in relation to acquiring any new subscribers and retaining existing ones are captured in operating expenses. Therefore, we have excluded this amortization to provide what we believe is a more meaningful measure of earnings per share. Earnings per share before this purchase price allocation amortization is expected to be between $1.60 and $1.80 in 2011.

This "2011 financial guidance" section is forward-looking information and readers are cautioned that actual results may vary. Refer to the "Assumptions made in the preparation of forward-looking information" section and the "Forward-looking information" section at the beginning of this MD&A.

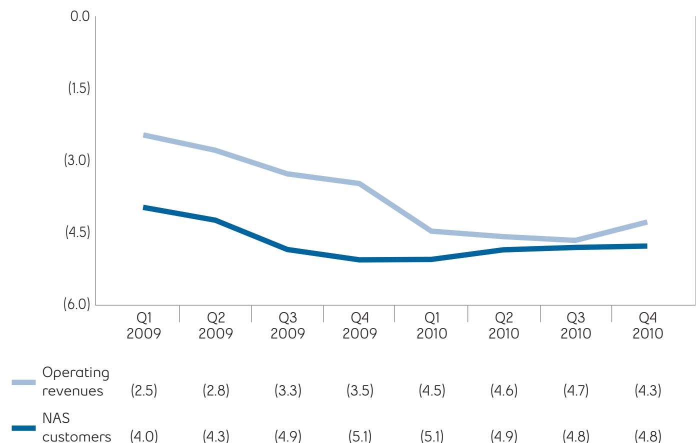
RESULTS OF OPERATIONS

For the period ended December 31 *(millions of dollars)*	2010	2009 [2]	% change
Local and access	1,298.4	1,356.9	(4.3)
Long distance	393.3	424.6	(7.4)
Data & Internet	832.1	828.0	0.5
Wireless	91.3	88.8	2.8
Other revenues	170.0	171.9	(1.1)
Operating revenues	2,785.1	2,870.2	(3.0)
Operating expenses	1,355.5	1,412.7	(4.0)
EBITDA [1]	1,429.6	1,457.5	(1.9)
Net cost of benefit plans	88.7	84.9	4.5
Depreciation and amortization	703.9	709.5	(0.8)
Write-down of finite-life intangibles	1,540.7	—	n.m.
Restructuring and other charges	29.1	41.4	(29.7)
Operating income (loss)	(932.8)	621.7	n.m.
Other expenses	14.0	13.2	6.1
Interest charges	162.3	158.4	2.5
Income tax recovery	(216.5)	(55.6)	n.m.
Non-controlling interest	(401.4)	134.9	n.m.
Net earnings (loss) from continuing operations	(491.2)	370.8	n.m.
Net loss from discontinued operations	(5.9)	(14.6)	(59.6)
Net earnings (loss)	(497.1)	356.2	n.m.

n.m. not meaningful
(1) EBITDA is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for more details.
(2) Financial results for all prior periods presented have been restated to reflect our xwave business as discontinued operations.

Operating revenues

Local and access



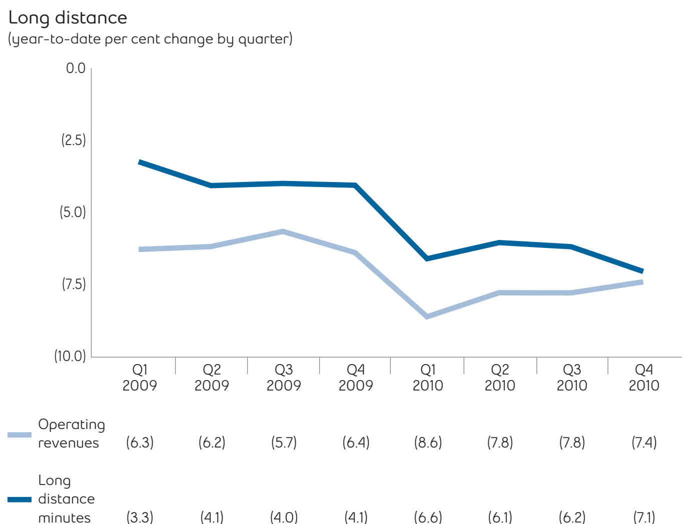
Our local and access revenue is earned primarily through the provision of NAS, along with enhanced service features, contribution revenues and competitor network access revenues. Local and access revenue declined 4.3 per cent, or $58.5 million, in 2010 compared to 2009, largely driven by a 4.8 per cent drop in our total NAS customers on a year-over-year basis. A number of our regulated services are governed by a "price cap formula" and as a result of negative inflation in 2009, a large reduction in contribution subsidy revenues resulted in 2010. This was mitigated by the beneficial effects of a regulatory decision in late 2010 allowing us to use higher costs in the contribution subsidy calculation. In order to help diminish the effect of reduced contribution subsidy and declining NAS customers on our revenues, we have programs in place targeted at retaining our highest value customers and have implemented selective pricing increases that reflect the higher value provided through our bundled packages.

At December 31, 2010, the number of residential NAS customers was 6.0 per cent lower than at December 31, 2009, and the number of business NAS customers was 2.4 per cent lower than at December 31, 2009. Our residential market continues to experience NAS losses due to increased competitive intensity and an expansion in the cable competitive footprint, as well as substitution of traditional wireline service by other services, including wireless and VoIP. In our business market, we did not experience the same degree of contract losses in 2010 as we saw in 2009.

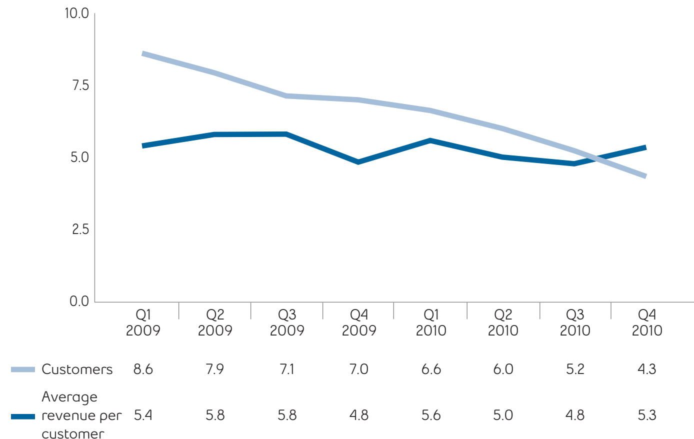
Our total net NAS declines in 2010 were 140,282, compared to 155,519 in 2009, an improvement of 15,237 net NAS. The improvement in net NAS declines in 2010 over 2009 was facilitated by an easing competitive footprint growth, take-up of our enhanced bundles and retention programs and the non-recurrence of business contract losses.

Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 7.4 per cent, or $31.3 million, in 2010 compared to 2009. The decrease in long distance revenue was driven by customer losses, substitution of traditional wireline service by email, cellular calling and VoIP services, and customers shifting away from per-minute plans in favour of flat-rate and lower priced plans. Revenue from long distance service decreases as it is bundled with high-speed Internet and TV, however the attractiveness of bundles serve to increase our overall revenue per customer as they subscribe to more of our services.



Data and Internet



Data and Internet revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed network services, Internet protocol television (IPTV) and enhanced services and applications. Data and Internet revenue increased 0.5 per cent, or $4.1 million, in 2010 compared to 2009, as growth in Internet revenue of $31.4 million, or 7.4 per cent, more than offset the decline in other data revenue of $27.3 million, or 6.8 per cent. The shift in revenue mix is due to customers migrating from a legacy data network to a more IP-base network providing higher speeds and other value-added services.

At December 31, 2010, our high-speed Internet customer base was 4.3 per cent higher than December 31, 2009, with growth in both the business and residential markets. Although we continued to add high-speed Internet customers, the rate of growth in 2010 compared to 2009 has decreased consistent with the trend reflected across the industry. Additionally, our increased focus on expanding *FibreOP* service coverage and attracting subscribers to that service reduced the number of DSL net additions from 2009. We have bolstered our Internet revenue growth by marketing our value-added services to customers together with selected price increases, which has resulted in an increase in residential high-speed Internet average monthly revenue per customer (ARPC). ARPC increased by $1.99, or 5.3 per cent, to $39.70 in 2010, compared to 2009.

Wireless

Wireless revenue is earned through providing cellular, paging and mobile radio services over digital wireless networks in our Télébec, NorthernTel and KMTS branded territories in Ontario and Quebec. Wireless revenue increased by 2.8 per cent, or $2.5 million, in 2010 compared to 2009, mainly due to a 9.4 per cent increase in wireless customers at December 31, 2010, which was partially offset by lower wireless ARPC of $2.62, or 4.2 per cent in 2010, compared to 2009, driven by declining roaming rates. We continue to employ aggressive promotional pricing in order to acquire and retain customers in the face of competitive offers.

Other revenues

Other revenues consist primarily of terminal rentals and sales, support structure (pole) rentals, personal computer sales, telecommunications equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined 1.1 per cent, or $1.9 million, in 2010 compared to 2009. Lower revenue from terminal rentals and sales and repatriation of outsourcing arrangements in 2010 was not completely offset by increased revenue from custom work predominantly generated from the G8 Summit, the regulatory decision that revised pricing for support structure rentals and increased telecommunications equipment sales.

Expenses

Operating expenses

For the period ended December 31

(millions of dollars)	2010	2009[1]	% change
Cost of sales	383.7	370.7	3.5
Salaries, benefits, contract labour and consulting	460.1	488.8	(5.9)
Selling, general and administrative	507.5	546.9	(7.2)
Capital taxes	4.2	6.3	(33.3)
Operating expenses	1,355.5	1,412.7	(4.0)

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

Operating expenses decreased by 4.0 per cent, or $57.2 million, in 2010 compared to 2009, reflecting an improvement in the majority of operating expense categories.

Cost of sales increased by 3.5 per cent, or $13.0 million, in 2010 compared to 2009. This was mainly attributable to increased TV content driven by a larger number of TV subscribers, higher product cost of goods sold associated with increased telecommunications product revenues, higher hardware wireless subsidies resulting from increased volumes of wireless activations and renewals and higher network service cost of goods sold, primarily as a result of the G8 Summit hosted in our Ontario region.

Salaries, benefits, contract labour and consulting expenses decreased 5.9 per cent, or $28.7 million, in 2010 compared to 2009. Labour cost reductions were predominately driven by the continuation of productivity initiatives related to workforce restructuring.

Selling, general and administrative costs decreased 7.2 per cent, or $39.4 million, in 2010 compared to 2009. Continued streamlining of our operations through various cost containment initiatives resulted in lower real estate expense, administrative expense and curbed other discretionary spending. Additionally, an increase in the recognized amount of research and development tax credits in 2010, compared to 2009, as well as lower property taxes, bad debt expense and IT system expense, related to new third party outsourcing arrangements in 2010, compared to 2009, helped to reduce operating expenses.

Capital taxes decreased 33.3 per cent, or $2.1 million, in 2010 compared to 2009 due to previously enacted capital tax rate reductions.

Net cost of benefit plans

Net cost of defined benefit (DB) and other post employment benefit (OPEB) plans were $81.2 million in 2010, increasing 4.9 per cent, or $3.8 million, from $77.4 million in 2009. The size of the DB and OPEB obligations increased in 2010 compared to the prior year, resulting in higher amortization of actuarial losses and interest costs. Increases in these costs have been partially offset by higher than expected returns on DB plan assets, with our asset base increasing from strong returns and cash contributions made in 2009 and 2010. Current service costs have remained relatively stable, as natural rising costs of benefits and the effect of lower discount rates are partially offset by fewer active employees in these plans.

Defined contribution (DC) pension costs were $7.5 million in 2010, consistent with the prior year.

Depreciation and amortization

Depreciation and amortization decreased 0.8 per cent, or $5.6 million, in 2010 compared to 2009. The decrease is mainly the result of an overall declining depreciable asset base. Additionally, we recognized a $2.4 million higher asset retirement obligation accretion expense in 2009, with no similar transaction in 2010.

Write-down of finite-life intangibles

As part of our annual balance sheet reviews, and in preparation for our conversion to a corporate structure and transition to IFRS, we revisited the original estimates used in valuing assets, such as finite-life intangibles related to customer relationships, acquired in 2006 when we were created and in 2008 on the privatization of Télébec and NorthernTel. Using revised estimates in 2010, under Canadian GAAP, an impairment in the carrying value of the finite-life intangibles related to customer relationships was identified and we recorded a non-cash write-down of $1,540.7 million. There was no similar transaction recorded in 2009.

Restructuring and other charges

Restructuring and other charges decreased 29.7 per cent, or $12.3 million, in 2010 compared to 2009. In 2010, we recorded restructuring charges related to our continuing operations of $25.3 million, compared to $30.8 million in 2009. Both years included employee severance and benefit costs as a result of offering voluntary retirement incentives to certain unionized staff and streamlining our management workforce, as well as real estate rationalization costs. In 2010, we also recorded the final costs of the 2009 restructuring initiatives of $2.6 million, with a similar charge recorded in 2009 of $6.8 million related to the 2008 initiatives.

In addition, 2010 restructuring and other charges included $1.2 million related to rebranding our operations, compared to $3.8 million in 2009.

Other expenses

Other expenses decreased 6.1 per cent, or $0.8 million, in 2010 compared to 2009. In September 2010, we recognized a $12.1 million loss on early redemption of medium-term notes, which includes $1.1 million for recognition of previously amortized costs, with no similar transaction in 2009. In 2009, we reclassified $13.3 million from other comprehensive earnings for net losses on interest rate hedges that were settled in May 2009, with no similar transaction occurring in 2010.

Interest charges

Interest charges increased 2.5 per cent, or $3.9 million, in 2010 compared to 2009. Total debt levels are slightly higher year over year due to new capital lease agreements of $28.1 million and $25.0 million entered into during 2010 and 2009, respectively, and higher short-term working capital financing. The higher interest expense in 2010 reflects this increase to our debt levels as well as higher interest rates on long-term debt issued in May 2009, the proceeds of which were used to repay lower rate short-term debt. This was partially offset by lower interest rates on long-term debt issued in September 2010, the proceeds of which we used to redeem early a portion of a September 2011 maturity which bears a higher interest rate. Approximately 90 per cent of our debt is effectively subject to fixed rates of interest.

Income tax recovery

A portion of our income is earned through limited partnerships. The taxable income earned through limited partnerships is not subject to tax at the limited partnership level, but is allocated directly to the respective partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. Income tax recovery increased $160.9 million in 2010, compared to 2009, largely due to lower pre-tax earnings resulting from the write-down of finite-life intangible assets in 2010 partially offset by a lower income tax recovery in 2010 compared to 2009 due to a lower reduction in our blended weighted average tax rates in 2010, compared to 2009.

Non-controlling interest

Non-controlling interest in our earnings represents Bell Canada's 37.9 per cent ownership interest in our subsidiary, Bell Aliant LP (36.4 per cent on a proportionate cash distribution basis). The per unit distributions attributable and paid to Bell Canada equal, to the greatest extent practicable, the per unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

Non-controlling interest in our earnings decreased $536.3 million in 2010, compared to 2009. The large decrease correlates to the decrease in net income from Bell Aliant LP for the year, primarily driven by the write-down of finite-life intangible assets in 2010.

Net loss from discontinued operations

Discontinued operations in 2010 and 2009 reflect the operating results of our xwave business, while 2009 also includes the operating results of Innovatia, xwave New England and our DSA business.

On October 26, 2010, we announced that we had signed an asset purchase agreement under which Bell Canada would acquire our xwave business, subject to certain conditions. As a result, we reclassified the results of our xwave business operations as discontinued operations. Accordingly, prior period consolidated statements of earnings and cash flows have been restated to reflect this change and the net assets of our xwave business have been reclassified as discontinued operations on the consolidated balance sheet as at December 31, 2010. In 2010, our xwave business generated a loss of $1.8 million for the year.

The sale transaction closed on January 1, 2011, with proceeds on sale of $38.4 million in cash and $34.3 million in a receivable from Bell Canada related to post-closing balance sheet adjustments.

In 2009, our xwave business, Innovatia, xwave New England and our former DSA business had a combined net loss of $14.6 million.

Selected quarterly financial information

The following table shows selected consolidated financial results by quarter for 2010 and 2009. This quarterly information is unaudited but has been prepared on the same basis as the annual consolidated financial statements.

For the eight quarters ended December 31				2010				2009 [3]
(millions of dollars, except per unit amounts)	Q4	Q3	Q2 [3]	Q1 [3]	Q4	Q3	Q2	Q1
Operating revenues	709.3	698.2	694.5	683.1	719.0	724.7	720.3	706.2
EBITDA [1]	358.5	362.5	356.9	351.7	364.8	372.7	365.0	355.0
Operating income (loss)	(1,395.2)	161.8	153.6	147.0	145.8	163.7	163.9	148.3
Net earnings (loss):								
Continuing operations	(735.2)	75.2	91.6	77.2	96.5	98.5	93.0	82.8
Discontinued operations	(4.8)	0.6	(2.3)	0.6	(3.9)	(6.7)	(3.7)	(0.3)
Net earnings (loss):	(740.0)	75.8	89.3	77.8	92.6	91.8	89.3	82.5
Basic and diluted earnings (loss) per unit:								
Continuing operations	(4.58)	0.47	0.57	0.48	0.60	0.61	0.58	0.52
Discontinued operations	(0.03)	—	(0.01)	—	(0.02)	(0.04)	(0.02)	(0.01)
Basic and diluted earnings (loss) per unit	(4.61)	0.47	0.56	0.48	0.58	0.57	0.56	0.51
Distributable cash [1]	140.3	193.7	176.2	200.3	182.5	207.8	186.6	196.5
Cash distributions declared [2]	165.2	165.1	165.1	165.1	165.1	165.1	165.1	164.9

(1) EBITDA and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.
(2) Cash distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that were exchangeable into Fund units.
(3) Financial results for all prior periods presented have been restated to reflect our xwave business as discontinued operations.

The quarterly operating results for 2010 and 2009 reflect the following significant transactions and trends:

- In general, revenues from local and access, long distance, other data and other revenues have declined over the past eight quarters, while wireless and Internet revenues have trended upward.
- As part of our productivity initiatives in 2009 to create a more efficient cost structure as well as improve our service to customers, we offered a limited voluntary retirement incentive to our unionized employees in Atlantic Canada, Ontario and Quebec. We also announced an operational consolidation of certain contact centres in Atlantic Canada and streamlined our management workforce. We recognized restructuring charges related to these initiatives of $9.3 million, $2.5 million, $12.1 million and $13.7 million in the first, second, third and fourth quarters of 2009, respectively. In 2010, we continued our organizational restructuring initiatives which resulted in recognizing related restructuring charges of $10.7 million, $4.0 million, $0.6 million and $12.6 million in the first, second, third and fourth quarters, respectively.
- In response to our strategic objectives, we implemented cost containment and other expense reduction initiatives during 2009. This trend continued in 2010, reducing our selling, general and administrative expenses by $7.7 million, $13.9 million, $12.7 million and $5.1 million in the first, second, third and fourth quarters, respectively, compared to the same periods in 2009.

- On May 1, 2009, we concluded an asset purchase agreement whereby CAE Professional Services (Canada) Inc. (CAE) acquired our DSA business, which operated under the xwave brand. The proceeds on closing were $16.3 million in cash and $7.6 million in receivables from CAE related to post-closing balance sheet adjustments, with an additional $8.5 million of proceeds contingent upon the occurrence of certain future events, for potential total proceeds of $32.4 million. A pre-tax gain on sale of $1.7 million was recorded in the second quarter of 2009, which was reflected in net loss from discontinued operations. In December 2010, we decreased the $7.6 million receivable by $4.6 million to $3.0 million to recognize a provision for estimated loss on settlement of the post-closing balance sheet adjustments, and accordingly, reduced the gain recognized on sale by an equivalent amount. Two contingent payments totalling $3.5 million were not triggered and expired during the year.
- On June 1, 2009, we concluded a share purchase agreement whereby Abilis Solutions Inc. acquired 100 per cent of the outstanding shares of xwave New England. The proceeds on closing were $4.9 million, resulting in a pre-tax loss on sale of $3.5 million being recognized during the second quarter of 2009.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia acquired all of its outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of $6.1 million. The proceeds on closing were $1.5 million, resulting in a pre-tax loss on sale of $1.5 million being recognized in the fourth quarter of 2009.

Further details regarding our results for 2010 are discussed throughout this document. Further information on our prior quarterly results can be found in the respective quarterly financial statements and related MD&A on our website at www.bellaliant.ca and filed on SEDAR at www.sedar.com. A discussion of our results for the fourth quarter of 2010 and 2009 can be found in our fourth quarter MD&A dated February 8, 2011, which is incorporated herein by reference and available on our website at www.bellaliant.ca, and filed on SEDAR at www.sedar.com.

Selected annual financial information

The following table provides selected summarized annual consolidated financial information for 2010, 2009 and 2008. This has been derived from and should be read in conjunction with the annual consolidated financial statements for Bell Aliant Holdings LP for the year ended December 31, 2010, and its annual consolidated financial statements for previous years.

For the years ended December 31 *(millions of dollars, except per unit amounts)*	**2010**	2009 (1)	2008 (1)
Operating revenues	**2,785.1**	2,870.2	2,944.3
Net earnings (loss) from continuing operations	**(491.2)**	370.8	338.3
Net loss from discontinued operations	**(5.9)**	(14.6)	(16.1)
Net earnings (loss)	**(497.1)**	356.2	322.2
Basic and diluted earnings (loss) per unit:			
Continuing operations	**(3.06)**	2.31	2.12
Discontinued operations	**(0.04)**	(0.09)	(0.10)
Total basic and diluted earnings (loss) per unit	**(3.10)**	2.22	2.02
Distributions declared per Fund unit	**2.90**	2.90	2.89
Total assets	**9,127.3**	10,517.8	10,753.0
Total long-term debt (including current portion)	**2,788.3**	2,777.1	2,568.7

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

2010 compared to 2009

- Operating revenues decreased in 2010, compared to 2009, driven by declines in local, long distance and data revenues as a result of lower NAS from increased competitive activity and migration to alternative technologies. Increases in Internet and wireless revenues and product sales were not strong enough to offset revenue declines in other areas.
- Net earnings from continuing operations decreased in 2010, compared to 2009, mainly due to the $1,540.7 million write-down of finite-life intangible assets. This write-down caused the income tax recovery to increase and the non-controlling interest in our earnings to decline resulting in a net effect of $810.9 million on net earnings from continuing operations.
- There was a decrease in net loss from discontinued operations in 2010, compared to 2009, primarily due to the $6.1 million write-down of Innovatia's net assets which occurred in 2009.
- Total assets decreased in 2010, compared to 2009, primarily due to the $1,540.7 million write-down of finite-life intangible assets. This decline was slightly offset by the increase in notes receivable from related parties of $145.6 million, with no corresponding transaction in 2009, resulting from BCE and Bell Canada's election, mid way through 2010 to defer their distributions from us and to be loaned an amount equal to their deferred distributions.
- The 2010 results compared to 2009 results are discussed in more detail throughout this document.

2009 compared to 2008

- Operating revenues decreased in 2009, compared to 2008, due to increased competition and the introduction of new services by competitors, which continued to erode local and access as well as long distance revenues. In addition, growth in Internet and wireless revenues was not strong enough to offset revenue declines in other areas.
- There was an increase in net earnings from continuing operations in 2009, compared to 2008, despite declining operating revenues, as there was a continued focus on productivity and cost containment initiatives, as well as lower restructuring charges and higher income tax recoveries in 2009, compared to 2008.
- Total assets decreased in 2009, compared to 2008, primarily due to normal depreciation and amortization of capital investments.
- Total long-term debt increased in 2009, compared to 2008, due to the issuance of $350.0 million of unsecured medium-term notes, which were used to refinance $100.0 million of non-revolving term debt and $250.0 million of revolving short-term debt.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

For the period ended December 31

(millions of dollars)	2010	2009 [1]	% change
Cash from (used in):			
Operating activities	1,028.5	1,126.4	(8.7)
Financing activities	(328.9)	(669.2)	(50.9)
Investing activities	(638.7)	(461.8)	38.3
Net increase (decrease) in cash from continuing operations	60.9	(4.6)	n.m.
Net increase (decrease) in cash from discontinued operations	(22.6)	17.1	n.m.
Net increase in cash for the period	38.3	12.5	n.m.

n.m. not meaningful
(1) Financial results for all prior periods presented have been restated to reflect our xwave business as discontinued operations.

We generated net cash of $38.3 million in 2010, compared to $12.5 million in 2009, reflecting a $25.8 million increase in cash flows in 2010. This increase is the result of higher cash from continuing operations of $65.5 million, partially offset by lower cash from discontinued operations of $39.7 million. The lower cash from discontinued operations primarily reflects a $29.1 million decrease in cash generated from our xwave business in 2010, as well as 2009 including the sale proceeds realized from the sale of Innovatia, our DSA and xwave New England businesses. The proceeds from the sale of our xwave business were received in January 2011.

Operating activities

Cash generated from operating activities was 8.7 per cent, or $97.9 million, lower in 2010 than in 2009, due to a $17.0 million decrease in net earnings from continuing operations net of non-cash adjustments, a $68.4 million decrease in cash flow from changes in operating assets and liabilities, or working capital, and an increase of $12.5 million in funding of DB pension and OPEB plans.

The decrease in cash flow from changes in working capital mainly relates to changes in our accounts receivable and to a lesser extent, other working capital items. Our customer accounts receivable management efforts contributed $3.4 million to cash flow from working capital in 2010, compared to $53.7 million in 2009, reflecting a $50.3 million decrease in cash flow. Although there was a continued improvement in accounts receivable management, it was not to the extent realized in 2009. Inventory used $2.4 million more cash in 2010, compared to 2009, as our *FibreOP* program required elevated inventory purchases during 2010. Income tax receivable used $5.3 million more cash as we made a payment in the first quarter of 2010 resulting from an audit of our scientific research and experimental tax credits. We used $6.3 million more cash in 2010 for prepayments mainly due to recognizing prepayment of costs related to the disposition of our xwave business and other timing differences. We also used $6.4 million more cash in 2010 for deferred charges than we did in 2009, and received $6.9 million less cash from long-term receivables due to amounts received from the deferral account settlement with Bell Canada in 2009. Offsetting these higher net uses of cash in 2010, the amount of cash used to reduce payables and accruals was $30.7 million in 2010, compared to $55.6 million in 2009. This is in large part due to significant payments of restructuring charges of $65.6 million made during 2009, compared to $54.7 million in 2010, as well as the timing of expenditures on capital projects.

Pension funding requirements also affect our cash from operating activities. In 2010, we made contributions to fund our DB pension plans of $139.8 million, compared to $127.7 million in 2009. Total contributions made in 2010 are based on the results of actuarial valuations of our DB pension plans as of December 31, 2009, which were filed in the third quarter of 2010. Funding deficits as of December 31, 2009, increased from the previous year due to further recognition of losses incurred in 2008 in smoothed asset values, lower interest rates and the effect of early retirements, which were partially offset by strong asset returns in 2009. Included in the total funding contributions are pension deficit-reducing payments of $86.2 million in 2010, compared to $73.8 million in 2009.

Contributions to our OPEB plans to fund benefit payments were $8.2 million in 2010, compared to $7.8 million in 2009, due to an increase in the number of retirees receiving benefits as well as the timing of benefit payments.

Financing activities

Cash used in financing activities decreased by 50.9 per cent, or $340.3 million, in 2010 compared to 2009.

Our net proceeds from debt (including short-term and long-term debt, notes payable to related parties and capital lease obligations) were $226.0 million in 2010, compared to net repayments of $11.2 million in 2009.

In 2010, we had net proceeds from issuance of medium-term notes in the third quarter of $348.7 million. Those proceeds, together with incremental short-term borrowing, were used to make a partial early repayment of medium-term notes which were due to mature in September 2011. We repaid $345.0 million of principal amount and paid an $11.0 million prepayment penalty on redemption, resulting in a $356.0 million total settlement payment for the partial redemption.

Included in 2009 is the refinancing of $350.0 million of revolving and term bank debt with an issue of medium-term notes. Debt issue costs were incurred, and the notes were issued at a discount providing net proceeds of $348.6 million. The proceeds were used to repay $250.0 million of Bankers' Acceptance advances that were outstanding under our revolving operating facilities and a $100.0 million non-revolving term loan. Associated with the repayment of these floating-rate obligations, we paid cash of $15.4 million to settle our outstanding fixed-floating interest rate swaps. We also repaid the $50.0 million long-term bank facility that was put in place in 2008 for Télébec.

Amounts drawn under short-term credit facilities increased to $249.2 million at December 31, 2010, compared to $40.0 million at December 31, 2009. In 2010, we issued $209.2 million under our commercial paper program to fund changes in operating assets and liabilities and the repurchase of an interest in poles in Newfoundland.

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

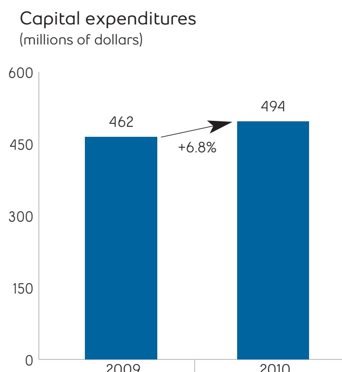
We also used $37.0 million in cash in 2010 to repurchase accounts receivable for the securitization trust, with no similar activity occurring under the program in 2009. We increase or decrease the amount of accounts receivable we sell to the securitization trust based on the amount of our eligible accounts receivable and our determination of the cost effectiveness of this program.

Total distributions paid to the Fund and non-controlling interests were $517.9 million in 2010 and $665.0 million in 2009. This decrease of $147.1 million is primarily a result of BCE and Bell Canada's election to defer payment of their distributions declared related to their interest in exchangeable limited partnership units of Bell Aliant Holdings LP and Bell Aliant LP from June 2010 up to and including December 2010. During this time, BCE and Bell Canada received the equivalent amount of these distributions in the form of a loan, as discussed under "Investing activities". On January 1, 2011, the deferred distributions were paid to BCE and Bell Canada and the associated loans were settled.

Investing activities

Net cash used in investing activities increased by 38.3 per cent, or $176.9 million, in 2010 compared to 2009.

The largest part of this increase, or $145.6 million, relates to BCE and Bell Canada electing to be loaned an amount equal to their declared distributions from us in the form of non-interest bearing notes receivable with a maturity date of January 1, 2011.



Capital investments were $494.0 million in 2010, compared to $462.4 million in 2009, representing an increase of 6.8 per cent, or $31.6 million. The increase in capital spending in 2010 mainly reflects the $57.2 million cost of repurchasing an interest in poles from Newfoundland Power Inc. and Fortis Inc., which was partially offset by a reduction in other capital spending. Strategic priority was given to growing broadband, specifically related to FTTH, which was offset by the completion in 2009 of the Bell Mobility backhaul project, and productivity initiatives in 2010.

Capital expenditures were 17.7 per cent of operating revenues for 2010, in line with our 2010 revised target of 17.5 per cent to 18.0 per cent which incorporated the obligation to repurchase the interest in poles.

Liquidity

Sources of liquidity

We derive most of our liquidity from cash from operating activities, as well as bank credit facilities, a commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities to pay for capital investments, dividends to shareholders and other commitments as they arise.

Our capital structure is as follows:

As at December 31 *(millions of dollars)*	2010		2009	
Partners' equity	3,854.0	49.1%	4,799.4	52.3%
Non-controlling interest	977.1	12.4%	1,587.9	17.3%
Net debt	3,020.8	38.5%	2,792.6	30.4%
Total capital	7,851.9	100.0%	9,179.9	100.0%

Partners' capital

We had an unlimited number authorized of each of the three classes of units, which were not publicly traded. The number of units issued and outstanding at December 31, 2010, which was unchanged from December 31, 2009, is as follows:

- 28,168,803 class 1 exchangeable limited partnership units;
- 132,367,606 class 2 limited partnership units; and
- 54,000 general partnership units.

For further details on the terms and conditions associated with our units, refer to note 15 of our audited consolidated financial statements for the year ended December 31, 2010, and our Limited Partnership Agreement, each of which is available on www.sedar.com.

Bell Aliant GP shareholders' capital

On January 1, 2011, we were dissolved as part of the Fund's conversion to a corporate structure and all outstanding units were cancelled as described earlier in the "Conversion transaction" section. The authorized capital structure of our successor corporation, Bell Aliant GP, consists of an unlimited number of a class of shares designated as voting common shares and an unlimited number of a class of shares designated as non-voting common shares. Holders of voting common shares will be entitled to one vote per share at meetings of our shareholders, to receive dividends if, as and when declared by our board on a pro-rata basis with the holders of non-voting common shares, and to receive on a pro-rata basis with the holders of non-voting common shares the remaining property upon any liquidation, dissolution or winding up, whether voluntary or involuntary, subject to the rights of shares having priority over the voting common shares. The number of shares issued and outstanding as at March 2, 2011, was 101,373,833 voting common shares.

At March 9, 2011, our subsidiary, Bell Aliant Preferred Equity Inc., was in the process of issuing approximately 10,000,000 Cumulative Rate Reset Preferred Shares, Series A (the "Series A Preferred Shares"), at a price of $25.00 per Series A Preferred Share. The underwriters of this offering also have the right to purchase up to an additional 1,500,000 Series A Preferred Shares at the same price until the 30th day after closing. The Series A Preferred Shares will pay cumulative dividends of $1.2125 per share per annum, yielding 4.85 per cent, payable quarterly (with the first quarterly dividend to be paid June 30, 2011), for the initial five year period ending March 31, 2016. The dividend rate will be reset on March 31, 2016, and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 2.09 per cent. The Series A Preferred Shares will be redeemable by the issuer on or after March 31, 2016, in accordance with their terms. For further details concerning the offering of these preferred shares, refer to note 26 of our annual consolidated financial statements and Bell Aliant Inc.'s press release dated February 22, 2011.

Debt

Our long-term debt outstanding at December 31, 2010, is as follows:

As at December 31 *(millions of dollars)*	Maturity	Interest rates	**2010**	2009
Medium-term notes	2011 – 2037	4.72% – 6.29%	**2,605.0**	2,600.0
Debentures	2012 – 2020	5.34% – 10.25%	**137.7**	139.6
Other	2011 – 2020	3.54% – 12.50%	**45.6**	37.5
Total			**2,788.3**	2,777.1

We have a total of $2,605.0 million in unsecured and unsubordinated medium-term notes outstanding at December 31, 2010, under Bell Aliant LP's trust indenture dated September 14, 2006, compared to $2,600.0 million at December 31, 2009.

In September 2010, we issued $350.0 million of unsecured medium-term notes, bearing interest at 4.37 per cent per annum and maturing on September 13, 2017. Debt issue costs of $1.3 million were incurred, resulting in net proceeds of $348.7 million. The net proceeds were used to make a partial redemption of the 4.72 per cent medium-term notes maturing on September 26, 2011. We redeemed $345.0 million principal amount, or 46 per cent of the total outstanding principal amount, and paid an $11.0 million penalty on early redemption, recorded in other expenses, resulting in a $356.0 million total settlement payment for partial redemption.

The debentures totalling $137.7 million at December 31, 2010, are outstanding under trust indentures of Télébec and NorthernTel. Télébec's debentures are secured by a mortgage on land and buildings located in Val D'Or, Quebec. The NorthernTel debentures are unsecured.

Other long-term debt includes $49.9 million under capital lease obligations in 2010, compared to $41.0 million in 2009, and smaller amounts outstanding under various other long-term debt obligations, netted with accumulated unamortized debt issue costs of $9.7 million in 2010, compared to $10.1 million in 2009.

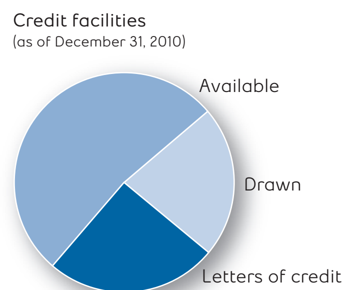
Our bank credit facilities are classified as short-term debt. The details of their availability and usage as at December 31, 2010, are as follows:

(millions of dollars)	Maturity	Size	Drawn	Letters of credit	Available
Revolving operating facilities	July 7, 2011	550.0	209.2	24.0	316.8
Non-revolving pension reserve facilities	July 7, 2011	447.6	40.0	144.1	263.5
Other demand operating facilities	Various	13.0	—	1.3	11.7
Dedicated letter of credit facilities	Annual	116.7	—	116.7	—
Total		1,127.3	249.2	286.1	592.0

During 2010, we increased the total size of our bank credit facilities available to us by $5.4 million to $1,127.3 million as follows:

- Dedicated letter of credit facilities were increased by $6.0 million; and
- Uncommitted lines of credit were decreased by $0.6 million to a total of $13.0 million.

Credit facilities
(as of December 31, 2010)



The commercial terms of our available short-term credit facilities have not changed significantly since December 31, 2009, although certain amendments were made in relation to our conversion to a corporate structure.

We continue to maintain a $400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. At December 31, 2010, short-term promissory notes totalling $209.2 million were issued under our commercial paper program to fund changes in operating assets and liabilities and the repurchase of an interest in poles. There were no amounts issued at December 31, 2009.

There was $40.0 million drawn under our pension reserve facility at December 31, 2010, unchanged from December 31, 2009. This facility is also used to secure $144.1 million of letters of credit to support 2006 and 2009 DB pension solvency funding relief regulations, which have increased $13.7 million since December 31, 2009. We also had $116.7 million in letters of credit in place to secure current and former executive retirement compensation agreements.

Our credit facilities contain customary covenants and provisions that could, if not satisfied, trigger an event of default. Continued access to our credit facilities under normal operating conditions is not contingent on the maintenance of a specific credit rating. However, the applicability of certain covenants is tied to maintaining investment grade credit ratings. For example, we would have a new financial ratio covenant to comply with and could be forced to restrict dividends if we were downgraded below an "investment grade" rating (generally below the "BBB" level). Also, certain facilities contain a "change of control" event of default if someone other than BCE or Bell Canada obtains control of us and our credit ratings are downgraded to below investment grade. As of December 31, 2010, there have been no changes to the covenants and provisions contained in our credit facilities as disclosed in our MD&A for the year ended December 31, 2009, except for amendments required relating to the Fund's conversion to a corporate structure.

Ratings

Standard and Poor's (S&P) and DBRS Limited (DBRS) have issued the following ratings as of December 31, 2010, for our subsidiaries:

	S&P	DBRS
Bell Aliant LP senior unsecured debt	BBB, stable outlook	BBB (high), stable trend
Bell Aliant LP commercial paper	Not rated	R-1 (low), stable trend
Télébec and NorthernTel debentures	BBB, stable outlook	BBB (high), stable trend

A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time. During the second quarter of 2010, S&P changed its outlook on our senior unsecured debt from negative to stable.

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for 2010 consisted of distributions to unitholders, investments in capital, including our repurchase of poles in Newfoundland, pension plan funding, repayment of short-term and long-term debt, and payments of other commitments. Cash requirements in 2011 are expected to be similar, except for the repurchase of an interest in poles in Newfoundland and we will pay dividends to our shareholders. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- We expect the initial annual dividend rate of Bell Aliant Inc. to be $1.90 per share. Quarterly dividends are approved at the discretion of the Bell Aliant Inc. board of directors. Bell Aliant Inc. is entirely dependent upon us to pay its dividends. The anticipated annual cash requirement to pay dividends to shareholders of Bell Aliant Inc. is estimated to be approximately $432 to $435 million for 2011.

- Capital expenditures for 2010, excluding the repurchase of an interest in poles, were $436.8 million, or 15.7 per cent of operating revenues. We anticipate 2011 capital expenditures to be in the range of $520 million to $560 million. Refer to the "2011 financial guidance" section for further discussion on expected capital expenditures.

- We are required to repay short-term and long-term debt according to its terms. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support issuances of commercial paper. We have $405.0 million outstanding principal amount of medium-term notes due to mature on September 26, 2011, which we anticipate we will partially repay and partially refinance.

- Our DB pension plans have funding deficits. In 2010, the pension plans achieved a return on assets that was above our expected rate of return. However, we anticipate that the discount rates utilized to calculate our solvency funding liabilities for active employees at December 31, 2010, will be lower than those used at December 31, 2009. In addition, our December 31, 2010, funding requirements will reflect increased liabilities resulting from early retirements in 2010. In the absence of new federal rules allowing the funding of solvency deficit payments with letters of credit, we estimate that required cash funding of our DB pension deficits would be in the range of $100 million to $120 million in 2011, compared to $86.3 million for 2010. However, as part of our 2011 financing plans we intend to make a $200.0 million lump-sum voluntary cash contribution to our DB pension plans and to apply a portion of this voluntary amount to our required 2011 deficit funding. We expect funding for this contribution to be provided by the issue of Series A Preferred Shares described above in the "Bell Aliant GP shareholders' capital" section which we expect to be completed in March 2011. We believe that taking this step now removes future volatility that solvency valuations have on our cash flows, strengthens our credit profile, improves our cash flow generation, represents an attractive return on investment and enhances the security of pension benefits for retirees and employees in our DB pension plans. In addition, we estimate that a further $25 million to $50 million in cash deficit funding payments, which approximates our going concern funding requirements, will be contributed to the pension plans in 2011. We will continue to use letters of credit to fund solvency special payments as required under the 2006 and 2009 solvency relief regulations.

  In late December 2010, changes to federal pension regulations were published for public consultation and include the ability to use letters of credit to fund solvency deficits within certain limits. We anticipate that these regulations will become effective before the June 30, 2011, filing deadline for our 2010 actuarial valuations. We continue to assess and have yet to determine if we will implement any new letters of credit to fund a portion of our solvency deficits.

- Restructuring initiatives, announced during 2010, 2009 and 2008 are expected to result in the use of cash of approximately $10 million to $15 million in fiscal 2011.

- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

Other financial arrangements

Contractual obligations

The following table presents a summary of our contractual obligations for principal repayment of long-term debt and other commitments for each of the next five years and thereafter:

As at December 31, 2010

(millions of dollars)	Total	2011	2012	2013	2014	2015	Thereafter
Long-term debt	2,745.1	407.3	7.0	71.8	409.5	351.6	1,497.9
Capital lease obligations	49.9	20.8	17.2	6.6	0.4	0.4	4.5
Operating leases	182.9	28.0	22.6	22.3	21.8	20.7	67.5
Purchase commitments [1]	2,999.4	356.1	331.2	318.8	307.3	282.3	1,403.7
Capital purchases	143.7	72.1	29.4	24.0	18.2	—	—
Total contractual obligations [2]	6,121.0	884.3	407.4	443.5	757.2	655.0	2,973.6

(1) Purchase commitments are agreements to purchase goods or services that are enforceable and legally binding on us and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed minimum or variable price provisions; and the approximate timing of the transaction.

(2) We have other long-term liabilities that are not included in the table. They consist of accrued benefit liabilities, a future income tax liability, deferred revenue, and various other long-term liabilities.

In 2010, we terminated certain pole use agreements effective December 31, 2010, and entered into a new agreement with Newfoundland Power Inc. and Fortis Inc. to repurchase an interest in the poles previously sold to them, for which we paid $57.2 million in 2010. The agreement is subject to final regulatory approval and is expected to be completed in the first half of 2011, at which time the purchase price will be finalized. This has lowered our future commitments to pay for pole attachments in Newfoundland.

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada. Further details of these commitments are described in notes 22 and 25 to our audited consolidated financial statements for the year ended December 31, 2010.

Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Under this agreement, the net cash proceeds received were reduced by $37.0 million in 2010. As at December 31, 2010, our net cash proceeds were $128.0 million, compared to $165.0 million as at December 31, 2009.

The accounts receivable that are sold must meet minimum performance targets. These are based on specific delinquency, default and receivable turnover ratio calculations, as well as our maintenance of minimum credit ratings. If these performance targets are not met, we would no longer be able to sell our receivables and would need to repurchase the sold receivables from the trust. This repurchase would require cash, which may necessitate issuing additional debt as a source of financing.

We also have agreements with Bell Canada whereby we sell certain of our Ontario and Quebec accounts receivable to Bell Canada. Further details of these agreements are described in notes 1 and 2 to our audited consolidated financial statements for the year ended December 31, 2010, which notes are incorporated by reference herein.

Use of derivative financial instruments

Periodically, we use derivative financial instruments in the management of interest rate exposures associated with our long-term and short-term debt and specific firm commitments. We do not use derivative instruments for speculative purposes. Since we do not trade actively in derivative instruments, we are not exposed to any significant liquidity risks relating to them.

On December 31, 2010, we had no derivative instruments outstanding, unchanged from December 31, 2009. Further details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 13 to our audited consolidated financial statements for the year ended December 31, 2010, which notes are incorporated by reference herein.

RELATED PARTY TRANSACTIONS

Our related party transactions are conducted in the normal course of business. In addition, our audit committee of the boards of directors, which is entirely composed of independent directors, provides oversight on our business transactions with related parties.

BCE and Bell Canada

At December 31, 2010, BCE and Bell Canada owned 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 were exchangeable into Fund units, BCE and Bell Canada beneficially owned and controlled 44.07 per cent voting interest (43.88 per cent on a fully diluted basis) of the Fund's outstanding units as at December 31, 2010, compared to 44.09 per cent (43.95 per cent on a fully diluted basis) as at December 31, 2009.

Under a securityholders' agreement, BCE had certain rights in respect of the board of Bell Aliant Holdings LP's general partner, 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, hold 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 controlled the board of Bell Aliant Holdings GP, and thus Bell Aliant Holdings LP. The written consent of BCE is also required, along with a majority vote from the board, prior to undertaking certain matters or transactions for so long as BCE and Bell Canada, directly or indirectly, hold not less than 20 per cent of Fund units (on a fully diluted basis). The security-holders' agreement and other agreements were amended January 1, 2011, to reflect the conversion transaction. Refer to "BCE's governance rights" and "Business relationship with BCE and Bell Canada" in the "Risks that could affect our business and results" section.

We also have a memorandum of agreement, a commercial relationship management agreement, a series of long-term commercial agreements and other agreements with Bell Canada, which describe our long-term strategic alliance, governs our general commercial relationship and provides us with a broad range of technical, operational and human resource support services required for us to operate our wireline and Internet access operations in our Ontario and Quebec territories. The commercial agreements also provide Bell Canada with the telecommunications and support services required to operate its wireless operation throughout our territory. For greater detail on the agreements we have in place with Bell Canada, refer to note 25 of our audited consolidated financial statements for the year ended December 31, 2010.

In addition to the agreements described above, 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.

The following table reflects all related party transactions with Bell Canada, which are measured at the exchange amounts:

For the years ended December 31 *(millions of dollars)*	2010	2009 [1]
Operating revenues	245.5	281.8
Percentage of total operating revenues	8.81%	9.82%
Operating expenses	452.8	471.6
Net earnings (loss) from discontinued operations:		
Operating revenues	19.5	8.2
Operating expenses	3.0	3.3
Capital investments	34.9	11.4

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

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

As at December 31 *(millions of dollars)*	2010	2009
Accounts receivable:		
Trade	115.7	127.9
Wireless receivables	—	0.3
Notes receivable from related parties	145.6	—
Prepayments	3.2	4.1
Long-term receivable, including current portion in accounts receivable	15.4	21.3
Payables and accruals	93.5	76.7
Distributions payable	169.8	24.2
Deferred credits and other long-term liabilities	4.1	4.4

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 the current portion in accounts receivable, from Bell Canada relates to the capital funding commitment by Bell Canada in relation to the IT services plan. In 2009, the long-term receivable from Bell Canada also included $5.2 million related to contingent consideration in relation to the acquisition of Bell Canada's wireline operation in Ontario and Quebec, which was repaid in June 2010, as discussed in notes 9 and 25 to our audited consolidated financial statements for the year ended December 31, 2010.

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. On June 25, 2010, BCE and Bell Canada elected to defer receipt of declared distributions for June 2010 up to and including December 2010. In 2010, a total of $291.1 million of distributions were declared to BCE and Bell Canada, and $145.5 million of distributions were paid to BCE and Bell Canada compared to distributions declared and paid of $291.1 million in 2009. BCE and Bell Canada also elected to be loaned amounts equal to the deferred distributions in the form of non-interest bearing notes with maturity dates of January 1, 2011, which is reflected in notes receivable from related parties.

Estimated future minimum payments under our contractual obligations with Bell Canada, which are included in purchase commitments in the "Contractual obligations" section, are as follows:

As at December 31, 2010 *(millions of dollars)*	2011	2012	2013	2014	2015	Thereafter
Contractual obligations	300.9	291.3	282.6	275.4	267.4	1,301.0

The Fund

On December 31, 2010, the Fund owned 100 per cent of our class 2 limited partnership units, unchanged from December 31, 2009. The Fund was entirely dependent on the distributions we pay to it to make its distributions. In 2010, we declared distributions payable to the Fund of $370.9 million, compared to $373.7 million in 2009. At December 31, 2010, $29.6 million was included in distributions payable, compared to $31.1 million at December 31, 2009.

In the normal course of business, we have an administration 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 administration of the Fund. The agreement, which was amended as part of the conversion transaction to provide for the continuation of services to Bell Aliant Inc., commenced in July 2006, 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 amounts as follows:

For the years ended December 31 *(millions of dollars)*	**2010**	2009
Management salaries	**0.9**	0.8
General and administrative expenses	**2.5**	3.2
Operating expenses	**3.4**	4.0

Management salaries are allocated based on estimated hours spent on Fund matters using actual salary rates. General and administrative expenses are based on actual expenses that are incurred on the Fund's behalf.

We have several unit-based compensation plans that are based on Fund units. We record all compensation expense related to these plans. Further details of the unit-based compensation plans are discussed in note 16 to our audited consolidated financial statements for the year ended December 31, 2010.

At December 31, 2010, amounts due to the Fund that are included in payables and accruals were $27.4 million, compared to $25.2 million in 2009, 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 and requests repayments as required for operating purposes. The $2.6 million promissory note that was payable to the Fund at December 31, 2009, was repaid on January 15, 2010. Subsequently issued promissory notes carried rates of interest from 0.50 per cent to 1.30 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the years ended December 31, 2010, and 2009. At December 31, 2010, a $5.3 million promissory note was payable to the Fund, which carried interest at 1.3 per cent per annum. The note matured and was repaid on January 31, 2011.

SIGNIFICANT ACCOUNTING POLICIES

Our audited consolidated financial statements as at December 31, 2010, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those in effect in 2009. Further information on our significant accounting policies can be found in note 1 to our audited consolidated financial statements for the year ended December 31, 2010.

Future changes in accounting policies

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

International financial reporting standards

The Accounting Standards Board issued a mandate to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition.

We will prepare our financial statements in accordance with IFRS commencing January 1, 2011.

IFRS changeover plan and progress towards completion

Our IFRS changeover plan consisted of a four-phase approach to transition to IFRS, which included:
Phase 1 – Raise awareness and initial assessment
Phase 2 – Detailed assessment
Phase 3 – Design
Phase 4 – Implementation

We have completed the first three phases and at December 31, 2010, have substantially completed implementation, the fourth phase. Refer to our MD&A for the year ended December 31, 2009, for a detailed description of the phases of our changeover plan and our progress to that date.

Phase 4 – Implementation

This phase involves finalizing preliminary accounting policy decisions, preparing our IFRS opening balance sheet as at January 1, 2010, preparing our comparative financial statements and notes under IFRS for 2010, implementing the system and process changes identified in the design phase throughout the organization, delivering the required training on new accounting standards, monitoring, refining and testing the effectiveness of the revised internal control over financial reporting processes and disclosure controls and procedures, preparing and delivering external communications plans, and providing quarterly communications to our audit committee.

We are required to establish our IFRS accounting policies in accordance with standards in effect on our first annual reporting date, December 31, 2011. We have finalized our preliminary accounting policy choices but we will continue to monitor changes to IFRS throughout 2011 and make any necessary changes to our accounting policy and transition choices up until December 31, 2011. We believe any significant changes to our preliminary accounting policies are unlikely, but we are unable to foresee all circumstances that might require a change.

We completed the design and testing for system modifications to support dual reporting, and produced both IFRS and Canadian GAAP accounting records on a recurring transactional level throughout 2010. For 2010, we reported our results under Canadian GAAP but also internally recorded preliminary results under IFRS. We also made changes to our internal processes to facilitate IFRS accounting and reporting. The related internal controls over financial reporting and disclosure controls and procedures were also redesigned and the majority have been tested.

We will continue to work with the users of our financial statements to explain the changes in our accounting policies and their effect on our financial statements.

Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP has determined that we are generally aligned with IFRS in many areas, but has also identified a number of key differences, which have now been quantified. The quantification follows guidance presented in the various IFRS including IFRS 1, *First-time adoption of international financial reporting standards*, to determine whether it is recorded as an opening balance sheet adjustment as at January 1, 2010, or as an in-year adjustment. The key accounting differences are described below to provide a better understanding of the effects of our changeover to IFRS based on our preliminary accounting policy decisions and readers are cautioned that it may not be appropriate to use such information for any other purposes. The following amounts discussed are unaudited. The following discussion should not be regarded as a complete list of changes that will result from our changeover to IFRS as amounts and policies are subject to change as we continue our analysis of our transition.

First time adoption of IFRSs

IFRS 1, *First-time adoption of international financial reporting standards* sets forth guidance for the initial adoption of IFRS. We are required to establish our IFRS accounting policies in accordance with standards in effect on our first annual reporting date, December 31, 2011. We are required to apply these policies retrospectively to determine the IFRS opening balance sheet at our date of transition, January 1, 2010. In addition, IFRS 1 provides both mandatory and optional exemptions to this general rule. We have chosen to apply certain exemptions to reduce the complexity involved in converting to IFRS, as the cost of not applying the exemptions would far outweigh the benefit to the users of our financial statements.

The significant exemptions that we expect to apply upon adoption are summarized below.

Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business combinations*, retrospectively to business combinations that occurred before the date of transition to IFRS. Applying IFRS 3 retrospectively would require a significant amount of analysis and work to restate business combination transactions that have occurred since our inception. We will elect to apply IFRS 3 to business combinations that occur on or after January 1, 2010.

Employee benefits

IFRS 1 indicates that a first-time adopter may elect not to apply IAS 19, *Employee benefits*, retrospectively to cumulative actuarial gains and losses that existed before the date of transition to IFRS. Applying IAS 19 retrospectively would result in a significant amount of work to recalculate actuarial gains and losses recorded since the inception of our employee benefit plans. We will elect to recognize all cumulative actuarial gains and losses in relation to employee benefit plans directly in retained earnings at the date of transition.

Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based payment*, to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002, and vested before the later of the date of transition to IFRS and January 1, 2005. Applying IFRS 2 retrospectively would result in a significant amount of work to determine an estimated vesting date for equity instruments as well as adjusting the timing of the expense recognition. We will elect not to apply IFRS 2 to grants that vested prior to January 1, 2010.

Borrowing costs

IFRS 1 indicates that a first-time adopter may elect to apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23, *Borrowing costs*, which allows a first-time adopter to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is before January 1, 2010, the effective date of transition to IFRS. Applying IAS 23 retrospectively would result in a significant amount of work to determine the borrowing costs to be capitalized. We will elect not to apply IAS 23 to borrowing costs related to qualifying assets with a commencement date that is prior to January 1, 2010, as we believe the effect to be immaterial.

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. Our IFRS estimates as of January 1, 2010, are consistent with our Canadian GAAP estimates for the same date.

Key accounting differences and anticipated effect on financial results

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement, and disclosure. While adoption of IFRS will not change our actual cash flows, it will result in changes to our reported financial position and results of operations. Set out below are the key accounting differences that will impact our consolidated financial statements. The manner of presentation of certain items under IFRS has not been affected for clarity of this reconciliation only.

The following unaudited reconciliations present the identified differences between Canadian GAAP and IFRS for our consolidated opening balance sheet at January 1, 2010, as well as our consolidated balance sheet as at December 31, 2010, and our consolidated statement of earnings for the year ended December 31, 2010. The reconciliations and comments are intended to highlight the most significant areas and should not be regarded as complete or final.

Consolidated balance sheet *(unaudited)*

(millions of dollars)	Notes	December 31, 2009 Canadian GAAP	Effect of transition to IFRS	January 1, 2010 IFRS	December 31, 2010 IFRS
Assets					
Current assets					
Accounts receivable	H	304.0	165.0	469.0	383.0
Notes receivable		—	—	—	145.6
Future income tax asset	A	57.6	(57.6)	—	—
Other current assets		70.7	—	70.7	220.6
		432.3	107.4	539.7	749.2
Capital investments					
Property, plant and equipment	C	3,662.8	(289.5)	3,373.3	3,359.5
Finite-life intangibles		3,069.8	—	3,069.8	1,185.0
		6,732.6	(289.5)	6,443.1	4,544.5
Other assets					
Future income tax assets	A	4.2	57.6	61.8	145.4
Accrued benefit asset	D	418.0	(418.0)	—	—
Other assets		2,930.7	—	2,930.7	2,940.6
		3,352.9	(360.4)	2,992.5	3,086.0
Total assets		10,517.8	(542.5)	9,975.3	8,379.7

(millions of dollars)	Notes	December 31, 2009 Canadian GAAP	Effect of transition to IFRS	January 1, 2010 IFRS	December 31, 2010 IFRS
Liabilities and partners' equity					
Current liabilities					
Payables and accruals	F	416.2	(37.3)	378.9	333.5
Current provisions	F	—	37.3	37.3	14.0
Short-term debt	H	40.0	165.0	205.0	377.2
Notes payable to related party		2.6	—	2.6	48.7
Long-term debt due within one year		17.2	—	17.2	427.4
Other current liabilities		55.3	—	55.3	238.3
		531.3	165.0	696.3	1,439.1
Future income tax liability	C, D, J	421.6	(129.3)	292.3	—
Long-term debt		2,759.9	—	2,759.9	2,360.9
Accrued benefit liability	D	382.9	417.2	800.1	998.7
Deferred credits and other long-term liabilities	F	34.8	(3.9)	30.9	34.8
Long-term provisions	F	—	3.9	3.9	3.6
Total liabilities		4,130.5	452.9	4,583.4	4,837.1
Non-controlling interest	C, D	1,587.9	(183.6)	1,404.3	689.5
Partners' equity	C, D, J	4,799.4	(811.8)	3,987.6	2,853.1
Total liabilities and partners' equity		10,517.8	(542.5)	9,975.3	8,379.7

Consolidated statement of earnings *(unaudited)*

For the year ended December 31, 2010 *(millions of dollars)*	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Operating revenues	B	2,785.1	22.3	2,807.4
Expenses				
Operating expenses	B, D, I	1,444.2	(13.0)	1,431.2
Depreciation and amortization	C, E	703.9	(10.4)	693.5
Write-down of finite-life intangibles	L	1,540.7	187.2	1,727.9
Restructuring and other charges	I	29.1	(0.9)	28.2
Operating income		(932.8)	(140.6)	(1,073.4)
Interest charges	D, E, H	162.3	189.2	351.5
Other expenses (income)	C, D, H, K	14.0	(151.9)	(137.9)
Loss before underlisted items		(1,109.1)	(177.9)	(1,287.0)
Income taxes recovery	A	(216.5)	(95.7)	(312.2)
Loss before non-controlling interest		(892.6)	(82.2)	(974.8)
Non-controlling interest recovery	G	(401.4)	(401.4)	—
Net loss from continuing operations		(491.2)	(483.6)	(974.8)
Net loss from discontinued operations	K	(5.9)	4.1	(1.8)
Net loss		(497.1)	(479.5)	(976.6)

Explanations of differences and adjustments

(A) Future income taxes

Under Canadian GAAP, future income tax assets and liabilities are classified as current or non-current as appropriate. Under IFRS, all future income tax assets and liabilities are classified as non-current. As a result, current future income tax assets of $57.6 million will be reclassified to non-current future income tax assets at January 1, 2010.

There was a net $95.7 million reduction to future tax recovery as a result of the transition to IFRS.

(B) Operating revenues and operating expenses

We have a number of joint use pole agreements in place with utility companies, giving us the rights to use space on the poles owned by the utility companies and conversely, the utility companies the right to use space on the poles owned by us. These amounts receivable and payable are not settled in cash, resulting in a non-monetary transaction. Under Canadian GAAP, non-monetary transactions are measured at the fair value of the services given up, while under IFRS they are measured at the fair value of the services received. As a result, under IFRS for the year ended December 31, 2010, our operating revenue and operating expenses will both increase by $22.3 million.

(C) Property, plant and equipment

We use the group depreciation method under Canadian GAAP to depreciate our capital assets, where gains and losses on sale or retirement of capital assets are not separately recognized. As this approach is not acceptable under IFRS, we will retrospectively adopt a change in policy to the straight-line method of depreciation, decreasing property, plant and equipment by $289.5 million on our opening balance sheet at January 1, 2010. Accordingly, non-controlling interest decreased by $88.0 million, future income tax liability decreased by $52.1 million and retained earnings decreased by $149.4 million, to reflect the net effect of this retrospective adjustment. This change from group to straight-line depreciation will also result in a decrease in depreciation expense of $9.9 million for the year ended December 31, 2010. As well, gains and losses on sale or retirement of property, plant and equipment will be separately calculated and recognized, resulting in other expenses increasing by $3.6 million for the year ended December 31, 2010.

(D) Employee benefits

Under Canadian GAAP, actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. The "corridor" is 10 per cent of the greater of the accrued benefit obligation at the beginning of the year and the market-related value of plan assets at the beginning of the year. Actuarial gains and losses are deferred, and those in excess of the 10 per cent "corridor" are amortized as a component of pension expense on a straight-line basis over the expected average remaining service life of active employees, or the average remaining lifetime of retired employees. Actuarial gains and losses below the 10 per cent corridor are deferred.

Under IFRS, we will elect to recognize all actuarial gains and losses immediately in a separate statement of comprehensive income without recognizing them in the income statement in subsequent periods. As a result, actuarial gains and losses, and any other required adjustments to the minimum liability, will be recorded directly to retained earnings at the end of each period. Our pension expense will also be affected by these policy choices.

The net effect of transition to IFRS at January 1, 2010, is to decrease the accrued benefit asset by $418.0 million, increase the accrued benefit liability by $417.2 million, decrease the future income tax liability by $204.4 million, decrease non-controlling interest by $95.6 million and decrease retained earnings by $535.2 million.

Under Canadian GAAP, total net benefit costs of $88.7 million are included in operating expenses for the year ended December 31, 2010. Under IFRS, total net benefit costs are $81.1 million for the same period, which includes $52.5 million in current service costs, presented in operating expenses, $187.1 million in interest expense on plan liabilities, presented in interest charges, and $158.5 million expected return on our plan assets, presented in other expenses (income).

(E) Asset retirement obligations

Under Canadian GAAP, accretion expense relating to asset retirement obligations is presented as a component of depreciation expense. Under IFRS, accretion expense will be presented as a component of interest charges. This change will be reflected in the income statement as a reduction in depreciation and amortization expense and corresponding increase in interest charges of $0.5 million for the year ended December 31, 2010.

(F) Provisions

Under Canadian GAAP, accounts payable, accrued liabilities and provisions are combined and disclosed on the balance sheet as a single line item. However, under IFRS provisions are required to be disclosed separately from liabilities and accrued liabilities. Current provisions of $37.3 million will be presented separately from trade and other payables and long-term provisions of $3.9 million will be presented separately from deferred credits and other long-term liabilities in the opening IFRS balance sheet at January 1, 2010.

(G) Non-controlling interest

Under Canadian GAAP, non-controlling interest is classified as a separate component between liabilities and equity in the balance sheet and as a component of net earnings within the income statement. Under IFRS, non-controlling interest will be classified as a component of equity separate from the equity of the parent, and earnings attributable to non-controlling interest will not be deducted from net earnings for the period. As a result, non-controlling interest decreased by $401.4 million which in turn increased the net loss from continuing operations for the year ended December 31, 2010, by $401.4 million.

(H) Securitization of accounts receivable

Under Canadian GAAP, we account for a transfer of receivables under our securitization program as a sale of assets when we give up control of the accounts receivable in exchange for proceeds other than our retained beneficial ownership interest in those receivables, which are recorded as a reduction of total trade receivables. We recognize a loss on the derecognition of the receivables, calculated as the excess of the carrying value of the receivables over the fair value of the consideration received. Program administration fees are recognized as other expenses.

The sale of the accounts receivable pool to the securitization trust under our securitization program will no longer qualify for derecognition under IFRS. Therefore, the net proceeds from the transfer will be classified as short-term debt, increasing both accounts receivable and short-term debt by $165.0 million at the date of transition. The related program administration fees of $1.6 million for the year ended December 31, 2010, will be reclassified as interest charges under IFRS instead of other expenses under Canadian GAAP.

(I) Restructuring charges
There are certain costs under Canadian GAAP which qualify as restructuring charges that are classified as operating expenses under IFRS. These costs will be reflected in the income statement as a reduction in restructuring and other charges and corresponding increase in operating expenses of $0.9 million for the year ended December 31, 2010.

(J) Inclusion rate for intangible assets
Under Canadian GAAP, we include 75 per cent of the intangible asset balance as the tax base when determining the temporary difference for future tax purposes. Under IFRS, 100 per cent of the intangible asset balance will be included when determining the tax base. This change will result in an increase to the future tax liability on our opening balance sheet by $127.2 million, with a corresponding decrease to retained earnings.

(K) Discontinued operations
In December 2010, we decreased our receivable relating to the sale of our DSA business by $4.6 million as a result of a provision for estimated loss on settlement of the post-closing balance sheet adjustment. Under Canadian GAAP, the original sale, and resulting adjustment are reflected in the net loss from discontinuing operations. Under IFRS, the sale of our DSA business does not qualify for presentation as a discontinued operation, resulting in an increase of $4.6 million in other expenses and a decrease in the net loss from discontinued operations of $4.1 million, net of tax, for the year ended December 31, 2010.

(L) Impairment of finite-life intangible assets
Under both IFRS and Canadian GAAP, an impairment loss is recognized when the carrying amount of the finite-life intangible asset or assets is not recoverable and exceeds its fair value. Under Canadian GAAP, the carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Under IFRS, the recoverable amount is defined as the higher of its fair value less costs to sell and its value in use, which is calculated based on discounted cash flows. For the year ended December 31, 2010, the use of discounted cash flows to determine the recoverable amount of our finite-life intangible assets under IFRS results in an increase in the write-down recognized of $187.2 million.

Critical accounting estimates and assumptions

Under Canadian GAAP, we are required 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 our consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

We base our estimates and assumptions on past experience, current economic conditions and other factors that we believe are reasonable under the circumstances. This involves varying degrees of judgment about matters that may be inherently uncertain. The amounts currently reported in the consolidated financial statements could prove to be inaccurate or could be subject to change under different conditions or using different assumptions, and as such, actual results could differ from estimates used in our consolidated financial statements. We periodically evaluate the reasonableness of these estimates and assumptions.

We have reviewed the development, selection, and application of our key accounting policies and the critical accounting estimates and assumptions they involve, with the audit committee of the board of directors. We consider critical accounting estimates and assumptions to be an important part of understanding our significant accounting policies and consolidated financial statements.

Post-employment benefits

We maintain DB pension and OPEB plans for eligible employees and retirees. We perform a valuation of our DB pension plans annually to determine the actuarial present value of the accrued pension and OPEB plan benefits. The amounts reported in the consolidated financial statements in relation to the DB pension and OPEB plans are determined using the results of these valuations and several key assumptions determined by management. These key assumptions include the interest rate used to discount obligations, the expected rate of return on plan assets, the rate of compensation increase, the growth rate of per capita health care costs, and the expected average remaining years of service of employees. We believe that the assumptions we use are reasonable, but differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net cost of benefit plans.

Our two most significant assumptions are the discount rate and the expected rate of return on plan assets. The rates are developed as follows:

- The discount rate used to value the accrued benefit obligations of our individual DB pension and OPEB plans is selected based on the nature of the plan and its expected cash flows. We have certain plans that have predominantly 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. We determine the appropriate discount rates at the end of each year.

  For our plans having predominately active employee members, our assumed discount rate was 5.5 per cent at December 31, 2010, compared to 6.5 per cent at December 31, 2009. For our plans consisting primarily of retired members, our assumed discount rate at December 31, 2010, was 4.5 per cent, unchanged from December 31, 2009. The weighted average of our assumed discount rates at December 31, 2010, was 5.1 per cent, compared to 5.5 per cent at December 31, 2009. The 2010 combined DB pension and OPEB plans' net actuarial losses of $316.1 million relate primarily to the lower discount rate assumptions at December 31, 2010.

  At December 31, 2009, the weighted average discount rate was 5.5 per cent, consistent with December 31, 2008, but the change in discount rates within the individual plans combined with other actuarial gains and losses caused the combined 2009 DB pension and OPEB plans' net actuarial losses to be $98.8 million.

- The expected rate of return on plan assets is based on our long-term return expectation for capital markets and active investment management, given our plans' policy asset mix. We determine the appropriate expected rate of return at the beginning of every year.

For 2010, the weighted average of our assumed rates of return on plan assets was 6.4 per cent, unchanged from the rate assumed in 2009, reflecting the current asset mixes of our plans and our long-term return expectations for various asset classes.

For 2009, our 6.4 per cent assumed rate of return on plan assets represented a slight increase from the rate of 6.3 per cent assumed in 2008, reflecting the current asset mixes of our plans and our updated long-term return expectations for various asset classes. This change in our assumed rates of return resulted in a decrease to the annual net cost of benefit plans for DB pension plans of approximately $1 million in 2009, compared to 2008.

Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of the net cost of benefit plans 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 for the year ended December 31, 2010, 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 and the expected rate of return on plan assets.

		Rate	DB pension plans		OPEB plans	
(millions of dollars, except as otherwise noted)	Assumption	change	Obligation	Cost	Obligation	Cost
Discount rate	4.50 – 5.50%	+/-0.25%	117.0	5.0	9.0	—
Expected rate of return on plan assets	5.25 – 7.50%	+/-0.25%	—	7.0	—	—

Amortization of net actuarial losses

Our accounting policies with respect to the amortization of net actuarial losses follow Canadian GAAP and recognize that future investment returns on plan assets and actuarial changes in the plans can influence the amount of the gains or losses and can reverse them over time. Specifically, amortization occurs when the size of the actuarial loss, or gain, exceeds a "corridor", which is the greater of 10 per cent of the accrued benefit obligation or 10 per cent of the market-related value of the plan assets. Using a market-related value of assets to determine this corridor smoothes the effect of actual gains and losses in certain of the plans' assets over a three year period. The effect of these accounting policies is to limit the amount of amortization of both gains and losses recognized in our earnings, except in situations when they become exceedingly large. We have unamortized actuarial losses totalling $994.3 million in our DB pension and OPEB plans at December 31, 2010, compared to $831.4 million at December 31, 2009. This balance reflects net actuarial losses realized in 2010 and the amortization expense of $23.4 million in 2010, compared to $18.5 million in 2009. Additional information regarding our accounting for post-employment benefits is included in note 7 to our audited consolidated financial statements for the year ended December 31, 2010.

Long-lived assets

Our long-lived assets consist of capital investments, goodwill and indefinite-life intangibles. We make certain estimates relating to the values recorded for these assets, including determinations of useful life, the allocation of acquisition purchase prices between capital investments, goodwill, and indefinite-life intangible assets, and assessments of long-lived asset recoverability through impairment testing.

Estimations of useful lives

We depreciate and amortize our capital investments based on their estimated useful lives. We estimate the useful life when an asset is acquired, based on past experience with similar assets and our expectations of technological changes or other circumstances that may affect the usefulness of the asset. We review our estimates of useful life on an ongoing basis. When events or changes in circumstances indicate that asset useful lives do not reflect the expected remaining period of benefit, we make prospective changes to their depreciable useful lives. This could result in a change in the depreciation and amortization expense in future periods.

In 2010 and 2009, we changed the estimated useful life of some of our telecommunications equipment as a result of independent studies and finite-life intangibles related to customer relationships as a result of impairment testing. These changes in accounting estimates have been applied prospectively.

Purchase price allocation for business acquisitions

Goodwill represents the excess of the costs of an acquired business over the fair values of the net amounts assigned to the individual assets acquired and liabilities assumed, at the date of acquisition. Intangible assets other than goodwill are recognized at their estimated or appraised values when they arise from contractual or other legal rights or are capable of being individually sold, transferred, licensed, rented or exchanged. The identification and valuation of intangible assets of an acquired business involves the evaluation of all significant terms of the purchase that explicitly or implicitly suggest the presence of intangible assets apart from goodwill.

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 2009, the CRTC issued its final decision on the rate reductions, and the final value of the contingent consideration was determined in 2010. As a result, in 2010 we decreased the estimated long-term receivable by $0.6 million, compared to $5.6 million in 2009, and increased goodwill accordingly.

Impairment

We annually assess goodwill and indefinite-life intangibles for impairment, and when events or changes in circumstances indicate that they might be impaired. We assess the value associated with our capital investments (property, plant and equipment, and finite-life intangibles) for impairment whenever events or changes in circumstances indicate that the carrying amount of the capital investment may not be recoverable. We assess impairment by comparing the long-lived asset's fair value to its carrying value. If the fair value is less than the carrying value, the long-lived asset is deemed impaired and the difference is charged to other expenses in the period that the assessment is performed.

Fair value for goodwill and indefinite-life intangibles is based on estimates of discounted future cash flows, external factors, or a combination of both. Recoverable value of capital investments is based on undiscounted future cash flows while fair value is based on discounted future cash flows. The determination of fair value and recoverable 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.

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 impairment of capital investments in two steps. The first step involves the identification of any potential impairment by comparing the recoverable value of the capital investment to its carrying value. If the recoverable value is greater that the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the recoverable value is less than its carrying value, we perform the second step, which involves determining the fair value of the capital investment. If the fair value of the capital investment is less than its carrying value, the capital investment is deemed to be impaired by the excess of its carrying value over its fair value.

We conducted our annual goodwill and indefinite-life intangible impairment tests in the fourth quarter of 2010 and 2009. We used a combination of discounted cash flows and external factors in assessing fair value of goodwill. Significant assumptions used in determining the fair value of goodwill included 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 assumptions used were consistent with those outlined in the "Assumptions made in the preparation of forward-looking information" section. The annual testing of goodwill and indefinite-life intangibles in 2010 and 2009 has indicated no impairment.

We are unable to predict whether an event that triggers impairment will occur, when it will occur, or how it will affect the carrying value of the long-lived assets. During 2010 and 2009, there were no events that triggered an impairment assessment for goodwill or indefinite-life intangible assets.

In the fourth quarter of 2010, as a part of our annual balance sheet reviews and in preparation for our conversion to a corporate structure and transition to IFRS, we tested the recoverability of the carrying value of certain finite-life intangible assets. We reviewed the original assumptions used in valuing the finite-life intangible assets acquired in 2006 when we were created and in 2007 on the privatization of Télébec and NorthernTel. Based on new information in 2010, we revised certain assumptions related to churn, average revenue per customer, contributory asset charges, corporate tax rates and discount rates, cash flows and EBITDA margins. Using the revised assumptions, the carrying value of certain finite-life intangibles related to customer relationships was determined to not be recoverable. As such, we calculated the fair value of the finite-life intangible assets and recognized an impairment charge for the excess of the carrying value over the fair value in an amount of $1,540.7 million. In addition, we shortened the estimated useful lives of certain customer relationships from 25 years to 10 years.

During the fourth quarter of 2009, we completed a transaction to sell all of the outstanding shares of Innovatia. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of $6.1 million.

Income taxes

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

Income that is earned through our 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 our subsidiaries' 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 expected 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.

The future tax consequences of the temporary differences, which affect the classification and calculation of our tax assets and liabilities, are based on assumptions and estimates related to expectations of future results of operations, the timing of the reversal of temporary differences and our interpretation of applicable income tax legislation and regulations. The composition of our future income tax assets and liabilities are likely to change from period to period because of the significance of these assumptions.

The calculation of our income taxes and the applicability of commodity and transfer taxes also requires significant judgment and interpretation of tax regulations and legislation, which are continually changing, to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. As our tax filings are subject to audit by the Canada Revenue Agency, provincial government authorities or government authorities of other foreign jurisdictions, such audits could materially change the amount of current and future income tax assets and liabilities if different interpretations are used and could, in certain circumstances, result in an assessment of interest and penalties. Any change would be recorded as a charge or credit to income tax expense or other operating expenses. Any cash payment or receipt would be included in cash from operating activities.

We use assumptions and estimates when calculating income taxes. If these prove to be inaccurate, or if certain tax rates or laws change, our results of operations and financial position could be materially affected in future periods. We believe that we have adequately provided for income taxes based on all information currently available.

Dividends paid by us will qualify as eligible dividends, which entitles Canadian resident individuals who receive them to the enhanced dividend gross-up and tax credit mechanism. This mechanism ensures that corporate income distributed as interest or dividends is subject to the same combined corporate and individual tax burden.

Restructuring and other charges

As circumstances require, we engage in restructuring activities to streamline our operations and improve productivity and profitability. The development of formal plans to execute these activities requires us to estimate costs related to post-employment benefits, severance and other employee related benefits, real estate rationalization, technology lease cancellation penalties and other exit costs. We make these estimates based on the terms of any contracts involved, the number of employees, their pension eligibility and other related factors. Restructuring is a complex process that can take several months or longer to complete, requiring a periodic reassessment of original estimates. In addition, we constantly evaluate whether the estimates of the remaining liabilities under our restructuring program are appropriate. As a result, we may have to change previously reported estimates when the payments are made or activities are completed. There may also be additional charges for new restructuring initiatives.

During 2010, we increased the estimate of the restructuring and other charges liability recorded in 2009 by $2.6 million to reflect the final costs. We also incurred an additional $28.2 million in restructuring charges, of which $2.9 million is related to discontinued operations, for employee severance and benefit costs as a result of offering voluntary retirement incentives to certain unionized staff and streamlining our management workforce, as well as real estate rationalization costs.

In 2009, we increased the estimated cost of the 2008 restructuring activities by $6.8 million to reflect the final costs, and we recorded restructuring charges totalling $34.9 million, of which $4.1 million is related to discontinued operations.

Legal and regulatory contingencies

We may become involved in various litigation and regulatory proceedings in the normal course of our business. Pending litigation, regulatory initiatives and regulatory proceedings may represent potential financial loss. We accrue potential losses if we believe the loss is probable and can be reasonably estimated. Estimates of loss are based on consultation with legal counsel and involve analysing potential outcomes and assuming various litigation strategies. Note 23 to our audited consolidated financial statements for the year ended December 31, 2010, presents a discussion of material contingencies outstanding at that date.

We did not have any significant provisions relating to pending litigation or regulatory initiatives and proceedings in 2010 or 2009.

REGULATORY DEVELOPMENTS

Our business is affected by decisions made by the CRTC pursuant to the Telecommunications Act, the Broadcasting Act, and the Radiocommunication Act. The Telecommunications Act governs and defines the broad objectives of Canada's telecommunications policy and provides the Government of Canada the power to give general direction to the CRTC on any of these objectives. Under the Telecommunications Act, all telecommunications common carriers, including us, must seek regulatory approval for all proposed tariffs for telecommunications services, unless the services are exempt from regulation or are not regulated.

The Broadcasting Act assigns the regulation and supervision of the broadcasting system to the CRTC. Most broadcasting activities require a broadcasting licence or broadcasting distribution licence from the CRTC. The CRTC may exempt broadcasting undertakings from complying with certain licensing and regulatory requirements if the CRTC is satisfied that complying with those requirements will not materially affect the implementation of Canadian broadcasting policy. We have broadcasting distribution licences, where necessary, that allow us to distribute television services in the markets we currently serve.

Under the Radiocommunication Act, Industry Canada ensures that radio communications in Canada is developed and operated efficiently. Industry Canada regulates the use of radio spectrum under the Radiocommunication Act, including that used by wireless service providers such as Télébec, NorthernTel and KMTS.

Regulatory developments in 2010, and up to and including March 9, 2011, which are, or may be, significant to our business, include the following:

Deferral account

Telecom Decision 2007-27, which established a new pricing framework for regulated telecommunications services, also eliminated the deferral account mechanism. As a result, our deferral account, which covered our territory in Atlantic Canada, was cleared and closed during 2007. However, we are still indirectly affected by Bell Canada's deferral account, as Bell Canada's deferral account includes amounts that arose from customers located in Ontario and Quebec, which are now in our operating territory.

In Telecom Decision 2008-1, 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 the remaining deferral account funds, estimated at $464.0 million, to fund the uneconomic cost of expanding broadband services to 112 communities, and determined that if such uneconomic cost is less than $464.0 million, then the remainder should be returned to residential customers in urban, non high-cost serving areas within the Ontario and Quebec portions of the serving areas of Bell Canada and ourselves.

On March 30, 2010, we and Bell Canada advised the CRTC that the uneconomic cost associated with the proposal to provide wireless broadband services to the approved communities in all of the 112 approved areas of the broadband expansion program is $463.6 million. As only an insignificant residual amount is left in Bell Canada's deferral account, we and Bell Canada also proposed not to return any amounts to residential customers at this time.

In August 2010, the Commission issued Decision 2010-637 on the proposal by us and Bell Canada to dispose of the funds remaining in their deferral account. The CRTC approved the use of deferral account funds by ourselves and Bell Canada to expand broadband services to 112 communities in Ontario and Quebec and directed the companies to rebate funds remaining in their deferral account to residential subscribers in non high-cost serving areas. The Commission approved the accumulated balance in the deferral account at $583.3 million as of May 31, 2010, including $95.0 million associated with interest and other certain other amounts and $25.0 million that was already approved and apportioned to fund initiatives to improve accessibility for persons with disabilities. The Commission approved an amount of $306.3 million for broadband expansion.

In addition, this decision directed Bell Canada and Bell Aliant LP to provide broadband service using DSL technology rather than the High-Speed Packet Access+ (HSPA+) wireless broadband technology proposed by Bell Canada.

In an application filed on September 13, 2010, Bell Canada requested that the CRTC review and vary the following three elements of the Commission's decision: i) the Commission's calculation of the recurring amount in determining the accumulated balance in Bell Canada's deferral account; ii) the Commission's calculation of interest on Bell Canada's deferral account; and iii) the allowable drawdown from Bell Canada's deferral account to cover the cost of processing a one-time billing adjustment on each eligible residential local exchange service subscriber's monthly bill. In another application filed on the same date, Bell Canada requested the CRTC to rescind the directive requiring that broadband to the approved communities be provided using DSL technology rather than HSPA+ wireless broadband technology and to approve Bell Canada's amended wireless broadband proposal that was filed as part of that application.

Petition submitted to the Governor in Council (GiC) by Rogers Communications Partnership Inc. (Rogers) related to the CRTC deferral account mechanism

In Telecom Decision 2010-805, the CRTC approved Bell Canada's revised proposal to use the approved $306.3 million of deferral account funds for the use of HSPA+ wireless technology instead of wireline DSL for the expansion of broadband to the 112 communities approved for inclusion in Bell Canada's deferral account-funded program. On January 26, 2011, Rogers filed a petition requesting that the GiC vary Telecom Decision 2010-805. The petition seeks to (i) limit the Commission's approval of Bell Canada's HSPA+ proposal to the 15 approved locations that Bell Canada proposes to serve in year one (2011) of its four year rollout plan and (ii) require the conduct of a competitive auction of deferral account funds to serve the remaining 97 approved areas. Under the proposed auction, the bidder requiring the least amount of subsidy to build broadband to these areas would have access to Bell Canada's deferral account funds.

The GiC may, until October 29, 2011, choose to vary or rescind the decision or refer it back to the CRTC for reconsideration of all or a portion of it.

Approval of the petition could result in the use of the some of the $306.3 million deferral account funds by parties other than Bell Canada for the expansion of broadband to some of the approved areas. It could also result in Bell Canada having to return more than the $250 million that has already been approved by the CRTC to eligible residential customers via rebates.

We do not expect the outcome of the CRTC's decision or of Rogers' petition to materially affect our financial results in light of our arrangement with Bell Canada, as discussed above under "Deferral account". Further details of the deferral account are described in note 22 to our audited consolidated financial statements for the year ended December 31, 2010.

Parliamentary review of usage-based billing (UBB)

On November 20, 2008, the CRTC issued Telecom Public Notice 2008-19 where it initiated a proceeding to consider Internet traffic management practices for retail and wholesale Internet services. The CRTC sought comments with supporting rationale on the changes in bandwidth consumption that can lead to network congestion, technical or economic Internet traffic management practices that are currently available or may be developed in the future, and the effect of these practices on end-users. In addition, the CRTC examined the appropriateness of implementing regulatory measures in relation to Internet traffic management by Internet service providers (ISPs). The CRTC issued its decision on October 21, 2009, in which it preserved ISPs' flexibility to manage their networks and established certain transparency requirements. The CRTC approved the use of technical Internet Traffic Management Practices (ITMPs), including application-specific ITMPs such as those currently applied by us in parts of our territory; encouraged the use of economic ITMPs such as UBB and established a framework against which future complaints about traffic management will be assessed.

On March 13, 2009, Bell Canada and Bell Aliant LP proposed tariffs that would introduce UBB for our wholesale residential Gateway Access Services (GAS), consistent with pricing changes that we had been implementing, since February 1, 2007, for our retail Internet access services. On August 12, 2009, in Telecom Order 2009-484, the CRTC approved this request on an interim basis with a proposed implementation date of 90 days following the CRTC's August 12, 2009, interim approval. Following complaints with regards to the proposed implementation date, the CRTC confirmed on October 21, 2009, in Telecom Decision 2009-658, the interim approval granted to Bell Canada and Bell Aliant LP to introduce UBB for GAS but delayed the implementation date and stated that its final decision would address implementation issues.

On May 6, 2010, in Telecom Decision 2010-255, the CRTC issued its final approval of our proposed implementation of wholesale UBB with changes. In particular, the Commission established that UBB rates should be composed of a flat-fee cost-based rate, which the Commission adjusted on a lowered basis in light of the implementation of UBB and, given that UBB is an ITMP, a UBB component that varies with usage based on the carrier's own retail UBB components. On May 28, 2010, we and Bell Canada requested that the CRTC review and vary its decision with regards to certain of the mandated changes to their proposed tariffs.

On October 28, 2010, in Telecom Decision 2010-802, the CRTC approved many of the changes requested by Bell Canada and Bell Aliant LP but denied the request to readjust the costs used to determine the flat-fee component of GAS. On the same day, the CRTC requested comments in Telecom Notice of Consultation 2010-803 as to whether or not UBB rates of GAS or equivalent services should be set at levels below the incumbent local exchange carriers (ILECs) and the cable carriers' comparable retail UBB rates and, if so, to what extent. On December 14, 2010, Bell Canada and Bell Aliant LP amended their proposed wholesale UBB tariffs in accordance with Telecom Decision 2010-802 and indicated that the newly proposed tariffs would be implemented on March 1, 2011.

On January 25, 2011, in Decision 2011-44, the CRTC issued its decision with regards to Telecom Notice of Consultation 2010-803, and determined that wholesale UBB rates are to be established at a discount of 15 per cent from the carrier's comparable UBB rates for its retail Internet services.

On January 26, 2011, Vaxination Informatique, an IT consultant, filed a petition to the GiC requesting that the GiC review and overturn Telecom Decision 2010-802 as well as Decision 2011-44. In parallel, several small ISPs and end-users launched a campaign to solicit public opposition to UBB. On February 3, 2011, we and Bell Canada requested that the implementation of our wholesale UBB be delayed until May 1, 2011, to allow for adjustments in light of the CRTC's January 25, 2011, decision.

A Parliamentary Committee was established on February 1, 2011, and undertook a study of UBB. Also, on February 8, 2011, the CRTC initiated a proceeding to review its decisions regarding UBB and suspended implementation of wholesale UBB pending the outcome of this review. It is not known at this time what impact these reviews of UBB decisions will have on wholesale Internet offerings. Currently, we only have proposed UBB for our wholesale Internet offerings in some of our territory in Ontario and Quebec where there is limited wholesale demand.

Wholesale high-speed access services

In August 2010, the CRTC issued its ruling in a proceeding that considered whether telephone companies (including ourselves) and cable companies should be required to provide to competitive ISPs access to their next-generation high-speed fibre networks. In this decision, the CRTC decided ILECs must provide competing ISPs with wholesale access to their fibre-to-the-node (FTTN) network at speeds that match their retail service offers. The CRTC allowed ILECs to charge an additional 10 per cent mark-up above cost for access over FTTN compared to similar services providing access over legacy infrastructure. However, the CRTC concluded that no new wholesale Internet access services are necessary. The CRTC did not order mandated access to FTTH facilities, although this could be considered in the future.

The CRTC also recognized the need to adopt a regulatory regime that treats cable companies and telephone companies more comparably. The ruling directs cable companies to adjust their wholesale Internet services to provide for a greater degree of service aggregation through as few points of interconnection as possible in order to provide a service that more closely resembles that provided by the incumbent telephone companies.

The GiC had until November 29, 2010, to overturn the CRTC's decision but did not do so.

Review of unbundled local loop rates

As discussed in further detail in our MD&A for the year ended December 31, 2009, on June 2, 2009, Bell Canada and Bell Aliant LP proposed changes to the existing rates for our wholesale service that provides unbundled local loops to competitors in our Ontario and Quebec serving areas, and requested the CRTC to make the current rates interim until it issues its final determination. Bell Canada and we filed updated cost studies to support our tariff application. On December 14, 2009, the CRTC issued Telecom Order 2009-775 and made the current loop rates interim, pending a complete review of the filed updated cost studies.

On January 12, 2011, in Telecom Decision 2011-12, the Commission approved revised monthly recurring rates for certain unbundled loops and revised service charge rates for other unbundled local loops. These rates will be retroactively applied to the date of interim approval, December 14, 2009. In light of the small volume of this service for us, the effect on us is not expected to be material.

Canadian broadcasting in new media

In 2009, the CRTC conducted a hearing to consider issues pertaining to Canadian broadcasting in new media, including whether incentives or regulatory measures would be necessary for the creation and promotion of Canadian broadcasting content in new media. One proposal under consideration was the requirement for direct financial contribution from ISPs. Although the CRTC, in Broadcasting Regulatory Policy CRTC 2009-329, dated June 4, 2009, ruled against imposing measures to fund the creation and promotion of Canadian new media broadcasting content, it also referred to the Federal Court of Appeal the legal question of whether ISPs are subject to the Broadcasting Act and therefore subject to broadcasting regulation.

The Federal Court of Appeal issued its decision on July 7, 2010, in which it concluded that ISPs "do not carry on, in whole or in part, 'broadcasting undertakings' subject to the Broadcasting Act when, in their role as ISPs, they provide access through the Internet to 'broadcasting' requested by end-users." On September 27, 2010, The Alliance of Canadian Cinema, Television and Radio Artists, the Canadian Media Production Association, the Director's Guild of Canada and the Writers Guild of Canada filed an application to the Supreme Court of Canada seeking leave to appeal the Federal Court of Appeal's July 7, 2010, decision. If the Supreme Court were to grant leave to appeal, reverse the Federal Court of Appeal's decision and in so doing determine that ISPs do carry on a broadcasting undertaking when in their role as ISPs they provide access through the Internet to "broadcasting", this would give the Commission the jurisdiction to impose a levy on ISP revenues, which funds could be used (in whole or in part) to subsidize the creation and or distribution of Canadian new media broadcasting programming content.

Fee-for-carriage / value-for-signal (VFS)

On March 22, 2010, the CRTC issued a new TV policy framework, including a ruling on a new fee-for-carriage / value-for-signal regime. This regime responds to the requests of television broadcasters for compensation from TV service providers (such as Bell Aliant) for distribution of conventional television signals. Broadcasters can either elect to 1) negotiate with TV service providers for compensation in exchange for the TV service provider's right to distribute conventional local TV signals, or 2) follow the existing regulatory regime. A broadcaster's election will remain valid for three years. This new regime will not apply to the Canadian Broadcasting Corporation / Société Radio-Canada. In making this ruling, the CRTC has asked the Federal Court of Appeal to rule on the issue of its legal jurisdiction. The CRTC has referred to the Federal Court of Appeal the question of its jurisdiction to impose a VFS regime. On September 13 and 14, 2010, the Federal Court of Appeal heard legal arguments on this subject and on February 28, 2011, the court ruled in favour of the CRTC's jurisdiction. It is expected that certain parties may seek leave to appeal this decision to the Supreme Court of Canada. We will continue to be required to contribute to the Local Programming Improvement Fund (LPIF) at 1.5 per cent of our gross annual broadcasting revenues in licensed areas until the CRTC conducts a review of the LPIF in 2012.

Obligation to serve, contribution subsidy fund and other matters

The CRTC has a subsidy (contribution) regime to support local telephone service in high cost (typically rural and remote) areas. This subsidy is funded by a levy on certain industry revenues, which was set at 0.81 per cent of eligible telecommunications revenues in 2009, and 0.73 per cent for 2010. While we draw monies from the contribution subsidy fund, we also pay into the fund. On January 28, 2010, the CRTC initiated a proceeding to review issues associated with access to basic telecommunications service. The proceeding is reviewing the obligation to serve, the basic service objective, and the local service subsidy (contribution) regime, including consideration of the possibility of imposing broadband obligations or including broadband within the scope of the contribution regime. The proceeding also included a re-examination of the local competition and wireless number portability frameworks in the territories of the small ILECs.

The record of the proceeding closed in November 2010. The outcome of this proceeding may result in changes to various regulatory regimes, which could have an adverse effect on our business and financial results. The proceeding could also result in changes to the basic service objective which could include mandating the deployment of broadband in uneconomic areas. A final decision is pending and therefore we are unable to determine how potential changes may affect us.

On October 25, 2010, Bell Aliant received approval of its application allowing the use of higher costs in the contribution subsidy calculation, resulting in higher subsidy revenue receivable by us in 2010 and 2011.

Support structure rates

On December 2, 2010, in a positive decision for us, the Commission approved new revised rates for support structures (poles, strands and conduit) which results in net revenue increases for us. These rates were retroactively applied to the date of interim approval, July 21, 2009. The Commission has also established a follow-up proceeding to examine two other related matters, the outcome of which could have a further positive impact on our financial results.

Foreign ownership rules

Following through on a commitment which the Federal Government made in its March 2010 Speech from the Throne, in June 2010, Industry Canada issued a consultation paper entitled "Opening Canada's Doors to Foreign Investment in Telecommunications: Options for Reform". The consultation paper seeks public comments on proposals to reform Canada's foreign ownership and control restrictions that currently apply to facilities-based telecommunications service providers providing telecommunications services in Canada, known as "telecommunications common carriers" (TCCs), including us and many of our competitors. The Industry Canada consultation paper sets out three different foreign ownership reform options for comment. Option 1 would raise the allowable non-Canadian voting share limits to 49 per cent for both TCC and broadcasting licensees (including broadcast distribution undertakings) while retaining the current requirement for control in fact by Canadians. Option 2 would repeal the foreign ownership and control restrictions for TCCs which account for 10 per cent or less of the annual Canadian telecommunications revenues (the existing rules for broadcasting licensees, including broadcast distribution undertakings, would be unchanged). Option 3 would repeal the above rules for all TCCs, regardless of their share of annual Canadian telecommunications revenues, but retain the existing rules for broadcasting licensees, including broadcast distribution undertakings. The Industry Canada consultation closed on July 30, 2010, and on November 22, 2010, the Minister of Industry announced that he would consider which approach to adopt on foreign ownership rules at the same time as decisions are made regarding the 700 MHz spectrum auction rules, as part of an integrated regulatory approach. The 700 MHz spectrum consultations were subsequently launched on November 30, 2010. It is not possible to predict at this time which, if any, of the three reform options may be implemented.

Removing or easing the limits on foreign ownership for TCCs could result in more foreign companies entering into the Canadian market. This could result in greater access to capital for our competitors or the arrival of new competitors with global scale, which would increase competitive pressure.

Other developments

In Telecom Decision 2009-187, the Commission denied Rogers Communications Inc.'s (Rogers) request to review and vary Telecom Decision 2008-62 where it determined that our obligations to Rogers under a 2002 support structure agreement in relation to the administration of poles owned by New Brunswick Power Distribution and Customer Service Corporation (NB Power) had ended when NB Power terminated our underlying agreement. An appeal was heard by the Federal Court of Appeal on April 27, 2010, at which time the court issued an immediate decision from the bench, dismissing Rogers' appeal. In June 2008, Rogers had filed a civil action against Bell Aliant in the New Brunswick Court of Queen's bench relating to the same subject matter. That case has been dormant since July 2008, and it is yet to be seen whether Rogers will proceed with this action.

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING INFORMATION

A number of factors or assumptions were applied or made by us in preparing our 2011 guidance, as presented in the "2011 financial guidance" section, and in providing the forward-looking information referred to throughout this MD&A. The material market, operational and financial assumptions are outlined in this section.

Market, operational and financial assumptions

In 2011, we expect competition in both business and consumer markets will continue to be intense with the cable telephony competitive footprint growing from its current level of 69 per cent to reach a peak of 75 to 80 per cent over the next several years, which will continue to put pressure on our operating revenues. As a result, in 2011 we expect our net NAS declines to be similar to those experienced in 2010. We expect some of the decline in local and long distance revenues to be offset by increases in Internet, TV and wireless revenues, as the economy continues to rebound and we expand our service offerings. We anticipate that our high-speed Internet subscriber net additions will be similar to those experienced in 2010. Wireless substitution for voice services will increase in our territories but will continue to lag other regions in Canada. We expect data revenue will decline at a similar rate as 2010 due to price pressures and competitive losses. Overall, we expect that our total operating revenues in 2011 will decline from 2010.

We will continue our efforts to decrease operating expenses, through the realization of the full year benefits of our restructuring programs, further operational efficiencies and ongoing procurement initiatives, using the benefits of our Bell Canada relationship to leverage our collective purchasing power. We expect these benefits will help offset declines in our operating revenue margins from lower overall operating revenues and a changing operating revenue mix as well as the short-term dilutive effects of strong *FibreOP* services subscriber growth; however, we expect a decline in overall EBITDA in 2011 from that achieved in 2010.

Growing broadband continues to be a priority for us and we intend to continue focusing investment in this area in 2011. We will invest $350 million over 2011 and 2012 in fibre technology to pass over 430,000 homes and businesses with our *FibreOP* service by the end of the 2011 and over 600,000 by the end of 2012. We expect this to result in higher total residential ARPC and significant TV subscriber and revenue growth. Capital expenditures are expected to increase to between $520 million and $560 million in 2011, up from $494 million in 2010, with the costs of the acceleration of the FTTH rollout in 2011 more than offsetting the non-recurring cost of the repurchase of poles in 2010.

Our depreciation and amortization expense for 2011 is expected to be $625 million to $640 million, including approximately $145 million to $150 million of amortization of intangibles.

We are in the process of issuing preferred shares during 2011 and anticipate we will use the proceeds to fund a voluntary pension contribution of $200 million and reduce debt.

We expect required pension deficit funding to be in the range of approximately $100 million to $120 million in 2011, compared to $86 million in 2010. In addition to the $200 million voluntary pension contribution, we will contribute $25 million to $50 million of regular pension deficit funding, which approximates the expected going concern funding requirement for 2011. Pension current service cost funding, which was approximately $69 million in 2010, is expected to be between $65 million and $75 million in 2011. Pension expense under IFRS in 2011 will be approximately $60 million to $65 million based on a discount rate assumption of 5.3 per cent and a long-term rate on plan assets assumption of 6.1 per cent, up from a comparable 2010 IFRS restated pension expense of $53 million.

Taxable income is expected to be subject to blended federal and provincial corporate income tax rates of 29 per cent in 2011, dropping to 27 per cent by 2013 with a 2011 income tax provision of approximately $130 million to $140 million. The utilization of accumulated tax-loss carryforwards will result in minimal cash taxes being paid in 2011 and 2012.

The annual cash requirement to pay dividends to shareholders of Bell Aliant Inc. is estimated to be approximately $432 million to $435 million for 2011. Bell Aliant Inc. is targeting a payout of 75 per cent to 85 per cent of free cash flow, which is expected to result in an initial annual dividend rate of $1.90 per share for 2011.

For more information concerning our 2011 guidance and for a discussion of assumptions and risk factors associated with the use of forward-looking information, refer to the "Forward-looking information" section, and our press release dated February 8, 2011.

RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS

Risk management is considered fundamental to the long-term success of any organization. For us, risk is defined as the level of exposure to uncertainties that we must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our unitholders.

Our audit committee is responsible for the oversight of our risk management processes. Such processes are designed to identify, assess and manage within an acceptable tolerance, the risk of failure to achieve our business objectives. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across the organization. Risk assessment and evaluation is an important part of the annual business planning cycle. In developing annual plans, our business units identify and assess significant risks to the achievement of their business objectives and where necessary develop mitigation plans. The risk information generated is reviewed with senior management and our board of directors in evaluating the business plans for each of the business units and the company as a whole.

Our risk management group is accountable for the development, implementation and maintenance of the risk management framework. It is also accountable for monitoring, coordinating and integrating risk exposures across our organization and communicating the status of risk management issues and recommendations for improvements on a quarterly basis to our senior management team and audit committee of the board of directors.

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. The risks noted below may not be exhaustive as there may be other risks that we are currently unaware of or that we do not presently consider material to our consolidated operations, but may become so.

Increasing competition

We face intense competition in the majority of markets we serve and products we carry. The rapid development of technology over the last number of years has permitted easy entry of competitors into the markets we serve. Traditional and non-traditional competitors have launched competing services or announced their ability or intention to offer local telephony and other telecommunications services in a growing proportion of our territories. The local competitive footprint served by cable television competitors may evolve more quickly, and eventually to a larger proportion of our existing territory, than we currently expect. Additionally, non-traditional international competitors could converge into the Canadian telecommunications marketplace faster and in more areas than we currently anticipate.

Competition affects our pricing strategies. We are under constant pressure to keep our prices and service offering competitive. We need to be able to anticipate and respond quickly to the constant changes in our business and markets. We also need to ensure there is an appropriate balance between the quality of the products and services we provide to our customers and the price we charge for them.

Our competitive strategy includes enhancing services and bundles to create value, working with customers to provide innovative and complete solutions, improving our cost structure to enable greater price competitiveness, expanding our IP network capabilities to provide broader access and innovative solutions, and deploying world class fibre networks. Product and service bundles are a key part of our strategic objectives as customers with bundles receive more value for their communications dollar, their decision making is streamlined and they are much more likely to remain our customers. Competition, and particularly changes in the competitive landscape, can put our competitive strategies at risk. We actively monitor and analyze developments in the markets where we operate to evaluate our competitiveness. We believe we have core strengths and initiatives that provide us with differentiation in the marketplace and enhance our competitive position, reducing the overall competitive risk. The strengths and strategies of our business are described in more detail in the "Highlights of strategic focus for 2011" section.

Increased competition and the introduction of new services by competitors may have an effect on our expected business results, on the pricing of our current services, and on our profitability, that cannot be predicted. If this occurs, our market share, revenues, and net earnings may be adversely affected.

Local and long distance

The CRTC regulates the prices we can charge for basic access services in areas where it determines that there is not enough competition to protect the interest of users. To date, the CRTC has determined that competition was sufficient to grant forbearance from price regulation for over 38 per cent of our residential local telephone service lines and over 28 per cent of our business local telephone service lines.

In addition to other telecommunications companies, we face significant competitive pressures from cable companies as a result of them offering voice services over their networks. These competitors offer local telephone service in a large portion of our marketplace. They have the ability to offer multiple product bundles, consisting of various combinations of telephone, Internet, wireless and TV.

In addition, a threat to our NAS customer base continues to be the replacement of local landline service with wireless-only service by certain customers. The rate at which such technology substitution takes place may accelerate. This puts pressure on revenues for local service and also leads to declining revenues for services and features that are carried on the local network, including Internet and long distance.

The value of long distance as a stand-alone service has diminished but continues to be used as an integral component of a bundled customer solution. In the telecommunications industry, long distance is increasingly offered within flat-rate calling plans while alternatives like VoIP, instant messaging and peer-to-peer applications replace traditional calling, contributing to continued price and minute erosion. Competition continues with dial-around and prepaid card providers, traditional primary inter-exchange carrier competitors and resellers, and most recently, VoIP providers. VoIP will continue to erode traditional long distance as the technology improves and managed VoIP services are launched, making the technology transparent and more attractive to the consumer.

We continue to pursue our customers' business by offering value, simplicity and competitive pricing. We are also continuing to improve our ability to compete for their business by pursuing further regulatory freedoms. As well, we continue to manage the implementation of new technology, including VoIP, in our market as part of our voice evolution strategy. However, there is no assurance that this will mitigate churn and market share erosion resulting from new competitive entrants to our marketplace.

Internet
Internet penetration continues to grow in our market. We are experiencing an increasingly diverse and global group of competitors ranging from cable providers with excess network capacity to IT companies, equipment providers and system integrators that increasingly bundle telephony components and professional services into solutions at commodity prices. These companies continue to offer higher speeds to their customers through their networks as well as a wider range of products and services over these networks. These competitors continue to exert pressure on our pricing, market share and therefore revenues.

Our strategic objective to grow broadband will enable us to effectively compete. We are accelerating our investment in fibre technology to provide the best IP network to meet customer needs and continue to build our expertise, helping them evolve their networks and providing them with industry-specific solutions. We also continue to make significant investments to expand our FTTH network over which to deliver our best in class *FibreOP* broadband services.

Wireless
Wireless service is important to our customers. It is therefore an important competitive differentiator within our suite of services, particularly as it pertains to our bundles. The addition of new competitors in the Canadian wireless market, following the auction of new wireless spectrum in 2008, has heightened competition in this market. The level of competitive intensity in the wireless market will also increase as there are a number of factors that influence customer choice, including price, selection of devices, scope of services, technical quality, coverage and capacity of the wireless network, customer service, breadth of distribution, brand and marketing.

We currently have an arrangement with Bell Mobility to provide these services to our customers (outside of the Télébec, NorthernTel and KMTS operating territories where we provide these services directly) and as such are dependent on Bell Mobility to provide satisfactory customer service to our customers. There is no guarantee that current arrangements with Bell Mobility will continue to be available indefinitely in their present form, or that the conditions under which these have been secured will not change.

Our inability to compete could have a material adverse effect on our results of operations, including with respect to our local and long distance business if the wireless services are provided within bundles. We could experience lower ARPC, higher costs of acquisitions and retentions, higher churn, loss of market share, and therefore lower revenues and EBITDA.

TV

TV service comes in many forms, including satellite-based service, IP-based services and cable TV services. As such, competition for customers comes from cable companies, satellite service companies and traditional telephone companies. We provide both direct-to-home (DTH) satellite TV service and in certain regions, IP-based digital TV service to our customers. With evolving technology, and changing demographics and viewing preferences, alternative TV services have emerged, such as mobile TV and TV over the Internet. We hold broadcasting distribution licenses to offer TV service in certain of our regions, while many of the alternative TV services are unregulated.

Offering TV in our bundles allow us to provide a whole home experience for our residential customers. Competition for TV subscribers is based on the number and kind of channels offered, quality of the signal, set-top box features, availability of the service in the region, price and customer service.

We currently have an arrangement with Bell Canada to provide DTH satellite TV service to our customers and as such are dependent on Bell Canada to provide satisfactory customer service to our customers. There is no guarantee that current arrangements with Bell Canada will continue to be available indefinitely in their present form, or that the conditions under which these have been secured will not change.

Our strategy to grow our digital IP-based TV service, Bell Aliant TV, in the Atlantic Provinces provides us the opportunity to gain market share and enhance our competitive position in core urban markets. Our inability to compete with traditional and alternative TV service providers could have a material adverse effect on our results of operations, including with respect to our local and long distance business if the TV services is provided within bundles. We could experience lower ARPC, higher churn, loss of market share, and therefore lower revenues.

Ability to achieve strategies and plans

We continue to pursue our vision "to be recognized by customers as the leading communications provider in the markets we serve." Our strategic initiatives for 2011, as discussed in the "Highlights of strategic focus for 2011" section, will help us achieve our goal.

Our strategies and plans include initiatives intended to improve the customer experience, retain our customers, grow broadband, reset our cost structure and engage our employees. These initiatives require that we change our customer interactions, improve our systems and processes, implement programs and productivity initiatives, invest heavily in our FTTH network, and communicate effectively with our employees.

Improved customer service is critical to growing our customer base and retaining our existing customers. It may, however, be difficult to continue to improve customer service while significantly reducing costs through productivity initiatives. Many productivity improvements and cost reduction initiatives require capital expenditures to implement systems that automate or improve our operations. There is no assurance that these investments will be effective in delivering the planned productivity improvements and cost reductions.

There is also a risk that, should the pace of our capital investment in broadband and fibre be slower than is currently contemplated in our business plan, or that our costs exceed our expectations, our Internet and TV growth rate could be lower than current expectations, thereby adversely affecting our expected number of Internet and TV subscribers and revenues in 2011.

We strive to mitigate these risks by developing comprehensive strategic plans that are firmly supported by corporate-wide initiatives and programs that are led by our senior leadership team. These initiatives and programs are continually monitored and adjusted, if required, through the year to seek to achieve the desired results. Should the previously noted risks materialize, our financial performance, including our growth prospects, could be adversely affected.

General economic conditions

There are general economic trends and factors beyond our control that affect our operations and business. Such trends and factors include adverse changes in the conditions in the specific markets for our products and services, the conditions in the broader market for telecommunications services and the conditions in the domestic or global economies generally and their impact on capital markets, interest rates and consumer behaviour.

Our performance, and the degree to which our expectations regarding future events are realized, is affected by the general condition of the economy, as the demand for telecommunications tends to decline when economic growth and retail activity decline. Any further slowdown in global economic activity could make the overall economic environment more uncertain and could have a dampening effect on the performance of the Canadian economy, and the realization of our expectations. It is not possible to accurately predict economic fluctuations and the consequences of such fluctuations on our performance.

We monitor economic conditions and developments in the markets where we operate. We use this information in our continuous strategic and operational reviews to adjust our strategic initiatives as economic conditions dictate. The current economic conditions have not caused us to modify our risk management practices. The existing philosophy and framework contemplates a broad range of market conditions. We continue to closely measure and monitor risks using best practice methodologies and manage exposures within the risk constraints of our approved policies.

The implementation of revised pension funding rules, pension valuation and investment risk

We maintain a number of DB pension plans that have funding deficiencies.

The DB pension plans are exposed to general future valuation risk and required funding levels for 2011 and beyond may change as required actuarial valuations are completed. If the future return on plan assets, interest on the obligations, or actual experience of the plans are better or worse than anticipated, valuations can result in either lower or higher minimum required contributions, and such differences may be material.

Pension funding relief measures first introduced in the May 2006 federal budget, and proposed again by the federal Minister of Finance in January 2009 for new deficits, allow plan sponsors to extend the funding period of solvency deficits from five to ten years under certain conditions. We are currently able to take advantage of these relief measures, in part, because we have bank facilities that allow us to issue letters of credit in lieu of making cash funding payments. If we were unable to continue to access these credit facilities or otherwise failed to qualify for the solvency funding relief, there may be an immediate requirement for higher cash funding of our DB plans.

Over recent years, we have shifted the asset mix and strategies in the pension plan funds to mitigate the effect that future interest rate changes and investment returns could have on the plans' funded position. As well, most of our DB pension plans are closed to new entrants, placing an eventual cap on the future growth of these obligations. However, while we continue to exercise conservatism and diligence in the management of our pension plan assets, we remain susceptible to further downturns in the global and domestic economies and equity markets, which could have a material and adverse effect on our pension plan funding levels, our business and financial results generally, as they may require significant increases in our future contribution requirements.

On July 12, 2010, Parliament passed legislative changes that permit letters of credit to be used to satisfy solvency payments. On December 18, 2010, draft regulations were released for comments and we are currently evaluating how they will affect our plans; however, we will not be able to determine this specifically until they are finalized. The significant risk exposures faced by our DB pension plans, namely the effect of fluctuating interest rates, actuarial assumptions and equity market returns, have not changed and we believe they are not materially lowered by these proposed reform measures. We continue to manage these risk exposures through asset mix and funding policies, including the planned $200 million lump-sum voluntary contribution in 2011, which are aimed at lowering the volatility of future funding requirements while balancing the overall costs of the plans.

Reliance on systems

We rely on various complex systems that are used in the provision of services to customers and the management of customer relationships, billings and inventory. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and related data. The success of our operations depends on how well these components are protected against damage from fire, adverse weather, natural disasters, power loss, hacking, computer viruses, disabling devices, and deliberate acts of vandalism, acts of war or terrorism, and other events. Any of these things could cause operations to be shut down indefinitely and adversely impact our revenues and costs.

Our operations also depend on timely replacement and maintenance of our networks and equipment. Our systems are connected to the systems of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the potential threats mentioned above, as well as labour disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could be detrimental to both our customer relationships and operating results.

To mitigate the effect of this risk, we have developed disaster recovery plans, including redundancies that have been built into our network to reduce downtime arising from natural and other disasters; however, there can be no assurance that these plans will be effective.

In addition, many aspects of our business depend to a large extent on various IT systems and software, which must be improved and upgraded regularly and replaced from time to time, sometimes at significant cost. Implementing system and software upgrades and conversions is a very complex process, which may cause adverse consequences including billing errors and delays in customer service. Should adverse consequences occur, these events could significantly damage our customer relationships and business and have a material adverse effect on our results of operations.

Changing technology

The telecommunications industry is affected by rapidly evolving technology and the related changes in customer demands, product and service capabilities, and prices. Technological developments are also shortening product life cycles and facilitating convergence of different segments of the increasingly global information industry. For example, VoIP, substitution of wireline services with wireless and other evolving technologies will increase the competition we face and could negatively affect future revenues. Our future success will be influenced by our ability to anticipate, invest in, and implement new technologies with the service level and prices that customers demand. Technological advances may also affect our cash flow by shortening the useful life of some of our assets. There can be no assurance that our existing technologies will satisfy future customer needs, that our existing technologies will not become obsolete in light of future technological developments, or that we will not have to incur additional capital expenditures to upgrade or replace our technology. In addition, technological advances could emerge that could reduce the costs of plant and equipment, thereby facilitating entry by potential competitors. While we believe that the level of capital investment we plan to make in 2011 is sufficient to maintain the productive capacity of our network and other assets, the effect of changing technology could result in greater investment being required in the future.

We continually monitor technological advancements and consumer purchasing trends, which allows us to provide our customers with leading edge technology. We use this information in our continuous strategic and operational reviews to adjust our initiatives as required. In doing so, we also periodically assess the useful lives of our capital investments in light of our expectations of technological advances and make changes as required.

Required operating and capital expenditures, and demand for services

Significant expenditures on new technologies are required to remain competitive in the rapidly evolving telecommunications industry. As we update our networks, products and services, we may be exposed to incremental financial risks associated with acquiring assets that may be subject to accelerated obsolescence, and which therefore have little or short-lived commercial or economic value.

An increasingly important factor influencing network and infrastructure investments is the growth of data traffic and the resulting significant increase in bandwidth demand. This growth in traffic is from greater residential and business Internet usage, which has overtaken the volume of voice telephony traffic on many routes. It is uncertain to what extent this traffic will continue to exhibit high growth rates as high-speed Internet services are deployed and bandwidth intensive applications, such as video, are increasingly used by customers. While we monitor bandwidth demand and seek to optimize network performance, if these efforts are unsuccessful, or if future regulatory changes restrict our ability to manage our network, it could have a material adverse effect on our results of operations. The failure to make continued investments in our Internet networks to match or exceed higher speed services, and offer new products and services compared to our competitors, could have a detrimental effect on the pricing of our products, our future revenues and our results of operations.

We constantly evaluate the cost and benefit of our network and infrastructure investments to seek to ensure they remain reliable for our customers and meet their increasing technical needs.

Building and other real property life cycle management is another activity that affects our expenditures and capital spending. We own a large number of buildings dispersed over our expansive operating territory. We constantly monitor these properties to identify and address risks that may arise in connection with the building operating systems and the structures themselves. Failure to properly manage these assets could result in significant and unexpected expenditures, which could adversely affect our operating results.

Business relationship with BCE and Bell Canada

BCE, Bell Canada and certain of its affiliates and associates have substantial global operations and greater financial, technical and operational resources than us. We have entered into a series of long-term commercial agreements with Bell Canada, including a commercial relationship management agreement, which is discussed in further detail in the "Related party transactions" section. Certain terms of the commercial agreement are subject to periodic renegotiation, which is due to occur in 2013. Under our agreements, we and Bell Canada are restricted from competing with each other in certain respects in our respective territories. However, if this agreement were to be terminated, we, Bell Canada, and our respective affiliates, associates or operating companies could thereafter compete with each other.

In addition, we have access to technical, operational and human resources from Bell Canada and its affiliates, as well as wireless products and services for our customers through Bell Mobility, under formal arrangements. Access to those resources is not exclusive and there is no guarantee that current arrangements will continue to be available indefinitely in their present form, or that the conditions under which these have been secured will not change.

We have a mutually beneficial relationship with Bell Canada and are operating under the commercial relationship management and other agreements according to the agreed upon terms.

Changing regulations

We are affected by decisions made by the CRTC. We have highlighted recent key developments in the "Regulatory developments" section.

Collectively, several regulatory developments in recent years have served to lessen the regulatory burden and have improved our marketing flexibility and ability to compete effectively. There is no guarantee, however, that these regulatory trends will continue. There is a risk that decisions of the CRTC, and in particular the decisions relating to the price at which we must provide our competitors with access to our facilities, and our ability to manage Internet traffic over our networks, may have an adverse effect on our business and results of operations. We actively monitor CRTC decisions and participate in the regulatory arena to advocate for a balanced regulatory framework, which serves our customers and the industry at large.

Apart from CRTC regulatory developments, we may also be affected by changes in the policy approach to regulation taken by the Government of Canada. For example, in December 2006, the federal cabinet issued a policy direction, which directed the CRTC to rely on market forces to the maximum feasible extent and that interference with the operation of competitive market forces be kept to the minimum extent necessary. This shift in the Government of Canada's approach to regulation led to several significant developments including hastening and expanding local forbearance. There are no guarantees that future changes in regulation initiated by the Government of Canada will not have an adverse effect on our business and financial results.

Dependence on key suppliers

We operate a complex array of telecommunications networks and infrastructure, which relies on access to critical products and services that are provided by third parties. Many of these products and services are highly specialized and available from a single or a limited number of suppliers and may be priced in foreign currencies. Should our access to critical products or services be impaired or interrupted, for example, due to general economic and credit market conditions, bankruptcy or insolvency proceedings affecting the supplier, labour disruptions, changes in technical standards, or for any other reason, our business and results of operations could be materially adversely affected. Should the value of the Canadian dollar decline relative to the currencies which are used to price any of the critical products and services we are required to purchase, the cost to us could increase materially.

Maintenance of credit ratings

If actual results differ from our expectations or if the assumptions in our business plan change, we may have to raise more funds than expected by issuing debt, raising equity capital, or selling or otherwise disposing of assets. Financing through common equity offerings would dilute the holdings of existing common equity investors. An increase in preferred equity could place an additional fixed payment requirement on dividends and reduce our financial flexibility. An increased level of debt financing could lower our credit ratings, increase our borrowing costs and give us less flexibility to take advantage of business opportunities.

Our ability to raise financing depends on our ability to access the capital markets and the commercial loan market. The cost of funding depends largely on market conditions, and the outlook for our business and credit ratings at the time capital is raised. If our credit or preferred share ratings are downgraded, our cost of funding could significantly increase. In addition, participants in the capital and commercial loan markets have internal policies limiting their ability to invest in, or extend credit to, any single borrower or group of borrowers or to a particular industry.

If there are shocks to financial markets, we may incur increased costs or an inability to raise financing when needed for repayments of maturing debt or for growth. If we cannot raise the capital we need, we may have to limit our ongoing capital expenditures, limit our investment in new businesses, or sell or otherwise dispose of assets. Any of these possibilities could have a material, adverse effect on our financial position, results of operations, or cash flow from operations and growth prospects. Strategies in place for our capital requirements are also discussed in the "Financial and capital management" section.

Leverage and restrictive covenants

We have debt service obligations in connection with the trust indentures for the issuance of debt by our operating subsidiaries and in their respective facilities. The degree to which we are leveraged could have important consequences:

- Our ability to pay dividends, and our subsidiaries' ability to pay dividends to us, may be limited if we are unable to meet the financial tests provided in these trust indentures and facilities.
- Our ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future is limited by the restrictive covenants of these trust indentures and facilities.
- A substantial portion of our cash flow from operations may be dedicated to the payment of the principal and interest on indebtedness, thereby reducing funds available for future operations.
- Certain of our borrowings are at variable rates of interest, which exposes us to the risk of increased interest rates.
- We may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures.

Although we are currently in compliance with our restrictive covenants, failure to comply with the obligations in the trust indentures and facilities could result in a default that may require us to repay our debt in full. We continually consider the effect that our strategies and plans have on our leverage and the restrictive covenants to which we are subject and monitor our compliance.

BCE's governance rights

In connection with the arrangement transaction completed on July 6, 2006, to form the Fund, we entered into a securityholders' agreement with BCE and Bell Canada. This agreement was amended on January 1, 2011, to reflect the conversion transaction and preserve BCE and Bell Canada's rights under the new corporate structure. Under the terms of the securityholders' agreement, for so long as BCE, directly or indirectly, holds not less than 20 per cent of the common shares of Bell Aliant Inc., we must obtain BCE's consent prior to entering into various transactions such as, among other things, certain mergers, joint ventures, asset sales and other material transactions. In addition, BCE and its affiliates have certain rights in terms of the nomination or appointment of directors to the boards of Bell Aliant Inc. and its material operating subsidiaries. BCE and its affiliates are entitled to appoint up to a majority of the directors of the boards of Bell Aliant Inc.'s material operating subsidiaries and to annually nominate up to a majority of directors for appointment to the board of Bell Aliant Inc. for so long as BCE, directly or indirectly, holds not less than 30 per cent of Bell Aliant Inc. and our significant commercial agreements are in place. If such commercial agreements are terminated by any of the parties thereto in accordance with their terms (other than a termination as a result of a material intentional breach by Bell Aliant LP) or if BCE and its affiliates, directly or indirectly, hold less than 30 per cent of the common shares of Bell Aliant Inc., then BCE will be entitled to appoint its proportionate share of the directors of the boards of Bell Aliant Inc.'s material operating subsidiaries and nominate for appointment its proportionate share of the directors of the board of Bell Aliant Inc. based on its ownership of Bell Aliant Inc. In any event, BCE will be entitled to nominate two directors to the board of Bell Aliant GP and nominate two persons for election as directors of Bell Aliant Inc., for as long as such commercial agreements are in place, irrespective of its ownership interest in Bell Aliant Inc. BCE has complete discretion in terms of the exercise of these rights. As a result of this, the Bell Aliant Inc. and its operating subsidiaries may be restricted from entering into or carrying out transactions or activities that they may otherwise wish to do. Upon completion of the conversion to a corporate structure, the securityholders' agreement was amended and restated, with Bell Aliant Inc. and Bell Aliant GP assuming the rights and obligations of the Fund and Bell Aliant Holdings LP, respectively.

Reliance on key personnel and labour relations

As our operations and ability to provide services to our customers is highly dependent upon the continuous efforts of our employees, unforeseen or widespread disruptions in the availability of our workforce could result in significant negative effects on our business. We have undertaken extensive business continuity planning, including such things as a comprehensive pandemic response program, in an effort to mitigate these risks and preserve our ability to operate during such events.

Approximately 62 per cent of our employees are represented by unions and are covered by collective agreements. Our unions in Atlantic Canada represent approximately two-thirds of our total number of bargaining unit employees. The Common Interest Forum, which comprises senior executives from Bell Aliant GP and the Communications, Energy and Paperworkers Union (CEP) of Canada Atlantic Communications Council (CEPACC) has been meeting regularly for more than two years, and is making progress dealing with issues that are of mutual interest to both parties. A new collective agreement was reached with CEPACC in 2010 which replaces the current collective agreement. The changes are effective from October 1, 2010, until December 31, 2014.

The remaining one-third of our unionized employees work in Ontario and Quebec and are covered by eight collective agreements. In November 2010, the Canadian Industrial Relations Board approved our application to merge the International Brotherhood of Electrical Workers (IBEW) bargaining unit at KMTS with the existing CEP units (craft and clerical) covering our operations in Ontario. Furthermore, the Board has requested that we, the IBEW and CEP work together to develop transition rules. It is anticipated that the IBEW employees will be fully integrated into the CEP by May 1, 2011, and the IBEW collective agreement will disappear. A reorganization of the sales team in our Central operations in 2010 has resulted in four of the sales unionized employees becoming management and the lone remaining employee being integrated into the Bell Aliant LP collective agreement. Therefore, there are no longer any employees covered by the sales agreement.

During 2011 in Ontario and Quebec, the IBEW employees will be fully integrated into the CEP thus reducing the number of collective agreements we have to seven. Three of the remaining seven agreements expire in 2011. The first is an agreement covering 140 CEP represented technicians and clerks in Northern Ontario, which expired on February 28, 2011. There is also wage re-opener scheduled for July 2011 for 170 Télébec technicians. The clerical agreement covering 220 clerical employees at Télébec expires on November 1, 2011, while the agreement covering 650 technicians at Bell Aliant LP represented by the CEP expires on November 30, 2011.

Legal contingencies and changes in laws

We review all legal proceedings and make assessments of the likelihood of a negative result and the estimated effects. Losses are accrued when a potential loss is deemed probable and its consequence can be reasonably estimated. However, pending or future litigation could still have a material adverse effect on results of operations, cash flows and financial position in the period in which the judgment or settlement occurs. Significant outstanding legal contingencies are described in note 23 to our audited consolidated financial statements for the year ended December 31, 2010.

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, changes in laws pertaining to the confidentiality and security of customer information, and securities laws, which introduced statutory civil liability for misrepresentations in continuous disclosure, could materially or adversely affect our results of operations, cash flows and financial position.

Success of acquisitions and dispositions

We may undertake the acquisition or disposition of businesses or other operations as part of our business strategies. In the case of acquisitions, success is often dependent upon the efficient integration of acquired operations into our business and finding synergies in the combined undertaking. Likewise, the success of divestitures is dependent upon obtaining fair value for the operations that are sold and mitigating the financial effects of the removal of those operations from the overall enterprise. These activities also involve the investment of significant time and transactional resources, which may be lost if we are unable to complete transactions as planned. We seek to mitigate these risks though detailed planning and analysis of all such transactions and by employing skilled professional consultants and advisors.

Tax related risks

Interest expense deduction

Income fund structures generally involve significant amounts of subordinated inter-company or similar debt, generating substantial interest expense, which serves to reduce earnings and therefore income taxes payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted on the subordinated inter-company debt prior to the conversion transaction. If such a challenge were to succeed against Bell Nordiq Group Inc. (with respect to its taxation years prior to its June 30, 2007 windup) or Bell Aliant GP, it would materially adversely affect the amount of cash available to us for distribution to Bell Aliant. We believe that the interest expense that was inherent in our income trust structure is supportable and reasonable in light of the terms of the related indebtedness.

Allocation of partnership income

The general partners of Bell Aliant Holdings LP, Bell Aliant LP, NorthernTel and Télébec allocate the respective incomes of such partnerships among their respective partners in accordance with the terms of the related partnership agreements. The Tax Act contains provisions which permit a reallocation of partnership income or loss among members of a partnership where the agreed-upon allocation is not reasonable in the circumstances. Although such allocations are believed to be reasonable in the circumstances, there can be no assurance that taxation authorities will not seek to challenge such allocation. If such challenge were to succeed, the amount of cash available to us for distribution to Bell Aliant Inc. and ultimately by Bell Aliant Inc. to its shareholders could be adversely affected.

Income, commodity and transfer tax amounts, including tax expense, may be materially different than expected.

We believe that we have adequately provided for all income, commodity and transfer taxes based on all of the information that is currently available. The calculation of income taxes and the applicability of commodity and transfer taxes in many cases, however, require significant judgment in interpreting tax rules and regulations. Our tax filings are subject to government audits which could materially change the amount of current and future income tax assets and liabilities and other liabilities, and could, in certain circumstances, result in an assessment of interest and penalties.

NON-GAAP FINANCIAL MEASURES

The terms EBITDA (earnings before interest, taxes, depreciation and amortization), standardized distributable cash, distributable cash and free cash flow do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. We present EBITDA, standardized distributable cash, distributable cash and free cash flow on a consistent basis from period to period.

EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, write-down of finite-life intangibles, restructuring and other charges, and net cost of benefit plans. Operating income is calculated before interest and taxes are deducted.

The following table provides a reconciliation of operating income to EBITDA on a consolidated basis:

For the period ended December 31 *(millions of dollars)*	2010	2009 [1]
Net earnings (loss)	(497.1)	356.2
Add:		
Other expense	14.0	13.2
Interest charges	162.3	158.4
Future income tax recovery	(216.5)	(55.6)
Non-controlling interest	(401.4)	134.9
Net loss from discontinued operations	5.9	14.6
Operating income (loss)	(932.8)	621.7
Add:		
Depreciation and amortization	703.9	709.5
Write-down of finite-life intangibles	1,540.7	—
Restructuring and other charges	29.1	41.4
Net cost of benefit plans	88.7	84.9
EBITDA	1,429.6	1,457.5

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

We use EBITDA, among other measures, to assess the operating performance of our ongoing business without the effects of interest, taxes, depreciation and amortization expense, write-down of finite-life intangibles, restructuring and other charges, and net cost of benefit plans. We exclude depreciation and amortization expense, write-down of finite-life intangibles, and net cost of benefit plans because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital investments and intangible assets, and the performance of a company's pension plan assets. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance.

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use this measure to assess our ability to service debt, make distributions to unitholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry. EBITDA should not be confused with net earnings or operating income, which are the most comparable Canadian GAAP measures.

EBITDA margin is defined as EBITDA as a percentage of our operating revenues.

Standardized distributable cash and distributable cash

Standardized distributable cash and distributable cash are both measures of cash generated from operating activities that may be available for distribution. We calculate standardized distributable cash from a cash flow perspective following CICA guidance, which uses cash from operating activities and adds or deducts the following items that affect cash flow:

(i) Cash from operating activities of discontinued operations and the Fund, as this represents operating cash from activities, other than our continuing operations, which is available for distribution; and
(ii) Capital expenditures.

CICA guidance on the calculation of standardized distributable cash measures would also include deductions related to any restrictions imposed on the amount of cash distributions as a result of compliance with financial covenants restrictions at the date of calculation. Our credit agreements only impose a restriction that distributions cannot exceed distributable cash over the last year if our credit ratings fall below investment grade. Since our ratings are within the investment grade categories, we are under no such restrictions.

We further adjust standardized distributable cash by the following items to determine our distributable cash:

(i) Operating items funded through cash reserves or borrowings, such as changes in working capital, pension deficit funding, restructuring charges, and cash capital taxes in excess of normalized levels;
(ii) Current income tax provisions (recoveries) are added back (deducted) as we have tax strategies in place to ensure that they are not payable (receivable) in cash; and
(iii) Other elements of working capital changes that should not result in actual current or future cash flows.

All of these adjustments to determine standardized distributable cash and distributable cash can be found in our consolidated financial statements or records or the Fund's consolidated financial statements or records, with the exception of the normalization of cash capital taxes. This adjustment is a calculation where some management judgment is exercised in estimating the level of capital taxes that we will pay when future tax rate changes come into effect. We have assumed a stable capital base and the future enactment of all previously announced provincial capital tax rate reductions or eliminations by the provinces of Ontario, Quebec, New Brunswick and Nova Scotia. At this point, all of these provinces have announced phased elimination of capital taxes in prior budgets; therefore, our determination of distributable cash includes no cash capital taxes. The actual tax rates may differ materially as they are subject to future enacted tax laws.

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

For the period ended December 31 *(millions of dollars)*	2010	2009 [1]
Cash from operating activities	1,028.5	1,126.4
Deduct:		
Standardized distributable cash of discontinued operations	(22.6)	(7.1)
Cash from operating activities of the Fund	(3.7)	(15.8)
Capital expenditures	(494.0)	(462.4)
Standardized distributable cash	508.2	641.1
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Change in operating assets and liabilities (working capital)	48.6	(19.8)
Change in operating assets and liabilities (working capital) of the Fund	0.3	11.8
Change in operating assets and liabilities (working capital) and other non-cash items of the discontinued operations	24.2	9.4
Pension deficit funding	86.3	73.8
Restructuring charges	27.9	37.6
Cash capital taxes in excess of normalized levels	4.2	6.3
Other adjustments:		
Current income tax recovery	3.1	(2.0)
Other non-cash items provided for in working capital changes	7.7	15.2
Distributable cash	710.5	773.4

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

The calculation of standardized distributable cash and distributable cash has been prepared using reasonable and supportable assumptions, all of which reflect our planned courses of action given management's judgment about the most probable set of economic conditions. Actual results may vary, perhaps materially, from the forward-looking assumptions used.

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

As a corporate reporting issuer starting in 2011, we will no longer calculate or use distributable cash or standardized distributable cash.

Free cash flow

In 2011, Bell Aliant Inc.'s dividend policy will target a payout of 75 to 85 per cent of free cash flow. We believe that certain investors and analysts use free cash flow to assess our ability to pay dividends to shareholders, service debt, and to meet other payment obligations, and as a common valuation measurement in our industry.

We define free cash flow as cash from operating activities less capital expenditures. Since our operations ultimately supported distributions to Fund unitholders, and will support dividends to Bell Aliant Inc. shareholders, going forward, free cash flow combines our cash performance with that of the Fund for years ended December 31, 2010, and 2009. We may present free cash flow both including and excluding changes in working capital in a period as these changes can be significant given the timing of these cash flows through the year or from one year to the next.

Free cash flow should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.

The following table provides a reconciliation of cash from operating activities to free cash flow:

For the period ended December 31

(millions of dollars)	2010	2009 [1]
Cash from operating activities	1,028.5	1,126.4
Cash used in the operating activities of the Fund	(3.7)	(15.8)
Total cash from operating activities	1,024.8	1,110.6
Capital expenditures	(494.0)	(462.4)
Free cash flow	530.8	648.2

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

CONTROLS AND PROCEDURES

Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities law. An evaluation of the effectiveness of our disclosure controls and procedures as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109) was performed under the supervision and participation of our management, including the chief executive officer (CEO) and chief financial officer (CFO). Based on the evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2010.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in NI 52-109. Our internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO evaluated the design and operating effectiveness of our internal control over financial reporting as at December 31, 2010, and have concluded that our internal control over financial reporting was effective. There are no material weaknesses that have been identified by management.

No changes were made in our internal control over financial reporting during the year ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.