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PRESENTATION

Operator

All participants, please stand by, your meeting is ready to begin. Please be advised that this conference call is being recorded.

Good afternoon ladies and gentlemen. Welcome to the Bell Aliant Regional Communications Audio Conference Call. I would like to introduce your speaker for today, Ms. Zeda Redden, Bell Aliant Vice-President of Investor Relations. Please go ahead, Ms. Redden.

Zeda Redden, Vice-President, Investor Relations

Thank you, Angie, and good afternoon everyone. Welcome to Bell Aliant Third Quarter Call.

Joining President and Chief Executive Officer Stephen Wetmore on the call today are Glen LeBlanc, Chief Financial Officer and Heather Tulk, Senior Vice-President of Marketing. Also joining for the question and answer period will be Eleanor Marshall, Vice-President and Treasurer.

Part of my job is to caution you about forward-looking information today. Our discussion may contain certain forward-looking statements related to the future financial conditions and results of Bell Aliant. I would like to draw your attention to the MD&A for the fund and Bell Aliant Holdings LP for the period ended September 30, 2006 as filed on SEDAR and in particular those sections entitled forward-looking information and risk and risk management.

All of the forward-looking statements made in the course of this call are qualified by the cautionary statements found in those documents and there can be no assurance that the results or developments anticipated by us will be realized or even if substantially realized that they will have the expected consequences for us. Except as may be required by 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 reason. Listeners should not place undue reliance on any forward-looking statements.

I would like to remind everyone that today's call is being webcast and the archive will be available on our website, and we would ask members of the media that if you choose to quote someone other than a Bell Aliant representative on this call, please obtain their permission

first. And we ask those that join the question and answer period, we have a lot of people on the call today, we ask the participants to limit their questions to one with a follow-up.

And with that I'll turn the call over to our President and Chief Executive Officer, Stephen Wetmore.

Stephen Wetmore, President & Chief Executive Officer

Thank you, Zeda, and good afternoon everyone. Thanks for joining us.

I know Zeda's had the opportunity to meet some of you already; however, Zeda has just joined our organization to head up our investor relations efforts so I know she'll get to know all of you quite well.

Before I make specific comments on the first quarter of operations I want to just take a minute to address the material we published today which we'll be addressing here on the call.

The financial statements and MD&A, as you know, are prepared to give prominence to generally accepted accounting principals, as we are required to do so under disclosure rules and guidelines. Our financial statements include the results of Aliant up to the date of the completion of the plan of arrangement on July 7th and then include the results of the new Bell Aliant organization after that. However, recognizing that the financial results of Bell Aliant going forward will be materially different from those of Aliant, we've provided you with supplementary information labelled as pro forma in the MD&A and the supplementary information package that show what the results would have been in the past had the current Bell Aliant structure been in place. So we're going to focus our discussion today on the pro forma results as we think that's the most useful information for you.

So in terms of our third quarter performance, let me start by saying that we are very satisfied with both financial and operational performance for the quarter. We all knew that this was a unique transaction designed for both our unitholders and our customers, so to have delivered on our promises has obviously met our expectations.

We have also met our current revenue growth expectations with 1.8 percent in the quarter compared to a year ago and 1.3 percent on a year to date basis. Our growth has been supported by a 20 percent year to date revenue increase in internet revenues, xwave delivering

some year over year growth and Bell Nordiq delivering another good quarter.

The overall management of our competitive marketplace is also encouraging given that our NAS and long distance declines are well within our expectations.

I've asked Heather Tulk to provide you with more detail on our revenue performance for the quarter so I won't go too much further with my revenue analysis and I'll hand it off to Heather in a few minutes.

I do want to mention though that xwave has gained some momentum in its IT consulting revenues and together with some additional contract wins in the quarter I think we're creating a much stronger foundation for the future.

In addition, our directories revenues and consumer products sold through our Atlantic Mobility products company both had solid quarters contributing to our top line revenue growth.

In terms of our EBITDA growth in the quarter, we did see an increase of approximately \$11 million in cash expenses compared to Q3 2005; however, we managed to hold our EBITDA margins at 45 percent. The quarter also contained the costs incurred with the storms in central Canada and almost \$5 million in large corporation tax which weren't there a year ago. So EBITDA growth quarter over quarter was close to 2.3 percent adjusting for these items versus our reported 1.1 percent growth.

We've stated previously that we expect to achieve \$40 million in one-time synergies from the creation of Bell Aliant and while we're not changing our estimates we don't expect to see any significant synergy realization in 2006. I'm pleased though that our ongoing productivity programs are continuing to deliver and are obviously assisting us in maintaining our overall EBITDA margins.

From a pure operations point of view I think we also made some significant progress in the past three months. We're already testing and implementing some of our customer service initiatives and I must admit that our whole organization is fully supporting our focus on customer service and the communities that we serve.

Before I hand off to Heather just let me comment briefly about our proposal to privatize Bell Nordiq. I believe quite strongly that our proposal to Bell Nordiq has been made at the right time. Their board and independent committee are continuing their necessary work on our proposal and we hope to successfully conclude the transaction as soon as possible. And Bell Nordiq can assist us greatly, we believe, in focusing and executing

our strategy in central Canada and there seemed to be really little sense in duplicating anything where in fact Bell Nordinq could do so much for us. They have an excellent management team with a real proven ability in our regional and rural territories. So from just about any angle it made sense to draw on their expertise sooner rather than later.

And with that I'll pass over to Heather to provide a little bit more insight into our competitive marketplace and some of our growth prospects. Heather?

Heather Tulk, Senior Vice-President, Marketing

Thanks, Stephen.

Well we certainly have much less time here today than would be needed to have a full discussion of everything that's happening in our market and with all our products, so I'm going to focus my remarks on two areas: our internet performance and our strategy to win in the residential market.

We certainly operate in a very competitive market for all of our product lines yet we believe that we've been successful in mitigating competitive pressure and driving new sources of growth. One of our most important sources of growth is our internet business, and internet is key to us in three ways: First, it delivers top line and EBITDA growth; second, it works to protect our voice franchise from attack; and third, it builds a platform on which we will launch future applications and services.

Our total internet revenue growth of 18.8 percent for Q3 and 20.6 percent year to date is a result of growth in both customer base and our ARPS. We delivered strong high-speed customer growth of 26.4 percent year over year through increasing our internet penetration as well as footprint expansion.

To increase penetration we make it easier for customers to get online and an example of this is our industry-leading PC purchase program. We continue to improve this program and this year we've introduced a laptop offering in the residential market and expanded the PC program to our Ontario and Quebec territory and into the small business market.

We also ensure that customers understand the benefits of choosing us through programs such as our value packages, which I'll explain in a moment. Through our marketing programs and the work we're doing in the marketplace, we've been successfully increasing our share of new customers coming into the internet market.

In Atlantic Canada we now pass over 85 percent of homes with high-speed internet and as our footprint has expanded, we've used unique approaches, regionally tailored offers and other tools at our disposal to drive penetration very quickly, and we'll take this learning forward as we build out our network in Ontario and Québec.

We've grown ARPS by 5.1 percent in the quarter and 5.4 percent on a year to date basis, and we did this by minimizing promotional discounting in our acquisition programs and driving new revenue streams within our high-speed base with services such as security and video.

We're also building new revenue streams over our broadband network such as our television offering, TV on my PC and Aliant TV. With respect to Aliant TV, in the past quarter we've expanded our coverage in the Halifax area and launched our service in new areas, St. John's, Moncton and St. John. This service continues to be very well received by our customers and subscriber penetration within footprint is performing ahead of forecast.

Now of course I know you're all aware that we do have revenue lines that are declining. We continue, as I mentioned, to operate in a very competitive market for voice services and we continue to work to maximize customer retention and minimize rate declines for both local and long-distance revenues. We focus on not just protecting our customers from attack but as importantly on winning new customers and developing offers that generate revenue growth within our customer base. Our local revenue decline is, of course, a consequence of the drop in network access services of 1.2 percent, which has come primarily from the residential market.

During this past quarter we saw new communities open up to local competition in New Brunswick, Québec, Ontario, and this has led to higher local losses than we experienced in earlier quarters. That being said, we have a solid understanding of operating in a local competitive market. We've been facing local competition for over seven years and we understand what our customers are looking for and we're building our programs accordingly. We are seeing better performance in new territories opening in Atlantic Canada than we've seen in the past and we'll continue to apply our knowledge as new areas open to competition in the coming months.

Our success is evidenced by the fact that despite our NAS decline of 1.2 we've held our revenue decline on local revenue to only 0.9 percent on a year to date basis.

We've done this through maintaining our higher value customers, increasing our calling feature penetration, and selected rate action. With respect to long distance, we continue to work to ensure we're managing both the rate and volume decline in the business and have held the revenue decline in the single digits.

Core to our strategy is our value package line-up in the residential market. Value packages are our flagship product in the residential market in Atlantic Canada. They're designed for the customer and they contain the set of elements that a given segment of customers is looking for. Value packages have unique product and pricing configurations and benefits to our customers. They've redefined the way customers buy services from us and customers are responding extremely well. Importantly, customers on value packages are materially less likely to switch to a competitor across all product lines. Given that value packages appeal to our higher-revenue customers, the benefit of this reduced churn is quite dramatic.

So our approach delivers real benefits to our business. Stronger customer acquisition, reduced churn, greater overall share of wallet, and more satisfied customers.

So thank you and I'll pass the call over to Glen.

Glen LeBlanc, Chief Financial Officer

Thanks, Heather.

As mentioned earlier, my comments will be focused on the pro forma results, as that will provide the most meaningful comparisons of our performance.

In terms of EBITDA performance, Stephen referenced that in the quarter we've seen growth of 1 percent, yet normalized for the \$4.7 million large corporation tax reclassification it was more like 2.3 percent. But I consider this, and some of the other small one-time costs, like the storm-related costs or the \$3.8 million restructuring cost incurred. I am pleased with the underlying business performance.

Depreciation was lower in the quarter versus last year as we revisited the lives of our assets and made adjustments to bring consistency over the territories we now service. The main difference in operating income growth versus EBITDA was primarily this change in depreciation, as I discussed with you during our second quarter call. As a result, operating income grew 5.3 compared to the same quarter last year.

Our capital program is on track for the year and will be within our target intensity of 15 to 16 percent.

Capital expenditures this quarter were \$9 million lower than the same quarter last year but on track with the profile of last year on a year to date basis.

Distributable cash was \$186 million in the quarter and actual cash distributions in the quarter were \$141 million. This represents the payout for the period July 7th to September 30th and reflects our annual target distribution of \$2.74 per unit. This payout ratio, some 76.1 percent, on the surface seems materially lower than our target, but the majority of the variance is due to the distributions declared in this quarter not including any amount for the first seven days of July, as the fund was not in operation until July 7th; therefore, the distributions do not reflect the typical payout for a full quarter.

Distributable cash in the quarter, \$186 million, or \$14 million higher than the \$172 million in Q3 2005. \$9 million of this increase can be explained by lower capital spending in Q3 2006, much of which is timing, as some of our Q3 CapEx spending was delayed into Q4. The rest is attributable to the growth in EBITDA previously mentioned.

With respect to Bell Aliant pension plans, actuarial evaluations will be finalized in fourth quarter. The current service cost portion of our pension funding is included in our determination of distributable cash. It is approximately \$60 million per year. We know that the new valuations will continue to have funding deficits that will require us to make special payments over and above the current service cost; these deficit funding payments will be funded through cash reserves or borrowing from the dedicated credit facility we set up.

In the circular we indicated that the deficit was \$438 million. Primarily because of changes in interest rates, we now estimate the deficit to be approximately \$350 million. Under current legislation the annual payments to fund this deficit would be in the range of \$33 to \$65 million; however, new legislation is expected that will increase the period over which these payments can be made. We expect these legislative changes will be in effect for 2007 and would reduce our annual required funding by some \$20 million.

The end of September our consolidated debt stood at \$2.7 billion. Interest expense for the quarter is approximately \$4 million less than third quarter 2005 pro forma as our current blended financing cost is slightly less than the 5.5 percent we estimated in the circular.

As we have previously stated, we are committed to maintaining our investment grade rating. We believe that maintaining a ratio of debt-to-EBITDA in the range of 2 times should keep us at our current ratings. As of September 30th our debt-to-EBITDA is 1.8 times.

We now have a \$2.25 billion facility provided by a banking syndicate, a \$3 billion medium term note shelf, and a \$400 million commercial paper program. As you would all be aware, we issued \$1.2 billion in medium-term notes in September made up of \$750 million in five-year and \$500 million in ten-year terms. We had over 60 different investors participate in the offering and we are very pleased with the way the deal went. The proceeds were used to pay off our bridge facility that was established as part of the transaction that created Bell Aliant on July 7th and to reduce our commercial paper balance. We still have approximately \$1.2 billion to term out within the next three years and we'll continue to watch the market to determine when the best time for us to do that.

With that, operator, I will turn the call back over to you to begin the question and answer period.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift the handset and then press star one. If at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while the participants register for their questions. Thank you for your patience.

The first question comes from Ian Chong from TD Newcrest. Please go ahead.

Ian Chong, TD Newcrest

Thank you. I have a question on your distribution. If I annualize the year to date pro forma distributable cash I get an annualized figure of about \$3.18 per unit from a flat payout ration of 86 percent based on your current distribution of \$2.74, which is below your target payout of 90 percent. My question is how often does the board

meet to review the current distribution and could a potential increase in the distribution be delayed until the pension revaluation is completed?

Stephen Wetmore, President & Chief Executive Officer

Ian, it's Stephen. Well, in terms of, um, I mean every, um, we review, in fact the fund reviews on a monthly basis in terms of distributions and we announce it in that way and it's really kind of, um, it's very much like a dividend in that respect in terms of their approval of it. But we're continually reviewing what our distributions will be.

Ian Chong, TD Newcrest

And would you potentially wait until that pension revaluation is completed or could you move to increase the distribution before that, we receive the actuary report.

Stephen Wetmore, President & Chief Executive Officer

It wasn't our intent. We're not sort of holding our assessment of it necessarily for that, Ian, at all. I think, you know, obviously we wanted to get Bell Aliant up, get it running and turn in a good quarter and, you know, so this will form part of our assessment here over the coming weeks.

Ian Chong, TD Newcrest

Okay, fair enough. Thanks.

Stephen Wetmore, President & Chief Executive Officer

Thanks.

Operator

Thank you. The next question is from Dvai Ghose from Genuity. Go ahead, please.

Dvai Ghose, Genuity Capital Markets

Yes, good afternoon, Stephen. Hope all is well. A quick question: post the consolidation of the Bell Nordiq float, let's assume it happens, is the intention to sell their wireless asset to Bell Canada in the same way as Bell Aliant and the Bell regional lines were? And if that is the case, do you feel that you're somewhat exposed to wireless substitution, which could be an accelerating phenomenon post number portability?

And as a quick follow-up, the numbers that you released pro forma today are slightly different from the information circular which was released earlier this year. Could you just reconcile the differences please?

Stephen Wetmore, President & Chief Executive Officer

Yeah, hi, Dvai. In term—know obviously if we are, if our proposal is successfully sort of received from Bell Nordiq it's, ah, we've absolutely no decision on the wireless assets. It is a good growth potential for Bell Nordiq, as you well know.

Wireless substitutions, you know, across the country, is obviously an issue I think and from published figures within the Atlantic Canadian context it's in some cases sort of 4, 4.5 percent. But so at this state no decision on that whatsoever.

And in terms of the reconciliation on the circular, I'll give that to Glen.

Dvai Ghose, Genuity Capital Markets

Thanks.

Glen LeBlanc, Chief Financial Officer

Hi, Dvai; it's Glen.

Dvai Ghose, Genuity Capital Markets

Hi, Glen.

Glen LeBlanc, Chief Financial Officer

In the circular, the number you'll be referring to is our estimated distributable cash of \$685 million and when you look at 2005 pro forma now you'll see just below

\$711. The difference is that in the circular we assumed that we would draw the credit facility, some \$450 million at the targeted debt rate of 5.5. If you back that out, around \$26 million. We didn't draw on that facility and I felt in producing the pro formas that you have in front of you today it would only be prudent to show where we are today as we have not drawn on that facility. So that's the material difference.

Dvai Ghose, Genuity Capital Markets

I see. But there's also some minor differences, for example on the revenue line. In 2005 information circular it says consolidated of 3290, today you came out with 3307. Similarly, EBITDA was 1486 versus 1475 today. Minor differences admittedly, but just for modelling can you just explain why?

Glen LeBlanc, Chief Financial Officer

Those minor differences were when we—when we had taken all of the customers and literally moved them over, I mean we originally would estimate customer risk by specific, you know, postal codes or regions, when we actually went and moved those exact customers that are now Bell Aliant customers there were some small fluctuations in the revenues that came over. Very, very minor as you indicate.

Dvai Ghose, Genuity Capital Markets

Yeah, that's right. Okay, good to know. Thank you very much.

Operator

Thank you. The next question is from Chris Li from Merrill Lynch. Please go ahead.

Chris Li, Merrill Lynch

Good afternoon. I just have a couple of quick number questions. First, with respect to restructuring charges, it took less than about \$2 million of restructuring charges during the quarter; can you share with us, you know, how much you expect to take in 2007 and beyond in order to achieve the cost synergies?

Glen LeBlanc, Chief Financial Officer

Hi, Chris; it's Glen. You'll notice in the quarter, I think you'll see it in the supplemental, there was a small restructuring taken in the quarter, which was just, in this particular quarter, clean up for many of the stock options that we had outstanding which were shares, which were cashed when we converted into Bell Aliant on July 7th. As far as restructuring going forward, we do not anticipate any material restructuring in the coming period.

Chris Li, Merrill Lynch

Okay. And if there were, you would fund that through your cash reserve or borrowing. It won't be included in your distributable cash calculation.

Glen LeBlanc, Chief Financial Officer

Well, I certainly haven't considered how...you know, your distributable cash calculation, it needs to be funded, so yes I guess you could fund it from specific borrowing on a credit facility, but... If it's small restructuring like we've seen, which is just a million or two in the quarter, you'll notice in this quarter we actually just included in EBITDA.

Chris Li, Merrill Lynch

Right, okay. And just one follow-up on distributable cash calculation for the quarter: There's about \$4.7 million of cash taxes was added back to the distributable cash; is that a reasonable quarterly run rate? Just for more for modelling purposes. Or does that number kind of fluctuate depending on the quarter?

Glen LeBlanc, Chief Financial Officer

Well what that is is it's large corporation tax that we used to account for below the line at Aliant, below EBITDA, and we reclassified that as an above EBITDA classification, so essentially it was a non-cash. I think that that's...for the first six months \$4.7 million re-class is a reasonable expectation for run rate, and as I said, that's a re-class for the year, so that's on the first six months number.

Chris Li, Merrill Lynch

Okay, great. Thank you.

Operator

Thank you. Once again, please press star one if you have a question or a comment.

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

Peter Rhamey, BMO Capital Markets

Yeah, thanks. A point of clarification on the pension funding. I think you mentioned in the comments, Glen, that it's \$50 to \$60 million of special funding and that would be reduced by \$20 million? Or was it \$50 to \$60 net of the \$20 million drop?

Glen LeBlanc, Chief Financial Officer

Hi, Peter. Yeah, what I had said was that the range of special funding currently under the legislation that exists today is around \$55 to \$65 million. We anticipate, as you would well know, that that legislation will pass early in 07. That will reduce the \$55 to \$65 million to \$35 to \$45 million.

Peter Rhamey, BMO Capital Markets

Okay, perfect. Great. And, Stephen, could you talk about synergies? \$40 million of synergies were in the filing that you made, I think there was another \$10 or \$15 million of additional revenue synergies, could you take us through how fast do you think you can realize on that? I'm just very curious to note that in realizing those synergies you don't expect to be taking very large charges on that, and typically charges tend to match the annual synergy number typically in telecom companies.

Stephen Wetmore, President & Chief Executive Officer

Yeah, hi, Peter. Yeah, especially in some cases if it's labour related, obviously you have to fund it up-front, but in this case the, ah, firstly, in reference to the \$40 million and its timing, we will see, I would think, you know, 30 to 40 percent perhaps flowing through fiscal 07 on the conservative side and then pick up the run rate to achieve it sort of within our two-year time horizon.

Peter Rhamey, BMO Capital Markets

So when you say 40 percent, Stephen, that would be a run rate number or 40 percent in aggregate by the end of the year?

Stephen Wetmore, President & Chief Executive Officer

No, in aggregate.

Peter Rhamey, BMO Capital Markets

In aggregate. So a faster run rate then. Okay.

Stephen Wetmore, President & Chief Executive Officer

Yep. And then—and that number originally was presented as we believe looking at it from Aliant's perspective. We believe we can run central Canada at about \$40 million less cash or better per year. Let's put it that way. So it was a combination of I think we can introduce some unique marketing programs to drive some of the top line, like the PC purchase program or value packs and IT. We can reduce some of the OpEx through supply chain, procurement, real estate, some of the fleet management, some server consolidation but not huge. And then in addition overall is an opportunity to do a little bit of in-sourcing perhaps on the, um, with the Bell arrangement, or I would prefer to see it, I guess, that as we fine-tune all the numbers in the outsourcing agreement, being able perhaps to find an area where we believe we could in-source some of it and do it cheaper but also find other areas from Bell Canada where we could in fact ride on their platforms and get cheaper prices. And then it was cash related, so there'd also be some CapEx in that as well through procurement and just reduced unit prices. So it was kind of a combination of the four things.

Peter Rhamey, BMO Capital Markets

Oh, okay. So this is pure cash not operating expense.

Stephen Wetmore, President & Chief Executive Officer

Exactly. Yeah, primarily. I mean, you know, majority non-CapEx, but CapEx is in it, yes.

Peter Rhamey, BMO Capital Markets

Okay. And the last question then I guess—is Heather on the line?

Stephen Wetmore, President & Chief Executive Officer

Yes.

Peter Rhamey, BMO Capital Markets

Okay. On the market share loss, it's encouraging to hear that you're having success but I mean I couldn't help but observe the CRTC filing a market share loss in Halifax. It doesn't sound like cable competition is slowing down there. Can you tell us how things are going there and whether you're seeing a slowdown in share gains by your cable competitor?

Heather Tulk, Senior Vice-President, Marketing

Yeah, well obviously we don't get into our disclosure of market share, but, um, and the CRTC numbers certainly reflect a fair (inaudible) in the market, but the, um, you know, we definitely are seeing, as I mentioned in my remarks, that as new areas open to competition we, as always when a new area opens, we see an escalation of losses because the footprint is bigger. But we are definitely seeing a slowdown in the rate of losses as areas open and we are, you know, very comfortable with the success and where we are in the established footprint. So, you know, there's definitely no doubt that a market share loss is a reality in an industry that's just opening to competition, but we're very comfortable with the programs that we have and our ability to make sure we're retaining our high-value customers and that we're able to drive penetration of services with those customers.

Peter Rhamey, BMO Capital Markets

And do you expect to be deregulated in the next quarter in Halifax?

Stephen Wetmore, President & Chief Executive Officer

In Halifax? No, (inaudible) is not in the next quarter but, um, you know, we're continuing, we're continuing that battle, Peter, as you know.

You know, historically Halifax is a very unique market, but I think any large centre that you're going to look at has its uniqueness. There's no doubt about that. So how strong were you pre-local access competition, what was your market share on high-speed, etcetera, etcetera, what was your ability to compete, where did you stand in trying to prepare the market for competition—all those sort of things really have a huge effect on our success and our competitor's success I guess in a marketplace.

Peter Rhamey, BMO Capital Markets

Great. Thank you.

Operator

Thank you. The next question is from Phillip Armstrong from CIBC World Markets. Please go ahead.

Phillip Armstrong, CIBC World Markets

I just wanted to clarify the total debt number. I think you said on the call \$2.7 billion; we calculate it closer to \$2.96 if you include the short-term stuff. I guess my question is is this now settled in or we should expect the total debt to change by the end of the year?

Stephen Wetmore, President & Chief Executive Officer

I think the number we calculate, the \$2.7 billion, Phillip, is net of cash on hand.

Phillip Armstrong, CIBC World Markets

Okay, so it wasn't a total, a net.

Stephen Wetmore, President & Chief Executive Officer

Yes.

Phillip Armstrong, CIBC World Markets

And then so is this settled in now? There's been a lot of moving parts here obviously, should we expect it to stay at this level through the end of the year or will it move around a bit?

Stephen Wetmore, President & Chief Executive Officer

No, it's settled in. It's a fair assessment.

Phillip Armstrong, CIBC World Markets

Great. Thank you.

Stephen Wetmore, President & Chief Executive Officer

You're welcome, Bill.

Operator

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

John Anderson, Scotia Capital

Yes, good afternoon. Question just on your TV, IPTV services. I wonder if you could provide any more colour on how it is progressing, customer reaction, um, maybe also what...how you expect to see to what extent the footprint will expand throughout your territory. I guess percentage of total residential access lines that might have it.

Heather Tulk, Senior Vice-President, Marketing

Yeah, well certainly with respect to the TV product, as I mentioned in my remarks, we're very pleased with the way it's going. Customer reaction is very, very strong and, you know, customers are happy with the quality of the service, the line-up of the channels, how it fits within the value package for a total solution for their home, you know, right down to the features, the electronic programming guide and the time shifting. So it's a

fundamental piece of our value package strategy, which I touched on, and, you know, it's available to customers as a piece of the value package and only in the value package. And so we're looking at how we use that product very much to appeal to our high-value customers and it's going really, really well. We're very pleased.

John Anderson, Scotia Capital

And any sense of how far you expect to expand it?

Stephen Wetmore, President & Chief Executive Officer

Well, yeah, Heather kind of outlined the markets I guess, John—it's Stephen. You know, we're taking a, um, well we're not kind of changing what our current strategy is in terms of the introduction of TV in our core markets in those competitive centres that we've disclosed, but I think, I must admit we're very pleased at the success, very encouraged by it, and we know the retention value.

Heather's packaged this very uniquely within a value package and so therefore a very well-placed package of services, and so we're going to continue to assess this and see its capability for broader application but now we've got CapEx envelopes that we've got to manage here too, but a very, very successful product.

John Anderson, Scotia Capital

Thanks a lot.

Operator

Thank you. Once again, you may press star one at this time if you have a question.

The next question is from Igor Bekker from Ontario Teachers Pension Plan. Please go ahead.

Igor Bekker, Ontario Teachers Pension Plan

Hi, Stephen. I had a question on access line erosion. I mean we've seen declines in the order of magnitude of 1 percent; do you have a sense of whether it's a sustainable rate or is there any indications one way or another, um, whatever you're about to see in the coming quarters?

Stephen Wetmore, President & Chief Executive Officer

Igor, it's Stephen. I think they—yeah, you know, overall we're very pleased in the analysis that we do in terms of our customer base, from a variety of angles I guess. The one, Heather specifically referenced the fact that our revenue decline in local access is significantly less than the line erosion itself, which has a number of implications to it, and then I think, um, therefore high-value retention, the success of the value packages, etcetera, has kind of proven its way in that way.

We are now sort of getting ready in many cases for where we believe the competition will be introducing in 2007 and where we can early get very, very prepared. I don't believe that we should see anything significantly different, but it really...as I mentioned, you know, like Halifax or a Moncton or a St. John's, Newfoundland or a Chicoutimi or a Sudbury all have very, very unique characteristics to them and you really do have to analyze them on an individual basis, which we do, and then try to prepare for competition in those marketplaces.

And so, how fast are they turning up will have a huge effect on our 2007, but we're pretty well positioned here. You know, I think it's kind of extraordinary really when you look at only 1.2 percent year over year NAS erosion, I think that's an extraordinary number, and we would have to be prepared for greater losses than that going forward, and we are prepared for it. So I think it's unrealistic to keep it at that number. But significant increases I wouldn't expect.

Igor Bekker, Ontario Teachers Pension Plan

Okay, that's helpful. Thanks. And just to follow-up on synergies, um, it sounded as though you were expecting to realize them a little bit earlier, um, is there a change in timing or did you, um, is it kind of as planned?

Stephen Wetmore, President & Chief Executive Officer

Pretty much as planned, Igor. You know, looking forward to 2007 I think we can get the kick in both revenue OpEx and CapEx just about as planned, you know, so we'll see some decent progress in 07, but really it's still the kind of 24 month timeline.

Igor Bekker, Ontario Teachers Pension Plan

Okay. Thank you.

Stephen Wetmore, President & Chief Executive Officer

Thanks.

Operator

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

Nima Billou, Bloom Investment

Good afternoon everyone. Good job on the top line by the way. Wanted to ask specifically about the administrative savings available for bringing the remaining Bell Nordiq stake in-house.

Stephen Wetmore, President & Chief Executive Officer

I assume you want me to quantify it, do you?

Nima Billou, Bloom Investment

Yes.

Stephen Wetmore, President & Chief Executive Officer

Well, you know, when we put the, um, let me start off from an admin point of view because, um, you know, management is always considered part of admin. And they have a very, very accomplished, seasoned, excellent management team, and I know them well. I've worked with some of them closely before, so I'm kind of looking forward to them helping us greatly in managing our central Canadian territory and specifically, I think, Nima, in the province of Québec.

Now where we were positioned for example over the coming months to hire 35, 40 people for example to assist us in the growth in our marketplace, um, by moving earlier with our decision to make a proposal to Bell Nordiq we're holding off, and I think because they can do

an awful lot of that for us, help manage our territory, implement programs faster, etcetera, etcetera. So I think when we look at this transaction and it being beneficial in terms of, you know, neutrality or slight accretions, then we factored in some savings on both sides of these organizations, both from our side and from theirs. So there are some synergy expectations in our numbers but not, not great numbers. You know, not very high numbers.

Nima Billou, Bloom Investment

So it's nothing that you can really comment to at this time I guess.

Stephen Wetmore, President & Chief Executive Officer

And honestly, if I broke all protocol and told you exactly what it is, it would be an immaterial number. I don't think, you know, it's going to change the outlook for Bell Aliant.

Nima Billou, Bloom Investment

Gotcha. Okay, fair enough. Thanks.

Operator

Thank you. The next question is from Ian Chong from TD Newcrest. Please go ahead.

Ian Chong, TD Newcrest

Thanks a lot. Just a follow-up question, probably along the same lines as Bell Nordiq and acquisitions but focusing on a larger target, namely MTS. I was just wondering if, you know, the fact that Bell Canada has trusted and more than likely MTS could pursue that same route in a larger size, is there any limitations with respect to if they would trust the whole thing versus say a prairie co trust, would that limit you from looking at it or considering it as a potential acquisition target?

Also, um, with respect to timing, since you've just announced the privatization of Bell Nordiq, would that be part of the factor in considering looking at MTS if it was for sale?

Stephen Wetmore, President & Chief Executive Officer

The Bell Nordiq proposal is really quite separate from anything else that we're trying to consider. I just, I really do think that, um, and I should probably just expand on this for 20 or 30 seconds.

When you look at the territory, Bell Nordiq's territory and Bell Aliant's territory, it is really cumbersome and awkward. And if you ever sat down with a piece of paper and tried to create all this, it obviously was done with the creation of Bell Aliant in terms of the carve out from Bell Canada you're quite logical with it, but it's, um, the territory between Nordiq and Bell Aliant really makes sense too, so operationally just makes a huge amount of sense.

But that was looked at, um, and the timing of Bell Nordiq, quite independent of anything else, Ian. It doesn't stop us from doing anything, it doesn't speed up doing anything, it simply makes sense I think for us to get them to help us with the sort of rural regional focus and marketing expertise they have. And there's nothing, you know, from a Manitoba point of view I, you know, I kind of got no comment, you know?

Ian Chong, TD Newcrest

Okay, let me...given the size of Bell Nordiq, would that be representative of potential acquisitions going forward? Would they be of similar size or could you consider something much larger than that?

Stephen Wetmore, President & Chief Executive Officer

Well, you know, in terms of balance sheet capabilities, we've kind of told everybody where we would like to keep our balance sheet, that's for sure. Investment grade is really important to this management team. And we've got, um, we've still got a significant tranche of debt to place, place accurately and timely, so all that is a consideration. And we are—the proposal to Bell Nordiq is using some of our units to effect that transaction, in the right proportion we believe that is beneficial to Bell Aliant.

So we do have natural restrictions. Any strategically, strategically important asset that we would be capable of buying well, ah, priced well, that would increase our scope and the strength of our current business, we would seriously take a look at.

Ian Chong, TD Newcrest

Okay. And one more follow-on question if I may. In your opening remarks you talked about the broadband footprint, how it passes 85 percent of households in Atlantic Canada; I was wondering if you could give us the same metric for the Bell regional territory, because I believe at the end of the year 2005 it was 60 percent.

Stephen Wetmore, President & Chief Executive Officer

Yeah. Well we would, um, that's a current number that Heather gave you, we would be in the region of 8 or 9 percent, 10 percent higher than that probably around this point in time, Ian. And then continuing to try to drive that in 2007 as pretty much as hard as we can.

Ian Chong, TD Newcrest

So about 70 percent in the Bell regional territory.

Stephen Wetmore, President & Chief Executive Officer

Yeah, probably slightly less than that. 67, 66 maybe.

Ian Chong, TD Newcrest

Okay, thank you.

Operator

Thank you. The next question is from James Leung from Mackenzie Financial. Please go ahead.

James Leung, Mackenzie Financial

Good afternoon or good evening gentlemen.

Stephen Wetmore, President & Chief Executive Officer

Good evening.

James Leung, Mackenzie Financial

This may have been asked earlier, this is just a clarification; can you just sort of explain to me again like the adjustment on the pro forma EBITDA with respect to the cash taxes, the \$4.7 million? If I understand it correctly, this is just to...it's really a catch-up adjustment for the first six months of the year and this is sort of a one-time item.

Glen LeBlanc, Chief Financial Officer

Hi, James; it's Glen. I think what you're referring to is the large corporation tax re-class. We would have previously accounted for that below EBITDA and we moved it up to above EBITDA, so it's just a re-classification and non-cash impacting. In the way it was re-classed it's about a \$4.7 million expense for the first six months.

But I think, James, what we're trying to get across and what I kind of mentioned was that if you were trying to just assess kind of our operational performance on a year over year basis, we re-classed this for Q3 2006 into EBITDA and really when you look at the quarter over the comparable quarter last year there is about a \$4.5 or \$4.7 million difference just because of that large corporation tax.

So just analytically that's how it works. Did that help?

James Leung, Mackenzie Financial

That helps a little bit. Perhaps maybe at a later time I can take that question, ah, we'll discuss this a little further, because it has already been discussed earlier in the call anyways.

Glen LeBlanc, Chief Financial Officer

By all means. Yeah, I'm happy to follow-up with you after the call if you'd like.

James Leung, Mackenzie Financial

Okay. Just can you sort of explain to us the difference, the main difference between the two major reporting metrics that you have? One is the pro forma operating revenues, pro forma EBITDA and then the operating revenues and the EBITDA, where there appears to be a difference, and maybe you can sort of explain it to us. And I noticed that there are various tables in the

supplemental, but if you can sort of explain it to me in 60 seconds or less what that was.

Glen LeBlanc, Chief Financial Officer

The big difference between the operating revenues you would see and the pro forma operating revenues for example?

James Leung, Mackenzie Financial

Yes.

Glen LeBlanc, Chief Financial Officer

Well the operating revenues use continuity of interest accounting, which is our GAAP financial statements. The pro forma, what we attempted to do via pro forma is to restate as if Bell Aliant existed on January 1, 2005 and restate all the quarters back. So let me use a very clear example.

Up 'til July 7th for the third quarter for example, Aliant held lines in Atlantic Canada and it would have owed wireless assets. On July 7th we would have divested of our wireless asset and obtained more lines in Ontario and Québec. So you can see what a materially different business we were effective July 7th. But using continuity of interest accounting it was treated as if Aliant continued on, and therefore from July 1st through to September 30th the quarter would include seven days of old Aliant and July 7th four of new Bell Aliant.

So very, very confusing when you're trying to do comparative data to see how the operations is actually performing, hence the reason we did so much work on providing the pro forma data that gave you actual comparison as if we existed since January 1st.

James Leung, Mackenzie Financial

Okay. Thank you very much.

Glen LeBlanc, Chief Financial Officer

You're welcome, James.

Operator

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

Peter MacDonald, GMP Securities

Thank you. Just a follow-up on the acquisition questions. Within reason, would future acquisitions have to be done on a yield equivalent basis or is it...in other words, is it safe to assume that your main focus right now would be on at least maximizing, at least maintaining if not maximizing your distribution if you were going to do any further acquisitions?

Stephen Wetmore, President & Chief Executive Officer

Yeah, I think that's right. I mean you'd have to, Peter, have a huge amount of synergies if not. One thing that I do find when you're focusing on rural/regional companies is that there's a huge amount of brand value and local community connections, so you have to buy very wisely. You can't just go in and (inaudible) out and things like that. So you have to be careful. You've got to build it and so, um, I think the short answer is yes.

Peter MacDonald, GMP Securities

Okay, thank you.

Zeda Redden, Vice-President, Investor Relations

Angie, is that the last question?

Operator

We do have one further question from Joe Mackay from Desjardins Securities.

Joe Mackay, Desjardins Securities

Thanks very much for squeaking me in. I may have missed it, there's a lot of paper, did you stop disclosing the xwave EBITDA or is it in here somewhere?

Glen LeBlanc, Chief Financial Officer

Yes we did. It was the wrong quarter to do it, Joe, because it was one of their better quarters, but we did, yeah. When you look at our business now, Joe, being in excess of \$3.3 billion in revenues and xwave external revenues representing some \$250-\$260 million, it doesn't seem to make sense to, you'd know this well, for segmented reporting, to deem that a segment in our financial statements. So you'll see it in there, in our notes to our financial statements, the segments we deem appropriate.

Joe Mackay, Desjardins Securities

Okay. Great, thank you.

Stephen Wetmore, President & Chief Executive Officer

Thank you, Joe. Thank you, operator.

Zeda Redden, Vice-President, Investor Relations

We'd like to thank everyone for their participation in the call today—this is Zeda—and if you have any questions, please feel free to contact me directly.

Operator

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