CORPORATE PARTICIPANTS

Zeda Redden
Vice President, Investor Relations

Karen Sheriff
President & Chief Executive Officer

Glen LeBlanc
Executive Vice-President & Chief Financial Officer

Heather Tulk
Senior Vice-President, Customer Solutions

Eleanor Marshall
Vice-President & Treasurer

CONFERENCE CALL PARTICIPANTS

Neil Seneviratne
National Bank Financial

Glen Campbell
Merrill Lynch

John Henderson
Scotia Capital

PRESENTATION

Operator

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

Zeda Redden, Vice President, Investor Relations

Thank you, operator, and good morning everyone. Welcome to Bell Aliant's Q1 2009 results call.

Last evening we issued our news release and Q1 MD&A and supplementary information package, which are posted on SEDAR and also on our website, and also posted on our website is a slide presentation that we will be taking you through on this call.

Today's agenda is listed on slide two of the presentation and, as always, we caution you that today's comments may contain forward-looking information related to the finances and operation of our Company and our discussion is tempered by the cautionary statements on slide three of the presentation and those listed in the MD&A and new release. We have scheduled the call for up to an hour including the presentation and then a question and answer period.

With that I'll turn the call over to Bell Aliant's President and CEO, Karen Sheriff.

Karen Sheriff, President & Chief Executive Officer

Thank you very much, Zeda, and good morning everybody. I know it's a very busy day for all of you so we will keep this on track.

As far as our agenda for today, I will speak to where we are with respect to our strategy and then discuss the quarter's financial highlights with an overview of our revenue performance. I will then hand it over to Glen LeBlanc, our Chief Financial Officer, who will take you through our EBITDA, CapEx, and distributable cash performance. Heather Tulk, Senior Vice-President, Customer Solutions, and Eleanor Marshall, VP and Treasurer, are also with us today for the Q&A session.

We had a good start to the year with our first quarter results meeting our expectations. We are executing on the strategy we laid out for you in February and I'm pleased with our performance so far, particularly in light of the challenges with the current economy.

Turing to slide five, with our 2009 strategy as a backdrop to our financial performance, the first quarter included the execution of a significant management restructuring which resulted in approximately 500 managers leaving the company. The restructuring was largely completed by mid-February and was organized and executed in a manner that caused minimal disruption to ongoing operations. As we mentioned last quarter, the cost of the program was $60 million and we expect a one-year payback, a portion of which we started to realize in the first quarter. I am very proud of the professionalism that all of our employees have demonstrated over this time and want to thank all of them for their efforts as we move forward.

In addition to the management restructuring we have reached an agreement with our union leadership in Atlantic Canada and the Teamsters Union in central Canada representing some of our technical employees in the Télébec serving area to reduce the number of unionized staff. While the size of this initiative is small, we are very happy that we've been able to work successfully with the unions to find a way to reduce staff and arrive at a mutually beneficial outcome for some of our unionized people and the Company. We see this as a small but important accomplishment to prepare the company for the future.

Next, as part of retaining our customers, we have taken steps to improve the positions of our brands and building stronger brand equity with our customers. Just last week we launched Bell Aliant as our market-facing brand in our telecom operations in Atlantic Canada. In Ontario and Quebec we will continue to leverage our existing brand while building a closer linkage between them and Bell Aliant.

As I have mentioned previously, expanding broadband and investing in broadband development is also a key strategic objective for us and in 2009 we expect to increase our spend on broadband expansion and new services by over 20 per cent from 2008 levels. Our expansion is on track and in the quarter we expanded our high-speed Internet network to pass an additional 9,000 homes, bringing our internet coverage to 75 per cent of homes passed. We also continued to expand our FTTN footprint, which now passes about 240,000 homes. In terms of enhancing our broadband services in the quarter we increased the number of HD channels available and introduced PVR in our IPTV service and now offer the most high-definition recording time in our market.

An important initiative in our 2009 strategy is the completion of our construction of a data network to provide HSPA backhaul for Bell Mobility. The project is on schedule and given its importance I want to spend a little time explaining a bit about our rationale for this project.

We pursued this initiative with Bell Mobility as it was an attractive investment opportunity for us. As part of our commercial agreements with Bell Canada, Bell cannot construct network transport facilities in our territory without our consent. That is, we have the sole right to construct these facilities. The new capability that this investment will provide will ultimately replace the use of the technology we currently use for backhaul of cellular traffic. The project has a payback of less than five years, updates the technology in our network for the requirements of the future, provides a long-term revenue stream from Bell, and provides us with returns similar to that earned on other large customer-driven projects. So the investment makes very good sense for us economically.

Finally, in terms of our strategic priorities on the customer service front, we achieved strong service results in the quarter despite early quarter wintery weather, which often hampers our ability to execute installation and repairs. With our increased focus on broadband in the quarter we made changes to our DSL facility management system in Atlantic Canada, making the activation process simpler, more reliable, and cost effective. We also increased the priority on DSL and IPTV service trouble to provide faster response to our customers. These improvements, along with many others, resulted in improvements in specific areas of focus such as our ability to quickly complete repairs as well as improvements in our overall customer service performance.

Now turning to our first quarter financial highlights on slide six of our presentation, as I mentioned, our results in the quarter were well in line with our expectations and consistent with the guidance for the year that we laid out for you in early February. Revenue was down slightly versus the same quarter a year ago, and I will speak to the specifics in more detail in a moment. Strong expense management provided a lift on EBITDA in the quarter compared to 2008, and our capital intensity and distributable cash are all on plan. Glen will speak to those in more detail shortly.

Now let me talk a bit more about our revenue specifics. As shown on slide seven, our total revenue was down 1.2 per cent in the quarter from the same quarter in 2008. Growth in Internet and IT revenues more than offset the decline in local and long distance revenues, as has been the case since Bell Aliant was created. However, as expected, our other revenues in the quarter were down from the same quarter last year, largely as a result of lower mobility outsourcing revenue and reduced telecommunications equipment revenue. Overall, we are on track to be well within the range of our 2009 guidance.

Turning to slide eight, local revenues declined 2.5 per cent and long distance revenue decline 5.9 per cent compared to the same quarter a year ago with total NAS down 3.9 per cent from the year earlier. Over 200,000 more households in our territory now have a cable telephony service offering compared with this time last year with competitive footprint growing by 8 per centage points over the last 12 months to now stand at approximately 59 per cent. Local revenue continued to benefit from strong growth in features revenues through sales of our value packages and bundles as well as pricing action in both the residential and business markets, increasing local average revenue per customer and thereby mitigating the effect of NAS declines.

At first glance our NAS declines in the quarter look high compared to the same quarter in 2008; however, as you will recall, in the first quarter of 2008 we acquired KMTS and that added 9,200 NAS in that quarter. On a year-over-year comparative basis, excluding the effects of the KMTS acquisition, our total NAS decline in the first quarter of 2009 was about 38,000 and about 6,000 higher than the same quarter last year. The increase in the total NAS declines excluding the effects of KMTS is split almost evenly between residential and business. As we indicated in February, we did expect an overall increase in total losses as compared to last year and this quarter is very much in line with those expectations.

As shown on slide nine, excluding the effects of KMTS, which tend to skew the year over year comparisons, the rate of residential NAS decline has been relatively stable over the last three quarters, as we absorbed the impact of the growth of competitive footprint. Along with the effects of competitive footprint growth we are seeing an increase in disconnects associated with delinquent accounts, which we believe is driven by slowdowns in the economy.

As shown on slide ten, the rate of business NAS decline has been increasing over the last several quarters. This as well was expected. As we mentioned on our last call, we lost a large government contract in 2008 and the NAS associated with that contact is now migrating to the other carrier. This migration will continue over the next few quarters. We are also seeing some softness in the economy that has led to slowdown in business activity resulting to net NAS line reductions. On net for the rest of the year we still believe the total NAS will come in on our expectations, which include NAS losses above 2008 levels.

Slide eleven shows another strong quarter for Internet revenue growth at 10.8 per cent. Our high-speed Internet customers grew 8.6 per cent from a year ago and our average revenue per customer grew 5.3 per cent from the same quarter in 2008. After five consecutive quarters of improvement in residential average revenue per customer, ARPC held steady in Q1 2009 compared to the last quarter of 2008 with the effects of seasonal promotional pricing in the holiday buying season offsetting increases in ARPC arising from expirations of previous promotional periods and increases in higher-value services. As we have seen in the last several quarters, the rate of Internet subscriber growth has slowed across our industry; however, with our focus on customer retention, increasing service offerings, and growing ARPC our internet revenue growth in the quarter was double digits.

Moving to slide twelve on information technology, revenue for the quarter was up 8.6 per cent compared to last year. Our services revenue declined $12 million in the quarter, driven by the recognition in the first quarter of 2008 of deferred revenues associated with a significant healthcare contract in the province of Quebec that we've mentioned in previous quarters. Offsetting this were increases in IT product sales of $21 million, as we did have some significant large sales late in the quarter. As we mentioned on our call last quarter, for the year we expect IT revenues to be relatively flat with 2008 levels, as we do not have a similar recognition of deferred IT service project revenue in 2009 to that which we recognized in 2008. Also, as we have said before, the margin on this business is relatively low so there is little impact on EBITDA and distributable cash. And, as we announced earlier this week, on May 1 we closed the sale of xwave's defence and aerospace business to CAE with proceeds of approximately $15 million on May 1. We anticipate receiving up to an addition $8.5 million within the next 12 months, pending the satisfaction of various conditions.

Although we don't normally focus too much on wireless and other revenues, considering the performance this quarter I do want to comment on them. Excluding the acquisition of KMTS, our wireless revenues in the quarter were up 7.9 per cent over the same quarter last year, in line with growth in subscribers of 8.2 per cent. However, wireless subscriber additions in the first quarter of this year were very low and wireless revenues decreased from the previous quarter, Q4 of 2008. The economy appears to be the culprit in the slowdown of net additions, particularly for prepaid subscribers who can more easily churn off with no contract. Revenue declines compared to the previous quarter are driven by lower roaming and toll revenues but have been somewhat offset by strong growth in data features. On the positive side, we saw more additions of post paid subs, which obviously carry higher ARPC, so the results in the first quarter are not all bad news. To sum it up, wireless did not have a great first quarter but we are seeing momentum return heading into Q2.

Other revenues were down $12 million in the first quarter compared to the same quarter in 2008. The decline was driven by lower outsourcing revenues from Bell Mobility of about $6 million and other revenues in the quarter were also negatively affected by some slowdown in telecom product revenues.

With that I will turn it over to Glen to talk a bit more about our financial results.

Glen LeBlanc, Executive Vice-President & Chief Financial Officer

Thanks, Karen, and good morning everyone.

Where Karen has taken you through revenue results I'll talk to EBITDA, CapEx, and distributable cash performance.

As shown on slide fourteen we had a good EBITDA growth for the quarter of over $2 million from the same quarter last year and our EBITDA margin increased to 43 per cent, up from 42.2 per cent a year ago. The improvement was driven by the savings achieved through the restructuring we completed in mid-February, so about one and a half months worth of benefits in the first quarter. The savings from this helped to offset other cost increases and changes in margin associated with the changes in our revenue mix. We expect to see this trend in EBITDA improvement for the rest of the year as the benefits of restructuring flow through.

Slide fifteen shows our capital spending in the quarter and, as expected, the increase in the quarter compared to last year is more than accounted by our network investment in the HSPA backhaul project. As Karen mentioned, the project is on schedule and we expect to be substantially complete our spending on this project by midyear. Excluding this project capital intensity in this quarter was almost identical to the first quarter of last year, which was low due to the typical seasonality and also hampered by severe weather which led to construction delays. Accordingly, despite the year-over-year increase in the first quarter, we continue to expect to be within our capital intensity guidance of 13.5 to 14.5 per cent for 2009, down from the 16 per cent in 2008.

As shown on slide sixteen, distributable cash in the quarter declined 5 per cent from the same quarter in 2008, driven by the increase in capital spending just mentioned. Our CapEx profile for 2009 is more heavily weighted to the early quarters than 2008 was due to the HSPA project. With our expected increases in EBITDA and a different capital spending trajectory for 2009 compared to 2008, we continue to expect distributable cash to be up significantly in 2009 to the range of $750 to $790 million.

Our payout ratio in the quarter was 84 per cent, in line with our expectations and down from our past objective of 90 per cent as we continue to preserve liquidity and flexibility with the challenges in the current credit markets.

As noted in our news release we recently updated and filed our debt shelf prospectus, replacing the one that expired in October of last year. The new shelf allows for the issuance of up to $1.5 billion of medium-term notes and expires in May of 2011. As I've said before, it was not our long-term intention to carry significant balances on our bank lines but, as you're all aware, market conditions were not right to consider terming this out over the past year. By putting this shelf in place we now have the flexibility to go to market when we deem conditions appropriate.

Lastly, I want to give you an update on our outlook as we approach 2011. As we've said before, all indications are that we will convert from an income trust to a corporation at the end of 2010. We have stated on many occasions in the past that we do not see needing to pay actual cash taxes in that first year as a corporation. With our additional pension funding that we are making in 2009, our tax losses available to be carried forward are growing and we now expect that we have 18 to 24 months of tax shelter once we reach 2011. So based on our current outlook, it is possible that we would not pay cash taxes until calendar year 2013. We have not made any decisions about our corporate dividend policy once we have converted to a corporation, but the growth in the tax losses certainly gives us additional flexibility with our planning.

Let me conclude on slide seventeen, which reiterates our guidance for 2009. We are executing on our strategy to deliver these results and undertaking actions in 2009 to ensure that we continue to provide stable performance in the future.

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

Operator

Thank you. We will now take questions from the telephone lines. If you are using a speakerphone please lift your handset before making your selection. You may press star one at this time if you have a question. You may press the pound sign to cancel your question. There will be a brief pause while participants register.

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

Neil Seneviratne, National Bank Financial

Hi guys, this is Neil for Greg. Just a question on your access line erosions. You know, there's a stable trend on the residential side but just peeling back the onion a little bit I just want to get a sense on what's happening on the business side, because I notice that up-ticked this quarter. I just want to get a sense of what exactly is SME related versus more stable sort of government and institutional contracts.

And then going even deeper than that, I just wanted to take a look at your CapEx, you've mentioned that you're focussing on operating efficiencies there and I'm just wondering if EastLink or Rogers has taken an opportunity to be more aggressive in terms of their promotional campaigns. Thanks.

Karen Sheriff, President & Chief Executive Officer

Great, let me answer the first one, Neil, first.

We talked about this a bit in February. We have lost a couple of government contracts, one Federal Government and then also some losses in Atlantic Canada, and that was the main reason we were expecting growth in NAS losses this year in business, and those are pretty much on track.

With a bit of softening in the economy, in the economies where you would expect there to be more softness, so for example in Ontario and in natural resources in Atlantic Canada, we're also seeing some NAS softness in the SME market, so I think you assume it's both. Over all we're seeing pressure on NAS losses for business and you should expect them to grow a bit throughout the year for business, but pretty much on track actually for what we had expected.

In terms of what the competitors are doing, I think everybody's looking out at the same world and the same economy, and we have seen promotions come and promotions go from every one of our competitors. Probably the most activity for I don't know how many years from Videotron and from EastLink. And we're seeing similar activity in Q1, sometimes aggressive, sometimes not aggressive, as we have seen in the past. So I don't think I have seen anything that I would characterize as somebody responding to the fact that we're cutting back on CapEx.

Neil, National Bank Financial

Thanks.

Operator

Thank you. The next question will be from Glen Campbell from Merrill Lynch. Please go ahead.

Glen Campbell, Merrill Lynch

Yes, thanks very much. I wanted to come at the access line loss question from another direction. Could you talk geographically about where you're seeing residential line losses, sort of more (inaudible), and presuming where cable footprint has expanded it's a little heavier, but could you talk to me a bit about Halifax where cable competition has been established for the longest on the phone side and whether you're starting to see stability there. Thanks.

Karen Sheriff, President & Chief Executive Officer

Sure, Glen. We are seeing—you're exactly right; we are seeing competitive losses pretty much proportionate with our footprint. We are still seeing heat on Halifax so I suspect when you see government numbers coming out this year you won't see the losses and our declines having stopped. So I think I would characterize it as there's still heat on Halifax.

Glen Campbell, Merrill Lynch

And could you maybe elaborate a little bit on the SMB side? Are you seeing the cable operators take share there? And at roughly what rate?

Karen Sheriff, President & Chief Executive Officer

We generally don't talk about share by segment. We are seeing the cable guys focus more on SMB but I really do think the biggest story this quarter is what I've talked about as a bit of a reticence in the SMB market slowing down because of concerns about where the economy is going and that's, I think, a bigger story for us right now than any change in trajectory and SMB competitively.

Glen Campbell, Merrill Lynch

Ok, that's helpful. Thank you.

Operator

Thank you. The next question will be from John Henderson from Scotia Capital. Please go ahead.

John Henderson, Scotia Capital

Yes thank you. Can you hear me?

Karen Sheriff, President & Chief Executive Officer

Yes, how are you, John?

John Henderson, Scotia Capital

I'm well thanks and you?

Karen Sheriff, President & Chief Executive Officer

Great.

John Henderson, Scotia Capital

Just wondering about your pension discount rate. It rose to 7 per cent from 5.6 and I haven't seen that size of increase in discount rate at other carriers. I just wonder partly what's behind that. And then to follow up, what should we expect in terms of pension expenses for the year, because they actually decreased in the quarter year over year. I was expecting some increase there.

Karen Sheriff, President & Chief Executive Officer

I'll let Eleanor answer that.

Eleanor Marshall, Vice-President & Treasurer

Thank you. Hi, John. This 7 per cent discount rate is the accounting discount rate for our access plans only. We actually have a blended rate of about 5.5 when you include our retiree plans, which are being discounted at 4.25. So I think the 5.5 is going to, you're going to find that fairly consistent with other reporting issuers of CD plans.

And on the pension expense, you know, once that is set for the year it's pretty stable throughout the year, so this quarter would be representative of what it should be for the balance of the year. And it is down, particularly the current service cost, principally because of the increase in discount rates, but as well we have fewer access (inaudible) members, just natural retirements and also with the restructuring reduction that we did, and so the current service cost is going down a bit because of that as well.

John Henderson, Scotia Capital

Great. Thanks, Eleanor.

Operator

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

Zeda Redden, Vice President, Investor Relations

Thank you very much. I know all of you have a very busy day today, and we will be in touch over the next couple of days. Thank you.

Operator

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