

## **CORPORATE PARTICIPANTS**

**Zeda Redden**

*Vice-President, Investor Relations*

**Stephen Wetmore**

*President & Chief Executive Officer*

**Glen LeBlanc**

*Chief Financial Officer*

**Heather Tulk**

*Senior Vice-President, Sales & Marketing*

## **CONFERENCE CALL PARTICIPANTS**

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*National Bank Financial*

**Nima Billou**

*Bloom Investment Counsel*

**Vince Valentini**

*TD Newcrest*

**Dvai Ghose**

*Genuity Capital Markets*

**Michael Mills**

*Beacon Securities*

**Cam Manget(sp.)**

*BMO Capital Markets*

**Jeffrey Fan**

*UBS Securities*

**Chris Li**

*Merrill Lynch*

**Jonathan Allen**

*RBC Capital Markets*

## **PRESENTATION**

**Operator**

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

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

Thank you, operator, and good morning everyone and welcome to our call.

Last evening we issued our news release and financial statements and MD&As, which are posted on SEDAR and also on our website, and today we'll be taking you through a slide presentation, which is also posted on our website, and our call will focus on our Q1 2008 results.

As always, we caution you that today's comments may contain forward-looking information related to the finances and operations of the Company and our discussion is tempered by the cautionary statement at the beginning of the slide presentation and those listed in the MD&As and news release.

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

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

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

Concerning our agenda for this morning, I'll cover the performance highlights for the quarter and comment specifically on our revenue trends, and Glen LeBlanc, our Chief Financial Officer, will then give you some further details on our financial performance. And I've also asked Heather Tulk, our Senior Vice-President of Sales and Marketing, to join us for the Q&A session.

If I could reference you to slide five, as you can see we delivered solid overall financial results for the quarter, with growth in both revenue and EBITDA of 1.6 percent. These results were generally in line with our expectations and for the most part our financial performance has been very consistent over the past three quarters.

Capital intensity for the quarter was down to 11 percent, which reflects both seasonal timing of our expenditures and a severe winter in many parts of our territory which prevented some of our planned outside plant work. You should expect higher capital spending in the coming quarters as we still expect our annual capital intensity to be in the 14.5 to 15.5 percent range, consistent with our 2008 guidance.

The relatively low level of capital spending in the quarter in combination with the 1.6 percent EBITDA growth has increased our distributable cash by 7.7 percent as compared to Q1 of 07. Glen will expand on both the EBITDA and distributable cash performance but first let me make a few comments on our revenue performance for the quarter.

On slide six you see the total revenue in the first quarter increased 1.6 percent or \$14 million over the same period last year, with internet and wireless growth offsetting the decline in local and LD. Strong IT revenue growth of \$16 million was the primary driver for the year-over-year increase in total revenues.

I should note that on February first we completed the acquisition of Kenora Municipal Telephone System, or KMTS, and as a result our financial metrics now include the operations of KMTS from that date onward. As expected, the effect of KMTS on year-over-year growth in most areas of our business was relatively minimal; however, some of our metrics have been positively affected and I'll note these in a minute.

On slide seven you see that we have continued to be successful in limiting or controlling our local and access revenue declines. Despite a 3.3 percent decline in total NAS, revenues were down only 2.4 percent in the first quarter versus the same quarter last year. In fact, if you excluded the effect of lower contribution and competitor network access revenues mandated by the CRTC in Q2 of last year, our revenue decline for the quarter was in line with previous quarters at approximately 1.7 percent.

Our NAS at the end of Q1 includes the acquisition of approximately 9,000 KMTS lines. If you exclude the impact of these lines NAS declines totalled 32,000 in the quarter, down from approximately 42,000 that we experienced in the fourth quarter of 2007. This is a similar trend to that which we experienced last year between these two quarters; however, our markets opened at a different pace in late 07 versus the prior year so the decline in Q1 of 2008 is not as substantial.

This is very much in line with our expectations and our trending estimates for 2008 and in terms of our

competitive footprint we now stand at 51 percent of householders in our territory passed by cable telephony, up from 34 percent a year ago.

In the quarter we continued to launch new packages into our SMB and consumer marketplaces in both our Central and Atlantic territories, including a new local LD and TV value package designed specifically for the MDU market.

Moving to slide eight, long distance revenue performance continued to compare favourably to prior periods. Pricing actions taken in 2007 limited long distance revenue decline to only 2.2 percent compared to the same quarter a year ago. As we move through 2008 we expect long distance revenue decline to remain in the single digits.

Moving to slide nine on information technology, xwave had a strong quarter with revenue growth of 17 percent over the same period in 2007 and improved margins. Revenue growth came largely from the recognition of current and previously-deferred services revenue from a major healthcare project in the province of Quebec, which met accounting recognition criteria, allowing us to record our deferred revenue in operations for the quarter. Future quarters will obviously reflect a more stable pattern of revenues related to this substantial contract. xwave also had strong fulfillment sales in the first quarter, reflecting typical seasonality, although down slightly from the same quarter in 2007.

Slide ten shows continued growth in our internet revenue this quarter, with total internet revenues up 9.8 percent over the same quarter last year supported by our high-speed Internet customer growth of 14.6 percent. In the quarter we had net high-speed additions of 22,380, or about 20,000 when normalized for the KMTS acquisition. This result is significant less than Q1 2007, which was a very strong quarter and one of the highest quarterly results we have achieved. Net growth in customers was impacted by a combination of lower footprint expansion, increased competitive pressure in some of our markets, and an absence of significant promotional campaigns as we focused on implementing price increases within our existing high-speed base, which has generated an improvement in our high-speed average revenue per customer of \$0.68 over the previous quarter and now averages \$35.10 per customer.

During the first quarter of 2008 we continued the expansion of our FTTN footprint, adding an additional 7,000 homes. We now passed 196,000 homes in Atlantic Canada. Our IPTV subscribers have increased to approximately 14,000, or 27 percent growth in the quarter, with almost 25 percent of our high-speed customers in the FTTN footprint now subscribing to Aliant

TV. During the quarter we expanded our IPTV service to include three TVs and we completed the upgrade of our entire channel line-up to mpeg4, allowing us to move to industry-leading picture quality. We will continue to evolve the product to include PVR and high-definition, which is anticipated by the end of 2008. The operating metrics of our IPTV business are also continuing to improve, with average revenue per customer growth, reductions in churn, and the cost of acquisition.

To enhance our core service offering this quarter in Atlantic Canada we launched our new business high-speed professional service for the small business market and our high-speed Mac services for residential markets, both of which deliver 10 megabits per second over the FTTN network.

As we have said many times, it is important to drive greater internet penetration in our territory by addressing the barriers to consumer adoption, such as affordability, ease of use, and ongoing technical support. So, as you know, in 2005 we led the industry in introducing our highly-successful computer purchase plan in Atlantic Canada and to date we've sold almost 30,000 PCs to consumers. And we continue to build on this program as we announced this week with the inclusion of the Apple MacBook to our line-up. We are the first North American service provider to integrate internet access and the Apple computer, which is a significant win for our marketing folks and obviously the organization.

We are leading the industry with the development of our suite of home networking support services. I'm pleased to note that this quarter we have expanded these offerings across our entire territory based on the success we are seeing with the online expert suite of services we launched in Atlantic Canada last year. Programs such as our computer purchase program and our home network support services are key to getting more people online and, important, online with us.

And with that I'll pass it over to Glen to speak to you more about the first quarter financial results. Glen?

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**Glen LeBlanc, Chief Financial Officer**

Thanks, Stephen, and good morning everyone.

As Stephen has covered off the revenue trends, I will speak to our expenses, EBITDA, CapEx, and distributable cash performance.

Operating expenses were \$8.4 million higher in the first quarter of 2008 than the same period in 2007 driven by

the recognition of a deferred contract labour cost associated with health services IT contract Stephen mentioned earlier. Without the recognition of these deferred costs, operating expenses were down slightly from those in the first quarter of 2007, providing further evidence that we continue to gain good traction in our productivity programs.

The revenue and expenses associated with the healthcare contract are associated with the build phase of the project and there was no EBITDA contribution from this in the first quarter. Despite that, EBITDA growth in the quarter was \$5.6 million compared to the same period in 2007. As we've stated in the past, we aim for stability in our year-over-year EBITDA margin despite the changing revenue mix, so we were pleased that this quarter's EBITDA margin of 41 percent is consistent with that achieved in the first quarter of 2007. Our EBITDA margin is typically lowest in the first quarter, which usually carries a higher proportion of IT revenue, which has a lower margin than traditional telephony business.

Tying to our capital program, with the completion of our accelerated fibre-to-the-node rollout in 2007, capital intensity in 2008 is expected to return to 14.5 to 15.5 percent of revenues with total 2008 spending expected to be about \$40 million lower than last year.

Our first quarter 2008 capital spending was \$20.3 million lower than the first quarter of 2007 and, as Stephen mentioned, this is primarily due to harsher weather conditions curtailing outdoor construction work.

Distributable cash increased \$14.7 million to \$206.8 million compared to the same period last year due to our growth in EBITDA and declines in capital spending. Also, our 2007 results included \$8.9 million of distributable cash from discontinued operations with the disposal of the assets of Aliant Directory Services. While this has offset some of the positive gains in EBITDA and capital spending, the proceeds from the sale of the assets of Aliant Directory Services were used to fund our normal course issuer bid in 2007, which effectively mitigated the impact on distributable cash on a per-unit basis.

You will notice in the notes to our financial statements we have taken a non-cash charge related to the write-down of goodwill associated with our investment in Atlantic Mobility Products, or AMP. In the quarter we received notification from Bell Canada will not be continuing its exclusivity agreement with AMP as a distributor of mobility handsets in Atlantic Canada. Because Bell Canada is a major customer of AMP, we expect the loss of exclusivity agreement to have a material effect on AMP's future revenues.

After assessment of this development on the carrying value of the goodwill on our balance sheet related to AMP, we have written off all of AMP's goodwill, a non-cash charge of \$11.2 million in the quarter. We are developing a transition plan and continue to assess AMP's prospects; however, regardless of the outcome, the effect on Bell Aliant's cash flow is expected to be minimal.

It is also possible that as a result of the loss of this arrangement it may become necessary to treat AMP as a discontinued operation for accounting purposes. If this occurs, the operating revenue contributed by AMP to our consolidated operating revenue will be reclassified and expressed in our financial statements as net earnings from discontinued operations. This may have an impact on our 2008 revenue guidance, as the anticipated operating revenue stated in that guidance is based on AMP's revenue being included in our consolidated operating revenue, which would no longer be the case if AMP is treated as discontinued operations for accounting purposes. However, this would have no impact on capital intensity nor our distributable cash guidance.

Lastly, I want to bring everyone up to date on where we stand with respect to our tax outlook for 2011. As you've heard me say before, based on the announced plans of the federal government we expect that we'll be subject to a blended federal/provincial tax rate of 25 to 30 percent on our taxable income starting in 2011. We continue to investigate options and strategies to minimize the effect cash taxes will have on distributions to our unitholders once we become taxable. Our ultimate objective is to materially mitigate the impact of these changes to taxation for income trusts. Our projected loss carry-forwards, which currently amount to \$640 million, could be used such that we would not incur cash taxes until 2012 at the earliest. While it is too early to know if all of our initiatives will be successful in reducing our cash taxes in 2011 and beyond, this is our focus of our long-term corporate planning.

And with that I'm going to open the call for questions. Operator?

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## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift your handset before making your selection. If you have a question, please press star one on your telephone keypad. 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 questions. Thank you for your patience.

The first question is from Greg MacDonald of NBF Financial. Please go ahead.

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### **Greg MacDonald, National Bank Financial**

Thanks and good morning guys. There was an unsubstantiated rumour in the market recently about xwave possibly being sold. Listen, I don't expect you to comment on rumours or on this issue particularly, but I wonder if you just might give us sort of an update on how you think about assets in the context of the current capital structure, either acquisitions or dispositions on a go-forward basis. How do you think about assets as to how they fit within your structure?

And as a quick follow-on to that I wonder if you might reflect again on the Company's commitment to a high free cash payout structure post 2011, because in talking to some investors out there in terms of business trusts overall I do sense some caution on the market for business trusts, you know, on the cynicism that some people just naturally think post 2011 a lot of companies just might go back to a growth profile. So essentially quick question there: are you a growth stock or are you a dividend stock? Thanks.

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

Good morning, Greg. It's Stephen. As far as xwave is concerned, I think what we tried to do starting a couple of years ago was to take xwave and ensure that it was focused on the markets that we do business in and therefore wanted to very much make sure that we knew where we were going to grow the asset and how we'd integrate the asset with our telecommunications side of the business, and in fact unless an IT asset can show relevancy based on that then the question will always arise as to should you keep the asset or not. We felt though that xwave, one, needed a little bit of focus from that regard, both in terms of what it was working on and improving its margins. So we, during the course of 2007, made some substantial changes to the executive team and the structure of it and the focus of it and I must admit last quarter, the last quarter of 07 and the first quarter of 08 I'm becoming very pleased at the results. I think they're very focused. And we still use them to a great

deal in our enterprise market, specifically in Atlantic Canada, to offer kind of an ITC solution. So at the moment they're very much part of our kind of core asset base from that point of view.

One thing that I think we say internally, and I have no problem saying it outside, when you have a yield, a significant yield as we do on our units, it puts an imposed kind of hurdle rate internally for the allocation of capital and therefore it means that the bar has been raised for everyone within Bell Aliant, including xwave, in the utilization of our cash resources. So high expectations of that asset are required and have been required. I think they've felt it and that's the focus going forward.

In terms of high free cash payouts post 2011, you know, a question that has to be properly kind of addressed and answered by our board of directors or trustees as opposed to me, but I think what we've always focused on from the creation is to pay out approximately 90 percent of our free cash or our distributable cash. We have tried as much as possible obviously and will continue to try to increase that based on the guidelines that we've always kind of set in terms of our growth percentages. We're becoming as efficient as we possibly can with our capital allocation, strengthening our balance sheet I think on a quarterly basis with the relinquishing of liabilities associated with our pensions and better working capital management. So I think looking out to 2011 combined with what Glen has mentioned in reference to our ability to use loss carry-forwards then, you know, encouraging, and we have no reason to change a high free cash payout as we view the business currently.

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**Greg MacDonald, National Bank Financial**

That is very helpful. Thank you.

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**Operator**

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

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**Nima Billou, Bloom Investment Counsel**

Good morning, Steve and Glen.

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

Good morning.

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**Nima Billou, Bloom Investment Counsel**

A quick question, Glen: What's the distinction in the operating expenses between what's listed in the supplemental handout as opposed to the official financial statements? There's a difference of roughly \$20 million in operating expenses.

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**Glen LeBlanc, Chief Financial Officer**

I think it's pensions that are included above the line and the operating expenses as opposed below. But let me have a check on that and I'll confirm that for you.

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**Nima Billou, Bloom Investment Counsel**

I had no—I think you may be right. So when you look at your EBITDA you exclude pension expenses?

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**Glen LeBlanc, Chief Financial Officer**

That is correct, Nima.

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**Nima Billou, Bloom Investment Counsel**

Okay, because those pension expenses are non-cash?

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**Glen LeBlanc, Chief Financial Officer**

Right. For accounting purposes. And what we do from our distributable cash statement, we take the current service cash funding out of distributable cash and then we show the special funding out of our cash reserve, funding to deal with our deficit.

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**Nima Billou, Bloom Investment Counsel**

Okay, that was just a quick maintenance question. just a broader question, someone brought it up with respect to being either a growth or a high yield entity, do you have the support, if you wanted to, to expand your FTTN capital expenditures? Because it seems like it's a competitive advantage, you're able to offer these additional services, defend share with the television product. If you wanted to be more aggressive, would you have the support from a debt capacity perspective within your current structure?

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

Well our view of our TV offering and the ability for us to offer higher speeds in our network directly associated with FTTN, look at sort of the next two to three years as building out where we would like to build it out competitively in the cities that we believe, from a timing point of view, should be built within that timeframe.

We can take certain cities and speed up the FTTN build and therefore the TV product offering with not a huge amount of capital at this point in time. So we do some of that. We're actually going to do it over the next four or five months in fact with one of our cities in Atlantic Canada in order to kind of complete the build there.

So we're continuing on a trajectory to probably pass another couple hundred thousand homes over the next two to three years with our FTTN build. Again though, you would always, always analyze that based on the competitive environment. You could speed it up and you may have the ability to slow it down by four or five months or something like that.

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**Nima Billou, Bloom Investment Counsel**

So as you see it now you're not really constrained with your plans for the next several years in terms of the territory you want to cover. There wouldn't be a large influx of CapEx necessary if you wanted to suddenly cover 10, 20 percent more territory.

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

No. I think we felt constrained, however, at the end of 06 and therefore went to the board and asked them for that extra \$40, \$45 million to speed up and catch up to our FTTN original plan. So now we're up to a couple hundred thousand homes passed; we're pretty much on the trajectory that we need.

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**Nima Billou, Bloom Investment Counsel**

No, I think it's a great move. And you're seeing what Verizon's done in the U.S. and what you guys are doing, albeit maybe on a smaller scale, it can really provide a significant competitive advantage.

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

Absolutely.

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**Nima Billou, Bloom Investment Counsel**

Final question just on the Nordiq asset; is there any thought—because data revenues are growing quickly, do you guys offer the card product, the unlimited \$75 a month for laptops and whatnot? Is there any thought to investing on the data side and growing that?

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

In terms of the PC offers and things like that within Télébec and NorthernTel's territory?

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**Nima Billou, Bloom Investment Counsel**

Yeah, in terms of wireless data services or packages.

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

I'm just trying to nail your question down between wireless or wireline. Is it a wireless question you mean?

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**Nima Billou, Bloom Investment Counsel**

Yeah. I was just wondering is there a wireless data offering, you know how Bell has that \$75, the PC card package, you put it into the laptop. Its high-speed mobile broadband offering. Is there the same equivalent on the Nordiq side or are you looking to maybe grow that?

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

Well without getting into—it's Heather, sorry. Without getting into specific product plans, certainly a key piece of the growth that we're looking at being able to get out of our wireless asset in Nordiq is definitely related to data and we're in fact making investments right now and did quite a bit last year as well to upgrade the speed of the network in Nordiq to make it comparable to what we would see in other parts of the country. And certainly

data growth is something that we have our eye to for sure.

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**Nima Billou, Bloom Investment Counsel**

Okay. Thanks very much.

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**Operator**

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

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**Vince Valentini, TD Newcrest**

Thanks very much. Just want to clarify on the tax shelters for 2012 first off. Would you be signalling here strongly that you would maintain a 90 percent payout ratio on free cash flow in 2012 assuming you were back to being a corporation as opposed to going to some sort of earnings that would be taxed and you'd see a hit to the distribution even though there's no cash taxes until 2013?

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

I just want to take away the signalling strongly part of your comment, I think, Vince, because all we're trying to do is kind of lay out the facts because people often don't understand them. So when we look at 2011 and beyond and the imposition of a federal and provincial income tax on us in the region of 25 percent, I think what everyone has to understand is where do we stand in terms of our ability to grow our distributions between now and then, what's our ability to continue to strengthen our balance sheet, and then our ability to defer taxes based on our current tax loss carry-forwards. And all of that adds up to the ability, we believe, to maintain a very strong distributable cash position well beyond December 31, 2010. And that's I think the important part of what our messaging is.

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**Vince Valentini, TD Newcrest**

Sorry, let me rephrase it for you, Stephen. If your philosophy up to this point has been to keep the payout ratio high, partially for tax efficiency, because if you let the payout ratio drop to 80 or 70 percent to have a more gradual decline in the distribution over three years rather than a bit of a cliff in 2012, if you did that you'd have tax

leakage. But in 2012 there'll be no tax leakage because there's no tax shelter anyway so the philosophy may change. So I'm just trying to clarify how you're thinking about that, if you would then say we'll have a bit of a gradual move down in the distribution or we'd still keep it as high as possible right until that very last day when we start paying cash taxes. Maybe you haven't made a decision on that yet, but that's what I'm trying to get clarity on.

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

Well no we haven't per se on that, Vince. But it's do you—here's the question I guess. If you could shelter them all then would you just keep your distributions constant between now and then and then try not to reduce them if you didn't have to, by retaining the cash, pay taxes on them, or would you say no, we have a 90 percent distribution payout that we've said that we would do, so do you continue, albeit if your performance is there, if you continue to increase your distributions knowing that at some point in time you're going to have to bring them down to more current levels if you will. And if you take a look at what we're doing now, we have made two distribution increases from \$2.74, \$2.82, \$2.90, and so therefore we're continue to grow them. If you continue with that strategy then you're going to have to bring them down more in line with the original payout of the organization. So our philosophy at this stage of the game is to pay it out and then knowing that eventually you'd have to bring them down a bit but that you'd grow your payout so high hopefully that you wouldn't have to bring them down much below what they were when the organization started.

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**Vince Valentini, TD Newcrest**

Okay, thanks. If I could just follow up, because I'm a bit unclear on this line of mobility products. You're sort of dancing around it, Glen, in your comments, but can you not just give us sort of straight up what the revenue and EBITDA contribution is from that business so we can have a sense of what the risk could be?

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**Glen LeBlanc, Chief Financial Officer**

Hi, Vince. Good morning. You'll see it in our supplemental information packet that we generate about \$100 million a year from AMP revenues. The impact on distributable cash for the year is less than \$2 million, about \$1.7 or \$1.8 million in totality for the impact this

year. My comments were really just trying to give the street some insights into the fact that if we do have to reclassify this to discontinued operations, which isn't a decision we've made yet as we're still working on the transition plan, the accounting treatment would have us remove 100 percent of the revenues, both from 2007 and 2008, and record them as net earnings below the line. So therefore you would have a top line impact, although there would be minimal cash impact as the business is a very low margin business.

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**Vince Valentini, TD Newcrest**

Okay, thanks.

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**Operator**

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

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**Dvai Ghose, Genuity Capital Markets**

Two related questions really. On the AMP side, can you tell us why Bell made this decision? Because I was under the impression you had a favoured relationship with them. And in general you haven't really given us much in terms of the master services agreement update and so on. Are you essentially running as two very separate companies at this stage?

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

Hi, Dvai, it's Stephen. The AMP exclusivity contract, we noted it in the circular when we started Bell Aliant, because we knew based on what and how Bell Mobility wanted to operate its business go-forward that the AMP organization was there and that purchasing and distribution was within Atlantic Mobility Products. So we said let's set this up at least for a two-year exclusive. We'll see where we stand at that period of time, we're still kind of doing that right now, and see how, whether that type of distribution is something that Bell Mobility wanted to keep with or not. They, over time here, are going to integrate this into their national distribution, and that was to be expected when we started pretty much. So not all of AMP is Bell Mobility, but the majority of it is. So now we have to figure out do we keep the business going, do we not keep it going, do we try to put other things into it, or simply discontinue it.

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**Dvai Ghose, Genuity Capital Markets**

But Bell is not going to acquire it from you.

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

No, because they're just going to do distribution in a different way. And as far as the master services agreement, absolutely nothing has changed on that. We are still getting the productivity contribution and percentages that are all wrapped into the agreement originally. We have a whole team on our side working with a whole team on Bell's side, both from all of the facets of the statements of work to make sure that it's working as well as it can, and I think at the moment, and especially the last sort of six months or so, we've made, I think, some very good progress on many, many areas with the master services agreement. So pretty pleased about it and nothing much has changed.

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**Dvai Ghose, Genuity Capital Markets**

So the AMP move shouldn't be seen as a strategic move by Bell in terms of severing ties with—

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

No, not at all. We knew from the very beginning. I think in fact—let's do it another way—I think in fact if Bell could have done their own distribution on Bell Mobility from day one, they probably would have. But we had this set up and it was part of the negotiations and we said give us exclusivity for a couple of years. After that we understand you'll probably want to do your own thing one way or the other. So no, we knew about this from day.

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**Dvai Ghose, Genuity Capital Markets**

Okay, that's very helpful, thanks. On a more general basis regarding wireless though, as you know, there's an AWS auction happening. You may be in the unique position by year end of being an incumbent telco without wireless by and large and having both your major cable competitors, Rogers and EastLink, with wireless. Is that something that concerns you? Especially as we've seen

Rogers now unveil a wireless plan and phone which is aimed to replace home phones and so on. Do you think wireless substitution will accelerate and do you think that you're exposed?

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

Well it's something that we, on the Rogers side, obviously knew when we started Bell Aliant. We knew eventually that either through acquisition of EastLink by someone else or EastLink starting up their own wireless, and Videotron, that we would be in a game against competitors that were full service providers. It doesn't mean though, Dvai, that we can't compete.

I mean we have all the products to compete with from a bundling point of view from Bell Mobility and so therefore we don't look very differently at the market than we ever have. It'll be obviously tougher within the EastLink and perhaps Videotron markets than it is today, because they'll have more services, but we're quite used to it based on the competition with Rogers, etcetera. So that part, nothing tremendously has changed.

The evolution of high-speed if you will or ability to use mobile networks further than they're able to be used now has always been obviously a concern to use to. Wi-Fi fixed wireless belongs to Bell Aliant. The combination of those assets from a mobile or nomadic point of view we can play the same game as we ever had.

So, you know, substitution to us is one of the reasons that we try to put many of the value packages together the way that we do. It's one of the reasons, for example, that we launched that new package for MDUs this quarter. That's aimed at the typical type of wireless substitution customer. We've had a high, high percent of our population in territories like Halifax—Halifax has more students I think than any city in the country with six or seven universities in Halifax alone. So we're used to it.

We're keenly aware of what you're saying, obviously, and we continue to be concerned, but it's no different now than it was a year ago.

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**Dvai Ghose, Genuity Capital Markets**

Thanks very much.

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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 Michael Mills of Beacon Securities. Please go ahead.

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**Michael Mills, Beacon Securities**

Good morning. Just maybe you can give us an update on the efforts in the areas where we've seen local forbearance over the last several months, your efforts to retain customers, and maybe some of the challenges or successes you've seen there.

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

Heather, do you want to handle that?

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

We're, quite pleased with a number of things that we've been able to post forbearance, and I think you'll see forbearance become less news but more substance as time goes on, in terms of it's now completely integrated in the way we go about business and allows us quite a bit of flexibility on a day-to-day basis. So, I've talked before about our win-back success and how that's improved and we continue to see that improve as time goes on.

The other thing that you see, you know, you live in Halifax, and as an example the rest of the people on the call wouldn't know that, because of forbearance, but really the ability of forbearance, we were able last week, subsequent with the world hockey championships going on in Halifax, to go in and do a Halifax/Pacific offer that we have in play now without any need for filing lead time. We watched it closely over the first day, decided to adjust, so that kind of flexibility now is becoming a daily reality in our business allows us to really get in and compete more effectively than we ever have before.

It's taken us a little while to implement that from a systems perspective and get the implementation done, but certainly in the last quarter and a half we're really pleased and starting to put that in play and you'll see a lot more of that in the months to come.

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**Michael Mills, Beacon Securities**

Okay. And it certainly looks like you've become much more aggressive with the Aliant TV offering, at least in Nova Scotia, with bundling options and, I believe it's now available without high-speed Internet as well. I'm wondering if you'd be willing to give us kind of either one or two of your targets for subscriber.

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

100 percent.

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

No, but I can say you're right, Michael, in that it's working really, really well for us and, as Stephen mentioned on the call, our penetration of high-speed customers is quite high and higher again in areas like Halifax where we've been in market with it the longest. And the other thing is the flexibility to be able to go in and put together the right packages that are right for—you know, one of the things that we don't talk about as part of the forbearance, which really came as part of the new regulatory regime just before forbearance, is the ability to go in and do sub-segment-specific offers and to be able to get in and really put together things that are right for various pieces of the market. So Stephen talked about the MDU-specific bundle, you know, bundles that are targeted at specific groups and areas.

And the other thing really important for our business is the ability for us to be hyper-local. So the ability for us to get in and have, a different offer happening today in Halifax tied to the fact that, there's major event going on, a different offer available in a community that has a high MDU penetration, a different offer going on in St. John's, Newfoundland where we're facing a different situation, and to be able to manage that without having a regulatory overhead and a regulatory burden that can really slow you down. so we're able to react and pro-act much faster in the marketplace, and I think that's the main benefit. And it's really hard to quantify that, but I can tell you operating in the business is truly different.

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**Michael Mills, Beacon Securities**

And have you been able to do that essentially with the same staffing level in the marketing dept?

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Yeah, in fact we're down a little bit so, um, as part of productivity, but yeah, it's unleashed a lot of capability, yep.

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**Michael Mills, Beacon Securities**

Good. That's it for me, thanks.

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**Operator**

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

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**Kam Mangat, BMO Capital Markets**

Good morning. This is Kam Mangat speaking on behalf of Peter Rhamey. I just have a quick question. What has the uptake been like for your video and higher broadband speeds products that you've introduced recently?

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

Well on video our penetration rate on homes passed is running, depending on the market and how long it's been opened, on average about 7 percent right now. And the higher speed products it's really too early to say. We've just launched them in the last 60 days. But we're doing very well.

The other thing is we've been really happy with, we also in the quarter introduced a third TV capability in our TV product, and the penetration on that has been quite a bit higher than we would have anticipated, and it's really going quite well and about a third of our TV subscribers now are taking a three-TV solution.

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**Kam Mangat, BMO Capital Markets**

Okay. All right, thank you for taking my question.

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**Operator**

Thank you. The next question is from Jeffrey Fan of UBS Securities. Please go ahead.

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**Jeffrey Fan, UBS Securities**

Thanks very much. I just want to revisit the master agreement that you have with Bell. On the one side, you know, they're servicing you in the Bell regional territories, but in Atlantic Canada you guys are doing some call centre outsourcing work for Bell Mobility. I'm just wondering if you have an update on that particular agreement, whether there's any ties to the changes in their distribution in Atlantic Canada.

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**Glen LeBlanc, Chief Financial Officer**

Good morning, Jeff. It's Glen.

As you're aware, we do have a large \$300 million plus contract for services that Bell provides for us, but there's a much smaller contract and services we provide for Bell Mobility, and Bell has notified us and have been slowly in-sourcing some of the services that we provide for them. It does have a top-line revenue impact but we're able to mitigate the vast majority of the cash impact to us, because we do the same in the other direction. It's a bit of a to and fro.

We're looking for opportunities to in-source things that we believe in the \$300 plus million contract we can do more efficiently, whether that be legal services, regulatory services, financial services, internal audit, things like that that we've in-sourced, and we have a great relationship with Bell so we're able to come up with transition periods. You know we have a very large temporary workforce in Atlantic Canada so we're able to build transition plans that allow us to have an in-source of a function but not have a material cash implication to us.

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**Jeffrey Fan, UBS Securities**

Okay. So on the top line they—according to my notes they were paying you about \$40 million on an annual basis.

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**Glen LeBlanc, Chief Financial Officer**

That's correct.

**Jeffrey Fan, UBS Securities**

How much is that going to go down to on an annual basis going forward?

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**Glen LeBlanc, Chief Financial Officer**

We would say in 2008 that that would be somewhere in the \$12 to \$15 million decline in that revenue stream.

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**Jeffrey Fan, UBS Securities**

So \$12 to \$15 million decline from the \$40. And is that going to be a run rate then going forward or will it go to a much smaller amount in 09 and beyond?

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**Glen LeBlanc, Chief Financial Officer**

At this time that would be kind of a fair number to carry forward into 2008 but, as you know, we're constantly working with them on how we can both run our operations more efficiently.

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**Jeffrey Fan, UBS Securities**

Okay. And on the \$300 million that you pay Bell for that service, you do get the productivity savings, I believe that's been worked into your agreement of I think 3, 4 percent per year. On an absolute dollar level, how much have you seen that decline in terms of the total amount that you pay Bell?

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**Glen LeBlanc, Chief Financial Officer**

Well, in the very simplest of math, we're guaranteed a 3 percent productivity factor on the full contract. I believe when the contract would have begun it would have been well over \$350 million. So on a per-unit productivity basis we enjoy a 3 percent productivity on a contract that's in excess of \$300 million. So you can do the math on what you'd get there.

That said, the productivity is a factor of a per-unit productivity and if we consume more volume—it's a volume rate analysis you have to do—we would have to pay the volume we consume, we've seen our volumes be very flat. So you really have three things going on in a commercial agreement: you would have volume increases or decreases that you need to manage, you

would have the guaranteed productivity, per-unit productivity, and any opportunity we have to in-source would be kind of a step-change in the contract value.

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**Jeffrey Fan, UBS Securities**

Okay, thanks.

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**Glen LeBlanc, Chief Financial Officer**

You're welcome, Jeff.

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**Operator**

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

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**Chris Li, Merrill Lynch**

Hi, good morning. Just a question on the business line trend. The lines were a little bit soft this quarter I think if you exclude the KMTS acquisition and the deceleration in the line went from 1.6 percent in Q4 to almost 2 percent in this quarter; can you maybe comment on what you're seeing in the segment?

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

There are a few things there. I mean it's not a huge number, Chris, but there's a few things going on. Certainly in a couple of our markets we're seeing some increased competition. We're also seeing some things that affect our NAS lines but actually don't affect our connections with our customers in that we have a couple of our own customers that we're moving off or in the case of the median business base some individual line customers that we're moving to our own voice solution, and so that affects our NAS count but actually, you know, is not a customer loss to us. So there's a bunch of things going in there.

There's really not much happening in terms of escalating customer loss underneath that. And there's also some line consolidation. It's a bunch of different things.

The other thing that of course affects local is data network migration, because legacy data products include a local connection, and as they move to IPVPN and

services like that, ah, that you see some change there as well. So no big alarms there really.

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**Chris Li, Merrill Lynch**

Okay great. And just on IPTV, I know it's still very early stages, um, the revenue for IPTV, can you share that number with us? What was that during the quarter?

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**Glen LeBlanc, Chief Financial Officer**

Good morning, Chris. It's Glen. I think we disclosed around 14,000 customers at the end of period of March and you know that we would have introduced IPTV at \$29 introductory offer and that moves to about \$39 after 12 months. So some of our customers are coming off of that now and moving to the higher price. So, you know, pick a low 30s ARPU, excuse me, mid-30s ARPU, I guess the middle of 30 and 40, with an average customer count somewhere in the 13s for the quarter and away you go.

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**Chris Li, Merrill Lynch**

Okay, got it. and just one last question—

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

We don't want to disclose it.

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**Glen LeBlanc, Chief Financial Officer**

But I'm not disclosing that, Chris.

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**Chris Li, Merrill Lynch**

Just one last housekeeping question. On the 9,000 wireless subscribers that you got from KMTS, were they mostly post-pay customers?

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

I don't think---well my quick answer is yes, obviously, but I don't know the proportion of it, Chris. We can get back to you on that.

**Glen LeBlanc, Chief Financial Officer**

They are mostly post-pay but I'd have to, Stephen, look at the exact number. You're right. So we can get back to you, Chris. The total subscriber count is 9,000 I believe. Correct.

**Chris Li, Merrill Lynch**

Okay, great. Thanks.

**Glen LeBlanc, Chief Financial Officer**

Thank you, Chris.

**Operator**

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

**Jonathan Allen, RBC Capital Markets**

Thanks very much. Glad to sneak in here with the last one. I have a question on the CapEx spending.

Just given a lot of the flooding and bad weather that you've been seeing out in the Atlantic provinces, curious what's going to happen with the CapEx profile over the next few quarters. It was a little on the light side now, but can you see a big increase in capital spending over the next quarter or two trying to replace a lot of the, ah, a lot of the damaged areas? And will this actually defer or put on hold some of your other strategic projects in any of the areas?

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

Hi, Jonathan, it's Stephen. The short answer is no in terms of the delay of strategic projects. As far as increased capital spending this is the time of year that it does start to crank up obviously and better weather and access, so you'll see it up in the next couple of quarters.

The flooding, etcetera, that occurred primarily in New Brunswick in the Fredericton area, is not going to be a substantial effect that you would see in our capital, and some of the things that we had planned in that area may

get delayed a couple months, but it's such a small area overall that you wouldn't notice it.

**Jonathan Allen, RBC Capital Markets**

Okay, so no impact on, no potential impact on guidance then.

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

No, no, not at all. We'll ramp it up a bit .

**Jonathan Allen, RBC Capital Markets**

Okay. On an unrelated question, looking at the DSL ARPU specifically, a lot of your peers, especially on the cable side, have been growing Internet ARPU in the last year or so, especially on the back of pricing increases here or there.

At Bell Aliant ARPU seems to be declining. It was down only 2 percent year over year, so nothing to be too concerned about, but I'm curious whether or not you can actually see ARPU growing over time or is this something more of a strategic decision for the Company, either for retention purposes or for trying to grow penetration?

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

It's definitely in our sights to grow our average revenue per customer for DSL—

**Jonathan Allen, RBC Capital Markets**

Sorry, Heather, what was that? To grow customers or to grow ARPU?

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

No, to grow ARPs, average revenue per customer. And I think you would have seen in consecutive quarters a little bit of an increase that we've been able to drive between Q4 and Q1.

And I think you would have heard in Stephen's remarks that one of the reasons actually, one of the drivers of not having perhaps the subscriber growth in quarter that we might have liked, was a conscious decision we had not to implement promotional pricing in the quarter while at the same time we did an increase across our high-speed base for price increase. And that'll flow through in future quarters. So we've got a number of plans in place and definitely we would like to see those ARPs come up.

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**Jonathan Allen, RBC Capital Markets**

What was the pricing increase that you put through recently?

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**Jonathan Allen, RBC Capital Markets**

Sorry to put you on the spot.

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

It depended quite a bit on the product. It was between \$1 and \$2 depending on the customer.

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**Jonathan Allen, RBC Capital Markets**

Okay. Thanks very much, Heather.

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**Operator**

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

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

Thank you everyone for joining us today and I will likely to talk to most of you over the next day or so. Thanks again.

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**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time. Thank you for your participation.

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