

Bell Aliant Regional Communications
Holdings, Limited Partnership

Management's discussion and analysis

For the year ended December 31, 2006

March 2, 2007



MD&A

This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the year ended December 31, 2006, compared to 2005. This MD&A should be read in conjunction with our consolidated financial statements and accompanying notes for the year ended December 31, 2006. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Throughout this MD&A unless otherwise specified or the context otherwise indicates, "we", "us", "our" and "Bell Aliant Holdings LP" refer to Bell Aliant Regional Communications Holdings, Limited Partnership and its subsidiaries. Throughout this MD&A, the term "Aliant" refers to the former Aliant Inc. and its subsidiaries.

Quarterly reports, annual reports and supplementary financial information, as well as annual information forms and information circulars, can be found under "financial reports" on our website at www.bell.aliant.ca. These and other continuous disclosure documents are also available at www.sedar.com.

Forward-looking information

This MD&A is dated March 2, 2007, and is current to that date, unless otherwise stated. This MD&A contains forward-looking statements related to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. Unless otherwise indicated, forward-looking statements in this MD&A describe our expectations at March 2, 2007. In some cases, forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict, and assumptions, which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve strategies and plans; general economic conditions; the changing competitive environment; changing regulatory conditions or requirements; reliance on IT systems; changing technology; our relationship with BCE Inc.(BCE) and Bell Canada; the lack of assurance that our credit ratings will not be lowered; and the federal government's announcement on income trusts. Some of these factors are largely beyond our control. In addition, a number of assumptions were made by us in making forward-looking statements in this MD&A, such as certain Canadian economic assumptions, market assumptions, operational and financial assumptions, and assumptions about transactions. Assumptions made in the preparation of forward-looking statements are discussed throughout this MD&A. Should any factor affect us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the actual results or events may differ materially from the results or events predicted. Unless otherwise indicated, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. All of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements. There can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Readers should not place undue reliance on any forward-looking statements. See the "Risk and risk management" section for a further discussion of factors that may affect actual results.

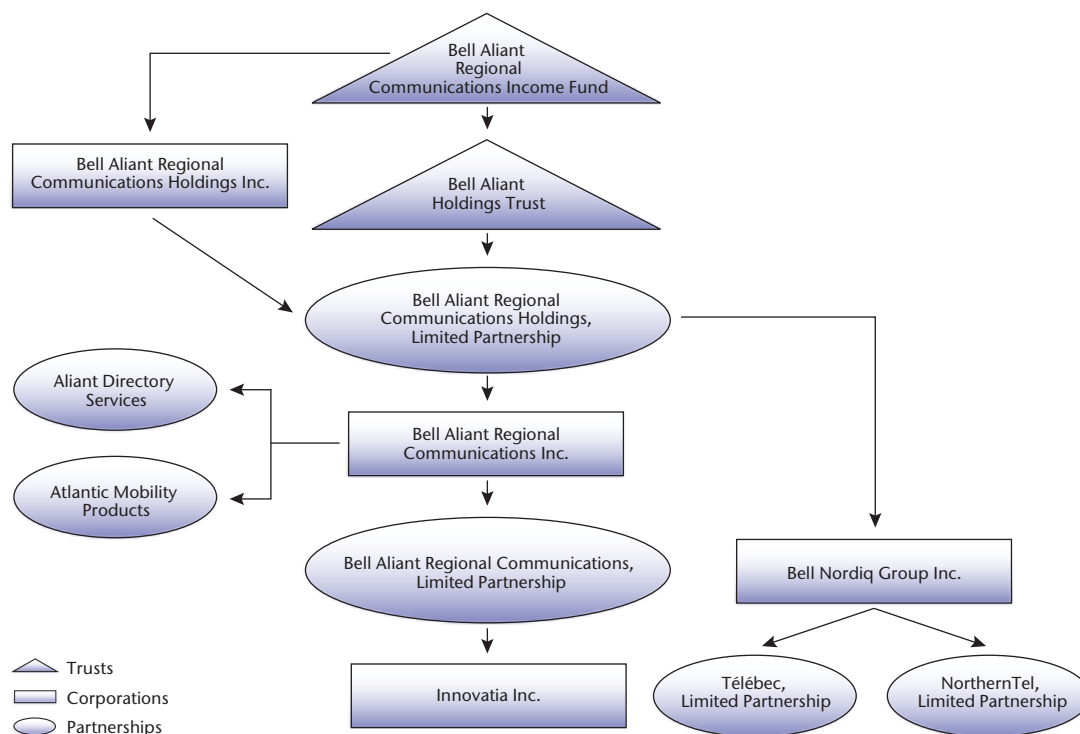
OUR BUSINESS

Creation of an Income Trust

On July 7, 2006, we became one of the largest regionally focused telecommunications service providers in North America. The creation of Bell Aliant Regional Communications Income Fund (the Fund) was completed in accordance with Aliant's Plan of Arrangement (the Arrangement) described in Aliant's management information circular dated April 14, 2006 (the Circular). Aliant's wireline telecommunications operation, information technology business, and other related operations were combined with Bell Canada's wireline telecommunications operation in certain of its regional territories in Ontario and Quebec, and its indirect 63.4 per cent interest in NorthernTel, Limited Partnership (NorthernTel) and Télébec, Limited Partnership (Télébec). As part of the transaction, Bell Canada acquired Aliant's wireless telecommunications operation and ownership interest in DownEast Ltd. After giving effect to the Arrangement, and as discussed further in note 2 to our consolidated financial statements for the year ended December 31, 2006, the combined assets are operated under Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), NorthernTel and Télébec. We consolidate these and other subsidiary partnerships and corporations. The Fund has an indirect 81.5 per cent non-controlling equity interest in Bell Aliant Holdings LP.

Our results of operations for the year ended December 31, 2006, have been accounted for on a continuity of interest basis and as such include the consolidated accounts of Aliant for the period from January 1, 2006 to July 6, 2006, and of Bell Aliant Holdings LP from July 7, 2006, to December 31, 2006. The comparative information for 2005 is for Aliant. However, in order to assess our operating performance had we been in existence since January 1, 2005, certain of our results prior to July 7, 2006, are presented on a pro forma basis to allow for more meaningful year-over-year comparison and analysis.

The organizational chart shown here depicts the Fund, Bell Aliant Holdings LP and other entities within the Fund group as at December 31, 2006.



Our core businesses

We operate in three reportable segments:

Bell Aliant

Our largest operating segment provides a wide range of innovative and traditional voice and data communications services and an array of consulting, infrastructure management and product fulfillment services to customers in the Atlantic provinces and parts of Ontario and Quebec. Communications services we provide include local telephone, long distance, data and Internet, TV, and other products and services. In addition, we provide IT services such as systems integration, application development, local and wide area network installations and management, data centre operations, computer hardware, package software and IT planning services.

Bell Nordiq Group

The Bell Nordiq Group segment includes the operations of Télébéc LP and NorthernTel LP, which are leading integrated providers of local telephone, long distance, wireless, data and Internet, cable and other communications services to residential and business customers in certain areas of Quebec and Ontario. The segment also includes the operations of Proximedia Interaction Centre Inc., which offers contact centre services to business customers.

Other Subsidiaries

The Other Subsidiaries operating segment provides complementary services and includes the results of operations of the following businesses:

- Aliant Directory Services (ADS), formerly Aliant ActiMedia, which produces and distributes telephone directories in the Atlantic region;
- Atlantic Mobility Products (AMP), a wholesale distributor of wireless handsets, accessories and other telecommunications products; and
- Innovatia Inc. (Innovatia), a knowledge management business that provides services in e-learning, technical documentation and tele-web sales and service.

Our business environment

Income trust

On July 7, 2006, we completed the Arrangement creating the third largest telecommunications service provider in Canada, while at the same time converting our corporate structure to that of an income trust. This transaction more than doubled our geographic size, increasing our number of local access lines at the time of the Arrangement by approximately 114 per cent and our high speed Internet customers at the time of the Arrangement by approximately 132 per cent. As a result, we are able to leverage our size, scale and greater geographic reach to maintain a high quality telecommunications infrastructure throughout our service area. On October 31, 2006, the Minister of Finance (Canada) announced a proposal which, if enacted, will result in a change in the tax treatment for most income trusts. In the case of publicly traded income trusts existing on October 31, 2006, these proposed rules, if enacted, will generally apply beginning in the Fund's 2011 taxation year. The proposed tax changes would result in the Fund being taxed similar to a corporation, and unitholders generally being taxed as if distributions from the Fund were dividends. As the proposed changes are not expected to directly impact the Fund until fiscal 2011, we are continuing to operate as usual and will take the necessary time to plan for the upcoming change. The rationale for completing the Arrangement, detailed in the Circular, remains intact.

Competitive landscape

We face a number of different competitors in each of our operating segments and across the geographies we serve. These competitors include cable TV providers, local exchange carriers, long distance carriers, competitive data network providers, equipment manufacturers and retailers, wireless providers, and systems integrators. Competition from cable TV providers continues to be our fastest growing and most pervasive form of competition, particularly in our residential customer base. We compete with cable providers across our product lines for local and access service, long distance, Internet, wireless, and TV services. Competition from cable companies is one of the largest risks we face in our business today. In 2006, cable competitors launched new local service areas in New Brunswick, Quebec and Ontario, and launched or expanded local service areas in Nova Scotia and Prince Edward Island, and we expect continued growth in the competitive footprint throughout 2007. As competition increases, we are focused on the successful execution of our strategic priorities. We continue to enhance our products and services, promoting our Value Packages and innovating with customers to provide complete solutions, and we continue to invest in our communities and support activities that are important to our employees and customers. Refer to the “Risk and risk management” section for a further discussion of our competitive landscape.

Telecommunications regulatory developments

Our business is affected by decisions made by the Canadian Radio-television and Telecommunications Commission (CRTC or the Commission) and the federal government. Many of these decisions could have a financial impact on our results.

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

- *Local forbearance* – On April 6, our application for forbearance from price regulation of local residential services in certain areas or exchanges in Nova Scotia and Prince Edward Island was denied (the local forbearance decision). We filed an appeal of the local forbearance decision to the Federal Court of Appeal and a petition to Governor in Council. In response to this petition, on December 11, 2006, the federal Minister of Industry announced a government proposal to change the CRTC’s local forbearance decision. This proposal would greatly simplify and positively alter the criteria for local forbearance in competitive markets. It would also remove several restrictions on winback and promotional activities. Although the proposed changes are positive for us, there is no guarantee that the order will be issued in its current form. Furthermore, there is no guarantee that the outcome in any of the proceedings will improve the likelihood or speed with which we will be granted forbearance for local exchange services.
- *Rates* – On December 16, 2005, the Commission extended the current price cap regime applicable to certain services which are not forborne, without changes, to May 31, 2007. In 2006, the Commission concluded a proceeding to establish the price cap regime that will go into effect in 2007. A decision is expected in April 2007. Also, on November 23, the CRTC rendered a decision allowing rate ranges for local exchange and related services.
- *Quality of Service* – On May 16, the Commission determined that only 50 per cent of the effect of the 2004 work stoppage in the Atlantic region could be excluded from the Quality of Service (QoS) customer rebate plan. We have filed an application with the Commission to review and vary their decision to exclude only 50 per cent of the impact of the 2004 work stoppage from the QoS rebate plan.

- *VoIP* – On September 1, the Commission reaffirmed VoIP as a telephone service, declining to remove price regulations and on November 15, the federal government varied the CRTC’s VoIP decision so as to remove price regulation of access-independent VoIP services offered by incumbent service providers.
- *Wholesale services* – On November 9, the Commission initiated a proceeding to review the regulatory regime for wholesale services. This review will consider redefining “essential services” and to review classifications and pricing principles for essential and non-essential services provided by incumbent local exchange carriers, competitive local exchange carriers and cable companies to other competitors.
- *Policy direction* – On December 18, the federal government’s new policy direction for the CRTC came into force. This policy direction requires the Commission to take a more market-oriented approach to regulation of the telecom industry.

Recent orders and proposed changes should eventually serve to lessen the regulatory burden and are expected to improve our promotional flexibility and ability to compete effectively.

YEAR IN REVIEW

Summary of results

For the year ended December 31

(millions of dollars)

	2006	2005	% change
Operating revenues	2,741.3	2,081.0	31.7
Pro forma operating revenues ⁽¹⁾	3,356.2	3,307.4	1.5
EBITDA ⁽²⁾	1,182.2	878.3	34.6
Pro forma EBITDA ⁽²⁾	1,481.4	1,475.0	0.4
Operating income ⁽³⁾	584.0	392.0	49.0
Pro forma operating income ⁽³⁾	765.8	760.5	0.7
Other income	(2,768.8)	—	n.m.
Interest charges	108.0	76.4	41.4
Income taxes	248.2	115.1	115.6
Non-controlling interest	93.9	2.0	n.m.
Net earnings from continuing operations	2,902.7	198.5	n.m.
Net earnings (loss) from discontinued operations	(0.7)	0.9	n.m.
Net earnings	2,902.0	199.4	n.m.
Distributable cash ⁽⁴⁾	720.1	710.7	1.3
Cash distributions declared ⁽⁵⁾	602.4	615.2	(2.1)

n.m. - not meaningful

(1) Pro forma operating revenues is a non-GAAP measure. Refer to the “Non-GAAP financial measures” section for more details.

(2) EBITDA (earnings before interest, taxes, depreciation and amortization) and pro forma EBITDA are non-GAAP measures. Refer to the “Non-GAAP financial measures” section for more details.

(3) Operating income and pro forma operating income are non-GAAP measures. Refer to the “Non-GAAP financial measures” section for more details.

(4) Distributable cash is a non-GAAP measure. Refer to the “Non-GAAP financial measures” section for more details. Distributable cash has been calculated on a pro forma basis, reflecting what operations would have generated if Bell Aliant Holdings LP was in existence since January 1, 2005.

(5) Cash distributions of the Fund presented for periods prior to July 7, 2006, are on a pro forma basis, reflecting what would have been paid had the Fund been in existence since January 1, 2005.

Significant year-over-year increase in our operating results in 2006 compared to 2005.

- Our increased size arising from the Arrangement has resulted in significant changes to our revenues and costs, and accordingly, the higher year-over-year reported revenues and expenses are attributed to our larger organization.

- Net earnings for the year reflect the increased scale of operations since the Arrangement, including higher interest costs due to higher long-term debt balances. Net earnings also include non-cash gains on disposal of business units and dilution gains totalling \$2.95 billion. The lower current income tax expense related to our income trust structure was offset by a future tax expense of \$225.1 million associated with the non-cash gains on disposal and dilution gains. Non-controlling interest expense for 2006 includes the 36.87 per cent interest in Bell Aliant LP held by Bell Canada and the 36.7 per cent interest in Télébec and NorthernTel that was indirectly held by Bell Nordiq Income Fund unitholders until January 30, 2007.

Pro forma operating revenues increased by 1.5 per cent for the year.

- Internet and data revenue increased by 7.4 per cent in 2006 compared to 2005, driven by year-over-year growth of 23.9 per cent in high-speed Internet customers.
- Information technology (IT) services and fulfillment revenues increased by 10.3 per cent for the year, driven by new contracts for systems integration, application services and managed outsourcing resulting from our focus on key industry verticals in the enterprise market, as well as expansion of existing contracts.
- Other revenues, including wireless, directory services and telecommunications product sales, increased by 6.6 per cent in 2006 compared to 2005. Growth was led by an 8.8 per cent year-over-year increase in wireless revenues from the Bell Nordiq Group segment, and a 7.6 per cent year-over-year increase in directory services revenues.
- Local and long distance revenues declined by 0.9 per cent and 7.3 per cent for the year, respectively. For the year 2006, network access services (NAS) customers declined 2.0 per cent and long distance minutes declined 2.1 per cent as a result of competitive pressures and technology substitution.

Pro forma operating income and pro forma EBITDA increased by 0.7 per cent and 0.4 per cent for the year, respectively.

- Advances made in our expense management and productivity initiatives in 2006 were largely offset by increased costs incurred for consulting and professional fees, provincial capital tax and expenses related to the Arrangement. Restructuring and other charges of \$13.2 million were included in operating income for 2006; however, these costs were offset by a \$16.8 million pro forma decline in depreciation and amortization.

Distributable cash grew by 1.3 per cent for the year.

- On a pro forma basis, we experienced an increase in distributable cash of 1.3 per cent for 2006 compared to 2005. The year-over-year increase in distributable cash is mainly due to higher pro forma operating income, lower interest costs and slightly lower pro forma capital expenditures, partially offset by higher current service pension funding.
- Distributable cash generated since our inception on July 7, 2006, was \$369.9 million, representing growth of 2.7 per cent compared to pro forma results for the same period in 2005. During this time, total distributions declared to unitholders were \$294.8 million, of which \$163.0 million was to Fund unitholders and \$131.8 million was to BCE and Bell Canada through Bell Aliant Holdings LP and Bell Aliant LP.

Since the operations of Bell Aliant Holdings LP ultimately support distributions to unitholders of the Fund, one of the primary metrics of our financial performance is distributable cash generated in a period. Refer to the “Non-GAAP financial measures” section for a definition and reconciliation of pro forma EBITDA to distributable cash as well as a definition and reconciliation of cash from operating activities to distributable cash.

The following table provides a summary reconciliation of distributable cash to cash from operating activities for the three and six month period since June 30, 2006. The table provides additional information on the sources of distributable cash; either from cash from operations or by utilizing cash reserves or borrowing, and net of cash used to make investments in our business.

For the period ended December 31 (millions of dollars)	Three months distributable cash from:			
	Operations	Cash reserves or borrowing	Investments	Total
Cash from operating activities	277.5	—	—	277.5
Add (deduct):				
Adjustments for July 1 to 7, 2006	—	—	—	—
Operating items funded through cash reserves or borrowing	—	33.2	—	33.2
Debt prepayment premiums	—	—	—	—
Capital expenditures	—	—	(131.1)	(131.1)
Current income taxes and other expenses (income)	15.8	—	—	15.8
Non-controlling interest in distributable cash	(16.0)	—	4.6	(11.4)
Distributable cash	277.3	33.2	(126.5)	184.0

For the period ended December 31 (millions of dollars)	Six months distributable cash from:			
	Operations	Cash reserves or borrowing	Investments	Total
Cash from operating activities	395.3	—	—	395.3
Add (deduct):				
Adjustments for July 1 to 7, 2006	11.5	—	(2.3)	9.2
Operating items funded through cash reserves or borrowing	—	84.3	—	84.3
Debt prepayment premiums	147.8	—	—	147.8
Capital expenditures	—	—	(259.7)	(259.7)
Current income taxes and other expenses (income)	14.0	—	—	14.0
Non-controlling interest in distributable cash	(30.1)	—	9.1	(21.0)
Distributable cash	538.5	84.3	(252.9)	369.9

We generated distributable cash of \$184.0 million in the fourth quarter of 2006, a decline of 2.6 per cent from the pro forma amount for the same period in 2005. For the last six months of 2006, effectively the period since the creation of Bell Aliant Holdings LP, distributable cash of \$369.9 million grew by 2.7 per cent from the pro forma amount for the same period in 2005. During this six month period, the level of capital expenditures was consistent with that of the same period in the prior year; however, the difference in timing of capital spending for the third and fourth quarters, compared to the same quarters in the prior year, caused the difference in the quarterly trends. Pro forma EBITDA has been very stable on a year-over-year basis, while higher defined benefit (DB) current service pension costs from a maturing employee base have reduced distributable cash. These higher cash pension costs have been more than offset by lower interest expense on long-term debt as our assumed interest rate of 5.5 per cent for the 2005 pro forma estimates was higher than our actual cost of funds incurred after the Arrangement. The resulting 2.7 per cent growth in distributable cash for the last six months, on a pro forma basis, is in line with our expectations for the ongoing business.

The distributable cash attributable to operations, net of investing activities, was stable and consistent with expectations in the third and fourth quarters of 2006. As the debt prepayment premiums were included in our expenses but paid from cash reserves generated by Aliant prior to July 7, 2006, they were added back to cash from operations in this analysis. Our expectations were for capital expenditures of approximately 15 to 16 per cent of operating revenues. We are making investments to both maintain our network assets and evolve to the next generation of IP network capabilities to accommodate delivery of new services necessary to support sustainability of our revenues.

It is our expectation that distributable cash generated by ongoing operations, net of normal capital expenditures, will be sufficient to maintain and grow our cash distributions to the Fund and its unitholders. Since it is our intention to indirectly distribute to Fund unitholders, including BCE and Bell Canada, approximately 90 per cent of distributable cash, there will be approximately 10 per cent of distributable cash that will be available to fund other cash requirements, such as funding pension deficits, repaying long-term debt, and making small acquisitions. In any single period, due to such items as working capital fluctuations, pension deficit funding and cash taxes in excess of normalized levels, actual cash flow may differ from what we have determined to be distributable cash. These fluctuations in cash flow may also be funded through this 10 per cent cash reserve or through temporary borrowing. It is not our intention to borrow to fund regular distributions.

In converting to an income trust, we believed that increased leverage (compared to that of Aliant) through the use of long-term debt financing would add to the overall value for Fund unitholders as it would allow distributable cash per unit to be increased. We continue to believe that long-term debt in the range of two times EBITDA is appropriate given our anticipated cash flow stability and our desire to maintain investment grade credit ratings. Our use of a portion of our cash reserves and, if necessary, borrowing to fund working capital fluctuations, pension deficits and cash taxes in excess of normalized levels is consistent with these overall leverage targets.

Highlights of strategic achievements in 2006

Notwithstanding the creation of the Fund and the significant industry events that took place in 2006, we remained focused on our priorities to build on what we do well; provide valued products and services to our customers in a cost-effective manner. We were successful in achieving many targeted initiatives.

Priority	Achievement
Evolve key broadband attributes to improve user experience and drive profitable revenue growth	<ul style="list-style-type: none"> • We launched Sympatico High-Speed Unplugged, a portable Internet solution, in many of our larger centres. • We launched a satellite high-speed Internet service, providing a high-speed solution to customers in Atlantic Canada and the Bell Nordiq Group territory. • Our PC Purchase program saw continued success throughout the year, with the launch of our program in Ontario and Quebec and into the small-to-medium business (SMB) market. The majority of PC purchases continue to be by new high-speed Internet customers. • New security service promotions contributed to a substantial increase in our value-added service revenues. Security and advanced services were also key elements in delivering more value to our business customers, as we experienced growth in subscriptions for anti-virus, PC back-up, fax-to-email, and shared web hosting. Hosted mail exchange and virtual private network (VPN) services continued to meet specific customer needs for advanced electronic office functionality and secure remote network access.
Simplify and enhance the customer experience	<ul style="list-style-type: none"> • In Atlantic Canada, we continued to increase the penetration of our Value Packages, supporting Internet growth and driving our share of total household telecommunications service purchases. • We expanded self-serve opportunities for our residential customers by offering on-line management of landline accounts. • We redesigned our contact centres with leading-edge infrastructure and technology. Our customers now benefit from a new interactive voice response (IVR) system with consistent menu options, wording and voice, as well as fewer call transfers. • We began the rollout of a new bill for our Atlantic residential customers, with features that make it easier to find product descriptions and charge details.

Priority	Achievement
Renew our focus on enterprise customers, continue to pursue our ICT strategy and expand our presence in key industry verticals	<ul style="list-style-type: none"> • We completed the development of a new platform for orders and troubleshooting for our Atlantic enterprise customers, enhancing our ability to serve these customers effectively and efficiently. • We launched our innovative Internet protocol (IP)-based hosted contact centre solution in most of our regions. The solution is a network-hosted environment that delivers Voice over Internet Protocol (VoIP) with full contact centre functionality. • We focused throughout 2006 on implementation of plans for the IP evolution of data connectivity services, completing the launch of Aliant IP VPN, expanding our IP enabling services, and continuing to help our customers migrate to VoIP services if it presents them with business benefits. • Our continued investment in vertical and industry solutions and our strong customer relationship focus led to double digit IT service and fulfillment revenue growth for 2006. • Our strategy of providing complete information and communications technology (ICT) solutions yielded positive results, particularly in Atlantic Canada, where existing telecommunications customers who also utilized our IT services increased by 15 per cent year-over-year. • We made significant advancements in the health care vertical, and xwave received industry recognition as “Company of the Year” by Canadian Health Informatics. New health care contracts during 2006 included the Newfoundland and Labrador Prescription Drug Program, the Cancer Care Ontario Client Registry and Community Care Access Centres, also in Ontario. • Our industry solutions strategy is also driving our growth in the US marketplace of 15 per cent year-over-year, reflecting significant contracts with the State of Maine Department of Health and Human Services and Virginia Department of Corrections. • Our customer satisfaction results from enterprise customers continue to be strong, particularly when asked about quality of people, service delivery and value for money.
Implement productivity and cost structure improvements	<ul style="list-style-type: none"> • In our Atlantic Canadian contact centres, we achieved a 5.3 per cent productivity improvement in our overall operations through a number of focused efforts, including implementing new technology to improve the capabilities of our customer service representatives and completing the installation of an IP enabled operating environment, facilitating easier call sharing across the Atlantic region. • In our Atlantic field operations, we achieved a 4.4 per cent productivity improvement in our overall operations, due to several initiatives. We implemented records accuracy and plant improvement programs to reduce repair calls and the need to dispatch technicians, we began migrating customers to a common facilities management system, and we focused on digital subscriber line process improvements, which improve high-speed provisioning costs. • We reduced bill print and postage costs in Atlantic Canada by approximately 7.0 per cent, mainly through increased electronic billing. • We reduced leased office space in Atlantic Canada by approximately 10.0 per cent through consolidation of locations and sublease efforts. • Through rigorous sourcing and third party supplier negotiations, we achieved savings of approximately \$6.5 million in network and IT maintenance costs. • Working closely with Bell, we delivered approximately \$3.0 million in productivity savings in Internet transiting services and we began to realize synergies in our corporate and administrative structure arising from the Arrangement.

FOCUS AND STRATEGY FOR 2007

Guided by our strengths, our people, and our experience, we will provide the highest level of products and services possible to our customers across Ontario, Quebec and Atlantic Canada. We will be a recognized leader among North America’s information and communication technology providers, focused on helping our customers to do what they want.

Competition in our industry is our biggest threat. We have identified two key strategic priorities to address the growing competition: 1) to provide a superior customer experience; and 2) to drive operational efficiency.

Superior customer experience

We believe a superior customer experience is created by providing exceptional customer service, offering outstanding value through our leading products and services, and having strong community involvement. The support of our actively engaged, highly skilled workforce will enable us to deliver on our strategic priorities.

Customer service

We are implementing extensive changes in the way we serve our customers. These changes will make it easier for customers to do business with us, when and where it is convenient for them.

Being easy to reach is the first step in providing great customer service. To be more accessible for our customers, we are improving our contact systems and centres, reducing the time it takes customers to reach a service representative and ensuring customers will be directed to the correct agent the first time. To further make it easier for customers to contact us and add services, when and where it is convenient for them, we are enhancing our on-line service capabilities.

We are committed to keeping the promises we make to customers. To help in doing this, we are implementing significant improvements to our order processing and dispatching systems.

Providing value through leading products and services

Providing value is about offering the right products and services to customers at a competitive price. Through our relationship with Bell Canada, we are continually developing and introducing new and innovative products and services that will offer convenience and ease-of-use for residential customers and a competitive advantage for businesses.

We see significant opportunities for continued growth in our residential Internet services. Our rural and smaller urban markets are underdeveloped for high-speed Internet service relative to the national average; we estimate that only 41 per cent of households in Atlantic Canada and 32 per cent in the markets we serve in Ontario and Quebec have high-speed Internet access. These percentages are well below the national average of 60 per cent. We believe that through programs that make it easier for customers to get on-line, by offering new value added services and through network expansion, primarily in Ontario and Quebec, we will increase our Internet revenues.

In addition to our normal level of capital expenditure in 2007, we plan to spend approximately \$35 to \$45 million of additional funds to accelerate the deployment of our fibre to the node (FTTN) investment, which will provide more bandwidth to our customers, enabling us to provision higher Internet speeds and expand access to our TV service.

Complementing our leading products and service, Value Packages will continue to be essential to retaining high value residential customers. From purchasing a personal computer, to local, long distance, wireless, television and Internet services, our Value Packages enable Atlantic Canadian customers to customize their communications and entertainment needs in a variety of combinations. We will continue to ensure that Value Packages offer the right services at the best value possible for our customers.

In collaboration with our IT division, xwave, we provide a full suite of ICT services. We have built strong relationships with our large private and public sector customers, and offer industry-specific solutions for health care, justice and public safety, defence and aerospace, and government. We continue to build on these capabilities in our desire to become the integrated ICT solutions provider to enterprise customers.

Specific opportunities exist for SMB growth throughout our region, particularly in Ontario and Quebec, where we have committed to increasing the size of our sales force. This will help us increase the penetration of our expanding suite of services for the SMB market.

Community

We have a long-standing commitment to the communities we serve and a history of giving generously to help them thrive socially, culturally and economically. Our more than 10,000 employees live in the hundreds of communities we serve and their community spirit and involvement is a big part of what makes our brands strong. We complement the activities of our employees by sponsoring community events and supporting charities, with a focus on helping children and youth reach their full potential.

We believe addressing the unique needs of local communities provides us with a competitive advantage.

Operational efficiency

While pursuing top-line revenue growth, we will also aggressively manage our cost structure to grow distributable cash and deliver value to Fund unitholders. Our significant scale, access to leading-edge technology and increased collaboration with Bell Canada all contribute to improving operational effectiveness and reducing costs. Our commercial agreements with Bell Canada specify scheduled cost reductions as Bell Canada implements its own productivity program, resulting in direct savings for us. Additionally, our operations permit the flexibility to develop customized regional approaches to capture further productivity where opportunities exist.

Strengthening our core business

We continually explore opportunities to increase our focus on or expand our core business. The size of our revenue and fixed asset base, in addition to our proven ability to operate successfully in regional markets, provides us with a strong platform for future acquisitions of other regional and rural operations.

In the fourth quarter of 2006, the Fund announced a proposal to take Bell Nordiq Income Fund private. The transaction was submitted to the Bell Nordiq unitholders for approval at a special meeting held on January 16, 2007, where 99.8 per cent of all votes cast and 99.3 per cent of the votes cast by minority unitholders were in favour of the privatization. Bell Nordiq unitholders received a special distribution of \$4.00 per unit, financed through our cash on hand and existing credit facilities, via a loan to Bell Nordiq Income Fund, and 0.4113 of a Fund unit in exchange for each Bell Nordiq Income Fund unit. The privatization was completed on January 30, 2007. Bell Nordiq units ceased trading on the Toronto Stock Exchange (TSX) as of the close of business on January 29, 2007, and were de-listed and redeemed at the close of business on January 30, 2007.

On February 16, 2007, we announced our intention to make a take-over bid (the Offer) to acquire all of the outstanding trust units of Amtelecom Income Fund (Amtelecom) at a price of \$13.00 cash per unit. The total acquisition cost, including assumed debt of Amtelecom, will be approximately \$119 million.

The Offer price per unit represents a premium of approximately 15.6 per cent over the closing price of Amtelecom units on February 15, 2007, and a premium of approximately 16.7 per cent over the volume-weighted average trading price of the units for the 20 trading days immediately preceding the February 16, 2007, announcement. The Fund formally commenced the Offer on February 28, 2007, upon receipt from Amtelecom of its list of beneficial unitholders. The Offer will be fully financed through our cash on hand and existing credit facilities.

The Offer is conditional on and subject to certain specified conditions, including among other things: (a) at least 66 2/3 per cent of the units, on a fully diluted basis, being validly deposited and not withdrawn; (b) receipt of all necessary regulatory approvals; (c) waiver of the Shareholder Rights Plan; and (d) no material adverse change having occurred in the business of Amtelecom. If these conditions are met or waived and we acquire the validly deposited units pursuant to the Offer, we intend to acquire the remaining units in accordance with applicable laws and Amtelecom's Fund Declaration of Trust. Subject to applicable laws, we reserve the right to withdraw the Offer and not take up and pay for any shares deposited under such Offer unless each of the conditions to such Offer is satisfied or waived by us prior to the expiry of the Offer.

On February 19, 2007, we announced that we entered into a memorandum of understanding for Yellow Pages Group (YPG) to acquire the assets of ADS, a partnership currently held 87.14 per cent by us and the balance by YPG. The \$330 million purchase price for our interest in the business is payable in cash at closing. The transaction is subject to the satisfaction of certain conditions and regulatory requirements and is expected to close in the second quarter of 2007. We intend to loan the proceeds to the Fund to enable them to repurchase approximately 13.5 million units of the Fund through a normal course issue bid (NCIB) between February 28, 2007, and February 27, 2008.

2007 guidance

For 2007, we expect to achieve the following ranges of results for key financial reporting indicators. This guidance reflects the privatization of Bell Nordiq Income Fund, which was completed on January 30, 2007, as well as the following anticipated major transactions.

- Sale of our interest in ADS for proceeds of \$330 million, with any resulting capital gain fully sheltered from income tax;
- Execution of a NCIB for up to 10 per cent of the Fund's public unit float, which commenced on February 28, 2007; and
- Acquisition of 100 per cent of the outstanding units of Amtelecom for cash of approximately \$119 million.

Guidance is presented both before and after considering a planned \$35 to \$45 million acceleration of FTTN spending in our capital spending program. This is an acceleration of spending that originally would have been planned for future years, and therefore represents an overlay to normal business operations. Therefore it is believed that it is helpful information to provide guidance with and without this incremental investment.

	2007 guidance	2007 guidance after accelerated FTTN investment
Revenue	\$3.33 – \$3.40 billion	\$3.33 – \$3.40 billion
Distributable cash ⁽¹⁾	\$735 – \$750 million	\$690 – \$710 million
Capital intensity ⁽²⁾	15.0 – 15.5 per cent	16.0 – 16.5 per cent

(1) Distributable cash is a non-GAAP measure. Refer to the "Non-GAAP financial measures" section for more details.

(2) Capital intensity is Capital investments divided by Operating revenues.

RESULTS OF OPERATIONS

We report our results of operations in three business segments; Bell Aliant, Bell Nordiq Group and Other Subsidiaries. Our segments are organized to reflect how we manage our business and classify our operations for planning and measuring performance. Financial performance is mainly measured by growth in operating revenues, EBITDA and operating income. In order to assess the operating performance of the segments had they been in existence since January 1, 2005, certain of our results prior to July 7, 2006, are also presented on a pro forma basis to allow for more meaningful year-over-year comparison and analysis.

Business segment review

Bell Aliant segment

For the period ended December 31
(millions of dollars)

	Three Months			Twelve Months		
	2006	2005	% change	2006	2005	% change
Local and access	324.3	150.2	115.9	933.9	602.9	54.9
Long distance	109.0	58.5	86.3	332.3	238.0	39.6
Data	152.6	83.9	81.9	468.5	320.3	46.3
IT services and fulfillment	72.6	56.5	28.5	278.7	250.6	11.2
Wireless	—	112.7	n.m.	240.4	428.0	(43.8)
Other revenues	56.2	26.1	115.3	137.3	81.4	68.7
Operating revenues	714.7	487.9	46.5	2,391.1	1,921.2	24.5
Operating expenses	400.3	273.4	46.4	1,342.5	1,080.8	24.2
EBITDA ⁽¹⁾	314.4	214.5	46.6	1,048.6	840.4	24.8
Net benefit plans cost	23.1	23.5	(1.7)	93.5	95.1	(1.7)
Depreciation & amortization	130.6	93.6	39.5	445.5	384.0	16.0
Restructuring and other charges	0.4	—	n.m.	13.1	—	n.m.
Operating income ⁽²⁾	160.3	97.4	64.6	496.5	361.3	37.4

n.m. - not meaningful

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) and pro forma EBITDA are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

(2) Operating income and pro forma operating income are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

Operating revenues and operating expenses for the Bell Aliant segment, as reported in our financial statements, increased significantly in 2006, reflecting the much larger geographic area and customer base created by the Arrangement. From June 30, 2006, to December 31, 2006, local access customers increased by approximately 111 per cent and high-speed Internet customers increased by approximately 144 per cent. Offsetting this was a decline in wireless revenues as these operations were transferred to Bell Canada pursuant to the Arrangement. The expanded operations also created a higher cost structure to support the increased customer base and capital infrastructure across the expanded service area. In addition, contributing to expenses during the year were higher consulting and professional fees and higher depreciation and amortization, offset partially by lower net benefit plans cost. The increase in depreciation and amortization reflects the increased capital base resulting from the Arrangement, partially offset by a change in the estimated useful lives of certain capital investments. Restructuring and other charges represent a planned restructuring of operations to improve productivity.

In order to assess the underlying growth, we have also presented our analysis of the Bell Aliant segment on a pro forma basis.

Pro forma results and analysis

For the period ended December 31

(millions of dollars)

	Three Months			Twelve Months		
	2006 ⁽¹⁾	2005	% change	2006	2005	% change
Local and access	324.3	328.0	(1.1)	1,299.1	1,311.0	(0.9)
Long distance	109.0	117.3	(7.1)	452.6	488.9	(7.4)
Data	152.6	145.2	5.1	592.6	552.8	7.2
IT services and fulfillment	72.6	57.1	27.1	279.1	253.0	10.3
Wireless	—	—	—	—	—	—
Other revenues	56.2	53.3	5.4	196.7	189.1	4.0
Operating revenues ⁽²⁾	714.7	700.9	2.0	2,820.1	2,794.8	0.9
Operating expenses	400.3	380.9	5.1	1,565.0	1,535.3	1.9
EBITDA ⁽³⁾	314.4	320.0	(1.7)	1,255.1	1,259.5	(0.3)
Net benefit plans cost	23.1	25.6	(9.8)	98.8	103.2	(4.3)
Depreciation & amortization	130.6	137.1	(4.7)	526.1	549.3	(4.2)
Restructuring and other charges	0.4	—	n.m.	13.1	(3.5)	n.m.
Operating income ⁽⁴⁾	160.3	157.3	1.9	617.1	610.5	1.1

n.m. - not meaningful

(1) The three months ended December 31, 2006, represent actual results, not pro forma.

(2) Pro forma operating revenues is a non-GAAP measure. Refer to the "Non-GAAP financial measures" section for more details.

(3) EBITDA (earnings before interest, taxes, depreciation and amortization) and pro forma EBITDA are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

(4) Operating income and pro forma operating income are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

Local and access

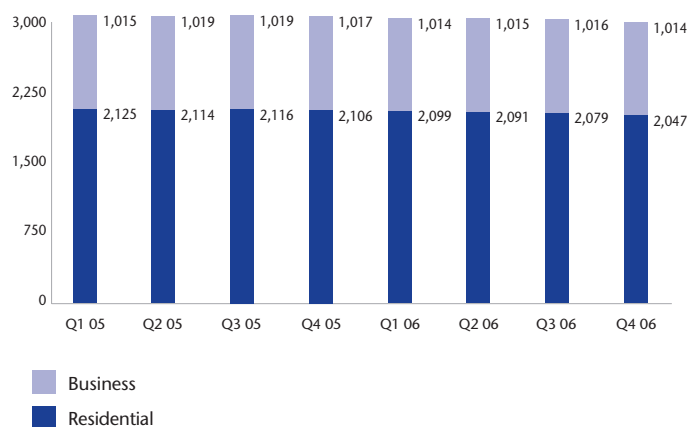
Local and access revenue is earned through the provision of NAS, enhanced service features, contribution payments and competitor network access payments.

Local and access revenue decreased on a pro forma basis as a result of NAS customer declines directly related to increasing competition.

The majority of the Bell Aliant segment's local and access revenue is earned through the provision of NAS. NAS revenues for the fourth quarter of 2006 declined 1.0 per cent and NAS revenues declined 0.9 per cent for 2006 compared to the respective periods in the prior year. At December 31, residential NAS customers were 2.8 per cent lower than the same date in 2005, reflecting competitive losses. In addition, the reduction of second lines as dial Internet customers migrate to high-speed service and the reduction in primary lines as customers adopt wireless and VoIP technologies continue to contribute to NAS erosion. Business NAS customers at December 31, 2006, were 0.4 per cent lower than at December 31, 2005. Competitive losses, customer migration from

NAS customers

(in thousands)



Our wireline network access service (NAS) customer base declined 2.0 per cent in 2006 as competitors expanded their service areas and customers adopted wireless and VoIP technologies. Also contributing to the decline was a reduction in the number of second lines as customers migrated from dial to high-speed Internet service.

hosted voice services to customer-owned phone systems, and losses to emerging VoIP services contributed to the decline in business customers. Price increases helped to mitigate some of the overall NAS revenue decline.

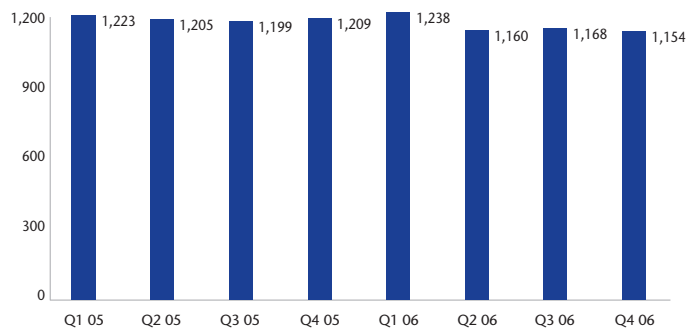
Revenue from sources other than NAS decreased 1.5 per cent in the fourth quarter of 2006 compared to pro forma amounts for the same period in 2005, relatively consistent with the pro forma 1.2 per cent year-over-year decline. Competitor access payments decreased 1.8 per cent in 2006, with the decline for the year largely due to CRTC mandated rate reductions. Enhanced service features revenue decreased 1.0 per cent for the year, reflecting a lower number of NAS customers, partially offset by increased feature penetration and selected rate action.

Long distance

Long distance revenue is earned through toll and long distance terminating services.

Long distance minutes

(in millions)



Long distance minutes fell 2.4 per cent in 2006, compared to 2005, due to growth in cellular calling, dial-around and IP-based services. The popularity of our Value Packages in Atlantic Canada helped offset the decline. Value Packages, a key component of our customer retention program, contribute to higher minutes of usage and higher total revenue per customer.

and strong customer acquisition programs helped to mitigate the declines. Long distance minutes declined by 4.6 per cent in the fourth quarter and 2.4 per cent for the year ended December 31, 2006. Increasing customer adoption of our Value Packages in Atlantic Canada contributes to a higher minute usage and lower average revenue per minute, but higher total revenue per customer.

The long distance customer base of our Bell Aliant segment remains strong in the face of increasing competition and price pressures. Overall, 2006 long distance revenues experienced a declining trend, however, continued strong customer loyalty helped to sustain our performance. Customer loyalty for long distance services is often distinct from the trend in NAS customer losses as there has been competition in long distance services for many years. When we lose a NAS customer, quite often, we have not been their long distance service provider for some time.

Long distance substitution due to cellular calling, dial-around services and IP-based services contributed to the quarter-over-quarter and year-over-year decline in long distance revenues. However, continued focus on customer retention, the implementation of selective price increases,

Data

Data revenue is earned through data access revenue, data circuit revenue, high-speed and dial-up Internet service, and enhanced services and applications, such as TV on my PC™, security services, music download service and dial-up accelerator.

The pro forma growth in data revenue for the fourth quarter and year 2006 was mainly attributable to a 25.8 per cent increase in high-speed Internet revenue in the fourth quarter and a 31.4 per cent increase for the year. Internet revenue growth was driven by an increase in high-speed customers, lower use of promotional pricing in the residential Internet segment and increased adoption of enhanced services. At December 31, 2006, the high-speed Internet customer base was 23.1 per cent higher than at December 31, 2005, largely due to competitive marketing offers, proactive management of dial migration, expansion of our service area and success in marketing our small and home-based business Internet service.

The residential high-speed average revenue per customer (ARPC) in the Bell Aliant segment for the fourth quarter of 2006 was \$35.58, a 4.6 per cent increase over the fourth quarter of 2005 and \$35.24 for the year, up 5.0 per cent from 2005 levels. ARPC has benefited from a move away from promotional pricing and increased penetration of ultra high-speed and value-added services.

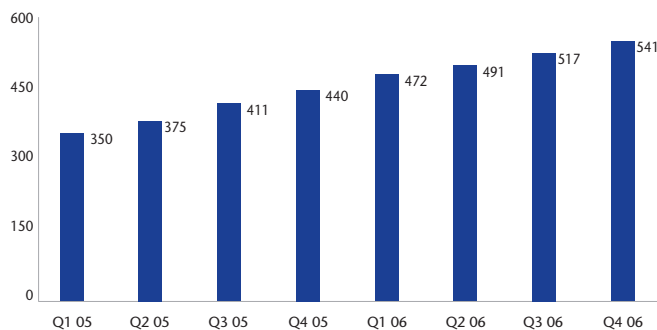
IT services and fulfillment revenue

IT services and fulfillment revenue is earned primarily by our xwave division through systems integration, software engineering, business consulting and infrastructure services, such as data centre, help desk, security and technical support services.

In the fourth quarter of 2006, approximately \$7 million (or \$12 million for the year) of IT services and fulfillment growth was due to sizeable new contracts for systems integration, application services and managed outsourcing, as well as expansion of existing contracts resulting from our focus on key industry verticals in the enterprise market. In the fourth quarter of 2006, we also entered into a seven-year contract representing our first comprehensive ICT outsource opportunity inclusive of VoIP. The remainder of the quarterly and annual pro forma growth relates to higher product sales revenue, which can be attributed to maximizing key partnerships and related incentive programs.

High-speed Internet customers

(in thousands)



Our high-speed customer base grew 23.1 per cent in 2006. The growth is largely due to expansion of our service area, promotional initiatives, like the PC Purchase program, proactive management of customer migration from dial to high-speed, and successful marketing of our small and home-based business Internet service.

Other revenues

Other revenues consist of terminal rentals and sales, PC sales, professional services, pole and building rental revenue, and revenue generated by our outsourcing arrangement with Bell Mobility.

Pro forma other revenues increased by 4.0 per cent in 2006 compared to 2005. The increase was driven by a \$7.1 million settlement of 2006 emerging data services revenues related to the Ontario and Quebec region, all of which was recorded in the fourth quarter of 2006. Also contributing to growth for the year were higher PC sales, as our PC Purchase program commenced in Atlantic Canada in mid-2005.

Operating income

Operating expenses increased by 5.1 per cent in the fourth quarter of 2006 compared to pro forma operating expenses for the same period in the prior year, mainly due to higher consulting and professional fees and higher provincial capital tax compared to the prior year. Higher operating expenses led to lower EBITDA compared to pro forma EBITDA for the fourth quarter of 2005, however, slightly lower pension costs and a decrease in depreciation and amortization expense resulting from the change in estimated useful lives of certain capital investments more than offset the increased operating costs, resulting in a 1.9 per cent increase in operating income for the quarter.

For the year, pro forma operating expenses increased approximately in line with revenues leading to a relatively flat pro forma EBITDA compared to 2005, however, lower pension costs and depreciation and amortization, as explained above, contributed to a 1.1 per cent increase in pro forma operating income for the segment. Higher operating expenses were incurred mainly as a result of the Arrangement and included increased provincial capital tax and increased IT expenses year-over-year.

Bell Nordiq Group segment

For the period ended December 31
(millions of dollars)

	Three Months			Twelve Months		
	2006	2005	% change	2006	2005	% change
Local and access	38.6	—	n.m.	75.3	—	n.m.
Long distance	9.9	—	n.m.	19.7	—	n.m.
Data and cable	17.6	—	n.m.	33.4	—	n.m.
Wireless	14.4	—	n.m.	28.9	—	n.m.
Other revenues	16.0	—	n.m.	27.0	—	n.m.
Operating revenues	96.5	—	n.m.	184.3	—	n.m.
Operating expenses	49.5	—	n.m.	93.9	—	n.m.
EBITDA ⁽¹⁾	47.0	—	n.m.	90.4	—	n.m.
Net benefit plans cost	2.8	—	n.m.	6.2	—	n.m.
Depreciation & amortization	19.3	—	n.m.	31.0	—	n.m.
Restructuring and other charges	(0.2)	—	n.m.	—	—	n.m.
Operating income ⁽²⁾	25.1	—	n.m.	53.2	—	n.m.

n.m. - not meaningful

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) and pro forma EBITDA are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

(2) Operating income and pro forma operating income are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

The Bell Nordiq Group results represent operations from the effective date of the Arrangement, July 7, 2006.

Pro forma results and analysis

For the period ended December 31 (millions of dollars)	Three Months			Twelve Months		
	2006 ⁽¹⁾	2005	% change	2006	2005	% change
Local and access	38.6	40.5	(4.7)	157.4	159.0	(1.0)
Long distance	9.9	11.7	(15.4)	41.5	45.1	(8.0)
Data and cable	17.6	15.7	12.1	68.3	61.9	10.3
Wireless	14.4	13.3	8.3	55.9	51.4	8.8
Other revenues	16.0	13.2	21.2	50.6	42.1	20.2
Operating revenues ⁽²⁾	96.5	94.4	2.2	373.7	359.5	3.9
Operating expenses	49.5	48.4	2.3	190.6	181.9	4.8
EBITDA ⁽³⁾	47.0	46.0	2.2	183.1	177.6	3.1
Net benefit plans cost	2.8	1.8	55.6	11.8	7.2	63.9
Depreciation & amortization	19.3	13.4	44.0	56.9	51.1	11.4
Restructuring and other charges	(0.2)	—	n.m.	—	—	—
Operating income ⁽⁴⁾	25.1	30.8	(18.5)	114.4	119.3	(4.1)

n.m. - not meaningful

(1) The three months ended December 31, 2006, represent actual results, not pro forma.

(2) Pro forma operating revenues is a non-GAAP measure. Refer to the "Non-GAAP financial measures" section for more details.

(3) EBITDA (earnings before interest, taxes, depreciation and amortization) and pro forma EBITDA are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

(4) Operating income and pro forma operating income are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

We have also presented our analysis of the Bell Nordiq Group segment on a pro forma basis to allow for more meaningful quarter-over-quarter and year-over-year comparisons.

For the fourth quarter of 2006, operating revenue growth on a pro forma basis was driven by a 12.1 per cent increase in data and cable revenues, stimulated by a 35.0 per cent increase in high-speed Internet subscribers. Information services / information technology (ISIT), terminal, directory and other revenues increased by 21.2 per cent, mainly driven by a strong demand for a PC bundle offering. Wireless revenues grew by 8.3 per cent, fueled by a 28.2 per cent increase in subscribers compared to the same period in 2005. Local and access revenues decreased by 4.7 per cent, largely due to lower CRTC subsidy revenues. Total NAS declined by 1.5 per cent compared to the same period last year due to competitive losses and technology substitution.

For the year, the increase in pro forma operating revenue was driven by a 10.3 per cent increase in data and cable revenues, reflecting strong customer growth, and a 20.2 per cent increase in ISIT, terminal, directory and other revenues, mainly driven by the acquisition of a majority interest in Proximédia Interaction Centre Inc. in September 2005. Strong subscriber growth also led to approximately a 14.0 per cent increase in wireless revenues, after excluding recognition in the third quarter of 2005 of \$2.2 million in settlement revenues relating to prior periods. Local and access revenues decreased by 1.0 per cent, somewhat consistent with NAS losses of 1.5 per cent, and long distance revenues declined by 8.0 per cent due to continued pricing pressures.

The quarter-over-quarter and year-over-year pro forma declines in operating income reflect higher EBITDA fuelled by strong operating revenue growth, offset by increased net benefits plans cost due to expenses related to an early retirement incentive program. In addition, depreciation and amortization increased due to fair market value adjustments recorded in the fourth quarter that resulted from the purchase price allocation arising from the Arrangement.

Other subsidiaries segment

For the period ended December 31 (millions of dollars)	Three Months			Twelve Months		
	2006	2005	% change	2006	2005	% change
Atlantic Mobility Products	23.7	23.5	0.9	89.7	83.5	7.4
Aliant Directory Services	15.0	13.5	11.1	56.3	52.3	7.6
Innovatia	6.7	6.2	8.1	27.9	26.3	6.1
	45.4	43.2	5.1	173.9	162.1	7.3
Operating expenses	32.3	33.9	(4.7)	130.3	124.2	4.9
EBITDA ⁽¹⁾	13.1	9.3	40.9	43.6	37.9	15.0
Net benefit plans cost	1.1	0.3	266.7	1.4	0.4	250.0
Depreciation & amortization	2.0	1.7	17.6	7.4	6.8	8.8
Restructuring and other charges	—	—	—	0.1	—	n.m.
Operating income ⁽²⁾	10.0	7.3	37.0	34.7	30.7	13.0

n.m. - not meaningful

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) and pro forma EBITDA are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

(2) Operating income and pro forma operating income are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

Operating revenues increased by 5.1 per cent in the fourth quarter of 2006 compared to the same period in 2005, and by 7.3 per cent for 2006 compared to the prior year. The growth in the quarter is attributed primarily to higher directory revenues generated by ADS through increased sales in larger centres. Also adding to revenue growth were higher revenues generated by AMP from cellular and accessory set sales, which reflect cellular customer growth in Atlantic Canada. Innovatia experienced revenue growth from the expansion of a major client and from incremental document services revenue.

Operating income increased as a result of improved margins. Operating margins in the fourth quarter were higher than margins for the year due to a different revenue mix, as ADS typically generates higher operating margins than AMP.

There were no pro forma adjustments included in the Other subsidiaries segment.

Other income / expenses

There were no pro forma adjustments included in the other income and expense items shown in the "Summary of results" section.

Other income

The disposal of Aliant's wireless operation and shares of DownEast Ltd. as part of the Arrangement resulted in a gain of \$1.95 billion. A dilution gain of \$1.0 billion was also recorded on the Arrangement when net recorded assets received were of greater value than a 32.16 per cent fully diluted non-controlling interest in Bell Aliant LP acquired by Bell Canada.

Interest charges

Interest expense increased by 41.4 per cent in 2006 compared to 2005, due to the significant increase in net debt since the Arrangement, offset by lower coupon rates of interest.

Income taxes

A portion of our income is earned through partnerships. Therefore, that portion of our income is not subject to tax at the partnership level, as the taxable income is allocated directly to our partners. The tax provision reported relates to our corporate subsidiaries that are subject to tax on their taxable income. Our effective tax rate for 2006 was 7.65 per cent, a significant reduction from the effective tax rate of 36.47 per cent for the prior year. The non-taxable portion of the \$1.95 billion gain on sale and the dilution gain that were recognized as part of the Arrangement, the \$121.8 million of inter-company interest income earned in non-taxable entities, and the \$363.1 million of taxable income allocated to non-controlling interest all contributed to the significant reduction in our effective tax rate.

Non-controlling interest

As a result of the Arrangement, the non-controlling interest in our earnings increased. At December 31, 2006, Bell Canada owned a 36.87 per cent interest in Bell Aliant LP and Bell Nordiq Income Fund owned a 36.7 per cent interest in Télébec and NorthernTel. Bell Canada, through its ownership interest, is entitled to receive distributions from Bell Aliant LP and Bell Aliant Holdings LP equal to, the greatest extent practicable, per-unit distributions paid by the Fund to holders of Fund units. As well, Télébec and NorthernTel indirectly paid distributions to Bell Nordiq Income Fund. During the year ended December 31, 2006, we recorded non-controlling interest in our earnings of \$93.9 million, of which \$92.3 million relates to the above. Distributions paid by our subsidiaries to our non-controlling interest in the same period were \$97.9 million, of which \$78.3 million was to Bell Canada from Bell Aliant LP and \$19.6 million was by Télébec and NorthernTel to Bell Nordiq Income Fund.

FINANCIAL AND CAPITAL MANAGEMENT**Summary of cash flows***For the year ended December 31**(millions of dollars)*

	2006	2005	% change
Cash from (used in):			
Operating activities	614.7	524.3	17.2
Financing activities	1,041.2	(287.9)	n.m.
Investing activities	(1,711.6)	(364.8)	n.m.
Net use of cash	(55.7)	(128.4)	(56.6)

n.m. - not meaningful

We used a net \$55.7 million in cash during 2006. Cash generated from operating activities was 17.2 per cent higher in 2006 compared to 2005, reflecting higher net earnings from our larger operations. Net financing activities generated cash of \$1,041.2 million, which is mainly a reflection of the long-term debt refinancing activities resulting from the Arrangement. Net investing activities used \$1,711.6 million of cash, mainly to purchase capital investments and to effect the business combination under the Arrangement. Key components of our \$55.7 million net use of cash in 2006 were as follows.

DB pension and OPEB plans

Total funding of our DB pension plans for the fourth quarter of 2006 was \$29.1 million, compared to \$50.8 million in total funding made to Aliant's DB plans in the fourth quarter of 2005. Higher 2005 funding reflects a "catch-up" in required contributions determined by actuarial results received in the fourth quarter of 2005.

For the year 2006, total DB funding was \$105.1 million, while in 2005 Aliant's total DB funding was \$167.3 million. The 2005 contributions included higher required special payments as well as additional voluntary contributions that were made by Aliant in early 2005.

Actuarial valuations of our pension plans, excluding the plans of Télébec and NorthernTel, were performed as of July 7, 2006, with most plans reflecting funding deficits as measured on both a solvency and going-concern basis.

We have applied to adopt solvency funding relief measures to most of our July 7, 2006, actuarial valuations. These measures were enacted in November 2006, with the issuance of new regulations by the Office of the Superintendent of Financial Institutions (OSFI). Under the new regulations, we are permitted to consolidate previously established solvency payment schedules and to extend the period for making cash solvency funding payments to 10 years from the current 5-year requirement. We estimate total special payments required for 2007 to be in the range of \$40 to \$50 million, which reflects 10-year solvency funding schedules for most plans, and is net of the application of prior years' voluntary contributions.

In order to take advantage of the funding relief measures, we are also required to secure the difference each year between the 5-year and 10-year levels of payment by a letter of credit obtained by us and held by a trustee.

Actuarial valuations of all our DB pension plans are being performed as of December 31, 2006, and will be completed by June 30, 2007. We will adjust our DB pension plan contributions, if necessary, based on the outcome of these valuations.

Other post-employment benefit (OPEB) funding increased by 20.8 per cent to \$6.4 million in 2006, mainly a result of more retired beneficiaries and increasing costs of benefits provided under legacy plans.

Future income taxes

There was a \$167.6 million future tax expense in 2006 due to higher deductions from, or lower additions to, income calculated for tax purposes compared to income calculated for financial statement reporting purposes. This future tax expense includes \$225.1 million related to the gain on the disposal of Aliant's wireless business pursuant to the Arrangement. The expense was partially offset by a future tax recovery related to additional non-capital losses recognized on the transfer of depreciable assets as part of the Arrangement and debt prepayment premiums deducted for reported income purposes but not for tax purposes. The future tax liability related to the wireless gain will only reverse if the carrying value of the associated goodwill is reduced as a result of, among other things, a goodwill impairment or sale of the goodwill and associated business, which we do not expect in the foreseeable future.

Change in operating assets and liabilities

The change in operating assets and liabilities used cash of \$108.0 million in 2006, and provided cash of \$6.5 million in 2005. Although accounts receivable increased substantially as a result of our larger operations since the Arrangement, this increase was largely offset by increased accounts payable. Contributing to the higher use of cash in 2006 was \$19.2 million in tax refunds received in 2005 that were not received in 2006, coupled with \$66.4 million in higher tax payments made during 2006. The higher tax payments resulted from acceleration in payments of cash taxes in 2006 due to various tax years triggered as a result of the Arrangement.

Long-term debt

As a result of the decision to convert to an income trust and as part of the overall Arrangement, it was determined that most of Aliant's long-term debt and preferred shares had to be repaid or redeemed, as they could not be transferred to the new legal entity. The remaining long-term debt, except for a \$100.0 million medium-term note issue that was repaid in January 2007, was also repaid in 2006 in order to treat all bondholders equally, and to lower the overall coupon interest rate on our outstanding long-term debt.

Prior to the Arrangement, to assist in re-financing Aliant's long-term debt as well as financing the Arrangement, we established a temporary \$1.0 billion demand credit facility, which we subsequently replaced with long-term facilities when the Arrangement was completed. On July 7, 2006, the syndicated credit facilities with Canadian banks were finalized in an aggregate maximum amount of \$3.5 billion. These facilities consisted of \$0.55 billion in revolving operating facilities and \$2.95 billion in long-term credit facilities. Also during the third quarter of 2006, we launched a \$400.0 million commercial paper program to enable us to provide a cost effective source of funds for short-term financing needs, and we filed with the Canadian Securities Commissions on September 14, 2006, a \$3.0 billion medium-term note shelf prospectus.

As at December 31, 2006, we had the following debt outstanding under various short and long-term facilities:

<i>(millions of dollars)</i>	Aliant and other	\$1.0 billion demand credit facility	\$3.5 billion syndicated credit facility	\$400 million commercial paper program	\$3.0 billion medium- term note facility	Bell Nordiq	Debt
Balance December 31, 2005	904.5	—	—	—	—	—	904.5
Issuance / draws	—	591.6	2,484.7	200.0	1,250.0	—	4,526.3
Redemptions / repayments	(785.0)	(591.6)	(1,250.0)	(200.0)	—	(1.6)	(2,828.2)
Assumed in Arrangement	—	—	—	—	—	203.7	203.7
Change in cash and other	4.9	—	—	—	—	—	4.9
Balance December 31, 2006	124.4	—	1,234.7	—	1,250.0	202.1	2,811.2

As discussed above, most of Aliant's long-term debt was redeemed or repaid at maturity, prior to or since the Arrangement. In order to finance a portion of these long-term debt prepayments and the redemption of Aliant's outstanding preferred shares, \$591.6 million was drawn under the temporary demand credit facility prior to the time of the Arrangement. During the third quarter of 2006, a total of \$2.485 billion was drawn under the syndicated credit facility with a portion used to repay the demand credit facility. The long-term debt drawn under these facilities was used to:

- Repay Aliant's long-term debt having a total principal amount of \$735.0 million along with \$147.8 million of related premiums;
- Redeem outstanding Aliant preferred shares for \$175.0 million;
- Repay the \$1.256 billion demand promissory note to Bell Canada resulting from the Arrangement;
- Pay \$39.4 million of transaction costs;
- Settle interest rate derivative transactions for \$58.1 million;
- Repurchase Aliant common shares for a total of \$19.8 million under a NCIB to offset stock options exercised after the Arrangement announcement (see "Issuances and repurchase of Aliant common shares" section);
- Pay \$18.7 million in new long-term debt issue costs; and
- Pay other costs incurred as a result of the Arrangement.

As well, during the third quarter we drew \$200.0 million in commercial paper and used it to repay a portion of the syndicated credit facility in order to lower our overall borrowing costs.

It is our intention over the ensuing 12 to 24 months after the Arrangement to refinance, at fixed rates of interest through accessing capital market facilities, the long-term debt issued under the \$3.5 billion syndicated credit facility incurred as part of the Arrangement. We commenced this on September 25, 2006, when we issued \$750.0 million in 5 year notes, maturing September 26, 2011, and \$500.0 million in 10 year notes, maturing September 26, 2016, pursuant to our \$3.0 billion medium-term note shelf prospectus filed in September, 2006. Net proceeds received were \$1.245 billion, of which \$1.05 billion was used to pay down the syndicated credit facility and \$200.0 million was used to repay maturing commercial paper. Subsequent to December 31, 2006, further medium-term notes were issued as discussed in the "Debt" section.

Interest rate derivatives

During 2006, in anticipation of the refinancing of our long-term debt, we entered into a series of forward interest rate swaps with notional principal values totalling \$2.265 billion to hedge the interest rate risk related to future debt refinancing. For approximately the first nine months of 2006, we also continued to have in place two existing interest rate swap contracts with notional principal values totalling \$90.0 million, which served a similar purpose although had not been designated as hedges and so were not being accounted for as such. These swap contracts combined to provide us with a \$2.355 billion hedge against fluctuating interest rates associated with our long-term debt refinancing.

With the refinancing of \$1.25 billion of our long-term debt in September 2006 through the issuance of medium-term notes, we unwound or settled related interest rate swap contracts with notional principal amounts totalling \$1.105 billion. Interest rates had generally declined since the hedging contracts were put in place, therefore we were obligated to pay cash of \$58.1 million to the counterparties on settlement of the contracts. This cost is offset by the lower coupon rates on the notes issued.

At December 31, 2006, we had outstanding forward interest rate swap contracts with notional values totalling \$1.25 billion, intended to hedge the interest rate risk on planned further debt refinancing. At December 31, 2006, these contracts had a market value in favour of the counterparties of \$32.3 million, which was not recorded in our financial statements due to the application of hedge accounting.

In February 2007, with the issuance of medium-term notes discussed in the "Debt" section, we unwound or settled interest rate swaps with notional principal amounts totalling \$1.0 billion. On February 26, 2007, we paid cash of \$30.5 million to the counterparties on the settlement of the contracts.

Issuance and repurchase of Aliant common shares

As a result of the exercise of options pursuant to Aliant's stock option plan, for the year ended December 31, 2006, 471,684 Aliant common shares were issued for proceeds of \$13.7 million. On July 5, 2006, just prior to the Arrangement, Aliant terminated the stock option plan with cash payments for all remaining options outstanding at their in-the-money value. This resulted in a cash payment of \$8.1 million for 1,947,733 options. The remaining 503,527 options were out-of-the-money at the time of the Arrangement and were forfeited.

Aliant commenced a NCIB on May 3, 2006, which allowed the purchase, from time to time, of up to 3,000,000 of issued and outstanding common shares at market price through the facilities of the TSX. The limited purpose of this NCIB was to offset the dilutive impact of share issuances under the stock option plan prior to the Arrangement. Purchases of Aliant common shares were made up to June 28, 2006, and the NCIB expired on July 7, 2006. For the year ended December 31, 2006, Aliant purchased for cancellation 562,216 shares for an aggregate price of \$19.8 million. Further details about the NCIB are provided in note 14 to our consolidated financial statements for the year ended December 31, 2006.

We paid \$0.6 million to repurchase for cancellation 15,458 Aliant common shares from those shareholders formally dissenting to the Arrangement.

All activity in Aliant common shares ended upon the Arrangement on July 7, 2006. At that time, all outstanding Aliant common shares were exchanged one-for-one for units of the Fund, or in the case of a certain percentage of BCE's holdings, for exchangeable limited partnership units.

Capital expenditures

Capital expenditures in 2006 totalled \$445.0 million. We continue to invest in our traditional wireline infrastructure to sustain our existing business and the reliability of our network, and we have invested in expanding and augmenting our high-speed Internet footprint, increasing our investment in fibre-to-the-node, increasing the Aliant TV footprint and transforming our network to support next-generation IP applications.

Business combinations and acquisitions

A promissory note of \$1.256 billion payable to Bell Canada was settled shortly following completion of the Arrangement. For details of the total consideration paid under the Arrangement, refer to note 2 of our consolidated financial statements for the year ended December 31, 2006.

During 2006, we also paid \$17.5 million to acquire the remaining 54.96 per cent of the common shares of AMP as well as the majority of the assets of another small company.

Liquidity

Cash requirements

We require a significant amount of cash to execute our business strategy. Our cash requirements for 2007 will consist of distributions to unitholders, investments in capital, pension plan contributions, and payments of other commitments, including loans to the Fund to enable the take-over of Amtelecom and the repurchase of Fund units under an NCIB. In particular, it is anticipated that these requirements will result in the use of cash as follows:

- Distributions to holders of Fund units were \$0.2283 per unit for the month of January, 2007, and \$0.235 per unit per month thereafter, beginning in February, 2007, as approved by the trustees of the Fund on February 1, 2007. The Fund is entirely dependent upon distributions from us to make its distributions. Cash requirements to make Fund distributions and distributions to BCE and Bell Canada are estimated to be \$644 million for 2007.
- Total funding of our DB pension plans in 2007 is anticipated to be in the range of \$85 to \$95 million, net of application of prior years' voluntary contributions, and after application of 10-year solvency funding schedules for eligible plans. Contribution estimates include \$40 to \$50 million in deficit funding, with the remainder representing current service funding. Required funding for 2007 may be adjusted based on the outcome of December 31, 2006, actuarial reviews, which are expected to be complete by mid-2007.

Funding of our OPEB plans for 2007 is estimated to be \$6 to \$8 million and DC pension funding is estimated to be \$7 to \$8 million.

- The take-over bid for Amtelecom will require approximately \$119 million to complete under the terms proposed.
- Capital expenditures in the range of 15.0 to 15.5 per cent of revenues will be made as required to support our existing infrastructure and to advance our strategic initiatives. In addition to our normal level of capital expenditure, we plan to spend approximately \$35 to \$45 million of additional funds in 2007 to accelerate the deployment of our FTTN investment.
- Other commitments, such as operating leases and purchase commitments for equipment and other network infrastructure, and contingencies are disclosed in notes 20 and 23 to our consolidated financial statements for the year ended December 31, 2006.

Sources of liquidity

We derive most of our liquidity from the strength of our recurring cash from operating activities, as well as bank credit facilities, a \$3.0 billion medium-term note shelf prospectus and a \$400.0 million commercial paper program. We anticipate generating enough cash from our operating activities in 2007 to pay for capital expenditures, distributions, and required pension funding.

Capital structure

(millions of dollars, except as otherwise noted)

	December 31, 2006		December 31, 2005	
Unitholders' / Shareholders' equity	4,836.6	51.3%	1,411.9	66.0%
Non-controlling interest	1,919.1	20.3	5.6	0.3
Debt	2,680.3	28.4	719.9	33.7
Total capital	9,436.0	100.0%	2,137.4	100.0%

As a result of the Arrangement, Aliant common shares held by the public and a certain number of Aliant common shares held by BCE were exchanged for Fund units on a one-for-one basis, effective at the close of business on July 7, 2006. The remaining Aliant common shares and 100.0 per cent of Bell Nordiq Group Inc. common shares held by BCE were exchanged for limited partnership units of Bell Aliant Holdings LP, which are exchangeable into Fund units.

Debt

On July 7, 2006, syndicated credit facilities with Canadian banks were finalized in an aggregate maximum amount of \$3.5 billion. These facilities were required to assist in financing the Arrangement and re-financing Aliant's long-term debt, to provide for ongoing liquidity requirements, and to fund required special deficit payments of our DB pension plans. As at December 31, 2006, \$1.235 billion was drawn on these facilities, which we intend to refinance with capital market issuances in the next 12 to 24 months.

On July 13, 2006, we launched a \$400.0 million commercial paper program. As at March 2, 2007, \$86.5 million of notes were issued under this facility. Proceeds from the issuance of commercial paper were used to repay a maturing debt issue and for costs incurred as part of the privatization of Bell Nordiq Income Fund in January 2007. We will ensure at all times that sufficient undrawn capacity exists on our \$550.0 million revolving operating facility to support issuances of commercial paper.

Pursuant to our \$3.0 billion medium-term note shelf prospectus, as discussed in the "Long-term debt" section, on September 25, 2006, we issued \$750.0 million in 5 year notes, maturing September 26, 2011, and \$500.0 million in 10 year notes, maturing September 26, 2016.

On February 21, 2007, we issued \$400.0 million in 7 year notes, maturing February 26, 2014, \$300.0 million in 12 year notes, maturing February 26, 2019, and \$300.0 million in 30 year notes, maturing February 26, 2037. Proceeds will be used to repay amounts owing under the syndicated credit facility.

Ratings

Standard and Poor's (S&P) and Dominion Bond Rating Service (DBRS) have issued the following ratings for our subsidiary, Bell Aliant LP.

	S&P	DBRS
Bell Aliant LP senior unsecured debt	BBB, stable trend	BBB (high) stable trend
Bell Aliant LP commercial paper	Not rated	R-1 (low) stable trend

A rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn at any time.

Partners' capital

We have an unlimited number authorized of each of three classes of units:

- Class 1 exchangeable limited partnership units;
- Class 2 limited partnership units; and
- General partnership units.

For details of the terms and conditions associated with the units, refer to note 14 of our consolidated financial statements for the year ended December 31, 2006.

Units of Bell Aliant Holdings LP are not publicly traded, and there has been no change in ownership since December 31, 2006. Further details of our partners' capital are contained in note 14 to our consolidated financial statements for the year ended December 31, 2006.

Other financial arrangements

Contractual obligations

As at December 31, 2006

(millions of dollars)	2007	2008	2009	2010	2011	Thereafter
Long-term debt	103.8	54.9	1,243.5	3.4	754.4	635.6
Capital lease obligations	5.4	4.2	3.0	2.4	0.6	—
Operating leases	42.0	38.7	35.4	32.6	30.1	303.8
Purchase commitments ⁽¹⁾	415.4	377.4	345.5	324.7	320.1	2,894.1
Total contractual obligations ⁽²⁾	566.6	475.2	1,627.4	363.1	1,105.2	3,833.5

(1) Purchase commitments are agreements to purchase goods or services that are enforceable and legally binding on us and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed minimum or variable price provisions; and the approximate timing of the transaction.

(2) We have other long-term liabilities that are not included in the table. They consist of an accrued benefit liability, a future income tax liability, deferred revenue, and various other long-term liabilities.

We have various operating leases for equipment and other network infrastructure, and purchase commitments under various service and commercial agreements, including the commercial agreements with Bell Canada for our Ontario and Quebec operations as described in the "Related party transactions" section. The amounts of estimated future payments under such arrangements are detailed in note 20 to our consolidated financial statements for the year ended December 31, 2006. Details of our long-term debt can be found in note 12 to our consolidated financial statements for the year ended December 31, 2006.

Accounts receivable securitization

Under a purchase and sale agreement, we sell certain accounts receivable to a securitization trust. Further details of this arrangement are described in note 3 to our consolidated financial statements for the year ended December 31, 2006. At December 31, 2006, we had net cash proceeds in our securitization trust totalling \$120.0 million. On July 6, 2006, we renewed our securitization program for up to \$125.0 million, and extended our current agreement to a new expiry date of December 31, 2011. Although accounts receivable associated with Aliant's former wireless business are owned by Bell Canada, we have entered into agreements whereby these receivables are sold back to us to maintain our program at \$120.0 million. A similar agreement allows us to sell certain Ontario and Quebec receivables to Bell Canada to maintain their securitization program.

Use of derivative financial instruments

We use derivative financial instruments periodically in the management of interest rate and foreign currency exposures associated with our long-term debt or specific firm commitments. Details of our use of derivative financial instruments and the accounting policies we follow are provided in notes 1 and 18 to our consolidated financial statements for the year ended December 31, 2006. At December 31, 2006, we had outstanding forward starting interest rate swap contracts with notional values totalling \$1.25 billion, and at March 2, 2007, we had outstanding forward starting interest rate swap contracts with notional values totalling \$25.0 million. Refer to the "Interest rate derivatives" section for further details on our use of derivative financial instruments.

RELATED PARTY TRANSACTIONS

BCE and Bell Canada beneficially owned and controlled 44.71 per cent of the Fund units (on a fully diluted basis), in the form of exchangeable limited partnership units of Bell Aliant Holdings LP and Bell Aliant LP as at December 31, 2006. We have entered into a series of commercial agreements that govern our relationship with BCE and Bell Canada. The agreements provide us with the telecommunications and support services required to operate our wireline and Internet access operations in territories previously covered by Bell Canada. The agreements also provide Bell Canada with the telecommunications and support services required to operate its wireless business within Atlantic Canada. In addition, we have an extensive commercial relationship management agreement that governs our relationship with respect to non-competition, primeship, branding and term and termination.

For greater detail on our related party transactions and our relationship with Bell Canada refer to note 21 of our consolidated financial statements for the year ended December 31, 2006.

SIGNIFICANT ACCOUNTING POLICIES

Our consolidated financial statements have been prepared in accordance with Canadian GAAP. Greater detail on our significant accounting policies is provided in note 1 to our consolidated financial statements for the year ended December 31, 2006. The accounting policies and methods used are consistent with those in effect in 2005.

Future changes in accounting policies

The Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) continually amends and improves certain standards or guidelines contained in the CICA Handbook. We monitor these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

Comprehensive income

The CICA issued section 1530 of the CICA Handbook, Comprehensive Income, which describes how to report and disclose comprehensive income and its components. These changes are effective for fiscal years beginning on or after October 1, 2006.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's owners. It includes items that would not normally be included in net earnings, such as:

- Changes in the currency translation adjustment relating to self-sustaining foreign operations; and
- Unrealized gains or losses on available-for-sale investments.

The CICA also made changes to section 3250 of the CICA Handbook, Surplus, and reissued it as section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, Comprehensive Income.

The adoption of these sections requires the following items to be reported in our consolidated financial statements:

- Comprehensive income and its components; and
- Accumulated other comprehensive income and its components.

As a result of the new standards, we recorded on January 1, 2007, accumulated other comprehensive income of \$40.2 million to reflect the accumulated portion of the loss on hedging items on our effective cash flow hedges. Future impacts cannot be estimated at this time as the impact will be dependent on the fair value of the hedges in the future.

Foreign currency translation

The CICA issued section 1651, Foreign Currency Translation, to replace section 1650. The new section represents amendments to conform to the new Financial Instruments sections, specifically sections 1530 and 3855. These changes are effective for fiscal years beginning on or after October 1, 2006. We do not anticipate that this section will have a material impact on our financial results.

Financial instruments

The CICA issued section 3855 of the CICA Handbook, Financial Instruments – Recognition and Measurement, which describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. These changes are effective for fiscal years beginning on or after October 1, 2006. This section requires that:

- All financial assets be measured at fair value, with some exceptions for loans and investments that are classified as held to maturity;
- All financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value; and
- All derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

As a result of the new standard, we will be transitioning to the effective interest method to calculate the amortized cost of financial assets and financial liabilities and we will amortize the costs over the relevant period. We currently amortize these costs using straight-line amortization over the life of the debt. The difference arising from the change to the effective interest method is not material.

As at December 31, 2006, our debt issue costs of \$16.6 million were included in deferred charges. Beginning January 1, 2007, these costs have been reclassified and applied against the financial liability with which they are associated. Debt issue cost related to long-term debt facilities that have not been drawn upon will continue to be classified as deferred charges and will be amortized on a straight-line basis over the life of the facility.

The CICA has also reissued section 3860 of the CICA Handbook as section 3861, Financial Instruments – Disclosure and Presentation, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. These revisions came into effect for fiscal years beginning on or after October 1, 2006.

The CICA subsequently issued section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments – Presentations. Together, sections 3862 and 3863 will be adopted in place of section 3861, Financial Instruments – Disclosure and Presentation. These revisions come into effect for fiscal years beginning on or after October 1, 2007, but must be adopted earlier if adopting in place of section 3861. Section 3862 is consistent with the requirements of section 3861 but places an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. It also simplifies the disclosures about concentrations of risk, credit risk, liquidity risk and price risk currently found in section 3861. Section 3863 carries forward unchanged, the presentation requirements of section 3861. As the standards relate only to unchanged disclosure and presentation requirements, we do not anticipate that this section will have any impact on our financial results.

Hedges

The CICA issued section 3865 of the CICA Handbook, Hedges, which describes how and when hedge accounting can be used. These changes are effective for fiscal years beginning on or after October 1, 2006.

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between:

- Changes in the fair value of a hedged item and a hedging item; or
- Changes in the cash flows attributable to a hedged item and a hedging item; or
- Changes resulting from a risk exposure related to a hedged item and a hedging item.

Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. As at January 1, 2007, net adjustments of \$40.2 million have been made to accumulated other comprehensive income and \$0.9 million to opening retained earnings on the balance sheet to reflect the fair value of the effective and ineffective portions of our cash flow hedges, respectively. Future effects cannot be estimated at this time as the impact will be dependent on the fair value of the hedges in the future.

Accounting changes

The CICA issued section 1506, Accounting Changes, which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. As a result, changes in accounting policies are only permitted when required by a primary source of GAAP or when the change will result in reliable and more relevant information. These changes are effective for fiscal years beginning on or after January 1, 2007. At this time, we are not aware of any pending accounting changes other than those mandated by the CICA and as such we do not anticipate any material effects as a result of this change.

Capital disclosures

The CICA issued section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital as well as how the entity manages it. These changes are effective for fiscal years beginning on or after October 1, 2007. As the standards relate only to disclosure requirements, this section will not have any impact on our financial results.

Critical accounting estimates and assumptions

Under Canadian GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities in our consolidated financial statements.

We base our estimates and assumptions on past experience and other factors that we believe are reasonable under the circumstances. This involves varying degrees of judgment about matters that may be inherently uncertain. The amounts currently reported in the financial statements could prove to be inaccurate or are subject to change under different conditions or using different assumptions. We periodically evaluate the reasonability of these estimates and assumptions.

Our senior management have reviewed with the audit committee of the board of directors the development, selection and application of our key accounting policies and the critical accounting estimates and assumptions they involve. We consider critical accounting estimates and assumptions to be an important part of understanding our significant accounting policies and consolidated financial statements.

Post-employment benefits

We perform a valuation of our DB pension plans at least every three years to determine the actuarial present value of the accrued pension and other non-pension post-employment benefits. The amounts reported in the financial statements in relation to the DB pension plans and OPEB plans are determined using the results of these valuations and several key assumptions determined by management. These key assumptions include the interest rate used to discount obligations, the expected rate of return on plan assets, the rate of compensation increase and the growth rate of per capita health care costs.

Our two most significant assumptions are the discount rate of interest and the rate of return on plan assets. The rates are developed as follows:

- The discount rate is used to determine the present value of future cash flows that we expect will be required to pay employee benefit obligations. Management's assumptions of the discount rate are based on current interest rates on long-term debt of high quality corporate issuers. We determine the appropriate discount rate at the beginning of each measurement period. For most of our plans, a new measurement period began on July 7, 2006, as a result of the Arrangement, at which time we increased our assumed discount rate to 5.6 per cent from 5.25 per cent, resulting in actuarial gains of approximately \$88 million. At December 31, 2006, we decreased our assumed discount rate to 5.3 per cent from 5.6 per cent. This change in assumption resulted in increases to our DB pension plan and OPEB plan obligations totalling approximately \$104 million.
- The expected rate of return on plan assets is based on the long-term return expectation for capital markets and active investment management, given our plans' policy asset mix. In 2006, our assumed rate of return on plan assets was 7.5 per cent, consistent with the rate assumed in 2005.

A sensitivity table outlining the estimated impact on the value of the accrued benefit obligation and the annual amount of net benefit plans' cost for a 0.25 percentage point change in these rate assumptions is provided in note 7 to our consolidated financial statements for the year ended December 31, 2006.

Our accounting policies with respect to the recognition of amortization on net actuarial losses follow Canadian GAAP and recognize that future investment returns on plan assets and actuarial changes in the plans can influence the amount of the loss and can reverse it over time. Specifically, the amortization occurs when the size of the actuarial loss (or gain) exceeds a 'corridor', which is the greater of 10 per cent of the accrued benefit obligation or 10 per cent of the market-related value of the plan assets. Using the market-related value of assets smooths the affect of actual gains and losses in certain of the plans' assets over a three or four year period. The effect of these accounting policies is to limit the amount of amortization of both gains and losses recognized in our earnings, except in situations when they become exceedingly large. We have unamortized actuarial losses totalling \$640.2 million in our DB pension plans at December 31, 2006. This balance reflects the amortization of \$34.2 million of the losses through pension expense in 2006. We anticipate a similar level of loss amortization will be included in pension expense in 2007.

Additional information regarding our accounting for post-employment benefits is included in note 7 to our consolidated financial statements for the year ended December 31, 2006.

Long-lived assets

Our long-lived assets consist of capital investments, goodwill and indefinite-life intangibles. We make certain estimates relating to the values recorded for these assets, including determinations of useful life, assessments of asset recoverability through impairment testing and the allocation of acquisition purchase prices between goodwill and finite-life intangible assets.

Estimations of useful lives

We depreciate and amortize our capital investments, finite-life intangibles and certain deferred charges based on their estimated useful lives. We estimate the useful life when an asset is acquired, based on past experience with similar assets and our expectations of technological changes or other circumstances that may affect the usefulness of the asset. We review our estimates of useful life on an ongoing basis. When events or changes in circumstances indicate that asset lives do not reflect the expected remaining period of benefit, we make prospective changes to their depreciable useful lives. This could result in a change in the depreciation and amortization expense in future periods.

On April 1, 2006, we extended the estimated useful life of some of our internally developed software included in capital investments from three to five years, which remains consistent with our accounting policies. This change in estimate, which has been applied prospectively, resulted in a reduction in depreciation and amortization expense of \$21.3 million for the year ended December 31, 2006.

On July 7, 2006, upon completion of the Arrangement, we modified the useful life of a number of capital investment groups to ensure that similar assets were being amortized consistently across the entire organization. If there were inconsistencies for similar assets, we considered actual useful lives of the assets to determine the most reasonable and accurate economic useful life. We have aligned the depreciation expense associated with these assets to their future economic benefit. As a result, some useful lives were extended while others were shortened. All changes in estimated useful lives were within our existing accounting policies and therefore represent changes in accounting estimates, which have been applied prospectively. The changes in estimates resulted in an increase in depreciation and amortization expense of \$2.9 million for the year ended December 31, 2006, which is broken down by capital investment class as follows: an increase to buildings depreciation of \$2.4 million; an increase to telecommunications equipment depreciation of \$0.9 million; and a decrease to other equipment depreciation of \$0.4 million.

There were no changes to estimations of useful lives of our assets in 2005.

Recoverability

The value associated with our goodwill is assessed at our business segment level on an annual basis or sooner if events or changes in circumstances indicate that the carrying amounts could exceed fair value. Potential impairment is identified when the carrying value of our business segments, including the allocated goodwill, exceeds their fair value. Goodwill impairment is measured as the excess of the carrying amount of the business segment's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the business segment. Any impairment indicated is charged to earnings in the period it is identified. Impairment tests were conducted during the second quarters of 2005 and 2006, and in the fourth quarter of 2006, with no impairment identified. The goodwill created on acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordinq Group Inc., as discussed in note 2 of our consolidated financial statements for the year ended December 31, 2006, was not tested for impairment during the fourth quarter as the purchase price allocation had not been finalized.

The value associated with our indefinite-life intangibles is assessed on an annual basis or sooner if events or changes in circumstances indicate that the carrying amounts could exceed fair value. The value associated with our other long-lived assets is reviewed whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability is based on our estimate of projected discounted cash flows resulting from the use of the asset and its eventual disposition. These reviews could result in a current year impairment charge to reflect the write-down in value of the capital investment or long-lived asset. Reviews triggered by events or changes in circumstances throughout 2006 and 2005 have not resulted in any write-downs for impairment of our other long-lived assets.

We use the projected discounted cash flow method to measure fair value and determine recoverability of assets, which we believe is a reasonable and appropriate approach. The assumptions and estimated cash flows are based on internal planning and reflect our best estimates. These assumptions are subject to inherent uncertainties that are beyond management's control; hence the results of the impairment test could be different if there is a change in assumptions or conditions. We are unable to predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values that have been reported.

Purchase price allocation for business acquisitions

Goodwill represents the excess, at the date of acquisition, of the costs of an acquired business over the fair values of the net amounts assigned to the individual assets acquired and liabilities assumed, regardless of whether or not these items were recognized in the financial statements of the acquired business. Intangible assets other than goodwill are recognized at their estimated or appraised values when they arise from contractual or other legal rights or are capable of being individually sold, transferred, licensed, rented or exchanged. The identification and valuation of intangible assets of an acquired business involves the evaluation of all significant terms of the purchase that explicitly or implicitly suggest the presence of intangible assets apart from goodwill.

At December 31, 2006, we had not completed the purchase price allocation for the acquisition of Bell Canada's wireline operation in Ontario and Quebec and Bell Nordinq Group Inc. We will have finalized our valuations and completed our purchase price allocation by July 6, 2007.

There were no business acquisitions in 2005 and there were no changes in 2005 to the purchase price allocations for businesses acquired in 2004.

Income taxes

A portion of our income is earned through limited partnerships and as such is not subject to tax and the taxable income is allocated directly to our partners.

The remaining income is earned through corporate subsidiaries that are subject to tax on their taxable income. Income taxes are accounted for using the asset and liability method. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and their corresponding tax values, as well as the benefit of losses that will more likely than not be realized and carried forward to future years to reduce income taxes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law, or substantively enacted, that are expected to be in effect when the underlying items of income and expense are expected to be realized. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded, when necessary, to reduce future income tax assets to the amount more likely than not to be realized.

The future tax consequences of the temporary differences, which impact the classification and calculation of our tax assets and liabilities, are based on assumptions and estimates related to expectations of future results of operations, the timing of the reversal of temporary differences and our interpretation of applicable income tax legislation and regulations. The composition of our future income tax assets and liabilities are likely to change from period to period because of the significance of these assumptions.

The calculation of our income taxes also requires significant judgment and interpretation of tax regulations and legislation, which are continually changing, to ensure liabilities are complete and to ensure assets, net of valuation allowances, are realizable. As our tax filings are subject to audit by the Canada Revenue Agency, such audits could materially change the amount of current and future income tax assets and liabilities if different interpretations are used. Any change would be recorded as a charge or credit to income tax expense. Any cash payment or receipt would be included in cash from operating activities.

We use judgments and estimates when calculating income taxes. If these prove to be inaccurate, or if certain tax rates or laws change, our results of operations and financial position could be materially affected in future periods. We believe that we have adequately provided for income taxes based on all information currently available.

Due to the conversion to an income trust, certain temporary differences included in the 2005 balances of future tax assets and liabilities were realized in 2006. There were no significant changes to other assumptions or estimates during 2006. During 2005, we revised our estimate for the timing of certain temporary differences.

Restructuring and other charges

As circumstances require, we engage in restructuring activities to streamline our operations and improve productivity and profitability. The development of formal plans to execute these activities requires us to estimate costs related to post-employment benefits, severance and other employee related benefits, premise rationalization, technology lease cancellation penalties and other exit costs. We make these estimates based on the terms of any contracts involved, the number of employees, their pension eligibility and other related factors. Restructuring is a complex process that can take several months or longer to complete, requiring a periodic reassessment of original estimates. In addition, we constantly evaluate

whether the estimates of the remaining liabilities under our restructuring program are appropriate. As a result, we may have to change previously reported estimates when the payments are made or activities completed. There may also be additional charges for new restructuring initiatives.

During 2006, we incurred \$13.2 million in restructuring and other charges. During 2006 and 2005, we did not revise our estimates of the remaining liabilities under the restructuring program of 2004.

Legal and regulatory contingencies

We may become involved in various litigation and regulatory proceedings in the normal course of our business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss. We accrue potential losses if we believe the loss is probable and can be reasonably estimated. Estimates of loss are based on consultation with legal counsel and involve analyzing potential outcomes and assuming various litigation and settlement strategies. Note 23 to our consolidated financial statements for the year ended December 31, 2006, presents a discussion of significant contingencies outstanding at that date. None of our operating segments had any significant provisions relating to pending litigation or regulatory initiatives and proceedings at December 31, 2006.

None of our reportable segments recorded or changed any significant provisions relating to pending litigation or regulatory initiatives and proceedings in 2006 or 2005.

ASSUMPTIONS MADE IN THE PREPARATION OF FORWARD-LOOKING STATEMENTS AND RISKS THAT COULD AFFECT OUR BUSINESS AND RESULTS

Assumptions made in the preparation of forward-looking statements

Forward-looking statements for 2007 made in this MD&A are based on a number of assumptions that we believed were reasonable on the day we made the forward-looking statements. This section outlines assumptions that we made in addition to those set out in other sections of this MD&A. If our assumptions turn out to be inaccurate, our actual results could be materially different from what we expect.

Economic assumptions

Our 2007 guidance and forward-looking statements are based on various assumptions concerning the Canadian economy, and specifically the economies of the regions in Canada where we operate, namely Ontario, Quebec, and the Atlantic provinces. We assume that Canadian gross domestic product (GDP) growth in 2007 will be essentially in line with GDP growth in 2006, consistent with estimates by the Conference Board of Canada. We also assume that the general level of interest rates and the inflation rate will remain stable around current levels. For this purpose, current levels are indicated by the approximate 4 per cent interest rate on Government of Canada 5 year bonds and the approximate 1 to 2 per cent growth rate of the Consumer Price Index.

Market assumptions

Our 2007 guidance also reflects various assumptions about the markets in which we operate. First, we have assumed growth in overall Canadian telecommunications revenues will be in line with general GDP growth. Second, we have assumed that our market share of the consumer voice telecommunications market will continue to decrease in 2007 due to the expansion of existing competitors; the entrance of new competitors, particularly cable companies, and the continuation of broad industry trends, such as wireless and VoIP substitution. Finally, we have assumed that the 2007 revenue growth rates of the Canadian IT industry will be in line with 2006 and that the 2007 revenue growth rate of the Canadian Internet market will be slightly lower than 2006.

Financial and operational assumptions

The financial and operational assumptions we made apply across all of our operating segments on a consolidated basis.

Revenue growth estimates for 2007 are based upon an assumption of increasing ARPC across various lines of service. We have also assumed that the percentage of residential households in our territory that will have access to a competing cable telephony offering will increase from approximately 33 per cent at the end of 2006 to 45 to 55 per cent by the end of 2007 or into 2008, and eventually beyond 2008 reaching a level of 55 to 60 per cent.

We anticipate being able to offset local revenue declines, and continued long-distance revenue declines, with growth from Internet, IT, IPTV and other revenues, although these each have lower contribution to EBITDA margins than voice telecommunications revenues. Therefore, during 2007, we anticipate being able to generate operating cost savings through productivity measures and synergies of \$70 to \$80 million to offset the negative margin impact and other expense pressures from normal inflationary growth.

The major transactions announced in February 2007, namely the offer to acquire 100 per cent of the outstanding units of Amtelecom, the sale of ADS, and the commencement of an NCIB, are expected to occur within 90 days of the announcements.

Pension deficit funding for our DB pension plans for 2007 will be in the range of \$40 to \$50 million, which will be funded out of cash reserves or borrowing. The funding of current service costs for our DB plans and our DC plans and the funding of OPEBs are a component of distributable cash and are estimated to be higher in 2007 compared to 2006, primarily reflective of a maturing DB and OPEB beneficiary group and general salary increases. The expectations we have stated here are based on our anticipation of the outcome of December 31, 2006, actuarial reviews, which are expected to be complete by mid-2007.

Interest expense for 2007 reflects our anticipation of being able to refinance our existing bank term facilities and short-term financing through issuing longer-term fixed rate debt in the Canadian public market at spreads over current Government of Canada interest rates that are indicative of the current spreads on our outstanding 5 and 10-year bonds, adjusted for issue term.

The normalized level of cash capital taxes, estimated at \$7 million for 2007, reflects a stable capital base and the future enactment of all previously announced provincial capital tax rate reductions or eliminations by the provinces of Ontario, Quebec, New Brunswick and Nova Scotia.

Our capital expenditures will be made as required to support our existing infrastructure and to advance our strategic initiatives. We anticipate that a normal level of capital intensity for 2007 will be in the range of 15.0 to 15.5 per cent of operating revenues. In addition, we ended 2006 with cash balances of approximately \$139 million and will use approximately \$35 to \$45 million of those funds to accelerate our investment in advancing FTTN further into our network, which will improve Internet speeds and enable the expected expansion of our IPTV footprint.

RISK AND RISK MANAGEMENT

General

Risk management is fundamental to the long term success of any organization. For us, risk is defined as the level of exposure to uncertainties that the enterprise must understand and effectively manage as we execute our strategies to achieve our business objectives and create value for our stakeholders. We employ an integrated, enterprise-wide framework to identify, assess and manage the risks across the organization.

We are confident about our long-term prospects, but we recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. The risks noted may not be exhaustive as there may be other risks that we are currently unaware of or that we presently consider insignificant to our consolidated operations.

Ability to achieve strategies and plans

Our initiatives for 2007, as discussed in the “Focus and strategy for 2007” section, will have a wide-reaching impact, transforming our customer interactions, our internal processes, our network and our people. If we are unable to attain these initiatives on a timely basis or achieve the desired effect, we may be unable to meet our business objectives. As a result, our financial performance, including our growth prospects, could be negatively affected.

Our plans are also to bring the existing businesses of Bell Nordiq and Amtelecom into our structure and to realize operating synergies through elimination of certain public reporting issuer costs and combination of common activities as appropriate to our overall business strategy. The combination of existing businesses is a complex task, and there is a risk that the synergies anticipated will not be realized or, if realized, may be delayed compared to our expectations. As a result, our financial performance could be negatively affected.

Further, our plans to sell ADS and utilize the proceeds to purchase units of the Fund through the facilities of the TSX are subject to a number of risks and uncertainties that include, but are not limited to: finalization of definitive agreements with Yellow Pages Group; satisfaction of all conditions precedent to closing under those agreements; utilization of existing tax deductions to shelter any taxable capital gains on the sale; and the timing of purchases of units under the NCIB through the facilities of the TSX and the price of those purchases.

Achieving synergy and productivity targets

Our strategies and priorities require us to continue to transform our cost structure. Accordingly, we are continuing to implement several productivity improvements and initiatives to reduce costs while containing our capital expenditures. Our objectives for cost reduction/productivity improvements and synergies from the creation of Bell Aliant are aggressive and there is no assurance that these initiatives will be successful in reducing costs. Each year between 2002 and 2005, Bell Aliant and its predecessor companies had to reduce the price of certain services that are subject to regulatory price caps and may be required to do so again in the future. We have also reduced our prices for some services that are not regulated in order to remain competitive, and may have to continue doing so in the future. Many productivity improvements and cost reduction initiatives require capital expenditures to implement systems that automate or enhance our operations. There is no assurance that these investments will be effective in delivering the planned productivity improvements and cost reductions. Improved customer service is critical to increasing customer retention and ARPC. It may, however, be difficult to improve customer service while significantly reducing costs.

We strive to mitigate this risk with the development of a comprehensive productivity program that builds on past productivity successes and is lead by our senior leadership team, however, if we are unable to achieve these objectives, it could have a material and negative effect on our results of operations.

Pace of FTTN rollout

There is a risk that, should the pace of our FTTN rollout be slower than currently contemplated in our business plan, our broadband Internet churn rate could increase beyond our current expectations, thereby adversely affecting our expected number of Internet subscribers and revenues in 2007. The pace of FTTN rollout may be affected by such general risks as weather, supply chain availability and labour relations. It may also be affected by other demands for and the availability of capital.

To mitigate this risk, we have put in place a cross functional program to effectively manage the pace of our rollout. In addition, we continue to differentiate ourselves from our competitors by offering unique value-added products and services to our Internet customers.

General economic conditions

There are trends and factors beyond our control that affect our operations and business. Such trends and factors include adverse changes in the conditions in the specific markets for our products and services, the conditions in the broader market for telecommunications services and the conditions in the domestic or global economy generally.

Our performance, and the degree to which our expectations regarding future events are realized, is affected by the general condition of the economy, with demand for services and the amount of use tending to decline when economic growth and retail activity decline. Any slowdown in global economic activity could make the overall economic environment more uncertain and could have an important impact on the performance of the Canadian economy, and the realization of our expectations. It is not possible to accurately predict economic fluctuations and the impact of such fluctuations on our performance.

We constantly monitor economic developments in the markets where we operate. We use this information in our continuous strategic and operational reviews to adjust our initiatives as economic conditions dictate.

Increasing competition

In a series of decisions beginning in the late 1970s and ending in 1998, the CRTC opened up competition in all product and service segments in which we operate. The CRTC has also imposed a number of competitor safeguards and marketing restrictions on the operations of our Bell Aliant and Bell Nordinq Group segments. We therefore face competition for most of the services we provide, with Atlantic Canada having among the most competitive telecommunications markets in North America for local residential service.

In addition to the competition that has existed in parts of Atlantic Canada for several years, recently other competitors have announced their ability or intention to offer local telephony services in other parts of the territories we serve.

Our strategy includes enhancing services and packages to create compelling value, innovating with customers to provide complete integrated ICT solutions, improving our cost structure to enable greater price competitiveness, and expanding our IP network and capabilities to provide broader access and

innovative solutions. Competition, and particularly changes in the competitive landscape, can place these strategies at risk. Increased competition and the introduction of new services by competitors may have an impact on our expected growth or on the pricing of our current services that cannot be predicted.

The competitive footprint served by cable TV competitors may evolve more quickly, and eventually to a larger proportion of our existing territory than we currently expect. If this occurs, our market share and revenues will be negatively affected.

We actively monitor and analyse developments in the markets where we operate to determine our competitiveness within these markets. We believe we have core strengths and initiatives that provide differentiation in the marketplace and enhance our competitive position, reducing our overall competitive risk. The unique strengths and strategies of our business are described in more detail in the “Focus and strategy for 2007” section.

Local and long distance

In 2006, new competitors began offering local telephone service in a large portion of our marketplace. These competitors have the ability to offer service bundles, consisting of telephony, Internet, wireless and TV. Cable competitors are free from telecom regulation and are able to offer local service in unregulated bundles priced to gain market share. We are vigilant and passionate about our customers and continue to pursue their business by offering value, simplicity and competitive pricing. However, there is no assurance that this will mitigate churn and market share erosion resulting from new competitive entrants to our marketplace.

In addition to cable competitors in our local service market, a threat to our customer base continues to be the slow and gradual replacement of local landline service with wireless-only service by certain customers. This puts pressure on revenues for local service and also leads to declining revenues for services and features that are carried on the local network, including Internet and long distance. Also, the upcoming possibility to port telephone numbers between wireless carriers in Canada and between wireline and wireless services may further affect our local and long distance revenues.

The value of long distance as a stand-alone service has diminished but it is an integral component in the customer solution. In the telecommunications industry, long distance is increasingly offered within flat-rate calling plans while alternatives like VoIP, instant messaging and peer-to-peer applications replace traditional calling, contributing to continued price and minute erosion. Competition continues with dial-around and prepaid card providers, traditional primary interexchange carrier competitors and resellers, and most recently, VoIP providers. VoIP will continue to erode traditional long distance as the technology improves and managed VoIP services are launched, making the technology transparent and more attractive to the consumer. We continue to conduct VoIP technical trials and results will be integrated into our voice evolution strategy.

Internet

Internet penetration continues to grow in our market. As IP becomes standard, we are experiencing an increasingly diverse and global group of competitors ranging from cable providers with excess network capacity to IT companies, equipment providers and system integrators that increasingly bundle telephony components and professional services into solutions at commodity prices. We are challenged by these competitors as they assert pressure on our pricing, revenues and market share. We will continue to build our ICT expertise and to serve our customers holistically, helping them evolve their networks and providing them with world-class industry-specific solutions.

Changing regulations

Recent significant regulatory developments that affected our business up to and including March 1, 2007, are:

- On February 16, 2006, the CRTC issued its decision regarding the disposition of funds in the deferral accounts.

The Commission directed each incumbent local exchange carrier (ILEC), including Aliant Telecom, to allocate a minimum of 5 per cent of the accumulated balance in its deferral account to improve access to telecommunications services for persons with disabilities. They directed that the remaining 95 per cent of the funds in the deferral account could be spent on providing broadband to unserved remote areas and subscriber rebates.

On May 15, 2006, Aliant Telecom filed with the Commission its updated deferral account balances and included a proposal to clear the accumulated balances in its deferral account. The filing indicated that Aliant Telecom's accumulated balance had decreased from the CRTC's earlier estimate of \$21.8 million to \$8.2 million, and the annual recurring deferral account obligation had decreased from \$2.2 million to \$(3.2) million. As Aliant Telecom proposed to clear the accumulated balance in its deferral account by partially offsetting the annual recurring shortfall, we did not include broadband investment as part of our September 1, 2006, proposal. Due to a subsequent CRTC decision on the Service Improvement Plan, our balance as of May 31, 2006, in Aliant Telecom's former operating territory stands at \$8.3 million, with a recurring obligation amount as of June 1, 2006, of \$(3.2) million. These amounts have not yet been approved by the CRTC. On February 15, 2007, the Commission directed ILECs to cease applying certain charges associated with configurations involving Competitor Digital Network (CDN) and provide refunds consistent with their Terms of Service. This decision will affect our deferral account balance, however, the impact is not yet known.

Bell Canada's proposal to spend the funds in its deferral account included investment initiatives to expand broadband services to communities within our operating territory in Ontario and Quebec. We will cooperate to determine how to effectively complete any such initiatives that may be approved by the Commission. We have agreed to contribute toward the associated costs of such initiatives if it is economically justified and appropriate to do so.

Télébec has limited accumulated funds in its deferral account and no annual recurring deferral account obligations. It is expected that Télébec's recurring shortfall will be \$3.3 million by July 31, 2007, and on July 5, 2006, Télébec filed an application with the Commission proposing ways to recover this shortfall. Similarly, on October 4, 2006, we filed a further application with the CRTC to recover the shortfall in the recurring obligation in our deferral account in Aliant Telecom's former operating territory.

Bell Canada, along with the Consumers Association of Canada and National Anti-Poverty Organization, filed leave to appeal applications with the Federal Court of Appeal with respect to the use of funds in the deferral account. On September 22, 2006, the Federal Court granted leave to both applications.

Due to the nature and number of uncertainties which remain surrounding the disposition of accumulated balances in the deferral accounts, we are unable to estimate the impact of the CRTC's decision on our financial results.

- On May 9, 2006, the CRTC began a proceeding to establish the price cap framework to replace the existing framework that ends May 31, 2007.

We filed, along with Bell Canada and Saskatchewan Telecommunications Holding Corporation, a joint proposal reflecting the dramatic changes in the industry. A public hearing was held in October 2006. The Commission intends to issue a decision on this proceeding by April 30, 2007.

There is a risk that the Commission may not accept the joint proposals and may continue with limitations on our marketing flexibility, impeding our ability to respond to market forces.

Télébec has not been made party to this ongoing proceeding. Coincident with the issuance of a decision following the proceeding, the Commission will request Télébec to file a submission indicating why the regime set out in the decision should not be applicable to Télébec.

- On March 22, 2006, the Telecommunications Policy Review Panel established by the federal government in April 2005 delivered its Telecom Policy Review report, calling for fundamental reform of the Canadian telecommunications regulatory framework. On June 13, 2006, the federal government tabled a proposed policy directive with Parliament indicating the government's intention to direct the Commission to rely on market forces to the maximum extent feasible and to regulate, where necessary, in a manner that interferes with market forces to the minimum extent necessary. On December 18, 2006, the federal government's new policy directive came into force, requiring the CRTC to take a more market-oriented approach to regulation of the telecommunications industry.
- On March 29, 2006, the Commission rendered its decision with regards to the review of the price-based regime for small incumbent telephone companies, such as NorthernTel. Essentially, the new regime, which will end in 2009, remains the same as before with a few modifications. Before NorthernTel's new regime, local competition was not permitted in its operating territory. Under the new regime, facilities-based local competition will be allowed on a case-by-case basis. On June 23, 2006, following a request by a competitor, NorthernTel filed with the Commission its Local Competition Implementation Plan requesting that competition be allowed as of July 1, 2007. On December 1, 2006, NorthernTel filed its Local Number Portability and Local Competition Cost Recovery proposal.
- On April 6, 2006, the CRTC ruled on Aliant Telecom's April 2004 application for forbearance of local residential services in 32 exchanges in Nova Scotia and Prince Edward Island, which, if approved, would have allowed for greater pricing flexibility and symmetrical regulation. The Commission denied this application and set out a framework to be used for all future local phone service forbearance applications.

We filed a leave to appeal application with the Federal Court of Appeal and on September 22, 2006, the Federal Court granted leave. We, together with Bell Canada and others have also filed a joint petition to the Governor in Council requesting a variation of the Commission's decision. On December 11, 2006, the Minister of Industry announced a proposal to review and vary the CRTC's April 6, 2006, ruling so as to revise the criteria for forbearance from regulation of retail telephone service prices. In light of the proposed Order-in-Council, which if passed in its current form would render the above noted appeals moot, petitioners have brought motions adjourning each of the court appeals pending the outcome of the Minister's proposal.

- On June 30, 2005, the Commission determined that the VoIP services of ILECs would be regulated in the same way as traditional telephone services, subjecting ILECs to certain restrictions on marketing, promotion and bundling.
- On May 4, 2006, the Governor in Council referred the VoIP decision back to the Commission for reconsideration.

On September 1, 2006, the Commission re-affirmed VoIP as a telephone service, again declining to forbear from price regulation.

On November 15, 2006, the Minister of Industry announced that the government had varied the Commission's decision with regard to VoIP so as to remove price regulation of "retail local access independent" VoIP services.

- On May 16, 2006, the Commission ruled that only 50 per cent of the impact of the 2004 Aliant Telecom work stoppage could be excluded from the Quality of Service Rate Adjustment Plan. Rebates totalling \$3.6 million have been issued to customers.

On July 8, 2006, the Federally Regulated Employers – Transportation and Communications (FETCO) filed a petition to cabinet arguing the Commission intruded into the stable environment currently in place in Canada's labour market and requested the Governor-in-Council reconsider the decision.

On August 4, 2006, we filed an application with the Commission asking it to review and vary its decision on the basis that 50 per cent was an arbitrary level, that the decision found fault by Aliant Telecom where no evidence supported fault, and that the Commission has no mandate to determine labour relations matters.

- On November 9, 2006, the Commission initiated a proceeding to consider redefining "essential services" and to review the classifications and pricing principles for essential and non-essential services provided by incumbent and competitive local exchange carriers and cable companies to other competitors at regulated rates. We are developing a joint proposal with Bell Canada and Télébec, which will be consistent with the Telecom Policy Review and government's direction for the Commission to rely on market forces.
- On January 25, 2007, the CRTC issued orders directing Bell Aliant in Atlantic Canada to substantially modify its tariffs for wholesale Ethernet and ADSL access and transport services. On February 16, 2007, Bell Aliant and Bell Canada jointly filed a "review and vary application" with the Commission requesting a withdrawal of the Orders and a stay of implementation pending the ultimate disposition. We are arguing that the Commission made a series of errors in law, jurisdiction and policy, and that an immediate stay should be granted to prevent irreparable harm to the companies, and that it is appropriate to rescind the orders in light of proceedings initiated by the CRTC to review the regulatory framework for wholesale services and definition of essential services.

Many recent CRTC orders and proposed changes should eventually serve to lessen the regulatory burden and are expected to improve our promotional flexibility and ability to compete effectively. However, the pace of this change or whether it will have any positive financial effect on our business is uncertain.

Reliance on systems

We are reliant on systems as they enable the provision of services to customers, and the management of customer relationships, billings and inventory. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and related data. Operations depend on how well these components are protected against damage from fire, natural disaster, power loss, hacking, computer viruses, disabling devices, deliberate acts of vandalism, acts of war or terrorism, and other events. Any of these events could cause operations to be shut down indefinitely. Our operations also depend on timely replacement and maintenance of our networks and equipment. Our systems are also connected with the systems of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the events mentioned, as well as labour disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could be detrimental to both customer relationships and operating results.

To mitigate the impact of this risk, we have developed disaster recovery plans, including redundancies that have been built into the network to reduce network downtime arising from natural and other disasters.

In addition, many aspects of our business depend to a large extent on various IT systems and software, which must be improved and upgraded regularly and replaced from time to time. Implementing system and software upgrades and conversions is a very complex process, which may have several adverse consequences including billing errors and delays in customer service. Should adverse consequences occur, these events could significantly damage our customer relationships and business and have a material and negative effect on our results of operations.

We are very adept at IT services and products in relation to the telecommunications industry as we provide these services to our customers as well. We have highly trained employees who regularly monitor and upgrade our IT systems and software.

Changing technology

The telecommunications industry is impacted by rapidly evolving technology and the related changes in customer demands, products and service capabilities, and prices. Technological developments are also shortening product life cycles and facilitating convergence of different segments of the increasingly global information industry. Specifically, VOIP, substitution of wireline services with wireless, and other evolving technologies will increase the competition we face and could negatively affect future revenues. Our future success will be impacted by our ability to anticipate, invest in, and implement new technologies with the service level and prices that customers demand. Technological advances may also affect our cash flow by shortening the useful life of some of our assets. There can be no assurance that our existing technologies will satisfy future customer needs, that our existing technologies will not become obsolete in light of future technological developments, or that we will not have to make additional capital expenditures to upgrade or replace our technology. In addition, technological advances may well emerge that could reduce the costs of plant and equipment, thereby facilitating entry by potential competitors.

We want to provide our customers with leading edge technology, so we monitor technological advancements and consumer purchasing trends. We use this information in our continuous strategic and operational reviews to adjust our initiatives as required. In doing so, we also periodically assess the useful lives of our capital investments in light of our expectations of technological advances and make changes as required.

Expenditures, capital and demand for services

As we update our networks, products and services to remain competitive, we may be exposed to incremental financial risks associated with newer technologies that are subject to accelerated obsolescence. To the extent that we fail to make the expenditures on new and existing capital programs, we may cease to be competitive. However, if such capital expenditures are made, we may risk incurring substantial expenditures to acquire assets with little commercial or economic value.

An increasingly important driver for network and infrastructure investments is the growth of Internet traffic. This traffic is driven by residential and business Internet usage and has overtaken the volume of voice telephony traffic on many routes. It is uncertain to what extent this traffic will continue to exhibit high growth rates as high-speed Internet services are deployed and bandwidth intensive applications, such as video, are increasingly downloaded by users.

We constantly evaluate the cost benefit of our network and infrastructure investments to ensure they remain reliable for our customers and meet their increasing technical needs. Our competitive strategy for 2007 includes an acceleration of our investment in advancing FTTN further into our network, which will improve Internet speeds and enable the expected expansion of our IPTV footprint.

Relationship with Bell Canada; allocation of business opportunities

Bell Canada and certain of its affiliates and associates have substantial global operations and greater financial, technical and operational resources than us. As described in the "Related party transactions" section, we have entered into a series of long-term commercial agreements with Bell Canada. In the event that the commercial relationship management agreement was to be terminated, we, Bell Canada, and respective affiliates, associates or operating companies could thereafter compete with each other.

In addition, we have access to technical, operational and human resources from Bell Canada and its affiliates under formal arrangements. Access to these resources is not exclusive and there is no guarantee that current arrangements will continue to be available indefinitely in their present form, or that the conditions under which they have been secured will not change.

We have a mutually beneficial relationship with Bell Canada and are operating under the commercial relationship management and other agreements according to the agreed upon terms.

Pension plan funding

We maintain DB pension plans that have solvency funding deficiencies. The plans are exposed to general future valuation risk and required funding levels for 2007 and beyond may change as required actuarial valuations are completed. If the return on plan assets, interest on the obligation, or actual experience of the plans are better or worse than anticipated, valuations can result in either lower or higher minimum required contributions.

Pension funding relief measures introduced in the May 2006 Federal Budget increased the funding period of solvency deficits from 5 years to 10 years under certain conditions. We estimate that adopting the new pension regulations, which were enacted in November 2006, will reduce our required contributions in 2007 by approximately \$20 million.

Higher cash contributions are gradually leading toward an improved funding position for our DB pension plans. As this occurs, management is shifting the asset mix and strategies in the pension plan funds to mitigate the impact that future interest rate changes and investment returns will have on the plans' funded positions. As well, most of our DB pension plans are closed to new entrants, placing a cap on the future growth of these obligations.

Liquidity risk

If actual results differ from our expectations or if the assumptions in our business plan change, we may have to raise more funds than expected by issuing debt, raising equity capital, or selling or otherwise disposing of assets. An increased level of debt financing could lower our credit ratings, increase our borrowing costs and give us less flexibility to take advantage of business opportunities.

Our ability to raise financing depends on our ability to access the capital markets and the commercial loan market. The cost of funding depends largely on market conditions, and the outlook for our business and credit ratings at the time capital is raised. If our credit ratings are downgraded, our cost of funding could significantly increase. In addition, participants in the capital and commercial loan markets have internal policies limiting their ability to invest in, or extend credit to, any single borrower or group of borrowers or to a particular industry.

If we cannot raise the capital we need, we may have to limit our ongoing capital expenditures, limit our investment in new businesses, or sell or otherwise dispose of assets. Any of these possibilities could have a material and negative effect on our cash flow from operations and growth prospects.

Strategies in place for our capital requirements are also discussed in the “Financial and capital management” section.

Leverage and restrictive covenants

We have debt service obligations in connection with the trust indentures for the issuance of debt for Bell Aliant LP, Télébec and NorthernTel and in their respective lines of credit. The degree to which we are leveraged could have important consequences including:

- Our ability to make distributions may be limited if we are unable to meet the financial tests provided in these indentures and lines of credit;
- Our ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future is limited by the restrictive covenants of these indentures and lines of credit;
- A substantial portion of our cash flow from operations may be dedicated to the payment of the principal and interest on indebtedness, thereby reducing funds available for future operations;
- Certain of our borrowings are at variable rates of interest, which exposes us to the risk of increased interest rates; and
- We may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures.

These trust indentures and lines of credit also contain restrictive covenants that limit management’s discretion with respect to certain business matters. Although we are currently in compliance with our restrictive covenants, failure to comply with the obligations in the trust indentures and lines of credit could result in a default that may require Bell Aliant LP, Télébec or NorthernTel, respectively, to repay its debt in full.

BCE governance rights

In connection with the Arrangement, we entered into a security holders’ agreement with, among others, Bell Aliant LP, the Fund, BCE, and Bell Canada. Pursuant to the terms of the security holders’ agreement, for so long as BCE, directly or indirectly, holds not less than 20 per cent of the units of the Fund on a fully diluted basis, the Fund and its operating entities must obtain BCE’s consent prior to entering into various transactions such as, among other things, certain mergers, joint ventures, asset sales and other material transactions. In addition, BCE and its affiliates have certain rights with respect to the nomination

of trustees of the Fund and the appointment of the directors of the Fund's material operating subsidiaries. BCE and its affiliates are entitled to appoint up to a majority of the directors of the Fund's material operating subsidiaries and nominate a majority of the trustees of the Fund for as long as BCE, directly or indirectly, holds not less than 30 per cent of the units of the Fund on a fully diluted basis and our significant commercial agreements are in place. If such commercial agreements are terminated by any of the parties thereto in accordance with their terms or if BCE and its affiliates, directly or indirectly, hold less than 30 per cent of the units of the Fund on a fully diluted basis, then BCE will be entitled to appoint its proportionate share of the directors of the Fund's material operating subsidiaries and the trustees of the Fund based on its fully diluted direct and indirect ownership of units of the Fund. In any event, BCE will be entitled to nominate two directors to the board of Bell Aliant Regional Communications Holdings Inc., Bell Aliant Holdings LP's general partner, for as long as such commercial agreements are in place, irrespective of its ownership interest in the Fund (on a fully diluted basis) or its subsidiaries. BCE has complete discretion with respect to the exercise of these rights. As a result of this, the Fund and its operating entities may be restricted from entering into or carrying out transactions or activities that they may otherwise wish to do.

Reliance on key personnel and labour relations

Skilled and experienced telecommunications personnel are in high demand as a result of the strong growth and competitiveness of the telecommunications market. We may find it increasingly difficult to attract and to retain the necessary resources to meet our needs. It is possible additional incentives may be required and certain business initiatives may be at risk if skill shortages occur.

Approximately 49 per cent of our employees are represented by unions and are covered by collective agreements. Renegotiating collective agreements could result in higher labour costs and work disruptions, including work stoppages or work slowdowns. There can be no assurance that if a strike or other work disruption occurs, it would not adversely affect service to our customers. In addition, work disruptions at our service providers, including work slowdowns and work stoppages due to strikes, could significantly hurt our business, including our customer relationships and results of operations.

On July 6, 2006, Télébec announced that it had reached an agreement in principle with the Teamsters Quebec 1999, the union representing 181 Télébec technicians. The members of Teamsters Quebec 1999 ratified this agreement on October 5, 2006.

A number of our collective agreements have expired or will expire in 2007:

- Collective agreement with the CEP representing 136 employees in Ontario expired on February 28, 2007;
- Collective agreement with Teamsters representing 27 employees in Quebec expires on March 17, 2007;
- Collective agreement with the CTEA/ACET representing 235 employees in Quebec expires on November 1, 2007;
- Collective agreement with the CEP representing 664 employees in Ontario and Quebec expires on November 30, 2007; and
- Collective agreement with the CEP representing 3,543 employees in the four Atlantic provinces expires on December 31, 2007.

Legal contingencies and changes in laws

We review all legal proceedings and make an assessment of the likelihood of a negative outcome and the estimated impact. Losses are accrued for when a potential loss is deemed probable and its impact can be reasonably estimated. However, pending or future litigation could still have a material and negative effect on results of operations, cash flows and financial position in the period in which the judgment or settlement occurs. Significant legal contingencies are described in note 23 to our consolidated financial statements for the year ended December 31, 2006.

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, could materially or negatively affect our results of operations, cash flows and financial position.

Tax related risks

Allocation of partnership income

The general partners of Bell Aliant Holdings LP, Bell Aliant LP, NorthernTel and Télébec allocate the respective incomes of such partnerships among their respective partners in accordance with the terms of the related partnership agreements. The Income Tax Act (Canada) contains provisions which permit a reallocation of partnership income or loss among members of a partnership where the agreed-upon allocation is not reasonable in the circumstances. Although such allocations are believed to be reasonable in the circumstances, there can be no assurance that taxation authorities will not seek to challenge such allocation. If such challenge were to succeed, the amount of cash available to the Fund for distribution to Fund unitholders could be affected adversely.

Interest expense deduction

Income fund structures generally involve significant amounts of inter-company or similar debt, generating substantial interest expense, which serves to reduce earnings and therefore income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed against Bell Nordinq Group Inc. or Bell Aliant Regional Communications Inc., it would materially adversely affect the amount of cash available to the Fund for distribution to Fund unitholders. We believe that the interest expense inherent in our organizational structure is supportable and reasonable in light of the terms of the related indebtedness.

CEO AND CFO CERTIFICATION

Under the supervision and participation of our management, including the chief executive officer (CEO) and the chief financial officer (CFO) of our General Partner, Bell Aliant Regional Communications Holdings Inc., we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as of December 31, 2006. Based on the evaluation, the CEO and the CFO concluded that our disclosure controls and procedures are effective in making known to them material information relating to us and our consolidated subsidiaries required to be disclosed in our reports filed or submitted under the Multilateral Instrument.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the three months ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

NON-GAAP FINANCIAL MEASURES

Where indicated throughout this MD&A, operating revenue, operating income and EBITDA have been restated to include pro forma historical results as though Bell Aliant Holdings LP had been in existence since January 1, 2005. We believe that presenting these non-GAAP measures will allow for more meaningful year over year comparisons and analysis.

The terms pro forma operating revenues, operating income, pro forma operating income, EBITDA, pro forma EBITDA, and distributable cash do not have any standardized meanings prescribed by Canadian GAAP. They are therefore unlikely to be comparable to similar measures presented by other companies. Pro forma operating revenues, operating income, pro forma operating income, EBITDA, pro forma EBITDA, and distributable cash are presented on a consistent basis from period to period.

Pro forma operating revenues, operating income and pro forma operating income

Operating income represents operating revenues less expenses. We use operating income, among other measures, to assess the operating performance of our ongoing business. Operating income should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP financial measures.

Pro forma operating revenues and pro forma operating income represent operating revenues and operating income adjusted to reflect the pro forma historical results of the operations related to the net assets bought and sold under the Arrangement had it occurred on January 1, 2005. Therefore, pro forma operating revenues and pro forma operating income represent operating revenues or operating income of the predecessor company, Aliant, excluding operating revenues or operating income related to Aliant's wireless operation and DownEast Ltd. and including operating revenues or operating income related to Bell Canada's regional wireline operation, Télébec and NorthernTel.

The following table reconciles operating revenues to pro forma operating revenues, operating revenues and expenses to operating income and operating income to pro forma operating income on a consolidated basis.

	Three Months		Twelve Months	
	2006 ⁽¹⁾	2005	2006	2005
<i>For the period ended December 31</i>				
<i>(millions of dollars)</i>				
Operating revenues	852.2	530.1	2,741.3	2,081.0
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	—	(92.7)	(194.3)	(347.3)
Bell Canada Regional Wireline Operation	—	305.7	623.4	1,220.9
Bell Nordiq Group Inc.	—	94.3	189.3	359.3
Intercompany eliminations	—	(1.6)	(3.5)	(6.5)
Pro forma operating revenues	852.2	835.8	3,356.2	3,307.4
Operating revenues	852.2	530.1	2,741.3	2,081.0
Expenses	657.2	425.4	2,157.3	1,689.0
Operating income	195.0	104.7	584.0	392.0
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	—	(44.6)	(94.7)	(167.3)
Bell Canada Regional Wireline Operation	—	104.5	215.3	416.6
Bell Nordiq Group Inc.	—	30.8	61.2	119.2
Pro forma operating income	195.0	195.4	765.8	760.5

(1) The three months ended December 31, 2006, represent actual results, not pro forma.

We use pro forma operating revenues and pro forma operating income, among other measures, to assess the operating performance of Bell Aliant Holdings LP had it been in existence since January 1, 2005, which allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use pro forma operating revenues and pro forma operating income to measure our ability to grow, or as a common valuation measurement in the telecommunications industry.

Pro forma operating revenues and pro forma operating income should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP financial measures.

EBITDA and pro forma EBITDA

We define EBITDA as operating revenues less operating expenses, which means it represents operating income before depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. Pro forma EBITDA represents EBITDA adjusted to reflect the pro forma historical results of the operations related to the net assets bought and sold under the Arrangement had it occurred on January 1, 2005. Therefore, pro forma EBITDA represents EBITDA of the predecessor company, Aliant, excluding EBITDA related to Aliant's wireless operation and DownEast Ltd. and including EBITDA related to Bell Canada's regional wireline operation, Télébec and NorthernTel.

The following table is a reconciliation of operating income to EBITDA and EBITDA to pro forma EBITDA on a consolidated basis.

For the period ended December 31 (millions of dollars)	Three Months		Twelve Months	
	2006 ⁽¹⁾	2005	2006	2005
Operating income	195.0	104.7	584.0	392.0
Add:				
Net benefit plans cost	27.0	23.8	101.1	95.5
Depreciation and amortization	151.9	95.3	483.9	390.8
Restructuring and other charges	0.2	—	13.2	—
EBITDA	374.1	223.8	1,182.2	878.3
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	—	(54.0)	(120.5)	(214.5)
Bell Canada Regional Wireline Operation	—	159.6	327.1	633.7
Bell Nordiq Group Inc.	—	45.9	92.6	177.5
Pro forma EBITDA	374.1	375.3	1,481.4	1,475.0

(1) The three months ended December 31, 2006, represent actual results, not pro forma.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of depreciation and amortization expense, net benefit plans cost, and restructuring and other charges. We exclude depreciation and amortization expense and net benefit plans cost because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors, such as the historical cost of capital investments and the fund performance of a company's pension plans. We exclude these items because they affect the comparability of our financial results and could potentially distort the analysis of trends in business performance. Excluding restructuring and other charges does not imply they are necessarily non-recurring.

We use pro forma EBITDA, among other measures, to assess the operating performance of Bell Aliant Holdings LP had it been in existence since January 1, 2005. EBITDA and pro forma EBITDA allow us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use these measures to assess our ability to service debt, make capital distributions to unitholders and to meet other payment obligations, or as a common valuation measurement in the telecommunications industry.

EBITDA and pro forma EBITDA should not be confused with operating revenues or expenses, which are the most comparable Canadian GAAP financial measures.

Distributable cash

Distributable cash is the cash generated from operating activities that is available to distribute to our unitholders. We calculate it using EBITDA or pro forma EBITDA and add or deduct any cash items not included in EBITDA but are required for operating purposes in the current period, including the following items:

- (i) Cash funding requirement for current service pension costs for defined benefit pension plans and other employee benefit plans to the extent not already deducted in determining EBITDA;
- (ii) Interest expense;
- (iii) Capital expenditures;
- (iv) Other cash income or expenses that may be incurred to the extent not included in EBITDA;
- (v) An adjustment to cash capital taxes to reflect a normalized level that will be achieved once announced provincial tax rate reductions come into effect in future years;
- (vi) Expenses incurred by the Fund as these are not included in the EBITDA of Bell Aliant Holdings LP;
- (vii) Adjustments for certain one-time or other normalizing expense items;
- (viii) The portion of our consolidated distributable cash that is generated for the benefit of the non-controlling interest in our controlled subsidiaries; and
- (ix) The portion of distributable cash that was generated by discontinued operations.

Prior to July 7, 2006, the majority of the adjustments represent pro forma results. Subsequent to July 7, 2006, all of the adjustments to determine distributable cash can be found in our consolidated financial statements or records with the exception of the normalization for cash capital taxes. This adjustment is a calculation where some management judgement is exercised in estimating the level of capital taxes that we will pay when future tax rate changes come into effect.

In order to discuss and analyze distributable cash in reference to prior periods, we have produced the following calculations from pro forma EBITDA:

For the period ended December 31 (millions of dollars)	Three Months			Twelve Months		
	2006 ⁽¹⁾	2005	% change	2006	2005	% change
Reconciled to EBITDA or pro forma EBITDA						
EBITDA or Pro forma EBITDA	374.1	375.3	(0.3)	1,481.4	1,475.0	0.4
Cash funding of current service cost for net benefit plans ⁽²⁾	(17.0)	(14.3)	18.9	(63.9)	(57.2)	11.7
Pro forma adjustments not reflected in EBITDA prior to July 7, 2006	—	1.4	n.m.	2.8	5.6	(50.0)
Cash capital taxes included in EBITDA ⁽³⁾	5.2	0.3	n.m.	10.5	1.2	n.m.
One-time items ⁽⁴⁾	—	4.0	n.m.	—	11.0	n.m.
Fund expenses	(1.0)	—	n.m.	(1.0)	—	n.m.
Non-controlling interest ⁽⁵⁾	(16.8)	(17.3)	(2.9)	(65.3)	(66.3)	(1.5)
Other income (expenses)	0.1	(0.4)	n.m.	(1.8)	(1.8)	—
Interest expense ⁽⁶⁾	(32.3)	(38.2)	(15.4)	(138.5)	(148.3)	(6.6)
Normalized cash capital taxes ⁽³⁾	(1.7)	(1.8)	(5.6)	(6.8)	(7.0)	(2.9)
Capital expenditures ⁽⁷⁾	(126.5)	(120.2)	5.2	(496.9)	(502.9)	(1.2)
Distributable cash of discontinued operations	(0.1)	0.2	n.m.	(0.4)	1.4	n.m.
Distributable cash	184.0	189.0	(2.6)	720.1	710.7	1.3

n.m. - not meaningful

(1) The three months ended December 31, 2006, represent actual results, not pro forma.

(2) The cash funding requirement related to current service costs for net benefit plans for the period. The portion of cash funding required for net benefit plans cost that exceeds current service cost will be funded through cash reserves or borrowing. For 2005 only, the quarterly amounts represent annual pro forma funding divided by four.

(3) Capital taxes actually paid that are in excess of normalized levels will be funded through cash reserves or borrowing.

(4) One-time costs impacting Bell Canada's regional wireline operation in 2005 related to a labour disruption were added back to normalize EBITDA.

(5) The proportionate share of the EBITDA of Bell Nordiq Group Inc. and AMP (prior to August 31, 2006), that is attributable to the non-controlling interest in these businesses.

(6) For the third and fourth quarters of 2006, represents the actual interest expense incurred, net of that portion attributable to the minority holders of Bell Nordiq Group Inc. and AMP (prior to August 31, 2006). For periods prior to the third quarter of 2006, represents management's estimate of interest expense, assuming total drawn debt of \$2.6 billion for Bell Aliant LP at an estimated interest rate of 5.5 per cent had it been in operations since January 1, 2005. Interest expense also includes Bell Aliant Holdings LP's proportionate share of interest expense for Bell Nordiq Group Inc. and AMP.

(7) For the third and fourth quarters of 2006, represents capital expenditures excluding that portion attributable to the minority holders of Bell Nordiq Group Inc. and AMP (prior to August 31, 2006). For periods prior to the third quarter of 2006, represents management's estimate of capital expenditures for Bell Aliant Holdings LP, had it been in operation since January 1, 2005.

We also calculate distributable cash from a cash flow perspective using cash from operating activities and adding or deducting any items that affect cash flow including the following:

- (i) Operating items funded through cash reserves or borrowings, such as debt prepayment premiums, changes in operating assets and liabilities (working capital), pension deficit funding, restructuring and other charges, and cash capital taxes in excess of normalized levels;
- (ii) Current income tax provisions are added back as we have tax strategies in place to ensure that they are not payable in cash;
- (iii) Capital expenditures;
- (iv) The portion of distributable cash that is attributable to non-controlling interests (other than Bell Canada) of subsidiaries;
- (v) Expenses incurred by the Fund as these are not included in the EBITDA of Bell Aliant Holdings LP; and
- (vi) Other elements of operating cash flows that may or may not result in actual current or future cash flows. For example, \$2.0 million of non-cash other income is intended to be settled other than by collecting cash.

All of these adjustments to determine distributable cash can be found in our consolidated financial statements or records.

In the third quarter of 2006, we have also included pro forma adjustments to reflect the EBITDA, capital expenditures and interest expense to account for the period from July 1 to July 7, 2006.

For the period ended December 31, 2006

(millions of dollars)	Three months	Six months
Reconciled to cash from operating activities		
Cash from operating activities	277.5	395.3
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Debt prepayment premiums	—	147.8
Change in operating assets and liabilities (working capital)	14.2	44.5
Pension deficit funding	15.3	29.3
Restructuring and other charges	0.2	4.0
Cash capital taxes in excess of normalized levels	3.5	6.5
Current income tax expense	18.8	17.0
EBITDA adjustments for July 1 to 7, 2006	—	11.1
Capital expenditure and interest adjustments for July 1 to 7, 2006		(1.9)
Capital expenditures	(131.1)	(259.7)
Non-cash items in other income	(2.0)	(2.0)
Fund expenses	(1.0)	(1.0)
Non-controlling interest in distributable cash	(11.4)	(21.0)
Distributable cash	184.0	369.9

We use distributable cash, among other measures, to assess the financial performance of our ongoing business. It should not be seen as a measure of liquidity or as a substitute for comparable metrics prepared in accordance with Canadian GAAP. We believe that certain investors and analysts use distributable cash to measure our, as well as other open-ended trusts', ability to generate a sustainable return for unitholders.

Distributable cash should not be confused with cash from operating activities, which is the most comparable Canadian GAAP financial measure.

SUPPLEMENTARY FINANCIAL INFORMATION

The accompanying table shows selected consolidated financial data for the most recent eight quarters. This quarterly information has been prepared on the same basis as the consolidated financial statements.

For the eight quarters ended December 31, 2006	2005				2006			
(millions of dollars, except per unit / share amounts)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 ⁽¹⁾
Operating revenues	524.4	511.8	514.7	530.1	541.1	530.4	817.6	852.2
Pro forma operating revenues ⁽²⁾	827.4	819.1	825.1	835.8	835.3	828.8	839.9	852.2
EBITDA ⁽³⁾	210.0	220.4	224.1	223.8	219.5	224.2	364.4	374.1
Pro forma EBITDA ⁽³⁾	360.1	367.9	371.7	375.3	360.4	371.4	375.5	374.1
Operating income ⁽⁴⁾	86.7	97.4	103.2	104.7	96.2	99.8	193.0	195.0
Pro forma operating income ⁽⁴⁾	183.6	188.8	192.7	195.4	179.0	188.9	202.9	195.0
Net earnings (loss)	43.6	49.8	50.8	55.2	40.2	53.2	2,935.6	(127.0)
Basic and diluted earnings per unit / share	0.31	0.36	0.37	0.41	0.30	0.40	20.11	(0.83)
Distributable cash ⁽⁵⁾							185.9	184.0
Cash distributions declared							141.0	153.8
Preferred share dividends	2.4	2.4	2.4	2.4	2.4	2.4	—	—
Common share dividends declared	39.0	38.5	38.1	37.6	39.5	39.5	—	—

(1) The three months ended December 31, 2006, represent actual results, not pro forma.

(2) Pro forma operating revenues is a non-GAAP measure. Refer to the "Non-GAAP financial measures" section for more details.

(3) EBITDA (earnings before interest, taxes, depreciation and amortization) and pro forma EBITDA are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

(4) Operating income and pro forma operating income are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

(5) Distributable cash is a non-GAAP measure. Refer to the "Non-GAAP financial measures" section for more details. Distributable cash has been calculated on a pro forma basis, reflecting what operations would have generated if Bell Aliant Holdings LP was in existence since January 1, 2005.

Our 2005 results reflect the operations of Aliant and exhibit strong growth and a full recovery from the 2004 labour disruption.

Net earnings for the first quarter of 2006 was negatively affected by a \$13.1 million financial derivative loss related to the exercise of an interest rate swaption contract and the extinguishment of the associated unamortized premium, \$8.3 million after income taxes. The third quarter of 2006 represented the first reported results following completion of the Arrangement and earnings for the period reflect a \$1.95 billion gain on the sale of Aliant's wireless operation and shares of DownEast Ltd., as well as a \$1.0 billion dilution gain that resulted from the reorganization. The fourth quarter of 2006 represents the first full quarter of results following the Arrangement, however net earnings were negatively impacted by future tax expense of \$225.1 million related to the gain on the disposal of Aliant's wireless operation.

Consolidated annual financial information

For the years ended December 31

(millions of dollars, except per share amounts)

	2006	2005	2004
Operating revenues	2,741.3	2,081.0	2,033.5
Net earnings from continuing operations	2,902.7	198.5	130.7
Net earnings (loss) from discontinued operations	(0.7)	0.9	—
Net earnings	2,902.0	199.4	130.7
Basic and diluted earnings per common share			
Continuing operations	20.88	1.45	0.91
Discontinued operations	(0.01)	0.01	—
Total basic and diluted earnings per common share	20.87	1.46	0.91
Distributions declared per Fund unit	1.31	—	—
Dividends declared per Aliant common share	0.62	1.18	1.10
Dividends declared per preferred share	—	1.36	1.36
Total assets	10,486.1	2,867.3	2,903.6
Total long-term debt (including current portion)	2,811.2	904.5	896.4

This table depicts consolidated accounts of Aliant for periods up to July 6, 2006, and for Bell Aliant Holdings LP from July 7, 2006, to December 31, 2006. The 2004 results were affected by a labour disruption, the provision of an early retirement incentive program, and business acquisition and divestiture activity. The comparability of 2006 to 2005 is discussed throughout this document, on a reported basis as well as on a pro forma basis for certain operating results.