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## PRESENTATION

**Operator**

Good morning ladies and gentlemen and welcome to the Bell Aliant Regional Communications Audio Conference Call. I would now like to introduce you to your speaker, Zeda Redden, Vice-President, Investor Relations. Please go ahead, Ms. Redden.

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**Zeda Redden, Vice-President, Investor Relations**

Thank you, Julie. Good morning everyone and welcome to the call.

Last evening we issued our news release and our Q4 investor bulletin, which are posted on SEDAR and also on our website. Our 2006 audited financial statements and MD&A will be filed on SEDAR in early March. This will allow management and our auditors to complete the certification process that's required under Canadian legislation and also through our relationship with Bell Canada.

Today we will be taking you through a slide presentation, which is also posted on our website, and our call will focus on our Q4 2006 results. Our guidance will be discussed at our business review event, which will be taking place on February 20<sup>th</sup> and will be webcast.

That said, today's comments may contain forward-looking information related to the finances and operations of the company, including comments on revenue, EBITDA, CapEx, and distributable cash. These statements are based on assumptions made by the company and there are risks that our actual results could differ materially from those anticipated. The statements reflect the assumptions of Bell Aliant as of February 2, 2007 and accordingly are subject to change after that date. Bell Aliant disclaims any intention or obligation to update or revise the statements, except as required by applicable law, whether as a result of changing circumstances, future events or otherwise. These cautionary statements are made on behalf of each speaker whose remarks contain forward-looking information.

Now I would like to remind members of the media that if you choose to quote someone other than a Bell Aliant representative, please obtain their permission first.

And with that I'll turn it over to Stephen Wetmore.

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**Stephen Wetmore, President & Chief Executive Officer**

Thank you, Zeda. Good morning everyone. Thank you very much for joining us.

Joining Glen and me this morning are Frank Fagan, our Chief Operating Officer, and Heather Tulk, our Senior Vice-President of Marketing, who will assist if necessary with the Q&A.

Before I specifically comment on our financials for the first quarter, or the last quarter, I just want to mention a couple of items. First, we have set a date for our investor day or business review day on the 20<sup>th</sup> of this month and the details, I believe, are all on our website. We look forward to the time together, which will allow us to provide you with a general operational overview, including our view of the competitive landscape in our six provinces and of course our financial guidance for 2007. This will be an opportunity to further explain our business model, our marketing, and our customer service approaches, and also put some of our key metrics like internet growth in our competitive local access business into context. Anyway, we look forward to the opportunity and hopefully we will see all of you there.

As all of you have seen in our news release, we're very pleased to announce that our annualized cash distribution will increase from its current level of \$2.74 to \$2.82, which is the equivalent to approximately \$18 million in additional cash payout per year. Our ability to announce this increase is not only reflective of our performance in 2006 but obviously in our confidence in the underlying business as we look forward. So the increase is effective this February and will be seen by our unitholders with our distribution in March.

On the legislative and regulatory front, I obviously couldn't talk about our fourth quarter without reference to the federal government's announcement on October 31<sup>st</sup> affecting our tax status beginning in 2011. The overall debate continues between the income trust sector and the finance department; however, while we were surprised and extremely disappointed with the announcement we have continued to move forward with our business model and, as can be seen with our Bell Nordiq privatization, we continue within the confines of what is allowed through normal growth. So the announcement has not changed our strategy and we've continued to focus on what we believe is our top priority, which is execution.

On the regulatory front, we believe the clarifications and the changes made in the fourth quarter will be positive for

both our customers and for us. One of the most significant long-term positions for us is the government's policy decision to the CRTC directing it to take a more market-oriented approach to regulation. With Bell Aliant's markets opening quickly to competition and with our historically mature competitive markets like Halifax, we welcome the proposed major changes to the CRTC's forbearance decision. If implemented, then we believe retail forbearance will be achievable this year in many areas of our territory. We also saw positive decisions for VoIP price deregulation in the quarter and a decision to allow rate ranges for local exchange and related services.

So moving to our second half and our Q4 financial performance, overall I must say I'm very satisfied with revenue, distributable cash, and capital expenditure performance, which has allowed us to hit or exceed all our targets. As we mentioned in the third quarter, our distributable cash was higher than target in that quarter because of our capital spending, which has come back in line in Q4, bringing our CapEx in on target for Q4, obviously impacted our distributable cash growth in the quarter but the year came in as we expected. So in general, good performance for our first six months and we have hit our targets to allow us to start 2007 with a solid jump off from 2006.

Let me make some specific comments here on our revenue line items of local access, long distance, internet, and of course our IT business.

Knowing our audience here this morning, slide eight, which summarizes our local and access revenue, will most likely be the page you will want to focus on the most. Our local revenue decline of 1.5 percent in Q4 on a quarter-over-quarter basis and our 1.2 percent decline in the second half is well within our expectations and the relationship continues to be positive between revenue decline and our NAS decline.

We have many continuing success stories in local access as we drive to increase our value package offers, including our local plus unlimited calling features and new programs to increase average revenue per customer through feature promotion, care and maintenance programs, and many other very successful initiatives. However, I know you're all focused on the increase in our NAS losses for the quarter, so let me make a few comments to put our performance in context.

Firstly, our forecasting of NAS losses in the quarter was within 1,000 NAS of actual performance, so absolutely no surprises from our perspective. I should also point out that approximately a third or more of NAS losses in fourth quarters are due to such things as seasonal disconnects

and not competitive losses. I should also point out that approximately 10 to 12 percent of our total losses are attributable to Bell Nordiq, which should have little new competition in 2007.

When new territories are opened up by competition, our history tells us that monthly NAS erosion will be three to four times greater for a 9 to 15 month period. Then you will see post that period or in a mature market declining significantly. As you know, areas of New Brunswick, Québec, and Ontario all experienced new entrants in the local market during the last half of 2006, starting primarily in the September time period. This has obviously driven our NAS losses in the fourth quarter as we have moved from a 12 percent to 13 percent competitive footprint in early 2007 to 25 percent to 26 percent by the end of 2006. History and our expectation also shows that simple extrapolation of performance for future periods must be carefully considered because not all markets are the same. The strength of our market position pre-competition has a tremendous effect on the rate of NAS losses in the early months.

So while we will cover this in greater detail when we provide you with our 2007 guidance on the 20<sup>th</sup> of this month, our ability to forecast our losses and compensate for them have a very accurate track record. And early stage NAS losses must be offset by cost reduction until the competitive territory starts to stabilize and our growth businesses are able to compete effectively. Again, our day together on the 20<sup>th</sup> will give us an opportunity to discuss margin and cash performance against the backdrop of revenue performance.

Moving to slide nine on long distance, you know, long distance revenue declines have been part of our business for such a long time that I actually have trained myself to see positive news with negative numbers, and I guess that's the case with this quarter as well. Double-digit revenue declines have now been replaced with 6 percent and 7 percent declines, which also take some pressure off the impact that long distance has on our overall margins. As you can see, our LD revenues declined 7.3 percent versus the same period last year and our overall minute decline was held at 4.1 percent quarter over quarter and 2.1 percent on a year-to-date basis. LD revenue declines were (inaudible) related to our residential market in the fourth quarter and our business long distance revenues actually increased slightly with lower minutes but higher revenue per minute. Our revenue decline in residential is driven by two main factors, being our NAS erosion and the inclusion of LD in our strongest retention tool, our value packages.

Internet growth continued to be very strong in the quarter, with total internet revenues up 17.5 percent over the same quarter last year and 19.7 percent on a year-to-date basis. This is driven from a combination of high-speed customer growth of 23.9 percent and increases in our average revenue per customer.

Residential high-speed average revenue per customer continues to be strong at \$35.57 in the quarter, a growth of 4 percent over the same period last year, and \$35.31 on a year-to-date basis, which is growth of 4.5 percent. This average revenue per customer growth is directly attributed to focus on upgrading customers to our higher-speed plans, sale of our value-added services, and a reduced focus on promotional pricing in most areas of our territory.

We are always looking for new opportunities to expand the market for internet services. We partnered with Telesat to bring satellite high-speed internet so that all our customers in our territory have access to high-speed. And we have also extended the footprint for local dial-up internet to our entire territory in Ontario and Québec, again, something we want to expand on on the 20<sup>th</sup>, but that actually adds about 120,000 additional dial-up customers for us to sell to during the course of 2007.

Our PC sales program saw continued success throughout the year. This program, which we pioneered, has been very successful in driving growth and represents a high percentage of our high-speed customer growth. We've also launched PC programs in our territory in Ontario and Québec and have expanded the programs to include laptops and gaming devices.

In the business market, our growth was fuelled primarily through programs to increase our internet penetration in the small market of our SMB marketplace, where we've now launched our business PC purchase program to bring new customers into the category.

We have a number of new products and services for our internet customers, which, again, we can cover in more detail later in the month.

We continue to expand our footprint for high-speed internet. At year end 2006 we passed 70.9 percent of our homes across our territory, up 3 percent since a year ago. This has comprised 86.2 percent of households passed in Canada and 58.3 percent in Ontario and Québec.

Moving to our information technology revenues, which I think is slide 11, I must admit I am very pleased with the second half performance of xwave. At 20 percent

revenue growth year-over-year for the second half of 2006 and 27 percent growth for the quarter, it is impressive performance; however, I'll temper that a bit by saying 2005 was a year where xwave did not meet its potential.

Four areas I monitor in xwave's business are customer satisfaction, sales from, chargeable hours, and margins, and for the year they exceeded in all categories. Again, on the 20<sup>th</sup> we want to discuss our focus on our key industries and the movement of our business down market to the SMB marketplace, but I should mention that xwave was named Company of the Year by the Canadian Health Informatics Association, and this was on the back of four or five significant contract wins in the health care sector. So a good performance period for xwave and a solid foundation, I think, on all fronts starting 2007.

Before I hand off to Glen, just a couple of brief comments on general operations.

As you know, we completed the Bell Nordiq transaction this week and we can now move forward to work closely with the Bell Nordiq team. I'm also very pleased to tell you that Roch Dubé, the president of Bell Nordiq, and his team, will be continuing as part of Bell Aliant, ensuring that we remain focused on our 2007 performance. Roch's duties have expanded to not only overseeing Bell Nordiq but all of our Québec operations, which allows us to be that much more coordinated in the province and avoid many duplicate cost structures.

In closing, I also want to briefly mention that we have seen some very substantial progress, not only in stabilizing our operations across the six provinces but in really moving forward with our customer service improvements. The three areas you'll see on this slide—being easy to reach and meeting our customer commitments and doing it right the first time—are paying dividends well beyond my expectations and we look forward on the 20<sup>th</sup> to showing you the impact it is having on our productivity. And we believe we have line of sight to some pretty substantial productivity during 2007.

So with that I'll hand off to Glen.

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**Glen LeBlanc, Chief Financial Officer**

Thanks, Stephen, and good morning everyone. I'll begin by referring you to slide 14 on distributable cash.

I don't intend to walk you through this reconciliation in its entirety, but will provide you a few highlights.

As Stephen mentioned, our distributable cash for the first six months was 2.7 percent; EBITDA for the same period, \$750 million; and EBITDA margins, 44.3 percent, down from 44.9 in the same period in 2005. Now the margin has been impacted in the quarter by our strong low-margin product sales in xwave and some one-time consultant expenses we paid in the quarter to prepare us for our 2007 SOX compliance.

I also want to remind you of our total pension cash costs. You will see in the reconciliation that pension current service cost of \$33 million, and I would have previously provided guidance on an annual number of \$60 to \$65 million is appropriate. However, you also have heard us speak before of our deficit funding requirements and that has been in the range historically of \$70 to \$80 million and is not included in the distributable cash forecast or the reconciliation seen in front of you.

In March 2006 the federal government proposed (inaudible) funding relief and we believe our funding requirements go forth with this extension from five to ten years, funding of this deficit will be in the range of \$40 to \$45 million. In 2006, the strength of our cash flow has allowed us to fund this additional deficit funding therefore not drawing on our dedicated credit facilities.

I also want to draw your attention to the payout ratio on the bottom of this slide at 80 percent. Now it's worthy of note that in the third quarter Bell Aliant didn't begin operations until July 7<sup>th</sup>, so there is no distributions from the 1<sup>st</sup> to the 7<sup>th</sup>. So adjusting for that our six month distribution payout ratio is approximately 83 or 84 percent, well below our target of approximately 90 percent. This reinforces our confidence of today's announcement to increase distributions nearly 3 percent.

Finally on this slide I want to mention the privatization of Bell Nordiq, and of course that will increase our total distributable cash in 2007.

Moving to slide 15, I just wanted to recap our performance. We would have provided guidance upon the creation of Bell Aliant of 1 to 2 percent revenue growth, 2 to 3 percent distributable cash, and 15 to 16 percent capital intensity. As you can see, since our creation, the second half of 2006, we were on the high end at 1.9 percent revenue growth, 2.7 distributable cash, and in the middle, 15.6 percent, capital intensity.

You would have heard Stephen and I mention many times on our road show and upon the creation of Bell Aliant how important in gaining our investment grade debt ratings are to us. Our debt-to-EBITDA is 1.8 times, well inside our target of 2 times. I've received many questions

from folks about what our intentions are with share buybacks and let me assure you we're always reviewing our cash deployment strategy; however, not at the expense of our target of 2 times debt-to-EBITDA, which we believe is critically important to Bell Aliant.

With that I'm going to open the call for question and answers and remind you that on February 20<sup>th</sup> we'll be discussing guidance at that time. Operator?

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## QUESTION AND ANSWER SESSION

### Operator

Thank you. I would now like to open up the lines for questions. If you 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, please 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 for questions. Thank you for your patience.

The first question is from Greg MacDonald from National Bank Financial. Please go ahead.

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### Greg MacDonald, National Bank Financial

Thanks. Good morning guys.

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### Stephen Wetmore, President & Chief Executive Officer

Good morning.

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### Glen LeBlanc, Chief Financial Officer

Good morning.

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### Greg MacDonald, National Bank Financial

The question I have is on the use of cash, and thanks, Glen, for finishing off on that note, because I think it kind of ties in nicely to this.

If we consider the ultimate cash tax position the company will be in in say the 2011 time period, can you talk a little

bit about internally how the management and/or the board discusses distribution increase potential versus share buybacks? And I can understand share buybacks historically can be very large uses of cash, but they could also be smaller uses of cash that might fit into the flexibility that you have. Have you done analysis on what you think the benefit is of one versus the other? How do you think about those two things?

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### Glen LeBlanc, Chief Financial Officer

Thanks, Greg. It's Glen. Well obviously, as I mentioned, we want to ensure that our debt-to-EBITDA is kept approximately where it is today. When we're reviewing our distribution increase we need to put in perspective, as Stephen had mentioned, that this is about an \$18 million annual impact. When you consider that from a share buyback perspective you're speaking about 500,000 or 600,000 units, which is not a material buyback.

From a distribution perspective, when we created Bell Aliant we created it on the premise of a stable company with dependable, reliable cash flows. At the end of 2006 we are very pleased to have hit all of the guidance metrics that we put out there. We're exactly where we thought we'd be and exactly the company we say we were. With that, and as Stephen mentioned in his comments, we were very pleased to be able to hand over to our unitholders or share our performance with our unitholders by increasing our distribution, and we think that is appropriate and prudent at this time.

Of course you look out to 2011, we understand that there is a fairly material impact in 2011 of course, with our expectations being that, you know, a tax bill of some 31.5 percent inevitable. However, we're spending the next number of years—and we do have a long runway here—managing towards that and determining how we will mitigate that so we don't have to pass that whole thing on to our unitholders.

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### Greg MacDonald, National Bank Financial

Okay, that makes sense. Thanks. And a very quick follow-on to that, Glen, historically you've talked about the use of distribution increases as being potentially a leading indicator as to your comfort level on the business itself; can you just give us an indication over the last six months—and you've got a number of levers here. You've got revenue, you've got costs, you've got CapEx. Are things essentially as you thought six months ago or are you feeling a little more confident on certain things versus others? That type of indication from you might be helpful

in light of what I admittedly think some people are in terms of concern about the net access line numbers.

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**Glen LeBlanc, Chief Financial Officer**

I'll start here and then, Stephen, I'll ask you to elaborate, but certainly it is a signal of our confidence. Bell Aliant is 100 years new if you will, just starting six months ago with bringing this together. What we've seen is that we've been able to achieve exactly what I had mentioned before in meeting our guidance. I'm very pleased with the traction we're gaining on productivity and quite confident that increasing our distribution to 3 percent keeps us well underneath our target of 90 percent and is something that we can sustain. Stephen, maybe you want to build on that.

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**Stephen Wetmore, President & Chief Executive Officer**

Yeah. Hi, Greg. I think on the, um, in taking a look at sort of net access, there's a few numbers you've got to kind of get in your mind too I think in terms of materiality, but if you look at 2006 and you take our total NAS losses divided into our NAS revenue decline you get just over \$200 of customer. Now that's all dependant on when they came out obviously and we had a higher ramp-up in the fourth quarter, so even if you say it's a third higher, but if you say it's \$300 a customer. So every 10,000 NAS is about \$3 million in terms of its revenue impact. So you can have, you know, as far as... I'm very comfortable with our revenue forecasting and our ability to do that through 2007 and, you know, in planning for it even if NAS losses for example exceeded our internal expectations, which we have obviously set our margin analysis and productivity to handle, that they have to exceed by a pretty substantial portion or amount for us to get into anything remotely close to materiality, so it's a matter of, you know, you have to take a look. We knew going into this territory that it was going to open up to competition and, you know, as it starts to happen the losses are greater initially and so therefore, you know, the results will take spiked increases quarter over quarter. But we look out over the three- or four-year period and we're really kind of quite comfortable with what we see, the growth potentials, etcetera, offsetting for the revenue opportunities, which we'll look forward to taking you through as well on the 20<sup>th</sup>. But overall obviously the board and senior management considered all these factors in depth pre-announcement of the distribution increase.

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**Greg MacDonald, National Bank Financial**

Okay. That's helpful. Thanks, Stephen and Glen.

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**Operator**

Thank you. The next question is from Jonathan Allen from RBC Capital Markets. Please go ahead.

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**Jonathan Allen, RBC Capital Markets**

Thanks very much. First, Stephen, following up on your important slide on the competitor overlap getting up to about 25 percent, I'm curious if there's still any areas of build-out that you're seeing in your territory and should we see that 25 growing to say 40 percent over the next year or two?

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**Stephen Wetmore, President & Chief Executive Officer**

Hi, Jonathan. Well I mean yeah, and I don't worry about, um, I don't worry about it as much as perhaps everybody externally would. I kind of, you know, we knew this going in that it should end up at, you know, 50 to 60 percent competitive footprint over time, so how the competition decides to launch and when they decide to launch and, for example, when Rogers decides to launch in Newfoundland, has a bearing on year-over-year. But yeah, it'll continue to head towards that and we're ready for it and it's inevitable that it will get not as high as obviously that we've seen in Atlantic Canada, it won't get that high across the territory obviously, but we're very familiar with it and we know how it works and we know how fast we'd lose the (inaudible). We know the impact on us, and it's a matter of, you know, the secret here is being able to—because you know we're over a time period, you know, you know over sort of a 24, 30 month time period that this levels off and the organization's quite capable of handling normalized material market competition easily with its growth products, and what you have to combat is during that period when they are ramping up to be able to maintain your margins. And again, we know about that and we forecasted that and I'm quite comfortable with it. There will be increased competition, no doubt about it.

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**Jonathan Allen, RBC Capital Markets**

So with that, ah, with your own expectation that eventually grows to 50 to 70 percent and you mentioned

that internally your forecasts have been pretty accurate thus far, would you then see that the residential line declines should actually accelerate from the 2.8 percent year-over-year decline that we saw this quarter and maybe get somewhere to 3 to 4 percent within the next year?

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**Stephen Wetmore, President & Chief Executive Officer**

Yeah. And, you know, they really do vary based on, you know—and I know it's hard from my initial comments to pick out all the pieces there, but it really does vary based on the strength that we have in those particular marketplaces pre-competition. So some of the markets that we're opening up I feel that we're very, very strong in and it'll be very difficult for the competition to make huge, huge impacts over time, but I think that in others, you know, you may lose very quickly in the first three or four months.

I kind of remember back just in the greater Halifax area for example, um, there is one area of the four sort of cities that they put together, one city, Sackville actually, um, I know Heather Tulk doesn't want me to say that but it's four years old now so it doesn't matter. We weren't very strong there. We weren't very strong at all. But the NAS process that we saw in that territory, I mean just over the first six weeks, you know, were enough to frighten you. But it's because you're not strong going in. But that was not the same case in the rest of Halifax.

So you've got to balance it all off and you have to know how strong you actually are in the territories that are going to be competitive. So our forecasting ability is pretty good. But I think you're close.

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**Jonathan Allen, RBC Capital Markets**

So to summarize, I think things—we should brace ourselves that the next few quarters or the next year could in fact get a little bit worse but longer term down the road you believe that we'll see those stabilize and still be in a good position then.

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**Stephen Wetmore, President & Chief Executive Officer**

Yeah. And again, let us be able to kind of put a lot of this in context against our 2007 guidance on the 20<sup>th</sup>. So it's very difficult though to simply extrapolate on our fourth

quarter, but I think in general your comments are bang-on, yeah.

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**Jonathan Allen, RBC Capital Markets**

Okay. Well thanks very much, Stephen.

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**Stephen Wetmore, President & Chief Executive Officer**

You're welcome.

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**Operator**

Thank you. The next question is from Amy Glading from CIBC World Markets. Please go ahead.

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**Amy Glading, CIBC World Markets**

Oh, thanks very much for taking my question. Just two ones. Following up—I mean we've been talking about the residential side of the business and I'm just wondering how you are seeing the business side over the next year or two. It's been relatively stable; I'm just wondering what your expectations are, especially if some of the cable competitors move more into the SMB space.

And then secondly, just on CapEx, the 15 to 16 percent target for the year, I know you're going to be giving guidance in a couple of weeks, I just wanted to talk a little bit about your expectations over the next year on CapEx.

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**Stephen Wetmore, President & Chief Executive Officer**

Hi, Amy, it's Stephen. Well in terms of the business market, I mean there's two components here, enterprise side and the small and medium business side. We're, um, when you look at kind of the national players in telecommunications, we're not as exposed, if you will, on the enterprise side. We just don't have as many customers. So the real plight for that marketplace is not as big a deal for us. But certainly you'll continue to see pressure on new contract renewals and reprice and things like that, which we've managed over the last few years and will continue to.

On the small and medium business market, and maybe Heather wants to comment too after, but I, you know,

while our competitors will be gradually moving into that space it is not as easy a space to capture as kind of the general mass market and residential. So the complexities of the offers, the things that we can do for our customers, the reliability of the connections, the inner connections, and the products and services we have to offer are pretty hard to compete with. So it is a—it's a stable market overall in relation to the residential market. So continued modest growth from my perspective on SMB. I'll let Heather come back in a second.

On a capital expenditure basis, again, let's go to the 20<sup>th</sup>. I'd like to kind of put it in perspective for you then. But, you know, to run our business we are in line with what we said when we launched Bell Aliant.

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**Amy Glading, CIBC World Markets**

Okay. All right, that's great.

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**Stephen Wetmore, President & Chief Executive Officer**

I don't know, Heather, do you want to comment on the business market?

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**Heather Tulk, Senior Vice-President, Marketing**

Yeah. The only thing I would add, Stephen, you're absolutely right, and the thing I would add is that like the residential market what is common is we have, you know, quite a depth of experience in dealing with these competitors in the small and medium business market. And I think more importantly we really understand what it is our customers are looking for and we have very close connections with our customers, certainly in the Atlantic Canadian territory. And in our new territory over the last number of months we've done a number of things that we think will build our strength there in terms of ramping up our sales force in that market and really working to deliver the same kind of close relationships and understandings. So I'm actually feeling very comfortable with the opportunity in the business market for us go forward.

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**Amy Glading, CIBC World Markets**

Okay, that's great. Thanks a lot.

**Operator**

Thank you. The next question is from Peter Rhamey from BMO Capital Markets. Please go ahead.

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**Peter Rhamey, BMO Capital Markets**

Yes, hi. Thanks for taking the question. I just want to follow up on Jonathan's line of questioning. Stephen, I was a little surprised to think that you're going to get, um, I think the number was 50 to 60 percent of your territory would be competitive with Voice over IP. I'm trying to measure the timeframe of that. As I think about it, St. John's has yet to be launched by Rogers. Thereafter I'm trying to think of another major market that might be launched, so can you characterize who you anticipate is getting in the business? Is it Persona or some of the smaller, independent companies? Because as I understand it, only 26 percent of your lines were in areas where there were 60,000 lines or more, which are relatively small markets for cable operators. So could you add some flavour to that on the timing of these markets opening in your thinking?

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**Stephen Wetmore, President & Chief Executive Officer**

Yeah, I'll let Heather make a few comments here and then I'll come back and try to—because some of them are strong competitors and some are probably not particularly (inaudible). But anyway.

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**Peter Rhamey, BMO Capital Markets**

I think that's a big differentiation of whose doing the competition.

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**Heather Tulk, Senior Vice-President, Marketing**

Yeah. So, you know, and kind of you answered your own question, is definitely after we get through, ah, St. John's is a major market, we're then into other cable competitors. Persona has announced for a number of areas in Newfoundland as well as Sudbury their intent to open. We also see a rollout in some of the Cogeco territory go forward and some continued rollout of Videotron into its smaller markets. So it is quite a heterogeneous mix of which competitors are going to open that we'll see throughout our footprint in the coming months.

**Peter Rhamey, BMO Capital Markets**

So where, ah, do you think this exposure to cable competition doubles in the next year or is it...?

**Stephen Wetmore, President & Chief Executive Officer**

I think, you know, we're going from kind of year end to year end and from our perspective, um, I would look at being close. They have the potential to, Peter, so it's up to—you know, we never know whether they're going to open up and how fast they're going to open up and they usually take longer than we think, but they have the potential to and we expect it and we're, um, well I mean I fully expect it and I certainly do our 07 and 08 plans expecting it, because you should never have—we have to pre-empt their opening up in the markets as well and placing our products and services out there and retention tools so, you know, I...I expect them to move...I always expect them to move faster than they do but I expect them to move pretty quickly.

**Peter Rhamey, BMO Capital Markets**

So looking back to when you went public, you were guiding to 1 to 2 percent revenue growth over the longer term. Do you think you can sustain positive revenue growth during this transition period or is that 1 to 2 percent more of a three-year guidance type of thing on average?

**Stephen Wetmore, President & Chief Executive Officer**

Well no. I mean, again, let's go to the 20<sup>th</sup>, because I think we have to put how we see the world in context for you. But I guess if I answer your question I'm going to give guidance, so I guess I can't. So let's wait to the 20<sup>th</sup>.

Peter, just to give you an example, and I kind of glossed over it I guess in my opening remarks, but, you know, we made in the last few weeks some switch changes in our territory in Québec and Ontario, which took sort of 9 percent of our customers being able to get dial-up to 100 percent. That's 120,000 customers. And if you capture 20,000 or 25,000 of those it's a decent amount of revenue per year. And we've got other things going on in our territory that even taking a look at our plant and the capability of our plant to offer high-speed, you know, by getting in and really studying our smaller territories and our cities, we've made progress beyond my wildest

dreams in terms of being able to offer more homes passed with the existing plant. And I mean potentially tens of thousands of homes. So I, you know, I'm pretty encouraged as well at our ability on many fronts to drive revenue growth, so let's put all that in context for you on the 20<sup>th</sup>.

**Peter Rhamey, BMO Capital Markets**

Excellent. Thank you very much.

**Stephen Wetmore, President & Chief Executive Officer**

Thanks.

**Operator**

Thank you. The next question is from Vince Valentini from TD Newcrest. Please go ahead.

**Vince Valentini, TD Newcrest**

Yes, thank you very much. And Stephen, thanks for your candour on this matter of line losses and the increase in the footprint for cable competitors.

Just to follow-up on your confidence on how it stabilizes over time, I guess you guys run what seems to be the most competitive and hardest hit market in the country in Halifax, and we don't see great numbers there because the cable company's obviously private, but it looks like their growth continued even after five years into launch and they got up to 35 percent market share—and that was a year ago figure; I'm suspecting it's even higher than 35 percent share now. Can you tell us what gives you so much confidence that there's sort of this 24-month window where you have heavy losses and then it really stabilizes? Do you think Halifax was just a totally unique situation because you weren't prepared for it and you'll be doing a lot better in your other markets?

**Stephen Wetmore, President & Chief Executive Officer**

Yeah, you touched on a lot of it for sure. Don't forget that the local cable operator in Nova Scotia and PEI continued to expand their footprint as well during that whole period. So they'd be opening up smaller towns

across our territory, which continued to allow them to capture increased NAS. So it wasn't all Halifax. But in Halifax, two major things in Halifax I think historically from my perspective, and one was that, yes, that's where we started to compete. I mean I remember early days us thinking like some of the U.S. (inaudible) that a combination wireless product and wireline product would stop the cable operators fast in their tracks, only to find out that, you know, it wasn't a spectacular product suite in terms of stopping them and we had to adjust and design very different products. And so we went through two or three years of trying things and trialing them and also trying to move into some of the markets just ahead of when the cable operator was going in to test retention tools and things. So yeah, we had a big learning.

And then the second one, to me, is that Halifax itself, extremely similar to Toronto in terms of the percentage of population that lives in multiple-unit residential buildings, and it's almost 50 percent. So as you capture those buildings, you can capture market share in a hurry. I can remember times when we were sitting here saying, "God, if they win them all they're going to be the dominant telco in Halifax," because there's so many of our customers that lived in apartment buildings. And that never happened, you know, so we now know how to combat that. And so I think those to me were the two biggest factors in comparing Halifax to anywhere else.

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**Vince Valentini, TD Newcrest**

Okay, that's great. And a tax issue maybe too for Glen. You mentioned 31.5 percent tax rate being inevitable; I'm wondering if you can put a little more colour on that. Because our assumption has been big companies that are CapEx intensive like yourselves can usually find ways to having timing differences between cash tax and reported tax rates and probably wouldn't pay that full 31.5 percent tax rate and certainly wouldn't pay it in 2011. It may creep in over a number of years but, you know, starting more in the mid-20s. Are you suggesting that's not right and you'll be at full 31.5 percent tax rate all cash right in 2011?

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**Glen LeBlanc, Chief Financial Officer**

Good morning, Vince. No, I'm not suggesting that. What I was—if tomorrow was January 1, 2011, what I was saying is we would be, all other things being equal, subject to around a 31.5 percent tax. What I was trying to allude to is we have a runway here. We have several years to begin our tax planning strategies, to look at any loss carry forwards you can build up, to look at what

we're going to do to attempt to mitigate that 31.5 percent, whether it be from tax planning or whether it be from driving our operations such that we're in a position that we don't have to hand that whole 31.5 percent directly off onto our unitholders in the form of an immediate distribution increase.

So really just drawing your attention because that would be what the effective tax rate would be today, and we have four years.

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**Vince Valentini, TD Newcrest**

Okay. And last one on taxes is given you have four years, maybe closer to three years now, but you have some time on your side, and the government rules would allow you to issue new units to make acquisitions and then whatever you buy you could impose that same tax shelter for three, four years. Does that impact your strategy at all and would you be thinking about acquisitions partially to use that tax shelter to its maximum benefit?

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**Glen LeBlanc, Chief Financial Officer**

Nothing has really changed in the Bell Aliant strategy. As Stephen would have alluded to in his comments, we were extraordinarily disappointed on October 31<sup>st</sup>. That said, we believe that the government's further clarity on, I think it was December 22<sup>nd</sup>, about the cap for acquisitions, is certainly not going to be a constraint upon us. That said, we want to manage within the balance sheet we have. We don't envision over-levering much beyond that two times that we said so I don't think Bell Aliant's strategy has changed. We feel that it's very, very important to focus on our operations, to focus on productivity over the next number of years, and if acquisitions present themselves that we think are a good strategic fit, then we'll consider them.

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**Vince Valentini, TD Newcrest**

Okay, fair enough. Thanks guys.

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**Operator**

Thank you. The next question is from Dvai Ghose from Genuity Capital Markets. Please go ahead.

**Dvai Ghose, Genuity Capital Markets**

Thanks very much. Glen, if I could just follow on on that point, you have two seemingly contradictory issues here: Number one, you have to try and minimize your tax burden over the next four years and, number two, you're committed to investment grade and two times debt-to-EBITDA. Would you not consider increasing leverage (inaudible) because of the tax efficiency of debt versus equity?

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**Glen LeBlanc, Chief Financial Officer**

Well at this time I think we've been pretty clear, Dvai, in saying that investment grade rating is critically important to us. That said, I mean we're always working with our board reviewing what our strategy will be throughout this four-year period, but at this time I think it's safe to say that maintaining leverage around that two times is important to us.

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**Dvai Ghose, Genuity Capital Markets**

Okay, thanks. Number two, if I can come back to the access line decline question, in particular in light of deregulation, which you should get in your major urban markets by the end of this year, as mentioned, Stephen. How does that make you more effective as a competitor? Is it mainly a marketing win-back bundling issue? Is it a pricing issue? And where do you think pricing would go given your competitive environment post deregulation?

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**Stephen Wetmore, President & Chief Executive Officer**

Actually—I was going to hand it off to Heather because she talks about this better than I do, but I'll do the first minute and hand off to her.

It does, very much so, in that we will have some flexibility in terms of rate ranges but mostly in being able to put packages together that we feel suit the marketplace and getting them in a lot quicker. So that's the big advantage from our point of view in being able to respond. And we do have some pretty volatile pricing in our area. I mean local access in some areas starts at like \$9 or something and goes up from there. So you like to be able to combat that and stop them in their tracks, but which you can't do today. So from that side, yes.

And I guess, you know, from a pricing initiative point of view you would want to, um, you're certainly not going to

go in and just sort of say all right all my prices go down; you're going to go in and be able to have that flexibility both in price and product combination to, um, just to stop them.

And then, and I think in, um, when we look at some of the Videotron markets that are opening up, certainly their early successes are a combination of, you know, good brand—and good product, I'm not saying that, but certainly some very, very low pricing in the marketplace.

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**Heather Tulk, Senior Vice-President, Marketing**

Yeah, no, I agree absolutely. I think that, you know, to your point and, you know, the emergence of forbearance, which, as you know, we've been long awaiting since our application in April 2004, is one of the very exciting things that'll happen in our marketplace this year. And exciting from the perspective of being able to do what we believe we can do really well, which is tailor our offers for the needs of our specific customers, localize our offer (inaudible) what it is our customers are looking for, and finally, allow our customers to be able to benefit from the very real and truly competitive environment they're in.

Certainly as a marketer I find it very exciting to be able to finally operate in a free and open marketplace and meet the needs of our customers on an equal playing field, and I think that you'll see very exciting things from us in that time frame. But as Stephen mentioned, you know, as a marketer we're also very concerned with margin and very concerned with making sure that our prices are rational and that we can continue to grow the revenue of the company. So, you know, I think forbearance is a lever for revenue growth.

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**Dvai Ghose, Genuity Capital Markets**

Interesting. A couple of last ones real quick, first the TV strategy. Do you have any update anyone as to both the fibre-to-the-home trial as well as the—sorry, fibre-to-the-prem trial as well as fibre-to-the-node deployment?

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**Heather Tulk, Senior Vice-President, Marketing**

Dvai, as you know, we don't disclose specifically TV, our results, but I can tell you we're very pleased with how our TV business is performing. It's performing above the expectations that we would have built in the business case going in, so we're feeling very positive towards it. Customer response is absolutely fantastic and we

couldn't look for better response from our customers. So we're very excited about that.

The fibre-to-the-prem trial is continuing. We're getting great learning there. And, you know, we continue to dial that learning into all the work that we're doing with our business.

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**Dvai Ghose, Genuity Capital Markets**

Okay. And the last one is just really a request. In future quarters will you be releasing your balance sheet and cash flow with your results? It's a little difficult to model and project without those numbers. I understand it's early days, but is that something you can do going forward?

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**Glen LeBlanc, Chief Financial Officer**

I'll take that away, Dvai, and thanks for the feedback on that. Obviously with what we're trying to accomplish here with the year end and Sarbanes-Oxley compliance makes for a challenging quarter-end. But I will certainly take that away. Thanks.

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**Dvai Ghose, Genuity Capital Markets**

Thanks a lot.

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**Stephen Wetmore, President & Chief Executive Officer**

Dvai, it's Stephen. I also—on the 20<sup>th</sup> we'll...I want to...we do want to cover your question—you're question's very, very important (inaudible). And Heather and I debate all the time. I think we can disclose our TV stuff and Heather says we can't. But I—

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**Heather Tulk, Senior Vice-President, Marketing**

(Inaudible)

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**Dvai Ghose, Genuity Capital Markets**

I thought you were the boss, Stephen.

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**Stephen Wetmore, President & Chief Executive Officer**

Well I think Heather's probably going to win. But, you know, I mean our competitors know how many lines we've taken so... Or, yeah. So I don't know if it's really that much of a competitive thing. So hopefully maybe I'll convince her by the 20<sup>th</sup> and we can give you some more numbers.

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**Dvai Ghose, Genuity Capital Markets**

I hope so too, thanks.

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**Operator**

Thank you. The next question is from John Henderson from Scotia Capital. Please go ahead.

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**John Henderson, Scotia Capital**

Yes, thank you. Good call. I wonder if you could talk about synergies at the Bell Nordiq and whether you've made plans for the wireless asset there.

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**Stephen Wetmore, President & Chief Executive Officer**

Hi, John, it's Stephen. We went into the transaction kind of not wanting to price the deal so that we had to get a lot of synergies out of it, because it's a really well-tuned little operating company, I must admit. Very, very good margins. And I, you know, when we look at the customer satisfaction levels and the employee satisfaction levels and market shares and everything within Nordiq, we kind of use those as our aspirational targets within the rest of Bell Aliant, they're so good. So we don't want to tinker with any of that stuff. And so we—and I'm really pleased that Roch and his team will be helping us throughout Québec.

But we have seen from the very beginning, which is why we kind of moved forward with it, some opportunities particularly to help us in Québec so that we didn't have to create kind of duplicate teams and any duplicate cost structures. And so we've sat down a number of times with Roch, as Glen has with Michael Ross, their chief financial officer, to look forward to see where we can be of benefit to them in purchasing and procurement and things like that. So I think there is some good opportunity there but, you know, I really don't want to rock the boat

and knock them off their 2007 projections, which are really good. But we'll hit our synergy targets.

And then in terms of the wireless assets, we really haven't discussed taking that wireless asset out of Bell Nordiq at all. I mean it's very important to their marketing efforts and it's integrated and it's well-run, so we're, you know, it's part of the stable of products we have at the moment.

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**John Henderson, Scotia Capital**

Okay. I've got a couple of quick follow-up just related to the results details and the results and I was just wondering on the wireless, the revenue, I guess it increased 8 percent, but subscribers are up 28 percent within a price of sort of 15 percent ARPU decline and I just wonder if there's something one-time in there. And also at Nordiq depreciation jumped significantly, 44 percent year-over-year; is there a normalized level you could give us on that?

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**Stephen Wetmore, President & Chief Executive Officer**

Good questions. I can't answer either and I don't know if anybody in this room can, but I, ah...so can we—can we just get right back to you ASAP after the call, John?

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**John Henderson, Scotia Capital**

Sure.

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**Stephen Wetmore, President & Chief Executive Officer**

Okay. Sorry about that.

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**John Henderson, Scotia Capital**

No problem. I'll leave it at that then.

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**Stephen Wetmore, President & Chief Executive Officer**

No, good questions. You probably should help me out in the office review for Bell Nordiq. Good questions.

**John Henderson, Scotia Capital**

Thanks.

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**Stephen Wetmore, President & Chief Executive Officer**

Thanks.

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**Operator**

Thank you. The next question is from Nima Billou from Bloom Investment Counsel. Please go ahead.

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**Nima Billou, Bloom Investment Council**

Good morning everyone.

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**Stephen Wetmore, President & Chief Executive Officer**

Good morning.

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**Nima Billou, Bloom Investment Council**

Quick question: With respect to the operating expenses, I know that there was some one-time for SOX compliance, um, the increase of 5.1 percent, how much either in dollar amounts or in percentage can you attribute to one-time items?

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**Glen LeBlanc, Chief Financial Officer**

Good morning. It's Glen. I'll just touch on that. One thing to consider in our operating expenses were really twofold. One, we had very successful quarter in our xwave business. Now that business certainly doesn't carry with it the same margin we enjoy in our telephony business, so when you're looking at operating expenses and a significant revenue increase in that business attracted with it will be a high percentage of cost. And that's very true in the margin in the fulfillment business or product build business.

When I was speaking about the one-time consultant costs, I think everybody knows the complications and the taxing requirements of SOX and it's been something that we put a tremendous focus on and great pride in and

then showing that we would be SOX compliant kind of right out of the gate. So that would have been a \$3 to \$4 million cost for us in the last quarter.

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**Nima Billou, Bloom Investment Council**

Were there any advisory costs associated with the Bell Nordiq transaction in the quarter?

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**Glen LeBlanc, Chief Financial Officer**

Any cost associated with that would have been deemed transaction cost.

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**Nima Billou, Bloom Investment Council**

Okay. I think that's, ah, the biggest question I have for now, but the other question, with respect to your directories business, I'm sure that Yellow Pages would pay you guys a pretty penny for it right now. I know it's difficult to replace the revenues and associated margin with that business, but if you sell something at 10, 11 times EBITDA and even buy back your stock at 6.5, it seems like it would make sense. Are there any plans for that unit going forward or plans to grow it organically?

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**Glen LeBlanc, Chief Financial Officer**

You're absolutely right. So we, ah, I think in trying to...I don't want to put everything off on the 20<sup>th</sup>, but I guess you've gone through our agenda. I think—let me talk about our assets on the 20<sup>th</sup> if you would. I think, um, because it kind of plays into a number of other things that we're looking at. So if I could defer that one to the 20<sup>th</sup> I think I can answer you directly on that.

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**Nima Billou, Bloom Investment Council**

Fair enough. Fair enough. I just wanted to put it out there.

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**Glen LeBlanc, Chief Financial Officer**

No, no, great. Hey, that's a perfect question.

And I think, um, Nima, and it's not to answer any of your questions, but I think Heather Tulk has an answer to one

of John Henderson's questions, which we can come back to on the wireless group.

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**Heather Tulk, Senior Vice-President, Marketing**

Yeah. Sorry, John, just the wireless inside the BNQ wireless as of, um, (inaudible) performance, and the reason the difference between the revenue growth and subscriber growth is because of the introduction that was done this year are pre-paid products in BNQ, where there would have been extremely strong pre-paid subscriber growth but obviously at a new (inaudible) introduced because it was a pre-paid base rather than post base. So there's significant changes in mix of wireless in BNQ because of that very successful product launch.

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**Glen LeBlanc, Chief Financial Officer**

John's not going to be able to answer, so...

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**Stephen Wetmore, President & Chief Executive Officer**

Back to you, operator. We can, I think, probably have time for one more question.

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**Operator**

Thank you. The next question is from Peter MacDonald from GMP Securities. Please go ahead.

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**Peter MacDonald, GMP Securities**

Thanks. First question is on the xwave business, and if I look at Q4 it was very good numbers both on the fulfillment side and on the service side, and I'm just wondering, you know, is this something that we should be looking at as a level of growth within that business going forward?

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**Stephen Wetmore, President & Chief Executive Officer**

Hi, Peter, it's Stephen. They had a very good, um, and I should have mentioned that in my opening remarks actually. Part of the fourth quarter was certainly driven by very strong fulfillment sales, product sales, and so that allowed them, they hit a lot of our internal targets and

certainly in revenue. Going forward I think in, you know, product sales are pretty reliable in terms of sustainability and go in the same type of growth trajectory because there's nothing hugely different about the fulfillment side. They've been though very successful in a number of contracts and so therefore the services side I'm very, um, you know, very pleased at the results from the last six months and sort of how they're tracking. They in fact exceeded their internal chargeability targets and things like that, which means a very efficient operation. So some great contracts. And I think we're making some traction for sure in hauling our IT applications down into the SMB marketplace, again, something we want to expand on on the 20<sup>th</sup>. So, yeah, I have high expectations on the service improvement side, service revenue side.

The fulfillment side, I've never looked at it as anything other than a customer connection in many ways. Fulfillment is a very difficult business and with single-digit type margins and so, you know, I want to see the business grow on the service side.

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**Peter MacDonald, GMP Securities**

Okay. And if I can just get back a little bit to something you said earlier, can you elaborate on how you define being strong going into competitive market? Is that a competitor basis or a service basis? And can you also elaborate on what you do to prepare for competition within a market?

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**Stephen Wetmore, President & Chief Executive Officer**

Sure. Let me comment on what I meant on the first part of that and Heather can comment on the second part.

It's really—when you take a look at any of our towns or territories where the competitor's going to turn up, it just starts with how strong is your brand, how many employees do you have in that area that maintain your community connections and your brand connections, you know, what's your market shares in all your product categories, how strong are your market shares, and, for example, do you have the potential to turn up other services quick, etcetera.

So if you're, you know, in the New Brunswick marketplace we have an extremely high market share in high-speed internet for example, which positions us very, very well when you look forward to the competitive side.

So that's what I meant in terms of our strength before the competitors start.

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**Peter MacDonald, GMP Securities**

Just to interrupt, would high-speed be the biggest influence on preparation going as far as on the service side versus the brand and employee side?

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**Stephen Wetmore, President & Chief Executive Officer**

Yes. I don't think Heather's going to contradict me in that. But yes, it is. And maybe Heather can comment on sort of preparing for competition.

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**Heather Tulk, Senior Vice-President, Marketing**

Yeah, and it's a difficult one to comment on without putting your whole competitive strategy out there, but, you know, there is quite a range of things. It's really (inaudible) the things that Stephen mentioned. So it's everything from making sure that you have a very well-engaged front line who understands your service offerings and understand the communities that they're facing and what they need. So we run a number of programs to make sure our front lines are very engaged in that. It's making sure that you've got the right footprint for your services, i.e. high-speed, your value added services, things like that. Making sure that your customers all understand your offers and that they're aware in those competitive offers before they hear about an offer from the other person. And so there's a whole range of activities that we undertake. I think most important to that is that we undertake it market by market and we really look at what the differences of each marketplace are and we make sure that we don't take a broad-based approach against what are a very wide-spread group of very different marketplaces that we operate in.

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**Peter MacDonald, GMP Securities**

Thanks. And if I could just sneak one more in, you said there's big differences in markets that you're prepared in versus not prepared; can you give us some sort of—can you quantify that somehow? I mean 35 would be I guess where you're not prepared; what would be something on an equivalent timeline where you were prepared?

**Stephen Wetmore, President & Chief Executive Officer**

35 in reference to...?

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**Peter MacDonald, GMP Securities**

Oh, sorry, just market share that—

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**Stephen Wetmore, President & Chief Executive Officer**

Oh, oh, in terms of... Well I think, you know, historically, probably the Halifax market. Ah...

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**Heather Tulk, Senior Vice-President, Marketing**

(Inaudible) just within the ones that you're talking about in (inaudible), we would have had, you know, first-year scenarios in the 20s and first year scenarios below 10. So it's that kind of a difference that you can see just in that same marketplace. And certainly across a marketplace similar kind of thing. So I mean you can see quite a difference in the marketplace.

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**Peter MacDonald, GMP Securities**

And would the similar 1 to 2 ratio be a longer-term trend as well or is it just something that's a slower trend to develop?

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**Heather Tulk, Senior Vice-President, Marketing**

No, I'd say on a longer trend as well.

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**Peter MacDonald, GMP Securities**

Okay. Thank you.

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**Zeda Redden, Vice-President, Investor Relations**

Julie, that's all the time we have for questions.

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**Operator**

Thank you.

**Stephen Wetmore, President & Chief Executive Officer**

It's Stephen. Thank you everybody for joining us. Look forward to seeing as many of you as we possibly can on the 20<sup>th</sup> and thanks very much for today.

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**Glen LeBlanc, Chief Financial Officer**

Good bye. Thank you.

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**Operator**

The conference has now ended. Please disconnect your lines at this time. We thank you for your participation and have a great day.

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