

Bell Aliant Regional Communications
Holdings, Limited Partnership

Management's discussion and analysis

For the year ended December 31, 2007

March 4, 2008



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, 2007, compared to 2006. This MD&A should be read together with our consolidated financial statements and accompanying notes for the year ended December 31, 2007. 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. The term "Aliant" refers to our predecessor Aliant Inc. and its subsidiaries.

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

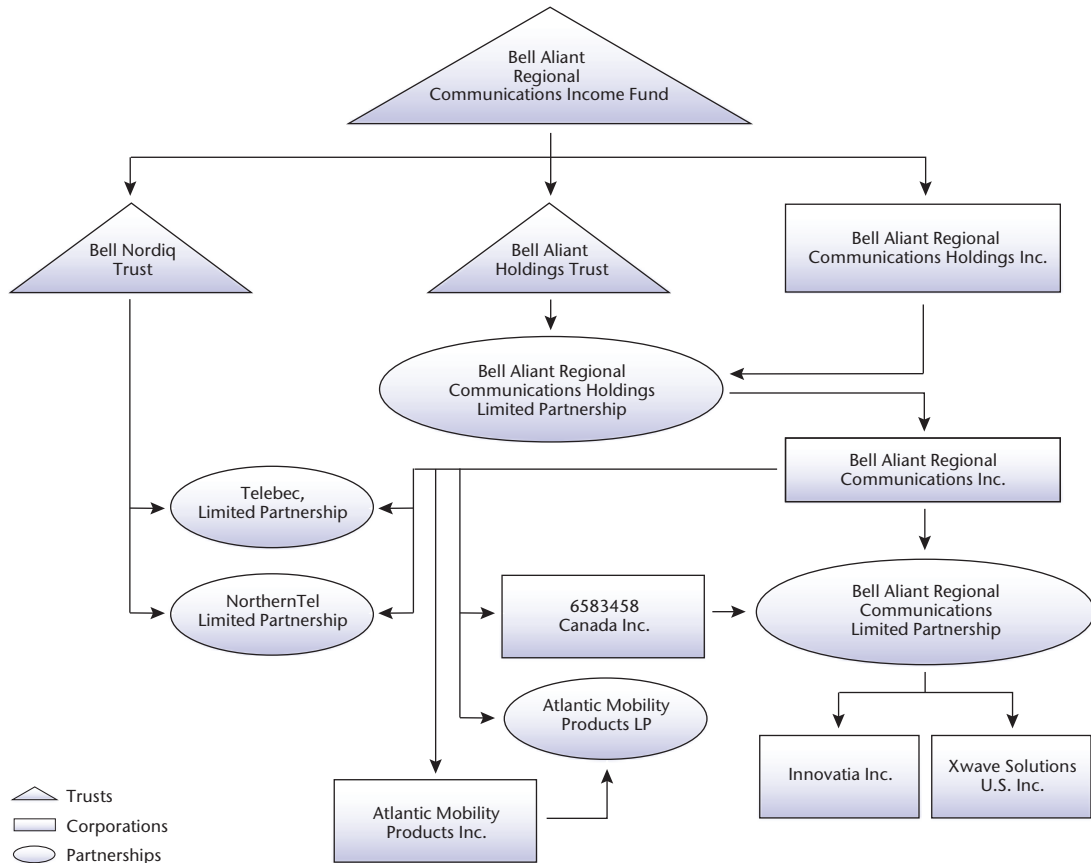
Forward-looking information

This MD&A is dated March 4, 2008, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations. The purpose of forward-looking information is to provide the reader with information about management's expectations and plans for fiscal 2008. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at March 4, 2008. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve strategies and plans; general economic conditions; the changing competitive environment; changing regulatory conditions or requirements; reliance on IT systems; and changing technology. Some of these factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and risk factors. Should any 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 our Notice concerning forward-looking information dated February 5, 2008, which is available at www.bell.aliant.ca as well as www.sedar.com.

OUR BUSINESS



We are one of the largest regionally focused telecommunications service providers in North America with operations primarily in Atlantic Canada, Quebec and Ontario. We have been serving customers for over a century. We provide a wide range of innovative and traditional voice and data communications services and an array of information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions. Communications services we provide include local telephone, long distance, data and Internet, wireless, TV, cable and other products and services. Our IT services include system integration, application development, local and wide area network installations and management, data centre operations, computer hardware, package software and IT planning services. We also provide complementary services in wholesale distribution of telecommunications hardware and accessories and in knowledge management, including e-learning, technical documentation and tele-web sales and services.

Bell Aliant Holdings LP began operations on July 7, 2006, pursuant to the Plan of Arrangement (the Arrangement) that created the Fund. Details of the Arrangement can be found in Aliant's management information circular dated April 14, 2006. Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate these and other subsidiary partnerships and corporations in our financial statements. The organizational chart shown here depicts the Fund, Bell Aliant Holdings LP and other significant entities within the Fund group as at December 31, 2007.

Our results are accounted for on a continuity of interest basis, therefore, our comparative information for any period prior to July 7, 2006, is for Aliant. To allow for more meaningful period-over-period comparison and analysis, we have also presented certain of our results prior to July 7, 2006, on a pro forma basis, assuming Bell Aliant Holdings LP was operational throughout all of 2006.

OUR BUSINESS ENVIRONMENT

Competitive landscape

We face a number of different competitors across the regions we serve, with increasing competition from cable companies continuing to be one of the largest risks we face in our business. Throughout 2007, cable competitors continued to expand their local service areas in our territory and launched aggressive promotional campaigns. These cable companies are following a similar strategy to ours, emphasizing bundled services in an attempt to secure the "whole home". Cable competitors offered telephony services to approximately 48 per cent of households in our territory at the end of 2007, up from approximately 33 per cent at the end of 2006. We expect continued growth in the competitive footprint and as competition increases, we remain focused on the successful execution of our strategic priorities. As a result of this competition, our local residential customer total has declined as discussed further in the "Results of operations" section. Also, competition in the Canadian wireless market may further intensify following Industry Canada's decision to license additional wireless spectrum through a competitive auction process scheduled to take place in May 2008, where portions of this new spectrum will be set aside for new entrants.

In order to combat these competitive pressures, we continue to enhance our products and services, promote our bundled service packages and innovate with customers to provide complete solutions. We continue to invest in our communities and support activities that are important to our customers and employees. Refer to our achievements as discussed in the "Strategy – achievements in 2007 and focus for 2008" section for further detail.

Change in taxation rules

In June 2007, the federal government's proposed changes to the tax treatment of income trusts received royal assent and were enacted into law. We expect we will be able to operate within the normal growth guidelines that will allow us to qualify for the delay in imposition of these tax changes until 2011. The business rationale for completing the Arrangement in 2006 remains intact. We are continuing to operate as usual and we will take the necessary time to plan for upcoming changes to the taxation of income trusts.

Telecommunications regulatory developments

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC) and the federal government. At the end of 2006, the federal government issued the first ever Policy Direction to the CRTC, calling on the regulator to rely on market forces to the maximum extent feasible and to use regulation that interferes with market forces to the minimum extent necessary. These actions brought about a series of rulings by the CRTC throughout 2007 that resulted in major reforms of the regulatory framework.

Forbearance, when granted, eliminates most regulation, including the need to file and receive CRTC approval for new service features, terms and price changes. In response to the federal government modifying the CRTC's 2006 forbearance decision on April 4, 2007, and after years of effort, we successfully became the first incumbent local exchange carrier (ILEC) in Canada to be granted forbearance for local telephone service. As of March 4, 2008, the CRTC granted forbearance of local telephone service in numerous communities throughout all six provinces where we operate, including 125 exchanges for residential service (three of which are subject to delayed implementation) and 37 exchanges for business service (three of which were also subject to delayed implementation).

In conjunction with the forbearance announcement and subject to CRTC approval, the federal government asked telecommunications service providers to work together to create an independent, industry-funded agency to handle complaints from consumers and small businesses. On July 23, 2007, the Commissioner for Complaints for Telecommunications Services (CCTS) was launched. On the same date, we along with Bell Canada and other telecommunications service providers filed a joint proposal with the CRTC for approval of the structure and mandate of the CCTS. The CCTS does not replace telecommunications service providers' normal complaint resolution processes, but is intended to assist when those processes do not resolve concerns. A public consultation was held in November 2007, which resulted in the CRTC issuing a decision that included amendments to the proposed mandate and structure of the CCTS. On February 4, 2008, Bell Aliant (jointly with Bell Canada, Northwestel and Télébec) filed an application with the Commission requesting a review and vary of Decision 2007-130 related to the limitation of liability. Another group of CCTS members filed a second application requesting a review and vary of the Decision related to not only the limitation liability but also mandatory memberships and collective complaints.

Other regulatory reforms achieved in 2007 are also significant. For example, the federal government's modifications to the forbearance decision also eliminated the restrictions on incumbents' contact with customers who moved to a competitor (the "winback" restriction), removed restrictions on promotions, and permitted the waiver of service charges for residential customers returning from a competitor. Specific regulatory developments during 2007 include:

- *Rates* – On April 30, 2007, the CRTC established a new pricing framework in Telecom Decision 2007-27 to govern the rates charged by ILECs for regulated telecommunications services, including the ability to raise prices for local calls from payphones from 25 to 50 cents for cash calls and from 50 cents to a dollar for non-cash calls. This pricing framework was extended to Télébec effective August 1, 2007. Under the previous pricing framework, as outlined in the Price Caps Decision issued May 30, 2002, the CRTC noted that mandated price reductions to residential local services might have an adverse effect on competition in the local market and therefore established the deferral account. Instead of mandating reductions to rates for residential local services in non-high cost serving areas (non-HCSAs), the CRTC implemented a deferral account mechanism where an amount

equal to the forgone revenue reductions would be assigned to, and retained in, the deferral account. The new framework established in 2007 eliminates the deferral account and permits rate de-averaging of residential rates. Rate de-averaging provides significant pricing flexibility in our regulated service offerings. On November 9, 2007, the CRTC also removed the prohibition on rate de-averaging for pay telephone and business services.

On July 30, 2007, a petition to cabinet was filed by certain parties asking that Telecom Decision 2007-27 be referred back to the CRTC for reconsideration of the implementation of payphone rate increases. On June 22, 2007, a separate petition to cabinet was filed by certain parties requesting Telecom Decision 2007-27 be rescinded as it established different pricing rules for basic residential local service in high cost serving areas (HCSAs), relative to non-HCSAs. The petitioner specifically objected to the CRTC's determination that incumbent telephone companies are permitted to increase basic local residential service rates in HCSAs by the rate of inflation each year, but they are not permitted to increase such rates in non-HCSAs. On October 1, 2007, we filed a joint response with Bell Canada to both petitions, arguing that the determinations made by the CRTC in Telecom Decision 2007-27 were correct, in accordance with due process and are consistent with the guidance provided by the government in its Policy Direction of December 14, 2006, wherein it instructs the CRTC to rely on market forces to the maximum extent possible.

- *Review of regulatory measures* – On July 11, 2007, the CRTC announced its action plan for the review of existing regulatory measures in light of the federal government's Policy Direction. Pursuant to that action plan, the CRTC initiated a proceeding to review the general tariff bundling rules and the rules for market trials. Effective November 23, 2007, the CRTC eliminated restrictions on bundling rules, allowing for regulated and non-regulated services to be bundled without any filing requirements so long as the price of the bundle at least equals the sum of the rates of all regulated services in the bundle. The CRTC also removed the requirement for regulatory approval of market trials of regulated services. On January 22, 2008, the CRTC issued Telecom Public Notice CRTC 2008-1 where it seeks to identify and prioritize the review of various social and other non-economic regulatory measures in light of the Policy Direction. The CRTC intends to issue its review plan for the measures identified by April 30, 2008.
- *Review of regulatory measures for NorthernTel* – Further to the price regulation regime established for small incumbent local exchange carriers (SILECs), on November 21, 2007, the CRTC determined that the local winback restrictions and the competitive safeguards for promotions will not apply to SILECs. In addition, the same Voice over Internet Protocol (VoIP) regulatory framework that applies to ILECs will apply to SILECs, but the CRTC's quality of service rate rebate plan will not apply to SILECs. Instead, the CRTC directed SILECs to continue to use a complaint-based system.
- *Wholesale services review* – The proceeding initiated by the CRTC in 2006 to review the regulatory framework applicable to wholesale services provided by ILECs, competitive local exchange carriers, and cable companies to each other, closed on December 7, 2007. On March 3, 2008, the CRTC issued Telecom Decision 2008-17 in which it redefined essential services, assigned individual wholesale services to six separate categories, set out the pricing rules for each, and established transition periods leading to forbearance for some. While the balance of our wholesale services remain subject to regulation, Competitor Digital Network and Ethernet services, which provide fibre access and transport, as well as certain other services, will ultimately be forborne from regulation in three to five years, depending on the specific nature of the service. We are currently evaluating the decision and are unable to estimate the impact of Telecom Decision 2008-17 on our business at this time.

- *Phase II costing review* – The March 30, 2007, CRTC-initiated proceedings to review certain costing issues with respect to major incumbents and cable companies closed on November 2, 2007. The Commission issued its determinations with respect of this proceeding on February 21, 2008, in Telecom Decision CRTC 2008-14. We are currently assessing the decision and determining if it affects our prices and revenues.
- *Deferral accounts* – As discussed under “Rates”, the new pricing framework established in Telecom Decision 2007-27 eliminated the deferral account mechanism. As a result, Bell Aliant’s deferral account was cleared and closed during 2007. However, we are still affected by Télébec’s and Bell Canada’s deferral accounts. Bell Canada’s accumulated deferral account balance at December 31, 2007, was estimated to be \$451 million, with an estimated future annualized commitment of \$1.4 million. On March 3, 2008, Bell Canada and Bell Aliant filed proposed reductions to rates for stand-alone local residential telephone access services in regulated exchanges within the non-HCSA portions of their Ontario and Quebec serving areas which, if approved, would eliminate Bell Canada’s future annualized commitment.

Subject to the outcome of CRTC decisions and court proceedings, we will be affected by further proposals of Bell Canada to expand broadband services to communities within our operating territory in Ontario and Quebec in satisfaction of Bell Canada’s deferral account, as we have agreed to contribute to the economic spending portion of the project. In 2006, certain consumer groups filed an appeal in the Federal Court of Appeal (the Court) challenging the legality of the deferral accounts and the use of deferral account funds for broadband and accessibility initiatives. They argued that the funds should instead be rebated to residential customers. Bell Canada filed an appeal as well, claiming that the CRTC does not have the jurisdiction to order rebates in connection with prices they had approved on a final basis. Both appeals were heard by the Court in late January 2008; however, it could be some time before a decision is rendered. In January 2008, before the appeals were heard, the CRTC issued Telecom Decision 2008-1 in which it approved the use of Bell Canada’s deferral account for a portion of the broadband expansion program proposed by them as well as for improvements for services for persons with disabilities. Bell Canada was directed by the CRTC to file a proposed rollout plan and updated costs by March 17, 2008. The CRTC also ordered that the balance of the deferral account remaining after those initiatives be rebated to residential subscribers in urban, non-HCSAs within the Ontario and Quebec regions served by Bell Canada and Bell Aliant, and to file, by March 25, 2008, proposals to rebate such funds. On February 11, 2008, Bell Canada filed a Notice of Motion with the Court for leave to appeal Telecom Decision 2008-1 and to stay that decision, except as it relates to initiatives for the improvement of accessibility to communications services for persons with disabilities. Bell Canada and Bell Aliant also filed a letter with the CRTC, dated February 15, 2008, seeking to defer the filing of follow-up information pertaining to broadband expansion and rebates which the CRTC directed them to file in Decision 2008-1, until such time as the stay is denied or, if the stay is granted, until the substance of the appeals is addressed by the Court and the stay is lifted. On February 22, 2008, the CRTC approved this request.

On September 14, 2007, the CRTC directed Télébec to amortize its cumulative deferral account shortfall in equal amounts over a four year period. The CRTC also approved an exogenous factor resulting in a rate increase of \$3.0 million for the recovery of Télébec’s recurring shortfall each year. As of December 31, 2007, Télébec’s cumulative deferral account shortfall is estimated at \$3.0 million and the recurring shortfall is now evaluated at \$2.2 million, considering the rate increase approved by the CRTC on November 2, 2007.

- *Wholesale Ethernet services* – On August 31, 2007, the CRTC reversed its earlier 2007 decision which had ordered implementation of costly new wholesale services (e.g. Ethernet).
- *Quality of service* – The CRTC made certain improvements to the rules governing competitor quality of service indicators related to wholesale quality of service provided by the ILECs.

The CRTC has adopted a force majeure clause that excuses ILECs from paying penalties in a month where failure to meet the retail or competitor quality of service standard is caused by certain unforeseen events beyond their control, including labour disruptions.

Privatization of BCE

Our significant stakeholder, BCE, has announced that it has entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc., Madison Dearborn Partners, LLC, and Merrill Lynch Global Private Equity. On September 21, 2007, the transaction received BCE shareholder approval but remains subject to regulatory approval. We are not a party to the transaction and cannot predict the effect that a change of ownership of BCE may have on our organization.

YEAR IN REVIEW

Summary of results

For the years ended December 31
(millions of dollars)

				Pro forma		
	2007	2006	% change	2007	2006	% change
Operating revenues	3,373.4	2,684.3	25.7	3,373.4	3,299.2	2.2
EBITDA ⁽¹⁾	1,450.2	1,147.5	26.4	1,450.2	1,446.7	0.2
Operating income ⁽¹⁾	515.4	550.8	(6.4)	515.4	732.5	(29.6)
Net earnings	584.3	2,902.0	(79.9)			

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

2007 results reflect increased scale of operations

Operating results for the year ended December 31, 2007, compared to 2006, reflect the increased scale of operations since July 7, 2006, resulting in higher operating revenues, expenses and EBITDA. Operating income for 2007 reflects this growth over 2006, offset by a \$62.0 million adjustment to depreciation and amortization for the period from July 7, 2006, up to December 31, 2006, related to the finalization of the purchase price allocation for our Ontario and Quebec operations in the second quarter of 2007, and a \$14.2 million increase in restructuring and other charges.

Operating revenues increased 2.2 per cent and EBITDA increased 0.2 per cent during 2007 compared to pro forma 2006

Operating revenues increased 2.2 per cent during the year ended December 31, 2007, compared to the pro forma operating revenues for 2006, as growth in Internet, data, wireless and IT revenues more than offset declines in local access and long distance revenues. EBITDA increased by 0.2 per cent during 2007, as operating revenue increases were accompanied by increases in cost of sales and labour. These increased costs were partially offset by a reduction in selling, general and administrative expenses achieved mainly through our productivity initiatives, and a \$1.2 million reduction in capital taxes.

Operating income for the year ended December 31, 2007, declined by 29.6 per cent over the pro forma operating income for 2006, as a \$3.5 million increase in EBITDA was offset by a \$185.5 million increase in depreciation and amortization, a \$20.9 million increase in net benefit plans costs and a \$14.2 million increase in restructuring and other charges. The increase in depreciation and amortization was driven mainly by the higher amortization of finite-life intangibles accounted for on the completion of the purchase price allocation of the Arrangement in the second quarter of 2007, including the adjustment to depreciation and amortization for the period July 7, 2006, to December 31, 2006, referred to above, and also by a decrease in the estimated useful life of certain telecommunications equipment. Net benefit plans costs increased due to a pension valuation allowance of \$21.4 million recorded against an accounting surplus in one of our defined benefit (DB) pension plans. The non-cash valuation allowance requirement under Canadian GAAP can lead to significant volatility in annual pension expense depending on the year-end discount rate assumptions and the funded status of the DB plans. We also recorded restructuring charges and other charges of \$27.4 million in 2007 related to costs to advance the organization's productivity initiatives leading into 2008.

Distributable cash

Since our operations ultimately support distributions to unitholders of the Fund, distributable cash combines our cash performance with that of the Fund.

For the years ended December 31
 (millions of dollars)

	2007	2006 ⁽¹⁾	% change
Distributable cash ⁽²⁾	701.4	722.9	(3.0)
Cash distributions declared ⁽³⁾	651.1	602.4	8.1

(1) The year ended December 31, 2006, includes pro forma results.

(2) Distributable cash is a non-GAAP financial measure and should not be confused with cash from operating activities, which is reconciled to distributable cash in the following table. Refer to the "Non-GAAP financial measures" section for further details.

(3) Distributions declared includes amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP to Bell Canada and BCE on units that are exchangeable into Fund units. Distributions prior to July 7, 2006, are assumed to be declared using the current payout policy.

Distributable cash declined by 3.0 per cent compared to pro forma distributable cash for 2006 as we accelerated our fibre-to-the-node (FTTN) investment

The decline in distributable cash for the year ended December 31, 2007, compared to 2006 is primarily due to the disposal of the assets and operations of Aliant Directory Services (ADS) in April 2007, as well as the acceleration of our capital investment in FTTN. These declines were partially offset by incremental distributable cash from the Fund's acquisition of the minority interests in Télébec and NorthernTel when Bell Nordiq Income Fund was privatized in January 2007. The disposal of the assets and operations of ADS contributed \$21.6 million to the decline in distributable cash for the year. Our pro-rata share of the proceeds from the sale of ADS have been returned to the Fund through a return of capital and used to repurchase Fund units under its normal course issuer bid (NCIB), thereby mitigating the decline in distributable cash on a per Fund unit basis. The accelerated FTTN investment accounts for higher capital spending for the year with an incremental \$40 million invested in 2007. The incremental distributable cash attributable to the acquisition of the minority interests in Télébec and NorthernTel, net of incremental interest expense attributable to the acquisition, is estimated to be \$33.9 million for the year.

Apart from the variances noted above, distributable cash experienced some negative pressure from higher current service pension contributions and higher expenses of the Fund. These were mostly offset by growth in EBITDA and lower normalized cash capital taxes. Current service pension contributions were higher due to growth in pensionable earnings as well as a lower long-term discount rate used in recent funding valuations. Higher Fund expenses reflect higher costs for unitholder administration as a result of the much higher number of unitholders of the Fund compared to former shareholders of Aliant. Finally, starting in the third quarter of 2007, we stopped deducting normalized capital taxes from distributable cash as the governments of all Canadian provinces where we operate have announced intentions to phase-out corporate capital taxes by 2012.

The following table provides a summary reconciliation of cash from operating activities to distributable cash for the twelve month period ended December 31, 2007. Comparative information is not available for periods prior to the Arrangement, therefore, for comparative purposes the six months ended December 31, 2007, is also presented with the period from July 7, 2006, to December 31, 2006. The table provides additional information on the relationship between cash from operating activities, net earnings and cash distributions declared for the periods. In addition, we present standardized distributable cash, a measure recently introduced by the Canadian Institute of Chartered Accountants (CICA) in an effort to improve comparability and transparency in the reporting of financial performance of income trusts. Standardized distributable cash is defined in the "Non-GAAP financial measures" section.

<i>(millions of dollars)</i>	Twelve months ended December 31, 2007	Six months ended December 31, 2007	July 7, 2006 to December 31, 2006	% change
Cash from operating activities	1,207.8	623.3	383.0	62.7
Add (deduct):				
Cash from operating activities of the Fund and discontinued operations	9.6	0.3	29.2	(99.0)
Capital expenditures	(543.0)	(284.3)	(261.5)	8.7
Standardized distributable cash attributable to minority interests in subsidiaries	—	—	(21.0)	n.m.
Standardized distributable cash ⁽¹⁾	674.4	339.3	129.7	161.6
Add (deduct):				
Operating items funded through cash reserves or borrowing	26.8	17.9	247.6	(92.8)
Other adjustments	0.2	(10.1)	(4.6)	119.6
Distributable cash ⁽¹⁾	701.4	347.1	372.7	(6.9)
Net earnings	584.3	190.6	158.5	20.3
Cash distributions declared ⁽²⁾	651.1	321.4	294.8	9.0
Excess of cash from operating activities over cash distributions declared ⁽³⁾	566.3	302.2	117.4	157.4
Shortfall of net earnings over cash distributions declared	(66.8)	(130.8)	(136.3)	(4.0)

n.m. – not meaningful

(1) Refer to the "Non-GAAP financial measures" section for a definition and complete reconciliation of cash from operating activities to standardized distributable cash and distributable cash.

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

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

Standardized distributable cash for the 12 and six months ended December 31, 2007, was \$674.4 million and \$339.3 million, respectively. Standardized distributable cash for the six months ended December 31, 2007, represents an increase of \$209.6 million, or 161.6 per cent, over the comparable period in 2006. Cash from operating activities in 2006 includes a one-time charge of \$147.8 million related to debt prepayment premiums on Aliant's long-term debt as a result of the Arrangement. After adjusting for these debt prepayment premiums, standardized distributable cash for the six months ended December 31, 2007, increased by \$61.8 million, or 22.3 per cent. The increase is mainly due to the change in operating assets and liabilities, or working capital. Our working capital requirements fluctuate throughout the year, and changes can be quite large from one quarter to the next. This variability is partially due to the large monthly cash settlements of transactions with Bell Canada and the seasonality that can be displayed in both our accounts receivable, and payables and accruals.

Since working capital requirements fluctuate during the year, but should reflect our normal growth over a full year, we do not include these cash flows in our distributable cash calculations. Instead, these amounts are financed throughout the year with cash reserves or short-term borrowing. However, these fluctuations are included in the CICA's standardized distributable cash definition.

Both standardized distributable cash and our calculation of distributable cash reflect capital spending for the year 2007. Capital expenditures were 16.1 per cent of operating revenues, reflecting the accelerated investment in FTTN, and were in line with our target for the year. 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 governments or the CRTC. The balance of our capital investments allow us to evolve, at a measured pace, to the next generation of IP network capabilities to accommodate delivery of new services necessary to support sustainability and modest growth in our revenues.

It is our expectation that our ongoing operations, net of normal capital expenditures, will generate distributable cash sufficient to maintain and modestly grow our cash distributions to the Fund and its unitholders until the year 2011, at which time we anticipate being subject to corporate income taxes on our earnings. Since it is our intention to indirectly distribute to Fund unitholders approximately 90 per cent of distributable cash, there will be approximately 10 per cent of distributable cash that will be available for other cash requirements, such as funding working capital, paying restructuring and other charges, funding pension deficits, repaying long-term debt and making small acquisitions. In any single period, actual cash flow may differ from what we have determined to be distributable cash. These fluctuations in cash flow may also be funded through this 10 per cent cash reserve or through temporary borrowing. It is not our intention to borrow to fund regular distributions.

Our annual distribution payout ratio as a percentage of distributable cash for 2007 was 92.8 per cent. This exceeded our intended target of 90 per cent payout due to the funding of the accelerated FTTN capital plan for the year. At December 31, 2006, we had \$139.4 million of cash and cash equivalents on hand, including notes receivable from a related party. We intended to fund the additional FTTN capital investment of \$40 million out of this balance. However, for ongoing reporting purposes these capital expenditures were deducted from 2007 distributable cash, resulting in the reported payout ratio exceeding our 90 per cent target for 2007.

Our distribution strategy and our financing plans are consistent with our objective of maintaining our debt levels in the range of two times EBITDA. We believe this is appropriate given our anticipated distributable cash stability and our desire to maintain investment grade credit ratings. Our use of a portion of our cash reserves and, if necessary, borrowing to fund working capital fluctuations, pension deficits and cash taxes in excess of normalized levels is consistent with our overall targets.

STRATEGY – ACHIEVEMENTS IN 2007 AND FOCUS FOR 2008

Highlights of strategic achievements in 2007

During 2007, we completed several corporate transactions including assisting the Fund with the privatization of Bell Nordiq Income Fund, the sale of the assets and operations of ADS, and the placement of a significant portion of our long-term debt. These transactions have positively affected our business operations.

We remained focused on our priorities throughout 2007 to build on what we do well: providing our customers with valued products and services and superior customer service in a cost-effective manner and continuing to be an integral part of the communities in which we live and work. We were successful in achieving many targeted initiatives.

Priority	Achievement
Customer service	<p>We implemented several changes in the way we serve our customers, making it easier for them to do business with us, when and where it is convenient for them.</p> <ul style="list-style-type: none"> • By focusing on key customer interactions and related processes throughout the year, we significantly improved operational performance in key customer service measures including per cent repaired within 48 hours, per cent provisioning commitments met, and per cent service assurance commitments met. • We redesigned on-line and paper bills for residential customers in Atlantic Canada for which we were recognized by a national awards program. This reduced the volume of billing related customer contacts. • We improved our service to new broadband customers as we expanded the availability of Saturday service appointments, provided customers with two-hour appointment windows in six Atlantic Canadian cities and introduced same-day high-speed Internet installation service in many communities in Ontario and Quebec. • Our Aliant brand was recognized as the telecommunications company with the best customer service in an independent, national CBC News survey released in November 2007, evaluating the level of customer service provided by 40 of Canada's top companies.

Priority	Achievement
Value through leading products and services	<p>We developed and introduced new and innovative product and service bundles, offering convenience and ease of use for residential customers and a source of competitive advantage for business customers.</p> <ul style="list-style-type: none"> • We significantly expanded access to high-speed Internet in Ontario and Quebec through footprint expansion and expanded Internet and Aliant TV services through our accelerated \$40 million FTTN build in Atlantic Canada, which nearly quadrupled our Aliant TV footprint, reaching approximately 188,000 homes as of the end of 2007. • Residential – In Atlantic Canada, we continued our focus on providing a differentiated customer experience for <i>Aliant Value Package™</i> and multi-product customers with the result that we improved customer satisfaction. In Ontario and Quebec, we introduced <i>Bell Bundles</i>, offering our residential customers combinations of local service, high-speed Internet, wireless, Bell ExpressVu TV and other services, and introduced <i>Home Phone Packages</i>, consisting of local access, calling features and an optional second line. We launched a suite of Aliant Expert Services which provide on-line, remote and in-home help and support to address technical issues such as setting up computers, home networking, software installation, computer maintenance and consumer electronics support. • Small-to-medium businesses – In Atlantic Canada, we launched a new <i>Aliant Business Value Package™</i> aimed at simplifying the information and communications technology (ICT) purchase for small business customers. We also launched Aliant Online Expert for businesses, providing business customers with around-the-clock access to IT help and support. In Ontario and Quebec, we launched a <i>Business Essential Bundle</i> and a <i>Start-up Bundle</i>. We experienced strong sales as business customers recognize the value provided by these packages. We launched a number of new services to our medium-sized customers including technology assessment and proactive maintenance services. • Enterprise – We launched VoIP solutions including a managed customer premise equipment solution and a hosted service (Centrex IP). In addition, we made progress on the creation of IP-readiness consulting tools, providing a framework to effectively understand the benefits and cost of IP evolution. We established a program to improve the end-to-end IP customer experience and service delivery, and we expanded IP-enabling and IP-ready wide area network services to additional locations in Atlantic Canada. A number of large customers implemented IP-based solutions, replacing traditional legacy services.
Community involvement	<p>We continued our community involvement, focusing on youth in the communities we serve. We enhanced the profile of our corporate involvement and the volunteer efforts of our employees and retirees. Throughout the year, we invested approximately \$7 million in support of more than 1,000 community programs. Highlights of these include:</p> <ul style="list-style-type: none"> • Programs that help keep children healthy and happy, where we invested nearly \$100,000 to fund sports programs like KidSport, the R.E.A.L Program and P.R.O. Kids. These organizations provide grants to families in need so that more children have a chance to play local sports. In addition, we provided 12,000 soccer jerseys to house league teams across Atlantic Canada. • Programs that keep families connected during difficult times, where we provided approximately \$70,000 in long distance calling cards for families staying with their children in hospital at the IWK Health Centre and Janeway Children's Hospital. • 18 United Way chapters in our serving area, which provide funding to hundreds of local agencies that support a variety of youth programs, families in need and seniors organizations. We corporately donated \$146,000 to the United Way. Along with our employees and retirees, the Bell Aliant United Way campaign contributed over \$445,000 to the United Way.
Operational efficiency	<p>While pursuing top-line revenue growth, we aggressively managed our cost structure to grow distributable cash and ultimately deliver value to Fund unitholders. We achieved approximately \$87 million in productivity savings in 2007, up significantly from the previous year's total of approximately \$65 million.</p> <ul style="list-style-type: none"> • More than half of our productivity savings were achieved through process, systems and technology improvements and increased organizational effectiveness across geographies and business functions. These included increased self-serve transactions through improvements to customer websites and interactive voice response systems, and a reduction in the number of service calls and associated technician/vehicle dispatches through an outside plant proactive maintenance program. • We also achieved significant savings by decreasing third party costs, optimizing end-to-end service models, and reducing our consumption. For example, we obtained lower unit costs by leveraging Bell Canada's supply arrangements with third parties. • Further savings were also achieved through significant constraints on discretionary spending.

Priority	Achievement
Acquisitions, divestitures and integration	<p>We continually explored opportunities to increase our focus on and expand our core business:</p> <ul style="list-style-type: none"> • We concluded the sale of our 87.14 per cent stake in the assets of ADS on April 30, 2007, for \$327.4 million, and then flowed the proceeds to the Fund to repurchase units under an NCIB. • We successfully integrated several operations: the regional operations in Ontario and Quebec, Aliant, Télébec and NorthernTel, while also divesting of our wireless operations in Atlantic Canada. • We successfully renegotiated six collective agreements covering more than 96 per cent of our unionized workforce without work stoppages. The agreements have expiry dates of 2011 or later. • We substantially completed the refinancing of our debt with the issuance of \$1.0 billion in medium-term notes on favourable terms.

Our 2007 results met our expectations and the guidance that was provided. The following table summarizes our 2007 guidance and our performance against these targets.

	2007 results	2007 guidance after accelerated FTTN investment
Operating revenues	\$3.37 billion	\$3.33 – \$3.40 billion
Distributable cash ⁽¹⁾	\$701.4 million	\$690 – \$710 million
Capital intensity ⁽²⁾	16.1 per cent	16.0 – 16.5 per cent

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

(2) Capital intensity equals capital expenditures per the statement of cash flows divided by operating revenues.

Highlights of strategic focus for 2008

We operate in an increasingly competitive marketplace, with competition emerging from VoIP providers, cable TV operators, system integrators and wireless operators. We have identified two key strategic priorities to address the growing competition:

- 1) Provide a superior customer experience; and
- 2) Drive operational efficiency.

A superior customer experience is the cornerstone of our strategy and we believe that it is created by providing exceptional customer service, providing value through leading products and services, and having strong community involvement. The benefits of providing a superior customer experience include improved customer retention, increased revenue per customer and increased share of new customers, all of which generally improve operational efficiency. The support of our workforce will enable us to deliver on our strategic priorities. Our focus for 2008 is summarized as follows:

- *Customer service* – We will continue to focus on the way we serve our customers to make it easier for them to do business with us. We will concentrate on achieving key customer interactions and related processes, such as reducing service intervals and increasing commitments met in provisioning and service assurance, increasing connectivity between business systems and network elements to increase automation for high-speed Internet and TV services, and making enhancements to repair processes, including making improvements to outside plant reliability.
- *Providing value through leading products and services* – We will continue to develop and introduce innovative products and services that offer convenience and ease of use for consumers and a competitive advantage for businesses. In combination with our IT division, xwave, we will continue to provide a full suite of ICT services for our large private and public sector customers, and offer industry-specific solutions for health care, justice and public safety, defence and aerospace, and governments.

- *Community involvement* – We have a long-standing commitment to the communities we serve and a history of providing support to help them thrive socially, culturally and economically. Our 10,000 employees live in the hundreds of communities we serve. Their engagement in our business and direct involvement in their communities is a big part of what makes our brands strong. We believe addressing the unique needs of local communities provides us with a competitive advantage.

We will continue to aggressively manage our cost structure to grow distributable cash and deliver value to Fund unitholders. Our 2008 productivity program will seek operating cost savings through process, system and technology enhancements, infrastructure replacement, and consolidation of operations. Improved operational efficiency will be a key area of focus for the organization in an effort to grow distributable cash as our higher margin legacy revenues (local and long distance) are being replaced by new revenue streams. We will continue to leverage our scale and relationship with Bell Canada to pursue supply chain efficiencies.

On January 3, 2008, we announced our intention to acquire the assets and operations of Kenora Municipal Telephone System (KMTS). This deal concluded on February 1, 2008. We plan to bring the KMTS assets and operations under our structure and to realize operating synergies by leveraging adjacent networks and technologies, and using our scale for purchasing and product development. We believe the size of our operating revenue and capital asset base, in addition to our proven ability to operate successfully in regional markets, provides us with a strong platform for future acquisitions of other regional and rural operations.

For 2008, we expect to achieve the following ranges of results for key financial reporting indicators. Guidance is presented on a basis consistent with reported results for 2007.

	2008 guidance
Operating revenues	\$3.37 – \$3.44 billion
Distributable cash ⁽¹⁾	\$720 – \$740 million
Capital intensity ⁽²⁾	14.5 – 15.5 per cent

(1) *Distributable cash is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for further details.*

(2) *Capital intensity equals capital expenditures per the statement of cash flows divided by operating revenues.*

Our financial model for 2008 remains consistent with the objectives we established on Bell Aliant's creation, with modest operating revenue growth and stable margins contributing to steady growth in distributable cash. Operating revenue growth is expected to come from Internet and other data revenues, which are expected to more than offset local and long distance revenue declines, in addition to growth in IT, wireless and TV revenues. Productivity initiatives implemented in 2007 and new initiatives planned for 2008 will assist in providing the operational efficiency to maintain margins. For 2008, our capital intensity will return to a more normal level after completing our accelerated FTTN program in 2007. We are still committed to expanding the broadband and IPTV capabilities of our network, but in 2008 it will be at a more measured pace and focused on service stability, back office support systems and continued product development.

We will continue to strive to provide stable, growing cash distributions to unitholders, continuing with a targeted payout ratio of 90 per cent. The balance of distributable cash generated is expected to fund pension deficit payments and cover other cash costs such as capital taxes.

The previous information is forward-looking information and readers are cautioned that actual results may vary. Refer to "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results", the "Forward-looking information" statement at the beginning of this MD&A, and also our Notice concerning forward-looking information, dated February 5, 2008, for further details.

RESULTS OF OPERATIONS

At December 31, 2006, our results of operations were in three reportable segments; Bell Aliant, Bell Nordiq Group and other subsidiaries. With the privatization of Bell Nordiq Income Fund in January 2007 and the sale of the net assets and operations of ADS in April 2007, we have been managing our business and classifying our operations for planning and performance measurement purposes as one segment in 2007. In addition to distributable cash, our financial performance is measured by operating revenues, EBITDA and operating income.

For the years ended December 31 (millions of dollars)				Pro forma		
	2007	2006	% change	2007	2006	% change
Local and access	1,430.9	1,008.1	41.9	1,430.9	1,455.4	(1.7)
Long distance	474.8	350.8	35.3	474.8	490.3	(3.2)
Data	722.5	515.3	40.2	722.5	673.8	7.2
IT services and fulfillment	319.7	278.6	14.8	319.7	279.0	14.6
Wireless	64.4	269.3	(76.1)	64.4	55.9	15.2
Other revenues	361.1	262.2	37.7	361.1	344.8	4.7
Operating revenues	3,373.4	2,684.3	25.7	3,373.4	3,299.2	2.2
Operating expenses	1,923.2	1,536.8	25.1	1,923.2	1,852.5	3.8
EBITDA ⁽¹⁾	1,450.2	1,147.5	26.4	1,450.2	1,446.7	0.2
Net benefit plans cost	131.6	99.7	32.0	131.6	110.7	18.9
Depreciation & amortization	775.8	483.8	60.4	775.8	590.3	31.4
Restructuring and other charges	27.4	13.2	107.6	27.4	13.2	107.6
Operating income ⁽¹⁾	515.4	550.8	(6.4)	515.4	732.5	(29.6)
Other expenses (income)	0.2	(2,768.5)	n.m.			
Interest charges	158.5	108.0	46.8			
Income tax expense (recovery)	(120.9)	236.7	n.m.			
Non-controlling interest	158.9	93.9	69.2			
Net earnings from continuing operations	318.7	2,880.7	(88.9)			
Net earnings from discontinued operations	265.6	21.3	n.m.			
Net earnings	584.3	2,902.0	(79.9)			

n.m. - not meaningful

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

Operating revenues and operating expenses, as reported in our financial statements, increased significantly during the year ended December 31, 2007, over 2006, reflecting the much larger geographic area and customer base since July 7, 2006. Partially offsetting this growth is a decline in wireless revenue as Aliant's wireless operation was transferred to Bell Canada pursuant to the Arrangement.

In order to assess the underlying growth, we have also presented and discussed our analysis of the results of operations compared to prior year results on a pro forma basis.

Operating revenues

Local and access

Our local and access revenue is earned primarily through the provision of network access services (NAS), along with enhanced service features, contribution payments and competitor network access payments. Despite a 3.2 per cent drop in NAS customers, rate increases in certain markets and increased features penetration have contained the local and access revenue decline to 1.7 per cent in 2007, compared to pro forma revenue in 2006.

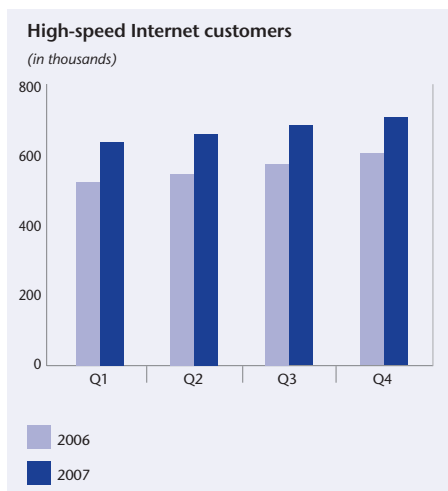
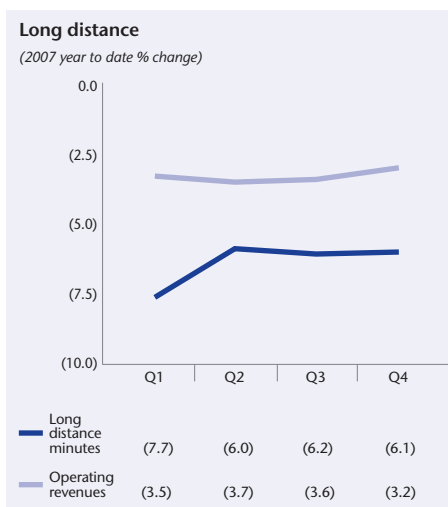
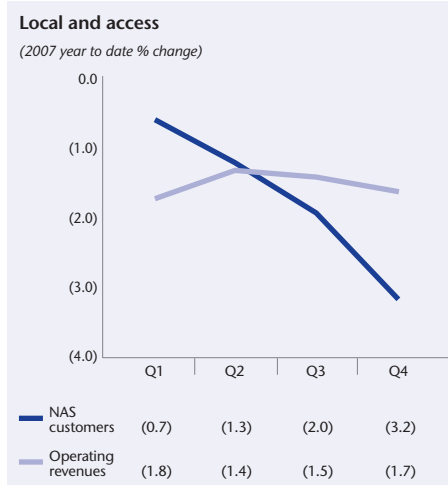
At December 31, 2007, the number of residential NAS customers was 4.1 per cent lower than at December 31, 2006, reflecting competitive losses, a reduction in second lines and the adoption of wireless and VoIP services. The number of business NAS customers at December 31, 2007, was 1.6 per cent lower than at December 31, 2006, reflecting competitive losses and the adoption of substituted services.

Long distance

Long distance revenue, earned through toll and long distance terminating services, declined 3.2 per cent in 2007 compared to pro forma revenue for 2006. Long distance minutes were 6.1 per cent lower in 2007, compared to 2006 due to competitive losses and substitution by cellular calling and IP-based services. Selected price increases and changes to plans offered to customers, particularly inside a bundled package, helped contain some of the revenue decline. Customers have been shifting away from rate-per-minute plans in favour of unlimited or large usage packages for a set monthly price.

Data

Data revenue is earned through data access revenue, data circuit revenue, high-speed and dial-up Internet service, and enhanced services and applications, such as security services, music download service and dial-up accelerator. Data revenue increased 7.2 per cent in 2007 compared to pro forma revenue in 2006. At December 31, 2007, our net high-speed Internet customers were 17.1 per cent higher than the prior year, with growth primarily in the residential market. Promotional pricing resulted in a decline in residential high-speed Internet average monthly revenue per customer (ARPC) of 2.1 per cent in 2007, to \$34.95 from \$35.71 in 2006. As the promotion periods expire and we market higher value high-speed services to customers, we expect ARPC to increase.



IT services and fulfillment revenue

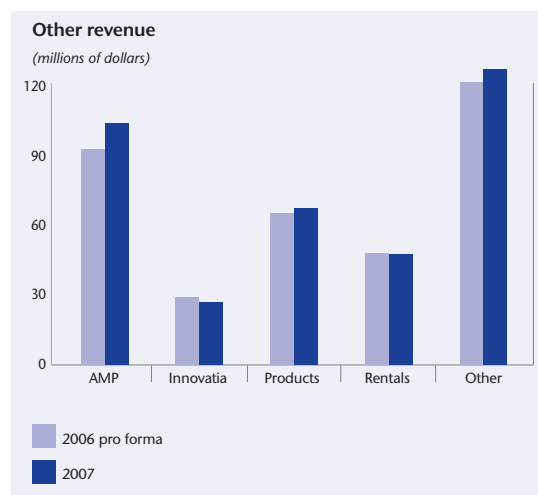
IT services and fulfillment revenue is earned primarily by our IT division, xwave, through systems integration, software engineering, business consulting and infrastructure services, such as data centre, help desk, security and technical support services. IT services and fulfillment revenue grew 14.6 per cent in 2007, compared to pro forma revenue in 2006. IT services revenue growth is largely attributed to higher managed services revenue and IT project activity within the health care, defence and aerospace industry verticals. IT fulfillment revenue growth in 2007 was 19.1 per cent, due to increased sales to the federal government and related agencies. These sales are subject to more seasonal variations than our other revenue sources.

Wireless

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over the analog and digital wireless networks of Télébec and NorthernTel. Revenue increased 15.2 per cent in 2007, compared to pro forma wireless revenue in 2006. This was mainly driven by an 8.2 per cent increase in wireless customers; however, customer growth was negatively affected by two specific events in 2007. A customer adjustment following a system reconciliation, along with the discontinuance of analog prepaid service, resulted in reductions in our customer base totalling approximately 6,800. Excluding these events, customer growth would have increased approximately 15.9 per cent, comparable to revenue growth for the year.

Other revenues

Other revenues consist of Atlantic Mobility Products (AMP) revenues, Innovatia Inc. revenues, terminal rentals and sales, PC sales, Aliant TV revenue, building rental revenue and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues increased by 4.7 per cent in 2007 compared to pro forma other revenues in 2006, mainly due to an increase in AMP's revenue stemming from an increased customer demand for premium hardware sets. Growth was also experienced in business terminal sales through strong sales to contact centres upgrading their switches to be compatible with modern IP data networks.



Operating expenses

For the years ended December 31
(millions of dollars)

	2007			Pro forma		
	2007	2006	% change	2007	2006	% change
Cost of sales	655.8	514.1	27.6	655.8	592.9	10.6
Salaries, benefits, contract labour and consulting	678.2	569.3	19.1	678.2	634.6	6.9
Selling, general and administrative	579.9	442.9	30.9	579.9	614.5	(5.6)
Capital taxes	9.3	10.5	(11.4)	9.3	10.5	(11.4)
Operating expenses	1,923.2	1,536.8	25.1	1,923.2	1,852.5	3.8

Operating expenses increased by 3.8 per cent for the year ended December 31, 2007, compared to pro forma operating expenses in the prior year, mainly due to higher cost of sales and higher labour costs. Cost of sales is highly influenced by the level of IT fulfillment revenues, AMP revenue and other product sales from which the related growth in revenue drives higher costs of goods sold. Increased salaries, benefits, contract labour and consulting mainly represent annual wage increases, an increase in IT services contract labour costs and an increase in outsourcing activity.

Partially offsetting these increases were declines in selling, general and administrative costs and capital taxes. Selling, general and administrative costs decreased mainly due to cost containment achieved through our productivity initiatives that have continued throughout the year. The reduction in capital taxes is a result of a reduction in capital tax rates and a reallocation of the capital tax base to lower capital tax rate provinces upon the windup of one of our subsidiaries.

Other expenses included in operating income

Explanations for our increased net benefit plans cost, depreciation and amortization, and restructuring and other charges are discussed in the "Year in review" section.

Other expenses below operating income

The following other expenses are analyzed on an as reported basis as they were not subject to pro forma adjustments, except for the purposes of calculating distributable cash as discussed in the "Year in review" section.

Other expenses (income)

The results for the year ended December 31, 2006, reflect items that were recorded specific to the Arrangement in early July 2006, in particular, a \$1.95 billion gain on disposal of Aliant's wireless operation and shares of DownEast Ltd., a \$1.0 billion dilution gain, and a \$147.8 million charge related to debt prepayment premiums.

Interest charges

The increase in interest charges of 46.8 per cent for the year ended December 31, 2007, compared to 2006, reflects the significant increase in long-term debt incurred to complete the Arrangement. This was partially offset by lower overall rates of interest compared to those related to Aliant's long-term debt, which was almost all repaid and refinanced as part of the Arrangement. We also incurred additional debt to finance the acquisition of the minority interests in Télébec and NorthernTel in January 2007.

Income tax expense (recovery)

A portion of our income is earned through partnerships. Therefore, that portion of our income is not subject to tax at the partnership level, as the taxable income is allocated directly to our partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. Our effective tax recovery rate for the year ended December 31, 2007, was 33.9 per cent of our pre-tax earnings, a significant reduction from the effective tax expense rate of 7.4 per cent for the same period in 2006. This significant reduction in our effective tax rate is a result of several factors including the following:

- Future tax expense of \$225.1 million related to the gain on sale of our wireless business was recorded in 2006, with no similar activity in 2007;
- A 37.3 percentage point reduction related to intercompany interest income earned in non-taxable entities in 2007, as compared to a 1.4 percentage point reduction in 2006;

- A 15.9 percentage point reduction in 2007 related to taxable income allocated to non-controlling interest for which we do not recognize a tax provision, compared to a 4.1 percentage point reduction in 2006; and
- A 26.6 percentage point reduction mainly due to the revaluation of net future tax assets and liabilities as a result of tax rate changes, resulting in a \$94.7 million future tax recovery.

The significant reduction in the effective tax rate has resulted in an income tax recovery of \$120.9 million for the year ended December 31, 2007, as compared to income tax expense of \$236.7 million for 2006.

Non-controlling interest

Non-controlling interest represents Bell Canada's 35.9 per cent interest in Bell Aliant LP and the Fund's 36.7 per cent indirect interest in Télébec and NorthernTel through Bell Nordiq Trust. The per-unit distributions attributable and paid to Bell Canada are equal to, the greatest extent practicable, 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. During 2007, we recorded non-controlling interest in our earnings of \$158.9 million. Distributions declared by our subsidiaries to the non-controlling interest in the same period were \$244.0 million, of which \$203.1 million was from Bell Aliant LP to Bell Canada and \$40.9 million was from Télébec and NorthernTel indirectly to the Fund. On January 1, 2008, the Fund's 36.7 per cent indirect interest in Télébec and NorthernTel was transferred to us, and therefore this non-controlling interest will be eliminated in future reporting periods.

Net earnings from discontinued operations

Net earnings from discontinued operations reflect the results of Salesbridge Canada Corp., a subsidiary in which we own a 51 per cent interest, and ADS until April 2007, at which time we recorded \$258.2 million, representing our share of the after-tax gain on disposal when ADS sold its assets and operations.

Selected quarterly financial information

The following table shows selected consolidated financial results by quarter for 2007 and 2006. This quarterly information is unaudited but has been prepared on the same basis as the annual consolidated financial statements.

<i>For the eight quarters ended December 31 (millions of dollars, except per unit / share amounts)</i>	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenues	851.4	825.4	837.9	858.7	527.7	516.5	802.8	837.3
Pro forma operating revenues ⁽¹⁾					821.9	814.9	825.1	
EBITDA ⁽¹⁾	349.5	358.1	372.4	370.2	212.0	216.0	355.6	363.9
Pro forma EBITDA ⁽¹⁾					352.9	363.2	366.7	
Operating income ⁽¹⁾	171.6	55.8	142.3	145.7	88.8	91.7	184.4	185.9
Pro forma operating income ⁽¹⁾					171.6	180.8	194.2	
Net earnings (loss):								
Continuing operations	83.0	44.9	72.7	118.1	35.3	47.9	2,930.1	(132.6)
Discontinued operations	5.5	260.3	0.5	(0.7)	4.9	5.3	5.5	5.6
Net earnings (loss)	88.5	305.2	73.2	117.4	40.2	53.2	2,935.6	(127.0)
Basic and diluted earnings per unit / share:								
Continuing operations	0.54	0.29	0.48	0.78	0.26	0.36	20.07	(0.87)
Discontinued operations	0.04	1.71	0.00	(0.00)	0.04	0.04	0.04	0.04
Basic and diluted earnings per unit / share	0.58	2.00	0.48	0.77	0.30	0.40	20.11	(0.83)
Distributable cash ⁽¹⁾	192.1	162.2	177.6	169.5	—	—	185.9	186.8
Cash distributions declared	166.2	163.5	161.3	160.1	—	—	141.0	153.8
Preferred share dividends declared	—	—	—	—	2.4	2.4	—	—
Common share dividends declared	—	—	—	—	39.5	39.5	—	—

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

As discussed in "Our business" section, the results for the first two quarters of 2006 reflect the operations of Aliant and are not directly comparable to the subsequent six quarters, which reflect the operations of Bell Aliant Holdings LP. The following significant transactions affected the 2006 quarterly results:

- Net earnings for the first quarter of 2006 were negatively affected by a \$13.2 million financial derivative loss related to the exercise of an interest rate swap contract and the extinguishment of the associated unamortized premium, for a net impact of \$8.3 million after income taxes.
- The third quarter of 2006 represents the first reported results following completion of the Arrangement on July 7, 2006, and net earnings for the period reflect a \$1.95 billion gain on the sale of Aliant's wireless operation and shares of DownEast Ltd., as well as a \$1.0 billion dilution gain that resulted from the reorganization.
- In the fourth quarter of 2006, net earnings were negatively affected by future tax expense of \$225.1 million related to the third quarter gain on disposal of Aliant's wireless operation.

The quarterly operating results for 2007 reflect the following significant transactions and trends:

- Operating revenues in the first quarter typically include strong IT fulfillment sales compared to the rest of the quarters. Although local and access, and long distance revenues experienced quarterly declines, these were offset by stable and consistent growth in other areas of the business.
- Operating expenses in the first quarter also reflect increased costs in relation to higher IT fulfillment sales. As well, higher labour and consulting costs during the year were partially offset by the effect of productivity initiatives implemented during the year with a greater savings reflected in the fourth quarter.
- Operating income was affected by several transactions during 2007. Firstly, in the second quarter, we finalized the purchase price allocation related to the Arrangement, which led to an increase in depreciation and amortization of \$125.3 million, of which \$62.0 million related to the period from July 7, 2006, to December 31, 2006, and \$31.5 million related to the period from January 1, 2007, to March 31, 2007. Secondly, we commenced a restructuring program in the second quarter to advance the organization's productivity initiatives, the total cost of which was \$27.4 million for 2007. The third quarter results included \$20.8 million of restructuring and other charges with another \$5.2 million recorded in the fourth quarter. Finally, we recorded a pension valuation allowance of \$21.4 million in the fourth quarter against an accounting pension surplus.
- Net earnings were affected by several significant transactions during the year. In the second quarter, the sale of the net assets and operations of ADS generated \$258.2 million, representing our share of the after-tax gain, which is reflected in net earnings from discontinued operations. In addition, we recorded future tax recoveries of \$43.6 million in the second quarter of 2007 mainly due to the effect of tax rate changes as well as the amortization of intangible assets acquired as part of the Arrangement, and a future tax recovery of \$60.7 million in the fourth quarter mainly related to the revaluation of net future tax assets and liabilities as a result of tax rate changes.

Further details on our fourth quarter results are included in our MD&A dated February 5, 2008, as found on our website at www.bell.aliant.ca and as filed on SEDAR at www.sedar.com, which is incorporated by reference in this MD&A.

Selected annual financial information

The following table provides a summarized analysis of our financial results in 2007 compared to 2006 and 2005.

For the years ended December 31

(millions of dollars, except per unit / share amounts)

	2007	2006	2005
Operating revenues	3,373.4	2,684.3	2,027.6
Net earnings from continuing operations	318.7	2,880.7	178.2
Net earnings from discontinued operations	265.6	21.3	21.2
Net earnings	584.3	2,902.0	199.4
Basic and diluted earnings per unit / share			
Continuing operations	2.09	20.72	1.30
Discontinued operations	1.74	0.15	0.16
Total basic and diluted earnings per unit / share	3.83	20.87	1.46
Distributions declared per Fund unit	2.81	1.31	—
Dividends declared per Aliant common share	—	0.62	1.18
Dividends declared per Aliant preferred share	—	—	1.36
Total assets	10,472.9	10,692.5	2,867.3
Total long-term debt (including current portion)	2,573.6	2,811.2	904.5

This table depicts the results of Aliant for periods up to July 6, 2006, and for Bell Aliant Holdings LP from July 7, 2006, to December 31, 2007. The significant increase from 2005 results compared to 2006 and 2007 is mainly due to our increased size in operations as a result of the Arrangement. The 2007 comparability to 2006 is discussed throughout this document, on an as reported basis as well as on a pro forma basis for certain operating results.

FINANCIAL AND CAPITAL MANAGEMENT

Summary of cash flows

For the years ended December 31

(millions of dollars)

	2007	2006	% change
Cash from (used in):			
Operating activities	1,207.8	592.1	104.0
Financing activities	(1,087.8)	1,040.8	n.m.
Investing activities	(541.3)	(1,711.6)	(68.4)
Net decrease in cash from continuing operations	(421.3)	(78.7)	n.m.
Net increase in cash from discontinued operations	330.0	22.3	n.m.
Net decrease in cash for the period	(91.3)	(56.4)	61.9

n.m. - not meaningful

We used net cash of \$91.3 million in 2007, compared to \$56.4 million in 2006. Cash generated from operating activities more than doubled in 2007 mainly due to higher net earnings from our larger operations, a decrease in the funding of DB and other post-employment benefit (OPEB) plans of \$13.6 million, and higher cash flow from working capital of \$168.1 million. Cash used in financing activities during 2007 reflected the combined \$657.3 million in distributions paid to the Fund and non-controlling interests and the \$460.9 million return of capital paid to the Fund. Cash from financing activities in 2006 reflected the net incremental borrowing required to complete the Arrangement transactions, distributions paid by us and dividends paid by Aliant. Cash used in investing activities decreased during 2007, to \$541.3 million from \$1,711.6 million in 2006 primarily due to the business acquisitions completed through the Arrangement in 2006. The increase in cash from discontinued operations in 2007 reflects the proceeds received from the disposition of the assets and operations of ADS.

The key components of our net change in cash during 2007 were:

DB pension and OPEB plans

Total funding of our DB pension plans in 2007 was \$90.2 million, compared to \$104.6 million in 2006. Included in the funding for 2007 is \$53.5 million for current service cost funding and \$36.7 million for special deficit-reducing payments, compared to \$45.9 million and \$58.7 million, respectively, in 2006. The increased current service costs reflect additional plan members included since the Arrangement, combined with the effects of a maturing workforce and general salary increases offset by retirements. Actuarial valuations of our pension plans were performed as of December 31, 2006, and filed in June and July 2007. All plans reflected funding deficits as measured on a going-concern basis, and all but one plan reflected a funding surplus as measured on a solvency basis. We are still required to fund special deficit-reducing payments over the next five to 15 years and we estimate the present value of these special payments to be approximately \$325 million. We estimate total special deficit-reducing payments required for 2008 to be between \$50 and \$60 million. Our 2007 special deficit-reducing payments were net of approximately \$21 million of prior years' voluntary contributions, whereas our estimates for 2008 are net of approximately \$8 million.

Contributions to our OPEB plans were \$7.2 million in 2007, a 12.5 per cent increase over the 2006 total of \$6.4 million. Approximately half of the increase is a result of additional beneficiaries included since the Arrangement, with the remainder a result of continuing employee retirements and increasing costs of benefits provided under legacy plans.

Change in operating assets and liabilities

The positive contribution to cash flows of \$40.8 million from the change in working capital during 2007 reflects the results of an increased focus on improving cash flow timing. After experiencing growing cash flow requirements to fund working capital, partly due to the increased size of our operations and a modest extension of the age of accounts receivable, we increased our collection efforts in 2007. We have also reduced inventory balances, particularly in AMP, our wholesale wireless hand-set distributor. Higher cash flows from working capital for 2007 are also the result of changing the pattern of interest coupon payments on long-term debt refinanced during the year and the \$22.8 million accrued but unpaid balance for restructuring and other charges at the end of 2007. During 2006, a growth in accounts receivable balances, higher tax payments resulting from an acceleration of payments of cash taxes due to various tax years triggered as a result of the Arrangement, and payment of other costs of the Arrangement contributed to the use of cash of \$127.3 million for the year.

Changes in long-term debt and other financing

During 2007, we received \$100.0 million in cash from the sale of accounts receivable to our securitization program and at December 31, 2007, we had a total of \$220.0 million in the securitization trust, the maximum amount permitted under our program.

Net proceeds received on the issuance of short-term debt during 2007 were \$208.2 million, which were used primarily to repay a portion of the term bank loans. Financing activities in 2007 also reflect \$994.5 million in net proceeds from the issuance of medium-term notes in February 2007, the repayment of \$1,134.7 million of term bank loans, the repayment of \$100.0 million of Aliant medium-term notes, and the repayment of \$11.3 million of capital leases and other long-term debt. During 2006, in connection with the Arrangement, we refinanced virtually all of Aliant's long-term debt, put in place new credit facilities and issued new long-term debt under those credit facilities. This generated \$4,306.1 million in proceeds and \$2,630.2 million in repayments of long-term debt.

Notes receivable from the Fund, notes payable to the Fund, and repayment of partners' capital

During 2007, we loaned \$131.0 million to Bell Nordiq Income Fund to finance a special distribution to its unitholders as part of its privatization. This loan was subsequently assumed by the Fund. In addition, we advanced the Fund \$69.9 million, primarily for the purchase of units under its NCIB. Both of these advances were repaid by the Fund as the Fund received \$460.9 million from us as a return of capital. The Fund then loaned a portion of its excess cash to us, amounting to \$127.0 million, to allow us to temporarily reduce external short-term debt. We subsequently repaid \$125.1 million of this amount with the remaining \$1.9 million repaid in 2008. We generally consolidate any excess cash we or the Fund may have on hand and invest it together in marketable, short-term money market instruments. Therefore, the balance receivable from or payable to the Fund will fluctuate over time depending on these cash balances.

Interest rate derivatives

We use interest rate swaps to hedge our exposure to interest rate fluctuations on refinancing long-term debt and to manage our fixed and floating interest rate exposures.

In February 2007, with the issuance of medium-term notes to refinance debt incurred to complete the Arrangement, we settled interest rate swaps with notional principal amounts totalling \$1.0 billion. On February 26, 2007, we paid cash of \$30.5 million to counterparties on the settlement of the contracts as interest rates had generally declined since the swaps were initiated.

In August 2007, we determined that a remaining \$250.0 million in outstanding swaps were no longer going to be effective hedges of anticipated long-term debt issuances. Due to the disruption experienced in public credit markets, we determined that market conditions were not conducive to a term debt issuance at that time. As a result, we received \$6.4 million from our counterparty on the settlement of these swaps.

Under a different hedging strategy, we have hedged the floating rate interest exposure on some of our debt to maintain an approximate ratio of 90 per cent fixed interest rate exposure and 10 per cent floating rate exposure. Therefore, in August 2007, we entered into fixed-floating interest rate swaps with notional amounts totalling \$200.0 million to hedge the variability in cash flows related to this portion of our floating rate debt. These swaps are being accounted for as cash flow hedges. At December 31, 2007, the fair values of these swaps totalled \$3.7 million in favour of the counterparty and were recorded as derivative liabilities.

During 2006, we had interest rate swaps with notional amounts totalling \$2.355 billion. With the refinancing of Aliant's long-term debt, we settled \$1.105 billion of these interest rate swaps and paid \$58.1 million to counterparties.

Distributions and dividends

Total distributions paid to the Fund and non-controlling interests for the year ended December 31, 2007, and 2006, were \$657.3 million and \$264.1 million, respectively. The year-over-year increase reflects the fact that the 2006 distributions were only effective as of July 7, 2006, upon completion of the Arrangement. Prior this date, Aliant had paid \$117.6 million in dividends on its common and preferred shares, and in the third quarter of 2006, its subsidiaries paid \$2.1 million in dividends to non-controlling interest. The significant increase in distributions compared to dividends relates to the ability to pay out pre-tax amounts to the unitholders under our trust structure versus after-tax amounts under a corporate structure.

Capital investments

Capital investments were \$543.0 million in 2007, compared to \$445.0 million in 2006, representing an increase of 22.0 per cent. We continue to invest in our traditional wireline infrastructure to sustain our existing business and the reliability of our network. We have also invested in expanding and augmenting our high-speed Internet footprint, increasing our investment in FTTN, including our accelerated deployment plan, and updating our network to support next-generation IP applications.

Liquidity

Sources of liquidity

We derive most of our liquidity from the strength of our recurring cash from operating activities, as well as bank credit facilities, a medium-term note shelf prospectus, a commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities to pay for capital investments, distributions, required pension funding and other commitments. We continue to have access to commercial paper, bank financing and our receivables securitization program, despite the difficulties being experienced in credit markets since the third quarter of 2007. Among other measures, we mitigate capital market risks by diversifying funding sources, maintaining sufficient capacity on our back-up bank lines of credit and diversifying our pension plan investments. With the exception of a slight increase in our overall borrowing costs, we have not experienced any adverse consequences from recent market events.

Our capital structure is as follows:

As at December 31
 (millions of dollars)

	2007		2006	
Partners' equity	4,516.4	49.7%	4,836.6	51.3%
Non-controlling interest	1,829.6	20.1	1,919.1	20.3
Net debt	2,744.1	30.2	2,680.3	28.4
Total capital	9,090.1	100.0%	9,436.0	100.0%

Partners' capital

We have an unlimited number authorized of each class of units and the number of units issued and outstanding at December 31, 2007, is as follows:

- 28,168,803 class 1 exchangeable limited partnership units;
- 124,121,177 class 2 limited partnership units; and
- 54,000 general partnership units.

Our units are not publicly traded, and there has been no change in ownership since December 31, 2006. For further details on the terms and conditions associated with our units, refer to note 16 of our consolidated financial statements for the year ended December 31, 2007.

Debt

We have a \$3.0 billion medium-term note shelf prospectus that expires in October 2008, under which we have issued \$2.25 billion in medium-term notes with \$1.0 billion issued in February 2007 and \$1.25 billion issued in September 2006. We have \$100.0 million drawn under our non-revolving term bank facility, which expires in July 2009. We also have \$731.0 million in various short-term operating and letter of credit facilities under which \$210.0 million was drawn on our revolving bank credit facility, \$6.7 million was drawn on other lines of credit and \$139.4 million was issued in letters of credit and guarantees as at December 31, 2007. Our operating bank facilities have various terms, but for the most part expiry is in July 2011.

We maintain a \$400.0 million commercial paper program. As at December 31, 2007, we did not have any commercial paper outstanding, however, we ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support any issuances of commercial paper. Although recent market conditions have resulted in a slightly increased cost of short-term borrowing as we have moved out of the commercial paper market and utilized our bank facilities, the increase has not had a material negative effect on our results due to the relatively small amount of short-term debt in our capital structure. In February 2008, we started issuing commercial paper again and have used the proceeds to reduce bank borrowing.

We also have a \$450.0 million non-revolving pension reserve facility that may be used to finance pension deficit funding. At December 31, 2007, there were no amounts drawn on this facility, but we have reduced its capacity by \$30.7 million with the issuance of letters of credit to support our application of the 10-year solvency funding relief regulations.

As market conditions permit, we still anticipate being able to refinance the majority of these short-term borrowings and a \$50.0 million maturing Télébec debenture with further fixed-rate capital market issuances within the next year.

Our credit facilities contain customary covenants and provisions that could 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 by us. 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 may be forced to restrict distributions if we were downgraded below an "investment grade" rating (generally below the "BBB" level). Also, there may be 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.

Ratings

Standard and Poor's (S&P) and DBRS Limited (DBRS) have issued the following ratings for our subsidiaries.

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

Cash requirements

We require a significant amount of cash flow to execute our business strategy. Our cash requirements for 2008 consist of distributions to unitholders, investments in capital, pension plan contributions, repayment of short and long-term debt, and payments of other commitments. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual rate of distributions to holders of Fund units as at December 31, 2007, was \$2.82 per unit. On February 5, 2008, the Fund announced an increase in the annual rate of distributions to holders of Fund units to \$2.90 per unit. Distributions are approved monthly at the discretion of the Fund trustees and the annual increase will commence with the February 2008 period. The Fund is entirely

dependent upon distributions from us and its indirect investment in Télébec and NorthernTel to make its distributions. The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units is estimated to be in the range of \$655 to \$660 million for 2008.

- Capital expenditures in the range of 14.5 to 15.5 per cent of operating revenues will be made as required to support our existing infrastructure and to advance our initiatives.
- Funding of our DB pension plans' deficits in 2008 is estimated to be in the range of \$50 to \$60 million, net of application of prior years' voluntary contributions and after application of 10-year solvency funding schedules for eligible plans.
- On January 3, 2008, we announced an agreement in principle to purchase the assets and business of Kenora Municipal Telephone System. The agreement achieved unanimous approval from the City of Kenora on January 15, 2008, and the deal closed on February 1, 2008. The acquisition price was approximately \$27 million, which was paid in cash.
- We are required to repay short and long-term debt according to its terms. We intend to refinance much of this debt as it comes due, as discussed in the "Sources of liquidity" section.

Other financial arrangements

Contractual obligations

As at December 31, 2007

(millions of dollars)	Total	2008	2009	2010	2011	2012	Thereafter
Long-term debt	2,549.5	53.0	107.0	3.5	754.8	4.7	1,626.5
Capital lease obligations	24.1	6.8	5.4	5.4	0.8	0.3	5.4
Operating leases	464.7	37.0	34.4	30.6	27.6	26.8	308.3
Purchase commitments ⁽¹⁾	4,203.2	396.1	336.9	317.4	310.4	312.1	2,530.3
Other long-term obligations	21.8	9.2	3.6	4.1	0.3	0.3	4.3
Total contractual obligations ⁽²⁾	7,263.3	502.1	487.3	356.9	1,093.9	344.2	4,470.5

(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, and various other long-term liabilities.

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. Details of our long-term debt can be found in note 13 to our consolidated financial statements for the year ended December 31, 2007.

Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. During the year, we amended the agreement, resulting in an increase in the maximum amount of trade accounts receivable we can sell to the trust from \$125.0 to \$220.0 million. With this increase, we were able to sell additional accounts receivable and received net cash proceeds of \$100.0 million during the year ended December 31, 2007.

We also have an agreement with Bell Canada whereby we sell certain of our Ontario and Quebec accounts receivables to Bell Canada and we purchase certain accounts receivables related to the wireless business in Atlantic Canada owned by Bell Canada.

Further details of these arrangements are described in notes 1 and 3 to our consolidated financial statements for the year ended December 31, 2007.

Use of derivative financial instruments

We use derivative financial instruments periodically in the management of interest rate and foreign currency exposures associated with our long-term debt and specific firm commitments. Details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 14 to our consolidated financial statements for the year ended December 31, 2007. At December 31, 2007, we had outstanding fixed-floating interest rate swap contracts with notional values totalling \$200.0 million. These swap contracts are being accounted for as hedges of a portion of our floating-rate debt. Refer to the "Interest rate derivatives" section for further discussion.

RELATED PARTY TRANSACTIONS

BCE and Bell Canada

BCE and Bell Canada own 100 per cent of our class 1 exchangeable limited partnership units and 100 per cent of the class B exchangeable limited partnership units of Bell Aliant LP as at December 31, 2007. As the units are exchangeable into Fund units, BCE and Bell Canada beneficially own and control 44.15 per cent of the Fund's outstanding units on a fully diluted basis as at December 31, 2007 (2006 – 44.71 per cent).

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

We also have a series of commercial agreements with BCE and Bell Canada. The agreements provide us with the telecommunications and support services required to operate our wireline and Internet access operations in territories previously covered by Bell Canada. The agreements also provide Bell Canada with the telecommunications and support services required to operate its wireless business within Atlantic Canada. In addition, we have an extensive commercial relationship management agreement that, among other things, governs our relationship with respect to non-competition, customer primeship within our respective operating territories and branding. For greater detail on our commercial agreements, refer to note 23 of our consolidated financial statements for the year ended December 31, 2007.

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

*For the years ended December 31
 (millions of dollars)*

	2007	2006
Operating revenues	398.0	252.9
Operating expenses	600.6	369.0
Other expenses (income)	(0.1)	2.7
Capital investments	8.4	68.0

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

<i>As at December 31</i> <i>(millions of dollars)</i>	2007	2006
Note receivable from related party	—	38.9
Accounts receivable:		
Trade	142.9	161.6
Wireless receivables	46.5	47.2
Prepayments	1.6	—
Long-term receivable, including current portion in accounts receivable	38.0	44.0
Payables and accruals	120.3	129.2
Distributions payable	23.6	22.9
Deferred credits	4.0	—

A \$38.9 million note receivable from Bell Canada at December 31, 2006, was repaid in January 2007.

The accounts receivable from, and payables and accruals to, Bell Canada and its controlled investees are non-interest bearing and under normal credit terms and have arisen from the sale of products and provision of services referred to above.

The long-term receivable from Bell Canada relates to consideration on the Arrangement as discussed in note 2 to the consolidated financial statements. The balance bears interest at 9.75 per cent per annum and is due over a period of 10 years.

The distributions payable to BCE and Bell Canada relate to their interest in exchangeable limited partnership units of Bell Aliant LP and Bell Aliant Holdings LP. For the year ended December 31, 2007, \$281.6 million of distributions were paid to BCE and Bell Canada (2006 – \$108.9 million).

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:

<i>(millions of dollars)</i>	2008	2009	2010	2011	2012	Thereafter
Contractual obligations	348.8	311.6	301.2	296.5	296.5	2,530.3

The Fund

In the normal course of business, we have an 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 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:

<i>For the periods ended December 31</i> <i>(millions of dollars)</i>	2007	2006
Management salaries	0.8	0.4
General and administrative	4.7	0.6
Operating expenses	5.5	1.0

Management salaries are allocated based on billable hours spent on Fund matters. General and administrative expenses are based on actual expenses that the Fund incurs.

Effective July 7, 2006, the Fund commenced two employee unit purchase plans having similar terms for eligible full-time employees of certain of our subsidiaries. Compensation expense related to the employees' unit purchase plans of \$9.9 million for the year ended December 31, 2007, (2006 – combined purchases under employees' stock savings plan and unit purchase plans – \$7.9 million) was recorded. Further details of the employee purchase plans are discussed in note 16 to our consolidated financial statements.

During 2007, the Fund implemented a deferred unit plan for certain executives and senior management of certain of our subsidiaries to further align their long-term incentive compensation with total unitholder returns. For the year ended December 31, 2007, compensation expense of \$8.5 million related to the deferred units outstanding (2006 – \$2.8 million recorded for the deferred unit plan grant related to fiscal 2006 to 2008) was recorded. Further details of the deferred unit plans are discussed in note 16 to our consolidated financial statements.

At December 31, 2007, payables and accruals included \$3.0 million, which relates to these operating expenses as well as the employee unit purchase plans and deferred unit plans. Interest will be charged on the balance owing in accordance with the policies established from time to time by our administrator.

SIGNIFICANT ACCOUNTING POLICIES

Our consolidated financial statements as at December 31, 2007, 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 2006, except for the adoption of new accounting standards as discussed herein. Further information on our significant accounting policies can be found in note 1 to our consolidated financial statements for the year ended December 31, 2007.

Commencing January 1, 2007, we adopted the following new accounting standards issued by the CICA:

- Section 1530, Comprehensive Income;
- Section 3251, Equity;
- Section 3855, Financial Instruments – Recognition and Measurement;
- Section 3865, Hedges;
- Section 3862, Financial Instruments – Disclosures; and
- Section 3863, Financial Instruments – Presentation.

As a result of adopting these new accounting standards, certain financial assets and financial liabilities are measured at fair value with the remainder recorded at amortized cost. The following describes policies adopted as a result of implementing the new standards:

- Derivative financial instruments are recorded on the balance sheet at fair value as either derivative assets or derivative liabilities. Changes in fair value related to the effective portion of cash flow hedges or deferred settlement gains and losses on cash flow hedges are recorded in other comprehensive earnings, net of related income tax. Changes in fair value related to the ineffective portion of cash flow hedges are reported in other expenses (income) on the consolidated statement of earnings.

A reclassification adjustment of \$40.2 million was recorded in accumulated other comprehensive earnings (losses) and \$0.8 million was recorded as an adjustment to opening accumulated earnings on the balance sheet to reflect the fair value of the effective and ineffective portions of our cash flow hedges and deferred settlement gains and losses on cash flow hedges, respectively.

- We have changed our policy regarding transaction costs from the straight-line method to the effective interest method to calculate the amortized cost of financial assets and financial liabilities, where it is practical to do so, and amortize the costs over the relevant period to maturity. The difference arising from recording long-term debt using the effective interest method instead of the straight-line method is not material. It is impracticable to use the effective interest method in circumstances such as bank operating credit facilities, which are drawn on or repaid frequently. Costs relating to these credit facilities will continue to be amortized using straight-line amortization over the life of the facility.

Debt issue costs in the amount of \$12.8 million were reclassified from deferred charges and applied against the long-term debt with which they are associated. Costs related to credit facilities that have not been drawn upon will continue to be classified as deferred charges and will be amortized on a straight-line basis over the life of the facility.

The following table summarizes the January 1, 2007, reclassification adjustments on our balance sheet to adopt the new standards:

Consolidated balance sheet <i>(millions of dollars)</i>	Increase (decrease)
Deferred charges	(33.3)
Long-term future income tax asset	13.5
Long-term debt	(12.8)
Deferred credits	32.4
Accumulated earnings	0.8
Accumulated other comprehensive losses	(40.2)

Prior period consolidated financial statements have not been restated and the above changes did not have any impact on our consolidated statement of earnings.

In accordance with handbook section 3855 we conducted a search for embedded derivatives in our contractual arrangements as at January 1, 2003, and did not identify any embedded features that required separate presentation from the related host contract.

The new standards require that we present a consolidated statement of comprehensive earnings, which reflects changes in accumulated other comprehensive earnings (losses) as a result of changes in the fair value of derivatives designated as cash flow hedges, to the extent that they are effective, and the amortization of deferred settlement gains and losses on cash flow hedges. Accumulated other comprehensive earnings (losses) is a separate component of partners' equity.

Future changes in accounting policies

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

The CICA issued section 3031, Inventories, to replace section 3030 of the same name, which establishes new standards for the measurement, recognition and disclosure of inventories. Section 3031 is fully converged with international financial reporting standards. Some of the most significant changes are the elimination of the last-in first-out basis of cost determination, the types of costs that must be included as part of the costs of inventory and the ability to reverse previous write-downs. The standards come into effect for fiscal years beginning on or after January 1, 2008. We do not anticipate any material effects as a result of this change.

The CICA issued section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital as well as how the entity manages it. These standards come into effect for fiscal years beginning on or after October 1, 2007, and as they only relate to disclosure requirements, this section will not have any effect on our financial results.

The CICA issued section 3064, Goodwill and Intangible Assets, replacing section 3062, Goodwill and Other Intangible Assets, and section 3450, Research and Development Costs. Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The AcSB also approved amendments to section 1000, Financial Statement Concepts, and accounting guideline 11, Enterprises in the Development Stage. These changes clarify the relationship between incurring expenses and creating assets and are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted. We will be assessing our internally developed intangible assets and deferred costs throughout 2008 to determine the effect of these changes on our business.

Critical accounting estimates and assumptions

Under Canadian GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities in our consolidated financial statements.

We base our estimates and assumptions on past experience 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 financial statements could prove to be inaccurate or could be subject to change under different conditions or using different assumptions. We periodically evaluate the reasonableness of these estimates and assumptions.

We have reviewed with the audit committee of the board of directors the development, selection and application of our key accounting policies and the critical accounting estimates and assumptions they involve. 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 perform a valuation of our DB pension plans at least every three years to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits. The amounts reported in the financial statements in relation to the DB pension plans 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 and the growth rate of per capita health care costs.

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

- The discount rate is used to determine the present value of future cash flows that we expect will be required to pay employee benefit obligations. Our assumptions for the discount rate are based on current interest rates on long-term debt of high quality corporate issuers. We determine the appropriate discount rate at the beginning of each measurement period. For most of our plans, a measurement period began on July 7, 2006, as a result of the Arrangement, at which time we increased our assumed discount rate to 5.6 from 5.25 per cent. The discount rate was subsequently reduced to 5.3 per cent effective December 31, 2006. Effective December 31, 2007, we increased our assumed discount rate to 5.5 from 5.3 per cent. This change in assumption decreased our total DB pension plan and OPEB plan obligations by approximately \$93 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. For 2007, our assumed rate of return on plan assets was 6.7 per cent, a decrease from the rate of 7.5 per cent assumed in 2006, due largely to a change in investment policy adopted in 2007. This change in assumptions increased the annual net benefit plans cost for DB pension plans by approximately \$19 million in 2007.

Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of net benefit plans cost for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated effect for the year ended December 31, 2007, on the value of the accrued benefit obligation and the annual net cost of benefit plans for a 0.25 percentage point change in the discount rate, the expected rate of return on plan assets and rate of compensation increase. The table also shows the sensitivity of a 1.0 percentage point change in the assumed growth in per capita health care costs.

<i>(millions of dollars, except as otherwise noted)</i>	Assumption	Rate change	DB pension plans		OPEB plans	
			Obligation	Cost	Obligation	Cost
Discount rate	5.50 %	+/- 0.25 %	106.0	2.0	7.0	—
Expected rate of return on plan assets	6.70	+/- 0.25	—	6.0	—	—
Rate of compensation increase	3.00	+/- 0.25	19.0	2.0	—	—
Growth rate of per capita health care costs	4.50 – 8.00 %	+ 1.00 - 1.00 %	— —	— —	24.0 (21.0)	1.0 (1.0)

Our accounting policies with respect to the recognition of 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 loss and can reverse it 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 the market-related value of assets smoothes the effect of actual gains and losses in certain of the plans' assets over a three or four 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 \$587.8 million in our DB pension plans at December 31, 2007. This balance reflects the amortization of \$26.4 million of the accumulated losses through pension expense in 2007. Additional information regarding our accounting for post-employment benefits is included in note 8 to our consolidated financial statements for the year ended December 31, 2007.

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, assessments of asset recoverability through impairment testing and the allocation of acquisition purchase prices between goodwill and finite-life intangible assets.

Estimations of useful lives

We depreciate and amortize our capital investments, finite-life intangibles and certain deferred charges 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 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.

On April 1, 2006, we extended the estimated useful life of some of our internally developed software from three to five years. On July 7, 2006, upon completion of the Arrangement, we modified the useful life of a number of capital investment groups to ensure that similar assets were being amortized consistently across the entire organization. If there were inconsistencies for similar assets, we considered actual useful lives of the assets to determine the most reasonable and accurate economic useful life. We have aligned the depreciation expense associated with these assets to their future economic benefit. As a result, some useful lives were extended while others were shortened. All changes in estimated useful lives were within our existing accounting policies and therefore represent changes in accounting estimates, which have been applied prospectively. The changes in estimates resulted in a net decrease in depreciation and amortization expense of \$18.4 million for the year ended December 31, 2006.

In 2007, we shortened the estimated useful life of some of our telecommunications equipment from 10 to five years as a result of an independent study. This change in accounting estimate has been applied prospectively and resulted in an increase in depreciation and amortization expense of \$9.2 million for the year ended December 31, 2007.

Recoverability

The value associated with our goodwill is assessed at our business segment level on an annual basis or sooner if events or changes in circumstances indicate that the carrying amounts could exceed fair value. Potential impairment is identified when the carrying value of our business segments, including the allocated goodwill, exceeds their fair value. Goodwill impairment is measured as the excess of the carrying amount of the business segment's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the business segment. Any impairment indicated is charged to earnings in the period it is identified. An impairment test was conducted during the second quarter of 2006 and the annual test was conducted in the fourth quarter of 2006. The annual impairment test excluded the goodwill created on acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc., as the purchase price allocation had not been finalized. No impairment was identified in 2006. In the second quarter of 2007, upon completion of the purchase price allocation, the goodwill was tested for impairment and again in the fourth quarter of 2007, as part of the annual impairment testing. No impairment was identified in 2007.

The value associated with our indefinite-life intangibles is assessed on an annual basis or sooner if events or changes in circumstances indicate that the carrying amounts could exceed fair value. The value associated with our other long-lived assets is reviewed whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability is based on our estimate of projected discounted cash flows resulting from the use of the asset and its eventual disposition. These reviews could result in a current year impairment charge to reflect the write-down in value of the capital investment or other long-lived asset. Annual testing and reviews triggered by events or changes in circumstances throughout 2007 and 2006 have not resulted in any write-downs for impairment of our other long-lived assets.

We use the projected discounted cash flow method to measure fair value and determine recoverability of assets, which we believe is a reasonable and appropriate approach. The assumptions and estimated cash flows are based on internal planning and reflect our best estimates. These assumptions are subject to inherent uncertainties that are beyond management's control; hence the results of the impairment test could be different if there is a change in assumptions or conditions. We are unable to predict whether an event that triggers impairment will occur, when it will occur, or how it will affect the asset values that have been reported.

Purchase price allocation for business acquisitions

Goodwill represents, at the date of acquisition, 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. 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.

At December 31, 2006, we had not completed the purchase price allocation for the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordinq Group Inc. and as such, the excess of the purchase price over the net assets identified as at December 31, 2006, was allocated to goodwill in the amount of \$5.4 billion. Upon finalization of the purchase price allocation in the second quarter of 2007, we reallocated \$2.9 billion from goodwill into finite-life intangibles, indefinite-life intangibles and future tax liabilities. The final balance of goodwill related to this acquisition as at December 31, 2007, was \$2.5 billion.

Goodwill recorded in 2006 also included \$11.2 million relating to the purchase of the remaining 54.96 per cent of the common shares of AMP.

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.

The remaining income is earned through corporate subsidiaries that are subject to tax on their taxable income. Income taxes are accounted for using the asset and liability method. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and their corresponding tax values, as well as the benefit of losses that will more likely than not be realized and carried forward to

future years to reduce income taxes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are expected to be realized. 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 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, such audits could materially change the amount of current and future income tax assets and liabilities if different interpretations are used. Any change would be recorded as a charge or credit to income tax expense. Any cash payment or receipt would be included in cash from operating activities.

We use judgments 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.

There were no significant changes to assumptions or estimates in 2007. In the second quarter of 2007, with the finalization of the purchase price allocation of the Arrangement, a future tax liability of \$330.9 million was recorded. A significant portion of this future tax liability relates to temporary differences between the carrying value and income tax basis of goodwill and other intangible assets. In addition, as a result of the enactment of tax rate changes in 2007, we revalued our net future tax assets and liabilities, resulting in a \$94.7 million future tax recovery.

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, premise 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.

In 2006, we commenced a planned restructuring of our operations to improve productivity and incurred \$13.2 million in restructuring and other charges. In 2007, we estimated and recorded a restructuring and other charge of \$27.4 million to continue these productivity initiatives into 2008.

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 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 analyzing potential outcomes and assuming various litigation strategies. Note 22 to our consolidated financial statements for the year ended December 31, 2007, presents a discussion of significant contingencies outstanding at that date. We did not have any significant provisions relating to pending litigation or regulatory initiatives and proceedings in either 2007 or 2006.

During the fourth quarter of 2007, we settled the dispute with Emera Incorporated (formerly N.S. Power Holdings Inc.) that related to a services contract we had terminated early. This settlement restores a sound contractual relationship with this major customer.

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING INFORMATION AND RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS

Assumptions made in the preparation of forward-looking information

A number of factors or assumptions were applied or made by us in preparing our 2008 guidance, as presented in the "Highlights of strategic focus for 2008" section, and in providing the forward-looking information referred to throughout this MD&A. The material factors and assumptions are outlined in this section.

Economic assumptions

Our 2008 guidance and forward-looking information are based on various assumptions concerning the Canadian economy, and specifically the economies of the regions in Canada where we operate, namely Ontario, Quebec, and the Atlantic provinces. First, we assume that Canadian GDP growth in 2008 will be 1.5 to 2.5 per cent, slightly lower than GDP growth experienced in 2007, and essentially consistent with recent estimates made by the Bank of Canada. The regions in which we operate are expected to see slightly lower economic growth rates than the Canadian average, but the outlook for economic conditions remains fairly stable and just slightly lower than 2007. We also assume that the general level of interest rates and the inflation rate will remain fairly stable around current levels. For this purpose, current levels are indicated by the approximate 3 to 4 per cent interest rate on Government of Canada bonds and the approximate 1.5 to 2.5 per cent growth rate of the Consumer Price Index.

Market assumptions

Our 2008 guidance and forward-looking information also reflects various assumptions about the markets in which we operate. First, we have assumed growth in overall Canadian telecommunications revenues will be in line with general GDP growth. Second, we have assumed that our market share of the consumer voice telecommunications market will continue to decrease in 2008 due to the expansion of existing competitors and entrance of new competitors, particularly cable companies, and broad industry trends, such as wireless and VoIP substitution. Finally, we have assumed that the 2008 revenue growth rates of the Canadian IT industry will be 6 to 7 per cent and that the 2008 revenue growth rate of the Canadian Internet market will be 10 to 12 per cent.

Financial and operational assumptions

The financial and operational assumptions made by us apply on a consolidated basis consistent with the previous year.

First, revenue growth estimates for 2008 are based upon an assumption of increasing ARPC across various lines of service.

Second, we have assumed that the percentage of residential households in our territory that will have access to a competing cable telephony offering will increase from approximately 48 per cent at the end of 2007 to exceed 55 per cent within the next 18 months. At the end of 2007, approximately 80 per cent of this competitive footprint was forborne from local service regulation, and we expect this to continue to eventually grow to a level that essentially mirrors the competitive footprint. Freeing us from the constraints of regulation of local services in competitive markets allows us to more effectively design and deliver appropriate product bundles and service offerings to the market to compete on a level playing field with the cable telephony providers. This should enable us to maintain our NAS loss rate at similar levels to that experienced in 2007, despite the expanded competitive footprint.

Third, we anticipate being able to more than offset local and access revenue decline, and continued long distance revenue decline, with growth from Internet, IT, wireless, IPTV and other revenues. We anticipate that we will expand the portion of homes in our residential customer market that have access to our high-speed Internet network from a current level of 72 per cent. This expansion, along with greater penetration of Internet services within our existing footprint, select pricing increases and new product introductions, is anticipated to contribute to continued double-digit annual growth rates in 2008 for both Internet customers and revenues. This growth rate should be fairly consistent with overall expected industry growth rates for Internet services. In 2008, we expect our FTTN coverage to increase modestly from approximately 188,000 at the end of 2007. This technology allows us to provide higher bandwidth to support applications such as IPTV, music and music downloads, gaming, conferencing and other new applications, which will support revenue growth. Although these services each have a lower contribution to EBITDA margins than the voice telecommunications revenues, we anticipate being able to generate operating cost savings through productivity measures to help offset the lower margins and other expense pressures from normal inflationary growth.

Pension deficit funding for our DB pension plans for 2008 will be in the range of \$50 to \$60 million. This reflects our plans to continue to apply prior years' excess funding to reduce 2008 deficit funding requirements and to take advantage of solvency funding relief measures through the use of letters of credit to fund a portion of our deficit funding requirements. The funding of current service costs for our DB plans and our DC plans and the funding of OPEBs are a component of distributable cash and are estimated to be higher in 2008 compared to 2007, primarily reflective of a maturing DB and OPEBs beneficiary group and general salary increases. The expectations we have stated here are based on our anticipation of the conclusion of December 31, 2007, actuarial reviews, which are expected to be complete by mid-2008.

A normalized level of cash capital taxes is assumed to be zero, reflecting the future anticipated enactment of all previously announced provincial capital tax eliminations by the provinces of Ontario, Quebec, New Brunswick and Nova Scotia. However, we anticipate that cash taxes and other cash costs not deducted in calculating distributable cash for the year 2008 will be in the range of \$10 to \$15 million.

Our capital expenditures will be made as required to support our existing infrastructure and to advance our strategic initiatives. We anticipate that a normal level of capital intensity for 2008 will be in the range of 14.5 to 15.5 per cent of revenues.

Risk management

Risk management is fundamental to the long-term success of any organization. For us, risk is defined as the level of exposure to uncertainties that the organization must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our unitholders. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across the organization.

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

Ability to achieve strategies and plans

Our initiatives for 2008, as discussed in the "Highlights of strategic focus for 2008" section, will have a wide reaching effect on our customer interactions, our internal processes, our network and our people. If we are unable to attain these initiatives on a timely basis or achieve the desired effect, we may be unable to meet our business objectives.

Our strategies and plans require us to continue to transform our cost structure. Accordingly, we are continuing to implement several productivity improvements and initiatives to reduce costs while containing our capital expenditures:

- Our objectives for cost reduction through productivity improvements and synergies within our ongoing business operations and through our acquisition of the assets and operations of KMTS are aggressive. Our plans are to bring the assets and operations of KMTS under our structure and to seek operating synergies through elimination of certain costs, leveraging adjacent networks and technologies, and using our scale for purchasing and product development. The combination of existing businesses is a complex task, and there is a risk that the synergies anticipated will not be achieved or, if achieved, may be delayed compared to our expectations or will not be successful in reducing costs.
- Our relationship and agreements with entities such as Bell Canada and Bell Mobility are instrumental in achieving our productivity goals. If our relationship or agreements with these parties change so as to reduce efficiencies, this will affect our productivity objectives. Refer to the "Related party transactions" section for more details on our relationship and agreements.
- Each year between 2002 and 2005, our predecessor companies had to reduce the price of certain services that are subject to regulatory price caps and may be required to do so again in the future. We have also reduced our prices for some services that are not regulated in order to remain competitive, and may have to continue doing so in the future. If these factors result in lower revenues, we need to reduce our expenses at the same rate to maintain profitability.
- 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.

- Improved customer service is critical to increasing customer retention and ARPC. It may, however, be difficult to improve customer service while significantly reducing costs. If we are unable to achieve either or both of these objectives, it could have a material and negative effect on our results of operations.

There may be a material and negative effect on our profitability if we do not successfully implement these productivity initiatives and improvements and manage capital expenditures while maintaining the quality of our service.

There is also a risk that, should the pace of our broadband rollout be slower than is currently contemplated in our business plan, our Internet growth rate could be lower than current expectations, thereby adversely affecting our expected number of Internet subscribers and revenues in 2008.

Should the above noted risks materialize, our financial performance, including our growth prospects, could be negatively affected. 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 ensure they achieve the desired results.

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 economy generally.

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 services tends to decline when economic growth and retail activity decline. Any slowdown in global economic activity could make the overall economic environment more uncertain and could have an important 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 constantly 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 initiatives as economic conditions dictate.

Increasing competition

In a series of decisions beginning in the late 1970s and ending in 1998, the CRTC opened up competition in all product and service segments in which we operate. The CRTC also imposed a number of competitor safeguards and marketing restrictions on the operations of our telecommunications business. We therefore face competition for most of the services we provide, with some of our operating territories having among the most competitive telecommunications markets in North America for local residential service.

In addition to the competition that has existed for many of our services for several years, recently other competitors have launched competing services or announced their ability or intention to offer local telephony services in a growing proportion of the territories we serve. The local competitive footprint served by cable TV competitors may evolve more quickly, and eventually to a larger proportion of our existing territory than we currently expect. Additionally, competition from non-traditional entities that may be international in scope could converge into the telecom space faster and in more areas than we would currently anticipate.

Our strategy includes enhancing services and packages to create value, working with customers to provide innovative and complete solutions, improving our cost structure to enable greater price competitiveness, and expanding our IP network and capabilities to provide broader access and innovative solutions. Competition, and particularly changes in the competitive landscape, can place these strategies at risk. Increased competition and the introduction of new services by competitors may have an effect on our expected growth or on the pricing of our current services that cannot be predicted.

If any of these situations occur, our market share and revenues may be negatively affected. We actively monitor and analyse 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 our overall competitive risk. These unique strengths and strategies of our business are described in more detail in the "Highlights of strategic focus for 2008" section.

Further, the measurement and forecasting of the size of the competitive footprint itself is subject to risks of estimation error because it depends on market data that is not generated by us and on the business plans of our competitors, of which we have no direct knowledge or control. Therefore our estimates are subject to constant revision and risk that they may be materially inaccurate.

Local and long distance

In 2006, new competitors began offering local telephone service in a large portion of our marketplace, and this intensified in 2007. These competitors have the ability to offer four-service bundles, consisting of telephone, Internet, wireless and TV. Cable competitors are free from telecom regulation and are able to offer local service in unregulated bundles priced to gain market share. 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. However, there is no assurance that this will mitigate churn and market share erosion resulting from new competitive entrants to our marketplace.

In addition to cable competitors in our local service market, a threat to our customer base continues to be the slow and gradual replacement of local landline service with wireless-only service by certain customers. 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. Also, the recent ability to port telephone numbers between wireless carriers in Canada and between wireline and wireless services may further affect our local and long distance revenues.

The value of long distance as a stand-alone service has diminished but we believe that it is an integral component in the 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 manage the implementation of VoIP solutions in our market as part of our voice evolution strategy.

Internet

Internet penetration continues to grow in our market. As IP becomes standard, 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. We are challenged by these competitors as they exert pressure on our pricing, revenues and market share. We will continue to build our expertise and to serve our customers holistically, helping them evolve their networks and providing them with industry-specific solutions.

Wireless

Wireless service is becoming increasingly important to our customers as the service improves in reliability and features. It is therefore an important competitive differentiator within our suite of services, particularly as it pertains to our packages and bundles. We currently have an arrangement with Bell Mobility to provide these services to our customers (outside of the Télébec and NorthernTel operating territories). 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.

The addition of new players in the Canadian wireless market, when the competitive auction process takes place as discussed in the "Competitive landscape" section, may heighten competition in this market and could have a material and negative effect on our results of operations, including with respect to our local and long distance business.

Changing regulations

We are affected by decisions made by the CRTC. In 2007, there was significant reform of the regulatory framework. We have highlighted key developments in the "Telecommunications regulatory developments" section. Significant changes to the regulatory rules made during 2007 that will continue to affect our business relate to local forbearance, rates, quality of service, review of regulatory measures, deferral accounts, wholesale Ethernet services and wholesale services review.

Collectively, the recent CRTC orders and proposed changes will serve to lessen the regulatory burden and are expected to improve our marketing flexibility and ability to compete effectively. There is no guarantee, however, that these new regulatory trends will continue. There is a risk that decisions of the CRTC, and in particular the decisions relating to prices at which we must provide access, may have a negative 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.

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, deliberate acts of vandalism, acts of war or terrorism, and other events. Any of these things could cause operations to be shut down indefinitely.

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 and negative 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 2008 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 want to provide our customers with leading edge technology, so we monitor technological advancements and consumer purchasing trends. 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.

Expenditures, capital 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 Internet traffic and the resulting significant increases 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, it could have a material and negative effect on our results of operations.

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

Relationship with Bell Canada and the availability of business opportunities

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. In the event that 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 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.

Pension plan funding

We maintain a number of DB pension plans that have funding deficiencies. The plans are exposed to general future valuation risk and required funding levels for 2008 and beyond may change as required actuarial valuations are completed. If the 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.

Pension funding relief measures introduced in the May 2006 federal budget allowed plan sponsors to extend the funding period of solvency deficits from five to 10 years under certain conditions. We are currently able to take advantage of these relief measures, in part, because we have in place letters of credit issued under our banking facilities. 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.

Cash funding and positive investment experiences have gradually contributed to an improved funded position for our DB pension plans. We have also 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.

Liquidity and financing risk

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 equity offerings would dilute the holdings of existing equity investors. 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 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.

Specifically, since the third quarter of 2007, the commercial paper (CP) market and the public term debt market in Canada have been experiencing some disruption to normal market operations and a dramatic widening of the interest rate spreads charged for corporate credits. A so-called "liquidity crunch" occurred when many CP issuers could not reissue new CP on maturity of existing outstanding debt or to finance their growth. Many issuers were forced to use backup bank lines in place of CP, while others may not have had secure backup sources.

While we could not have foreseen the specific events that precipitated this situation, our risk management policies do contemplate the potential for disruptions in capital markets and periods of reduced availability of credit. We are dependent on the capital markets and the commercial loan market to finance our operations. As such, our risk management efforts include diversifying funding sources, utilizing Canadian chartered banks as counterparties and liquidity providers in our hedging and securitization programs, maintaining sufficient capacity on our backup bank lines of credit to support our CP program, specifying issuer and rating limits and counterparty restrictions on our money market investments and properly diversifying our pension plan investments. These measures have helped to avoid any material negative effects from the recent situation.

However, if these conditions persist for a long period or broaden in their scope, or if there are other 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 and negative effect on our 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 lines of credit. The degree to which we are leveraged could have important consequences:

- Our ability to make distributions may be limited if we are unable to meet the financial tests provided in these indentures and lines of credit.
- Our ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future is limited by the restrictive covenants of these indentures and lines of credit.
- 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.

These trust indentures and lines of credit also contain restrictive covenants that limit management's discretion in terms of certain business matters.

Although we are currently in compliance with our restrictive covenants, failure to comply with the obligations in the trust indentures and lines of credit 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 restrictive covenants and monitor our compliance.

BCE has governance rights

In connection with the Arrangement, we entered into a securityholders' agreement with BCE and Bell Canada. Under the terms of the securityholders' agreement, for so long as BCE, directly or indirectly, holds not less than 20 per cent of the units of the Fund on a fully diluted basis, the Fund and its operating subsidiaries 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 of trustees of the Fund and the appointment of the directors of the Fund's material operating subsidiaries. BCE and its affiliates are entitled to appoint up to a majority of the directors of the Fund's material operating subsidiaries and nominate a majority of the trustees of the Fund for so long as BCE, directly or indirectly, holds not less than 30 per cent of the units of the Fund on a fully diluted basis 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 or if BCE and its affiliates, directly or indirectly, hold less than 30 per cent of the units of the Fund on a fully diluted basis, then BCE will be entitled to appoint its proportionate share of the directors of the Fund's material operating subsidiaries and the trustees of the Fund based on its fully diluted direct and indirect ownership units of the Fund. In any event, BCE will be entitled to nominate two directors to the board of Bell Aliant Regional Communications Holdings Inc., Bell Aliant Holdings LP's general partner, for as long as such commercial agreements are in place, irrespective of its ownership interest in the Fund (on a fully diluted basis) or its subsidiaries. BCE has complete discretion in terms of the exercise of these rights. As a result of this, the Fund and its operating subsidiaries may be restricted from entering into or carrying out transactions or activities that they may otherwise wish to do.

Reliance on key personnel and labour relations

Skilled and experienced telecommunications personnel are in high demand as a result of the strong growth and competitiveness of the telecommunications industry. We may find it increasingly difficult to attract and retain the necessary resources to meet our needs. It is possible that additional incentives may be required and that certain business initiatives may be at risk if skill shortages occur.

Approximately 53 per cent of our employees are represented by unions and are covered by collective agreements. Six collective agreements expired at various times throughout 2007 and all six were successfully renegotiated during 2007 at reasonable terms and without work stoppages or strikes. These agreements cover more than 96 per cent of our unionized workforce. The agreements were renegotiated with expiry dates of 2011 and beyond, which means there will be minimal risk of a legal strike or lockout until at least March 2011 for more than 96 per cent of our unionized workforce.

The remaining 4 per cent (199 employees) of our unionized workforce is represented by three relatively small units, one of which has a contract expiry date in December 2008, and two of which have contract expiry dates in the second quarter of 2009. These three contracts do not represent a high risk to us.

Work disruptions at our significant service providers, including Bell Canada, such as work slowdowns and work stoppages due to strikes, could significantly affect our business, including our customer relationships and results of operations.

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 through detailed planning and analysis of all such transactions and by employing skilled professional consultants and advisors.

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 for when a potential loss is deemed probable and its consequence can be reasonably estimated. However, pending or future litigation could still have a material and negative 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 22 to our consolidated financial statements for the year ended December 31, 2007.

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, could materially or negatively affect our results of operations, cash flows and financial position.

Tax related risks

Interest expense deduction

Income fund structures generally involve significant amounts of intercompany 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. If such a challenge were to succeed against Bell Nordinq Group Inc. (with respect to its taxation years prior to its June 30, 2007, windup) or Bell Aliant Regional Communications Inc., it would materially adversely affect the amount of cash available to us for distribution to Fund unitholders. We believe that the interest expense inherent in our organizational 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 Fund unitholders could be adversely affected.

NON-GAAP FINANCIAL MEASURES

Where indicated throughout this MD&A, operating revenues, operating income and EBITDA have been restated to include pro forma historical results as though Bell Aliant Holdings LP had been in existence for the entire year in 2006. We believe that presenting these non-GAAP measures will allow for more meaningful year-over-year comparisons and analysis.

The terms pro forma operating revenues, operating income, pro forma operating income, EBITDA, pro forma EBITDA, standardized distributable cash and distributable cash do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other reporting issuers. Pro forma operating revenues, operating income, pro forma operating income, EBITDA, pro forma EBITDA, standardized distributable cash and distributable cash are presented on a consistent basis from period to period.

Pro forma operating revenues, operating income and pro forma operating income

Operating income represents operating revenues less expenses. We use operating income, among other measures, to assess the operating performance of our ongoing business. Pro forma operating revenues and pro forma operating income represent operating revenues and operating income adjusted to reflect the pro forma historical results of the operations related to the net assets bought and sold under the Arrangement had it occurred on January 1, 2005, and operated as such for the entire year in 2006. Therefore, pro forma operating revenues and pro forma operating income represent operating revenues or operating income of our predecessor company, Aliant, excluding operating revenues or operating income related to Aliant's wireless operation and DownEast Ltd. and including operating revenues or operating income related to Bell Canada's regional wireline operation, and Télébec and NorthernTel (formerly Bell Nordinq Group Inc.).

The following table reconciles operating revenues to pro forma operating revenues, operating revenues and expenses to operating income and operating income to pro forma operating income on a consolidated basis.

*For the years ended December 31
(millions of dollars)*

	2007 ⁽¹⁾	2006
Operating revenues	3,373.4	2,684.3
Add (less):		
Aliant's wireless operations and DownEast Ltd.	—	(194.3)
Bell Canada's regional wireline operations	—	623.4
Bell Nordiq Group Inc.	—	189.3
Intercompany eliminations	—	(3.5)
Pro forma operating revenues	3,373.4	3,299.2
Operating revenues	3,373.4	2,684.3
Expenses	2,858.0	2,133.5
Operating income	515.4	550.8
Add (less):		
Aliant's wireless operations and DownEast Ltd.	—	(94.7)
Bell Canada's regional wireline operations	—	215.2
Bell Nordiq Group Inc.	—	61.2
Pro forma operating income	515.4	732.5

(1) The year ended December 31, 2007, represents as reported results and are not pro forma.

We use pro forma operating revenues and pro forma operating income, among other measures, to assess our operating performance had we been in existence for the entire year in 2006, which allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use pro forma operating revenues, operating income and pro forma operating income to measure our ability to grow, or as a common valuation measurement in the telecommunications industry.

Pro forma operating revenues, operating income and pro forma operating income should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP financial measures.

EBITDA and pro forma EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. Operating income is calculated before interest and taxes are deducted. Pro forma EBITDA represents EBITDA adjusted to reflect the pro forma historical results of the operations related to the net assets bought and sold under the Arrangement had it occurred on January 1, 2005, and operated as such for the entire year in 2006. Therefore, pro forma EBITDA represents EBITDA of the predecessor company, Aliant, excluding EBITDA related to Aliant's wireless operation and DownEast Ltd. and including EBITDA related to Bell Canada's regional wireline operation, and Télébec and NorthernTel (formerly Bell Nordiq Group Inc.).

The following table is a reconciliation of operating income to EBITDA and EBITDA to pro forma EBITDA on a consolidated basis.

For the years ended December 31

(millions of dollars)

	2007 ⁽¹⁾	2006
Operating income	515.4	550.8
Add:		
Net benefit plans cost	131.6	99.7
Depreciation and amortization	775.8	483.8
Restructuring and other charges	27.4	13.2
EBITDA	1,450.2	1,147.5
Add (less):		
Aliant's wireless operations and DownEast Ltd.	—	(120.5)
Bell Canada's regional wireline operations	—	327.1
Bell Nordiq Group Inc.	—	92.6
Pro forma EBITDA	1,450.2	1,446.7

(1) The year ended December 31, 2007 represents as reported results and are not pro forma.

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

We use pro forma EBITDA, among other measures, to assess the operating performance of Bell Aliant Holdings LP had it been in existence for the entire year in 2006. EBITDA and pro forma EBITDA allow us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use these measures to assess our ability to service debt, make distributions to unitholders and to meet other payment obligations, or as a common valuation measurement in the telecommunications industry.

EBITDA and pro forma EBITDA should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP measures.

Standardized distributable cash and distributable cash

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

- (i) Cash from operating activities of discontinued operations and the Fund, as this represents operating cash from activities other than our continuing operations, which is available for distribution;
- (ii) The amount of standardized distributable cash that would be attributable to the minority interest in controlled subsidiaries (i.e., Télébec and NorthernTel prior to January 2007 and AMP prior to September 2006) as this represents cash which is not available for distribution;
- (iii) Capital expenditures; and
- (iv) Cash flow and capital expenditure adjustments related to the period prior to July 7, 2006, as this period related to the operations of Aliant.

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 restrictive at the date of calculation. Our credit agreements only impose a restriction that distributions cannot exceed distributable cash over the last year if our credit ratings fall below investment grade. Since our ratings are within the investment grade categories, we are under no such restrictions.

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

- (i) Operating items funded through cash reserves or borrowings, such as changes in operating assets and liabilities (working capital), debt prepayment premiums, pension deficit funding, restructuring and other 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.

In the third quarter of 2007, we determined that costs accrued for our executive deferred unit plan should not be deducted from distributable cash as they will eventually be settled by the Fund through the issuance of units, rather than with a cash payment. This resulted in a restatement of distributable cash starting in the fourth quarter of 2006. 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 their most recent budgets; therefore since the third quarter of 2007, we have not provided for any deduction for normalized cash capital taxes. The actual tax rates may differ materially as they are subject to future enacted tax laws.

We are unable to calculate standardized distributable cash and distributable cash from a cash flow perspective prior to July 7, 2006, as cash from operating activities was not restated on a pro forma basis.

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

<i>For the periods ended December 31 (millions of dollars)</i>	Twelve months 2007	July 7 to December 31, 2006 ⁽¹⁾
Cash from operating activities	1,207.8	383.0
Add (deduct):		
Cash from operating activities of discontinued operations	12.3	18.0
Cash from operating activities of the Fund	(2.7)	0.1
Cash from operating activities adjustment for period prior to July 7	—	11.1
Capital expenditures	(543.0)	(259.6)
Capital expenditure adjustment for period prior to July 7	—	(1.9)
Non-controlling interest in standardized distributable cash	—	(21.0)
Standardized distributable cash	674.4	129.7
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Debt prepayment premiums	—	147.8
Change in operating assets and liabilities (working capital)	(40.8)	61.1
Change in operating assets and liabilities (working capital) of the Fund	(2.2)	(1.1)
Pension deficit funding	36.6	29.3
Restructuring and other charges	27.4	4.0
Cash capital taxes in excess of normalized levels	5.8	6.5
Other adjustments:		
Current income tax recovery	(9.9)	(5.4)
Other non-cash items provided for in working capital changes	10.1	0.8
Distributable cash	701.4	372.7

(1) Comparative information for the 12 months ended December 31, 2006, is not available, therefore we have reflected the period from July 7, 2006, to December 31, 2006.

As pro forma information for EBITDA is available for periods prior to July 7, 2006, for comparative purposes, we also calculate distributable cash using EBITDA or pro forma EBITDA and add or deduct any cash items not included in EBITDA or pro forma EBITDA but that are required for operating purposes in the current period, including the following items:

- (i) Cash funding requirement for current service pension costs for defined benefit pension plans and other employee benefit plans to the extent not already deducted in determining EBITDA or pro forma EBITDA;
- (ii) An adjustment to cash capital taxes to reflect a normalized level that will be achieved once announced provincial tax rate reductions come into effect in future years;
- (iii) Cash expenses incurred by the Fund as these are not included in our EBITDA or pro forma EBITDA;
- (iv) Cash interest expense;
- (v) Other cash income or expenses that may be incurred to the extent not included in EBITDA or pro forma EBITDA;
- (vi) Adjustments for certain one-time or other normalizing expense items;
- (vii) The portion of our consolidated distributable cash that is generated for the benefit of the non-controlling interest in our controlled subsidiaries;
- (viii) Capital expenditures; and
- (ix) The portion of distributable cash generated by discontinued operations.

Prior to July 7, 2006, the majority of the adjustments represent pro forma results. Subsequent to July 7, 2006, all of the adjustments to determine distributable cash can be found in our consolidated financial statements or records with the exception of the normalization for cash capital taxes as discussed above.

In order to discuss and analyze distributable cash in reference to prior periods, we have produced the following table which provides a reconciliation of EBITDA or pro forma EBITDA to distributable cash.

For the years ended December 31

(millions of dollars)	2007 ⁽¹⁾	2006	% change
EBITDA / pro forma EBITDA	1,450.2	1,446.7	0.2
Add (deduct):			
Pro forma adjustments not reflected in EBITDA prior to Q3 2006 ⁽²⁾	—	2.8	n.m.
Cash funding of current service cost for net benefit plans ⁽³⁾	(68.1)	(63.4)	7.4
Cash capital taxes included in EBITDA ⁽⁴⁾	9.3	10.5	(11.4)
Normalized cash capital taxes ⁽⁴⁾	(3.5)	(6.8)	(48.5)
Fund expenses	(5.5)	(1.0)	n.m.
Other income (expenditures)	0.3	1.0	(70.0)
Cash interest expense ⁽⁵⁾	(150.6)	(138.5)	8.7
Non-controlling interest ⁽⁶⁾	—	(65.3)	n.m.
Capital expenditures ⁽⁷⁾	(543.0)	(496.9)	9.3
Distributable cash of discontinued operations ⁽⁸⁾	12.3	33.8	(63.6)
Distributable cash	701.4	722.9	(3.0)

n.m. – not meaningful

(1) The year ended December 31, 2007 represents as reported results and are not pro forma.

(2) One-time costs affecting Bell Canada's regional wireline operation in 2005 related to a labour disruption were added back to normalize EBITDA.

(3) The cash funding requirement related to current service costs for net benefit plans for the period. The portion of cash funding required for net benefit plans cost that exceeds current service cost will be funded through cash reserves or borrowing.

(4) Capital taxes actually paid that are in excess of normalized levels will be funded through cash reserves or borrowing.

(5) Periods prior to July 7, 2006, represent our estimate of cash interest expense, assuming total drawn debt of \$2.6 billion for Bell Aliant LP at an estimated interest rate of 5.5 per cent had it been in operation for the entire year 2006. Cash interest expense includes our proportionate share of interest expense for Télébec, NorthernTel and AMP during the periods where we owned less than 100 per cent of these businesses.

(6) The proportionate share of the EBITDA of Télébec, NorthernTel and AMP that is attributable to the non-controlling interest in these businesses.

(7) Periods prior to July 7, 2006, represent our estimate of capital expenditures for Bell Aliant Holdings LP, had it been in operation for the entire year 2006. Capital expenditures include our proportionate share of capital expenditures for Télébec, NorthernTel and AMP during the periods where we owned less than 100 per cent of these businesses.

(8) The operations of SalesBridge Canada Inc. and Aliant Directory Services have been restated in discontinued operations. Their contribution to distributable cash is shown separately.

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

One of the primary metrics of our financial performance is distributable cash generated in a period. We use distributable cash, among other measures, to assess the financial performance of our ongoing business. We report standardized distributable cash to meet compliance with the new CICA guidance for income trusts and other flow-through entities. These measures should not be seen as measures of liquidity or as substitutes for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to measure our, as well as open-ended trusts', ability 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.

CEO AND CFO CERTIFICATION

Under the supervision and participation of our management, including the chief executive officer (CEO) and the chief financial officer (CFO), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as of December 31, 2007. Based on the evaluation, the CEO and the CFO concluded that our disclosure controls and procedures are effective in making known to them material information relating to us and our consolidated subsidiaries required to be disclosed in our reports filed or submitted under the Multilateral Instrument.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.