



# Bell Aliant Regional Communications Holdings, Limited Partnership

## Management's Discussion and Analysis

### Second Quarter 2007

*This document provides management's discussion and analysis (MD&A) of our financial condition as at, and results of operations for, the three and six month periods ended June 30, 2007, compared to the corresponding periods in 2006. This MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2007, and our December 31, 2006, audited consolidated financial statements and accompanying notes, and related MD&A. 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 the Bell Aliant Regional Communications Income Fund (the Fund) website at [www.bell.aliant.ca](http://www.bell.aliant.ca). These and other continuous disclosure documents are also available at [www.sedar.com](http://www.sedar.com).*

#### Forward-looking information

*This MD&A is dated July 30, 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 July 30, 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 administration of its recently enacted tax rules for publicly listed 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. Refer to the "Assumptions made in the preparation of forward-looking statements" and "Risk management" sections of this MD&A for further discussion of these risk factors. 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.*

## OUR BUSINESS

### Our core businesses

We are a regionally focused telecommunications service provider with operations primarily in Atlantic Canada, Quebec and Ontario. We have been serving customers for over a century. We provide a wide range of innovative and traditional voice and data communications services and an array of consulting, infrastructure management and product fulfillment services.

Bell Aliant Holdings LP was created on July 7, 2006, pursuant to the Plan of Arrangement (the Arrangement) that created the Fund. Details of the Arrangement can be found in Aliant's management information circular dated April 14, 2006. Our principal operations are carried on by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant LP), Télébec, Limited Partnership (Télébec) and NorthernTel, Limited Partnership (NorthernTel). We consolidate these and other subsidiary partnerships and corporations.

Our results are accounted for on a continuity of interest basis, therefore our comparative information for any period prior to July 7, 2006, is for Aliant. To allow for more meaningful period-over-period comparison and analysis, we have also presented certain of our results prior to July 7, 2006, on a pro forma basis.

### Our business environment

#### *Competitive landscape*

We face a number of different competitors across the regions we serve, with increasing competition from cable companies continuing to be one of the largest risks we face in our business. Many of our strategic initiatives in 2007 are designed to mitigate this risk. During the second quarter of 2007, cable competitors launched new local service areas and aggressive promotional campaigns across our regions, but did so at a slightly slower pace than we expected. The effects of the resulting local residential customer declines are discussed further in the "Results of operations" section. We expect continued growth in the competitive footprint throughout 2007, and as competition increases, we remain focused on the successful execution of our strategic priorities. We continue to enhance our products and services, promote our bundled service packages and innovate with customers to provide complete solutions, and we continue to invest in our communities and support activities that are important to our customers and employees.

#### *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. Recently, there have been a number of regulatory events that could have a material effect on our future financial results. In April 2007, the federal government varied the Commission's local forbearance decision by removing certain marketing restrictions and changing the criteria to obtain forbearance from price regulation of local telephone service. This was followed in July 2007, by forbearance of local residential telephone service being granted in a number of exchanges in our Atlantic region. Decisions on our applications regarding forbearance of local business service as well as applications relating to our territory in Ontario and Quebec are still pending. On April 30, 2007, the Commission issued new pricing rules on retail regulated services as part of its review of the price cap regime. In May 2007, the Commission ruled on the appropriate guidelines for filing applications involving rate ranges for services, other than Voice-over-Internet Protocol (VoIP) services. In July 2007, the Commission announced its action plan for the review of Commission regulatory measures in light of the policy direction from the federal government that came into effect in December 2006.

Details of these and other significant regulatory developments that affected our telecommunications business in the second quarter of 2007 and up to and including July 30, 2007, are:

- *Local service regulation* - Effective July 25, 2007, the Commission granted forbearance of local telephone service in 72 exchanges in New Brunswick, Nova Scotia, and Prince Edward Island of the 80 exchanges requested by us in those provinces. This removes local telephone access services from price regulation in those areas, with the exception of a price ceiling which continues to apply to stand-alone local telephone access services. The decision is expected to give us the flexibility to offer more value to our customers and compete more effectively with our local service competitors. As more exchanges in

the future qualify for forbearance we expect to make further forbearance applications. It is anticipated that a decision related to our business forbearance applications will follow in the near term.

- *Rates* - In a decision issued on April 30, 2007, the CRTC established new pricing rules to govern the rates charged by incumbent local exchange carriers (ILECs) for regulated telecommunications services. These rules, which are known collectively as the price cap regime, came into effect on June 1, 2007, and have resulted in a more flexible, market-oriented regulatory framework. Key elements of this new framework include, among other things, increased flexibility to bundle across service offerings, removal of the price ceiling for optional local services, some additional flexibility to raise rates for certain business services as well as for residential basic telephone service in high cost areas, a freezing of the basic residential telephone rate in non-high cost serving areas, and changes to the contribution regime. The CRTC also permitted de-averaging of residential rates, which allows the flexibility to charge different rates to different customers within the same geographic region. In a decision dated July 30, 2007, the CRTC extended this price cap framework to Télébec, effective August 1, 2007.
- *Rate ranges* - In a decision issued on May 25, 2007, the CRTC determined that where an ILEC proposes to de-average the rate charged for a service for which rate de-averaging is allowed, the ILEC may request the Commission's approval for a rate range where either the maximum rate or the minimum rate, or both, are publicly specified in the tariff. These rules could lessen regulation over certain services, allowing us to respond more quickly in changing markets and be more responsive to customer needs.
- *Rate de-averaging* - On June 6, 2007, the Commission issued a public notice to review if rate de-averaging should be allowed in the business and pay telephone markets. Rate de-averaging would provide us with more flexibility in our regulated service offerings.
- *Ethernet services* - On January 25, 2007, the CRTC issued a decision prescribing requirements for the provision of ILECs' wholesale Ethernet services. This ruling requires a material redesign of our wholesale Ethernet service. We and others have filed applications with the Commission requesting that the decision be reviewed and varied on the basis that, among other things, it is inconsistent with the Policy Direction. We also requested that implementation of the decision be immediately stayed pending the outcome of the applications. On June 27, 2007, the Commission issued Decision 2007-46, which effectively extends the timeline to implement the orders until after the Commission has disposed of the review and vary applications.
- *Review of regulatory measures* - On July 11, 2007, the Commission announced its action plan to review existing regulatory measures in light of the federal government's policy direction. The result of this review could be the elimination or scaling back of regulatory measures that are not efficient or which interfere with market forces.
- *Deferral accounts* - During the first quarter of 2007, the CRTC issued two decisions related to competitor digital network services. During the second quarter, we have made preliminary estimates that show these decisions mean additional rebates to competitors of approximately \$3.8 million. After assessing the deferral account impacts associated with these CRTC decisions, the estimated balance in Bell Aliant LP's deferral account is zero, with an annual recurring over-contribution of \$4.8 million. This over-contribution represents funds Bell Aliant LP may recover through rate increases, which would result in a clearing and closing of Bell Aliant LP's deferral account.

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.

#### *Privatization of BCE*

On June 30, 2007, our significant stakeholder, BCE, announced it had entered into a definitive agreement to be acquired by an investment group led by Teachers Private Capital, the private investment arm of the Ontario Teachers Pension Plan, Providence Equity Partners Inc. and Madison Dearborn Partners, LLC. The transaction requires BCE shareholder approval, and upon receipt of this and other approvals, is expected to be completed in the first quarter of 2008. We are not a party to this transaction and cannot predict the impact that a change of ownership of BCE may have on our organization, if any.

### *Ratification of collective agreements*

On July 13, 2007, we were notified by the Communications Energy and Paperworkers (CEP) Union Local 6, representing about 150 employees of NorthernTel, that approximately 71 per cent of the employees accepted the offer for a new four year agreement retroactive to February 2007, and expiring in February 2011.

On July 26, 2007, we announced the ratification of our collective agreement with the CEP Atlantic Communications Council, representing more than 3,600 employees in Atlantic Canada. Approximately 75 per cent of the employees accepted the offer for a new agreement which expires December 31, 2011.

## QUARTER IN REVIEW

### Summary of results

<i>For the period ended June 30</i>	As reported					
	Three months			Six months		
	2007	2006	% change	2007	2006	% change
<i>(millions of dollars)</i>						
Operating revenues	\$825.4	\$516.5	59.8	\$1,676.8	\$1,044.2	60.6
EBITDA <sup>(1)</sup>	\$358.1	\$216.0	65.8	\$707.6	\$428.0	65.3
Operating income <sup>(1)</sup>	\$55.8	\$91.7	(39.1)	\$227.4	\$180.5	26.0
Other expenses	0.4	1.3	(69.2)	2.6	13.7	(81.0)
Interest charges	41.7	16.0	160.6	81.1	33.8	139.9
Income tax expense (recovery)	(46.8)	25.9	n.m.	(51.4)	48.7	n.m.
Non-controlling interest	15.6	0.6	n.m.	67.2	1.1	n.m.
Net earnings from continuing operations	\$44.9	\$47.9	(6.3)	\$127.9	\$83.2	53.7
Net earnings from discontinued operations	260.3	5.3	n.m.	265.8	10.2	n.m.
Net earnings	\$305.2	\$53.2	n.m.	\$393.7	\$93.4	n.m.

n.m. - not meaningful

<sup>(1)</sup> EBITDA and operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

*Significant increase in our operating revenues and expenses, as reported, in the second quarter of 2007 compared to the same period in 2006.*

Operating results for the second quarter of 2007 compared to the same period in 2006 reflect the increased scale of operations since July 7, 2006, resulting in higher operating revenues, expenses and EBITDA. Operating income declined as the increase in EBITDA was offset by a \$181.3 million increase in depreciation and amortization. In addition to the higher ongoing depreciation and amortization expense due to our larger capital asset base since the Arrangement, during the second quarter of 2007, the purchase price allocation was finalized and resulted in a \$125.3 million adjustment to depreciation and amortization, primarily related to finite-life intangibles, for the period from July 7, 2006, to June 30, 2007. The quarter-over-quarter increase in interest costs is mainly due to higher long-term debt balances. The income tax recovery reflects the significant reduction in our effective tax rate related to our income trust structure as well as the future tax recovery related to amortization of the intangible assets that were accounted for on the finalization of our purchase price allocation. Non-controlling interest in our earnings for the second quarter includes the 36.9 per cent interest in Bell Aliant LP held by Bell

Canada and BCE and the 36.7 per cent interest in Télébec and NorthernTel held indirectly by the Fund, through Bell Nordiq Trust.

Net earnings from discontinued operations mainly represent the earnings and gain on sale of Aliant Directory Services (ADS), producer and distributor of telephone directories in the Atlantic region. We sold our 87.14 per cent indirect interest in the net assets and operations of ADS effective April 30, 2007.

For the period ended June 30  (millions of dollars)	Pro forma <sup>(1)</sup>					
	Three months			Six months		
	2007	2006	% change	2007	2006	% change
Pro forma operating revenues <sup>(2)</sup>	\$825.4	\$814.9	1.3	\$1,676.8	\$1,636.8	2.4
Pro forma EBITDA <sup>(2)</sup>	\$358.1	\$363.2	(1.4)	\$707.6	\$716.1	(1.2)
Pro forma operating income <sup>(2)</sup>	\$55.8	\$180.8	(69.1)	\$227.4	\$352.4	(35.5)

<sup>(1)</sup> The periods ended June 30, 2007, represent as reported results and are not pro forma.

<sup>(2)</sup> Pro forma operating revenues, pro forma EBITDA and pro forma operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

*Operating revenues increased by 1.3 per cent for the second quarter of 2007 compared to pro forma operating revenues for the same period in 2006.*

During the second quarter of 2007, pro forma growth in operating revenues from Internet and data, wireless and information technology (IT) more than offset declines in local and access, long distance and other revenue.

- Internet and other data revenue increased by 4.8 per cent in the second quarter of 2007 compared to the second quarter of 2006. The increase was driven by year-over-year high-speed Internet customer growth of 21.1 per cent, and was partially offset by a \$3.1 million adjustment associated with a CRTC decision which required us to lower prices for basic services extension features retroactive to 2002, and a 2.1 per cent decline in residential high-speed average revenue per customer (ARPC), which was affected by promotional pricing during the period.
- Wireless revenue grew by 19.2 per cent in the second quarter, driven by a 14.7 per cent increase in customers which was tempered by a 1.1 per cent decline in ARPC.
- IT services and fulfillment revenue increased by 21.8 per cent for the second quarter. Growth in managed services revenue and IT project activity, primarily in the healthcare, defence, security and aerospace industries, drove a 17.9 per cent increase in IT services revenue, while new business in the healthcare sector fuelled a 26.0 per cent increase in IT fulfillment revenue for the quarter.
- Selected price increases and increased revenues from bundled offerings and features have helped to mitigate the effect on revenues of customer losses resulting from competitive pressures and technology substitution. Local and access and long distance revenues declined by 1.0 per cent and 3.9 per cent in the second quarter, respectively.

*On a year to date basis, operating revenues increased by 2.4 per cent compared to the prior year.*

Year to date revenue growth reflects seasonally strong IT fulfillment sales, which grew by \$15.2 million year-over-year in the first quarter of 2007. Year-over-year growth in IT fulfillment revenue for the second quarter of 2007 was \$7.5 million. Also contributing to lower revenue growth in the second quarter of 2007 compared to the first quarter of 2007 was a \$3.1 million adjustment to data revenue, discussed further in the "Pro forma results and analysis" section.

Operating income for the second quarter of 2007 reflects a one-time adjustment to depreciation and amortization, resulting in a 69.1 per cent decline over pro forma operating income for the second quarter of 2006.

Increased wages and contract labour costs and higher provincial capital taxes resulted in a 1.4 per cent decrease in EBITDA for the second quarter of 2007 compared to pro forma EBITDA for the same period in 2006. Although the increase in operating expenses was partially offset by lower net benefit plan costs and restructuring and other charges, increased depreciation and amortization charges caused operating income for the second quarter of 2007 to be 69.1 per cent lower than pro forma operating income for the same period in 2006. During the second quarter of 2007, the allocation of the purchase price related to the Arrangement was finalized, resulting in a \$125.3 million increase to depreciation and amortization expense, of which 93.5 million was a one-time adjustment relating to the period from July 7, 2006, to March 31, 2007.

<i>For the period ended June 30</i>						
<i>(millions of dollars)</i>	Three months			Six months		
	2007 <sup>(1)</sup>	2006	% change	2007 <sup>(1)</sup>	2006	% change
Distributable cash <sup>(2)</sup>	\$160.2	\$167.5	(4.4)	\$350.8	\$350.2	0.2
Cash distributions declared	\$163.5	\$153.8	6.3	\$329.7	\$307.6	7.2

<sup>(1)</sup> The periods ended June 30, 2007, represent as reported results and are not pro forma.

<sup>(2)</sup> Distributable cash is a non-GAAP financial measure. Refer to the "Non-GAAP financial measures" section for more details.

*Distributable cash declined by 4.4 per cent for the second quarter of 2007 compared to pro forma distributable cash for the second quarter of 2006.*

The decline in distributable cash for the quarter, compared to pro forma distributable cash for the second quarter of 2006, is primarily due to a 1.4 per cent decline in pro forma EBITDA, a 15.0 per cent increase in current service pension contributions and higher Fund expenses. Current service pension contributions are higher due to growth in pensionable earnings as well as a lower long-term discount rate used in recent funding valuations. Fund expenses, which include some retroactive costs related to a new agreement with the Fund's transfer agent covering 2006, were not separated from EBITDA in the pro forma presentation for 2006. The net result of these variances would have contributed to a 6.2 per cent decline in the quarter's distributable cash year-over-year.

The remaining variances in distributable cash are explained by our acquisition and divestiture activity in 2007. The sale of our interest in the assets of ADS effective April 30, 2007, resulted in \$4.9 million less distributable cash during the quarter compared to the same period in 2006. Offsetting this, the acquisition of the minority interest in Télébec and NorthernTel, net of the incremental interest expense incurred on the acquisition and including the minority interest adjustments that would have been made to interest expense and capital expenditures in 2006, added an estimated \$8.3 million to distributable cash for the quarter. These acquisition and divestiture transactions, including the related issuance of Fund units and repurchases through its normal course issuer bid (NCIB), are anticipated to have minimal impact on distributable cash when measured on a per unit basis.

The following table provides a summary reconciliation of distributable cash to cash from operating activities for the three and six month periods ended June 30, 2007. 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 periods ended June 30, 2007  (millions of dollars)	Three months distributable cash from:				Six months distributable cash from:			
	Operations	Cash reserves or borrowing	Investments	Total	Operations	Cash reserves or borrowing	Investments	Total
Cash from operating activities	\$332.8	-	-	\$332.8	\$584.5	-	-	\$584.5
<b>Add (deduct):</b>								
Operating items funded through cash reserves or borrowing	-	(29.8)	-	(29.8)	-	9.3	-	9.3
Capital expenditures	-	-	(143.4)	(143.4)	-	-	(258.7)	(258.7)
Current income tax recovery and other expenses	(2.8)	-	-	(2.8)	3.2	-	-	3.2
Cash from operating activities of discontinued operations	3.4	-	-	3.4	12.5	-	-	12.5
<b>Distributable cash <sup>(1)</sup></b>	<b>\$333.4</b>	<b>(\$29.8)</b>	<b>(\$143.4)</b>	<b>\$160.2</b>	<b>\$600.2</b>	<b>\$9.3</b>	<b>(\$258.7)</b>	<b>\$350.8</b>

<sup>(1)</sup> Refer to the "Non-GAAP financial measures" section for a definition and reconciliation of pro forma EBITDA to distributable cash as well as a complete reconciliation of cash from operating activities to distributable cash.

Distributable cash from operations, net of investing activities, was slightly lower than our expectations for the second quarter of 2007. Combined with strong performance in the first quarter, and together with our plans for the remainder of the year, we maintain our annual guidance of \$690 to \$710 million for distributable cash. Capital expenditures are expected to be approximately 16.0 to 16.5 per cent of operating revenues, including incremental investment to accelerate our deployment of fibre-to-the-node (FTTN). We are making investments to both maintain our network assets and evolve to the next generation of Internet protocol (IP) network capabilities to accommodate delivery of new services necessary to support sustainability of our revenues. Our capital expenditures for the second quarter of 2007 were 17.4 per cent of revenues, higher than our annual target, which was expected based on typical seasonal patterns of capital spending.

It is our expectation that distributable cash generated by ongoing operations, net of normal capital expenditures, will be sufficient to maintain and modestly grow our cash distributions to the Fund and its unitholders up until the year 2011, at which time we anticipate being subject to corporate income taxes on our earnings. Since it is our intention to indirectly distribute to Fund unitholders 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.

We 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 our overall leverage targets.

## FOCUS AND STRATEGY FOR 2007

Our key strategic priorities for 2007 are as follows:

### Superior customer experience

We believe that delivering a superior customer experience is vital to creating and maintaining customer loyalty. 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.

### *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.

During the second quarter of 2007, we implemented a number of billing improvements in Atlantic Canada, including the completion of the rollout of our new bill format to residential customers and the conversion of a number of our enterprise customers to electronic, online bills. Additionally, to improve service to new broadband customers, we selectively expanded the availability for Saturday service appointments, provided customers with two-hour appointment windows in certain areas, and rolled out same-day service in many Ontario and Quebec communities. These and other initiatives have resulted in improvements in customer satisfaction with broadband service and other key service metrics.

### *Providing value through leading products and services*

Providing value is about offering the right products and services to customers at a competitive price. 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 source of competitive advantage for businesses.

During the second quarter of 2007, we continued our focus on introducing a differentiated customer experience for *Value Package* and multi-product customers. In most of Ontario and Quebec, we introduced Bell Bundles, offering our residential customers combinations of local service, high-speed Internet, wireless service, Bell Express Vu video service and other services. Additionally, we launched local service bundles, called *Home Phone Packages*, consisting of local access, calling features, and an optional second line. In Atlantic Canada, we continued our FTTN build, and we expanded our high-speed Internet footprint in certain regions.

In the small and medium business market, we continue to enhance our service offerings to build information and communications technology (ICT) solutions. In the second quarter of 2007, we launched new business *Value Packages* in the Atlantic region that include both local telephone and Internet services. In our Bell branded territory of Ontario and Quebec, we launched a *Business Essentials* bundle that includes telephone and high-speed Internet service. This complements the *Start-up* bundle, which we launched in the first quarter. Sales have been strong as the small business market embraces the benefits of these new bundle offerings.

We continue to manage our customers' evolution to IP in our enterprise market. During the second quarter, a number of large customers operating in the health, government and major enterprise sectors implemented, or were in the process of implementing, IP-based solutions, replacing more traditional legacy services. The momentum toward IP continued as another group of large customers started the process of evaluating service transitions to IP. Additionally, in the second quarter we experienced strong growth in IT services as our enterprise customers engaged our professional services experts to help with their specific IT needs.

### *Community*

The third element of customer experience is community involvement. We continue to support a variety of programs primarily focused on having a positive impact on children and youth in the communities we serve. In the second quarter, many of our employees and retirees volunteered in over 110 community events across our regions. One of the more significant events was the Bell Aliant Walk for Kids' Help Phone where hundreds of employees participated in six provinces to raise approximately \$200,000 for children in need.

### **Operational efficiency**

While pursuing top-line revenue growth, we are also aggressively managing our cost structure to grow distributable cash and deliver value to Fund unitholders. Our significant scale, access to leading-edge technology and collaboration with Bell Canada all contribute to improving operational effectiveness and reducing costs.

We realized approximately \$19 million in cost containment during the second quarter of 2007, through supplier contract renegotiations, reduced real estate costs, work force management, reduced discretionary spending, and a reduction in fees under our commercial agreements with Bell Canada.

## RESULTS OF OPERATIONS

At December 31, 2006, our results of operations were in three reportable segments; Bell Aliant, Bell Nordiq Group and Other Subsidiaries. With the privatization of Bell Nordiq Income Fund in January 2007 and the sale of the net assets and operations of ADS in April 2007, we have been managing our business and classifying our operations for planning and performance measurement purposes as one segment in 2007. In addition to distributable cash, our financial performance is measured by growth in operating revenues, EBITDA and operating income.

### As reported results and analysis

<i>For the period ended June 30</i>	As reported					
	Three months			Six months		
	2007	2006	% change	2007	2006	% change
<i>(millions of dollars)</i>						
Local and access	\$360.6	\$147.6	144.3	\$715.8	\$295.3	142.4
Long distance	118.5	53.8	120.3	233.7	108.5	115.4
Data	173.5	87.6	98.1	350.0	169.7	106.2
IT services and fulfillment	72.0	59.0	22.0	177.6	145.3	22.2
Wireless	15.5	120.0	(87.1)	30.1	230.8	(87.0)
Other revenues	85.3	48.5	75.9	169.6	94.6	79.3
Operating revenues	\$825.4	\$516.5	59.8	\$1,676.8	\$1,044.2	60.6
Operating expenses	467.3	300.5	55.5	969.2	616.2	57.3
EBITDA <sup>(1)</sup>	\$358.1	\$216.0	65.8	\$707.6	\$428.0	65.3
Net benefit plans cost	28.3	23.6	19.9	57.8	47.8	20.9
Depreciation & amortization	273.1	91.8	197.5	421.0	190.5	121.0
Restructuring and other charges	0.9	8.9	(89.9)	1.4	9.2	(84.8)
Operating income <sup>(1)</sup>	\$55.8	\$91.7	(39.1)	\$227.4	\$180.5	26.0

<sup>(1)</sup> EBITDA and operating income are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section for more details.

Operating revenues and operating expenses, as reported in our financial statements, increased significantly in 2007, reflecting the much larger geographic area and customer base created by the Arrangement. From June 30, 2006, to June 30, 2007, local access customers increased by approximately 126 per cent and high-speed Internet customers increased by approximately 166 per cent. Partially offsetting this is a decline in wireless revenue as Aliant's wireless operations were transferred to Bell Canada pursuant to the Arrangement.

The expanded operations have also resulted in higher costs to support the increased customer base and capital infrastructure across our vast service area. The increase in depreciation and amortization for the second quarter of 2007 compared to the same period in the prior year reflects the increased capital investments resulting from the Arrangement, and also reflects the additional \$125.3 million in depreciation and amortization for the period July 7, 2006, to June 30, 2007, that resulted from the purchase price allocation adjustment made during the quarter, which was primarily related to finite-life intangibles. We expect our annual depreciation and amortization expense to increase by approximately \$150 million as a result of finalizing the purchase price allocation. As well, the restructuring and other charges recorded in the second quarter of 2006 did not recur in 2007.

In order to assess the underlying growth, certain of our results prior to July 7, 2006, are presented on a pro forma basis as follows.

## Pro forma results and analysis

<i>(millions of dollars)</i>	Pro forma <sup>(1)</sup>					
	Three months			Six months		
	2007	2006	% change	2007	2006	% change
Local and access	\$360.6	\$364.4	(1.0)	\$715.8	\$726.0	(1.4)
Long distance	118.5	123.3	(3.9)	233.7	242.7	(3.7)
Data	173.5	165.5	4.8	350.0	322.5	8.5
IT services and fulfillment	72.0	59.1	21.8	177.6	145.7	21.9
Wireless	15.5	13.0	19.2	30.1	25.8	16.7
Other revenues	85.3	89.6	(4.8)	169.6	174.1	(2.6)
Pro forma operating revenues <sup>(2)</sup>	\$825.4	\$814.9	1.3	\$1,676.8	\$1,636.8	2.4
Operating expenses	467.3	451.7	3.5	969.2	920.7	5.3
Pro forma EBITDA <sup>(2)</sup>	\$358.1	\$363.2	(1.4)	\$707.6	\$716.1	(1.2)
Net benefit plans cost	28.3	29.0	(2.4)	57.8	58.5	(1.2)
Depreciation & amortization	273.1	144.5	89.0	421.0	296.0	42.2
Restructuring and other charges	0.9	8.9	(89.9)	1.4	9.2	(84.8)
Pro forma operating income <sup>(2)</sup>	\$55.8	\$180.8	(69.1)	\$227.4	\$352.4	(35.5)

<sup>(1)</sup> The periods ended June 30, 2007, represent as reported results and are not pro forma.

<sup>(2)</sup> Pro forma operating revenues, pro forma EBITDA and pro forma operating income are non-GAAP financial 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.

The majority of our local and access revenue is earned through the provision of NAS. Local and access revenue per NAS customer increased in the second quarter of 2007 compared to the same period in 2006. Despite a 2.8 per cent drop in NAS customers, access revenues for the second quarter of 2007 declined by only 1.3 per cent. We are achieving success through rate increases in certain markets, increased features penetration, increased bundle penetration, and the return of former customers through our "winback" campaigns.

At June 30, 2007, the number of residential NAS customers was 3.7 per cent lower than at the same date in 2006, reflecting competitive losses, reduction in second lines and adoption of wireless and VoIP services. The number of business NAS customers at June 30, 2007, was 1.0 per cent lower than at June 30, 2006. The net NAS customer decline was comparable to that experienced in the first quarter of 2007, and reflected improving trends in more mature competitive areas.

### Long distance

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

Long distance revenue declined by 3.9 per cent in the second quarter of 2007 compared to pro forma revenue for the second quarter of 2006, which compares favourably to declines that have been experienced over the past two years. Revenue declines are a result of customer losses (primarily flow-through of NAS declines), substitution by cellular calling and IP-based services, and dial-around erosion. Selected price increases and changes to plans offered to customers contributed to a 1.1 per cent increase in the average revenue per minute during the quarter. Customers have been shifting away from rate-per-minute plans in favour of unlimited or large usage packages for a set monthly price.

#### *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 second quarter of 2007 compared to the same period in 2006 was 4.8 per cent and is attributable to an 11.1 per cent increase in Internet revenue. Data revenues for the quarter were negatively affected by a \$3.1 million adjustment associated with a CRTC decision which required us to lower prices for basic services extension features retroactive to June 2002. On a year to date basis, data revenue growth was also impacted by a reclassification adjustment in the first quarter of 2007 for \$3.9 million to include revenues in this category from the other revenue category to appropriately reflect their nature.

We continue to experience very strong high-speed Internet customer growth, with a 21.1 per cent increase in the second quarter of 2007. Customer acquisition programs involving introductory promotional pricing were successful in the quarter, increasing the net high-speed customer activations, particularly in the residential market, but resulting in a decline in ARPC. Residential high-speed ARPC declined by 2.1 per cent in the second quarter of 2007, to \$34.90 from \$35.66 for the second quarter of 2006. Year to date, the residential high-speed ARPC is consistent with the same period in 2006.

#### *Wireless*

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over the analog and digital wireless networks of Télébec and NorthernTel.

Wireless revenue increased by 19.2 per cent in the second quarter of 2007 compared to the pro forma wireless revenue for the second quarter of 2006, driven by a 14.7 per cent increase in cellular customers. Both prepaid and post-paid ARPC increased year-over-year, however the overall average revenue per customer decreased by 1.1 per cent due mainly to an increase in the number of customers adopting prepaid service.

#### *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 second quarter of 2007, IT services and fulfillment revenue grew 21.8 per cent over pro forma amounts for the second quarter of 2006. IT services revenue increased by 17.9 per cent, mainly due to growth in managed services revenue and IT project activity within the healthcare, defence, security and aerospace industry verticals. IT fulfillment revenue grew by 26.0 per cent, driven largely by new business in the healthcare sector and growth in sales to the federal government and agencies.

## Other revenues

Other revenues consist of Atlantic Mobility Products (AMP) revenues, Innovatia revenues, terminal rentals and sales, PC sales, professional services, building rental revenue, and revenue generated by our outsourcing arrangement with Bell Mobility.

Other revenues declined by 4.8 per cent in the second quarter of 2007 compared to pro forma other revenues for the same period in 2006. AMP's revenue from the sale of cellular sets and related accessories declined, reflective of lower wireless customer activations in Atlantic Canada in 2007 compared to 2006. Also, e-learning revenue declined, particularly from Innovatia's US customers, as this revenue is denominated in US dollars and is negatively affected by a rising Canadian dollar.

## Operating expenses

For the period ended June 30						
(millions of dollars)	Three months			Six months		
	2007 <sup>(1)</sup>	2006	% change	2007 <sup>(1)</sup>	2006	% change
Cost of sales	\$149.4	\$146.5	2.0	\$326.5	\$303.0	7.7
Salaries, benefits, contract labour and consulting	166.0	156.9	5.8	336.0	318.8	5.4
Selling, general & administrative	147.7	147.9	(0.2)	297.4	298.3	(0.3)
Provincial capital taxes	4.2	0.3	n.m.	9.3	0.6	n.m.
Operating expenses	\$467.3	\$451.7	3.5	\$969.2	\$920.7	5.3

n.m. - not meaningful

<sup>(1)</sup> The periods ended June 30, 2007, represent as reported results and are not pro forma.

Operating expenses increased by 3.5 per cent in the second quarter of 2007 compared to the same period in the prior year, mainly due to higher labour costs, and higher capital taxes. Increased salaries, benefits, contract labour and consulting mainly represent annual wage increases which commenced in March and an increase in contract labour costs due to the growth in IT services revenue. Provincial capital taxes related primarily to our larger capital structure resulted in a \$3.9 million increase in operating expenses. Aliant's provincial capital taxes were reflected in other expenses prior to the Arrangement, were not reclassified in our pro forma balances, and were not material. Selling, general and administrative costs for the second quarter of 2007 decreased by 0.2 per cent as these costs are being contained through productivity initiatives.

Cost of sales increased by 2.0 per cent in the second quarter of 2007, compared to a 13.2 per cent increase in the first quarter of 2007, resulting in a 7.7 per cent year-to-date increase over 2006. Cost of sales is influenced primarily by the level of IT fulfillment revenues, which rose by \$7.5 million in the second quarter of 2007 and by \$15.2 million in the first quarter of 2007, compared to the same periods in 2006.

## Other expenses

The following other expenses are analyzed on an as reported basis, as they were not subject to pro forma adjustments, except for the purposes of calculating distributable cash as discussed in the "Quarter in review" section.

### Interest charges

Interest charges increased by 160.6 per cent in the second quarter of 2007 compared to the same period in 2006, due to the significant increase in long-term debt since the Arrangement, partially offset by lower rates of interest.

### *Income tax expense (recovery)*

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 recovery rate for the first half of 2007 was 35.8 per cent of our pre-tax earnings, a significant reduction from the effective tax rate of 36.6 per cent for the same period in 2006. This significant reduction in our effective tax rate is a result of several factors, mainly a 45.5 percentage point reduction related to intercompany interest income earned in non-taxable entities, a 16.9 percentage point reduction related to taxable income allocated to non-controlling interest for which we do not recognize a tax provision, and a reduction of 13.1 percentage points due to the tax rate changes.

### *Non-controlling interest*

Non-controlling interest represents Bell Canada's 36.9 per cent interest in Bell Aliant LP and the Fund's 36.7 per cent indirect interest in Télébec and NorthernTel. The distributions attributable and paid to Bell Canada are equal, to the greatest extent practicable, to per-unit distributions paid by the Fund to holders of Fund units. The non-controlling interest related to Bell Canada's interest in Bell Aliant LP is based on Bell Canada's pro-rata share of cash distributions from Bell Aliant LP. During the three months ended June 30, 2007, we recorded non-controlling interest in our earnings of \$15.6 million. Distributions declared by our subsidiaries to the non-controlling interest in the same period were \$60.5 million, of which \$50.9 million was paid by Bell Aliant LP to Bell Canada and \$9.6 million was paid by Télébec and NorthernTel indirectly to the Fund.

## FINANCIAL AND CAPITAL MANAGEMENT

### Summary of cash flows

<i>For the period ended June 30</i> <i>(millions of dollars)</i>	Three months			Six months		
	2007	2006	% change	2007	2006	% change
<b>Cash from (used in):</b>						
Operating activities	\$332.8	\$117.1	184.2	\$584.5	\$209.1	179.5
Financing activities	(732.5)	(25.9)	n.m.	(766.2)	(158.3)	n.m.
Investing activities	57.5	(104.0)	n.m.	(257.6)	(184.9)	39.3
<b>Net decrease in cash from continuing operations</b>	<b>(\$342.2)</b>	<b>(\$12.8)</b>	<b>n.m.</b>	<b>(\$439.3)</b>	<b>(\$134.1)</b>	<b>227.6</b>
<b>Net increase in cash from discontinued operations</b>	<b>325.4</b>	<b>3.1</b>	<b>n.m.</b>	<b>330.2</b>	<b>10.2</b>	<b>n.m.</b>
<b>Net decrease in cash for the period</b>	<b>(\$16.8)</b>	<b>(\$9.7)</b>	<b>73.2</b>	<b>(\$109.1)</b>	<b>(\$123.9)</b>	<b>(11.9)</b>

n.m. - not meaningful

Cash from continuing operations declined \$342.2 million during the quarter, reflecting a \$460.9 million return of capital paid indirectly to the Fund. This allowed us to flow the proceeds from the sale of assets of ADS, which are reflected in cash from discontinued operations, up to the Fund to enable it to repurchase units under its NCIB. The Fund was also able to make a \$131.0 million repayment to us of an earlier loan we made to the Fund. The net change in cash from both continuing and discontinued operations was a decline of \$16.8 million during the second quarter compared to a decline of \$9.7 million for the same period in 2006.

The other key components of our net decrease in cash in the second quarter of 2007 were as follows.

### *DB pension and other post-employment benefit (OPEB) plans*

Total funding of our DB pension plans for the second quarter of 2007 was \$21.4 million, compared to \$27.4 million in total funding made to Aliant's DB plans in the second quarter of 2006. Additional funding in the second quarter of 2007 related to pension plans we began sponsoring on July 7, 2006, was more than offset by the

reduction in funding attributable to our application of solvency funding relief measures to many of our plans. In addition, funding during the second quarter of 2006 was accelerated slightly to bring our funding requirement up to date after the completion of 2005 actuarial valuations.

Actuarial valuations of our pension plans were performed as of December 31, 2006, and filed in June and July 2007. All plans reflected funding deficits as measured on a going-concern basis, however as the funded positions of our plans continue to improve, all but one plan reflected a funding surplus as measured on a solvency basis. We estimate the present value of the special deficit payments required to fund the deficits of our DB pension plans over the next 5 to 15 years to be \$330 million, including approximately \$18 million to fund the deficits of the Télébec and NorthernTel plans, which were previously excluded from our funding estimate. Total special payments required for 2007 are approximately \$36 million, which reflects 10-year solvency funding schedules for many plans and is net of the application of prior years' voluntary contributions.

OPEB funding increased by 12.5 per cent to \$1.8 million in the second quarter of 2007 compared to \$1.6 million in the same period in 2006, mainly a result of more retired beneficiaries and increasing costs of benefits provided under legacy plans.

#### *Change in operating assets and liabilities*

The change in operating assets and liabilities generated cash of \$41.3 million in the second quarter of 2007, and used cash of \$12.6 million in the same period in 2006. In the second quarter of 2007, an increase in accounts payable, primarily related to interest payable and employee incentive accruals added to cash flow. In addition, there was a seasonal increase in prepaid expenses and decrease in accounts receivable. In the second quarter of 2006, the payment of long-term debt redemption premiums in the amount of \$39.9 million increased deferred charges, which reduced cash from operations.

#### *Changes in long-term debt and other financing*

During the second quarter of 2007 we sold an additional \$99.1 million in customer accounts receivable into an expanded securitization program and received net proceeds of \$90.0 million. These proceeds, together with other cash flows and the temporary loan of \$127.0 million in cash from the Fund while it gradually executes its NCIB, allowed us to reduce net external short and long-term debt. During the second quarter, we repaid \$412.4 million on our term bank loans, repaid \$1.3 million under normal repayment schedules for other long-term debt and drew \$98.1 million in short-term debt under our commercial paper program.

Year-to-date financing activities also reflect \$994.5 million in net proceeds from the issuance of medium-term notes in February 2007, the subsequent repayment of \$722.3 of term bank loans, \$100.0 million repayment of Aliant medium-term notes, and \$5.7 million in repayment of other short and long-term debt.

#### *Notes receivable from the Fund, notes payable to the Fund, and repayment of partners' capital*

During the first quarter, we loaned \$131.0 million to Bell Nordiq Income Fund to finance a special distribution to its unitholders, and this loan was subsequently assumed by the Fund as part of the privatization transaction. In addition, during the first quarter we advanced the Fund \$69.9 million, primarily for the purchase of units under its NCIB. Both of these advances were repaid during the second quarter as the Fund received \$460.9 million from us as a return of capital. During the quarter, the Fund used cash to fund purchases under its NCIB and loaned the balance of its cash, \$127.0 million, to us to temporarily reduce external short-term debt, as discussed above.

#### *Interest rate derivatives*

In February 2007, with the issuance of medium-term notes discussed above, we 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. There were no similar activities in the second quarter of 2007 or during the first six months of 2006.

#### *Distributions*

Distributions paid during the second quarter of 2007 totalled \$173.0 million, bringing the year to date distributions to \$339.1 million. Included in the year to date distributions is \$120.3 million paid by subsidiaries to

non-controlling interest. In 2006, dividends on Aliant common and preferred shares amounted to \$40.7 million in the second quarter, \$117.6 million for the first six months.

### *Capital expenditures*

Capital expenditures in the second quarter of 2007 totalled \$143.4 million, or \$258.7 million for the first six months. The 2007 capital expenditures are significantly greater than 2006 due to our expanded operations. 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 FTTN, increasing the Aliant TV footprint and transforming our network to support next-generation IP applications.

## **Liquidity**

### *Cash requirements*

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

- The current rate of distributions to holders of Fund units is \$0.2350 per unit per month. The Fund is entirely dependent upon distributions from us and Bell Nordiq Trust to make its distributions. Cash requirements to make Fund distributions and distributions to BCE and Bell Canada are estimated to be in the range of \$644 to \$660 million for 2007.
- Total funding of our DB pension plans in 2007 is estimated to be in the range of \$85 million to \$95 million, net of application of prior years' voluntary contributions, and after application of 10-year solvency funding schedules for eligible plans. Contributions include approximately \$36 million in deficit funding, with the remainder representing current service funding. 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.
- Capital expenditures in the range of 16.0 to 16.5 per cent of operating revenues will be made as required to support our existing infrastructure and to advance our strategic initiatives. Included in this level of capital expenditures is \$35 to \$45 million of investment to accelerate the deployment of our FTTN investment.
- The Fund commenced an NCIB on February 28, 2007, which allows it to purchase, from time to time, up to 13,738,000 of outstanding Fund units at market prices, with cash, through the facilities of the TSX. The NCIB will expire on February 27, 2008. The Fund will require repayment of its current \$127.0 million loan to us to purchase additional units under its NCIB.
- 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 medium-term note shelf prospectus, a commercial paper program, and our accounts receivable securitization program. We anticipate generating enough cash from our operating activities in 2007 to pay for capital expenditures, distributions, required pension funding and other commitments.

## Capital structure

<i>(millions of dollars, except as otherwise noted)</i>	June 30, 2007		December 31, 2006	
Partners' equity	\$4,522.1	49.4%	\$4,836.6	51.3%
Non-controlling interest	1,862.1	20.4%	1,919.1	20.3%
Debt	2,765.0	30.2%	2,680.3	28.4%
Total capital	\$9,149.2	100.0%	\$9,436.0	100.0%

## Debt

We have issued \$2.25 billion in medium-term notes under our \$3.0 billion shelf prospectus. At June 30, 2007, we had \$100.0 million drawn on our non-revolving bank credit facility.

We also have a \$450.0 million non-revolving pension reserve facility that may be used to finance pension deficit funding. At June 30, 2007, there were no amounts drawn on this facility, but we have reduced its capacity by \$30.7 million with the issuance of letters of credit to support our application of the solvency funding relief regulations.

We maintain a \$400.0 million commercial paper program. As at June 30, 2007, \$102.5 million was issued under this facility. We will ensure at all times that sufficient undrawn capacity exists on our \$576.0 million revolving operating facilities to support issuances of commercial paper. We intend to refinance the remaining \$100.0 million drawn on our non-revolving bank facility, these commercial paper borrowings and any further borrowing needed to repay the Fund with further fixed-rate capital markets issuances.

## Ratings

Standard and Poor's (S&P) and Dominion Bond Rating Service (DBRS) have issued the following ratings for our subsidiaries. The ratings were confirmed in February 2007.

	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
Télébec and NorthernTel debentures	BBB, stable trend	BBB (high) stable trend

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

## Partners' equity

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.

New accounting rules require that we present a consolidated statement of comprehensive earnings which reflects changes in accumulated other comprehensive earnings as a result of changes in the fair value of derivatives designated as cash flow hedges, to the extent that they are effective. Accumulated other comprehensive

earnings is a separate component of partners' equity, and at June 30, 2007 the balance in accumulated other comprehensive earnings had the effect of reducing our partners' equity by \$30.6 million. Refer to the "Significant accounting policies" section for further details.

## **Other financial arrangements**

### *Contractual obligations*

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 previously owned by them. 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, and note 17 to our unaudited interim consolidated financial statements for the period ended June 30, 2007. Details of our long-term debt can be found in note 12 to our consolidated financial statements for the year ended December 31, 2006, and note 10 to our unaudited interim consolidated financial statements for the period ended June 30, 2007.

### *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. We expanded our program during the second quarter of 2007, and as at June 30, 2007, we had net cash proceeds in our securitization trust totalling \$210.0 million, an increase of \$90.0 million from March 31, 2007. Refer to note 3 to our unaudited interim consolidated financial statements for the period ended June 30, 2007, for further information.

### *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 15 to our unaudited interim consolidated financial statements for the period ended June 30, 2007. At June 30, 2007, we had an outstanding forward fixed-floating interest rate swap contract with a notional value of \$250.0 million. This swap contract is being accounted for as a hedge of our future refinancing of long-term debt.

## **RELATED PARTY TRANSACTIONS**

Our significant related parties continue to be BCE, Bell Canada and the Fund. For greater detail on our related party transactions and our relationship with BCE and Bell Canada, refer to note 21 of our consolidated financial statements for the year ended December 31, 2006, and note 18 to our unaudited interim consolidated financial statements for the period ended June 30, 2007.

## **SIGNIFICANT ACCOUNTING POLICIES**

Our unaudited interim consolidated financial statements as at June 30, 2007, have been prepared in accordance with Canadian GAAP. Our accounting policies and methods and critical accounting estimates and assumptions are consistent with those as described in note 1 to our consolidated financial statements for the year ended December 31, 2006. As discussed in note 1 to our unaudited interim consolidated financial statements as at June 30, 2007, on January 1, 2007, we adopted sections 1530, 3251, 3855, 3862, 3863, and 3865 of the Canadian Institute of Chartered Accountants Handbook, relating to comprehensive income, financial instruments and hedges.

As a result of adopting these new accounting standards, certain financial assets and liabilities are measured at fair market value with the remainder recorded at amortized cost. The following changes resulted from implementing the new standards:

- Derivative financial instruments are recorded on the balance sheet at fair value as either other assets or other liabilities with changes in fair value related to the effective portion of cash flow interest rate hedges recorded in other comprehensive earnings, net of related income tax. Changes in fair value related to the ineffective portion of cash flow hedges or other derivative financial instruments are reported in other income on the consolidated statement of earnings.

A reclassification adjustment of \$40.2 million was recorded in accumulated other comprehensive earnings (losses) and \$0.8 million was recorded as an adjustment to opening accumulated earnings on the balance sheet to reflect the fair value of the effective and ineffective portions of our cash flow hedges, respectively.

- We have transitioned from the straight-line method to the effective interest method to calculate the amortized cost of financial assets and financial liabilities, where it is practical to do so, and amortize the costs over the relevant period to maturity. The difference arising from recording long-term debt using the effective interest method instead of the straight-line method is not material. It is impracticable to use the effective interest method in circumstances such as bank operating credit facilities, which are drawn on or repaid frequently. Costs relating to these credit facilities will continue to be amortized using straight-line amortization over the life of the debt.

Debt issue costs in the amount of \$12.8 million were reclassified from deferred charges and applied against the long-term debt with which they are associated. Costs related to credit 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.

#### *Accounting policy developments*

We constantly monitor changes in accounting standards and guidelines to ensure that we continue to adhere to Canadian GAAP. Other than described above, there have not been any changes in accounting standards or guidelines which have resulted in changes to our accounting in the first six months of 2007.

## **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 made in our December 31, 2006, MD&A and 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. In our MD&A for the year ended December 31, 2006, we outlined the principal assumptions that we made in the preparation of our forward-looking statements relating to our expected financial and operational performance in 2007. These assumptions include economic, market, financial and operational assumptions, and except as outlined below, have not changed significantly during the first two quarters of 2007, or up to July 30, 2007.

- On February 16, 2007, we announced our intention to make a take-over bid to acquire all of the outstanding trust units of Amtelecom Income Fund, with the offer formally commencing on February 28, 2007. Our offer expired on April 18, 2007 without meeting the conditions for the transaction to proceed. The incremental revenue and distributable cash that may have been generated by the proposed Amtelecom transaction is not material to the guidance we issued in February 2007.

### **Risk management**

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 unitholders. 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. Refer to our MD&A for the year ended December 31, 2006, for a list of significant risks to which we believe we are exposed. 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.

To date in 2007, we have not identified significant changes to the nature of the risks that we are exposed to in our current business, as described in our MD&A for the year ended December 31, 2006. We have provided updates to our regulatory and competitive environments in the “Our business environment” section.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management has designed internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings) 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 June 30, 2007, 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 revenues, operating income and EBITDA have been restated to include pro forma historical results as though Bell Aliant Holdings LP had been in existence for the entire year in 2006. 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 reporting issuers. 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.

For the period ended June 30 (millions of dollars)	Three months		Six months	
	2007 <sup>(1)</sup>	2006	2007 <sup>(1)</sup>	2006
Operating revenues	\$825.4	\$516.5	\$1,676.8	\$1,044.2
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	-	(95.9)	-	(186.9)
Bell Canada Regional Wireline Operation	-	304.1	-	600.6
Bell Nordiq Group Inc.	-	92.0	-	182.3
Intercompany eliminations	-	(1.8)	-	(3.4)
<b>Pro forma operating revenues</b>	<b>\$825.4</b>	<b>\$814.9</b>	<b>\$1,676.8</b>	<b>\$1,636.8</b>
Operating revenues	\$825.4	\$516.5	\$1,676.8	\$1,044.2
Expenses	769.6	424.8	1,449.4	863.7
<b>Operating income</b>	<b>\$55.8</b>	<b>\$91.7</b>	<b>\$227.4</b>	<b>\$180.5</b>
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	-	(45.1)	-	(90.0)
Bell Canada Regional Wireline Operation	-	104.4	-	202.9
Bell Nordiq Group Inc.	-	29.8	-	59.0
<b>Pro forma operating income</b>	<b>\$55.8</b>	<b>\$180.8</b>	<b>\$227.4</b>	<b>\$352.4</b>

<sup>(1)</sup> The periods ended June 30, 2007, represent as reported results and are not pro forma.

We use pro forma operating revenues and pro forma operating income, among other measures, to assess our operating performance had we been in existence for the entire year in 2006, which allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use pro forma operating revenues, operating income 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, operating income 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, as well as 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 June 30 (millions of dollars)	Three months		Six months	
	2007 <sup>(1)</sup>	2006	2007 <sup>(1)</sup>	2006
Operating income	\$55.8	\$91.7	\$227.4	\$180.5
Add:				
Net benefit plans cost	28.3	23.6	57.8	47.8
Depreciation and amortization	273.1	91.8	421.0	190.5
Restructuring and other charges	0.9	8.9	1.4	9.2
<b>EBITDA</b>	<b>\$358.1</b>	<b>\$216.0</b>	<b>\$707.6</b>	<b>\$428.0</b>
Add (less):				
Aliant Wireless Operations and DownEast Ltd.	-	(58.0)	-	(115.8)
Bell Canada Regional Wireline Operation	-	160.3	-	314.7
Bell Nordiq Group Inc.	-	44.9	-	89.2
<b>Pro forma EBITDA</b>	<b>\$358.1</b>	<b>\$363.2</b>	<b>\$707.6</b>	<b>\$716.1</b>

<sup>(1)</sup> The periods ended June 30, 2007, represent as reported results and are not pro forma.

We use EBITDA, among other measures, to assess the operating performance of our ongoing business 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 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 for the entire year in 2006. 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 for distribution. We 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 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 (recoveries) are added back (deducted) as we have tax strategies in place to ensure that they are not payable in cash;
- (iii) Capital expenditures;
- (iv) Expenses incurred by the Fund as these are not included in our EBITDA; and

- (v) Other elements of operating cash flows that may or may not result in actual current or future cash flows. For example, certain non-cash other expenses are intended to be settled other than by using distributable cash.

All of these adjustments to determine distributable cash can be found in our consolidated financial statements or records, with the exception of the normalization of cash capital taxes as discussed below.

<i>For the period ended June 30, 2007</i> <i>(millions of dollars)</i>	Three months	Six months
<i>Reconciled to cash from operating activities</i>		
Cash from operating activities	\$332.8	\$584.5
Add (deduct):		
Operating items funded through cash reserves or borrowing:		
Change in operating assets and liabilities (working capital)	(41.3)	(14.6)
Pension deficit funding	8.2	16.7
Restructuring and other charges	0.9	1.4
Cash capital taxes in excess of normalized levels	2.4	5.8
Current income tax recovery	(3.2)	2.4
Capital expenditures	(143.4)	(258.7)
Non-cash items in other expenses (income)	2.7	4.0
Fund expenses	(2.3)	(3.2)
Cash from operating activities of discontinued operations	3.4	12.5
<b>Distributable cash</b>	<b>\$160.2</b>	<b>\$350.8</b>

We also calculate it using EBITDA or pro forma EBITDA and add or deduct any cash items not included in EBITDA or pro forma EBITDA but that 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 or pro forma EBITDA;
- (ii) Cash interest expense;
- (iii) Capital expenditures;
- (iv) Other cash income or expenses that may be incurred to the extent not included in EBITDA or pro forma 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 or pro forma 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 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 June 30 (millions of dollars)	Three months			Six months		
	2007 <sup>(1)</sup>	2006	% change	2007 <sup>(1)</sup>	2006	% change
<i>Reconciled to EBITDA or pro forma EBITDA</i>						
EBITDA / Pro forma EBITDA	\$358.1	\$363.2	(1.4)	\$707.6	\$716.1	(1.2)
<sup>(2)</sup> Cash funding of current service cost for net benefit plans	(16.9)	(14.7)	15.0	(33.3)	(30.6)	8.8
Pro forma adjustments not reflected in EBITDA prior to July 7, 2006	-	1.4	n.m.	-	2.8	n.m.
<sup>(3)</sup> Cash capital taxes included in EBITDA	4.2	0.3	n.m.	9.3	0.6	n.m.
Fund expenses	(2.3)	-	n.m.	(3.2)	-	n.m.
<sup>(4)</sup> Non-controlling interest	-	(17.4)	n.m.	-	(34.0)	n.m.
Other income (expenses)	(2.7)	(0.8)	237.5	(3.6)	(1.5)	140.0
<sup>(5)</sup> Cash interest expense	(38.3)	(35.0)	9.4	(76.0)	(71.6)	6.1
<sup>(3)</sup> Normalized cash capital taxes	(1.8)	(1.7)	5.9	(3.5)	(3.4)	2.9
<sup>(6)</sup> Capital expenditures	(143.4)	(136.0)	5.4	(258.7)	(244.0)	6.0
Distributable cash of discontinued operations	3.3	8.2	(59.8)	12.2	15.8	(22.8)
<b>Distributable cash</b>	<b>\$160.2</b>	<b>\$167.5</b>	<b>(4.4)</b>	<b>\$350.8</b>	<b>\$350.2</b>	<b>0.2</b>

n.m. - not meaningful

<sup>(1)</sup> The periods ended June 30, 2007, represent as reported results and are not pro forma.

<sup>(2)</sup> 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.

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

<sup>(4)</sup> The proportionate share of the EBITDA of Bell Nordiq Group Inc. and AMP that is attributable to the non-controlling interest in these businesses.

<sup>(5)</sup> For periods prior to July 7, 2006, represents management's estimate of cash 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 for the entire year 2006. Cash interest expense includes Bell Aliant Holdings LP's proportionate share of interest expense for Bell Nordiq Group Inc. and AMP during the periods where we owned less than 100 per cent of these businesses.

<sup>(6)</sup> For periods prior to July 7, 2006, represents management's estimate of capital expenditures for Bell Aliant Holdings LP, had it been in operation for the entire year 2006. Capital expenditures include Bell Aliant Holdings LP's proportionate share of capital expenditures for Bell Nordiq Group Inc. and AMP during the periods where we owned less than 100 per cent of these businesses.

<sup>(7)</sup> The operations of SalesBridge Canada Inc. and Aliant Directory Services have been restated in discontinued operations. Their contribution to distributable cash is shown separately.

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 June 30								
(millions of dollars, except for per unit / share amounts)	2005		2006				2007	
	Q3	Q4	Q1	Q2	Q3	Q4 <sup>(1)</sup>	Q1 <sup>(1)</sup>	Q2 <sup>(1)</sup>
Operating revenues	\$501.0	\$516.4	\$527.7	\$516.5	\$802.8	\$837.3	\$851.4	\$825.4
Pro forma operating revenues <sup>(2)</sup>	\$811.4	\$822.1	\$821.9	\$814.9	\$825.1	\$837.3	\$851.4	\$825.4
EBITDA <sup>(2)</sup>	\$215.3	\$216.1	\$212.0	\$216.0	\$355.6	\$363.9	\$349.5	\$358.1
Pro forma EBITDA <sup>(2)</sup>	\$362.9	\$367.6	\$352.9	\$363.2	\$366.7	\$363.9	\$349.5	\$358.1
Operating income <sup>(2)</sup>	\$94.5	\$97.3	\$88.8	\$91.7	\$184.3	\$186.0	\$171.6	\$55.8
Pro forma operating income <sup>(2)</sup>	\$184.0	\$188.0	\$171.6	\$180.8	\$194.2	\$186.0	\$171.6	\$55.8
Net earnings (loss) from continuing operations	\$44.7	\$50.6	\$35.3	\$47.9	\$2,930.1	(\$132.6)	\$83.0	\$44.9
Net earnings from discontinued operations	6.1	4.6	4.9	5.3	5.5	5.6	5.5	260.3
Net earnings (loss)	\$50.8	\$55.2	\$40.2	\$53.2	\$2,935.6	(\$127.0)	\$88.5	\$305.2
Basic and diluted earnings per unit / share from continuing operations	\$0.33	\$0.38	\$0.26	\$0.36	\$20.07	(\$0.87)	\$0.54	\$0.29
Basic and diluted earnings per unit / share from discontinued operations	0.04	0.03	0.04	0.04	0.04	0.04	0.04	1.71
Basic and diluted earnings per unit / share	\$0.37	\$0.41	\$0.30	\$0.40	\$20.11	(\$0.83)	\$0.58	\$2.00
Distributable cash <sup>(2)</sup>					\$185.9	\$185.9	\$190.6	\$160.2
Cash distributions declared					\$141.0	\$141.0	\$166.2	\$163.5
Preferred share dividends	\$2.4	\$2.4	\$2.4	\$2.4	-	-	-	-
Common share dividends declared	\$38.1	\$37.6	\$39.5	\$39.5	-	-	-	-

<sup>(1)</sup> Q4 2006, Q1 2007 and Q2 2007, represent as reported results and are not pro forma.

<sup>(2)</sup> Pro forma operating revenues, EBITDA, pro forma EBITDA, operating income, pro forma operating income and distributable cash are non-GAAP measures. Refer to the "Non-GAAP financial measures" section for more details.

Our 2005 results, which reflect the operations of Aliant, exhibit strong growth and a full recovery from the 2004 labour disruption. Net earnings for the first quarter of 2006 were 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 results for the fourth quarter of 2006 were negatively impacted by future tax expense of \$225.1 million related to the gain on the disposal of Aliant's wireless operation. Operating income for the second quarter of 2007 includes an additional \$125.3 million charge to depreciation and amortization for the period from July 7, 2006, to June 30, 2007, as a result of the purchase price allocation adjustment, partially offset by future tax recoveries related to this depreciation and amortization, tax rate changes and recognition of the benefit of tax losses not previously recognized. Earnings per unit for the second quarter of 2007 reflect the gain on sale of our 87.14 per cent indirect interest in the net assets and operations of ADS.