

# Bell Aliant Regional Communications Holdings, Limited Partnership

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# MD&A

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the year ended December 31, 2009, compared to 2008. This MD&A should be read together with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and our MD&A for the fourth quarter of 2009. Our consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this document are in millions of Canadian dollars, except where otherwise noted.*

*Throughout this document, unless otherwise specified or the context otherwise indicates, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries.*

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

## **Forward-looking information**

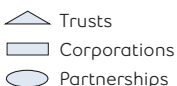
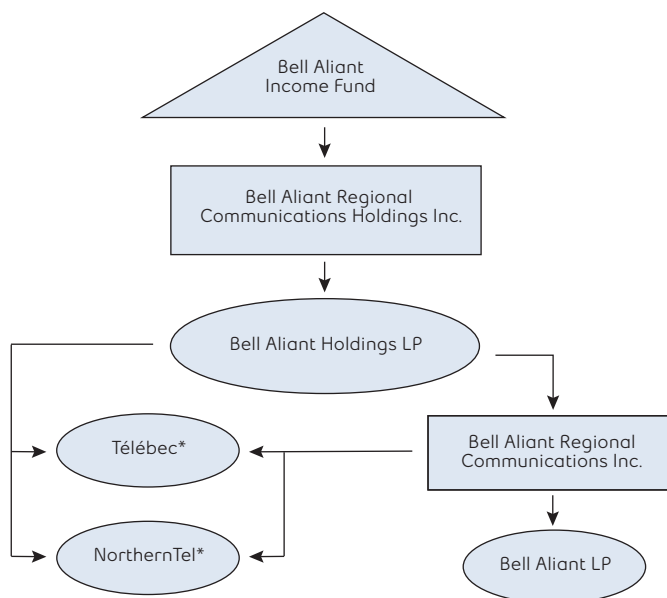
*This MD&A is dated March 10, 2010, and is current to that date unless otherwise stated. It contains forward-looking information related to our future financial condition and results of operations, and anticipated future events and circumstances, including in particular under the sections "Conversion transaction", "Distributable cash" (with respect to our expectations of generating sufficient cash flow to provide stable cash distributions), "Highlights of strategic focus for 2010", "2010 financial guidance", "Cash requirements" and "Accounting policies under IFRS". The purpose of this forward-looking information is to provide the reader with information about our expectations, plans and priorities for fiscal 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 March 10, 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 and demand for our services; our business relationship with Bell Canada; pension plan funding; changing regulations; dependence on key suppliers; maintenance of credit ratings; leverage and restrictive covenants; BCE Inc's (BCE) governance rights; reliance on key personnel and labour relations; legal contingencies and changes in laws; and certain tax related risks. Some of these risk factors are largely beyond our control. In addition, a number of assumptions were made by us in providing forward-looking information in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section of this MD&A for further discussion of these and other assumptions and risk factors.*

*Should any 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 the Fund's 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) and incorporated by reference herein.*

## OUR BUSINESS



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

We are one of North America's largest regional communications service providers and have been serving customers for over a century. We offer a complete range of voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions to approximately 5.3 million of our customers across Atlantic Canada, Ontario and Quebec. Communications services we provide include local telephone, long distance, data and Internet, wireless, television and other products and services. Our IT services include system integration, application development, local and wide area network installations and management, data centre operations, computer hardware, package software and IT planning.

Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate these and other subsidiary partnerships and corporations in our financial statements. 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. The organizational chart depicts Bell Aliant Income Fund, Bell Aliant Holdings LP and other significant entities within the Fund group as at December 31, 2009.

## OUR BUSINESS ENVIRONMENT

### Competitive landscape

We face a number of different competitors across the regions we service, with cable companies continuing to present our most significant competitive threat. Throughout 2009, cable competitors continued to expand their local service areas and provide bundled service offerings in our regions, which continued to place pressure on our market shares and pricing strategies. The competitive footprint overlap with cable companies grew to approximately 67 per cent of residential households in our territory at the end of 2009, representing a 10 percentage point increase since December 31, 2008. We expect the cable companies will continue to gradually erode our market share in local and long distance services, and, to a lesser extent, Internet services, with further expansion of their footprint and greater competitive activity. In contrast, we expect our market share in television services to grow against cable companies as our fibre-to-the-home (FTTH) footprint for offering these services expands.

The telecommunications industry is constantly evolving as the accelerating development of new wireless, Internet and data technologies, services and products has resulted in the decline of traditional voice and long distance telecommunications services. Wireless substitution and Voice over Internet Protocol (VoIP), in particular, have allowed competitors to launch new products and services and therefore gain market share. In turn, these new technologies also present an opportunity for us to offer new services to our customers and to lower our future network development and maintenance costs.

Our long distance services continue to face intense competitive pressure from the expanded presence of cable telephony and the continuing effect of non-traditional suppliers, including prepaid card suppliers, dial-around services and VoIP providers, as well as from traditional competitors such as inter-exchange carriers and resellers. Competition has resulted in customers switching from per-minute plans to flat-rate plans, and substitution of VoIP, instant messaging and peer-to-peer applications have replaced traditional long distance calling.

Our growth is largely driven by our Internet and television portfolios. In order to meet the needs of our customers for data and Internet services, we have invested heavily in fibre to build on our network capacity. We were the first communications company to provide FTTH technology to an entire city in Canada on a 100 per cent fibre optic network. We expect to continue to invest in fibre and are constantly evolving our product offerings to ensure that our bandwidth and value-added service offerings are competitive in our marketplace.

The intensity of competition in our markets create pressure to keep our prices and service offerings competitive, which could reduce our revenues and lower our profitability, or affect our ability to gain new customers and retain our existing ones. We need to anticipate and respond quickly to changes in the marketing strategies of our competitors. We constantly try to find the balance in our pricing mix, considering the prices our competitors are charging and the value we offer based on our exceptional products and services.

To address these competitive pressures, we continue to enhance our products and services, promote our bundled service offerings, which we have rebranded as Bell Aliant Bundles, and work with customers to provide the high level of service and innovative product offerings our customers expect. We continue

to use our local presence and insight to guide community investment and support activities that are important to our customers and employees. We conduct business with a clear and consistent focus on the successful execution of our strategic objectives. Refer to our achievements as discussed in the "Strategy" section for further details.

### Regulatory landscape

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

The CRTC will rely on market forces to the maximum extent feasible when making policy decisions, and will use regulation that interferes with market forces to the minimum extent necessary. As an interested party, we regularly participate in the public processes leading up to various policy 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 gain unfair competitive advantages or raise the regulatory burdens in our industry. For a discussion of these and other reforms, please refer to the "Regulatory developments" section.

### Conversion transaction

As a result of the federal government's previously announced changes to income tax legislation affecting publicly listed or traded income trusts, such as the Fund, starting January 1, 2011, the Fund will be taxed as if it was a corporation. We anticipate the Fund will be taxed at a blended federal / provincial rate of 29 per cent of taxable income in 2011, dropping to 27 per cent of taxable income by 2013. A transaction would be required to convert the Fund from an income trust structure to a corporate structure (Conversion Transaction).

The Department of Finance enacted amendments to the Income Tax Act (Canada) on March 12, 2009, to facilitate the conversion of existing income trusts into corporations on a tax-deferred basis (Conversion Rules), which will remain in effect until January 2013.

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 on a one-for-one basis under the Conversion Rules. We expect that the Conversion Transaction would be effective on or by January 1, 2011.

We are carefully considering our particular circumstances and the alternatives available to us in order to determine how best to structure a Conversion Transaction. Details about the proposed 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 and Special 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 January 1, 2011, while balancing our other business priorities including investing in broadband and maintaining investment grade credit ratings. Although a reduction to the Fund's current distribution is expected following completion of a Conversion Transaction,

for taxable retail investors resident in Canada, dividends paid by a corporation are taxed at lower rates than the distributions paid by the Fund, prior to January 1, 2011, 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.

#### Federal government announcement regarding foreign ownership rules

On March 3 and 4, 2010, the federal government issued the Speech from the Throne and federal budget, respectively, wherein they indicated that the limits on foreign ownership in the Canadian telecommunications industry will be reviewed. No specific proposals were put forward and there are no details regarding the timing of any review of the foreign ownership limits. We are unable to determine how any potential reform proposals may affect us, or the Fund, until further details are released.

#### Changes to the board of directors

On April 29, 2009, Charles White resigned from the board of trustees of the Fund and the boards of directors of our operating subsidiaries. On May 1, 2009, Andrew Smith resigned from the boards of directors of our operating subsidiaries.

### YEAR IN REVIEW

#### Summary of results

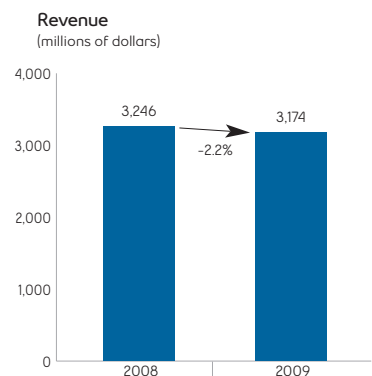
For the years ended December 31

(millions of dollars)	2009	2008 <sup>(2)</sup>	% change
Operating revenues	3,174.2	3,246.3	(2.2)
EBITDA <sup>(1)</sup>	1,466.4	1,450.3	1.1
Operating income	621.6	600.5	3.5
Net earnings from continuing operations	373.0	336.6	10.8
Net loss from discontinued operations	(16.8)	(14.4)	16.7
Net earnings	356.2	322.2	10.6

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

(2) Financial results for 2008 have been restated to reflect Innovatia and our xwave New England business as discontinued operations.

Operating revenues decreased 2.2 per cent, or \$72.1 million, in 2009, compared to 2008. We continue to experience declines in local and long distance revenues, largely attributable to competitive losses and substitution by other services. Beginning in 2008, Bell Mobility, a division of Bell Canada, repatriated work previously performed by us, which led to a decline in other revenues in 2009. In addition, we experienced lower product sales, rental revenues, and custom work revenues. These decreases were partially offset by growth in our data and wireless revenues, primarily due to growth in our Internet and wireless customer bases and higher average revenue per customer (ARPC). IT revenues grew marginally on a year-over-year basis as declining IT service revenues were offset by increases in IT fulfillment revenues generated from large IT product sales in the first and fourth quarters. Refer to the "Results of operations" section for further details.



Despite the decline in operating revenues, our continued focus on cost management and productivity allowed us to reduce operating expenses such that EBITDA increased 1.1 per cent in 2009, or \$16.1 million, compared to 2008. Labour-related cost reductions and other cost containment initiatives accounted for most of the EBITDA improvement. As a result, EBITDA margin grew 1.5 percentage points, from 44.7 per cent in 2008 to 46.2 per cent in 2009, despite the ongoing shift in revenue mix.

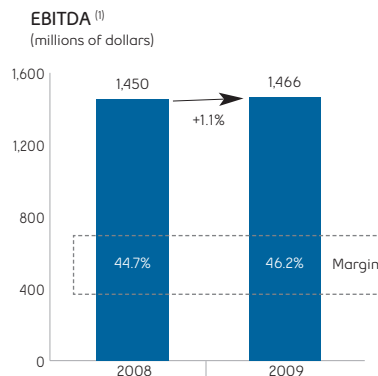
The EBITDA growth combined with a \$15.6 million decrease in restructuring and other charges, a \$3.7 million increase in depreciation and amortization expense, and a \$6.9 million increase in the net cost of benefit plans, led to an increase in operating income of 3.5 per cent, or \$21.1 million in 2009, compared to 2008. We recognized less restructuring and other charges in 2009 due to the timing of restructuring initiatives.

Although we implemented various restructuring programs throughout 2009, costs related to the initiative to create a new organizational structure, which was announced in January 2009, was recorded in December of 2008. Depreciation and amortization expense increased in 2009, reflecting shorter useful lives of our depreciable asset base. Although current service costs of benefit plans were lower on an annual basis, the net total cost of benefit plans increased in 2009, compared to 2008, due to the reversal of a \$21.4 million pension valuation allowance in 2008, with no similar adjustment in 2009.

Net earnings increased by \$34.0 million, or 10.6 per cent, in 2009, compared to 2008. This increase is made up of a \$36.4 million increase in net earnings from continuing operations, offset slightly by a \$2.4 million increase in net loss from discontinued operations.

The improvement in net earnings from continuing operations is mainly attributable to an increase in operating income combined with \$34.1 million higher income tax recoveries in 2009, compared to 2008. In addition, net earnings from continuing operations was negatively affected by a \$13.3 million financial derivative loss resulting from a settlement of fixed-floating interest rate swaps in connection with our repayment of variable interest debt in May 2009, higher interest charges due to marginally higher borrowing levels, and a higher amount of net earnings attributable to non-controlling interests resulting from the year-over-year improvement in net earnings.

The increase in net loss from discontinued operations in 2009, compared to 2008, is mainly due to the higher net loss from discontinued operations of Innovatia Inc. (Innovatia), reflecting a write-down of net assets of \$6.1 million and a pre-tax loss on sale of \$1.5 million during 2009. Our sale of all of the shares of Innovatia closed on November 1, 2009. In addition, net loss from discontinued operations includes our proportionate share of the results of xwave New England Corp. (xwave New England) and our Defence, Security and Aerospace (DSA) business. Both of these businesses were sold in the second quarter of 2009, which resulted in recognizing a net pre-tax loss on sale of \$1.8 million. The net loss from discontinued operations in 2008 also reflects a \$10.7 million loss from the operations of Atlantic Mobility Products (AMP), mostly attributable to an \$11.2 million write-down of goodwill.



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

## Distributable cash

The following table provides a summary reconciliation of cash from operating activities to standardized distributable cash and distributable cash for the years ended December 31, 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 unitholders of the Fund, distributable cash combines our cash performance with that of the Fund.

For the years ended December 31

(millions of dollars)	2009	2008 <sup>(4)</sup>	% change
Cash from operating activities	1,135.6	1,249.3	(9.1)
Add (deduct):			
Cash from operating activities of the Fund and discontinued operations	(29.7)	(1.3)	n.m.
Capital expenditures	(464.8)	(526.9)	(11.8)
Standardized distributable cash <sup>(1)</sup>	641.1	721.1	(11.1)
Add (deduct):			
Operating items funded through cash reserves or borrowing	119.8	(13.2)	n.m.
Other adjustments	12.5	7.7	62.3
Distributable cash <sup>(1)</sup>	773.4	715.6	8.1
Net earnings	356.2	322.2	10.6
Cash distributions declared <sup>(2)</sup>	660.2	657.9	0.3
Excess of cash from operating activities <sup>(3)</sup> over cash distributions declared	445.7	590.1	(24.5)
Shortfall of net earnings over cash distributions declared	(304.0)	(335.7)	9.4

n.m. not meaningful

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

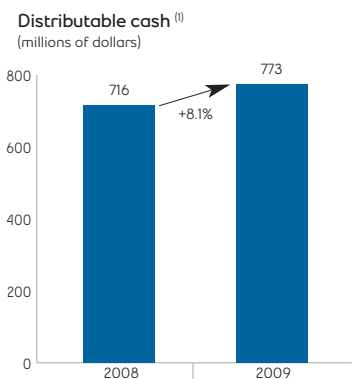
(2) Cash distributions declared include amounts declared by the Fund to unitholders and by Bell Aliant Holdings LP and Bell Aliant LP to Bell Canada and BCE on units that are exchangeable into Fund units.

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

(4) Financial results for the prior period have been restated to reflect Innovatia and our xwave New England business as discontinued operations.

Standardized distributable cash for the year ended December 31, 2009, was \$641.1 million. This represents a decrease of \$80.0 million, or 11.1 per cent, over 2008, 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. Most of the year-over-year decline in cash from operating activities for us and the Fund is related to working capital changes and restructuring charges. Refer to the "Summary of cash flows" section for additional information on cash from operating activities and capital spending.

In contrast to standardized distributable cash, our calculation of distributable cash excludes working capital fluctuations, restructuring charges and certain other items we fund through cash reserves or short-term borrowing. On this basis, distributable cash increased by \$57.8 million, or 8.1 per cent, to \$773.4 million in 2009, compared to 2008. The increase is largely due to growth in EBITDA and reduced capital spending, offset by lower cash from discontinued operations.



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

Both standardized distributable cash and our calculation of distributable cash reflect capital spending. Capital expenditures were 14.6 per cent of operating revenues in 2009, compared to 16.2 per cent of operating revenues in 2008. This reflects both the timing of capital projects and a lower level of capital spending.

We are committed to maintaining and enhancing our network assets in order to support growing demand for high bandwidth Internet protocol (IP) services. Our legacy telephony and related business continues to be our foundation, and notwithstanding recent technological advances and improvements in the lives and productive capacity of our telecommunications assets, our maintenance capital expenditures have remained relatively stable over time. Approximately 25 to 30 per cent of our capital expenditures are related to maintenance of base infrastructure, routine replacements and commitments driven by legal or regulatory requirements. The balance of our capital investments allows us to address growing customer demand for our newer products and services and evolve, at a measured pace, to the next generation of IP network capabilities to accommodate delivery of new services necessary to support sustainability and modest growth in our revenues.

It is our expectation that our ongoing operations, net of normal capital expenditures, will generate sufficient distributable cash to provide stable cash distributions to the Fund and its unitholders. Historically, and continuing through 2010, our objective is to target a distribution payout ratio of approximately 90 per cent of the combined distributable cash of the Fund and us, although the payout ratio may differ from this range in any given year. The remaining 10 per cent of distributable cash is intended to fund such obligations as working capital, pension plan deficits, restructuring and other charges, cash capital taxes, and repaying long-term debt. It is not our or the Fund's intention to borrow to fund regular distributions.

In 2010, as the Fund trustees anticipate conversion to a corporate structure by January 1, 2011, the distribution policy is focused more on maintaining stability of the distribution until conversion. Therefore, in February 2010, the Fund announced that the distribution per unit to Fund unitholders would remain unchanged at \$0.2417 per month or \$2.90 per year for 2010. As the Fund will become subject to taxation in 2011, the dividend following conversion to a corporate structure is expected to be lower than the distribution paid to unitholders in 2010, as described in the "Conversion transaction" section.

For the year ended December 31, 2009, cash distributions declared were 85.4 per cent of distributable cash, or \$660.2 million, compared to 91.9 per cent of distributable cash, or \$657.9 million, for 2008. The distributable cash payout ratio declined in 2009, as a result of distributions being held consistent with the level established in 2008, while distributable cash increased in 2009, compared to 2008.

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

## STRATEGY

### Highlights of strategic achievements in 2009

In 2009, in response to the economic environment and the realities of our competitive marketplace, we updated and clearly articulated our vision and the five strategic objectives that will support our financial success in the future.

Our vision is simple and straightforward, and fundamental to everything we do:

*To be recognized by customers as the leading communications provider in the markets we serve.*

Our established five strategic objectives were:

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

The following chart sets out our key strategic objectives and progress we believe we made in 2009.

Objective	Achievement
<i>Improve the customer experience</i>	<p>We improved our service fundamentals through focusing on system and process improvement by delivering new customer service programs and improving our contact centre efficiency.</p> <ul style="list-style-type: none"> <li>• Our customer service index (CSI) is an internal measure that is comprised of five key components, which we track to monitor the experience we are providing to our customers. CSI improved 1.2 percentage points in 2009 and 1.9 percentage points in 2008, with increases across the board for all five components.</li> <li>• We launched three significant customer services: Same Day, Next Day Repair; Express Install; and Service Appointment Calendar. Our Same Day, Next Day Repair service and Express Install provide guarantees to resolve issues or install services no later than the next day (or next day plus one for installations). Our Service Appointment Calendar capability enables our customers to access appointments through any of our channels, including online.</li> <li>• We implemented new SmartPhone technology in our customer care centres in Nova Scotia and Prince Edward Island that improved call routing, menu selections, monitoring and management tools.</li> <li>• We improved self-service capabilities for our online customers who can now purchase and customize service bundles as well as access more add-ons and upgrades including high-definition television (HDTV), long distance choices, and Internet features.</li> </ul>

Objective	Achievement
Retain our customers	<p>Increased competitive intensity and an expansion in the cable competitive footprint creates challenges in the retention of our residential and business customers which we believe will continue for the next several years. However, we have taken significant actions to mitigate the effect of competitive erosion to our customer base while maximizing opportunities to increase revenue. We have powerful brands across all of our markets, and in 2009, we believe we increased the strength of our brands. We can build on this strength as we simplify and reinforce who we are with our customers. We will continue to demonstrate our enormous pride in our brands and our heritage, while taking full advantage of an exceptional opportunity to use our Bell partnership to grow our market presence in a way that makes sense for our customers.</p> <ul style="list-style-type: none"><li>• During the first quarter of 2009, we announced that Bell Aliant would become our market-facing brand in Atlantic Canada. In Ontario and Quebec, we continued to leverage our existing brands of Télébec and NorthernTel while building a closer linkage to the Bell Aliant brand.</li></ul> <p>During the year, we undertook numerous initiatives focused on increasing customer retention and the penetration of all our products and services.</p> <ul style="list-style-type: none"><li>• The launch of our <i>FibreOP</i> network made us the first communications company in Canada to offer FTTH broadband services to an entire city, in addition to bringing the most advanced technology to our customers.</li><li>• We enhanced our service bundles, developed early intervention programs to increase loyalty and marketed the competitive advantage of customer experience improvement programs.</li><li>• We enhanced the competitiveness of our product portfolio with increased high-speed Internet capabilities, increased the number of HD channels to 40, and offered additional unlimited long distance plans. We also upgraded the email platform for both residential and business customers, significantly increasing mailbox storage, enhancing the ability to send and receive larger attachments and improving the web mail application.</li><li>• The launch of new bundled service offerings provided competitive offers and additional tools to retain customers and build loyalty, with a focus on the value of our products and services.</li><li>• We launched an improved, proactive process to enhance the residential move experience and mitigate losses, as customers who move residences are more at risk to switch to a competitor. In Atlantic Canada, we developed a new self-guided install process for broadband customers. In Ontario and Quebec, we implemented on-site installation by a customer service technician at no cost for new broadband customers.</li><li>• In the business market, changes made to our sales force improved our relationships with customers. We reoriented our teams to a geographical structure which has led to better knowledge of our customers' businesses and operating environments creating stronger relationships with decision makers.</li></ul>

Objective	Achievement
<i>Grow broadband</i>	<p>Broadband is the core growth area of our business. We expanded our footprint, increased bandwidth, enhanced value-added services and grew our TV market share.</p> <ul style="list-style-type: none"><li>• We deployed <i>FibreOP</i> broadband services in Fredericton, New Brunswick, making us the first company in Canada to launch this service to an entire city. By the end of 2009, our <i>FibreOP</i> service footprint reached approximately 25,000 homes in Fredericton, providing premium Internet speed and exceptional HDTV experiences.</li><li>• We made a significant increase in our broadband investment to accelerate revenue growth and support long-term retention. We continued to expand our broadband footprint and added over 73,000 homes during 2009, to pass over 77 per cent of homes in our territory.</li><li>• We enhanced the service experience of Bell Aliant TV by launching a personal video recorder service, enabling customers to record, pause and rewind live television. We also improved channel guide functionality and made upgrades to the core software.</li></ul>
<i>Reset our cost structure</i>	<p>We improved our cost structure through productivity and quality initiatives throughout our organization.</p> <ul style="list-style-type: none"><li>• We created a more optimal sized employee base by eliminating approximately 15 per cent of our management workforce. We have a leaner and more effective leadership team as our managers now have increased spans of control allowing more strategic and quicker decision making. We also offered limited retirement arrangements to unionized employees in Atlantic Canada, Ontario and Quebec throughout the year. We believe these restructuring initiatives place us in a strong position to accelerate and align the way we deliver results for our customers.</li><li>• We continued to exercise prudence in discretionary spending of general and administrative expenses, reduced spending on contractors and consultants, and we reduced advertising spending as a result of our new Bell Aliant brand. The new branding enabled us to better leverage Bell Canada's national advertising campaigns for our local markets.</li><li>• Our focus on strengthening procurement through best practices in sourcing and pricing resulted in cost improvements in many contracts with our vendors. We believe our improved contract terms will continue to realize benefits in 2010 and beyond.</li><li>• We focused on a number of non-labour related areas to implement cost structure improvements. We redesigned a number of processes in our customer service organization to be more efficient. We also made IT and network investments that drove greater efficiency and automation.</li><li>• 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.</li></ul>

Objective	Achievement
<p><i>Reset our cost structure</i>                      (continued)</p>	<ul style="list-style-type: none"> <li>• We launched a new IP voicemail platform which will result in permanent, long-term cost savings and improvements in customer service at the same time.</li> <li>• We improved our cost structure in 2009 through the culmination of our productivity and quality initiatives. We reduced our salaries, benefits, contract labour and consulting by \$63.2 million, and reduced our selling, general and administrative expenses by \$47.9 million.</li> </ul>
<p><i>Engage employees</i></p>	<p>We significantly increased executive communications with our people, increased focus on leadership development and drove a performance based culture, and in this way continued to engage employees in the business.</p> <ul style="list-style-type: none"> <li>• We reinforced a performance based culture by more closely aligning personal performance with corporate objectives, and by continuing to invest in leadership development. We launched a performance planning program to provide our leaders with tools and training to help develop employees and build high performance teams. The focus of this program is to help leaders work with employees to set appropriate goals, manage their teams, and to build stronger communications skills in order to achieve our business plan objectives.</li> <li>• We improved our ability to identify and reward outstanding contributions and performance with the development of a new company-wide recognition program.</li> </ul>

### Performance compared to 2009 financial guidance

Our 2009 results met our expectations and the financial guidance that we provided during 2009. The following table summarizes our 2009 revised guidance and our performance against those targets.

	2009 results	2009 revised guidance <sup>(3)</sup>
Operating revenues	\$3,174.2 million	\$3,140 – \$3,240 million
Distributable cash <sup>(1)</sup>	\$773.4 million	\$750 – \$790 million
Capital intensity <sup>(2)</sup>	14.6 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 details.

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

(3) In the third quarter of 2009, our 2009 guidance for operating revenue and capital intensity was revised as a result of our divestiture of xwave New England and announced sale of Innovatia.

## Highlights of strategic focus for 2010

We considered 2009 a successful year both financially and strategically. With similar business challenges facing us in 2010, our strategy remains focused on the same five strategic objectives we established in 2009.

### *Improve the customer experience*

Improving the customer experience continues to be a cornerstone of our strategy. Our customer service index has consistently increased over the last several years. We expect this upward trend to continue in 2010 as a result of our planned improvements, including a continued focus on service fundamentals, system and process improvements, operational enhancements and improvements in service awareness.

### *Retain our customers*

Our customer base is our most important asset. While growing the number of broadband and TV customers is a key focus, we recognize that ensuring our existing customers remain with us is equally important to our success. Local competitive footprint expansion is expected to continue throughout 2010, and therefore retaining local customers is fundamental to enabling future growth. Our Bell Aliant Bundles and other service bundles are proven tools to build loyalty. In 2010, we will focus on increasing the penetration of our bundles and enhancing the services offered to appeal to more customers. In order to stay competitive, we are planning to make numerous improvements to our broadband and TV services, including increasing Internet speeds, expanding TV offerings, enhancing the TV menu and guide, and improving our credit policies.

### *Grow broadband*

In 2009, we launched our *FibreOP* Internet and TV services in Fredericton, New Brunswick, and in early 2010 became the first operator in Canada to provide this FTTH service to an entire city. In 2010, expanding our *FibreOP* network is a top priority. This will include the planned complete coverage of Saint John, New Brunswick, along with a number of other municipalities, with a goal to achieve a total of 140,000 homes passed by the end of the year. The introduction of *FibreOP* services allows us to offer both premium Internet speeds and an exceptional TV experience. Additionally, we will continue to expand our digital subscriber line (DSL) network providing more customers access to our broadband and TV services.

### *Reset our cost structure*

Cost structure improvement is critical to us, as revenue growth becomes more challenging to achieve. In 2009, we made significant improvements primarily through workforce restructuring and organizational redesign. Although we believe we are well positioned to operate more efficiently in the future, change to our cost structure will continue in 2010, though not to the same extent as that experienced in 2009. In the coming year, we will focus on continued cost containment, procurement improvements and gains in process and operational efficiency.

In particular, in February 2010, we provided a further limited retirement opportunity for a small number of eligible unionized employees in Ontario and Quebec. In addition, we undertook an initiative to align our IT operations across the entire organization. Beginning in the third quarter of 2010, we are expanding our existing relationship with a large independent IT and business process services firm to manage certain IT operations previously performed by us. These initiatives help us to reset our cost structure while ensuring strong customer service going forward.

### Engage employees

Our strategy will only be successful with the support of our employees. Our recent efforts to improve employee engagement have garnered positive feedback and results throughout the organization and we will continue these efforts in 2010. Regular and timely communications with employees about our strategy, accomplishments and the challenges we face are of particular importance. All of our employees need to understand our five strategic objectives and how they each contribute to our success. In order to facilitate this outcome, we intend to further improve our performance management, talent management and leadership development tools and processes, ensuring alignment with corporate objectives and promotion of a performance based culture among all of our employees. We will also continue to enhance the tools provided to our leaders of people to help them coach, develop and foster the talent in our people.

### 2010 financial guidance

For 2010, we expect to achieve the following ranges of results for key financial reporting indicators. Guidance is presented on a basis consistent with reported results for 2009.

	2010 guidance
Operating revenues	\$3,050 – \$3,150 million
Distributable cash <sup>(1)</sup>	\$750 – \$790 million
Capital intensity <sup>(2)</sup>	14.0 – 15.0 per cent

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

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

Consolidated operating revenues are expected to be between \$3,050 million and \$3,150 million in 2010, down from \$3,174 million in 2009. Growth in Internet, TV and IT revenues is expected to mitigate declines in local and long distance revenues arising from continued growth in competitive footprint overlap and substitution by other technologies. We expect that productivity initiatives implemented in 2009, and new initiatives planned for 2010, will assist in continued declines in operating expenses, although not to the same extent as 2009, resulting in a slight decline in EBITDA. Our overall capital investment in 2010 is expected to be similar to 2009, at 14.0 to 15.0 per cent of operating revenues, with strategic priority given to growing broadband. Increased spending in FTTH technology is expected to be offset by reductions resulting from a number of factors including: the completion of the Bell Mobility backhaul project in 2009, productivity and cost containment initiatives, and a continued focus on prioritizing spending according to strategic objectives. We expect distributable cash to continue to be strong in 2010, remaining between \$750 million and \$790 million, as improved operating performance achieved through restructuring and on-going productivity initiatives is expected to mitigate overall revenue declines.

This "2010 financial guidance" section is forward-looking information and readers are cautioned that actual results may vary. Refer to the "Assumptions made in the preparation of forward-looking information and risks that could affect our business and results" section and the "Forward-looking information" section at the beginning of this MD&A.

## RESULTS OF OPERATIONS

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

For the years ended December 31

(millions of dollars)

	2009	2008 <sup>(2)</sup>	% change
Local and access	1,356.9	1,406.3	(3.5)
Data and Internet	828.0	798.7	3.7
Long distance	423.9	452.3	(6.3)
IT services and fulfillment	304.7	303.3	0.5
Wireless	88.8	80.8	9.9
Other revenues	171.9	204.9	(16.1)
Operating revenues	3,174.2	3,246.3	(2.2)
Operating expenses	1,707.8	1,796.0	(4.9)
EBITDA <sup>(1)</sup>	1,466.4	1,450.3	1.1
Net cost of benefit plans	85.1	78.2	8.8
Depreciation and amortization	715.0	711.3	0.5
Restructuring and other charges	44.7	60.3	(25.9)
Operating income	621.6	600.5	3.5
Other expenses (income)	11.4	(2.4)	n.m.
Interest charges	158.4	157.2	0.8
Income tax recovery	(56.1)	(22.0)	n.m.
Non-controlling interest	134.9	131.1	2.9
Net earnings from continuing operations	373.0	336.6	10.8
Net loss from discontinued operations	(16.8)	(14.4)	16.7
Net earnings	356.2	322.2	10.6

n.m. not meaningful

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

(2) Financial results for the prior period have been restated to reflect Innovatia and our xwave New England business as discontinued operations.

### Operating revenues

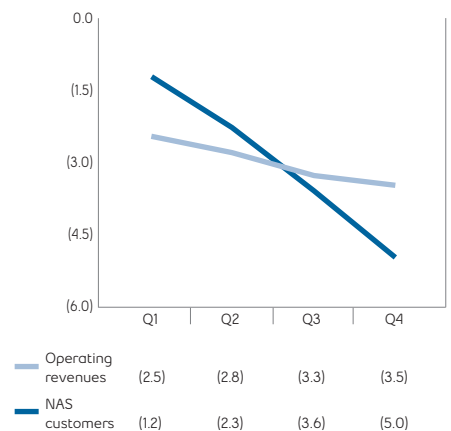
#### Local and access

Our local and access revenue is earned primarily through the provision of network access service (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 3.5 per cent, or \$49.4 million, in 2009, compared to 2008.

Programs targeted at retaining our highest value customers, pricing increases and increased features penetration have assisted in mitigating the revenue declines. 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 than at December 31, 2008. Our residential market continues to experience competitive losses, driven by increased competitive intensity and an expansion in the cable competitive footprint as well as substitution by other services, including wireless and VoIP. The decline in business NAS is attributable largely 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.

#### Local and access

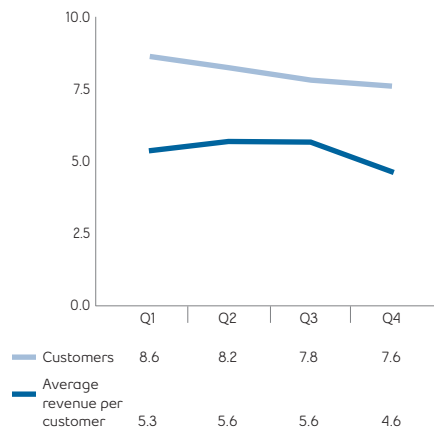
(2009 year-to-date per cent change)



### Data and Internet

Data and Internet revenue is earned through the provision of data access, data circuits, high-speed and dial-up Internet services, managed services, and enhanced services and applications, such as security services and Bell Aliant TV. Despite the migration of some customers off traditional data networks, revenue from these services increased 3.7 per cent, or \$29.3 million, in 2009, compared to 2008. Internet revenue grew by 9.9 per cent, or \$38.4 million in 2009 compared to 2008. At December 31, 2009, our high-speed Internet customer base was up 7.0 per cent over December 31, 2008, with growth in both the business and residential 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 experienced steady growth in our high-speed Internet customers, albeit at a slower rate in 2009 compared to 2008. This is consistent with the trend reflected across the industry. We have mitigated the effect of a declining growth rate by marketing our higher value services to customers together with selected price increases, which has resulted in an increase in residential high-speed Internet ARPC. ARPC increased by \$1.62 to \$37.63 in 2009, representing a 4.5 per cent improvement over 2008.

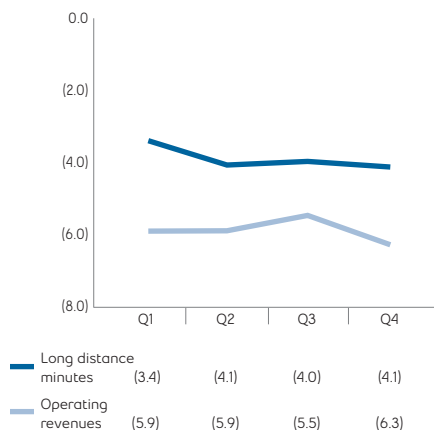
**High-speed Internet**  
 (2009 year-to-date per cent change)



### Long distance

Long distance revenue, earned through toll and long distance terminating services, declined by 6.3 per cent, or \$28.4 million in 2009, compared to 2008. The decrease in long distance revenue was a result of a decline in long distance minutes and average revenue per minute. Competitive customer losses and substitution by email, cellular and IP-based services led to a decline in long distance minutes of 4.1 per cent for the year. Average revenue per minute declined 2.1 per cent for the year 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.

**Long distance**  
 (2009 year-to-date per cent change)



### IT services and fulfillment revenue

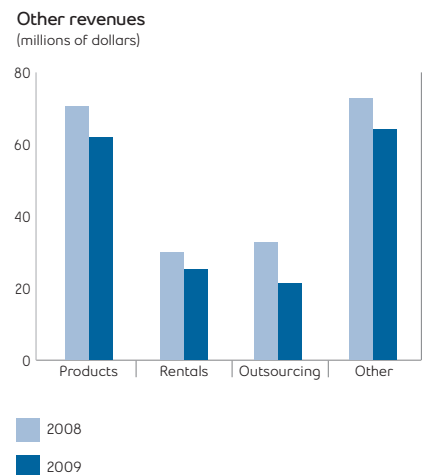
IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, IT consulting, hardware and software fulfillment. IT services and fulfillment revenue saw marginal growth in 2009, increasing 0.5 per cent, or \$1.4 million, over 2008. Although total IT revenue was relatively consistent on an annual basis, there was a noticeable shift between the revenue sources with growth in IT fulfillment revenue compensating for the decline in IT services revenue. Large IT product sales in the first and fourth quarters of 2009 contributed to the \$19.1 million increase in IT fulfillment revenues over 2008. The \$17.7 million decline in IT services revenues 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 health care IT project in Quebec.

### Wireless

Wireless revenue is earned through providing cellular, paging and mobile radio services over digital wireless networks in our T el ebec, NorthernTel and Kenora Municipal Telephone Services (KMTS) branded territories in Quebec and Ontario. Revenue increased by 9.9 per cent, or \$8.0 million, in 2009 compared to 2008, mainly due to a 6.2 per cent increase in wireless customers at December 31, 2009, compared to December 31, 2008. Also contributing to the growth in wireless revenue was a \$1.71, or 2.8 per cent, increase in ARPC from \$60.36 in 2008 to \$62.07 in 2009, resulting from higher data roaming revenues and features penetration.

### Other revenues

Other revenues consist primarily of terminal rentals and sales, personal computer sales, telecommunications equipment sales, custom work completed for large customers, and revenue generated by our outsourcing arrangement with Bell Mobility. Other revenues declined 16.1 per cent, or \$33.0 million, in 2009 compared to 2008. The largest component of this decline was a decrease in outsourcing revenue of \$11.5 million due to the repatriation of work in 2008 by Bell Mobility that was previously performed by us. Revenues from product sales, custom work and rentals continued to erode in 2009, decreasing \$8.7 million, \$9.6 million and \$4.5 million, respectively, compared to 2008, all of which are mainly attributable to a weaker economy.



### Expenses

#### Operating expenses

For the years ended December 31

(millions of dollars)	2009	2008	% change
Cost of sales	569.2	542.2	5.0
Salaries, benefits, contract labour and consulting	574.6	637.8	(9.9)
Selling, general and administrative	557.7	605.6	(7.9)
Capital taxes	6.3	10.4	(39.4)
<b>Operating expenses</b>	<b>1,707.8</b>	<b>1,796.0</b>	<b>(4.9)</b>

Cost of sales increased by 5.0 per cent, or \$27.0 million, in 2009, compared to 2008. This was mainly attributable to the increase in IT fulfillment revenues in 2009, which generated an associated increase in cost of sales, and a higher TV subscriber base, resulting in increased TV content expense. In addition, we incurred \$8.6 million of product cost of sales associated with an IP access solution sold to certain wholesale customers during 2009.

Salaries, benefits, contract labour and consulting expenses decreased 9.9 per cent, or \$63.2 million, in 2009 compared to 2008. This was mainly due to the implementation of productivity initiatives related to workforce restructuring, a one-time \$3.0 million adjustment in the second quarter of 2009, which reduced senior management long-term incentive plan expenses, and lower IT contract labour costs related to the decline in IT services revenues in 2009. Also impacting this year-over-year decline was the recognition of expenses in the first quarter of 2008 related to an IT health care project in Quebec, which had previously been deferred.

Selling, general and administrative costs decreased 7.9 per cent, or \$47.9 million, in 2009, compared to 2008. The decrease was mainly due to cost containment and savings achieved through our productivity initiatives, which significantly reduced such costs as travel, communications, fleet, real estate, and commercial agreement costs with Bell Canada, as well as the recognition in 2008 of previously deferred costs associated with the Quebec IT health care project.

#### *Net cost of benefit plans*

Net cost of benefit plans increased 8.8 per cent, or \$6.9 million, in 2009, compared to 2008. In the fourth quarter of 2008, as a result of increased defined benefit (DB) pension plan discount rates and negative asset return performance, we recorded a \$21.4 million adjustment to reverse the valuation allowance that had previously been recorded in 2007, reducing the net cost of benefit plans in 2008. Valuation allowances are required under Canadian GAAP to "write-off" any plan surplus for accounting purposes when there is no likelihood that the surplus can be used. There was no similar allowance required in 2008 or 2009 as all of our DB pension plans now have accounting deficits. Excluding the effect of the 2008 valuation allowance reversal, the net cost of benefit plans decreased \$14.5 million in 2009, compared to 2008, mainly as a consequence 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 (OPEB) 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 in 2008, reflecting a decrease in the number of participants in these plans following restructuring initiatives that occurred in 2009.

#### *Depreciation and amortization*

Depreciation and amortization increased 0.5 per cent, or \$3.7 million, in 2009, compared to 2008. Periodically, we perform studies on the estimated useful lives of certain 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.

### *Restructuring and other charges*

Restructuring and other charges decreased 25.9 per cent, or \$15.6 million, in 2009, compared to 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, 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 these 2009 restructuring initiatives, we recognized \$34.9 million in restructuring charges, of which \$0.8 million related to discontinued operations. We also recorded an additional \$6.8 million charge related to a change in estimate for the 2008 restructuring program accrual to reflect the final costs. Restructuring and other charges also include re-branding charges of \$3.8 million in 2009. On February 2, 2010, we announced a further limited voluntary retirement opportunity for unionized employees for which a related restructuring charge will be recorded in the first quarter of 2010.

### *Other expenses (income)*

Other expenses were \$11.4 million in 2009, compared to other income of \$2.4 million in 2008. The year-over-year increase in other expenses reflects \$13.3 million reclassified from other comprehensive earnings and relates to the previously unrecognized portion of net losses on interest rate derivative financial instruments that were settled during the second quarter of 2009.

### *Interest charges*

Interest charges increased 0.8 per cent, or \$1.2 million, in 2009, compared to 2008. In May 2009, \$350.0 million of short-term debt was refinanced using a medium-term note with a higher fixed interest rate. New capital lease obligations of \$25.0 million were entered into in 2009, contributing to an increase in our total borrowing levels of \$36.6 million, representing a 1.3 per cent increase over year-end 2008 levels.

### *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 \$34.1 million in 2009, compared to 2008, largely due to a decrease in statutory tax rates in 2009.

### *Non-controlling interest*

Non-controlling interest in our earnings represents Bell Canada's 37.9 per cent ownership interest in our subsidiary, Bell Aliant LP (34.95 per cent on a proportionate cash distribution basis). The per unit distributions attributable and paid to Bell Canada equal, to the greatest extent practicable, the per unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP each quarter.

Non-controlling interest in our earnings increased 2.9 per cent, or \$3.8 million, in 2009, compared to 2008. The increase correlates to the increase in net income from Bell Aliant LP for the year.

### Net loss from discontinued operations

Net loss from discontinued operations increased 16.7 per cent, or \$2.4 million, in 2009, compared to 2008. Discontinued operations in 2009 reflect the operating results and disposal of the assets of our DSA business, xwave New England and Innovatia, while discontinued operations in 2008 also include the operating results of AMP and DSA.

We sold our DSA business on May 1, 2009, and recorded a pre-tax gain on sale of \$1.7 million. On June 1, 2009, we sold the outstanding shares of xwave New England, resulting in a pre-tax loss on sale of \$3.5 million being recognized. On November 1, 2009, we concluded a share purchase agreement for all of Innovatia's outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets of \$6.1 million, and on completion of the sale transaction a pre-tax loss on sale of \$1.5 million was recognized. We also completed a transaction to sell all of our partnership interest in 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 2009 and 2008. This quarterly information is unaudited but has been prepared on the same basis as the annual consolidated financial statements.

For the eight quarters ended December 31 (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 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

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

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

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

The quarterly operating results for 2009 and 2008 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. We also 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 and other cost containment 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 all of our interest in AMP 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 pre-tax gain on sale of \$1.7 million was recorded in the second quarter of 2009, which was reflected in net loss from discontinued operations.
- On June 1, 2009, we concluded a share purchase agreement for Abilis Solutions Inc. to acquire all of the outstanding shares of xwave New England. The proceeds on closing were \$4.9 million, resulting in a pre-tax loss on sale of \$3.5 million being recognized.
- On November 1, 2009, we concluded a share purchase agreement under which the senior leaders of Innovatia acquired all of its outstanding shares. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of \$6.1 million. The proceeds on closing were \$1.5 million, resulting in a pre-tax loss on sale of \$1.5 million being recognized.

Further details regarding our results for 2009 are discussed throughout this document. Further information on our quarterly results can be found in the respective quarterly financial statements and related MD&As on our website at [www.bellaliant.ca](http://www.bellaliant.ca) and filed on SEDAR at [www.sedar.com](http://www.sedar.com). A discussion of our results for the fourth quarter of 2009 and 2008 can be found in our fourth quarter management's discussion and analysis dated February 3, 2010, which is incorporated herein by reference and which is available on our website at [www.bellaliant.ca](http://www.bellaliant.ca) and filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### Selected annual financial information

The following table provides selected summarized annual consolidated financial information for 2009, 2008 and 2007. This has been derived from and should be read in conjunction with the annual consolidated financial statements for Bell Aliant Holdings LP for the year ended December 31, 2009, and its annual consolidated financial statements for previous years.

*For the years ended December 31*

<i>(millions of dollars, except per unit amounts)</i>	2009	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>
Operating revenues	3,174.2	3,246.3	3,220.8
Net earnings from continuing operations	373.0	336.6	311.6
Net earnings (loss) from discontinued operations	(16.8)	(14.4)	263.1
Net earnings	356.2	322.2	574.7
Basic and diluted earnings (loss) per unit			
Continuing operations	2.32	2.11	2.05
Discontinued operations	(0.10)	(0.09)	1.72
Total basic and diluted earnings per unit	2.22	2.02	3.77
Distributions declared per Fund unit	2.90	2.89	2.81
Total assets	10,517.8	10,753.0	10,472.9
Total long-term debt (including current portion)	2,777.1	2,568.7	2,573.6

*(1) Financial results for 2008 and 2007 have been restated to reflect Innovatia and our xwave New England business as discontinued operations.*

### 2009 compared to 2008

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

### 2008 compared to 2007

- Operating revenues increased in 2008, compared to 2007, as growth in data, IT services and fulfillment, and wireless revenues more than offset declines in local and access, long distance and other revenues.
- Net earnings from continuing operations were \$25.0 million higher in 2008, compared to 2007. In 2008, higher operating revenues combined with lower net cost of benefit plans, due in part to the reversal of a \$21.4 million valuation allowance that was recorded in 2007, and lower depreciation and amortization, due to 2007 including a \$62.0 million one-time adjustment related to the purchase price allocation for the 2006 acquisition of Bell Canada's wireline operation in Quebec and Ontario and of Bell Nordiq Group Inc., was offset by a \$102.1 million decline in income tax recovery, as the higher tax recovery reported in 2007 related primarily to recording the effect of tax rate changes enacted in that year.
- Net earnings (loss) from discontinued operations in 2007 included an after-tax gain of \$248.6 million, related to the sale of Aliant Directory Services.
- Total assets increased in 2008, compared to 2007, mainly due to the transfer by the Fund of its 36.7 per cent interest in Télébec and NorthernTel to us on January 1, 2008. The total goodwill, intangible assets and other assets recognized on the transaction dates was \$444.5 million.

## FINANCIAL AND CAPITAL MANAGEMENT

### Summary of cash flows

For the years ended December 31

(millions of dollars)	2009	2008	% change
Cash from (used in):			
Operating activities	1,135.6	1,249.3	(9.1)
Financing activities	(669.2)	(729.7)	8.3
Investing activities	(462.4)	(551.7)	16.2
Net increase (decrease) in cash from continuing operations	4.0	(32.1)	n.m.
Net increase (decrease) in cash from discontinued operations	8.5	(1.4)	n.m.
Net increase (decrease) in cash for the period	12.5	(33.5)	n.m.

n.m. not meaningful

We generated net cash of \$12.5 million in 2009, compared to using net cash of \$33.5 million in 2008, reflecting a \$46.0 million increase in cash flows in 2009. This increase includes \$9.9 million higher cash flow from discontinued operations which primarily reflects the sale proceeds, offset by net operating losses, realized from Innovatia, and our DSA and xwave New England businesses in the year.

### Operating activities

Cash generated from operating activities was 9.1 per cent, or \$113.7 million, 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 operating assets and liabilities, or working capital, and an increase of \$23.7 million in funding of DB pension and other post-employment benefit plans.

Cash flow generated from changes in working capital was \$22.9 million in 2009, compared to \$134.0 million in 2008. Changes in restructuring charge accruals contributed \$66.2 million to this year-over-year decline. In 2009, the reduction in accrued restructuring charges used \$23.9 million in cash flow, compared to 2008 when the increase in accrued restructuring charges added \$42.3 million to cash flow. Aside from this, our continued focus on improving the management of our customer accounts receivable has increased cash flow from working capital in both years. Customer accounts receivable management efforts contributed \$49.3 million and \$74.2 million to cash flow from working capital, in 2009 and 2008, respectively. Additionally, in 2008, we saw a \$12.2 million reduction in 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.

Pension funding requirements also affect our cash from operating activities. In 2009, our contributions to DB pension and OPEB plans were \$135.5 million, compared to \$111.8 million in 2008. Included in the total contributions are pension deficit-reducing payments of \$73.8 million in 2009, compared to \$49.2 million in 2008, pension current service costs of \$53.9 million in 2009, compared to \$55.2 million in 2008, and OPEB benefit funding of \$7.8 million in 2009, compared to \$7.4 million 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. The decreased funding of DB pension current service costs reflects the effects of our declining workforce.

### *Financing activities*

Cash used in financing activities decreased by 8.3 per cent, or \$60.5 million, in 2009 compared to 2008. Our net proceeds from debt were \$11.2 million in 2009, compared to net repayments of \$14.8 million in 2008, which is largely related to fluctuations in our short-term cash funding requirements. Included in 2009 is the refinancing of \$350.0 million of revolving and term bank debt with an issue of unsecured medium-term notes. Debt issue costs were incurred, and the notes were issued at a discount providing net proceeds of \$348.6 million. The proceeds were used to repay \$250.0 million of Bankers' Acceptance advances that were outstanding under our revolving operating facilities and a \$100.0 million non-revolving term loan. Associated with the repayment of these floating-rate obligations, we paid cash of \$15.4 million to settle our outstanding fixed-floating interest rate swaps. We also repaid the \$50.0 million long-term bank facility that was put in place in 2008 for T  l  bec. Refer to the "Financing and liquidity" section for further discussion on our short-term and long-term debt.

In 2008, we repurchased \$55.0 million of 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.

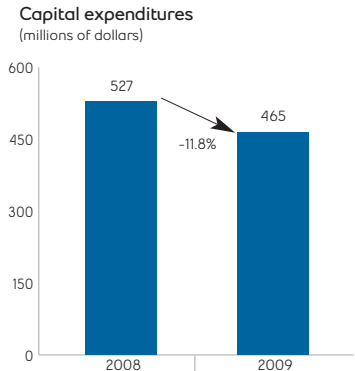
Total distributions paid to the Fund and non-controlling interests were \$665.0 million in 2009 and \$659.9 million in 2008, an increase of 0.8 per cent reflecting the increased distribution rate paid by the Fund starting in February 2008, which was paid for a full 12 months in 2009.

### Investing activities

Net cash used in investing activities decreased by 16.2 per cent, or \$89.3 million, in 2009 compared to 2008.

Capital investments were \$464.8 million in 2009, compared to \$526.9 million in 2008, representing a decrease of 11.8 per cent, or \$62.1 million. The decrease in capital spending reflects both the timing of capital projects and a deliberate lower level of capital spending, particularly on internal IT projects.

Investing activities in 2008 also included the purchase of the assets and operations of KMTS, representing a use of cash of \$28.2 million. There was no similar investment in 2009.



### 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. In general, we anticipate generating enough cash from our operating activities to pay for capital investments, distributions and other commitments as they arise. With a possible increase in pension deficit funding requirements again for 2010, we may draw on our dedicated pension reserve bank facility to supplement our operating cash flows to make these contributions. Employing this special-purpose bank facility, as we did to a limited extent in 2008 and 2009, has preserved capacity and access to liquidity for general operating purposes under our revolving credit facilities.

On April 28, 2009, we filed a new shelf prospectus that is available to cover future medium-term note issuances for a 25-month period. In addition, we continue activities to mitigate capital market risks by diversifying funding sources, maintaining sufficient capacity on our backup bank lines of credit, maintaining our investment grade credit rating, and diversifying our pension plan investments. As a result, we have not experienced any material adverse consequences to date with respect to our access to liquidity.

Our capital structure is as follows:

As at December 31

(millions of dollars)

	2009		2008	
Partners' equity	4,799.4	52.3%	4,882.9	52.4%
Non-controlling interest	1,587.9	17.3%	1,662.5	17.9%
Net debt	2,792.6	30.4%	2,768.5	29.7%
Total capital	9,179.9	100.0%	9,313.9	100.0%

### Partners' capital

We have an unlimited number authorized of each of the three classes of units. 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.

For further details on the terms and conditions associated with our units, refer to note 15 of our audited consolidated financial statements for the year ended December 31, 2009, and our Limited Partnership Agreement, each of which is available on [www.sedar.com](http://www.sedar.com).

### Debt

Our long-term debt outstanding at December 31, 2009, is as follows:

As at December 31

(millions of dollars)	Maturity	Interest rates	2009	2008
Medium-term notes	2011 – 2037	4.72% – 6.29%	2,600.0	2,250.0
Debentures	2012 – 2020	5.34% – 10.25%	139.6	144.7
Non-revolving term			—	150.0
Other	2010 – 2020	4.09% – 12.50%	37.5	24.0
Total			2,777.1	2,568.7

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. The medium-term notes are outstanding under Bell Aliant LP's trust indenture dated September 14, 2006, and are unsecured and unsubordinated.

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

During the year, we repaid a \$100.0 million non-revolving term loan with a portion of the proceeds from the note issuance referred to above. Additionally, we also repaid a \$50.0 million non-revolving long-term bank facility.

Other long-term debt includes \$41.0 million under capital lease obligations in 2009, compared to \$24.8 million in 2008, and smaller amounts outstanding under various other long-term debt obligations, netted with accumulated unamortized debt issue costs of \$10.1 million in 2009, which remains unchanged from 2008.

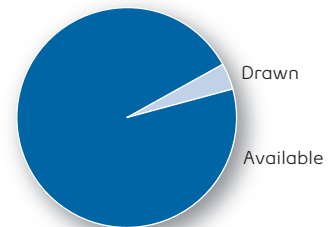
Our bank credit facilities, which are classified as short-term debt, and details of their availability and usage as at December 31, 2009, are as follows:

<i>(millions of dollars)</i>	Maturity	Size	Drawn	Letters of credit	Available
Revolving operating facilities	July 7, 2011	550.0	—	27.1	522.9
Non-revolving pension reserve facilities	July 7, 2011	447.6	40.0	130.4	277.2
Other demand operating facilities	various	13.6	—	1.4	12.2
Dedicated letter of credit facilities	annual	110.7	—	110.7	—
<b>Total</b>		<b>1,121.9</b>	<b>40.0</b>	<b>269.6</b>	<b>812.3</b>

During 2009, we decreased the total size of our bank credit facilities available to us by \$63.2 million to \$1,121.9 million as follows:

- 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 our DSA business in 2009;
- 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.

**Credit facilities**  
 (as of December 31, 2009)



Amounts drawn under our revolving and other demand operating facilities decreased \$193.2 million during 2009. Proceeds of the medium-term notes issued in May 2009 were used to repay these short-term operating facilities. There are no amounts drawn under these facilities at December 31, 2009.

Amounts drawn under our pension reserve facility were \$40.0 million at December 31, 2009, representing a \$25.0 million increase since December 31, 2008. 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 pension plans. These letters of credit have increased \$79.1 million since December 31, 2008.

We also maintain a \$400.0 million commercial paper program, supported by unused capacity on our revolving operating facilities. There were no amounts issued under our commercial paper program at December 31, 2009, or December 31, 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.

## Ratings

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

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

A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time. There have been no changes to our ratings during 2009.

## Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for 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 rate of distributions to holders of Fund units is currently \$2.90 per unit. Monthly Fund distributions are approved at the discretion of the Fund trustees. The Fund is entirely dependent upon distributions from us to make its distributions. The annual cash requirement to make distributions to the Fund unitholders and pro-rata distributions to BCE and Bell Canada on exchangeable limited partnership units was \$660.2 million in 2009, and assuming declaration of distributions by the trustees of the Fund at a similar rate as 2009, is estimated to be in the range of \$660 million to \$665 million for 2010.
- Capital expenditures for 2009 were \$464.8 million, representing 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 "2010 financial guidance" section for further discussion on capital intensity.
- We are required to repay short-term and long-term debt according to its terms. We ensure at all times that sufficient undrawn capacity exists on our revolving operating facilities to support issuance 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 million 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 on 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 2010.
- We also expect to use cash for other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure.

## Other financial arrangements

### Contractual obligations

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

As at December 31, 2009

(millions of dollars)	Total	2010	2011	2012	2013	2014	Thereafter
Long-term debt	2,746.2	3.2	755.4	5.7	72.5	409.8	1,499.6
Capital lease obligations	41.0	15.8	11.8	7.9	0.4	0.4	4.7
Operating leases	488.8	39.1	35.0	32.8	33.0	33.2	315.7
Purchase commitments <sup>(1)</sup>	3,402.8	332.4	316.0	305.7	292.8	287.5	1,868.4
Total contractual obligations <sup>(2)</sup>	6,678.8	390.5	1,118.2	352.1	398.7	730.9	3,688.4

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

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

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 12, 22 and 25 to our audited consolidated financial statements for the year ended December 31, 2009.

### Accounts receivable securitization

Under a revolving purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Under this agreement, the net cash proceeds received was \$165.0 million as at December 31, 2009, unchanged from December 31, 2008.

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

We also have an agreement with Bell Canada whereby we sell certain of our Ontario and Quebec accounts receivable to Bell Canada and we purchase certain accounts receivable related to the wireless business in Atlantic Canada owned by Bell Canada. Further details of these agreements are described in notes 1 and 2 to our audited consolidated financial statements for the year ended December 31, 2009, which notes are incorporated by reference herein.

### Use of derivative financial instruments

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

At December 31, 2008, we had outstanding fixed-floating interest rate swap contracts with notional values totalling \$250.0 million and fair values totalling \$15.2 million in favour of the counterparty. We settled these swaps in May 2009 and paid \$15.4 million to the counterparties, which included \$2.1 million in accrued interest. As the hedged variable interest rate debt was repaid, hedge accounting was discontinued and net losses of \$13.3 million that were previously recognized in other comprehensive earnings (losses) were reclassified to other expenses in the statement of earnings. At December 31, 2009, we had no derivative financial instruments outstanding. Further details of our use of derivative financial instruments, the accounting policies we follow, and the amount and financial statement classification of changes in fair value and deferred or unrecognized gains or losses on financial instruments are provided in notes 1, 13, and 20 to our audited consolidated financial statements for the year ended December 31, 2009, which notes are incorporated by reference herein.

### RELATED PARTY TRANSACTIONS

Our related party transactions are conducted in the normal course of business. In addition, our audit committee of the boards of directors, which is 100 per cent composed of independent directors, provides oversight on our business transactions with related parties.

#### *BCE and Bell Canada*

BCE and Bell Canada own all of our class 1 exchangeable limited partnership units and all of the class B exchangeable limited partnership units of Bell Aliant LP. As the units are exchangeable into Fund units, BCE and Bell Canada beneficially owned and controlled 44.09 per cent voting interest (43.95 per cent on a fully diluted basis) of the Fund's outstanding units as at December 31, 2009, compared to 44.15 per cent (44.02 per cent on a fully diluted basis) as at December 31, 2008.

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

We also have a memorandum of agreement, a commercial relationship management agreement, a series of long-term commercial agreements and other agreements with Bell Canada, which describe our long-term strategic alliance, governs our general commercial relationship and provides us with a broad range of technical, operational and human resource support services required for us to operate our wireline and Internet access operations in our Ontario and Quebec territories. The commercial agreements also provide Bell Canada with the telecommunications and support services required to operate its wireless operation throughout our territory.

For greater detail on the agreements we have in place with Bell Canada, refer to note 25 of our audited consolidated financial statements for the year ended December 31, 2009.

In addition to the agreements described above, in the normal course of business, we enter into agreements with Bell Canada and its controlled investees to provide and purchase telecommunications and other support services, and purchase capital investments.

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

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

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

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

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

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

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

The long-term receivable, including the current portion in accounts receivable, from Bell Canada of \$5.2 million, compared to \$22.3 million in 2008, relates to contingent consideration in respect of the deferral account agreement on the acquisition of Bell Canada's wireline operation in Ontario and Quebec and an IS/IT services plan, as discussed in notes 9 and 25 to our audited consolidated financial statements for the year ended December 31, 2009, and in the "Regulatory developments" section. The balance bears interest at 8.0 per cent per annum and is expected to be repaid in the first half of 2010. The long-term receivable also includes the capital funding commitment by Bell Canada in relation to the IS/IT services plan of \$16.1 million, compared to \$17.7 million in 2008.

The distributions payable to BCE and Bell Canada relate to their interest in exchangeable limited partnership units of Bell Aliant LP and Bell Aliant Holdings LP. In 2009, a total of \$291.1 million of distributions were paid to BCE and Bell Canada, compared to \$289.8 million in 2008.

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

As at December 31, 2009

(millions of dollars)	2010	2011	2012	2013	2014	Thereafter
Contractual obligations	290.7	285.0	283.8	283.1	280.6	1,797.8

### The Fund

The Fund owns 100 per cent of our class 2 limited partnership units, unchanged from December 31, 2008. The Fund is entirely dependent on the distributions we pay to it to make its distributions. In 2009, we declared distributions payable to the Fund of \$373.7 million, compared to \$372.8 million in 2008. At December 31, 2009, \$31.1 million was included in distributions payable, compared to \$31.2 million at December 31, 2008.

In the normal course of business, we have an administration agreement with the Fund for the provision of administrative and support services, such as corporate reporting, governance, investor relations, communications, treasury and all other services as may be necessary or requested by the Fund trustees for administration of the Fund. The agreement has an initial term of 10 years and will be automatically extended for additional five year periods unless notice of termination is given.

These services are recorded at their exchange amounts as follows:

For the years ended December 31

(millions of dollars)	2009	2008
Management salaries	0.8	0.8
General and administrative	3.2	3.2
Operating expenses	4.0	4.0

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

We have several unit-based compensation plans that are based on Fund units. We record all compensation expense related to these plans. Further details of the unit-based compensation plans are discussed in note 16 to our audited consolidated financial statements for the year ended December 31, 2009.

At December 31, 2009, amounts due to the Fund that are included in payables and accruals were \$25.2 million, compared to \$13.6 million in 2008, which includes the administrative expenses as well as amounts relating to the unit-based compensation plans.

The Fund loans us its excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The \$6.2 million promissory note that was payable to the Fund at December 31, 2008, was repaid on January 15, 2009. Subsequently issued promissory notes carried rates of interest from 0.49 per cent to 1.81 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the year ended December 31, 2009. At December 31, 2009, a \$2.6 million promissory note was payable to the Fund, which carried interest at 0.50 per cent per annum. The note matured and was repaid on January 15, 2010.

### **SIGNIFICANT ACCOUNTING POLICIES**

Our audited consolidated financial statements as at December 31, 2009, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those in effect in 2008, except for the adoption of new accounting standards as discussed herein. Further information on our significant accounting policies can be found in note 1 to our audited consolidated financial statements for the year ended December 31, 2009.

#### **New accounting standards adopted in 2009**

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. This section substantially harmonizes Canadian GAAP with International financial reporting standards (IFRS). Our results of operations and financial position were not materially affected by the adoption of this standard.

#### **Future changes in accounting policies**

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

#### ***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*

In April 2008, the CICA's Accounting Standards Board released an exposure draft, Adopting IFRSs in Canada, which proposes to fully converge Canadian GAAP with IFRS effective January 1, 2011. The convergence will occur over a transitional period, with certain standards adopted prior to 2011 and other standards at the date of transition. The International Accounting Standards Board is continually mandating projects and making pronouncements to evolve IFRS, and as a result, IFRS at the transition date is expected to differ from its current form.

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

### **IFRS changeover plan and progress towards completion**

Our IFRS changeover plan consists of a four-phase approach to transitioning to IFRS. We have substantially completed the first three phases and are currently focusing our efforts on implementation, the fourth phase. A description of our plan, progress by key activities, milestones achieved, and significant estimated effects on financial reporting are summarized by each phase as follows:

#### ***Phase 1 – Raise awareness and initial assessment***

This phase involved developing an initial project structure, establishing a formal project management process, developing initial operational and milestone conversion plans, raising awareness through IFRS education sessions, developing communications and training strategies, and performing a high-level initial assessment of key areas that are anticipated to have the greatest effect on our financial reporting and business.

We initiated a formal project plan that included a charter, steering committee and multi-functional team, advisors, project manager, and an initial project timeline. We held IFRS educational awareness sessions. We performed a high-level initial assessment of the effect that conversion to the current form of IFRS will have on our operations and identified a modest number of topics we believed would affect either our financial results and/or the effort necessary to implement the changeover to IFRS. The initial assessment included determining which first time adoption of IFRS exemptions we may choose to take advantage of and identifying the necessary disclosures and reconciliations on adoption; determining the comprehensiveness of our processes and procedures for property, plant and equipment in relation to IFRS; determining whether our off-balance sheet arrangements will continue to qualify under IFRS; and identifying alternatives to developing and maintaining two parallel sets of records in 2010.

#### ***Phase 2 – Detailed assessment***

This phase involved performing a detailed analysis of all the relevant IFRS standards to identify the accounting and disclosure differences between Canadian GAAP and IFRS, analysing available accounting policy choices to be made, including first time adoption of IFRS exemptions available, and modelling the initial assessment of the effect of the accounting and disclosure differences on our financial statements and notes.

We completed our detailed assessments and identified the accounting and disclosure differences between Canadian GAAP and the current form of IFRS. We evaluated the accounting policy choices necessary to convert to IFRS, including those which must be addressed at changeover date and those to be applied on an ongoing basis after the transition to IFRS. We developed an initial model of our financial statements and notes using IFRS presentation and disclosure standards, which will continue to be refined as we complete our conversion effort.

### ***Phase 3 – Design***

This phase involved making preliminary IFRS accounting policy decisions based on the accounting and disclosure differences analysed in the detailed assessments performed in phase 2. Based on these preliminary decisions, key internal stakeholders and business areas most affected by the changeover are identified. The accounting, business and internal control processes and IT systems are analysed in the key business areas and new processes, systems and controls are designed and tested.

The design and development of detailed solutions that comply with IFRS and disclosure requirements resulted in changes to our financial systems, processes and controls. We analysed the existing processes, systems, and controls in the affected business areas and designed new or modified existing processes, systems, and controls. The business areas we identified that were most affected by the changeover were internal accounting and capital management. The internal accounting area required the development of a dual reporting system and processes to be able to record IFRS results in parallel with Canadian GAAP results during 2010. The changes in the capital management area included the development of a new capital asset sub-ledger within our financial accounting system to replace a legacy system, and conversion of the data from the old to the new sub-ledger. The new sub-ledger will facilitate the calculation of depreciation expense and recording of gains and losses on disposal of capital assets. We successfully designed, developed, and tested these solutions in a test environment. As new system and process changes were designed and developed, internal controls were designed and modified to facilitate the development and on-going operation of the new systems and processes. These internal controls mainly related to the preparation and review of reconciliations, data conversion and system testing, and monitoring. We also trained the users of the changed systems and processes.

In addition, we provided general information to our audit committee on the IFRS changeover and our changeover plan, and delivered quarterly updates on our progress towards completion of our plan as well as our preliminary accounting policy choices under IFRS.

### ***Phase 4 – Implementation***

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

Phase 4 is currently underway and will carry us through to our changeover date of January 1, 2011. During this time, we will continue to report our results under Canadian GAAP but will also record preliminary results under IFRS, refining these results throughout the year as processes are improved and accounting policy choices are finalized. We are tracking favourably against our project plan, meeting all plan milestones and deliverables. Appropriate resources have been secured at all levels of the organization to complete the changeover. We have detailed project plans and provide progress reporting to our steering and audit committees. We have provided internal training to key finance personnel to ensure appropriate IFRS financial expertise exists and will continue to roll out communications and training sessions throughout the organization as we get closer to our final changeover.

Our analysis of IFRS and comparison to our accounting policies under Canadian GAAP has identified a number of differences. Many of these differences are not expected to have a significant affect on our financial position or operational results. While we have identified the key differences we believe will affect our financial statements, we have also determined that we are generally aligned with IFRS in many areas. We will continue to monitor changes to IFRS throughout 2010, and review and assess accordingly prior to our changeover. These key accounting differences are described below to provide a better understanding of the potential effects of our changeover to IFRS based on our preliminary accounting policy decisions. Actual accounting policies adopted may be materially different when the changeover to IFRS occurs on January 1, 2011.

#### **Accounting policies under IFRS**

In certain cases, IFRS provides for a choice of accounting policies. Proposed changes in accounting policies under IFRS that we believe may materially affect our consolidated financial statements, based on Canadian GAAP and IFRS issued at December 31, 2009, except as otherwise noted, are listed below.

##### ***Employee benefit plans***

We use the corridor approach under Canadian GAAP to calculate actuarial gains and losses that are reflected in earnings through the net cost of benefit plans. This involves deducting the greater of 10.0 per cent of the benefit obligation or 10.0 per cent of the market-related value of plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees, or the average remaining lifetime of retired employees.

Under IFRS, we plan to recognize actuarial gains and losses on a current basis, directly in equity, with no impact to earnings. Vested past service costs are recognized immediately in earnings while unvested past service costs are amortized on a straight-line basis over the vesting period. IFRS also requires that plan assets be measured using market values, instead of the market-related values we currently use.

##### ***Amortization of capital assets***

We amortize most of our telecommunications assets using the equal-life group depreciation method under Canadian GAAP. When we retire assets in the ordinary course of business, we charge their original cost to accumulated depreciation. No gain or loss is recorded on retirement of the asset.

We will discontinue the use of the equal-life group depreciation method under IFRS, and gains and losses on sale or retirement of assets will be included in earnings as incurred.

In addition, IFRS requires certain expenditures, which are appropriate to capitalize as property, plant and equipment under Canadian GAAP, to be expensed.

#### ***Securitization of accounts receivable***

We currently account for a transfer of receivables as a sale when we give up control of the accounts receivable in exchange for proceeds other than our retained beneficial ownership interest in those receivables. We recognize a loss on the derecognition of the receivables, calculated as the excess of the carrying value of the receivables over the fair value of the consideration received.

Under IFRS, the criteria to derecognize financial assets are substantially different than under Canadian GAAP. Our securitization of accounts receivable program will not qualify for derecognition under current IFRS. Therefore, both the accounts receivable balance and related obligation will be shown on the balance sheet as a current asset and current liability, respectively.

#### ***Provisions, including asset retirement obligations***

Under Canadian GAAP, we record asset retirement provisions when a present obligation exists as a result of past transactions or events, there is a likely outflow of resources required to settle the obligation, and the amount of the obligation can be reliably estimated. Asset retirement obligations are recorded when a legal or contractual obligation exists.

Provisions are recorded under IFRS when an outflow of resources is more likely than not, instead of the higher "likely" threshold under Canadian GAAP. Other specific differences exist in relation to the methods used to estimate the amount of provisions. Asset retirement obligations are recorded when a legal, contractual or constructive obligation exists.

#### ***Impairment of assets***

Under Canadian GAAP, we assess for impairment of assets, other than goodwill and indefinite-life intangible assets, when events or changes in circumstances indicate that we may not be able to recover their carrying value. An impairment loss is recognized when the carrying value of the asset exceeds the total undiscounted cash flows expected from its use and disposition. The impairment loss is recorded as the difference between the carrying value and fair value of assets. Impairment of assets recognized under Canadian GAAP cannot be reversed in a subsequent period if circumstances change.

Under IFRS, identification and measurement of impairment of assets is determined by comparing the carrying value of assets to the greater of their fair value less costs to sell and value-in-use (generally discounted future cash flows). Impairment of assets, other than goodwill, is reversed in a subsequent period if circumstances change such that the previously determined impairment is reduced or eliminated.

### First-time adoption of IFRS

Our financial statements for the year ending December 31, 2011, will be prepared according to IFRS with comparative amounts for the year ended December 31, 2010. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, generally requires that we apply IFRS on a retrospective basis in our opening balance sheet as at January 1, 2010. IFRS 1 also provides certain mandatory exceptions and elective exemptions to retrospective application. We expect that our IFRS 1 elections will be approved by senior management during the first half of 2010, once we have completed our analysis of, and quantified on a preliminary basis, each exemption. The significant optional exemptions that we expect to apply are as follows:

Employee benefits – we anticipate recognizing all cumulative actuarial gains and losses on pension and OPEB plans in opening retained earnings at January 1, 2010.

Business combinations – we anticipate not restating any business combinations that occurred prior to January 1, 2010.

Borrowing costs – we anticipate electing to apply the requirements to capitalize borrowing costs on qualifying assets prospectively from January 1, 2010.

### Critical accounting estimates and assumptions

Under Canadian GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of our consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

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

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

### *Post-employment benefits*

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

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

- The discount rate is the interest rate used to determine the present value of future cash flows that we expect will be required to pay employee benefit obligations. For our plans that have predominantly active employee members, our discount rate is based on current interest rates on long-term debt of high quality corporate fixed income investments with maturities matching the estimated cash flows of the plan. For our plans consisting primarily of retired members, we base the discount rate on current annuity rates. We determine the appropriate discount rates at the end of each year.

For our plans having predominately active employee members, our assumed discount rate was 6.5 per cent at December 31, 2009, compared to 7.0 per cent at December 31, 2008. For our plans consisting primarily of retired members, our assumed discount rate at December 31, 2009, was 4.5 per cent, compared to 4.25 per cent at December 31, 2008. The weighted average of our assumed discount rates at December 31, 2009, was 5.5 per cent. Although this weighted average discount rate is unchanged from the prior year, the changes in discount rates within the individual plans combined with other actuarial gains and losses caused a net increase of approximately \$99 million in our DB pension plan and OPEB plan obligations at December 31, 2009, compared to December 31, 2008.

At December 31, 2008, the weighted average discount rate was 5.5 per cent, consistent with December 31, 2007, but the change in discount rates within the individual plans caused a net decrease of approximately \$171 million in our DB pension plan and OPEB plan obligations, compared to December 31, 2007.

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

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

For 2008, our assumed rate of return on plan assets was 6.3 per cent, a decrease from the rate of 6.7 per cent assumed in 2007, due to a shift in the investment policy of our pension plans away from equities toward fixed income investments with characteristics that more closely match the pension obligations. This change in assumptions increased the annual net benefit plans cost for DB pension plans by approximately \$11 million in 2008.

### Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of net benefit plans cost for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated effect for the year ended December 31, 2009, on the value of the accrued benefit obligation and the annual net cost of benefit plans for a 0.25 percentage point change in the discount rate and the expected rate of return on plan assets.

<i>(millions of dollars, except as otherwise noted)</i>	Assumption	Rate change	DB pension plans		OPEB plans	
			Obligation	Cost	Obligation	Cost
Discount rate	4.25 – 6.50%	+/-0.25%	107.0	8.0	8.0	—
Expected rate of return on plan assets	5.50 – 7.50%	+/-0.25%	—	6.0	—	—

### Amortization of net actuarial losses

Our accounting policies with respect to the amortization of net actuarial losses follow Canadian GAAP and recognize that future investment returns on plan assets and actuarial changes in the plans can influence the amount of the gains or losses and can reverse them over time. Specifically, amortization occurs when the size of the actuarial loss, or gain, exceeds a "corridor", which is the greater of 10.0 per cent of the accrued benefit obligation or 10.0 per cent of the market-related value of the plan assets. Using a market-related value of assets to determine this corridor smoothes the effect of actual gains and losses in certain of the plans' assets over a three year period. The effect of these accounting policies is to limit the amount of amortization of both gains and losses recognized in our earnings, except in situations when they become exceedingly large. We have unamortized actuarial losses totalling \$831.4 million in our DB pension plans and OPEB plans at December 31, 2009, compared to \$871.7 million at December 31, 2008. This balance reflects net actuarial gains realized in 2009 and the amortization expense of \$18.5 million, compared to \$17.3 million in 2008. Additional information regarding our accounting for post-employment benefits is included in note 7 to our audited consolidated financial statements for the year ended December 31, 2009.

### Long-lived assets

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

### **Estimations of useful lives**

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

In 2009 and 2008, we changed the estimated useful life of some of our telecommunications equipment as a result of independent studies. These changes in accounting estimates have been applied prospectively.

### **Purchase price allocation for business acquisitions**

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

Goodwill recorded in 2008 related to the acquisition of the 36.7 per cent interest in Télébec and NorthernTel and the assets and operations of KMTS. The purchase price allocation for these business acquisitions was complete at December 31, 2008, which resulted in recording \$201.6 million of goodwill.

In 2008 and 2009, the goodwill related to the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordiq Group Inc. was increased by \$21.7 million and \$5.6 million, respectively, as adjustments were made to reflect contingent consideration related to a 2006 CRTC decision, which required Bell Canada to reduce rates charged for services in certain regions, some of which affected customer accounts that we acquired.

### **Impairment**

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

Recoverable value for goodwill and indefinite-life intangibles is based on estimates of discounted cash flows, external factors, or a combination of both. Recoverable value of capital investments is based on undiscounted cash flows. The determination of fair value requires management to make estimates and assumptions at the date of the assessment, which are by their nature subject to measurement uncertainty. As such, actual results could differ from the estimates used.

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

We conducted our annual goodwill and indefinite-life intangible impairment tests in the fourth quarter of 2009 and 2008. We used a combination of discounted cash flows and external factors in assessing fair value of goodwill. Significant assumptions used in determining the fair value of goodwill included the weighting of external and internal information, the weighted average cost of capital and anticipated future growth rates, pension funding, capital investments and savings from productivity initiatives. The assumptions used were consistent with those outlined in the "Assumptions made in the preparation of forward-looking information" section. The annual testing of goodwill and indefinite-life intangibles in 2009 and 2008 has indicated no impairment.

We are unable to predict whether an event that triggers impairment will occur, when it will occur, or how it will affect the carrying value of the long-lived assets. In the first quarter of 2008, as a result of Bell Canada notifying us of their intent to discontinue using AMP as its exclusive distributor of mobility products in Atlantic Canada, we assessed the carrying value of goodwill related to AMP. An impairment charge of \$11.2 million was recorded, which reduced the carrying value of the goodwill related to AMP to zero. During 2009, there were no events that triggered an impairment assessment for goodwill or intangible assets.

During the fourth quarter of 2009, we completed a transaction to sell all of the outstanding shares of Innovatia. In anticipation of the disposal, we recorded a write-down of net assets in the third quarter of 2009 of \$6.1 million. There were no events or changes in circumstances in 2008 indicating that the carrying amount of the capital investment may not be recoverable.

#### *Income taxes*

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

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

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

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

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

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.

### **Restructuring and other charges**

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

During 2009, we increased the estimate of the restructuring and other charges liability recorded in 2008 by \$6.8 million to reflect the final costs. We also executed a planned restructuring of our operations to improve productivity, incurring an additional \$34.9 million in restructuring charges, of which \$0.8 million is related to discontinued operations. In 2008, we reduced the estimated cost of the 2007 restructuring activities by \$5.6 million to reflect the final costs, and we recorded restructuring charges totalling \$66.3 million, of which \$0.4 million is related to discontinued operations.

### **Legal and regulatory contingencies**

We may become involved in various litigation and regulatory proceedings in the normal course of our business. Pending litigation, regulatory initiatives and regulatory proceedings may represent potential financial loss. We accrue potential losses if we believe the loss is probable and can be reasonably estimated. Estimates of loss are based on consultation with legal counsel and involve analyzing potential outcomes and assuming various litigation strategies. Note 23 to our audited consolidated financial statements for the year ended December 31, 2009, presents a discussion of material contingencies outstanding at that date.

We did not have any significant provisions relating to pending litigation or regulatory initiatives and proceedings in 2009 or 2008.

### **REGULATORY DEVELOPMENTS**

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

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

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

Regulatory developments in 2009, and up to and including March 10, 2010, which are, or may be, significant to our business, include the following:

- ***Review of support structure rates***

In August 2009, the CRTC launched a proceeding to review the large incumbent local exchange carriers (ILEC's) 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 telephone service in high cost (rural and remote) areas. This subsidy is funded by a levy on certain industry revenues. This levy was set at 0.81 per cent of eligible telecommunications 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, for example, 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 October 25, 2010. The outcome of this proceeding may result in changes to various regulatory regimes, including the subsidy regime, which could have an adverse effect on our business and financial results. A decision is expected in the first quarter of 2011.

- **Review of regulatory framework for wholesale 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.

- **Review of unbundled local loop rates**

On June 2, 2009, Bell Aliant, together with Bell Canada, proposed changes to the existing rates for their wholesale service that provides unbundled local loops to competitors in their Ontario and Quebec serving areas. The Commission made the current loop rates interim, pending a complete review of the companies' updated cost studies. The process is scheduled to conclude on May 28, 2010, with unbundled loop rates expected to be finalized within 120 days of the close of the record. The Commission's newly determined rates may then be retroactively applied to the date of interim approval (December 14, 2009).

- **Traffic management**

On November 20, 2008, the CRTC initiated a proceeding to review 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. Additionally, the CRTC examined the appropriateness of implementing regulatory measures in relation to Internet traffic management by Internet service providers (ISPs).

On October 21, 2009, the CRTC issued Telecom Regulatory Policy 2009-657, which maintained 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 reviewed, and certain privacy and notification requirements were also implemented.

- **Deferral accounts**

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

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

Bell Canada's accumulated deferral account commitment is estimated at \$488 million. The clearing of the deferral account is subject to CRTC approval. In Decision 2008-1, the CRTC approved Bell Canada's proposed initiatives to improve access to telecommunications services for persons with disabilities using \$24 million from its deferral account. The CRTC determined that these funds should be fully utilized within a four-year period ending in 2011, and directed Bell Canada to file a report each year, by March 31, providing updates on the status. The CRTC also approved the use of deferral account funds to fund the uneconomic cost of expanding broadband services to 112 communities, and determined that the remainder in Bell Canada's deferral account should be returned to residential customers in urban, non high-cost serving areas within the Ontario and Quebec portions of the serving areas of Bell Canada and Bell Aliant.

Pursuant to the follow-up processes related to Decision 2008-1, on February 26, 2010, Bell Canada and Bell Aliant proposed to the CRTC that, as part of their deferral account-funded broadband expansion program, they intended to provide wireless broadband services to the approved communities and indicated that the uneconomic cost of this program would be approximately \$454 million, leaving \$10 million for returns to eligible customers. On January 29, 2010, Bell Canada and Bell Aliant also filed their proposals on the manner in which funds would be returned to customers, and will be filing additional information in this regard on March 15, 2010. CRTC approval of these proposals is pending, and a decision is expected later this year.

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

- **Broadcasting**

Fee-for-carriage/Value for signal

In an October 2008 decision, 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. We are awaiting a decision on this issue.

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 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 effect on us of FFC/VFS at this time. The CRTC is required to file a report to the Minister in the first quarter of 2010.

#### New media

On June 4, 2009, the CRTC issued Broadcasting Regulatory Policy 2009-329 in which it determined that broadcasting content distributed over the Internet through mobile devices will continue to be exempt from broadcasting regulation and endorsed the call by the National Film Board for the Government of Canada to develop a national digital strategy. In addition, the CRTC referred to the Federal Court of Appeal the legal issue as to the applicability of the Broadcasting Act to ISPs.

- **Other developments**

In Telecom Decision 2009-187, the Commission denied Rogers Communications Inc.'s (Rogers) to review and vary Telecom Decision 2008-62 where the Commission determined that our obligations to Rogers under a 2002 support structure agreement had ended in March 2004 when New Brunswick Power Distribution and Customer Service Corporation (NB Power) terminated our underlying joint sub-agreement: Support Structure – Third Party Attachments with NB Power, under which we administered certain NB Power support structures. Rogers has been granted leave to appeal Telecom Decision 2009-187 by the Federal Court of Appeal and the parties have submitted their arguments to the court.

In addition, on December 23, 2009, the Commission determined that Bell Aliant is not required to implement competitive local exchange carrier (CLEC) access to ILEC operational support systems in its Atlantic territory as had been requested by Rogers and as had been implemented by Telus and Bell Canada.

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

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

A number of factors or assumptions were applied or made by us in preparing our 2010 guidance, as presented in the "2010 financial guidance" section, and in providing the forward-looking information referred to throughout this MD&A. The material factors and assumptions are outlined in this section.

#### *Economic assumptions*

After contracting in 2009, we assume that the Canadian economy will gradually return to a period of growth. We expect real growth in Gross Domestic Product to be in the range of 2 to 3 per cent for 2010, 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 anticipated 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 issuers like Bell Aliant LP remaining approximately the same as current levels.

#### *Market and financial assumptions*

In 2010, we expect our competitors to continue to expand their coverage areas and for competitive activity to remain intense, which will continue to put pressure on our operating revenues. We expect our operating expenses to continue to decrease in 2010, although not at the same rate as 2009. Distributable cash for 2010 is expected to remain in the same range as our 2009 performance, as discussed below.

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 in 2010 will decline slightly from 2009.

We will persist in our efforts to decrease 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 relationship to leverage our collective purchasing power. We expect these benefits will help offset declines in our operating revenue margins from lower overall operating revenues and a changing operating revenue mix; however, we expect a slight decline in overall EBITDA in 2010 from that achieved in 2009.

Growing broadband continues to be a priority for us. In 2010, we intend to continue focusing investment in this area, with expectations of more than doubling our 2009 spending on fibre technology to pass 140,000 homes with our *FibreOP* service by the end of the year. We also expect to increase our coverage area for Internet and TV, add new services and gain more customers. Despite the planned increase in fibre capital spending in 2010, our overall capital investment spending 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 from 2009 at \$2.90 per unit for 2010.

We expect pension deficit funding to be in the range of approximately \$80 million to \$110 million in 2010, with the results of actuarial valuations providing a more precise figure by the second half of 2010. These estimates may be significantly affected 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. Pension current service cost and OPEB funding, which was approximately \$69 million in 2009, is expected to be similar 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 in 2011 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 2010 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 considered fundamental to the long-term success of any organization. For us, risk is defined as the level of exposure to uncertainties that we must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our unitholders.

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

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

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

### *Increasing competition*

In a series of decisions beginning in the late 1970s and ending in 1998, the CRTC opened up competition in all product and service segments in which we operate. The CRTC also imposed a number of competitor safeguards and marketing restrictions on the operations of our telecommunications business. We therefore face competition for most of the services we provide.

Traditional and non-traditional competitors have launched competing services or announced their ability or intention to offer local telephony services in a growing proportion of the territories we serve. The local competitive footprint served by cable television competitors may evolve more quickly, and eventually to a larger proportion of our existing territory, than we currently expect. Additionally, non-traditional international competitors could converge into the Canadian telecommunications marketplace faster and in more areas than we currently anticipate.

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

If any of these situations occur, our market share, revenues, and net earnings may be adversely affected. We actively monitor and analyze developments in the markets where we operate to evaluate our competitiveness. We believe we have core strengths and initiatives that provide us with differentiation in the marketplace and enhance our competitive position, reducing the overall competitive risk. The strengths and strategies of our business are described in more detail in the "Highlights of strategic focus for 2010" section.

### **Local and long distance**

Competitors offer local telephone service in a large portion of our marketplace. These competitors have the ability to offer multiple product bundles, consisting of various combinations of telephone, Internet, wireless and TV. We continue to pursue our customers' business by offering value, simplicity and competitive pricing. We are also continuing to improve our ability to compete for their business by pursuing further regulatory freedoms. However, there is no assurance that this will mitigate churn and market share erosion resulting from new competitive entrants to our marketplace.

In addition to cable competitors in our local service market, a threat to our NAS customer base continues to be the replacement of local landline service with wireless-only service by certain customers. This puts pressure on revenues for local service and also leads to declining revenues for services and features that are carried on the local network, including Internet and long distance.

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

### **Internet**

Internet penetration continues to grow in our market. We are experiencing an increasingly diverse and global group of competitors ranging from cable providers with excess network capacity to IT companies, equipment providers and system integrators that increasingly bundle telephony components and professional services into solutions at commodity prices. These competitors continue to exert pressure on our pricing, revenues and market share. In response, we intend to continue to build our expertise and to serve our customers holistically, helping them evolve their networks and providing them with industry-specific solutions.

### **Wireless**

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

The addition of new players in the Canadian wireless market, following the competitive auction of new wireless spectrum in 2008, will heighten competition in this market and could have a material adverse effect on our results of operations, including with respect to our local and long distance business.

### *Ability to achieve strategies and plans*

Our strategic initiatives for 2010, as discussed in the "Highlights of strategic focus for 2010" section, will affect our customer interactions, our internal processes, our network and our people.

One of the main drivers of revenue performance is the loss of network access lines to competitors and wireless substitution. While we have developed plans and marketing strategies to address this risk, if line loss is materially worse than forecast, it will have a material adverse effect on our local and access revenues in 2010.

Our strategies and plans include initiatives intended to transform our cost structure. Accordingly, we are continuing to implement several productivity improvements and initiatives to reduce costs while containing our capital expenditures. There may be a material and adverse effect on our profitability if we do not successfully implement these productivity initiatives and improvements and manage capital expenditures while maintaining the quality of our service.

Many productivity improvements and cost reduction initiatives require capital expenditures to implement systems that automate or improve our operations. There is no assurance that these investments will be effective in delivering the planned productivity improvements and cost reductions.

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

There is also a risk that, should the pace of our broadband and fibre rollout be slower than is currently contemplated in our business plan, or that our costs exceed our expectations, our Internet and TV growth rate could be lower than current expectations, thereby adversely affecting our expected number of Internet and TV subscribers and revenues in 2010.

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

### *General economic conditions*

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

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

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

#### *Reliance on systems*

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

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

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

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

### *Changing technology*

The telecommunications industry is affected by rapidly evolving technology and the related changes in customer demands, product and service capabilities, and prices. Technological developments are also shortening product life cycles and facilitating convergence of different segments of the increasingly global information industry. For example, VoIP, substitution of wireline services with wireless and other evolving technologies will increase the competition we face and could negatively affect future revenues. Our future success will be influenced by our ability to anticipate, invest in, and implement new technologies with the service level and prices that customers demand. Technological advances may also affect our cash flow by shortening the useful life of some of our assets. There can be no assurance that our existing technologies will satisfy future customer needs, that our existing technologies will not become obsolete in light of future technological developments, or that we will not have to incur additional capital expenditures to upgrade or replace our technology. In addition, technological advances could emerge that could reduce the costs of plant and equipment, thereby facilitating entry by potential competitors. While we believe that the level of capital investment we plan to make in 2010 is sufficient to maintain the productive capacity of our network and other assets, the effect of changing technology could result in greater investment being required in the future.

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

### *Required operating and capital expenditures, and demand for services*

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

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

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

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

#### *Business relationship with Bell Canada*

Bell Canada and certain of its affiliates and associates have substantial global operations and greater financial, technical and operational resources than us. We have entered into a series of long-term commercial agreements with Bell Canada, including a commercial relationship management agreement, which is discussed in further detail in the "Related party transactions" section. Certain terms of the commercial agreement are subject to periodic re-negotiation, which is due to occur in 2010. Under our agreements, we and Bell Canada are restricted from competing with each other in certain respects in our respective territories. However, if this agreement were to be terminated, we, Bell Canada, and our respective affiliates, associates or operating companies could thereafter compete with each other.

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

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

#### *Pension plan funding*

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

The DB pension plans are exposed to general future valuation risk and required funding levels for 2010 and beyond may change as required actuarial valuations are completed. If the future return on plan assets, interest on the obligations, or actual experience of the plans are better or worse than anticipated, valuations can result in either lower or higher minimum required contributions, and such differences may be material.

Pension funding relief measures first introduced in the May 2006 federal budget, and proposed again by the federal Minister of Finance in January 2009 for new deficits, allow plan sponsors to extend the funding period of solvency deficits from five to 10 years under certain conditions. We are currently able to take advantage of these relief measures, in part, because we have bank facilities that allow us to issue letters of credit in lieu of making cash funding payments. If we were unable to continue to access these credit facilities or otherwise failed to qualify for the solvency funding relief, there may be an immediate requirement for higher cash funding of our DB plans.

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

On 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. The significant risk exposures faced by our DB pension plans, namely the effect of fluctuating interest rates, actuarial assumptions and equity market returns, have not changed and we believe they are not materially lowered by these proposed reform measures. We continue to manage these risk exposures through asset mix and funding policies aimed at lowering the volatility of future funding requirements while balancing the overall costs of the plans.

### *Changing regulations*

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

Collectively, several regulatory developments during 2007 and 2008 serve to lessen the regulatory burden and have improved our marketing flexibility and ability to compete effectively. There is no guarantee, however, that these regulatory trends will continue. There is a risk that decisions of the CRTC, and in particular the decisions relating to the price at which we must provide our competitors with access to our facilities, and our ability to manage Internet traffic over our networks, may have an adverse effect on our business and results of operations. We actively monitor CRTC decisions and participate in the regulatory arena to advocate for a balanced regulatory framework, which serves our customers and the industry at large.

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

### *Dependence on key suppliers*

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

### *Maintenance of credit ratings*

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

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

If the poor economic conditions experienced in the latter part of 2008 and into 2009 were to persist for a long period or broaden in their scope, or if there are other shocks to financial markets, we may incur increased costs or an inability to raise financing when needed for repayments of maturing debt or for growth. If we cannot raise the capital we need, we may have to limit our ongoing capital expenditures, limit our investment in new businesses, or sell or otherwise dispose of assets. Any of these possibilities could have a material, adverse effect on our financial position, results of operations, or cash flow from operations and growth prospects. Strategies in place for our capital requirements are also discussed in the "Financial and capital management" section.

### *Leverage and restrictive covenants*

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

- Our ability to make distributions, and our subsidiaries' ability to make distributions to us, may be limited if we are unable to meet the financial tests provided in these trust indentures and facilities.
- Our ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future is limited by the restrictive covenants of these trust indentures and facilities.
- A substantial portion of our cash flow from operations may be dedicated to the payment of the principal and interest on indebtedness, thereby reducing funds available for future operations.

- Certain of our borrowings are at variable rates of interest, which exposes us to the risk of increased interest rates.
- We may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures.

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

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

#### *BCE's governance rights*

In connection with the arrangement transaction completed on July 6, 2006, to form the Fund, we entered into a securityholders' agreement with BCE and Bell Canada. Under the terms of the securityholders' agreement, for so long as BCE, directly or indirectly, holds not less than 20 per cent of the units of the Fund on a fully diluted basis, the Fund and its operating subsidiaries must obtain BCE's consent prior to entering into various transactions such as, among other things, certain mergers, joint ventures, asset sales and other material transactions. In addition, BCE and its affiliates have certain rights in terms of the nomination of trustees of the Fund and the appointment of the directors of the Fund's material operating subsidiaries. BCE and its affiliates are entitled to appoint up to a majority of the directors of the Fund's material operating subsidiaries and nominate a majority of the trustees of the Fund for so long as BCE, directly or indirectly, holds not less than 30 per cent of the units of the Fund on a fully diluted basis and our significant commercial agreements are in place. If such commercial agreements are terminated by any of the parties thereto in accordance with their terms or if BCE and its affiliates, directly or indirectly, hold less than 30 per cent of the units of the Fund on a fully diluted basis, then BCE will be entitled to appoint its proportionate share of the directors of the Fund's material operating subsidiaries and nominate its proportionate share of the trustees of the Fund based on its fully diluted direct and indirect ownership of units of the Fund. In any event, BCE will be entitled to nominate two directors to the board of Bell Aliant Holdings GP, Bell Aliant Holdings LP's general partner and nominate two persons for election as two trustees of the Fund, for as long as such commercial agreements are in place, irrespective of its ownership interest in the Fund (on a fully diluted basis) or its subsidiaries. BCE has complete discretion in terms of the exercise of these rights. As a result of this, the Fund and its operating subsidiaries may be restricted from entering into or carrying out transactions or activities that they may otherwise wish to do.

#### *Reliance on key personnel and labour relations*

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

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

Approximately 58 per cent of our employees are represented by unions and are covered by collective agreements. Our unions in Atlantic Canada represent approximately 69 per cent of our total number of bargaining unit employees. The Common Interest Forum, which comprises senior executives from Bell Aliant Holdings LP and the Communications, Energy and Paperworkers Union of Canada Atlantic Communications Council (CEPACC) has been meeting regularly for more than two years, and is making progress dealing with issues that are of mutual interest to both parties. The current collective agreement expires at the end of 2011.

The remaining 31 per cent of our unionized employees work in Quebec and Ontario and are covered by nine collective agreements. An agreement covering approximately 150 clerical employees represented by Communications, Energy and Paperworkers Union of Canada (CEP) expired in May 2009. This agreement has just been successfully renegotiated by both parties and was ratified by the members in a vote completed on February 17, 2010. We also have an agreement for the 18 technical and clerical employees, represented by the International Brotherhood of Electrical Workers (IBEW) in our KMTS operation, which expired at the end of 2009. In November 2009, we filed an application with the Canadian Industrial Relations Board to merge this certification unit with the existing CEP units (craft and clerical) covering our operations in Ontario. The CEP and IBEW have both confirmed that they have no objection to the proposed merger and we anticipate a positive decision from the board in the next coming months, which would eliminate the need to renegotiate the IBEW collective agreement. An agreement covering five sales employees represented by CEP in Quebec expires May 31, 2010. In addition, there is a wage re-opening planned for July 2010, for 170 T  l  bec technicians in Quebec, represented by the International Brotherhood of Teamsters. We expect to successfully renegotiate these two collective agreements during the year. There can be no assurance, however, that we will be able to successfully renegotiate collective agreements on favourable terms. Failure to reach agreement could lead to labour disruptions and could have a material adverse effect on our business and results of operations.

#### *Legal contingencies and changes in laws*

We review all legal proceedings and make assessments of the likelihood of a negative result and the estimated effects. Losses are accrued when a potential loss is deemed probable and its consequence can be reasonably estimated. However, pending or future litigation could still have a material adverse effect on results of operations, cash flows and financial position in the period in which the judgment or settlement occurs. Significant outstanding legal contingencies are described in note 23 to our audited consolidated financial statements for the year ended December 31, 2009.

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

### *Success of acquisitions and dispositions*

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

### *Tax related risks*

#### *Interest expense deduction*

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

#### *Allocation of partnership income*

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

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

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

### ***Changes to the tax treatment of trusts***

The Government of Canada's changes to the tax treatment of income trusts announced on October 31, 2006, received royal assent and were enacted into law on June 22, 2007 (the SIFT Rules). Effective January 1, 2011, income trusts that were publicly traded before November 2006, like the Fund, will be subject to taxation at corporate tax rates and certain distributions to unitholders will be taxed like dividends received from a corporation. All else being equal, the taxation of income trusts at corporate tax rates will result in less cash being available to pay distributions by the Fund. The Government of Canada specified that while there was no intention to prevent existing income trusts from normal growth during the transitional period, any undue expansion of an existing income trust before 2011 would make the new rules effective immediately. To qualify for the delay in applying the SIFT Rules, the Fund must comply with the SIFT normal growth guidelines regarding equity capital that were issued on December 15, 2006, as amended from time to time (the Normal Growth Guidelines). In particular, the equity of the Fund is only permitted to grow by an aggregate amount of up to 100 per cent of our October 31, 2006, market capitalization, up to and including the 2010 calendar year. In December 2008, the Minister of Finance released Explanatory Notes to the November 28, 2008, Notice of Ways and Means Motion, which revised the Normal Growth Guidelines to accelerate the safe harbour amounts for 2009 and 2010 to make them available on and after December 4, 2008. This change does not alter the maximum available growth of a trust, but would generally allow a trust, like the Fund, to use the remaining growth room in a single year, rather than incrementally over 2009 and 2010. Because there is still uncertainty as to the interpretation of these guidelines and what constitutes growth in certain situations, there can be no assurance that we will be able to retain the benefit of the deferral of the SIFT Rules. If the Fund is deemed to have undergone undue expansion during the period up to December 31, 2010, as described in the Normal Growth Guidelines, the SIFT Rules would become effective on a date earlier than January 1, 2011.

### **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.

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

	2009	2008
Net earnings	356.2	322.2
Add:		
Other expense (income)	11.4	(2.4)
Interest charges	158.4	157.2
Income taxes (recovery)	(56.1)	(22.0)
Non-controlling interest	134.9	131.1
Net loss from discontinued operations	16.8	14.4
Operating income	621.6	600.5
Add:		
Depreciation and amortization	715.0	711.3
Restructuring and other charges	44.7	60.3
Net cost of benefit plans	85.1	78.2
EBITDA	1,466.4	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 margin is defined as EBITDA as a percentage of our operating revenues.

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 and other charges, and cash capital taxes in excess of normalized levels;
- (ii) Current income tax provisions (recoveries) are added back (deducted) as we have tax strategies in place to ensure that they are not payable (receivable) in cash; and
- (iii) Other elements of working capital changes that should not result in actual current or future cash flows.

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

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

For the years ended December 31

(millions of dollars)

	2009	2008
Cash from operating activities	1,135.6	1,249.3
Add (deduct):		
Standardized distributable cash of discontinued operations	(13.9)	(1.0)
Cash from operating activities of the Fund	(15.8)	(0.3)
Capital expenditures	(464.8)	(526.9)
Standardized distributable cash	641.1	721.1
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Change in operating assets and liabilities (working capital)	(22.9)	(134.0)
Change in operating assets and liabilities (working capital) of the Fund	11.8	(3.6)
Change in operating assets and liabilities (working capital) and other non-cash items of the discontinued operations	9.9	4.5
Pension deficit funding	73.8	49.2
Restructuring charges	40.9	60.3
Cash capital taxes in excess of normalized levels	6.3	10.4
Other adjustments:		
Current income tax recovery	(2.0)	(7.6)
Other non-cash items provided for in working capital changes	14.5	15.3
Distributable cash	773.4	715.6

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

One of the primary metrics of our financial performance 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.

## CONTROLS AND PROCEDURES

### Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities law. An evaluation of the effectiveness of our disclosure controls and procedures as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109) was performed under the supervision and participation of our management, including the chief executive officer (CEO) and chief financial officer (CFO). Based on the evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2009.

### Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in NI 52-109. Our internal control framework is based on the criteria published in the report Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management evaluated the design and operation of our internal control over financial reporting as at December 31, 2009, and has concluded that our internal control over financial reporting is effective. There are no material weaknesses that have been identified by management.

No changes were made in our internal control over financial reporting during the year ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Management's report

## TO THE UNITHOLDERS

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

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

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

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



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



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

March 10, 2010

# Auditors' report

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

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

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

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

*Deloitte & Touche* LLP

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

# Statements

## CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

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

See accompanying notes to the consolidated financial statements

## CONSOLIDATED BALANCE SHEETS

As at December 31

(millions of dollars)

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

See accompanying notes to the consolidated financial statements

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



Edward Reevey  
 Director



Louis Tanguay  
 Director

## CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31

(millions of dollars, except earnings per unit)

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

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

For the years ended December 31

(millions of dollars)

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

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

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

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

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

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

See accompanying notes to the consolidated financial statements

# Notes

Bell Aliant Regional Communications Holdings, Limited Partnership (Bell Aliant Holdings LP) was established in 2006 under the laws of the Province of Quebec, and holds the principal operations of Bell Aliant Regional Communications Income Fund (the Fund). All references to “we”, “us” or “our” refer to Bell Aliant Holdings LP and its subsidiaries.

Our operations are principally focused on regional telecommunications services in Atlantic Canada, Quebec and Ontario. We provide a wide range of innovative and traditional voice and data communications services as well as information technology (IT) consulting, infrastructure management, product fulfillment and advanced technology solutions.

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## SIGNIFICANT ACCOUNTING POLICIES

### Consolidated financial statements

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

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

### Comparative figures

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

### Use of accounting estimates

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

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

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

### Cash and cash equivalents

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

### Transfer of receivables

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

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

### Inventory

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

### Income taxes

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

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

### Capital investments

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

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

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

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

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

### Deferred charges and credits

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

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

### Post-employment benefits

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

#### DC pension and other retirement savings plans

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

#### DB pension and OPEB plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Leases

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

### Financial instruments

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

### Non-derivative financial assets and financial liabilities

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

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

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

### Held for trading

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

### **Loans and receivables**

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

### **Other liabilities**

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

### **Transaction costs**

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

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

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

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

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

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

### **Hedge accounting**

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

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

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

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

### **Economic hedges**

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

### **Embedded derivatives**

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

### **Revenue recognition**

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

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

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

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

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

#### **Earnings per unit**

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

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

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

#### **Distributions**

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

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

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

#### **Future changes in accounting policies**

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

### *Business combinations, Consolidated financial statements, and Non-controlling interests*

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

## 2 TRANSFER OF RECEIVABLES

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

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

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

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

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

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

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

### 3 INVENTORY

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

## 4 INCOME TAXES

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

As at December 31

(millions of dollars)

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

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

The total future income taxes are composed of the following:

As at December 31

(millions of dollars)

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

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

Our portion of these temporary differences is as follows:

As at December 31

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

Significant components of income tax recovery are as follows:

For the years ended December 31

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

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

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

### Tax losses

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

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

## 5 DISCONTINUED OPERATIONS

### Innovatia Inc. (Innovatia)

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

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

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

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

In 2008, Bell Aliant Holdings LP and CAE Professional Services (Canada) Inc. (CAE) entered into an asset purchase agreement for CAE to acquire our DSA business, which operated under the xwave brand. The transaction closed on May 1, 2009. The proceeds on closing were \$16.3 million in cash and \$7.6 million in a receivable from CAE related to post-closing balance sheet adjustments. An additional \$8.5 million of proceeds is contingent upon the occurrence of certain future events, including the award of or resumption of work related to certain contracts, for potential total proceeds of \$32.4 million. A gain on sale of \$1.7 million, which is net of \$3.9 million allocated goodwill (note 9), has been recorded in net loss from discontinued operations.

### Atlantic Mobility Products Limited Partnership (AMP)

Effective July 4, 2008, Bell Canada discontinued using AMP as their exclusive distributor of mobility products in Atlantic Canada, which resulted in the elimination of our mobility hardware and accessories wholesale distribution business.

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

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

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

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

## 6 CAPITAL INVESTMENTS

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

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

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

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

## 7

### POST-EMPLOYMENT BENEFITS

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

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

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

#### DB pension plans

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

#### OPEB plans

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

### Components of accrued benefit asset (liability)

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

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

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

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

## Net cost of benefit plans

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

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

## Assumptions

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

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

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

### Sensitivity to changes in assumptions

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

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

### Investment of DB pension plans assets

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

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

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

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

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

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

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

### Benefit plan contributions

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

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

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

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

## 8 INDEFINITE-LIFE INTANGIBLES

For the years ended December 31

(millions of dollars)

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

## 9 GOODWILL

(millions of dollars)

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

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

## 10 RESTRUCTURING AND OTHER CHARGES

### Restructuring charges

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

During 2008, we recorded pre-tax restructuring and other charges of \$60.7 million related to our continued organizational productivity initiatives and the departure of senior executives. As departing employees had options that affected the amount of their severance, during the fourth quarter of 2009, we increased the estimated costs of the 2008 restructuring initiative by \$6.8 million to reflect the final costs.

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

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

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

### Other charges

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

## 11 SHORT-TERM DEBT

We have the following operating facilities available to us:

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

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

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

The status of our operating facilities is as follows:

As at December 31

(millions of dollars)

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

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

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

## 12 LONG-TERM DEBT

As at December 31

(millions of dollars, except as otherwise noted)

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

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

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

During the year ended December 31, 2009, we:

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

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

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

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

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

## 13 FINANCIAL INSTRUMENTS

### Derivative financial instruments

In May 2009, we settled our outstanding fixed-floating interest rate swaps with notional principal values totalling \$250.0 million when the hedged variable interest rate debt was repaid upon the issuance of fixed-rate medium-term notes, as further detailed in notes 11 and 12. We paid \$15.4 million to the counterparties on the settlement of the swaps, which included \$2.1 million in accrued interest. As the hedged variable interest rate debt was repaid, hedge accounting was discontinued and net losses of \$13.3 million that were previously recognized in other comprehensive earnings (losses) were reclassified to other expenses in the statement of earnings, as discussed in note 20.

## Fair value

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

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

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

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

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

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

## 14 NON-CONTROLLING INTEREST

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

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

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

## 15 PARTNERS' CAPITAL

### Authorized

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

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

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

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

### Issued and outstanding

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

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

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

## 16 UNIT-BASED COMPENSATION PLANS

### Employee unit purchase plans

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

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

### Deferred unit plan

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

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

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

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

## 17 SEGMENTED INFORMATION

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

### Revenue from external customers by product and service

For the years ended December 31

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

## 18 DEPRECIATION AND AMORTIZATION

For the years ended December 31

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

## 19 EARNINGS PER UNIT

For the years ended December 31

(millions of dollars, except as otherwise noted)

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

## 20 OTHER COMPREHENSIVE EARNINGS (LOSSES)

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

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

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

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

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

## 21 CHANGES IN OPERATING ASSETS AND LIABILITIES

As at December 31

(millions of dollars)

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

## 22 COMMITMENTS

### Operating leases and purchase commitments

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

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

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

### Deferral account

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

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

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

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

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

## 23 CONTINGENCIES

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

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

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

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

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

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

### Guarantees

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

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

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

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

## 24 FINANCIAL AND CAPITAL MANAGEMENT

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

### Liquidity risk

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

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

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

### Interest rate risk

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

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

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

#### Credit risk

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

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

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

#### Foreign currency risk

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

#### Other market risks

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

#### Capital management

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

Our objectives in managing our capital structure are to:

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

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

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

Our net debt to EBITDA ratios were as follows:

*As at December 31*

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

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

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

### **BCE and Bell Canada**

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

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

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

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

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

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

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

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

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

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

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

For the years ended December 31

(millions of dollars, except as otherwise noted)

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

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

As at December 31

(millions of dollars)

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

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

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

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

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

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

### The Fund

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

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

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

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

The Fund loans us its excess cash through a series of promissory notes. The Fund requests repayments as required for operating purposes. The \$6.2 million promissory note that was payable to the Fund at December 31, 2008, was repaid on January 15, 2009. Subsequently issued promissory notes carried rates of interest from 0.49 per cent to 1.81 per cent per annum, resulting in an immaterial amount of interest expense being incurred during the year ended December 31, 2009. At December 31, 2009, a \$2.6 million promissory note was payable to the Fund, which bears interest at 0.50 per cent per annum and matures on January 15, 2010.

## 26 2008 BUSINESS COMBINATION AND ACQUISITION

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

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

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

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