

Five strategies at work

In 2009, we did what we set out to do. We set a course for our future success by focusing on five strategies – improve the customer experience, retain our customers, grow broadband, reset our cost structure, and engage employees. Our plan is working. We delivered strong financial results, a solid distribution to our unitholders and, at the same time, invested in our customers and our business.

A year of accomplishments

We improved EBITDA in 2009 by \$16 million over 2008, despite an increase in competitive activity and a slower economy. Although our overall revenue was down approximately 2 per cent from 2008 as a result of declines in local and long distance, our Internet and television services continued to grow. Additionally, our distributable cash performance was strong, up more than 8 per cent over 2008 as a result of better operating performance and a focused, reduced capital program.

In 2009, we were thrilled to announce that we would become the first company in Canada to offer fibre-to-the-home technology to an entire city. Our *FibreOP* network allows us to offer premium Internet and television services. This gives us a strong competitive advantage now and provides us with the ability to develop and offer services in the future that are not even thought of yet.

We took significant steps to reset our cost structure in 2009 by making sustainable changes to our organizational structure and operating processes, which reduced our operating and capital costs by over \$150 million. Our customer service metrics improved in every category across our service area, demonstrating that service improvement and lower cost can indeed be accomplished successfully at the same time.



Karen Sheriff, president and chief executive officer

Even with these accomplishments, 2009 was not without its challenges. Our competitors' local service footprint continued to expand and we experienced a high level of competitive activity and advertising in all of our markets. Despite this increased competitive pressure and a softer economy, we had success winning back customers and continued to grow our Internet and TV coverage, which will provide us with future opportunities to grow our revenue.

New year, same strategies

Overall, I am very pleased with our performance in 2009. The plan we outlined last year is working. In 2010, we will focus on the same five strategies to guide our actions. I am confident that we have the right priorities for this time in our business cycle, and achieving them will help ensure continued success in the future.

Improve the customer experience

Improving the customer experience continues to be one of the most important things we can do. We believe that by delivering superior customer service and value through leading products and services, we will attract more customers and they will want to buy more from us.

Retain our customers


Retaining our customers will always be a key priority. We expect the competitive local service footprint to continue to grow over the next several years and continued focus on our retention efforts is imperative. Our challenge remains to slow the pace of losses by offering bundles of services that provide customers with choice, savings, and the convenience of one-stop shopping, and by providing a great overall customer experience.

Grow broadband

Broadband is our growth business and our future. We will focus on making our service the clear choice for customers and making it available to more customers than ever before. In 2010, we plan to invest \$65 million in fibre-to-the-home technology, more than double the amount we spent in 2009, bringing our coverage to over 140,000 homes and businesses by the end of the year. The customer response to the service has been strong and we are already beginning to see improvements in our operating productivity with the use of this new technology.

Reset our cost structure

Resetting our cost structure will be an ongoing objective for us. In 2009, we completed a lot of heavy lifting, including some challenging organizational changes. There are opportunities to lower costs further, as we realize the benefits of restructuring, procurement savings, and reductions in maintenance and capital costs as a result of our new *FibreOP* network. Although I don't expect the level of change in 2010



to be as large as last year, 2010 cost reductions will be significant. We will continue to evolve our business to ensure we are cost-effective, nimble and smart. In a competitive environment like ours, our future sustainability depends upon us having the right cost structure.

Engage employees

Engaging our people was a big part of our success in 2009. Together, we have come through some tough but necessary changes to make our organization better and more competitive. Our employees are the link to our customers. Their belief, support and full engagement in our strategy is critical to our long-term success. In 2009, their commitment was unwavering and our success is a testament to their hard work.

Focusing on our five priorities has served us well in 2009 and these priorities will continue to guide us in the year ahead.

Converting to a corporate structure

As you are likely aware, changes to taxation rules that come into effect January 1, 2011, will result in income trusts being subject to taxation as if they were corporations. With this change, the tax benefit we have enjoyed since our formation in July 2006 will be eliminated. Whether we convert to a corporate structure or not, we will become subject to taxation in January 2011.

We expect to recommend to unitholders a conversion to a corporate structure for three reasons. First, we expect to lose the current tax advantages of an income trust structure whether we convert or not. Second, a corporate structure will be simpler, reducing our administrative costs and making our financial reporting easier to understand. Third, we expect we will be more comparable to other similar publicly traded businesses, making it easier for us to be assessed relative to our peers and enhancing our access to capital markets.

Details about the conversion terms and process, and the anticipated dividend policy going forward, are being developed and are expected to be released in May. A unitholder vote on conversion to a corporate structure is expected to take place at our annual and special meeting, scheduled for June 16. We expect the conversion plan we recommend to unitholders will involve a tax-deferred exchange of units for shares of the corporation, which means, there will be no capital gains or losses to recognize

upon conversion. With the introduction of taxes and the expected conversion still almost a year away, there are a number of factors influencing our outlook. Waiting until May to announce our conversion plans and specifics regarding expected dividend philosophy will provide us with another couple of months of competitive and economic experience to help us as we shape our future dividend policy.

Our objective is to deliver a sustainable high payout dividend to shareholders following January 1, 2011, while balancing our other business priorities including continuing to invest in broadband and maintaining investment grade credit ratings. Although a reduction in our current distribution of \$2.90 per unit per year is expected, it is important to note that for taxable individual investors resident in Canada, dividends paid by a corporation are taxed at a lower rate than the distributions we currently pay as an income trust. So, for these investors, the reduction in the dividend will be largely offset by lower personal income taxes.

On the right path

In closing, 2009 was a year of great change and accomplishment for us. We have positioned ourselves to make continued progress. We are confident the path we are taking is the right one and with the support and hard work of our employees, will endeavour to maintain a sustainable, profitable business for our customers and investors in the years to come.

I would like to thank our customers for choosing us, and you, our unitholders, for your continued trust and investment.

Sincerely,



Karen Sheriff
President and chief executive officer
March 10, 2010