



## Bell Aliant Regional Communications Holdings, Limited Partnership Management's Discussion and Analysis Fourth Quarter 2009

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

*Throughout this document, unless otherwise indicated, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries. In preparing this document, we have taken into account information available to us up to the date of this MD&A, February 3, 2010, unless otherwise stated.*

*Additional information about us and Bell Aliant Regional Communications Income Fund (the Fund), including annual and quarterly reports, supplementary financial information, annual information forms and information circulars can be found under "financial reports" on the Fund's website at [www.bellaliant.ca](http://www.bellaliant.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com).*

### **Forward-looking information**

*This MD&A 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 our expectations, plans and priorities for 2010 or other future periods. Readers are cautioned that such information may not be appropriate for other purposes. This information is based on our current expectations and estimates about the markets in which we operate and our beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking information in this MD&A describes our expectations at February 3, 2010. In some cases, forward-looking information may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "forecast" and similar expressions. This information is subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the risk factors which could cause results or events to differ materially from current expectations include but are not limited to: increasing competition; our ability to achieve strategies and plans; general economic conditions; reliance on systems; changing technology; required operating and capital expenditures; demand for our services; our relationship with BCE Inc. (BCE) and Bell Canada; pension plan funding; changing regulations; dependence on key suppliers; liquidity and financing risk; leverage and restrictive covenants; BCE's governance rights; reliance on key personnel and labour relations; legal contingencies and changes in laws; the Fund's reliance on distributions from us; foreign exchange rates, changing tax rates and changing taxation rules for income trusts. Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, financial and operational assumptions, and assumptions about transactions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for*

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

*See also the “Forward-looking information” section of our news release dated February 3, 2010, relating to 2009 financial results and 2010 financial guidance for the Fund and Bell Aliant Holdings LP, which is available at [www.bellaliant.ca](http://www.bellaliant.ca) as well as [www.sedar.com](http://www.sedar.com).*

## **Our business**

As one of North America’s largest regional communication service providers, we deliver innovative information, communication and advanced technology services to approximately 5.3 million Canadians across Atlantic Canada, Ontario and Quebec.

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 operate as one reportable segment, which represents the manner in which we are organized and managed for planning, assessing performance and making resource allocation decisions.

## **Our business environment**

### **Competitive landscape**

Our most significant competitive threat continues to be from cable companies expanding their local service areas and providing bundled offerings in our regions. The competitive footprint overlap with cable companies grew to approximately 67 per cent of households in our territory at the end of 2009, which represents a 10 percentage point increase since the same time a year ago. We expect that cable companies will continue to gradually erode our market share in local and long distance voice services, and to a lesser extent Internet services, with further expansion of the footprint and growth in intensity of competition. In contrast, we expect our market share in television (TV) services will grow against the cable companies as our footprint for offering these services expands.

To address these competitive pressures, we continue to be committed to delivering the highest quality of customer service, choice and convenience to our customers. We are continually enhancing our products and services, promoting our bundled and *Value Package*<sup>™</sup> service offerings, and working with customers to provide innovative and complete solutions. We continue to invest in our communities and support activities that are important to our customers and employees. We conduct our business with a clear and consistent focus on the successful execution of our strategic objectives. Refer to our achievements as discussed in the “Strategy” section for further details.

### **Regulatory landscape**

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

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

## Conversion to a Corporation

As a result of the federal government’s previously announced changes to income tax legislation, starting January 1, 2011, the Fund will be taxed as if it was a corporation. A transaction would be required to convert the Fund from an income trust to a corporate structure (Conversion Transaction). We expect that a Conversion Transaction will be recommended to Fund unitholders, which would involve a tax-deferred exchange of Fund units for shares of a corporation under the conversion rules enacted on March 12, 2009. We expect that the Conversion Transaction would be effective on or by January 1, 2011, and are carefully considering our particular circumstances and the alternatives available to us in order to determine how best to structure the conversion. Details about the conversion terms and process and the anticipated dividend policy going forward are being developed and are expected to be released in May 2010, with a unitholder vote on the Conversion Transaction expected at the Fund’s 2010 Annual General Meeting scheduled for June 16, 2010. We continue to consider strategies on uses of cash and appropriate dividend policy post conversion. The Fund’s objective is to deliver a sustainable high payout dividend to shareholders following conversion. Although a reduction to the Fund’s current distribution is expected, for taxable retail investors, dividends paid by a corporation are taxed at lower rates than the distributions paid by the Fund as an income trust. As such, under a corporate structure, the dividend tax credit mechanism can be expected to mitigate, to a large part, the after-tax effect of a lower dividend for those investors. We do not expect these conversion measures will affect our business model or operating plans.

## Fourth quarter in review

### Summary of results

For the period ended December 31 (millions of dollars)	Three months			Twelve months <sup>(2)</sup>		
	2009	2008 <sup>(2)</sup>	% change	2009	2008	% change
Operating revenues	\$785.6	\$803.2	(2.2)	\$3,174.2	\$3,246.3	(2.2)
EBITDA <sup>(1)</sup>	\$365.6	\$365.6	-	\$1,466.4	\$1,450.3	1.1
Operating income	\$142.9	\$112.7	26.8	\$621.6	\$600.5	3.5
Net earnings from continuing operations	\$95.1	\$81.0	17.4	\$373.0	\$336.6	10.8
Net loss from discontinued operations	(\$2.5)	(\$1.0)	n.m.	(\$16.8)	(\$14.4)	16.7
Net earnings	\$92.6	\$80.0	15.8	\$356.2	\$322.2	10.6

n.m. not meaningful

<sup>(1)</sup> EBITDA is a non-GAAP financial measure. Refer to the “Non-GAAP financial measures” section for more details.

<sup>(2)</sup> Financial results for all prior periods have been restated to reflect Innovatia and our xw ave New England business as discontinued operations.

Operating revenues decreased by 2.2 per cent, or \$17.6 million in the fourth quarter of 2009, and by 2.2 per cent, or \$72.1 million in 2009, compared to the same periods in 2008. We continue to see revenue declines in local and long distance, mainly due to competitive losses and substitution by other services. Other revenues have also declined throughout 2009, mainly due to a decline in outsourcing revenue as Bell Mobility repatriated work previously performed by us in 2008. In addition, we experienced lower product sales, rental revenues, and custom work revenues. These decreases were partially offset by growth in our data, wireless and information technology (IT) revenues. The increase in data and wireless revenues is primarily due to growth in our Internet and wireless customer bases. Total IT revenue increased in the fourth quarter of 2009, and was relatively consistent on an annual basis. During the fourth quarter of 2009, we experienced strong growth in IT fulfillment revenues which offset declining IT services revenue over the year. Refer to the “Results of operations” section for additional details.

With our continued focus on cost management and productivity, we reduced operating expenses such that EBITDA for the fourth quarter of 2009 has remained consistent with the fourth quarter of 2008, despite the decline in operating revenues. On an annual basis, EBITDA increased 1.1 per cent, or \$16.1 million, compared to 2008. Labour-related cost reductions and other cost containment initiatives accounted for most of the EBITDA improvement.

We increased our operating income in the fourth quarter of 2009 by 26.8 per cent, or \$30.2 million, compared to the fourth quarter of 2008. The quarter-over-quarter growth in operating income resulted from constant growth in EBITDA and a decrease in restructuring and other charges and depreciation and amortization expense, which were partially offset by an increase in net cost of benefit plans expense. Depreciation and amortization expense declined as the fourth quarter of 2008 included adjustments related to the finalization of asset life studies and a purchase price allocation. We recognized less restructuring and other charges in the fourth quarter of 2009 due to the timing of restructuring initiatives. While our current service costs were lower on a quarter-over-quarter basis, in the fourth quarter of 2008, we recorded a reversal of a pension valuation allowance which caused an overall increase in the net cost of benefit plan expenses when comparing to that period. On an annual basis, operating income increased 3.5 per cent, or \$21.1 million, compared to 2008, due to the increase in EBITDA together with a decrease in restructuring and other charges, partially offset by an increase in depreciation and amortization expense, reflecting shorter useful lives of our depreciable asset base, and higher net cost of benefit plans.

Net earnings increased by \$12.6 million, or 15.8 per cent, in the fourth quarter of 2009, compared to the fourth quarter of 2008. This quarter-over-quarter increase is made up of a \$14.1 million increase in net earnings from continuing operations, offset by a \$1.5 million increase in net loss from discontinued operations. On an annual basis, net earnings increased by \$34.0 million, or 10.6 per cent, compared to 2008, which included a \$36.4 million increase in net earnings from continuing operations, reduced by a \$2.4 million increase in net loss from discontinued operations.

Net earnings from continuing operations increased in the fourth quarter of 2009, and for the year, over the same periods in 2008, mainly due to an increase in operating income and higher income tax recoveries, which were partially offset by the resulting higher non-controlling interest in 2009 earnings compared to 2008. In addition, net earnings from continuing operations in 2009 was negatively affected by a \$13.3 million financial derivative loss resulting from settlement of fixed-floating interest rate swaps in connection with our repayment of variable interest debt in May 2009.

Net loss from discontinued operations increased in 2009 mainly due to the recording of an \$11.4 million loss related to the classification of Innovatia Inc. (Innovatia) as discontinued operations in the third quarter of 2009. Our sale of 100 per cent of the shares of Innovatia closed on November 1, 2009. On an annual basis, the net loss from discontinued operations in 2008 also reflects a \$10.7 million loss from the operations of Atlantic Mobility Products (AMP), mainly due to an \$11.2 million write-down of goodwill.

### **Distributable cash**

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the three and twelve months ended December 31, 2009, and 2008, and additional information on the relationship between cash from operating activities, net earnings and cash distributions declared. Since our operations ultimately support distributions to Fund unitholders, distributable cash combines our cash performance with that of the Fund.

For the period ended December 31 (millions of dollars)	Three months			Twelve months <sup>(4)</sup>		
	2009	2008 <sup>(4)</sup>	% change	2009	2008	% change
	Cash from operating activities	\$332.1	\$355.1	(6.5)	\$1,135.6	\$1,249.3
Add (deduct): Cash from operating activities of the Fund and discontinued operations	(3.1)	2.8	n.m.	(29.7)	(1.3)	n.m.
Capital expenditures	(121.1)	(167.0)	27.5	(464.8)	(526.9)	11.8
Standardized distributable cash <sup>(1)</sup>	\$207.9	\$190.9	8.9	\$641.1	\$721.1	(11.1)
Add (deduct): Operating items funded through cash reserves or borrowing	(28.8)	(44.8)	(35.7)	119.8	(13.2)	n.m.
Other adjustments	3.4	0.1	n.m.	12.5	7.7	62.3
Distributable cash <sup>(1)</sup>	\$182.5	\$146.2	24.8	\$773.4	\$715.6	8.1
Net earnings	\$92.6	\$80.0	15.8	\$356.2	\$322.2	10.6
Cash distributions declared <sup>(2)</sup>	\$165.1	\$164.8	0.2	\$660.2	\$657.9	0.3
Excess of cash from operating activities over cash distributions declared <sup>(3)</sup>	\$163.9	\$193.1	(15.1)	\$445.7	\$590.1	(24.5)
Excess (shortfall) of net earnings over cash distributions declared	(\$72.5)	(\$84.8)	14.5	(\$304.0)	(\$335.7)	9.4

n.m. not meaningful

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

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

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

<sup>(4)</sup> Financial results for all prior periods have been restated to reflect Innovatia and our xw ave New England business as discontinued operations.

Standardized distributable cash for the fourth quarter of 2009 was \$207.9 million, which represents an increase of \$17.0 million, or 8.9 per cent, when compared to the same period in 2008. The quarter-over-quarter increase reflects a \$45.9 million decrease in capital spending offset by a \$23.0 million decrease in our cash from operating activities and a \$5.9 million decrease in cash from the Fund and our discontinued operations. When comparing the results for 2009 with 2008, standardized distributable cash decreased \$80.0 million, or 11.1 per cent, due to a \$113.7 million decrease in cash from operating activities and a \$28.4 million decrease in standardized distributable cash from the Fund and discontinued operations, offset by lower capital spending of \$62.1 million. Refer to the "Summary of cash flows" section for additional information on cash from operating activities and capital spending.

In contrast to standardized distributable cash, our calculation of distributable cash excludes working capital fluctuations, restructuring charges and certain other items we fund through cash reserves or short-term borrowings. On this basis, distributable cash of \$182.5 million for the fourth quarter of 2009 increased \$36.3 million, or 24.8 per cent, compared to the same period in 2008. The increase is mainly attributed to lower capital expenditures of \$45.9 million only partially offset by an increase of \$7.6 million in net other expenditures, including lower interest income, higher cost of asset removal and rebranding costs incurred in 2009. On an annual basis, distributable cash of \$773.4 million in 2009 represents an increase of \$57.8 million, or 8.1 per cent, compared to 2008, mainly related to growth in EBITDA and reduced capital spending offset by lower cash from discontinued operations.

In the fourth quarter of 2009, cash distributions declared were \$165.1 million, or 90.5 per cent of distributable cash, compared to \$164.8 million, or 112.7 per cent of distributable cash, for the comparable period in 2008. Quarterly fluctuations of this magnitude in the distributable cash payout ratio are not unusual due to the pattern of capital spending that occurs through the year and our declared cash distributions being based on annual targets. For the year ended December 31, 2009, cash distributions declared were \$660.2 million, or 85.4 per cent of distributable cash, compared to \$657.9 million, or 91.9 per cent, for 2008. The decrease in the distributable cash payout ratio in both the three months and year ended December 31, 2009, is due to the level of distributions being held consistent with 2008 payouts, while distributable cash has increased in both the fourth quarter of 2009 and for the year, compared to the same periods in 2008.

## Strategy

Our 2009 strategy was built on our past strategies and the success we have attained in recent years. Going forward into 2010, we remain focused on achieving our five strategic objectives:

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

### Highlights of our strategic accomplishments in the fourth quarter of 2009

#### *Improve the customer experience*

We continued to improve customer service in the fourth quarter of 2009, through enhanced service offerings and improved processes, tools and training. In particular, during the quarter we improved self-serve functionality to make it easier for online customers to purchase and customize *Value Packages*<sup>™</sup> as well as access more add-ons and upgrades including high definition television (HDTV), long distance choices, Internet features, and for customers in Fredericton, New Brunswick, fibre-to-the-home (*FibreOP*<sup>™</sup>) services.

Same Day Next Day and Express Install, which launched earlier in 2009, continue to gain popularity. A number of improvements were implemented during the quarter, including offering the provision of full installations to customers ordering multiple services and to all returning Internet customers.

#### *Retain our customers*

Retaining our customers remains a key priority for us as competitive activity continues to intensify. In light of this, we have made improvements to enhance the competitiveness of our product portfolio such as increased high-speed Internet capabilities, improved email, increased the number of HD channels and offered more extensive availability of unlimited long distance plans. The launch of four new *Value Package*<sup>™</sup> offerings in the fourth quarter of 2009 provided competitive offers and additional tools to retain customers and build loyalty, with a focus on the value of our products and services.

#### *Grow broadband*

During the fourth quarter of 2009, we continued marketing and selling *FibreOP*<sup>™</sup> services in Fredericton, achieving our sales targets. Expansion of the *FibreOP*<sup>™</sup> footprint continued as approximately 25,000 homes in Fredericton were passed with this new technology. We anticipate that all residents and businesses in Fredericton and Saint John, New Brunswick will have access to *FibreOP*<sup>™</sup> by mid 2010. During the quarter, new *FibreOP*<sup>™</sup> customers were offered a holiday incentive that included a free HDTV. In addition, we announced the next evolution of *FibreOP*<sup>™</sup> Internet with increased download speeds of up to 60 megabits per second (Mbps) with 15 Mbps upload capacity, which will be available in early 2010.

We continued to expand our broadband footprint and added over 20,000 homes during the fourth quarter of 2009, to now pass over 77 per cent of the homes in our territory.

Our Bell Aliant TV service was enhanced during the fourth quarter of 2009 as a result of improvements in channel guide functionality and upgrades to the core software.

#### *Reset our cost structure*

The fourth quarter of 2009 saw the continuation of our efforts to manage labour costs, renegotiate vendor contracts, introduce new technology, and control discretionary spending. In October, we announced that we were redesigning our contact centre model in Atlantic Canada to further simplify the customer experience, improve sales and customer service performance, enhance employee training, and improve our operating costs. By mid-April of 2010, we will reduce the number of contact centers from 16 to five, providing the scale needed to operate more efficiently and competitively. We also offered additional limited retirement arrangements to unionized employees, which was an extension of a program offered to

eligible employees in Atlantic Canada earlier in the year. Continuing with this initiative, on February 2, 2010, we announced a further limited retirement opportunity for up to 45 eligible employees in Ontario and Quebec.

An additional significant accomplishment during the quarter included the launch of a new Internet protocol (IP) voicemail platform which will result in permanent, long-term cost savings and improvements in customer service at the same time.

## Results of operations

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

For the period ended December 31 (millions of dollars)	Three months			Twelve months <sup>(2)</sup>		
	2009	2008 <sup>(2)</sup>	% change	2009	2008	% change
Local and access	\$336.0	\$350.5	(4.1)	\$1,356.9	\$1,406.3	(3.5)
Data	212.8	208.7	2.0	828.0	798.7	3.7
Long distance	100.4	109.8	(8.6)	423.9	452.3	(6.3)
Information technology	66.7	58.4	14.2	304.7	303.3	0.5
Wireless	23.5	21.5	9.3	88.8	80.8	9.9
Other revenues	46.2	54.3	(14.9)	171.9	204.9	(16.1)
Operating revenues	\$785.6	\$803.2	(2.2)	\$3,174.2	\$3,246.3	(2.2)
Operating expenses	420.0	437.6	(4.0)	1,707.8	1,796.0	(4.9)
EBITDA <sup>(1)</sup>	\$365.6	\$365.6	-	\$1,466.4	\$1,450.3	1.1
Net cost of benefit plans	20.4	3.6	n.m.	85.1	78.2	8.8
Depreciation and amortization	184.2	189.0	(2.5)	715.0	711.3	0.5
Restructuring and other charges	18.1	60.3	(70.0)	44.7	60.3	(25.9)
Operating income	\$142.9	\$112.7	26.8	\$621.6	\$600.5	3.5
Other expenses (income)	(0.8)	(4.4)	81.8	11.4	(2.4)	n.m.
Interest charges	41.9	40.0	4.7	158.4	157.2	0.8
Income tax expense (recovery)	(24.0)	(17.2)	39.5	(56.1)	(22.0)	n.m.
Non-controlling interest	30.7	13.3	n.m.	134.9	131.1	2.9
Net earnings from continuing operations	\$95.1	\$81.0	17.4	\$373.0	\$336.6	10.8
Net earnings from discontinued operations	(2.5)	(1.0)	n.m.	(16.8)	(14.4)	(16.7)
Net earnings	\$92.6	\$80.0	15.8	\$356.2	\$322.2	10.6

n.m. not meaningful

<sup>(1)</sup> EBITDA is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for more details.

<sup>(2)</sup> Financial results for all prior periods have been restated to reflect Innovatia and our xw ave New England business as discontinued operations.

### Operating revenues

#### Local and access

Local and access revenue is earned primarily through the provision of network access services (NAS), along with enhanced service features, contribution payments and competitor network access payments. Despite a 5.0 per cent drop in our total NAS customers at December 31, 2009, compared to December 31, 2008, we have contained the local and access revenue decline to 4.1 per cent, or \$14.5 million, in the fourth quarter of 2009, and 3.5 per cent, or \$49.4 million in 2009, compared to the same periods in 2008. Revenue losses continued to be mitigated through programs targeted at retaining our highest value customers, pricing increases and increased features penetration.

At December 31, 2009, the number of residential NAS customers was 5.8 per cent lower than at December 31, 2008, and the number of business NAS customers was 3.5 per cent lower for the same period. In our residential market, we are continuing to experience competitive losses due to increased competitive intensity and an expansion in the cable competitive footprint, as well as substitution by other services, such as wireless and Voice over Internet protocol. In addition, the economic downturn has softened the market and slowed new installations during the year. The business NAS decline was largely due to the continued migration of lines in relation to the loss of a federal government contract in 2008, offset to a certain extent by the award of some provincial government contracts. On a quarter-over-quarter basis, the decline improved in the fourth quarter of 2009 compared to 2008, as we experienced some business closures in the resource sector and disconnects arising from the completion of the federal election which resulted in higher losses in the fourth quarter of 2008.

#### *Data*

Data revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed services, and enhanced services and applications, such as security services, dial-up accelerator and Bell Aliant TV. Revenue from these services increased 2.0 per cent, or \$4.1 million, in the fourth quarter of 2009 compared to the same period in 2008, substantially due to growth in Internet revenue of 7.2 per cent, or \$7.3 million. The offsetting decline is partially due to large product sales in the fourth quarter of 2008 related to the investment in Bell Mobility's enhanced transport network that were not repeated in 2009. For 2009, data revenue increased 3.7 per cent, or \$29.3 million, compared to 2008, with 9.9 per cent, or \$38.4 million, growth in Internet revenue.

At December 31, 2009, our high-speed Internet customer base grew 7.0 per cent over December 31, 2008, with growth in both the residential and business markets. The fourth quarter of 2009 also included a one-time adjustment of 2,030 customers resulting from a comprehensive review of our records and definitions. Excluding this adjustment, our high-speed Internet customer base grew 6.7 per cent on a year-over-year basis. We have experienced strong growth in our high-speed Internet customers, although the rate of growth in 2009 compared to 2008 has decreased consistent with the trend reflected across the industry. We have mitigated this declining growth rate by marketing our higher value services to customers and through selective price increases, which have resulted in an increase in residential high-speed Internet ARPC. In the fourth quarter of 2009, these measures helped to increase ARPC by \$0.62, or 1.7 per cent, to \$37.58 and for 2009, by \$1.62, or 4.5 per cent, to \$37.63, compared to the same periods in 2008.

#### *Long distance*

Long distance revenue, earned through toll and long distance terminating services, declined by 8.6 per cent, or \$9.4 million, in the fourth quarter of 2009, and 6.3 per cent, or \$28.4 million in 2009, compared to the same periods in 2008. The long distance revenue decrease was a result of a decline in long distance minutes and average revenue per minute. The decline in long distance minutes of 4.6 per cent for the quarter and 4.1 per cent for the year is due to customer losses and substitution by email, cellular calling and IP-based services. The decline in average revenue per minute of 4.3 per cent for the quarter, and 2.1 per cent for the year, is due to price reductions, primarily with our enterprise customers, and customers continuing to shift away from rate-per-minute plans in favour of set-price unlimited or large usage packages.

#### *Information technology*

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, IT consulting, and hardware and software fulfillment. Overall, IT services and fulfillment revenue grew 14.2 per cent, or \$8.3 million, in the fourth quarter of 2009 and 0.5 per cent, or \$1.4 million, in 2009 compared to the same periods in 2008. Although total IT revenue generated in the fourth quarter of 2009 increased and was relatively consistent on an annual basis, there was a noticeable shift between the revenue sources with growth in IT fulfillment revenue offsetting the decline in IT service revenue. Large IT product sales in the first and fourth quarters of 2009 contributed to the increase in IT fulfillment revenues over 2008. The decline in IT services revenues in the fourth quarter and on an annual basis

reflects a decrease in new business growth attributable, partially to a slowdown in procurement by government customers, and the recognition in the first quarter of 2008 of previously deferred IT services revenues associated with a major healthcare IT project in Quebec.

#### *Wireless*

Wireless revenue is earned through providing cellular, paging and mobile radio services over digital wireless networks in our Télébec, NorthernTel, and Kenora Municipal Telephone Services (KMTS) branded territories in Quebec and Ontario. Revenue increased by 9.3 per cent, or \$2.0 million, in the fourth quarter of 2009, and 9.9 per cent, or \$8.0 million for the year, compared to the same periods in 2008. This was mainly due to a 6.2 per cent increase in wireless customers at December 31, 2009, compared to December 31, 2008, and a 2.8 per cent, or \$1.71, increase in ARPC for the year. Growth in ARPC is largely attributed to higher data roaming revenues and features penetration.

#### *Other revenues*

Other revenues consist mainly of terminal rentals and sales, personal computer sales, telecommunication equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined by 14.9 per cent, or \$8.1 million, in the fourth quarter of 2009, compared to the same period in 2008. This quarter-over-quarter decline includes a decrease in outsourcing revenue of \$1.0 million due to repatriation of work in 2008 by Bell Mobility that was previously performed by us, a decline of \$3.3 million due to fewer product sales, \$2.1 million lower revenue from custom work and \$1.2 million lower revenue from rentals, all of which are mainly attributable to a weaker economy. On an annual basis, other revenues declined by 16.1 per cent, or \$33.0 million, mainly reflecting an \$11.5 million decrease in outsourcing revenue, as well as \$8.7 million lower revenue from product sales, \$9.6 million lower revenue from custom work and \$4.5 million lower revenue from rentals.

### **Expenses**

#### *Operating expenses*

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	<b>Three months</b>			<b>Twelve months<sup>(1)</sup></b>		
	<b>2009</b>	<b>2008<sup>(1)</sup></b>	<b>% change</b>	<b>2009</b>	<b>2008</b>	<b>% change</b>
Cost of sales	<b>\$142.2</b>	\$133.3	6.7	<b>\$569.2</b>	\$542.2	5.0
Salaries, benefits, contract labour and consulting	<b>138.9</b>	152.1	(8.7)	<b>574.6</b>	637.8	(9.9)
Selling, general and administrative	<b>138.3</b>	150.1	(7.9)	<b>557.7</b>	605.6	(7.9)
Capital taxes	<b>0.6</b>	2.1	(71.4)	<b>6.3</b>	10.4	(39.4)
<b>Operating expenses</b>	<b>\$420.0</b>	\$437.6	(4.0)	<b>\$1,707.8</b>	\$1,796.0	(4.9)

<sup>(1)</sup> Financial results for all prior periods have been restated to reflect Innovatia and our xwave New England business as discontinued operations.

Cost of sales increased 6.7 per cent, or \$8.9 million, in the fourth quarter of 2009 compared to the same period in 2008. This increase relates to TV content expense associated with a larger number of TV subscribers, together with an increase in cost of goods sold associated with the increase in IT fulfillment revenues compared to the same period in 2008. On an annual basis, cost of sales increased 5.0 per cent, or \$27.0 million, in 2009, compared to 2008, reflecting a similar trend to that experienced in the fourth quarter of 2009, together with \$8.6 million of product cost of sales associated with an IP access solution provided to certain wholesale customers during 2009.

Salaries, benefits, contract labour and consulting expenses decreased 8.7 per cent, or \$13.2 million, in the fourth quarter of 2009, compared to the same period in 2008, due to the continuation of productivity initiatives that were introduced in late 2008 and early 2009 related to workforce restructuring. On an annual basis, labour costs decreased 9.9 per cent, or \$63.2 million, in 2009, compared to 2008, due to the implementation of these productivity initiatives, a one-time \$3.0 million adjustment in the second quarter of 2009 which reduced senior management long-term incentive plan expenses, and the

recognition in the first quarter of 2008 of revenues and expenses related to an IT healthcare project in Quebec, which had previously been deferred.

Selling, general and administrative expenses decreased 7.9 per cent, or \$11.8 million, in the fourth quarter of 2009, compared to the same period in 2008, mainly as a result of cost containment and various other expense reductions. Contributing to the decreases were a reduction in bad debt expense following a review of our allowance for doubtful accounts, a decrease in real estate expenses as additional space was vacated during the quarter as restructuring programs were implemented, and containment of other expenses such as professional fees and other discretionary expenses. On an annual basis, selling, general and administrative costs decreased 7.9 per cent, or \$47.9 million, in 2009, compared to 2008, as a result of factors similar to those affecting the quarter-over-quarter decrease along with \$8.2 million related to the recognition of costs associated with the Quebec IT healthcare project previously discussed, and a net \$5.3 million in savings realized in relation to the commercial agreements with Bell Canada.

#### *Net cost of benefit plans*

Net cost of benefit plans increased \$16.8 million in the fourth quarter of 2009, and \$6.9 million in 2009, compared to the same periods in 2008. In the fourth quarter of 2008, due to defined benefit plan (DB) discount rates and asset performance, a \$21.4 million credit was recorded against the net cost of benefit plans to reverse a valuation allowance that had previously been recorded. There was no similar allowance in 2009 as all of the DB plans currently have accounting deficits. Excluding the effect of the 2008 valuation allowance reversal, the net cost of benefits plans decreased for the fourth quarter of 2009 and on an annual basis, mainly as a result of lower current service costs. The lower current service costs result from an increase in the average rate used to discount the obligations of our DB pension and other post-employment benefit plans at the end of 2008 as well as fewer active employees in these plans than a year earlier. As well, defined contribution (DC) pension costs were slightly lower than the prior year, reflecting a decrease in the number of participants in these plans following restructuring initiatives that occurred in 2009.

#### *Depreciation and amortization*

Depreciation and amortization decreased 2.5 per cent, or \$4.8 million, in the fourth quarter of 2009 and increased by 0.5 per cent, or \$3.7 million, in 2009, compared to the same periods in 2008. Periodically, we perform studies on the estimated useful lives of certain of our capital assets, which result in changes to depreciation and amortization. The asset life studies performed in 2008 and 2009 increased depreciation and amortization expense as certain useful lives were shortened. The quarter-over-quarter decline reflects the inclusion, in the fourth quarter of 2008, of a \$9.9 million adjustment to finalize certain asset life studies and a \$1.2 million adjustment to finalize the purchase price allocation of KMTS, which was offset slightly by a \$2.4 million higher asset retirement obligations accretion expense in the fourth quarter of 2009.

#### *Restructuring and other charges*

Restructuring and other charges decreased 70.0 per cent, or \$42.2 million, in the fourth quarter of 2009 and 25.9 per cent, or \$15.6 million, in 2009, compared to the corresponding periods in 2008. In the fourth quarter of 2008, we commenced productivity initiatives and cost structure changes which would reduce our management workforce by approximately 15 per cent, and we recognized a related \$60.3 million restructuring charge. We continued our productivity initiatives in 2009, and throughout the year offered several voluntary retirement incentives to a limited number of our unionized employees in Atlantic Canada, Ontario and Quebec. As well, in the third quarter of 2009 we announced a plan to consolidate certain contact centres in Atlantic Canada. Unionized employees based in the affected contact centres were offered relocation to the remaining contact centres. As a result of our 2009 restructuring initiatives, we recognized \$34.9 million in restructuring charges, of which \$9.5 million was recorded in the fourth quarter of 2009, and \$0.8 million of which related to discontinued operations. We also recorded \$6.8 million in the fourth quarter of 2009 related to a change in estimate in the accrual on the 2008 restructuring program. In addition, restructuring and other charges includes rebranding and other charges of \$2.1 million in the fourth quarter of 2009, or \$3.8 million in 2009. On February 2, 2010, we

announced a further limited retirement opportunity for unionized employees for which a related restructuring charge will be recorded in the first quarter of 2010.

#### *Other expenses (income)*

Other income decreased \$3.6 million in the fourth quarter of 2009 compared to the same period in 2008. On an annual basis, other expenses were \$11.4 million in 2009 compared to recording other income of \$2.4 million for the same period of 2008. The year-over-year increase in other expenses includes \$13.3 million reclassified from other comprehensive earnings and relates to the previously unrecognized portion of net losses on interest rate hedges that were settled during the second quarter of 2009.

#### *Interest charges*

Interest charges increased 4.7 per cent, or \$1.9 million, in the fourth quarter of 2009, and 0.8 per cent, or \$1.2 million, in 2009, compared to the same periods in 2008. The increases relate primarily to higher interest rates experienced as a result of the refinancing of \$350.0 million of short-term debt with a fixed rate medium-term note issue in May 2009. Our total borrowing levels increased 1.3 per cent or \$36.6 million year-over-year basis, primarily due to new capital lease obligations of \$25.0 million entered into during 2009.

#### *Income tax recovery*

A portion of our income is earned through limited partnerships. The taxable income earned through limited partnerships is not subject to tax at the limited partnership level, but is allocated directly to the respective partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. Income tax recovery increased 39.5 per cent or \$6.8 million in the fourth quarter of 2009 compared to the same period in 2008. The increase is mainly due to a \$15.5 million higher future income tax recovery in 2009 related to a decrease in statutory tax rates, offset by a \$4.5 million higher future income tax recovery in 2008 as a result of lower pretax earnings in the fourth quarter of 2008 due to higher restructuring charges and a \$3.6 million higher current income tax recovery on settlement of prior year audit issues reported in the fourth quarter of 2008. On an annual basis, the income tax recovery increased \$34.1 million compared to the same period in 2008, largely due to a \$32.0 million higher income tax recovery in 2009 related to a decrease in statutory tax rates.

#### *Non-controlling interest*

Non-controlling interest in our earnings represents Bell Canada's 37.9 per cent ownership interest in our subsidiary, Bell Aliant LP (34.9 per cent on a proportionate cash distribution basis). The per unit distributions attributable to and paid to Bell Canada equal, to the greatest extent practicable, the per unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

Non-controlling interest in our earnings increased \$17.4 million, in the fourth quarter of 2009, and \$3.8 million in 2009, compared to the same periods in 2008. The large increases correlate to the increase in net income from Bell Aliant LP for each period.

#### *Net loss from discontinued operations*

Discontinued operations in 2009 reflect the operating results of Innovatia, xwave New England Corp. (xwave New England) and the assets of our Defence, Security and Aerospace (DSA) business, while discontinued operations in 2008 include the operating results of AMP. Net loss from discontinued operations increased \$1.5 million in the fourth quarter of 2009, and \$2.4 million in 2009, compared to the same periods in 2008.

During the fourth quarter of 2009, we completed a transaction to sell 100 per cent of the outstanding shares of Innovatia. Proceeds of \$1.5 million and loss on sale of \$1.5 million were recognized during the quarter in relation to Innovatia.

We also completed a transaction to sell 100 per cent of the outstanding shares of AMP during the fourth quarter of 2009, with an immaterial amount of proceeds received and loss on disposal recorded. In 2008, AMP generated a \$10.7 million loss from discontinued operations, mainly due to an \$11.2 million write-down of goodwill recorded in the first quarter of 2008.

### Selected quarterly financial information

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

For the eight quarters ended December 31 (millions of dollars, except per unit amounts)	2009				2008 <sup>(3)</sup>			
	Q4	Q3	Q2 <sup>(3)</sup>	Q1 <sup>(3)</sup>	Q4	Q3	Q2	Q1
Operating revenues	\$785.6	\$785.8	\$784.5	\$818.3	\$803.2	\$806.6	\$806.8	\$829.7
EBITDA <sup>(1)</sup>	\$365.6	\$374.9	\$367.2	\$358.7	\$365.6	\$371.0	\$360.4	\$353.3
Operating income	\$142.9	\$163.7	\$164.5	\$150.5	\$112.7	\$171.3	\$161.8	\$154.7
Net earnings (loss):								
Continuing operations	\$95.1	\$98.8	\$94.7	\$84.4	\$81.0	\$95.1	\$85.0	\$75.5
Discontinued operations	(2.5)	(7.0)	(5.4)	(1.9)	(1.0)	(1.6)	(0.6)	(11.2)
Net earnings	\$92.6	\$91.8	\$89.3	\$82.5	\$80.0	\$93.5	\$84.4	\$64.3
Basic and diluted earnings (loss) per unit:								
Continuing operations	\$0.59	\$0.62	\$0.59	\$0.53	\$0.50	\$0.59	\$0.53	\$0.47
Discontinued operations	(0.01)	(0.05)	(0.03)	(0.02)	-	(0.01)	-	(0.07)
Basic and diluted earnings per unit	\$0.58	\$0.57	\$0.56	\$0.51	\$0.50	\$0.58	\$0.53	\$0.40
Distributable cash <sup>(1)</sup>	\$182.5	\$207.8	\$186.6	\$196.5	\$146.2	\$179.3	\$183.3	\$206.8
Cash distributions declared <sup>(2)</sup>	\$165.1	\$165.1	\$165.1	\$164.9	\$164.8	\$164.9	\$164.9	\$163.3

<sup>(1)</sup> EBITDA and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

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

<sup>(3)</sup> Financial results for all prior periods have been restated to reflect Innovatia and our xw ave New England business as discontinued operations.

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

- In general, revenues from local and access, long distance and other revenues have declined over the past eight quarters, while data and wireless revenues have increased. IT revenues can vary from one quarter to the next depending on the timing and mix of IT services and IT fulfillment sales. The first quarter of every year typically experiences stronger IT fulfillment revenue from customers in the government sector.
- A restructuring initiative was launched in 2008 with a \$60.3 million charge recorded in the fourth quarter to facilitate a new organizational structure. To continue our productivity initiatives in 2009 and create a more efficient cost structure as well as improve our service to customers, we offered a limited voluntary retirement incentive to our unionized employees in Atlantic Canada, Ontario and Quebec and we announced an operational consolidation of certain contact centres in Atlantic Canada. We recognized restructuring charges related to these initiatives of \$9.3 million, \$2.6 million, \$13.0 million and \$16.0 million in the first, second, third and fourth quarters of 2009, respectively for a total of \$40.9 million during the year. As a result of these restructuring initiatives, expenses for salaries, benefits, contract labour and consulting have declined by \$63.2 million, or 9.9 per cent, in 2009, compared to 2008.
- Cost containment and other expense reduction initiatives implemented during 2009 in response to our strategic objectives have reduced our selling, general and administration expenses by \$47.9 million, or 7.9 per cent, in 2009 compared to 2008.

- We recorded an \$11.2 million write-down of goodwill in AMP during the first quarter of 2008, which was reflected in net loss from discontinued operations. The transaction to sell 100 per cent of the outstanding shares was completed on December 1, 2009, with an immaterial amount of proceeds received and loss on disposal recorded.
- On May 1, 2009, we concluded an asset purchase agreement for CAE Professional Services (Canada) Inc. (CAE) to acquire our DSA business, which operated under the xwave brand. The proceeds on closing were \$16.3 million in cash and \$7.6 million in receivables from CAE related to post-closing balance sheet adjustments, with an additional \$8.5 million of proceeds contingent upon the occurrence of certain future events, for potential total proceeds of \$32.4 million. A gain on sale of \$1.7 million was recorded in the second quarter of 2009, which was reflected in net loss from discontinued operations.
- On June 1, 2009, we concluded a share purchase agreement for Abilis Solutions Inc. to acquire 100 per cent of the outstanding shares of xwave New England. The proceeds on closing were \$4.9 million, resulting in a \$3.5 million loss on sale being recognized.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia acquired 100 per cent of its outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of \$6.1 million. The proceeds on closing were \$1.5 million, resulting in a \$1.5 million loss on sale being recognized.

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

## Financial and capital management

### Summary of cash flows

For the period ended December 31 (millions of dollars)	Three months			Twelve months <sup>(1)</sup>		
	2009	2008 <sup>(1)</sup>	% change	2009	2008	% change
Cash from (used in):						
Operating activities	\$332.1	\$355.1	(6.5)	\$1,135.6	\$1,249.3	(9.1)
Financing activities	(210.8)	(202.6)	(4.0)	(669.2)	(729.7)	8.3
Investing activities	(120.5)	(165.6)	27.2	(462.4)	(551.7)	16.2
Net increase (decrease) in cash from continuing operations	\$0.8	(\$13.1)	n.m.	\$4.0	(\$32.1)	n.m.
Net increase (decrease) in cash from discontinued operations	(1.1)	2.8	n.m.	8.5	(1.4)	n.m.
Net increase (decrease) in cash for the period	(\$0.3)	(\$10.3)	n.m.	\$12.5	(\$33.5)	n.m.

n.m. - not meaningful

<sup>(1)</sup> Financial results for all prior periods have been restated to reflect Innovatia and our xwave New England business as discontinued operations.

We used net cash of \$0.3 million in the fourth quarter of 2009, compared to \$10.3 million in the corresponding period of 2008. On an annual basis, we generated net cash of \$12.5 million in 2009 compared to using net cash of \$33.5 million in 2008. Included in the \$46.0 million increase in cash flows in 2009 is \$9.9 million of higher cash flow from discontinued operations. This increase primarily reflects the sale proceeds, offset by net operating losses, realized from Innovatia in the fourth quarter of 2009 and our DSA and xwave New England businesses earlier in the year.

#### Operating activities

Cash generated from operating activities decreased \$23.0 million, or 6.5 per cent, in the fourth quarter of 2009, compared to the same period in 2008. Net earnings from continuing operations, net of non-cash adjustments, increased \$32.2 million but were more than offset by a decrease in cash flow from changes in operating assets and liabilities, or working capital, of \$43.4 million and an increase in funding of DB

pension and other post-employment benefit plans of \$11.8 million. The decline in cash generated from working capital changes primarily relates to the change in accrued restructuring charges, which added \$53.1 million to working capital changes in the fourth quarter of 2008 compared to adding \$9.3 million in the same period in 2009. On an annual basis, cash generated from operating activities was \$113.7 million, or 9.1 per cent, lower in 2009 than in 2008, as a \$21.1 million increase in net earnings from continuing operations, net of non-cash adjustments, was offset by a \$111.1 million decrease in cash flow from changes in working capital and an increase of \$23.7 million in funding of DB pension and other post-employment benefit plans. The annual change in accrued restructuring charges added \$42.3 million to operating cash flow changes in 2008 compared to using net cash from working capital changes of \$23.9 million in 2009.

Apart from the large changes in working capital caused by changes in restructuring charge accruals, cash flow from working capital has been positively impacted in both years from our continued focus on improving the management of our customer accounts receivable. Cash flow generated from working capital was \$73.1 million in the fourth quarter of 2009, of which \$2.3 million was from a reduction in accounts receivable, and was \$116.5 million in the fourth quarter of 2008, of which \$6.1 million was from accounts receivable. Typically, the fourth quarter of the year will also generate positive cash from working capital due to the timing of interest coupon payments on long-term debt and the drawdown of prepaid expenditures, which are normally paid in the first half of the year. In the fourth quarter of 2009 we generated \$48.1 million from these working capital changes, compared to \$43.1 million in the fourth quarter of 2008.

On an annual basis, cash flow generated from working capital was \$22.9 million in 2009, compared to \$134.0 million in 2008. Annually, our customer accounts receivable management efforts contributed \$49.3 million cash flow from working capital in 2009, which was partially offset by the reduction in restructuring accrual of \$23.9 million. In 2008, we had reduced accounts receivable by \$74.2 million, in addition to the \$42.3 million increase in restructuring accrual, a \$12.2 million reduction of inventory due to the discontinuance of AMP as exclusive distributor of mobility products for Bell Canada in the Atlantic provinces and a \$10.1 million reduction in deferred charges as a large IT contract commenced revenue and expense recognition.

Total contributions to our DB pension plans in the fourth quarter of 2009, and on an annual basis, were \$38.3 million and \$127.7 million, respectively, compared to \$26.4 million and \$104.4 million, respectively, for the same periods in 2008. In August 2009, we filed the required 2008 actuarial valuations of our pension plans. Total contributions made to the plans in 2009 are based on the filed valuation results, which reflect higher funding deficits as a result of market conditions experienced in 2008. Included in the total contributions for the fourth quarter is \$25.3 million of deficit-reducing payments, up from \$12.3 million in the fourth quarter of 2008. On an annual basis, deficit reducing payments are \$73.8 million, compared to \$49.2 million for the same period in 2008.

#### *Financing activities*

Cash used in financing activities increased by \$8.2 million in the fourth quarter of 2009, compared to the same period in 2008, and decreased by \$60.5 million in 2009, compared to 2008.

In the fourth quarter of 2009, our net repayments of debt (including short-term and long-term debt, notes payable to related party and capital lease obligations) were \$44.8 million, compared to \$36.5 million in the fourth quarter of 2008. Our strong fourth quarter cash flows typically allow us to repay temporary levels of short-term debt in the fourth quarter.

In 2009, our net proceeds from debt were \$11.2 million, compared to net repayments of \$14.8 million for the same period in 2008. These net proceeds and repayments are primarily related to fluctuations in our short-term cash funding requirements. Included in 2009 is the refinancing of \$350.0 million of short-term debt with an issue of unsecured medium-term notes in the second quarter of 2009. Debt issue costs were incurred, and the notes were issued at a discount providing net proceeds of \$348.6 million. The proceeds were used to repay \$250.0 million of Bankers' Acceptance advances that were outstanding under our revolving operating facilities and a \$100.0 million non-revolving term loan. Associated with the

repayment of these floating-rate obligations, we paid cash of \$15.4 million to settle our outstanding fixed-floating interest rate swaps. We also repaid the \$50.0 million long-term bank facility that was put in place during the second quarter of 2008 for Télébec. Refer to the “Financing and liquidity” section for further discussion on our short-term and long-term debt.

We also used cash of \$55.0 million in the first quarter of 2008 to repurchase accounts receivable from the securitization trust, with no similar activity occurring under the program in 2009. We increase or decrease the amount of accounts receivable we sell to the securitization trust based on the amount of our eligible accounts receivable and our determination of the cost effectiveness of this program.

Financing activities also include distributions paid to the Fund and non-controlling interests, which were \$166.0 million in the fourth quarter of 2009, and \$166.1 million in the same period in 2008. On an annual basis, total distributions were \$665.0 million in 2009, compared to \$659.9 million in 2008.

#### *Investing activities*

Cash used in investing activities decreased by \$45.1 million in the fourth quarter of 2009, and \$89.3 million in 2009, compared to the same periods in 2008.

Capital investments were \$121.1 million in the fourth quarter of 2009, compared to \$167.0 million in the fourth quarter of 2008, representing a decrease of \$45.9 million, or 27.5 per cent. On an annual basis, capital investments decreased \$62.1 million in 2009, compared to 2008. The decrease in capital spending for the fourth quarter and on an annual basis reflects both the timing of capital projects and an anticipated lower level of capital spending. Spending in the fourth quarter of 2009 was primarily driven by the continued rollout of our broadband network, while the fourth quarter of 2008 also included our investment in the fibre-haul network in Atlantic Canada for Bell Mobility’s enhanced transport network. We have reduced our capital spending in 2009, compared to 2008, to reflect a prioritization of profitability and productivity of investments, specifically lowering investments in IT projects. Capital expenditures were 15.4 per cent of operating revenues in the fourth quarter of 2009, and 14.6 per cent for 2009, in line with our 2009 revised target of 13.7 per cent to 14.7 per cent.

We also used net cash of \$28.1 million in the first quarter of 2008 to purchase the assets and operations of KMTS, with no similar investment in 2009.

### **Financing and liquidity**

#### *Sources of liquidity*

We derive most of our liquidity from cash from operating activities, as well as bank credit facilities, a commercial paper program, and our accounts receivable securitization program. We normally anticipate generating enough cash from our operating activities to pay for capital investments, distributions and other commitments. With an increase in pension deficit funding requirements for 2009, we have drawn on our dedicated pension reserve bank facility to supplement our operating cash flows to make these contributions. Utilizing this special-purpose credit facility has preserved capacity and access to liquidity for general operating purposes under our revolving credit facilities.

Our capital structure is as follows:

<i>(millions of dollars, except as otherwise noted)</i>	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
Partners' equity	<b>\$4,799.4</b>	52.3%	\$4,882.9	52.5%
Non-controlling interest	<b>1,587.9</b>	17.3%	1,662.5	17.8%
Net debt	<b>2,792.6</b>	30.4%	2,768.5	29.7%
Total capital	<b>\$9,179.9</b>	100.0%	\$9,313.9	100.0%

### *Partners' capital*

We have an unlimited number authorized of each of three classes of units. Our units are not publicly traded. The number of units issued and outstanding at December 31, 2009, which is unchanged from December 31, 2008, is as follows:

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

### *Debt*

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

We have decreased the amounts available for use under our short-term operating credit facilities by \$63.2 million to \$1,121.9 million since December 31, 2008. Dedicated letter of credit facilities were decreased by \$57.4 million, primarily representing facilities supporting contracts that were transferred as part of the sale of the DSA business in 2009; the non-revolving pension reserve facility was decreased by \$2.4 million when letters of credit supporting the 10-year solvency funding schedule of certain of our pension plans were reduced; uncommitted lines of credit were decreased by \$2.4 million; and revolving operating facilities were reduced by \$1.0 million. Amounts drawn under our pension reserve facility increased by \$25.0 million from December 31, 2008, to \$40.0 million at December 31, 2009. In addition to these amounts, this facility is used to secure the \$130.4 million in letters of credit in place to support solvency funding relief measures adopted by some of our DB plans. We also maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. There was no commercial paper outstanding December 31, 2009, or 2008.

Our credit facilities contain customary covenants and provisions that could, if not satisfied, trigger an event of default. Continued access to our credit facilities under normal operating conditions is not contingent on the maintenance of a specific credit rating. However, the applicability of certain covenants is tied to maintaining investment grade credit ratings. For example, we would have a new financial ratio covenant to comply with and could be forced to restrict distributions if we were downgraded below an 'investment grade' rating (generally below the 'BBB' level). Also, certain facilities contain a 'change of control' event of default if someone other than BCE or Bell Canada obtains control of us and our credit ratings are downgraded to below investment grade.

### *Cash requirements*

We require a significant amount of cash to execute our business strategy. Our cash requirements for the fourth quarter of 2009 consisted of distributions to unitholders, investments in capital, pension plan funding, repayment of short-term and long-term debt, and payments of other commitments. Cash requirements in 2010 are expected to be similar. Specifically, it is anticipated that these requirements will result in the use of cash as follows:

- The annual cash requirement to make distributions to Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units is estimated to be approximately \$660 to \$665 million for 2010.
- Capital expenditures for 2009 were 14.6 per cent of operating revenues. We anticipate 2010 capital expenditures to be in the range of 14.0 to 15.0 per cent of operating revenues. Refer to the "Guidance" section for further discussion on capital intensity.

- We repay short-term and long-term debt according to its terms. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support issuances of commercial paper. We have no significant long-term debt maturities in 2010.
- All of our DB pension plans have funding deficits. In 2009, the pension plans achieved a return on assets that was well above our expected rate of return. However, we anticipate that the discount rates utilized to calculate our solvency funding liabilities at December 31, 2009, will be lower than those used at December 31, 2008. In addition, our December 31, 2009, funding deficits will reflect a portion of our 2008 equity market losses that were deferred in 2009 through permitted asset smoothing mechanisms. Therefore, we estimate that our deficit funding for 2010 will be in the range of approximately \$80 to \$110 million. These estimates do not consider any potential effects resulting from new pension legislation that was proposed by the federal government in late October 2009. We will continue to assess the effects to our plans as more information becomes available.
- Restructuring initiatives, announced during 2009 and 2008 are expected to result in the use of cash of approximately \$41 million in fiscal 2010.
- We will also use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

### **Other financial arrangements**

#### *Contractual obligations*

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including our commercial agreements with Bell Canada. Further details of these commitments are described in notes 21 and 24 to our audited consolidated financial statements for the year ended December 31, 2008, and the equivalent notes to our quarterly unaudited interim consolidated financial statements issued during 2009, which notes are incorporated by reference herein.

#### *Accounts receivable securitization*

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

#### *Use of derivative financial instruments*

We periodically utilize derivative financial instruments in the management of interest rate exposures associated with our long-term and short-term debt and specific firm commitments. Further details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 15 to our audited consolidated financial statements for the year ended December 31, 2008, which notes are incorporated by reference herein.

### **Related party transactions**

Our significant related parties continue to be BCE, Bell Canada and the Fund. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 24 to our audited consolidated financial statements for the year ended December 31, 2008, and the equivalent notes to our quarterly unaudited interim consolidated financial statements issued during 2009, which notes are incorporated by reference herein.

### **Significant accounting policies**

Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our consolidated financial statements for the year ended December

31, 2008, except for the adoption of the new accounting standard related to goodwill and intangible assets.

#### Goodwill and intangible assets

Commencing January 1, 2009, we adopted Section 3064, Goodwill and Intangible Assets, issued by the Canadian Institute of Chartered Accountants (CICA), which provides guidance on the management, recognition, presentation and disclosure of these assets. The adoption of this Section did not have a material effect on our operations or financial reporting.

#### *Future changes in accounting policies*

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

#### Business combinations, consolidated financial statements, and non-controlling interests

The CICA issued Section 1582, Business combinations, concurrently with Sections 1601, Consolidated financial statements, and 1602, Non-controlling interests. Section 1582, which replaced Section 1581, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaced Section 1600, carries forward the existing guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition, except for those aspects that deal with non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. The new standards apply to interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. We are currently assessing the effect of the new standards on our consolidated financial statements.

#### International financial reporting standards (IFRS)

The AcSB has confirmed it will fully converge Canadian GAAP with IFRS with an effective date of January 1, 2011, for publicly accountable enterprises. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board continues to evolve IFRS, and as a result, the standards at the transition date are expected to differ from their current form.

As discussed in our MD&A for the year ended December 31, 2008, we have developed a four-phase approach to transitioning to IFRS as follows:

*Phase 1 – Raise awareness and initial assessment*

*Phase 2 – Detailed assessment*

*Phase 3 – Design*

*Phase 4 – Implementation*

We have compiled and analyzed the information obtained in the detailed assessment phase and presented our preliminary evaluation of and recommendations for appropriate accounting policy choices to our audit committee in the second quarter of 2009. We will continue to refine these accounting policy choices as we continue with our conversion effort and as IFRS standards evolve. During the first quarter of 2009, we commenced designing operational process changes, which includes IT and data systems, internal controls over financial reporting, and developing and maintaining two parallel sets of records in 2010. We completed the design phase at the end of the second quarter of 2009 and commenced testing the proposed system design changes during the third and fourth quarter of 2009. This includes the design of a process for dual reporting in 2010 and IT system changes relating to property, plant and equipment. Our testing of these system and process changes has been successfully completed during 2009 and we are currently in the implementation phase. We expect the implementation phase will run through to December 31, 2010.

Our IFRS changeover team reports regularly to its steering committee and the audit committee regarding the status of the conversion effort. There is also continuous training and communication to senior leadership, affected employees, and internal and external stakeholders. We have allocated sufficient resources to our conversion project, engaged external consultants and collaborate with our corporate controls group and internal and external auditors. We expect to meet all milestones in our project plan as we complete our conversion effort.

This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

At this time we are unable to make a final determination of the quantitative and qualitative effects of our future adoption of IFRS, however, they may be material. Based on our work to date, we believe the areas of highest financial and/or operational impact will be employee future benefits, income taxes, property, plant and equipment, and designing and maintaining parallel systems for dual reporting required in 2010. Additional information will be provided as we move towards the changeover date.

## Regulatory developments

Regulatory developments in the fourth quarter of 2009, and up to and including February 3, 2010, which are, or may be, significant to our business, include the following:

### *Access to next generation access services*

In light of several CRTC decisions and appeals to the Governor-in-Council, the CRTC is required to rule on several wholesale issues by September 1, 2010. An oral proceeding is scheduled to begin in May 2010 and will include a consideration of whether aggregated wholesale DSL services must be made available at speeds equivalent to retail offerings (speed-matching). The proceeding will also include an examination of the appropriateness of mandating access to any new types of Internet access infrastructure as well as whether the respective wholesale obligations imposed on incumbent telephone companies and cable companies are equitable or represent a competitive disadvantage. The Commission will examine whether such wholesale obligations 1) would unduly diminish incentives to invest in new network infrastructure, 2) are necessary to enable sufficient competition to protect the interest of users, and 3) unduly impair the ability of incumbent telephone companies to offer new converged services like IPTV. This proceeding introduces the potential that additional wholesale obligations could be imposed on us or, on a go forward basis; certain wholesale services could be priced at lower rates. Neither outcome would have a retroactive effect on current rates or revenues. The Commission's decisions on these issues may, however, require us to modify our investment strategy and retail and wholesale commercial practices, including pricing and plans.

### *Traffic Management*

On November 20, 2008, the CRTC issued Telecom Public Notice 2008-19 where it initiated a proceeding to consider Internet traffic management practices (ITMPs) for retail and wholesale Internet services. The CRTC sought comments with supporting rationale on the changes in bandwidth consumption that can lead to network congestion, technical or economic ITMPs that are currently available or may be developed in the future, and the impact of these practices on end-users. In addition, the CRTC examined the appropriateness of implementing regulatory measures in relation to Internet traffic management by Internet service providers (ISPs).

The CRTC issued its decision on October 21, 2009, in which it preserved ISPs' flexibility to manage their networks and established certain transparency requirements. The CRTC approved the use of technical ITMPs, including application-specific ITMPs such as those applied by us in our Ontario and Quebec operating territory, encouraged the use of economic ITMPs such as usage-based billing, established a

framework against which future complaints about traffic management will be assessed and established certain privacy and notification requirements.

#### *Review of Support Structure Rates*

In August 2009, the CRTC launched a proceeding to review the large incumbent local exchange carrier's (ILECs) support structure service rates and declared that each ILEC's current support structure service rates have interim approval effective the date of the CRTC's notice. This proceeding will review the rates that competitors must pay ILECs, such as us, in order to lease space on the poles and underground conduit owned by the ILECs. Current support structure rates may rise given the increased costs since the last review which ended in 1993, but there is also a slight risk that they will decrease. A decision is expected in the fourth quarter of 2010 after which the new rates may be retroactively applied to competitors back to the date of interim approval.

#### *Proceeding to review access to basic telecommunications services and other matters*

According to its 2009 data, the CRTC has a \$208 million subsidy (contribution) regime to support local service in high cost (i.e. rural and remote) areas. This subsidy is funded by an industry tax on revenues which was set at 0.81% of eligible telecom revenues in 2009. While Bell Aliant draws monies from the contribution subsidy fund, it also pays into the fund. On January 28, 2010, the CRTC initiated a proceeding to review issues associated with access to basic telecommunications service. The proceeding will include a review of the obligation to serve, the basic service objective, and the local service subsidy (contribution) regime. It will also re-examine the local competition and wireless number portability frameworks in the territories of the small ILECs. Finally, as wireless data was forborne completely from retail and wholesale regulation in 1996, the CRTC will examine whether it would be appropriate to modify the wireless data forbearance framework in order for the guidelines established in the Internet Traffic Management Proceeding to be applicable to wireless service providers.

The proceeding will include a two week oral hearing scheduled to begin on 25 October 2010. The outcome from this proceeding may result in changes to various regulatory regimes, including a risk of changes to the subsidy regime, which could have an adverse effect on Bell Aliant's business and financial results. A decision is expected in Q1 of 2011.

#### *Broadcasting*

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

On March 27, 2009, the CRTC announced that it would re-examine the LPIF in its consultation on licence renewals for private conventional television stations to determine if the 1.0 per cent contribution would provide sufficient support for local programming in non-metropolitan markets, either on a short-term or long-term basis. At the same time, the CRTC announced that it would again address the issue of FFC for local signals as part of its spring 2010 licence renewal process. On July 6, 2009, before the LPIF was implemented, the CRTC issued a decision which increased this contribution to 1.5 per cent and determined that funds generated by the LPIF contribution do not need to be spent on additional local programming by TV stations. The CRTC also announced that it would further undertake a review of the LPIF contribution levels in a public hearing in September 2009, after which the CRTC indicated it was predisposed to reducing the LPIF contribution to 1.0 per cent starting in 2010. There can be no assurance that the LPIF contribution level will be reduced, maintained, or increased.

On July 6, 2009, the CRTC also decided that it would be appropriate for over-the-air broadcasters to be compensated for the value of their conventional TV signals. This form of compensation is commonly called FFC but referred to by the CRTC as "Value for Signal", or VFS. Under the proposal, all distributors of TV services, including Bell TV and Bell Aliant TV, would be required to compensate the conventional broadcasters in order to distribute their signals. On August 11, 2009, the CRTC amended its July 6,

2009, ruling and announced that it would hold a public process to consider whether FFC/VFS is appropriate and if so, how it should be implemented. This matter was addressed at a CRTC public hearing in November 2009. A decision is expected in the first quarter of 2010.

On September 16, 2009, the Governor in Council issued an order requiring the CRTC to hold a public hearing and make recommendations on the advisability of FFC/VFS, taking into account how FFC/VFS would affect the affordability of cable and satellite TV services and the effect of FFC/VFS on the broadcast industry. The CRTC's hearing was held in December 2009. Due to the uncertainty of whether a FFC/VFS regime will be adopted, or at what levels, we are unable to estimate the potential impact of FFC/VFS at this time. The CRTC is required to file a report to the Minister in the first quarter of 2010.

## Assumptions made in the preparation of forward-looking information and risks that could affect our business and results

### Assumptions made in the preparation of forward-looking information

Forward-looking statements made in our MD&A for the year ended December 31, 2008 and in this MD&A are based on a number of assumptions that we believe were reasonable on the day we made the forward-looking statements. In our MD&A for the year ended December 31, 2008, we outlined the principal assumptions that we made in the preparation of our forward-looking statements relating to our expected financial and operational performance in 2009. These assumptions include economic, market, financial, operational and transaction assumptions, and except as outlined below, have not changed significantly up to February 3, 2010.

### Guidance

On February 3, 2010, we announced our 2010 guidance as follows:

	2010 Guidance	2009 Revised Guidance
<b>Operating Revenue</b>	\$3,050 - \$3,150 million	\$3,140 - \$3,240 million
<b>Distributable Cash <sup>(1)</sup></b>	\$750 - \$790 million	\$750-\$790 million
<b>Capital Intensity <sup>(2)</sup></b>	14.0-15.0 per cent	13.7-14.7 per cent

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

(2) Capital intensity is defined as capital expenditures per the statement of cash flows as a percentage of operating revenues.

### *Economic assumptions*

We assume that the Canadian economy will gradually return to a period of growth after contracting in 2009, with real growth in Gross Domestic Product (GDP) expected to be in the range of 2 to 3 per cent after declining by an estimated 2 per cent in 2009, consistent with recent estimates from the Conference Board of Canada and the Bank of Canada. With the return to economic growth, we also expect general inflation rates will increase modestly as the consumer price index is expected to rise in the range of 1.7 to 2.2 per cent for 2010. We anticipate interest rates will also increase modestly, as represented by bankers' acceptances and other short-term borrowing rates increasing from current levels of less than 0.5 per cent to a level of approximately 1.5 to 2.0 per cent; Government of Canada two to ten-year bond yields increasing from current levels of approximately 1.3 to 3.4 per cent to rates of approximately 2.3 to 4.1 per cent; and credit spreads on bonds for corporate issuers like remaining approximately the same as current levels.

### *Market and financial assumptions*

In 2010, we expect competitors to continue to expand their coverage areas and for competitive activity to remain intense, putting pressure on operating revenues. We expect our operating expenses to continue to decrease in 2010, although not at the same rate as 2009, and despite an increase in fibre capital spending, we expect to have a similar overall capital investment program spend to 2009. Distributable cash for 2010 is expected to remain in the same range as 2009 performance.

We expect some of the decline in local and long distance revenues to be offset by increases in Internet, TV, IT and wireless revenues, as the economy begins to rebound and we expand our service offerings. Overall, we expect that our total operating revenues will decline slightly.

We will persist in our efforts to drive decreases in operating expenses, through the realization of the full year benefits of our restructuring programs, further operational efficiencies and on-going procurement initiatives, using the benefits of our Bell Canada partnership to leverage our collective purchasing power. We expect these benefits will help offset declines in our operating revenue margins from lower overall operating revenues and a changing operating revenue mix; however, we expect a slight decline in overall EBITDA from that achieved in 2009.

Growing broadband continues to be a priority and in 2010 we intend to continue to focus investment in this area. We expect we will more than double our 2009 spending on fibre technology to pass 140,000 homes with fibre to the home by the end of 2010. We expect to increase our coverage area for Internet and TV, add new services and gain more customers. Despite the increase in fibre capital spending in 2010, our overall capital investment spending in 2010 is expected to be similar to that of 2009; which is attributable to the completion of the Bell Mobility backhaul build in 2009, productivity improvements and continued prioritization of capital spending.

We expect to deliver strong distributable cash performance again in 2010, in the range of \$750 million to \$790 million. The Fund is entirely dependent on distributions from us to make its distributions. The distribution payout of the Fund is anticipated to remain unchanged at \$2.90 per unit for 2010.

We expect pension deficit funding to be in the range of \$80 million to \$110 million in 2010 with the results of actuarial valuations providing a more precise figure by the second quarter of 2010. These estimates may be significantly impacted by contemplated new solvency funding rules as announced by the federal Finance Minister on October 27, 2009, however we currently have no clarity on how the new rules, if implemented, could affect 2010 deficit funding requirements. Current service cost funding, which was \$69 million in 2009, is expected to be approximately the same in 2010.

Taxable income is expected to be subject to blended federal and provincial corporate income tax rates of 29 per cent in 2011; dropping to 27 per cent by 2013.

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

For more information concerning our guidance and for a discussion of assumptions and risk factors associated with the use of forward-looking information, refer to the "Forward-looking information" section, and our press release dated February 3, 2010.

### **Risk management**

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

We recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. Refer to our MD&A for the year

ended December 31, 2008, and our 2008 Annual Information Form, for a list of significant risks to which we believe we are exposed. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we do not presently consider material to our consolidated operations.

We have not identified significant changes, except as discussed below, to the nature of the risks that we are exposed to in our current business as described in our MD&A for the year ended December 31, 2008, and our 2008 Annual Information Form. We have provided updates on our regulatory and competitive environments in the “Regulatory developments” and “Our business environment” sections.

On October 27, 2009, the federal Finance Minister announced pension plan reform proposals that will, if implemented, impact our pension plan funding, governance, investment policy and administration. We are currently evaluating how these reform proposals will affect our plans; however, we will not be able to determine this specifically until detailed legislative and regulatory amendments are released. We currently have no clarity on how the new rules, if implemented, could affect 2010 or future deficit funding requirements. However, the significant risk exposures faced by our DB pension plans, namely the effect of fluctuating interest rates, actuarial assumptions and equity market returns, have not changed and are not materially lowered by these proposed reform measures. We continue to manage these risk exposures through asset mix and funding policies aimed at lowering the volatility of future funding requirements while balancing the overall costs of the plans.

On January 27, 2010 Nightingale Informatix Corporation commenced a court action in the Ontario Superior Court of Justice against xwave Healthcare, a division of Bell Aliant LP, and five physicians who are stated to be xwave Healthcare agents or consultants. Nightingale alleges that xwave Healthcare published defamatory statements about Nightingale’s products and services, and claims damages of \$30 million, plus punitive damages of \$1 million. This proceeding is at a very early stage. We have defences to this claim, but the outcome is not determinable at this time.

## Non-GAAP financial measures

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

### **EBITDA**

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

The following table provides a reconciliation of net earnings and operating income to EBITDA on a consolidated basis.

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	<b>Three months</b>		<b>Twelve months</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net earnings	<b>\$92.6</b>	\$80.0	<b>\$356.2</b>	\$322.2
Add: Other expense (income)	<b>(0.8)</b>	(4.4)	<b>11.4</b>	(2.4)
Interest charges	<b>41.9</b>	40.0	<b>158.4</b>	157.2
Income taxes (recovery)	<b>(24.0)</b>	(17.2)	<b>(56.1)</b>	(22.0)
Non-controlling interest	<b>30.7</b>	13.3	<b>134.9</b>	131.1
Net loss from discontinued operations	<b>2.5</b>	1.0	<b>16.8</b>	14.4
<b>Operating income</b>	<b>\$142.9</b>	\$112.7	<b>\$621.6</b>	\$600.5
Add: Depreciation and amortization	184.2	189.0	<b>715.0</b>	711.3
Restructuring and other charges	18.1	60.3	<b>44.7</b>	60.3
Net cost of benefit plans	20.4	3.6	<b>85.1</b>	78.2
<b>EBITDA</b>	<b>\$365.6</b>	\$365.6	<b>\$1,466.4</b>	\$1,450.3

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

EBITDA allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use this measure to assess our ability to service debt, make distributions to unitholders and to meet other payment obligations, and as a common valuation measurement in the telecommunications industry.

EBITDA should not be confused with net earnings or operating income, which are the most comparable Canadian GAAP measures.

### **Standardized distributable cash and distributable cash**

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

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

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

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

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

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

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

<i>For the period ended December 31</i> <i>(millions of dollars)</i>	<b>Three months</b>		<b>Twelve months<sup>(1)</sup></b>	
	<b>2009</b>	<b>2008<sup>(1)</sup></b>	<b>2009</b>	<b>2008</b>
Cash from operating activities	<b>\$332.1</b>	\$355.1	<b>\$1,135.6</b>	\$1,249.3
Add (deduct):				
Standardized distributable cash of discontinued operations	<b>(2.3)</b>	2.8	<b>(13.9)</b>	(1.0)
Cash from operating activities of the Fund	<b>(0.8)</b>	-	<b>(15.8)</b>	(0.3)
Capital expenditures	<b>(121.1)</b>	(167.0)	<b>(464.8)</b>	(526.9)
<b>Standardized distributable cash</b>	<b>207.9</b>	190.9	<b>641.1</b>	721.1
Add (deduct):				
Operating items funded through cash reserves or borrowing:				
Change in operating assets and liabilities (working capital)	<b>(73.1)</b>	(116.5)	<b>(22.9)</b>	(134.0)
Change in operating assets and liabilities (working capital) of the Fund	-	(0.4)	<b>11.8</b>	(3.6)
Change in operating assets and liabilities (working capital) and other non-cash items of the discontinued operations	<b>2.4</b>	(2.6)	<b>9.9</b>	4.5
Pension deficit funding	<b>25.3</b>	12.3	<b>73.8</b>	49.2
Restructuring charges	<b>16.0</b>	60.3	<b>40.9</b>	60.3
Cash capital taxes in excess of normalized levels	<b>0.6</b>	2.1	<b>6.3</b>	10.4
Other adjustments:				
Current income tax expense (recovery)	-	(3.7)	<b>(2.0)</b>	(7.6)
Other non-cash items provided for in working capital changes	<b>3.4</b>	3.8	<b>14.5</b>	15.3
<b>Distributable cash</b>	<b>\$182.5</b>	\$146.2	<b>\$773.4</b>	\$715.6

<sup>(1)</sup> Financial results for all prior periods have been restated to reflect Innovatia and our xw ave New England business as discontinued operations.

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

One of the primary metrics of our financial performance is distributable cash generated in a period. We use distributable cash, among other measures, to assess the financial performance of our ongoing business. We report standardized distributable cash to meet compliance with the CICA guidance for income trusts and other flow-through entities. These measures should not be seen as measures of

liquidity or as substitutes for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to assess our ability and that of the Fund to generate a sustainable return for unitholders. Standardized distributable cash and distributable cash should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.