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Dvai Ghose

Genuity Capital Markets

Greg MacDonald

National Bank Financial

Chris Li

Merrill Lynch

Nima Billou

Bloom Investment Council

PRESENTATION

Operator

All participants please stand by; your conference call is ready to begin.

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

Zeda Redden, Vice President, Investor Relations

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

Last evening we issued our second quarter news release and our financial statement and MD&A which are posted on SEDAR and also on our website. Today we will be taking you to a slide presentation, which is also on our website and our call will focus on our Q2 results.

As always we caution you that today's statements may contain forward looking information relating to the finances and operations of the company and our discussion is qualified by the cautionary statements at the beginning of the slide presentation and those listed in the MD&A and news release.

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

Stephen Wetmore, President & Chief Executive Officer

Thank you, Zeda. Good morning everyone.

As far as our agenda for today I want to give you an update on a few issues within our industry. I also have a labour negotiation update for you and then I'll cover our second quarter performance. I have also asked Heather Tulk, our Senior Vice-President of Marketing, to join Glen LeBlanc, our CFO, and me this morning to give you a little more insight into our marketing strategy in our forborne world and the progress we are making with our TV product in Atlantic Canada.

In addition to providing you with more detail on our quarterly results Glen will also update you on our productivity savings to date and our outlook for the remainder of 2007.

First, I am aware that a number of you want to know more about the BCE privatization and the potential impact to Bell Aliant. During the last quarter with the approval of our independent directors we presented Bell Aliant to each of the bidding groups at that time to give them some further insight into Bell Aliant; however, with the exception of these presentations there is really nothing from our perspective to report. There has been some speculation on how Bell Aliant could be affected, but again its speculation and we really have absolutely nothing to comment on.

Most importantly, as I am sure you all know, on July 25th we were granted forbearance for residential services in 72 exchanges in New Brunswick, Nova Scotia and PEI. We have waited a long time for this decision and we look forward to competing head to head for the first time. The best news in all this is for our customers, and Heather Tulk will expand in a few minutes on what this will initially mean to us.

With respect to our residential market forbearance applications in Ontario and Quebec, the CRTC required some additional quality of service information. We are filing this information today and these quality of service results do meet the required standards for forbearance.

We also have a number of outstanding applications before the CRTC with respect to business market forbearance across our territories. We are optimistic that the CRTC will respond to all these applications in a timely manner as well.

On our last call we talked briefly about the price caps announcement which was also a positive development in our regulatory environment. Since that time we have implemented changes including modest price increases in various areas of our business where current market conditions warranted as well as new promotions and offers to generally strengthen our market positioning. We will use the flexibility of both forbearance and the new price cap regime to fight aggressively for customers and very importantly ensure stability in the revenue profile of our business.

Before I speak to the results I also wanted to highlight an important development for us with our unionized employees. Last week the communications energy and paper workers Atlantic council ratified a new agreement, which essentially extends the life of the current agreement from December 31, 2007 to December 31, 2011 for all our unionized employees in Atlantic Canada. In July the CEP local number 6, representing some of our unionized staff at Bell Nordiq, also ratified a new agreement which will expire in February of 2011.

Obviously with our entire organization driving hard towards improving our customer service, the demands we face to adjust quickly to competitive pressures and also adjust in terms of the stability we need in our business model on so many levels, I am extremely pleased to have these agreements in place at this time. We look forward to continuing the dialogue with the rest of our unionized staff in the provinces of Ontario and Quebec in the months ahead.

In terms of our second quarter financial performance, our results were slightly below where we would have liked them to be with the main issue being a retroactive adjustment to data revenues of \$3.1 million, which reduced our revenue in the quarter and also went right to the bottom line impacting EBITDA and distributable cash. The adjustment is related to the CRTC's decision to require ILECs to reduce rates for basic extension services to wholesale customers and it was retroactive to June 2002. Without this adjustment we are quite close to where we expected to be after six months and we remain confident of achieving our guidance ranges as we set out for you in February of this year.

I should also say that the completion of the second quarter of 2007 is also the completion of our first 12 months of operations. New operations always provide more than their fair share of surprises so we all look forward to even more predictability in our operations as we start our second year and move away from pro forma comparison.

In terms of CapEx, as planned we increased our capital program in the second quarter and commenced our accelerated spending in our fibre to the node program for 2007. By the end of June we had made substantial progress, more than doubling the homes passed with FTTN with over 100,000. As we told you at our business review in February, we plan to invest an additional \$35 to \$45 million above our base FTTN plan during 2007; however, to date we have only incurred approximately \$5 million against this accelerated plan.

Our productivity programs continue to be of paramount importance for our financial and operating performance and in general are progressing as expected, ramping up as the year goes on, and Glen will provide you with more detail in a few minutes. In hindsight we should have accelerated our productivity programs in the fall of 2006 to get a better jump on 2007; however, we are on track for the full year but skewed towards the last two quarters.

All this activity has negatively affected our distributable cash in the quarter, which following our strong performance in the first quarter now brings us very much

in line with where we had expected to be after the first two quarters of 2007. We remain confident with our annual guidance and, again, Glen will provide you with more detail.

If we were reporting as a corporation versus a trust we would also be commenting on the finalization of our purchase price allocation, which has had a significant impact on asset categories and depreciation amortization expense in the quarter.

So now let me make some specific comments on our revenue line items. On slide six we show that the quarter's revenue has grown 1.3 per cent or \$10 over the same period as last year with Internet and IT revenues supporting the increases. As I mentioned, we had a \$3.1 million unfavourable adjustment to data revenue and without this adjustment our revenue growth would have been 1.7 per cent. Local and long distance had year-over-year declines but in line with our expectations.

On slide seven, our local revenue decline of 1 per cent in Q2 on a quarter-over-quarter basis on a 2.8 per cent decline in NAS shows that the relationship between our NAS decline and revenue decline continues to be positive. There was growth in our competitive footprint. This growth was primarily in New Brunswick and Ontario, where local service competition was launched in several northern and central New Brunswick communities and competition also opened up in the Sudbury area.

As noted on the chart, the competitive footprint grew to 41 per cent homes passed up from 37 per cent at the end of Q1. We expect more competitive growth through the rest of the year, likely reaching around 50 to 55 per cent by year end. In fact, in the month of July we have now seen our second largest market, St John's, Newfoundland and Labrador, open to local competition bringing our footprint up to 43 per cent of our households as of right now. As we have told you previously, we had expected to see this happen during 2007 and had been preparing our marketing activities for some time.

Despite this increase in competitive footprint, NAS declines in Q2 were slightly lower than Q1 2007 with improvement in all provinces and in line with the expectations that we set out for you in our February business conference.

We have been working with the regulatory changes introduced in April and have done very well with win-backs in the quarter up over 80 per cent from Q1. Penetration from voice calling features were also strong. In Atlantic Canada we continued to have great success with our value package that combines local service and

features and net activations of this product were up over 100 per cent compared to Q1. In early April we introduced a similar offering in our Ontario and Quebec market place called "Home Phone Choice" and are using this package to up-sell calling features to our customers there as well.

We also continued to have success with our Internet value packages in Atlantic, our new Internet and local bundle in T el ebec territory and our newly introduced Bell bundles in our Bell-branded territory of Ontario and Quebec. All of these products are designed to encourage our customers to purchase more products from us and to make it more compelling to choose us as their single telecommunications provider. You have heard from us many times about the retention benefits of these offerings and we are seeing them work in these new markets as well. In the T el ebec territory, where we have launched our new (inaudible) plus package we have seen losses fall dramatically with losses in Q2 less than half of Q1.

Similarly in the business market we introduced a range of new bundled solutions to our customers this quarter. In Atlantic Canada we introduced new business value packages this quarter which included local service features, long distance, and Internet. In Ontario and Quebec we also introduced two new bundles, the business essential bundle and the start-up bundle. Sales of the bundles are going very well for us in the SMB segment and as an example we now have over half of our small business customers in Atlantic Canada buying through one of our bundles.

As you have heard us say before having customers in value packages or bundles greatly reduces churn and results in overall higher average revenue per customer. With these new offerings we now have bundles in place as a key strategy in all our provinces and in both our residential and SMB segments.

The new price cap regime announced on April 30th allowed us to take some pricing action over the last several months. We applied for and received approval for several rate increases across numerous product lines and market segments. Although the recent forbearance decision reduces the number of our lines under the price cap regime, the new flexibility and opportunity of the price cap regime does still apply to a significant portion of our territory.

Moving to slide eight on long distance revenue, declines in this area were held to 3.9 per cent, well below the rates of decline we were seeing even a few quarters ago. The effects of a declining NAS base and long distance usage

have been partially offset by pricing changes and increased fixed rate plan penetration.

Minute decline loss 4.2 per cent over the same period last year, driven primarily by changes in the buying behaviour of our enterprise customer base and of course the flow-through of our residential local losses. The revenue impact of this minute decline is mitigated by increases in the number of customers on fixed block of time and unlimited plans. The revenue declines of less than 5 per cent are welcome news given past performance and we're confident that this performance can be maintained for 2007.

As shown in our information technology revenues on slide nine, xwave had revenue growth of 21.8 per cent for the quarter with growth from both fulfillment and our services revenues. Professional services growth came from gains from the health care and defence verticals, largely from the commencement of work on contracts which were awarded during 2006. I am pleased with the revenue growth and also with the contracts we are winning, including several new ICT customers this quarter, and in our managed service portfolios we successfully renewed all of our public sector outsourcing contracts. And, as you have seen throughout the year, xwave's revenue growth has been strong and staying in the double digit range.

That said, our margins on services have not met our expectations. We know that IT is an integral part of our business and have done an extensive review of our IT operations over the last several months to refine our focus. We have made organizational changes with David Rathbun taking on the leadership role for xwave and we are committed to making this business more profitable and stronger as we move forward.

Slide ten shows continued strong growth in our Internet business this quarter with total Internet revenues up 11.1 per cent over the same quarter last year, driven by high-speed customer growth of over 20 per cent. I am sure that you have noticed that the trend for residential high-speed average revenue per customer has changed this quarter from what we have shown previously. Promotional pricing to get more subscribers online with us and a reclassification impacting Q1 reported Internet revenues resulted in declining average revenue per customer trend in the first two quarters of 2007.

We are making a conscience effort to improve penetration in competitive areas and underserved areas with aggressive acquisition offers and marketing campaigns. These programs are increasing our subscriber base and will drive future revenue

performance as customers move off the introductory offers onto higher rated permanent plans.

In addition to driving penetration in the served markets, we continued to add new products to expand the scope of our Internet business. In the quarter we introduced the inclusion of wireless hotspot access for our high-speed Internet customers in Atlantic Canada and of course we continued to see very strong success from our PC purchase and same-day installation programs throughout our territories.

We also continued to lead the industry with new categories of services for our customers. An example of this is the recent launch of our Aliant Expert suite of home support products. This product suite offers customers a range of help services from help with your digital camera or MP3 player to remote PC repair to an in-home visit to set up your home network. Similarly, in the small business market we continued to introduce services that allow us to evolve beyond access in the Internet market. We introduced a number of new IT solutions for the SMB market in Q2, including a new firewall service, IT security assessments, and our workflow automation consultant. We also continue to invest in expanding our homes passed for high-speed Internet and have increased our homes passed by about 24,000 homes in the quarter.

So with that, let me pass things over to Heather now to let her speak a bit about our TV and then to comment on how we plan to use forbearance. Heather?

Heather Tulk, Senior Vice-President, Marketing

Thanks, Stephen.

As Stephen mentioned earlier, we had expanded our fibre to the node network. We're now over a 100,000 homes in the Halifax, St John's, Saint John, Moncton and Fredericton areas, and we are very pleased with the momentum that that build has taken this quarter and it is ramping up quite nicely to ensure that we reach our goal of about 190,000 homes passed by year end.

Our TV business is also trending nicely as this footprint unfolds. As you know, at this point we have had a very limited launch and only sell our TV service within an Aliant value package to customers who also take high-speed Internet with us. It's, as we have told you before, a fully digital TV service offering one 150 TV channels and over 90 music and radio stations. Service does have access to pay-per-view movies, an electronic programming guide, and local content, and customers

are responding very well. We have seen very strong customer growth for this TV service in all the markets where we have launched it and in Q2 our customer additions were 85 per cent higher than Q1 on a footprint that was 48 per cent higher.

Over 20 per cent of our high-speed customers in the footprint we passed now also take our TV service from us and in the Halifax area, where the service was first launched, this service is now more than 25 per cent. Average revenues per customer is also trending nicely and has grown 11 per cent year over year.

We continue to evolve the product and just yesterday we introduced a new mpeg4 compatible set-top box, which will position us for future service enhancements such as high definition, MPVR, and also enable a third TV solution which we will introduce later this year.

We are also focused on continuing to improve the customer service experience and service reliability of our product and this is paying off for us as we have reduced churn by almost 30 per cent over the same period last year and it is also bringing productivity benefits, which Glen will touch on later.

Overall the TV business is ramping up nicely for us and we are pleased with this progress in terms of customer satisfaction, subscriber growth, revenue growth, and product evolution.

Now the other thing Stephen asked me to talk about was the major forbearance announcement last week. Where, as you know, we were very delighted to finally receive forbearance in 72 exchanges in Nova Scotia, Prince Edward Island, and New Brunswick, and this has been long awaited reform for us, dating back to our original application over three years ago.

I know you are all very interested in what forbearance will mean for us and for our industry. I think the most important thing for forbearance is that it creates a more even playing field for telecommunications competition in our region. Much of the speculation in the industry about a post-forbearance world seems to revolve around price but, as I've said before, we do not seek forbearance as being primarily about price at all. Rather it is about flexibility. In a forbore environment we have the opportunity to create new market opportunities, the flexibility to respond quickly to market changes, and the ability to address variability in the needs of our particular customers or market segments.

The other aspect of forbearance is that it will remove a vulnerability that we have with respect to competitors

using the local service category as something equivalent to a lock leader so to speak, heavily discounting that product in our market to pull other products while knowing it is extremely difficult for us to respond to that message.

Perhaps most importantly, forbearance will allow us to clearly communicate our total value proposition to our customers without artificial and regulated segregation of the local service from other pieces of the solution with Bell.

As Stephen mentioned, we have many outstanding applications with the commission for other residential markets and the business market as well, and there are also other markets where we will be applying for forbearance shortly. But we are very pleased that at least in these 72 exchanges we now operate on a level playing field. We have already begun to implement changes based on this ruling and over the coming months you will see us use this flexibility to operate in a much more dynamic way to improve our sales performance for local service in our territory.

And with that I will hand off to Glen.

Glen LeBlanc, Chief Financial Officer

Thanks, Heather, and good morning everyone.

As Stephen has covered off the revenue trends I'll start off with our productivity initiatives and customer service improvements, which are going to be the main story on the cost side.

In the quarter we had productivity savings of \$1.9 million, \$5 million more than the \$14 million we enjoyed in Q1, bringing our year-to-date total to \$33 million. Our productivity programs are on plan and ramp up as the year goes on as we continue to be confident in our ability to deliver to the \$75 to \$85 million I discussed with you on investor day. These productivity improvements have helped to offset increases in other operating costs, primarily cost of sales associated with our IT fulfillment and normal wage increases for our union and non-union employees.

As shown on slide 12, savings so far this year have primarily come from supply transformation category, a portion of this from our outsourcing agreement with Bell Canada; however, the real benefits come when we are able to have productivity improvements along with improved customer service. As an example, in Q2 we introduced a new self-install registration process that

makes it faster and easier for new Aliant high-speed Internet customers to get connected. Through these new capability customers can self-register for Aliant high-speed Internet and create their own user name, email address, and passwords during an online activation process and begin using their service instantly. Customers also have access to self-serve capability to manage their online identity and change their own passwords on an ongoing basis. High-speed online registration streamlines the provisioning process and reduces calls to our Internet help desk.

As Heather mentioned, we also made changes to the TV installation process in Newfoundland with a resulting 15 per cent improvement in TV installation time. Shift schedules for TV technicians were modified allowing technicians to complete one additional install per day. But as well we introduced a new adapter which enables the technician to use the existing wiring in the house, rather than install new CAT 5 wiring. Based on the success of this trial these changes are now being extended to Nova Scotia and will become part of our standard TV installation process.

On slide 13 we show a year-over-year comparison of EBITDA, taking a look at capital taxes which are included in 2007 operating expenses to give you a better year-over-year comparative. As we talked about last quarter, 2007 expenses include taxes, capital taxes, which are higher since the creation of Bell Aliant last July and these are now classified as operating expense where previously they were netted in other income outside of operating income but were immaterial. The full impact of capital taxes in 2007 negatively impacts the 2007 over 2006 change in EBITDA. Without this capital tax adjustment our EBITDA declined by 0.3 per cent in the quarter and on a year-to-date basis is flat, despite the 3.1 million dollar adjustment to data revenue, which Stephen previously mentioned.

The EBITDA margin is down from a year ago as expected as our revenue mix changes with the movement to lower margin product and service; however, the decline is not as significant as it was in Q1 where we had substantial IT fulfillment sales with lower margins than other revenues provide. The EBITDA margin we experienced in Q2 is more inline with what we expect to see for the rest of the year.

With respect to distributable cash, slide 14, it is down \$7 million in the quarter but essentially flat year over year where we had good growth in Q1. If you recall our distributable cash guidance for 2007 is actually lower than our 2006 distributable cash due to our FTTN acceleration and the sale of our directories business. So

to be flat year-to-date is just about where we expected to be; in fact, with half the year complete we've generated just about half of our annual expected distributable cash.

Now with our capital intensity guidance you know that we will be ramping up our capital spend in the second half of the year, meaning that in order to achieve the distributable cash guidance EBITDA has to be better in the second half of the year than it was in the first half. This is very doable. If you look at our historical results, EBITDA is typically higher in the second half of the year than the first half with the first quarter traditionally being the weakest.

We are implementing selected price increases for features, local service, pay phones, and long distance. Seasonality along with the increased productivity that we expect in the second half of the year and the selected price increases puts us squarely within our guidance range.

This quarter also gives you a picture of the impact of our M&A activity on our distributable cash. Net of the higher interest expense from financing the acquisition, the minority interest at Bell Nordiq, is adding \$8 million to distributable cash compared to Q2 2006. With the sale of directory assets effective April 30th, we are down \$5 million compared to last year's Q2. Since each of these chain of actions also has related unit issuance and repurchases, we anticipate the impacts will be basically neutralized on a per-unit basis once share purchases are complete. To date, we have purchased just over 7.7 million units, 6.7 million to the end of June under our NCIB, still targeting to spend the \$330 million received from the directory sale.

My last slide just serves as a reminder to what our guidance for 2007 is and where we stand. As I have stated, based on where we are year to date and our outlook for the rest of the year we are on target to achieve these results.

Now as CFO I have to stand back and look at these results to determine if it makes sense in the big picture. As you can imagine, I have reams of data and models with forecasts and assumptions to support future expectation, but stepping back here is where it is that I see it that gives me confidence to achieve our annual targets for distributable cash.

We are half way through the year and have generated \$351 million of distributable cash. In a stable business like ours some may just take the year-to-date result and multiply it by two to get a projection of where the year will end up. So does that make sense to do in our case? At

first glance typically our EBITDA performance is better in the second half of the year than the first half, so roughly double should be conservative. Then we plan to get additional productivity savings in the range of about \$15 million in the second half of the year and price increases should add about another \$10 million. These additions will put us in the \$730 to \$740 million range for distributable cash. So, a little more than double. However, as you know, we plan to accelerate our FTTN spend, as Stephen already mentioned. Since we have spent roughly \$5 of this accelerated plan year to date and our CapEx in the second half of the year needs to accommodate this extra \$25 to \$35 million. If I take this off I get back to our guidance of \$690 to \$710 million for the year.

We have talked about some other things, one timers, retroactive revenue adjustments, and expense items that have hurt us in the first half of the year, but in fairness we have also gained distributable cash from a business that's now discontinued, our Yellow Page operations. So those items are basically a wash and won't factor into the second half.

So doubling our year's performance year to date with these puts and takes, as I sit back and look at it, it looks reasonable. I hope this helps explain some of the questions on our performance and with that I am going to open the call up to questions, so operator, over to you.

QUESTION AND ANSWER SESSION

Operator

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

The first question is from Dvai Ghose. Please go ahead.

Dvai Ghose, Genuity Capital Markets

Yeah, thanks very much. A couple of questions if I may. First of all, the spike in post-paid wireless churns, 2.4 per cent from 1.1 per cent, is that migrations from pre-paid? Some have suggested loss of federal government

contract from Bell. I am not sure if that impacts you or not. I know it is only a small part of your business but some colour there.

And my second question is to do with the NCIB. I guess 13.7 million you allowed to repurchase you've done 6.8 million so far, so about half, but I think you said in your investor day that it would kind of be done in the first five months of the year with the proceeds of directories. I am also wondering with debt to EBITDA with around 1.9 times whether you see the NCIB as being a recurring event or just a use of, you know, directories proceeds, which by definition would be a one-timer?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good morning, Dvai, it's Glen

Dvai Ghose, Genuity Capital Markets

Good morning, Glen

Glen LeBlanc, Chief Financial Officer

I will touch on your wireless question first. Our net adds in wireless for the last 12 months are reported of 14.7 per cent are up about 11,288 units from a base of 76,927; however, I commented in the first quarter that there was an adjustment of about 4,200 units as we had an analog pre-paid service that really wasn't earning the kind of money that we were looking for, so we shut that down. As well in the second quarter we had an adjustment of 2,661 customers where we did a records clean up. When we look in our billing system there is duplication and customers that are generating zero revenue but had not be adjusted out of our customer accounts. If I adjust for those two then you'd see our customer adds for the first six months is around 18,000 or growth of 26.3 per cent. And that's more in line with my expectation and more in line with what you will see go forward. As well, it better ties to the revenue you see of 19.2 in the quarter and 16.7 year to date. That also explains your observation on churn. Churn jumping from 1.4 to 2.4. I expect that to go back to more in line to our historic 1.2, 1.3., 1.4 rates. So I think that explains a little bit of what we have seen in wireless and your observations there.

On your question about NCIB, you're correct, a little over half has been completed. When we would have announced the NCIB it was our anticipation that we're permitted to buy 2 per cent of the outstanding shares per month, which essentially intending to buy 10 per cent of

the public float back would have taken us five months to complete. However, volumes have been extremely low and have not permitted us to buy back the volume we would have desired. So we have been slower in being able to complete this than we had liked and it is going to take me probably closer to eight months to complete it, so the September/October time frame. We would anticipate utilizing that \$330 million to complete our NCIB program. So yeah, we do intend to spend that fully on NCIB.

As far as go-forward one-time events, that is a decision that we make kind of annually with our board about our structure, our capital structure, and whether or not the high yield warrants us looking at whether or not we'd perform other NCIB's.

Dvai Ghose, Genuity Capital Markets

Right, and so now you're sticking to your around two-times debt to EBITDA leverage target?

Glen LeBlanc, Chief Financial Officer

That's correct. We're there. So roughly, you know, that 1.9 to 2.1 that we have been floating about the last number of quarters is correct.

Dvai Ghose, Genuity Capital Markets

Thank you very much Glen. Appreciate it.

Glen LeBlanc, Chief Financial Officer

My pleasure, Dvai.

Operator

Thank you. The next question is from Greg MacDonald, National Bank Financial. Please go ahead.

Greg MacDonald, National Bank Financial

Thanks, good morning guys. A question I have is on the pension funding requirements, one of the things that I think investors look at a little bit more for your units than for other units and stocks. I wonder if you might just remind us of, ah, or bring us up to date on what the cash

funding requirements are on either per-quarter or per-year basis, if you could break it down between what's going toward under funded versus normal funding.

And then I think the more important issue, just remind us again of the sensitivity to interest rates there. I think you had talked about in the past for each 25 basis point increase in rates there's a fairly large decrease in the under-funded requirement. If you could help us with that. And I think that decision is made at the end of every fiscal year, am I correct in that? Thanks.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good morning, Greg, it's Glen. I will touch on your first question which was, again, reminding of our funding requirements of pension.

Cash contributions for current service is up to about \$33.3 million for the first six months of 2006 and I think that's indicative of the current service funding levels of around \$65 to \$69 million per annum that you'd see. Up a little bit from what you've seen in 2006 due to increased pensionable earnings as well as lower interest rates.

When we look at the deficit side, I remind you the size of the deficit was about \$438 million when we created Bell Aliant. I would say today it sits at about \$330 million; however, that includes \$18 million for Bell Nordiq that would not have been in that \$438 number I quoted. So we are down around \$120ish million in the deficit.

The funding requirement on that deficit for 2007 we expect to be around \$35 to \$37 million and I look out to 2008, that will be closer to \$40 to \$45 million. So in total there I would have given you a \$65 to \$69 million for current service and \$40 to \$45 million in 2008 for the deficit funding.

You're right; we would have talked on our previous calls about sensitivity to fluctuations in interest rates. We've done a lot of work on our pension fund and in the mix we have in our assets, which at one time was around 60 per cent equity and 40 per cent bonds, and we're moving that now to about 40 per cent equity, 60 per cent bonds, so let me speak about net changes in interest rates and what that would mean.

About a 25 basis point change in interest rates would mean somewhere in the vicinity of \$45 or \$50 million change in the deficit. I think that touches on what you are looking for, Greg.

Greg MacDonald, National Bank Financial

Okay. And just to be clear, the 2007 estimate versus what you are assuming for 2008, I think you mentioned \$35 to \$37 versus next year \$40 to \$45?

Glen LeBlanc, Chief Financial Officer

That's correct.

Greg MacDonald, National Bank Financial

Is that based on the assumption that rates stay the same and what is that rate assumption?

Glen LeBlanc, Chief Financial Officer

That is based on the rate staying the same. It's 5.35 per cent with the rate assumption. And the reason why it's slightly going up from \$35 to \$37 million this year to \$40 to \$45 million next year is because we had made some voluntarily funding historically and we're drawing down on that voluntarily funding, so that is going to come to an end.

Greg MacDonald, National Bank Financial

Okay. So essentially if we see any material change between sort of the beginning of summer or first quarter, I think that 5.35 was pegged in the first quarter, right? Or was that the beginning of last year? Or sorry, beginning of this year?

Glen LeBlanc, Chief Financial Officer

End of 2006.

Greg MacDonald, National Bank Financial

End of 2006, okay. That's helpful, thanks.

Glen LeBlanc, Chief Financial Officer

You're welcome, Greg.

Operator

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

Chris Li, Merrill Lynch

Hi, good morning. Just a couple of quick questions. There was a spike in the business access line losses during the quarter; just wondering was there a loss of a major customer or it's just due to increasing competition?

Heather Tulk, Senior Vice-President, Marketing

Actually, Chris, the spike that you see in there is actually just some routine clean up of billing accounts and there is actually removal of about 4,000 lines there. And net of that it's pretty flat.

Chris Li, Merrill Lynch

Okay. And that's a one time thing.

Heather Tulk, Senior Vice-President, Marketing

That was a one-time clean up that we did.

Chris Li, Merrill Lynch

And with respect to the win-back promotions during the quarter, can you give us a sense of how successful the win-backs have been so far in terms of how many customers you were able to win back during the quarter and how that impacted the residential line loss for the quarter?

Heather Tulk, Senior Vice-President, Marketing

I don't think that we traditionally disclose our declines gross and net, so I wouldn't be able to get into that, but as I mentioned we are seeing um win-backs improve dramatically. I would still like to see that get quite a bit better and certainly that is one of the things we're looking for with both the regulatory changes at a price cap and forbearance with respect to the removal of the contact restrictions and the ability to actually have win-back promotions on a consistent basis, which is really new to us. So this would have been the first quarter that we

would have seen the impact of those changes that came in, as you know, right at the tail end of first quarter with respect to price cap and drove that improvement. And certainly our goal, and I would have said that, you know, it's about 80 per cent better quarter over quarter. And it's certainly not something that we have in our sights to be able to continue to build on go-forward.

Our experience in the past in all of our other lines of business with respect to both savings churn and also recovery of churn through win-back is that the earlier you can contact that customer then the more your win-back performance is, and that is certainly where we saw most of these improvement in the ability to contact customers earlier. So we will continue to work on that go-forward. So I'm very pleased with our progress to date and certainly we're not stopping there.

Chris Li, Merrill Lynch

And what would be a typical win-back offer? Is that mostly on free installation or equipment or is it sort of a rate discount for the first 12 months?

Heather Tulk, Senior Vice-President, Marketing

They vary quite a bit by segment and which competitor you're talking about and, you know, what the offer is. They tend to have an installation or, you know, as table stakes I would say, a waiver of installation charges and then the specific offer. Sometimes there are up-front incentives, you know, gift with purchase type things, sometimes they are revenue reductions over a certain timeframe, sometimes they're special offers in terms of value added services or other. I mean there is quite a variation in them.

Chris Li, Merrill Lynch

Okay. Okay, great. Thank you

Heather Tulk, Senior Vice-President, Marketing

And of course for competitive reasons they change really, really frequently.

Chris Li, Merrill Lynch

Thanks.

Operator

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

Nima Billou, Bloom Investment Council

I wanted to get a sense, I know it's a smaller part of the business, but you spoke a lot about the xwave and the services side. Do you feel like you need to dedicate more resources to that unit or is it withdrawing resources away from the core business in terms of management dedicated to turning it around? And I just wanted to get a sense of what sort of timeframe you see in terms of turning around and increasing the margins in that business.

Stephen Wetmore, President and CEO

Well I think, about a third of the business is actually services, so \$120, \$130 million a year is really what we would really classify as services revenue, and when you take a look at that services revenue and break it down, one, between verticals, two, between geographic segments, it gives us a very, very good understanding of what we are making in different markets and different jobs, if you will. Isolated then to what our expertise is. And I think we are experiencing they types of margins, you know, 30 plus per cent type service margins within more mature markets in Atlantic Canada as we—so therefore we have to be very careful as to what we do outside of the Atlantic region in general, the margins aren't quite as high, and so that's where I believe they all have to be up at that level and on a blended rate we're not there. So we're very much watching our chargeability rates and utilization rates in specific segments and certainly in geographic segments as well.

Nima Billou, Bloom Investment Council

Okay. And on the local side, you did a good job of offsetting the line losses with what I think is probably an increase in local ARPU. I just want to get a sense of what initiatives you're undertaking again just to refresh that are able to combat the line losses.

Heather Tulk, Senior Vice-President, Marketing

Well there are a number of them that we would have mentioned. One of them of course is feature penetration and increasing the number of our customers who are purchasing multiple features. So I think that Stephen would have talked about, our local value package in Atlantic Canada and our home phone choice products in Ontario and Québec, which incents our customers to purchase more features from us, and that drives feature penetration.

There has been some selected rate increases in a couple of places, primarily in the business market so far year to date and certainly we're moving to a number more that you'll see come in in the next two quarters based on the recent changes to the price cap regime. So they'll flow through in the future quarters. But to date, you know, quite honestly it's been mostly a combination of feature penetration and also we work really, really hard to make sure that our most valuable customers want to stay with us and that we have the right offers to incent those customers to be with us.

Nima Billou, Bloom Investment Council.

Thanks very much.

Operator

Thank you, once again, please press star one for any questions.

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

Zeda Redden, Vice President, Investor Relations

Thank you very much for joining us today and I'm sure we will be speaking to you over the next several days.

Operator

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