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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.

Zeda Redden, Vice President, Investor Relations

Thank you, Natasha. Good morning everyone and welcome to our call.

Last evening we issued our news release and financial statements and MD&A, 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 Q2 2008 results.

Today's agenda is listed on slide four of the presentation. You will note that along with our usual discussion of the quarter's results, the disclosure documents and discussion today will include a revision to our 2008 revenue guidance as a result of the reclassification of a portion of our business to discontinued operations. And, 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 statements at the beginning of the slide presentation and those listed in the MD&A and news release.

With that I will turn the call over to Bell Aliant's President and CEO, Stephen Wetmore.

Stephen Wetmore, President & Chief Executive Officer

Thank you, Zeda. Good morning everyone. As for the agenda today, I'll take you through the performance highlights for the second quarter and comment specifically on our revenue results, and then Glen LeBlanc, our Chief Financial Officer, will then provide you with further details on our financial performance and an update on our 2008 guidance. Heather Tulk, our Senior Vice-President of Sales and Marketing, is also here with us for the Q&A period.

Before I speak to the results I want to comment on the recent organizational changes announced at Bell Aliant.

We've had a change in the membership of our fund trustees and board of directors as a result of the changes at our controlling unitholder, BCE. Lawson Hunter left his position as trustee and chair of the fund and Michael Sabia, Mr. Hunter, and Patrick Pichette leave their positions, respectively, as chair and directors of the boards of Bell Aliant's main operating subsidiaries. And George Cope, President and CEO of BCE, and Siim Vanaselja, the Chief Financial Officer of BCE, and David Wells, Executive Vice-President of Corporate Services at BCE, have been appointed members of our operating company boards. Mr. Cope was also elected chair of the boards and Mr. Vanaselja was appointed trustee and chair of the Fund.

We announced internally a few months ago that Frank Fagen, our Chief Operating Officer, would be retiring July 1st, which capped, to the day, a 46-year outstanding career with our organization, and on July 11th we announced that Karen Sheriff, who has most recently been President of Small and Medium Business at Bell Canada and who has been on our board and the board of Bell Aliant for many years, has been appointed our new Chief Operating Officer. Karen and I joined the Bell family around the same time in the late 90s and have worked closely together over the years and I obviously welcome her to the team.

And to conclude our organizational announcements, we also announced in early July that I'll be stepping down from my roll at the end of the year and the board is now in a process of selecting a new president and CEO to be in place for 2009.

Now turning to the main reason you joined our call this morning, our second quarter results. As you can see on slide five of our presentation, we continued to deliver solid overall financial performance for the quarter with revenue growth of 2.4 per cent and EBITDA growth of 1.5 per cent compared to the same quarter last year. Our results are in line with our expectations and generally consistent with the trend we have developed over the last two years.

Capital intensity for the quarter was 15.5 per cent, resulting in year-to-date capital intensity of 13.3 per cent. We expect our annual capital intensity to be within our guidance range of 14.5 to 15.5 per cent as we anticipate seasonally higher capital spending in the upcoming quarters will offset the lower than planned capital spending in the first quarter that we discussed on our last call. The main reason the CapEx is lower this year than the second quarter of last year is that 2007 included spending on our accelerated fibre-to-the-node program.

Distributable cash grew 13 per cent during the quarter on the strength of our 1.5 per cent EBITDA growth and the lower capital spending compared to the same period in 2007. These same factors contributed to distributable cash growth of 10.1 per cent on a year-to-date basis. Glen will expand on both EBITDA and distributable cash performance later, but first I'll take you through some further details on our revenue performance for the quarter.

On slide six you see that total revenue in the second quarter grew 2.4 per cent or $19 million over the same period last year, as our growth in IT, Internet, wireless and new services more than offset the decline in local, LD, and other revenues.

On slide seven you see that we have continued to be successful in limiting local and access revenue decline in an increasingly competitive environment. For the second consecutive quarter we limited revenue decline to 2.4 per cent in spite of a 3.3 per cent decline in our network access lines.

Our NAS decline in Q2 was approximately 20,700, down from approximately 32,000 in Q1 of this year when normalized for KMTS and 42,000 in the fourth quarter of 2007. The April/May/June period should show better seasonal results than the first quarter but, nonetheless, I'm quite pleased by our performance in the quarter.

Second quarter NAS decline was actually similar to Q2 2007, despite a 12 point increase in competitive footprint over the past year. Approximately 54 per cent of households in our territory are currently passed by cable telephony, up from 42 per cent in Q2 2007 and 51 per cent at the end of Q1.

One point worth noting is that our competitive footprint expansion is now coming from a wide variety of smaller communities throughout our territory. Between now and the end of the year we expect further competitive expansion and this will continue across many smaller communities, particularly in Quebec, New Brunswick, and Newfoundland and Labrador. As we see this type of competitive expansion against numerous players, we believe it will be more important than ever to execute on our strategy to focus on the individual communities we serve by tailoring our offerings and strengthening our brand presence. Of course, the timing of these openings is always difficult to predict; however, we believe our footprint could be between 60 to 65 per cent comparative by the end of the year if the markets open as they could.

It is difficult to claim success in our local access revenues when we continue to lose customers each quarter;

however, I believe the rate of decline and our ability to increase revenue from our existing customers is a strong vote for the effectiveness of our overall marketing programs, especially when competitors are increasing their presence in our markets.

With respect to retention, we have improved our performance through fully capitalizing on the regulatory relief we received last year, continuing with our value package and bundling strategy to increase loyalty, and introducing programs to intervene early during times when customers are particularly subject to churn and these programs are proving quite successful. As just one example, we have seen great success with the focus on customer moves, which I have told you about previously, and NAS losses due to moves has decreased substantially from the same period last year.

Moving to slide eight, long distance revenue was down 4.8 per cent from the same quarter last year, driven by declining NAS, technology substitution, and continued price pressure or re-price pressure, particularly in the business market. The year-over-year decline in revenue for the quarter was great than in Q2 than in Q1, as Q1 was still benefitting from pricing actions taken in early 2007.

I don't normally comment on our wireless operations in detail; however, with the acquisition of KMTS I should clarify a few numbers. Our wireless revenue growth of 25.8 per cent year over year was driven by customer growth of 24.6 per cent and a $1.61 improvement in average revenue per customer. Subscriber growth was driven in part by the acquisition of KMTS in 2008 and excluding KMTS year-over-year subscribers grew by 15,000 or 14.4 per cent. Improvement in average revenue per customer was driven by very strong data services growth offset by the addition of the lower average revenue per customer analog subscriber base in KMTS.

Moving to slide nine on information technology, xwave had another very strong quarter, with revenue growth of $23 million or 36.1 per cent over the same period in 2007, supported by both services and fulfillment revenues. Along with revenue growth, profitability continues to improve in our xwave business, driven by the restructuring we implemented in 2007.

Last evening we announced that we have entered into an agreement to sell xwave's defence, security and aerospace business, or DSA business. A review of this business has been underway for some time and we determined that the opportunities in this space are best handled by large corporations that are primarily focused on defence security in aerospace and we are pleased to have entered into an agreement with CAE.

Further details of the transaction are in our news release of last evening and, as we stated, we expect to finalize the transaction by year end with an estimated $15.1 million to be received at that time.

Slide ten shows continued growth in our Internet revenue. Total Internet revenues were up 10.9 per cent over the same period last year. High-speed net additions of 15,348 are down from 20,000 in Q1 as a result of normal seasonality and slower network expansion reduced our net additions in the second quarter versus the same quarter a year ago.

Average revenue per customer grew for the third consecutive quarter, reaching $35.71 in Q2, which is up $0.61 over Q1 and $0.54 over Q2 of 2007. This improvement is driven not only by pricing action but by a continued focus on migrating customers to higher bandwidth packages and sales of value-added services.

In the quarter we expanded our high-speed Internet network to pass an additional 11,000 homes and now pass approximately 73 per cent of homes in our territory. Although our expansion year to date is slower than the same period last year due to the timing of our build, this will be higher in the second half of 2008.

With respect to Aliant TV, our IPTV service, subscribers increased by almost 25 per cent this quarter with just over 17,000 customers. This represents penetration of approximately 8 per cent of the 205,000 homes now in our fibre-to-the-node footprint. Finally in the quarter we also added Aliant TV to our local service value packages, giving customers the ability to subscribe to Aliant TV without high-speed Internet. We are continuing the evolution of our TV service and in the quarter we launched the Listening Room, which is a theme-based music portal to provide easy access to Aliant's TV music and radio channels, and in the coming quarters we will have additions to our pay-per-view line-up and the introduction of high definition and PVR.

Beyond our Aliant TV product, total residential value-added services revenue has grown by over 15 per cent from the same quarter last year. In the quarter we launched a number of new products and services, including a voicemail online, the Aliant Learning Centre, which we developed in partnership with schools in Atlantic Canada, which gives K to 12 children access to an online video library with content mapped to the specific curriculum in their area. And as I mentioned on our last call, we've added an Apple MacBook to our successful PC purchase program. Early results from this program are very encouraging and we're looking forward to continuing to evolve our PC purchase program throughout the rest of the year.

Lastly before I pass things over to Glen, let me comment briefly on some recent successes we have had in customer services. As I have told you, improving our customer experience is our number-one priority and without doubt we are delivering an improved service experience to our customers. You can see this through results such as 31 per cent improvement in the length of time to install high-speed Internet service in Atlantic Canada and improvements in other key measures such as per centage of service problems repaired within 48 hours, customer satisfaction with appointment date and first call resolution.

And with that I will pass it to Glen to speak to you more about the second quarter financial results. Glen?

Glen LeBlanc, Chief Financial Officer

Thanks, Stephen, and good morning everyone.

As Stephen has covered off our overall performance, I will speak in a little more detail to our expenses, EBITDA, CapEx, and distributable cash performance, including our updated revenue guidance.

As shown on slide 12, our operating expenses were $13 million higher in the second quarter of 2008 than the same period in 2007, driven by higher costs of sales associated with product and IT services revenue growth. Excluding these revenue-related expense increases, other operating expenses were actually down from the same period in 2007 with the effects of our productivity programs being realized along with the decrease in capital taxes.

As you may recall this time last year I would have commented on our slow start to productivity in the first half of 2007. Now, one year later, we have had four consecutive quarters of productivity gains contributing to our EBITDA improvement. I am confident that our productivity initiatives in the latter half of this year will be on par in dollar terms with those achieved in 2007. The success of our cost containment efforts has contributed to EBITDA growth in the second quarter of $5.4 million or 1.5 per cent compared to the same period in 2007. We aim for EBITDA margin stability and our cost containment efforts are critical to achieving this. We are very pleased that our EBITDA margins for the six months ended June 30th are virtually flat with those of last year, despite the heavier portion of IT-related revenues in the quarter, which of course carry a lower margin.

Turning to slide 14, our capital spending in the second quarter was $128 million, bringing capital intensity to 15.5 per cent in the quarter. This is down $15 million from the second quarter of 2007, which was expected, as 2007 included our accelerated FTTN program. You will recall that our first quarter CapEx spending was lower than the prior year and was affected by severe winter in many parts of our territory, which prevented some of our planned (inaudible) plant work. However, we expect the later quarters of 2008 to have CapEx similar to that incurred in Q2 and we will ultimately end the year with capital intensity of 14.5 to 15.5 per cent, as we stated in our guidance released earlier this year.

Distributable cash in the quarter of $183 million was up $21 million or 13 per cent from the same quarter last year, primarily due to lower capital spending this year and our improved EBITDA. Our distribution payout ratio in the quarter was 90 per cent, bringing the year-to-date payout ratio to 84 per cent, and we expect this to increase as CapEx and distributable cash reach our guidance ranges in the latter part of this year.

I want to touch briefly on our balance sheet. We've been able to finance all of our liquidity needs, including $50 million refinancing in Télébec, despite turbulent credit markets. We experienced a significant amount of seasonality from working capital changes from one quarter to the next, but with a steady focus on improving working capital efficiency over the past 12 months, we have generated an additional positive cash flow from net working capital of $29.7 million in the last four quarters, driven in large part by the reduction in our days sales outstanding from 46.3 days a year ago to 42.9 days at the end of the second quarter of 2008.

Also, with respect to our pension plan, we finalized our December 2007 funding valuations at the end of Q2 and we're pleased that the required special payments for 2008 have come in at the very low end of our $50 to $60 million range we anticipated at the beginning of the year. These special payments are not included in our distributable cash calculation but have been funded out of our cash reserves since Bell Aliant was created.

Recent market movements have unfortunately moved against us with respect to our pension deficits, which have grown from $325 million at the end of 06 to $390 million at the end of 07; however, over the long-term we anticipate our contributions and risk mitigation initiatives will gradually serve to eliminate these pension deficits.

Lastly, as you would have read in our news release, we have determined that the operations of Atlantic Mobility Products, or AMP, should be reclassified as discontinued operations and we will reclassify the DSA operations to discontinued operations in the third quarter. As a result, our revenue and expense lines will no longer include AMP and DSA's contributions and we are revising our 2008 revenue guidance range, as shown on slide 16, to $3.24 billion to $3.31 billion. The effect on capital intensity and distributable cash of these reclassifications is not significant enough to alter our original guidance for these metrics.

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

Zeda Redden, Vice President, Investor Relations

Operator, we'll hand the call back to you.

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. Please press star one at this time if you have a question. If you wish to cancel your question you may press the pound key. There will be a brief pause while the participants register for questions. Thank you for your patience.

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

Greg MacDonald, National Bank Financial

Thanks. Good morning guys. My question is on the guidance, just sort of some clarification questions. First off, Glen, you talk about excluding the discontinued and sold businesses, I think more for the sold business in particular; is that going to be discontinued for the full year of 2008?

Glen LeBlanc, Chief Financial Officer

Yes, Greg, that's correct. So what will happen is we will restate 2007 and 2008 in its entirety, moving DSA down to discontinued operations. So, for example, the revenues for 2007 will be $3,248,000,000 will be the new restated number for 2007 when we remove that to discontinued ops.

Greg MacDonald, National Bank Financial

Okay, that's helpful. And so as a quick add on to that then, with the guidance decreasing about $130 million, ah, to me seems a little higher than what I would have expected just out of the AMP and other discontinued business plus the sold business. Are you padding in any way or trying to say that there are some other concerns that you have? I guess it relates to the second part of that, the question I'll add. $70 million spread in the guidance for the second half of the year seems a little bit large. Is that in fact an issue related to IT? Because I know that can be a somewhat volatile business.

Glen LeBlanc, Chief Financial Officer

Greg, what we've done with the restatement of guidance is we removed AMP and DSA in its entirety, which together amount to $130 million. But we would have taken our previously published guidance and moved the top end of the range and bottom end of the range by exactly $130 million. So nothing to be read into that. We wanted to ensure that we stayed on track with the guidance previously issued so we just moved the top end and the bottom end by those two transactions.

Greg MacDonald, National Bank Financial

Okay, well that's helpful. And then I guess, and this is sort of something where as analysts are always asking management teams, you're halfway through the year, why is the spread the same in the second half now that you've been halfway through the year? Is that just an issue related to that IT business? Because I know it was higher than what I would have expected in the second quarter. Should we expect IT to be lower in the second half of the year on a run rate basis?

Glen LeBlanc, Chief Financial Officer

Well we did have a very strong first half on IT and, as you know, those sales, particularly in the fulfillment side of our business, can be volatile and move up and down, but there's nothing to be read in. We've provided guidance before of 0 to 2 per cent. That continues to be our guidance range. Certainly the range of $70 million for the year allows us some flexibility for the volatility in product sales in our IT business, but really we were just reconfirming our previously-issued guidance and that was the intent.

Greg MacDonald, National Bank Financial

Okay. Just finally, Glen, could you just verify is there anything that you're seeing right now to indicate that the last half of the year, was the 2Q an unusually strong quarter or will the last half of the year, you know, will you see some strong business on the IT side rolling into the last half of the year?

Glen LeBlanc, Chief Financial Officer

Well we certainly had a very strong front half of the year and I think what you'll see, Greg, is that if you look back to the last two quarters of 2007 we had outstanding quarters in IT, four consecutive quarters where IT has performed very well from a top-line perspective and four quarters where productivity has performed extraordinarily as well; however, we're lapping those now. So I wouldn't anticipate the IT growth to continue at the same rate it has been, certainly being that we're lapping the third and fourth quarter of last year, which were strong on IT sales.

Greg MacDonald, National Bank Financial

That is exactly what I'm looking for. Thanks a lot, Glen.

Operator

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

Jonathan Allen, RBC Capital Markets

Thanks very much. Good morning. First question for Glen, just a clarification from the previous question. I believe in 2007 AMP was about $100 million of revenue, so I think the DSA division is probably about $30 million or so, and would that come with something around a 20 per cent margin?

While you're digging up that number, a question for Stephen. Looking at the wireless sector out there, EastLink obviously picked up a lot of spectrum in the most recent auction and I think it's safe to assume that they're going to be pushing pretty hard on the wireless in the next couple of years. The first question for you is what's been your experience so far with EastLink under their wholesale agreement for wireless with Rogers. In your view have they been pushing—have they just been testing the ground the last couple of years or have they been really pushing full front with the bundle there? And sort of what kind of impact you would expect over the next little while.

And finally, if you're happy enough with just using Bell Mobility as part of the bundle and whether or not you feel that's sufficient from a customer's perspective.

Stephen Wetmore, President & Chief Executive Officer

Okay, let me go, Jonathan, on your latter questions and Glen can answer you on the margins for DSA.

I think for the most part I'd probably put EastLink's foray into wireless and the wireless bundle into the former category that you mentioned in that yeah, they've tried it, they've tested it, they've put products out there. I don't think for the most part that we were ever frightened from a marketing point of view because of that bundled offering and we have seen any particular trends because of it. There's no, ah, absolutely no doubt that they will become a stronger competitor and their ability to package and bundle will be significantly enhanced with a wireless offering.

You know—sorry, go ahead.

Jonathan Allen, RBC Capital Markets

I was just going to clarify. So what you're saying is that they've only been testing around with it but they really haven't pushed aggressively yet into wireless.

Stephen Wetmore, President & Chief Executive Officer

Well, you know, aggressively...

Jonathan Allen, RBC Capital Markets

I'm just trying to—I'm trying to gauge whether or not we should see an incremental competitive impact on your, either on your bundles, on your DSL, on your line losses as EastLink pushes their package a little bit more aggressively in the next few years.

Stephen Wetmore, President & Chief Executive Officer

Well I believe that they will have better packages but I don't believe that it will have, personally, a substantial impact on what we're doing. They do have the ability now but we have all that ability as well. And the per centage of our customers on packages, the products and services and bundled offerings that we can give them, I don't believe that from that aspect that that'll be substantial to us. It'll be more profitable to EastLink to have their own business obviously. So I'm not, um, we're prepared for it. We anticipate it. They're a good competitor and this only makes them a better competitor. We're fully aware of that. But we're well prepared for it as well.

Glen LeBlanc, Chief Financial Officer

Good morning, Jonathan, it's Glen.

Jonathan Allen, RBC Capital Markets

Hi, Glen.

Glen LeBlanc, Chief Financial Officer

Do you want me to just touch on your comment about DSA margin?

Jonathan Allen, RBC Capital Markets

Please.

Glen LeBlanc, Chief Financial Officer

You're right, about $30 million in annualized revenue in that business and on a full-year basis, yeah, it would fluctuate around that 20 per cent margin, but in the calendar year now, since the transaction won't close until the fourth quarter, the implications to cash for us is very minimal this year.

Jonathan Allen, RBC Capital Markets

Okay, perfect. Thank you both.

Operator

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

Vince Valentini, TD Newcrest

Yeah, thanks very much. First on DSA, just trying to understand how we should think about the valuation. So the gap between $15 million and the potential $26 million is pretty big in terms of the multiple you achieved; can you give us any colour on what you need to see happen to get the extra $11 million and what timeframe that's over?

Stephen Wetmore, President & Chief Executive Officer

Vince, we don't want to give too, too much in the way of detail on that, because we have a partner as well, but it's really just to firm up some of the contract status I guess more than anything else with some of the business and as that is firmed up over the next few months then it will be either that we pick up that remainder or not. And then it's paid out, if we do, relatively quickly. I mean I think it's within 12 months. But I'm not, ah, that's roughly right.

Vince Valentini, TD Newcrest

Okay. And in terms of the multiple then, assuming you get the full 26, call it four and a half times EBITDA then, do you think that's a reflection of what all of xwave is worth or is there some special circumstances with this segment of xwave that makes it worth a little bit less?

Stephen Wetmore, President & Chief Executive Officer

Okay, I was trying to figure out where you were going with this, because I knew you weren't that interested in $25 million, but okay. No, these are specialty businesses that we purchased quite some time ago, in fact, 2000 and 2001, and have continued to operate very specialized businesses, very well-connected obviously to the industry that they operate in. So the rest of our services business, you know, operates on approximately the same types of margins. They vary from assignment to assignment and the duration of the assignment. So from a worth point of view IT businesses tend to be valued more on revenue than on EBITDA potential. But no, we're not using this as particularly a valuation methodology for the rest of xwave.

Vince Valentini, TD Newcrest

And the last one there, which you can probably guess is, is this part of a larger strategic review of all of xwave or is this a real one-off and you're fully committed to keeping the rest of xwave at this point.

Stephen Wetmore, President & Chief Executive Officer

Well I mean I won't say that this wasn't part of a larger strategic review of xwave, it was, and we believed at the time quite strongly that these types of operations, and defence, safety and aerospace is a perfect example, that its future kind of lies within an organization that is primarily focused at that business. And that's certainly not something that Bell Aliant would be interested in chasing around North America or the world to build that type of business and so it was quite obviously to us that we should find the proper place for it. You know, xwave plays an important role in the ICT area for Bell Aliant and we've said from the very beginning that we wanted, one, to make it more efficient, which we did in 2007, we're seeing the benefits of that now, and really get it focused on where it can benefit Bell Aliant overall, so this business was a natural for us to find a great partner and sell it.

Vince Valentini, TD Newcrest

Okay. And one just separate question is I noticed in the MD&A you talked about a 36 per cent drop in outsourcing revenues from Bell Mobility. Is that the AMP business or this a separate item? And if it's separate, can you just put some colour around whether this is some sort of one-off or if there's a recurring drop in other revenues from Bell Mobility you're seeing?

Stephen Wetmore, President & Chief Executive Officer

This was, well we had a two-way outsourcing agreement. You know, they ran our operations in central and we ran their mobility operations in Atlantic Canada. So as part of that contract then, um, this was all planned, I mean it's just that they could in-source, given time, that business and now they've in-sourced the majority of it and there's limited exposure as far as reducing that contract going forward to us. It's a very small amount. But I think, if I remember the charts right, the other revenue drop of $3 or $4 million or something quarter over quarter, that's really all related to the Bell Mobility outsourcing.

Vince Valentini, TD Newcrest

Okay, thanks.

Operator

Thank you. our next question is from Dvai Ghose from Genuity Capital Markets. please go ahead.

Dvai Ghose, Genuity Capital Markets

Yeah, thanks very much. A question about your broad-band. You know, adds were down 30 per cent year over year, which, to be fair in the context of the market, was not unusual. Bell just reported a 1,000 decline in ADSL subscribers. Is this a competitive issue? Is cable gaining share? Or is it an economic issue or both? To be fair, I think Roger cable modem net adds were down 38 per cent as well. So are the days of broadband growth essentially behind us?

Stephen Wetmore, President & Chief Executive Officer

Hi, Dvai, it's Stephen. I'll say a couple of things and then I'll let Heather correct probably what I say.

I think it's a combination of things. We're not losing share to competitors, but I believe that we've all concentrated, one, on reducing a lot of the offers that are out there, trying to minimize our churn because of that, so changing the offers accordingly. You can see that we've, I think it's $1.61 or whatever and we've increased our ARPU and that has been successive quarters, so trying to concentrate on profitability as much as anything else. We in turn have slowed a little bit of our network expansion on a quarter-over-quarter basis. And then all that on top of, I believe, a market that in some areas is obviously more mature than it was a year or two years ago and on top of a softening economy across the board.

So I think it's kind of all those factors if you add them up. And we really do see varying results based on our geographies.

Dvai Ghose, Genuity Capital Markets

Just on a related matter, as far as the fibre-to-the-node accelerated CapEx we saw last year which is now behind us, do you not see the need to continue that program given the fact that you may not be losing share to cable but they do have better bandwidth. And I don't believe your TV product offers HD and so on yet. Do you see a need to revisit that program?

Stephen Wetmore, President & Chief Executive Officer

Yeah, HD is coming and things which are planned for the latter part of this current year, and we, you know, I know at the time nobody believed me, but in 2007 we really did say that this was, as much as anything, a one-time kind of extra $45 million to get us back on our original track for expansion of our TV and our FTTN homes passed. So we are continuing to invest this year, it's not like we're not investing, and we're still heading towards 215 and 220 or something towards the end of the year, it's just that I felt pretty strongly at the beginning of the year with, you know, 5, 6 per cent at the time, now 8 per cent or whatever, penetration figure, that we had a long ways to go.

We need some scaling in the back office, we need some service enhancements, i.e. high def, PVR, and we need a lot of work with our installation crews in getting the cost down, etcetera, etcetera. So we concluded this year the best thing for us to do is do the best job we possibly could with the homes we had passed and take a look at our cash position, etcetera, at the end of this year and figure out what we do going forward.

Dvai Ghose, Genuity Capital Markets

Okay, that's my last question, which is also related. I think 90 per cent was the payout ratio in the quarter, only 84 per cent year-to-date. Is the priority to increase CapEx for longer-term competitiveness or is it to increase distributions? And what do you see is the potential today?

Stephen Wetmore, President & Chief Executive Officer

Well we, you know, we started the organization with the hope that our fiscal performance each year would enable the board of directors and the trustees to consider distribution increases, and we've been consistent with that thus far anyway, and that, Dvai, as you know, is their decision, not mine. Mine is trying to get the environment that they can consider it. And as far as the CapEx contribution, we are, you know, we're spending $25 to $30 million in fibre-to-the-node this year and we're spending $25 to $30 million on extra productivity this year, and these sort of things, so we do have flexibility in our capital program, and so we'll put the plans together for 2009 and kind of lay it out to the board and trustees and see where we are at that point in time.

Dvai Ghose, Genuity Capital Markets

Thanks very much, Stephen. I guess we'll speak to you in three months but best of luck in your life after Bell Aliant.

Stephen Wetmore, President & Chief Executive Officer

Thanks, Dvai, very much. Good to talk to you.

Operator

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

Kam Mangat, BMO Capital Markets

Hello, this is Kam Mangat speaking on behalf of Peter Rhamey. We just have a couple of questions.

First of all, in regards to the recent purchase agreement that you have with CAE, we were wondering what the gain or loss associated with that $26 million sale will be.

Glen LeBlanc, Chief Financial Officer

Of the top of my head, Cam, I don't know. I'd have to check on that. But it would be small. Remember, it's only a $26 million divestiture on the high end assuming we're able to meet the criteria to receive the other $11 million. So we'll get back to you.

Cam Mangett, BMO Capital Markets

Okay, great. And the second question we had was in regards to your perspective on returning capital to shareholders. We noticed that there weren't any unit buybacks during the quarter and we were wondering what your policy regarding that would be in the future.

Stephen Wetmore, President & Chief Executive Officer

Well good for you I anticipated this question this morning. I think what, ah, as you know, we didn't kind of re-file or renew our shelf as far as an NCIB for 2008, because it wasn't really in our strategy for 2008, and nor was a unit price less than $27. So I think both, ah, that's caught us a bit as well. Having said that, you know, we take all these issues to our board on a regular basis and consider exactly where we should be putting all our money and what's best for the unitholders, so you can be assured that our board is looking at the situation very carefully and will make the appropriate decisions as we go forward.

Cam Mangett, BMO Capital Markets

Okay, great. Thank you for taking my questions.

Operator

Thank you. Our next question is from Jeffery Fan from UBS Securities. Please go ahead.

Jeffery Fan, UBS Securities

Thanks very much. Good morning. A few follow-up questions, a couple on IT and one in the other revenue category.

Just quickly on the IT side, the Quebec healthcare IT contract, that looks like to be the source of the revenue pickup. Can you just give us a bit more colour on when that contract started and how much it was for and how much has flown through your numbers?

And then secondly on the fulfillment, I think you guys mentioned a one-time revenue pickup as well. Can you just give us a little bit more colour on that?

And then on the Bell Mobility reduction in the outsourcing, when did that start? Was this the first quarter that we saw or did some of it come through in Q1 as well? And were there any associated costs that you are going to be able to take out of that as a result of the revenue decline?

Stephen Wetmore, President & Chief Executive Officer

Jeff, hi, it's a Stephen. Let me start with the back one because I remember that one. This is the first quarter. and yeah, there are some costs that you take out when you stop some of these contracts, but for all intents and purposes it's not a great amount of cost that you take out, because it was all kind of charged out on a formula basis based on the work that we were doing. So you don't take out a great amount of cost on that on the outsourcing contract.

And as far as the Quebec healthcare contract, um, I forget exactly what quarter we announced it in 2007 but work commenced and preparations commenced during that period of time and obviously we were incurring some costs, which we were kind of building up on the balance sheet until we could actually kind of flow it through revenue, and you know the accounting recognition rules. So this allowed us to do that this quarter. It's a $100 million plus contract running over many, many years with many partners, but nonetheless, it's our contract, and so now we're just into kind of having solidified the contract and the work being done into a mode that we can actually report the revenue on a quarter-by-quarter basis.

And I think with fulfillment—

Glen LeBlanc, Chief Financial Officer

Yeah, the fulfillment, Jeff, it's Glen, you know the first quarter in fulfillment generally tends to be our highest quarter with kind of government march madness and what would have occurred in second quarter is a sale, an approximately $10 or $15 million sale that we made to some of our customers that is above and beyond what you typically see in an IT quarter, ah, fulfillment quarter.

Jeffery Fan, UBS Securities

Okay, great.

Stephen Wetmore, President & Chief Executive Officer

Was that it, Jeff? Did we cover your…?

Jeffery Fan, UBS Securities

Yep, that's great. Thanks very much.

Stephen Wetmore, President & Chief Executive Officer

Thank you.

Operator

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

We have a follow-up question fom Vince Valentini from TD Newcrest. Please go ahead.

Vince Valentini, TD Newcrest

Yeah, thanks. One other thing I wanted to ask about is the recent CRTC stats that came out which once again show a market share drop in Halifax. You're doing to 56.9 per cent market share. First of all, do you agree with the CRTC stats? Do you see the same level of share decline in Halifax? And any commentary? I mean I would have thought it would have stabilized by now once they got up onto the 35 to 40 per cent share range and now they have the ability to win back subscribers, so I was a little surprised to see it drop another three points or so in 2007.

Stephen Wetmore, President & Chief Executive Officer

Well, again, let me say something, and if I've missed anything Heather can comment, but I think the, ah, within a couple of per centage points. We usually don't have huge differences with the view here, but you do have to be a little bit carful on what they include, how they calculate it, and all these sort of things, but I think it's pretty much in line with what we had thought, Vince. But you're not going to get—and remember, we won't go through it all again here today, but the Halifax or the greater Halifax market is just a very specific market that has been opened up since the early part of, ah, the other part of this decade, and very much should be analyzed on a standalone basis because of the transaction that our competitor got for four years before we ever got forbearance, etcetera. So there's a lot going on in that marketplace and the strength of our brand pre-competition, all these sort of things.

But nonetheless, what you will see in these markets is, um, if I remember correctly, I think going back two years it was a 6 or 7 per cent reduction in year over year and then as you saw the CRTC numbers, you know, we've come down last year to 4.4 per cent and now a further decline. So what you'll gradually—you'll just see a decline until it levels off, but I wouldn't, we certainly would not have expected to go from 4.4 per cent to 0 per cent, for example, in a year. That's just not how the market kind of reacts. So this is pretty much in line with what we thought.

Vince Valentini, TD Newcrest

Okay. And one last one, sorry. In the MD&A again I read something about considering a conversion to a corporation and the two options that the government laid out for how that can happen. Am I reading correctly that there's some sort of official review going on at Bell Aliant to think about this like over the next 6 to 12 months or is this just you're throwing out what the government said and this is part of long-term 2011/2012 planning?

Stephen Wetmore, President & Chief Executive Officer

It's the latter. We have just kind of updated everybody, and we said that at the time, that as these rules become firm then we'll know more about what our plans would be in 2011 and strategically you plan this sort of thing out. So as these rules are totally firmed up then we can probably be in position to say what we would do in 2011.

Vince Valentini, TD Newcrest

Okay, great. Thanks.

Operator

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

Chris Li, Merrill Lynch

Hi, good morning. I just have one question with respect to the long distance revenues. In the MD&A it says part of the reason for the decline was due to the lower contributions from terminating payment from other carriers, which is down about 21.5 per cent this quarter. my questions are, first, how much of the long distance revenues come from those terminating payments from other carriers, and secondly, what was the year-over-year decline in Q1 for those terminating payments?

Stephen Wetmore, President & Chief Executive Officer

Chris, great question. it has to be the last question of the day that you've stumped us. Let me—can we just get back to you? it's not a big number, but we'll...Zeda will get back to you on that.

Zeda Redden, Vice President, Investor Relations

I'll get back to you on that.

Chris Li, Merrill Lynch

Okay, that sounds great. Thanks.

Operator

Thank you. We have a follow-up question from Dvai Ghose from Genuity Capital Markets. Please go ahead.

Dvai Ghose, Genuity Capital Markets

Yeah, sorry, I'll make it brief. Just quickly on the forbearance, you referred to the fact that a competitive footprint has expanded yet your line loss is stable, one of the reasons is forbearance, now obviously things like win-backs are a lot easier, you don't have to charge for installations anymore and so on, but you haven't really done that much that I've seen with pricing. I'm wondering what your view is in terms of changing core pricing in order to reflect the competitive environment.

Heather Tulk, Senior Vice-President, Marketing

Dvai, it's Heather. I can answer that. I guess, ah, we have done a lot with pricing I guess and as we would have told you I think leading up to getting forbearance, I remember in fact I think you yourself asked a few questions about what our intention was, it was never our view in a post-forborne world that we would implement a massive change to the core structuring of our pricing; in fact, what we were looking for out of forbearance and what we got and have been able to use I think fairly effectively is flexibility to price as market conditions in individual areas and communities and situations for segments of the market warrant. So we've in fact done a lot of that with either community or sub-segment specific pricing, pricing specific to certain aspects of consumer behaviour, i.e. the moves experience that Stephen mentioned and things like that. So it was never our intention and I think remains not our intention to see any massive change in the pricing approach in aggregate but rather using the flexibility to do what other consumer marketers do, which is time the pricing with the consumer behaviour and market conditions.

Dvai Ghose, Genuity Capital Markets

So having said that, your local telephony ARPU on the consumer side has held up quite well despite these changes that you've made?

Heather Tulk, Senior Vice-President, Marketing

Yeah. And in fact, what we've done with pricing is, you know, the forbearance and the other regulatory freedoms that we got in that ruling where actually the ability to use pricing algorithms to incent other behaviours. So as an example, to incent further feature penetration to move customers up to higher value packages and bundles by incenting that. So rather than do it through discounting we've actually used our pricing as an incentive to buy more.

Dvai Ghose, Genuity Capital Markets

Great. Thanks very much.

Stephen Wetmore, President & Chief Executive Officer

I think—do we have the answer to the question—?

Glen LeBlanc, Chief Financial Officer

Yeah, I was just going to answer a few of the questions that were asked, Stephen. There was a question asked on DSA about what's the net book value and the carrying is the $3 million so you can calculate the gain off of that depending on what we actually receive for proceeds.

And there was also a question from Chris on the toll settlements, which is down 21 per cent in Q2. That was down 27 per cent in Q1 so it's about 4.5 million in Q2 and about 4.8 million in Q1. I hope that's helpful, Chris.

With that, operator, I believe we'll turn the call over to you and...

Stephen Wetmore, President & Chief Executive Officer

Any more questions operator?

Operator

There are no more questions registered.

Stephen Wetmore, President & Chief Executive Officer

Okay.

Zeda Redden, Vice President, Investor Relations

Thank you everyone for joining us today. If you have further questions, feel free to call me, and this concludes our Q2 2008 call.

Operator

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