

CORPORATE PARTICIPANT

Stephen Wetmore
Glen LeBlanc
Eleanor Marshall

PRESENTATION

Operator

Good morning and welcome to the Aliant Q2 Results Conference Call for July 28th, 2006. Your host for today will be Eleanor Marshall. Please go ahead Ms.

Eleanor Marshall

Thank you Stephanie. Good morning everyone. Welcome to our analyst and investor conference call to discuss the second quarter financial results of Aliant Inc. For those of you who may be new investors, let me clarify that we are discussing Aliant's results, prior to the series of transactions finalized on July 7th, 2006 that combined Aliant's wire line operations with other operations in Ontario, Quebec, contributed by Bell Canada to form Bell Aliant Regional Communications Income Fund. Pro forma results for the income fund for the quarter are not yet available and when the combined operations and transactions are reflected in the results, they will differ materially from the financial results of Aliant that we will discuss today.

Joining me this morning are Stephen Wetmore, President and CEO of Bell Aliant; Glen LeBlanc, Chief Financial Officer of Bell Aliant and the former CFO of Aliant, and Frank Fagan, Chief Operating Officer of Bell Aliant and the former COO of Aliant. I would like to ensure we are all referring to the same document for today's call. Last evening we issued a news release as well as Aliant MD&A, financial statements and notes, and supplementary financial information package for the period ended June 30th, 2006. This information is also available on our corporate website at bell.aliant.ca.

Our discussion today may contain certain forward-looking statements related to the future financial conditions and results of operations of Bell Aliant. Consequently, I would like to draw your attention to the Aliant's management information circular dated April 14th, 2006 as filed on Sedar and in particular, those sections entitled forward-looking information and risk factors. All of the forward-looking statements made in the course of this call are

qualified by the cautionary statements found in that document and there can be no assurance that the results or developments anticipated by us will be realized or even if substantially realized, they will have the expected consequences for us. . Except as may be required by applicable law, we disclaim any intention and assume no obligation to update or revise any forward-looking statements even if new information becomes available as a result of future events or for any other reasons. Listeners should not place undue reliance on any forward-looking statements.

Finally, I would like to remind members of the media who intend to quote any speaker on this call who is not a Bell Aliant representative that you seek their approval first. Our process for questions from analysts is as follows. Please limit yourself to one question and a follow up if required. If you have more questions, we ask you to please reenter the queue to give others an opportunity to pose their questions. At this time, I would like to turn the call over to Stephen Wetmore.

Stephen Wetmore

Thank you and good morning everyone. Just let me say what a pleasure it is to be speaking with you here in what are obviously the very early days of Bell Aliant. As Eleanor has pointed out, we're here today to cover the second quarter operating results for Aliant Inc. prior to the creation of Bell Aliant on July 7th and I guess it's a bit ironic that I should be introducing what is effectively Aliant Inc.'s last quarterly call when I clearly remember introducing Aliant's first quarterly call following the merger in 1999.

Glen and Eleanor and I have had the opportunity to meet with some of you during our road show presentations across the country where we introduced Bell Aliant and I'm sure most of you, hopefully all of you are well aware that we were able to meet an extremely aggressive timeline to start operations of our new trust on July 7th.

Bell Aliant is indeed a substantial organization, even within our North American context. Traveling throughout our territory has more than reminded me of the vast geography that we cover. And our employees have done just a fantastic job of meeting our objective of a totally seamless transition for our company. I feel really quite comfortable in saying that we didn't miss a beat. We handled weather related operational issues in Ontario over the last number of weeks, focused on our newest local access competitor in New Brunswick and we also

won some substantial IT contracts that will strengthen xwave's operations going forward.

In the finance area, we have been and continue to be active in establishing credit facilities for Bell Aliant. First we put in place the three and a half billion dollar syndicated bank facility that we have used to finance the plan of arrangement transactions, refinance Aliant's existing long-term debt, support our commercial paper program and also provide funding for general working capital purposes. And second we have substantially hedged the refinancing risk associated with that credit facility and third, we've launched a four hundred million dollar commercial paper program. And finally, we'll now be focused on accessing the public debt market to put in place longer term financing to refinance the bank facilities.

Now in terms of our overall operational strategy, it's our intent before the end of the year to arrange an investor day where we can have the opportunity and probably most importantly have the time to take you through our strategy over the next couple of years. There's no doubt that if we can get the customer experience equation correct for this base of customers, unleash our employees to serve them and couple this with our economies of scale and our marketing program, that we're going to have an extremely successful organization.

I'm going to turn the call over to Glen here in just a few seconds to take you through some of the specifics of Aliant's performance for the second quarter. They are for the most part impressive results and results that we needed in order to set the foundation going forward. Our first set of results for Bell Aliant will be next quarter and at that time we'll be able to show the combined results for the applicable prior period results and metrics. So thank you very much and I'll turn the call over to Glen.

Glen LeBlanc

Thanks Stephen and good morning everyone. I'd like to take you quickly through Aliant's financial highlights for the second quarter and for the first six months of 2006. Then we'll open it up for questions and answers. As Stephen alluded to, the second quarter of 2006 was the final quarter for the stand alone operation of Aliant Inc. The financial performance of Aliant continues to demonstrate the strength of our operation and the ability to deliver stable and predictable cash distribution to unit holders under the income trust structure.

Second quarter revenues were up nearly four percent year over year to five hundred and thirty-four million, contributing to a significant increase in net income and delivering earnings per share of forty cents. The quarter's strong revenue growth was achieved from growth in internet, wireless and telecom product sales and a slowing decline in long distance revenue. All of these quarterly trends continue to be improvements over results in 2005. We attribute this to very successful marketing programs, including the attractiveness of and the demand for our consumer and business value packages which included successful Mother's and Father's Day promotions.

Reviewing Aliant's results for the first six months of 2006, we grew revenues four percent to one point one billion, net income ninety-three million, generated earnings per share of seventy cents versus sixty-seven cents the previous year, a four point five percent climb. This growth is due to strong operating results combined with lower interest expense compared to the same period last year.

During the second quarter we made capital investments of a hundred and four million to support our strategy of growth and transformation. This is a consistent level of spending of the same period last year and up from eighty-one million in the first quarter due to seasonality as we undertake more outside plant construction during the spring. For the first six months of 2006, capital investment levels have been held flat compared to 2005 while at the same time, operating revenues have grown four percent, thus leading to a seventy basis point reduction in capital intensity levels.

Looking in a little more detail at the second quarter operating performance, internet revenues grew by twenty percent driven by high-speed internet growth of thirty-six percent and high-speed revenue growth of approximately forty percent. We experienced more than a fifty-five percent increase in net internet customer additions compared to the second quarter of 2005 driven by the expansion of the broadband network and passing seventy-seven percent of Atlantic Canadian homes a year ago to nearly eighty-four percent now combined with the popularity of our value packages and PC purchase program. As you may recall, PC purchase program launched in 2005, provides residential customers with a new Dell computer and high-speed internet connection for a flat fee of about fifty-five dollars per month.

Wireless revenues grew fifteen percent for the quarter driven by a fourteen percent increase in our customer base as we experienced a thirty-eight percent increase in net activations and held churn to just one percent.

Growth in telecommunication product sales of nearly twenty-five percent is primarily attributable to the continuing success of our PC purchase program. Sales revenues from external customers in the information technology segment of our business was relatively flat in the second quarter of 2006 compared to the same period last year while IT service revenue from external customers displayed growth of nearly seven percent. External fulfillment sales were down approximately five.

The strong revenue growth and results of our productivity initiative helped contribute to an improvement in operating income margins of approximately one full percentage point for the quarter and six months when you exclude the restructuring costs incurred this year. In summary, we are pleased with Aliant's second quarter results as they provide a solid foundation for the transition to the new Bell Aliant Income Trust. With that, Stephen and I will now turn the call over to the operator for your questions. Operator.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you do have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift up the handset and then press star one. If at any time you wish to cancel your question, you may press the pound key. Please press star one at this time if you have a question. There will be a brief pause while participants register. The first question is from Ian Chung from TD Newcrest. Please go ahead.

Ian Chung, TD Newcrest

Hi, thank you. I've got a question on cable competition. In the recent CRTC report on competition, states that the market share loss in Halifax is about thirty-five percent at the end of 2005 which is up from the prior year of around thirty percent. I was just wondering if you can provide any update on the competitive environment today and also perhaps highlight the recent cable telephony launch in New Brunswick and what you're seeing there with respect to line losses. Thanks.

Frank Fagan

Thank you very much Ian. We've been experiencing about the same level of losses throughout Nova Scotia during the past year as we have done the previous year except in areas where there were new service areas launched. As you also know, we are getting ready now to deal with some competitive offering provided by Rogers in New Brunswick, they've just launched recently. For some time now, we have been positioning ourselves very close to our customers by providing them with what we call Value packages which allows us to stay closely tuned to our customers in various products.

Not only do value packages give us an opportunity to drive increased penetration and growth in many of our services but they also create a retention relationship with the customer that is extremely strong. We've also made sure that any value packages that we put into the marketplace are competitive and they're in line with the competition.

Joe McKay, Desjardins Securities

Good morning. Can you, Glen or Stephen update us on your pension situation; the current service cost and the solvency, the funding situation under the new Bell Aliant, in light of any actuarial valuations that may have been done or also in light of the new federal government legislation.

Glen LeBlanc

I'll give you a few highlights. If you'll recall in the circular, we mentioned our funding deficit would be approximately four hundred and thirty-eight million dollars. We've just recently completed our December 31st, 2005 actuarial evaluation where that number was concerned and four hundred and thirty-eight million is the funding deficit.

Now, as you know, that number would have assumed five years for solvency deficit funding. With the recent federal change in the, the federal government's funding requirements with that, we now have ten years. That coupled with the raising, the increasing of interest rates, about every twenty-five basis points change in interest rate has an impact of about seventy-five to eighty-five million dollars in that funding obligation, that deficit. To put that in perspective, if rates have gone up by fifty basis points, you're looking at a hundred and fifty or a hundred and sixty million dollar reduction in that liability or that deficit.

We will be required to do a new actuarial evaluation effective July 7th and expect that these increased interest rates will have a very significant impact, plus the federal government's revision to legislation to allow 10 year solvency deficit funding, we would expect it to be a fairly significant reduction in annual requirement of pension funding, an expected drop in the annual funding deficit requirement from sixty eight million to the thirty to forty million dollar range.

Joe McKay, Desjardins Securities

That's great, very helpful. And I guess you can understand that you don't have a lot of, you don't have your pro forma numbers yet for Bell Aliant. I guess historically Aliant is pretty good on the disclosure side and the supplemental. Can we expect this level of disclosure going forward in the new company?

Stephen Wetmore

Joe, I absolutely expect no difference in the level of our disclosure.

Jeffrey Fan, UBS Securities

On the wireless side, I know this is not going to be your property anymore under the trust but in Q2, it looks like the wireless EBITDA, the operating profit, the year over year increase slowed dramatically from Q1 and the margin declined on a year over year basis. Can you just elaborate a little bit on that? Thanks.

Glen LeBlanc

Good morning Jeff, it's Glen. I'll touch on that. Yes, the margins declined for the quarter but you may have heard me say this on previous quarterly calls, when you take a specific quarter in isolation, you may get fluctuations in margins. We could have introduced a specific marketing campaign that would pay dividends in the next quarter and you would have increased advertising or marketing costs in that quarter. When you look at it over a longer time horizon, I think you'll see that our margins remain very stable and we're quite confident that our annual margins will remain where they've been. Year to date margins, 2005 were around forty-six point five percent and I think this year you'll see around forty-six point six

for the six months ended. So again, just, if you take any small quarter in isolation.

Jeffrey Fan, UBS Securities

Was there anything unique in Q2 though with respect to the competitive environment, cost of acquisitions, anything new?

Stephen Wetmore

No Jeff, there was not.

Phillip Armstrong, CIBC World Markets

Could you give us an update on the redemption of the MTN's please?

Stephen Wetmore

Certainly Phillip. What we would have done to date is we would have redeemed approximately three hundred and eighty-five million in debt. Fifty million would have occurred in Q1. Series P first mortgage bond of seventy-five million was redeemed on June 30th. Subsequent to that we redeemed two hundred and twenty million dollars of notes on July 4th and then finally forty million dollars on July 19th for a total of three eighty-five. What that leaves is approximately five hundred million in MTN's in place. It is our intention to redeem four hundred million of those in the fall and the remaining hundred million in MTN's matures in January of '07. We'll redeem that, or that will mature then.

Dvai Ghose, Genuity Capital Markets

My question is on Xwave. Both the revenues as well as the margins in the quarter are disappointing. You're sort of back to your 2004 levels when you were restructuring the asset. I know you tried to sell it. I'm just wondering whether you are going to revisit that sale because it does seem like an unnecessary drive in your numbers and it's not obvious how it helps the telecom asset, at least if you look at it externally. Could you explain what your strategies are for us?

Glen LeBlanc

Hi Dvai. One thing to consider, we mentioned it in the MD&A is that we did an internal reorganization for business where our infrastructure services function of the IT segment has transferred over into the telecom operations. So certainly you would have to normalize for that which is not done in the supplemental and that accounts for a fairly significant piece of the pie. We also had some fixed price contracts that we worked on in the quarter that would have been increased costs because obviously they were fixed price but we do not expect this to continue into the future. So with that, I think, that explains a good portion of why they're down. We remain committed to Xwave. We believe it is a huge piece of our IT telecommunications strategy and has become very entangled with our enterprise customer and our SMB strategy, so we remain very committed.

Dvai Ghose, Genuity Capital Markets

Should we look at the five million dollar sort of EBITDA run rate going forward or is there room for an improvement there?

Glen LeBlanc

Difficult for me to comment on forward-looking EBITDA. I think the performance you see in this quarter and expect to see some improvements in margin.

Peter Rhamey, BMO Capital Markets

I've got actually a series of questions here. When you took a restructuring charge in the quarter and can you give us some details around that and as well, was that completely incorporated into the outlook for the new trust as it goes forward. And further to that, on your IT side in amortization of your in house software, you've gone to a longer amortization period. Can you give us some flavour for, or some background on why that was undertaken. Is that a change in the nature of those projects, etc., and so on and as well, has that been incorporated in the outlook for the trust? Thank you.

Stephen Wetmore

Just let me comment on the restructuring charge and then I'll, Glen can comment on the amortization. It's a one time in terms of it's affect on the operations. It's mainly severance costs related to contract terminations in various parts of our business including seasonality affects in businesses like Innovatia, just over thirty people in Innovatia were reduced during the quarter. These sorts of staff reductions are really to allow us match our estimated bottom line with the revenue coming in, fully estimated and not unusual.

Glen LeBlanc

Good morning Peter, it is Glen regarding your question of amortization. We are always trying to ensure we're aligned and now, more important than ever with BCE in the life of our assets. A number of years ago, we would have started internally developed software and amortizing that or depreciating that over a three year life. We're seeing now that we're getting much greater than three years of life out of that and we've moved that amortization period to five years. It's important seeing we're having a combination of assets in Ontario and Quebec, and a combination of assets in Atlantic Canada at this time was most appropriate. We've been getting this for well over a year and I decided the timing now was more appropriate to change that amortization period.

Peter Rhamey, BMO Capital Markets

Okay, fair enough. And lastly on the deferral account, you would have had to decrease prices I think partially in this quarter. Can you let us know what the size of that was and how much we can expect on go forward quarters?

Glen LeBlanc

We didn't reduce prices in this quarter. It did not have any major impact on price reductions in this quarter related to the deferral.

Peter Rhamey, BMO Capital Markets

Okay, so what is the outlook for the deferral account? I read the footnote. Do you have to take any price action on that?

Glen LeBlanc

No Peter, it's not related to a price action. The accumulation of the deferral account is really in lieu of pricing action if you will in terms of that, for the accumulation of the amount. We're now working through sort of the mechanics of the use of the deferral accounts, certainly the mechanics as it applies to our Canadian marketplace for Bell Aliant. So we hope to be able to give you some more detail here as we work through with the CRTC over the next couple of months. Hopefully when we get on our third quarter call we'll be able to give you a little bit more insight as to how some of those deferral accounts will be utilized in terms of our territory. But no affect on revenue.

Chris Lee, Merrill Lynch

Good morning. In your MD&A it was said that you're targeting a monthly distribution of twenty-three cents a unit or about two seventy-six annualized. That's up by less than two percent from your two seventy-four in 2005. I just want to see if you're still sticking to your two, three percent distributable cash flow target?

Glen LeBlanc

Good morning Chris, it's Glen. The annual distributions that we would have quoted in the circular of two dollars and seventy-four cents which is just slightly less than twenty-three cents per month remains. We will distribute that on a monthly basis or on the 15th of the month following and that will continue throughout 2006. In early 2007 we'll review future distributions but we remain confident of the near term distribution referred to in the circular of two to three percent distributable cash.

Chris Lee, Merrill Lynch

Okay, just one follow up question. Can you quantify what was the advertising cost that you incurred for the Olympics and also for the marketing campaign that were launched during the quarter?

Glen LeBlanc

The costs related to the Olympics is a program that we're involved with, with BCE. We're very lucky to be able to use the Olympic rings in attachment to our brand. The cost over a fairly long period of time is not publicly available by BCE but we will have a proportionate share, that may be expensed during the quarter but we'll see that ongoing for, between now I guess and 2012.

Chris Lee, Merrill Lynch

And what was the year over year increase in wages for the union or the management during the quarter?

Glen LeBlanc

Approximately two to two and a half percent.

John Henderson, Scotia Capital

Two questions, one on the pension issue. The amortization of the deficit from change to ten years from five, is that going to change your distributable cash flow?

Glen LeBlanc

No, the distributable cash that you'll find in the circular treats the solvency deficit and the current service costs of pensions differently. Current service costs are funded through operating cashflow, but we put in place a credit facility to fund deficit payments. Therefore a reduction in required deficit payments will not cause a fluctuation in distributable cash.

John Henderson, Scotia Capital

Yeah, that's what I expected. Sorry, how much of the thirty to forty million improvements in cash flow per year is for the change in that amortization period?

Glen LeBlanc

I'll have to double check and get back to you on that one John.

John Henderson, Scotia Capital

Okay, thanks. And the second question is on the EBITDA margins, I wonder if some of it may be a reallocation of some costs from wire line to wireless in the quarter and sort of on a going forward basis, whether that could be a contributor. I mean it seems that every measure that we see would drive margins higher, particularly quarter over quarter. They were down four hundred basis points on a quarter over quarter basis and ARPU is higher significantly, subscribers were higher, churn was down, you know, everything moves in the right direction. The only thing we don't know about is COA and, so I just wonder if there might be some other explanation for it?

Stephen Wetmore

John, as you mentioned, our acquisitions are higher, customer acquisitions are higher so that naturally is going to drive COA in the quarter. If you look back historically, we run into these small margin depressions in the specific quarter but our annual numbers have remained consistent and we're confident that our annual numbers this year will do the same.

John Henderson, Scotia Capital

Seasonally, Q2 and Q3 always have higher margins just because the ARPU is always higher in those quarters but I'll take it as that's what it is. Thanks.

Greg MacDonald, National Bank Financial

Thanks, good morning guys. I've got two quick operating questions. The first is on business access lines dropped a little bit more than I would have expected there. You've been sort of flat-lining on the business access lines and I'm wondering with some of the pressures that we see out there in terms of number one, you know, possible lumpiness in large business customers, maybe due to competitive activity and number two, there is a VOIP migration theme out there as well. I wonder if you just might comment on what's happening there to account for the drop that you saw this quarter and whether you would

expect that to continue. Then I have a second quick question on the call centre business.

Frank Fagan

While there is a small drop in the quarter, there's nothing substantial or significant with that other than the even flow of business. No, there were no large losses. In fact there were a few gains and it might be as a result of businesses just adjusting. We don't really see a pattern there of concern.

Greg MacDonald, National Bank Financial

Okay, so nothing unique. And then secondly, quickly on the call centre business, I noticed that long distance was down a little more than I would have expected so I wonder if you just might provide us with an update on what's happening there with respect to volume and price, anything happening out of the ordinary, any cyclical issues there, what can we expect on a go forward basis? Thanks.

Frank Fagan

As you can appreciate that our call centres are, in our region we have quite a few of them, are continually making adjustments trying to find ways to be more efficient on behalf of their own customers. And we have seen that kind of trend for some time now. I don't think there's anything more than that that happened during the last quarter or has been happening during the past few quarters.

Greg MacDonald, National Bank Financial

So am I to read from that then, Frank, it's more volume than price or is anything changing on one versus the other?

Frank Fagan

There have been some pricing pressures from the competitive perspective and there's also a little bit of volume pressure as well.

Stephen Wetmore

You have to be a little bit careful too in analyzing the LD movement as you can see some movement based on value package success sometimes in analyzing LD but it's really totally in line with what Frank said.

Greg MacDonald, National Bank Financial

Yeah, there is that consumer impact, I can appreciate that. Thanks guys.

James Orm, Mackenzie Financial

My first question, just on ongoing sort of forward disclosure, when you report your first full quarter that is Q3, will the Bell Nordique numbers be included in entirety or you're just going to include your sixty-three point four percent or not the sixty-three, yeah, sixty-three point four percent of it?

Stephen Wetmore

We will fully consolidate Bell Nordique and of course the difference would be picked up in the Nordia interest.

James Orm, Mackenzie Financial

Okay. And just on your debt, you've recently redone your paper program. Just what's the average interest rate on your debt now?

Eleanor Marshall

We are in a bit of a transition period so we still have some existing Aliant debt outstanding and the remainder is currently being financed with our bank lines which carry short term rates. So to quote an effective rate right now with out factoring in the hedges we have in place

and the incented refinancing would probably be a little bit misleading but we have worked on the pro formas in the circular on an average blended rate of about five and a half percent for Bell Aliant's long term debt and we're still looking at that as a reasonable target given the hedges we have in place.

James Orm, Mackenzie Financial

Okay, and just my final clarification, just on the previous answer on the pension costs, would you say that the number that's used in the prospectus is now probably not the number to use on an ongoing basis of Aliant's part of ninety-five million, that that number is no longer a good number to use?

Glen LeBlanc

If you break the pension expense down into two components, the pension funding James, from the current service which you would have seen quoted in the circular at approximately fifty-five million, that's still accurate. The additional piece of funding I was referring to is the requirement to solvency deficit funding. And because the interest rates have gone up and the longer timeframe we have to fund that, you'll see that go down. So it'll not have an impact on distributable cash as presented. It will reduce the pressure for us to have to rely on our credit facility for this additional pension funding.

James Orm, Mackenzie Financial

But it does it have an impact on EBITDA for example?

Glen LeBlanc

No it will not.

Operator

Thank you. There are no further questions registered at this time. I would like to turn the meeting back over to you Ms. Marshall.

Elenor Marshall

Thank you Stephanie. Well with that, I'd like to thank everybody for joining us on the call, apologize for the poor sound quality. We will try and get out the entire call on a transcript on bell.aliant.ca and again, thanks for your participation. If you have any follow up questions, please contact us at investor relations.
