



Economic opportunities

As economies become more global, new opportunities to generate prosperity and a better quality of life are arising. Through communications and information technology, we provide the tools to help people share knowledge, explore innovative ways of thinking and overcome the challenges of sustainable development.

*Pitcher plant, provincial flower
of Newfoundland and Labrador*



In 2006, we operated in three reportable segments: Bell Aliant, Bell Nordinq Group and Other subsidiaries. Since the scope of this report is confined, where possible, to the Atlantic Canada activities of the Bell Aliant segment, the performance highlights are reported for the Bell Aliant segment of Bell Aliant Regional Communications Holdings, LP (Bell Aliant Holdings LP). The Bell Aliant segment includes the results of operations of our communications and IT services in Atlantic Canada and parts of Ontario and Quebec. Distributable cash is reported according to consolidated results for Bell Aliant Holdings LP.

Competitive landscape

We face a number of different competitors in each of our operating segments and across the geographies we serve. These competitors include cable TV providers, local exchange carriers, long distance carriers, competitive data network providers, equipment manufacturers and retailers, wireless providers, and systems integrators.

Competition from cable TV providers continues to be our fastest growing and most pervasive form of competition, particularly in our residential customer base. We compete with cable providers across our product lines for local and access service, long distance, Internet, wireless, and TV services. Competition from cable companies is one of the largest risks we face in our business today.

As competition increases, we are focused on the successful execution of our strategic priorities.

In 2006, cable competitors launched new local service areas in New Brunswick, Quebec and Ontario, and launched or expanded local service areas in Nova Scotia and Prince Edward Island. We expect continued growth in the competitive footprint throughout 2007. As competition increases, we are focused on the successful execution of our strategic priorities. We continue to enhance our products and services, promoting our Value Packages and innovating with customers to provide complete solutions. We continue to invest in our communities and support activities that are important to our employees and customers.

Performance highlights

Performance highlights (pro forma) – Bell Aliant segment

<i>(millions of dollars)</i>	2006	2005	% change
Operating revenues	2,820.1	2,794.8	0.9
EBITDA	1,255.1	1,535.3	(0.3)
Operating income	617.1	610.5	1.1



recycling fact

New products are produced from recycled plastic, including non-food containers, plastic rulers, carpet and clothing.

2006 highlights

- Pro forma revenues grew by 0.9 per cent to \$2.82 billion
- Number of high-speed Internet customers grew by 23.1 per cent
- High-speed Internet network expanded to 86 per cent of homes in Atlantic Canada
- Information technology revenues increased by 10.3 per cent

Revenue composition

Revenue composition (pro forma) – Bell Aliant segment

<i>(millions of dollars)</i>	2006	2005	% change
Local and access	1,299.1	1,311.0	(0.9)
Long distance	452.6	488.9	(7.4)
Data	592.6	552.8	7.2
IT services and fulfillment	279.1	253.0	10.3
Other revenue	196.7	189.1	4.0
Total	2,820.1	2,794.8	0.9

Distributable cash

Bell Aliant Holdings LP

<i>(millions of dollars)</i>	July 7 to December 31, 2006
Distributable cash	369.9
Distributions declared by Bell Aliant Holdings LP and Bell Aliant Regional Communications, LP	294.8
Payout ratio	79.7%

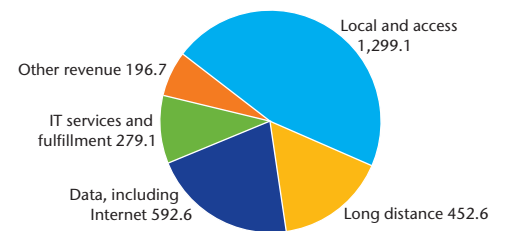
Unit capital

Bell Aliant Regional Communications Income Fund

Unit price, December 31, 2006 (dollars)	26.96
Fully diluted units outstanding at December 31, 2006 (millions)	224.5

2006 revenue composition

(millions of dollars)



In 2006, 46 per cent of our revenue came from providing local and access services. Over 30 per cent came from high-growth Internet and information technology services.

Faster Internet, expanded IPTV

Due to the strength of our 2006 results and our expectations for 2007, we announced an additional capital investment of \$35 to \$45 million to quicken the pace of our fibre-to-the-node project, which involves extending fibre optics closer to customers' homes. Our major markets will benefit greatly from this decision, allowing us to provide customers with faster Internet service and extend the reach of our IPTV service to 140,000 additional homes.



Key events in 2006

Conversion to an income trust

On July 7, 2006, we combined the telecommunications and IT operations of Aliant with the regional landline operations of Bell Canada and BCE's interest in Bell Nordiq, under an income trust structure. This transaction more than doubled our geographic size, increasing our number of local access lines by approximately 114 per cent and our high-speed Internet customers by approximately 132 per cent. As a result, we are able to leverage our size, scale and greater geographic reach to maintain a high-quality telecommunications infrastructure throughout our service area.

On October 31, 2006, the Minister of Finance (Canada) announced a proposal that, if enacted, will result in a change in the tax treatment for most income trusts. In the case of publicly traded income trusts existing on October 31, 2006, these proposed rules will generally apply beginning in the Fund's 2011 taxation year. The proposed tax changes would result in the Fund being taxed similar to a corporation, and unitholders generally being taxed as if distributions from the Fund were dividends. As the proposed changes are not expected to directly impact the Fund until fiscal 2011, we are continuing to operate as usual and will take the necessary time to plan for the upcoming change.

The formation of Bell Aliant more than doubled our geographic size, increasing our local access lines by 114 per cent.

Telecommunications regulatory developments

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission) and the federal government. Many of these decisions could have a financial impact on our results. They should eventually serve to lessen the regulatory burden and are expected to improve our promotional flexibility and ability to compete effectively.

During 2006, several key regulatory decisions were made, some of which clarified decisions previously announced by the CRTC. Highlights of decisions made in 2006 include:

Local forbearance – On April 6, 2006, our application for forbearance from price regulation of local residential services in certain areas or exchanges in Nova Scotia and Prince Edward Island was

Definition of an income trust

An income trust is a legal ownership structure for a business that holds income-producing assets. Similar to common stocks, trust units trade on the Toronto Stock Exchange. Income trusts are tax efficient structures that generate consistent cash flow for unitholders. A large proportion of a trust's income is passed on to unitholders through monthly or quarterly distributions, which are typically higher than stock dividends.



denied (the local forbearance decision). We filed an appeal of the local forbearance decision to the Federal Court of Appeal and a petition to Governor in Council. In response to this petition, on December 11, 2006, the federal Minister of Industry announced a government proposal to change the CRTC's local forbearance decision. This proposal would greatly simplify and positively alter the criteria for local forbearance in competitive markets. It would also remove several restrictions on winback and promotional activities. Although the proposed changes are positive for us, there is no guarantee that the order will be issued in its current form. Furthermore, there is no guarantee

that the outcome in any of the proceedings will improve the likelihood or speed with which we will be granted forbearance for local exchange services.

VoIP – On September 1, 2006, the Commission reaffirmed VoIP as a telephone service, declining to remove price regulations and on November 15, the federal government varied the CRTC's VoIP decision so as to remove price regulation of access-independent VoIP services offered by incumbent service providers.

Wholesale services – On November 9, 2006, the Commission initiated a proceeding to review the regulatory regime for wholesale services. This review will consider redefining "essential services" and to review classifications and pricing principles for essential and non-essential services provided by incumbent local exchange carriers, competitive local exchange carriers and cable companies to other competitors.

Policy direction – On December 18, 2006, the federal government's new policy direction for the CRTC came into force. This policy direction requires the Commission to take a more market-oriented approach to regulation of the telecom industry.

For more in-depth financial information, please consult the investor section of the Bell Aliant website, which can be found at www.bell.aliant.ca/investors.

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission.

recycling fact

It takes 95 per cent less energy to produce new aluminum from discarded aluminum pop cans than from raw materials.