

## CORPORATE PARTICIPANTS

**Zeda Redden**

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**Karen Sheriff**

*President & Chief Executive Officer*

**Glen LeBlanc**

*Chief Financial Officer*

**Heather Tulk**

*Senior Vice-President, Customer Solutions*

**Eleanor Marshall**

*Vice-President & Treasurer*

## CONFERENCE CALL PARTICIPANTS

**Greg MacDonald**

*National Bank Financial*

**Vince Valentini**

*TD Newcrest*

**Nima Billou**

*Bloom Investment*

**Dvai Ghose**

*Genuity Capital*

**Michael Mills**

*Beacon Securities*

**Glen Campbell**

*Bank of America*

## PRESENTATION

**Operator**

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

Good afternoon ladies and gentlemen, 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, and good afternoon everyone and welcome to Bell Aliant's Second Quarter 2009 Results call.

Earlier today we issued our news release and second quarter financial statement, MD&As and supplementary information package, which are posted on SEDAR and also on our website. Also posted on our website is a slide presentation that we'll 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 operations of the company, and our discussion is tempered by the cautionary statements on slide three of the presentation and those listed in the MD&A and news release.

We have scheduled the call for up to an hour, including the presentation and then a question and answer period. And with that I'll turn the call over to Bell Aliant's President and Chief Executive Officer, Karen Sheriff.

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**Karen Sheriff, President & CEO**

Thank you Zeda and good afternoon everybody, thank you for joining us today.

As far as our agenda for today, I will speak to the advancements we have made in the quarter with respect to our 2009 strategic initiatives, 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 of Customer Solutions, and Eleanor Marshall, VP and Treasurer are also with us today for the Q&A session.

The momentum we are gaining on our strategic initiatives was evident this quarter, and I am happy to say that we've made significant progress in a number of areas that we laid out earlier this year as part of our strategy. From a financial perspective we are on track to achieve our 2009 guidance across all metrics and are executing on plan.

The most exciting development for us in the quarter was our announcement in early July that we will be the first in Canada to cover an entire city with fibre to the home

technology later this year. We will spend \$60 million to pass 70,000 homes and businesses in Fredericton and Saint John with fibre to the home by mid-2010.

In these particular markets, the combination of virtually 100 percent aerial infrastructure and lower population density make the cost of fibre to the home and fibre to the node very comparable. These factors and the support of the New Brunswick government made this the right time and the right place for us to launch FTTH to entire communities. The response from customers and businesses to our announcements in these areas has been tremendous.

The implementation of this technology is an important part of our growing broadband initiative, but is also key to our strategic objective of attaining customers and improving the customer experience. FTTH technology will remove bandwidth as a limitation to providing customers with more appealing and competitive broadband services and applications.

We also continued with our DSL, high-speed footprint expansion in the quarter, adding an additional 20,000 homes to now pass over 75 percent of the homes in our territory. While high-speed net additions have slowed across the industry, we continue to have economically attractive opportunities for footprint expansion. We expect internet footprint expansion will continue to contribute to revenue growth for the next two to three years, along with increased penetration within our coverage areas, growth in new service offerings, and migration to higher tiered products.

Next, customer experience; during the quarter we made numerous service improvements to help advance our strategy of improving the customer experience and reinforce our commitment to making our service even better. In Central Canada our service representatives and technicians met or exceeded all service metric targets, with especially high scores on our customer satisfaction with technician ratings. In Atlantic Canada we launched next day repair service for residential Internet, home phone and TV customers, and in our FTTN coverage areas, we deployed VDSL 2 technology to increase speeds in our most competitive markets, and enable new services, such as the ability to now have three HDTVs in the home.

We also successfully trialed new DSL design standards that will allow us to service 20,000 more home in Atlantic Canada with existing facilities. All of these advancements are improving our customer's experience with us, and helping us with our objective of retaining our customers.

Now on retaining customers, as we mentioned last quarter, we launched Bell Aliant as our market-facing brand in the Atlantic region, and are now leveraging the Bell brand in all markets with Bell's extensive advertising campaign, giving us much greater visibility in the marketplace. We continue to focus on our whole-home value to the customer, and our heightening awareness of our total value competitiveness more than we have ever done before, and customers are paying attention.

Sale channels activity has picked up as customers are becoming more aware of our market positioning, and with our relatively new position in the TV market, we have an opportunity to grow the number of customers who have all of their service with us, and the associated average revenue per customer.

On resetting our cost structure as is evidenced in our Second Quarter Financial Results, we have continued to succeed in our efforts to contain costs. The management restructuring, which resulted in approximately 500 managers leaving the company is complete, and the cost benefits of these reductions are evident in our Second Quarter Results.

While our second quarter expenses were also reduced by a \$3 million non-cash adjustment to senior management long term incentives, other labour and cost containments contributed to most of the decline in expenses. Excluding the incentive adjustment, the expense trend experienced in the second quarter is consistent with what we expect for the rest of 2009.

As we said last quarter, an important initiative in our 2009 strategy is the completion of construction of a fibre-data network to provide HSPA back-haul services for Bell Mobility. The construction is now essentially complete at the end of the second quarter, and we expect the remainder of 2009 capital spending to trend substantially below 2008, particularly where the HSPA project started in Q4 of last year. Lower IS/IT related productivity investments and peripheral capital streamlining account for the expected decline.

Turning to our second quarter financial highlights on slide six of our presentation, I am pleased with our results in the quarter, and they are well in line with our expectations. And as I mentioned before, we are on track to achieve our guidance for the year across all measures. Revenue was down 2.9 percent in the quarter versus the same quarter a year ago, driven largely by declines in IT equipment sales after a strong first quarter, and I will speak to the specifics in more detail in a moment.

Despite the revenue decline, EBITDA improved 1.9 percent in the quarter compared to 2008, or 1.1 percent, excluding the incentive expense adjustment I mentioned previously, as the benefits of our cost structure changes came into play.

Capital spending year-to-date is slightly behind plan, however capital intensity in the quarter was relatively high, due to the lower revenue profile, the converse of what we experienced in Q1 for capital intensity. Distributable cash grew 1.8 percent in the quarter, and we expect continual increases with our lower cap ex profile for the balance of the year compared to 2008. Glen will speak to those in more detail shortly.

Now let me talk a bit about our revenue specifics, as shown on slide seven our total revenue was down 2.9 percent in the quarter from the same quarter in 2008. The largest driver of the decrease was declines in IT equipment sales. As shown on the chart in the first quarter we had IT revenue growth, which was driven by very strong Q1 equipment sales, some of which were pulled into Q1 from what we expected would have occurred in Q2.

Outsourcing revenues from our Bell Mobility contract also declined in Q2 from prior year, but the decline was not as large as that experienced in the first quarter. All other revenues, which we have grouped together and labelled as telecom on the chart, were down about \$8 million in the quarter, compared to the same quarter in 2008. However the decline in Q2 was not as high as that experienced in Q1 of this year.

As detailed on slide eight, local revenues declined 3.2 percent, and long distance revenue declined 5.8 percent compared to the same quarter a year ago, with total NAS down 4.3 percent from a year earlier. Almost 62 percent of homes in our territory now have a cable telephony service offering, which is about 200,000 more compared with this time last year.

We are continuing to promote a compelling price-value message with our high-speed internet and TV promotions to drive new customer acquisition. These programs have been effective at generating customer interest, and our sales channels have been successful at bringing new customers into our value package bundles. Consequently, local revenue benefited from strong growth in features revenues through our sales of the Value packages and bundles, as well as some pricing actions in both the residential and business markets, increasing local average revenue per customer and mitigating the impact of NAS decline.

As shown on slide nine, our NAS declines in the quarter were 11,000 higher than the same quarter last year, with the increase largely driven by increased business NAS declines. Residential NAS declines remained relatively stable, while the increase in business NAS declines was primarily driven by the migration of some government contracts that we lost in 2008. We had previously indicated that we will lose about 15,000 lines this year, related to these lost contracts, and indeed 5,000 of those losses occurred during Q2. Additionally, economic weakness and competitive activity also contributed to the decline. As we indicated in February and last quarter, we expect an overall increase in losses as compared to last year, and this quarter is very much in line with those expectations.

Slide ten shows another good quarter for internet revenue growth at 10.4 percent. Our high speed internet customers grew 7.9 percent from a year ago and our average revenue per customer grew 6 percent from the same quarter in 2008. The positive trend of ARPC that we've seen over the last seven quarters continued in Q2, as a result of customers taking more value-added services, the expiration of some of our promotional periods and price increases.

The rate of internet subscriber growth continues to slow across our industry. To mitigate slowing subscriber growth we will continue to focus on ARPC as the source of revenue growth by a value-added services penetration and migration to higher bandwidth plans. We will also increase our IPTV service penetration as we continue to focus on our whole home packaging, increasing overall average revenue per customer. We see the bundling of TV with our other services to win the whole home as a growth opportunity. As being a relatively new player in the TV market, we currently have a very small portion of our customer base obtaining their TV service from us.

Moving to slide 11 on information technology, as mentioned earlier revenue was down in the quarter from the same quarter in 2008, largely due to the timing of IT equipment sales between the first and second quarters of 2009 compared to 2008. Equipment sales were down \$11 million in the second quarter of 2009 compared to the same quarter in 2008, but are up \$10 million on a year-to-date basis. As we have said before, IT equipment sales can be lumpy from quarter-to-quarter, and the margin on this business is relatively low so there is little impact on EBITDA and distributable cash.

Lastly, before I hand it over to Glen, in the quarter we announced that we have entered into an agreement with Abilis Solutions for Abilis to acquire the shares of xwave

New England for US \$4.5 million. As a result we have moved the financial results for this division to discontinued operations this quarter. With that, I will turn it over to Glen to talk more about our financial results.

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**Glen LeBlanc, CFO**

Thanks Karen and good afternoon everyone.

Where Karen has taken you through the revenue results, I'll talk to our EBITDA, cap ex and our distributable cash performance. I will also give you an update on our pension actuarial evaluations.

As shown on slide 13, EBITDA in the quarter was up 1.9 percent or \$7 million over the same quarter last year. As Karen mentioned, we had a \$3 million one time non-cash adjustment to reduce long term incentive expense in the quarter, which helped EBITDA, but the improvement was largely driven by the savings achieved through the restructuring we completed this year and general cost containment throughout the business. EBITDA growth without the adjustment was 1.1 percent, and we would expect a similar trend for the balance of the year.

Slide 14 shows our capital spending so far this year, and as expected, excluding the network investment in Bell Mobility, HSPA backhaul project, our cap ex is down from a year ago. With this project now complete and the associated 2008 spending heavily weighted to the fourth quarter of 2008 we expect a cap ex spending for the balance of 2009 to be similar to the first half of the year, and down significantly from the back end of 2008.

Capital intensity in the quarter peaked at 15.4 percent, which included spending on the Bell Mobility backhaul project, but was also affected by the lower revenue in the quarter. On a year-to-date basis capital intensity at 14.2 percent is within our guidance range, and we continue to expect to be within our capital intensity guidance of 13.5 to 14.5 percent for 2009, down from 16.1 percent in 2008.

As shown on slide 16, distributable cash in the quarter increased 1.8 percent from the same quarter in 2008, driven by the increase in EBITDA. It should be noted that since the \$3 million incentive expense adjustment is non-cash, we removed that from our distributable cash calculation for the quarter. This shows as an "other expense" item in distributable cash.

Growth in pension current service cost funding in the quarter, and less cash from discontinued operations detracted from distributable cash growth. However, with a lower cap ex profile for the second half of 2009

compared to 2008, we continue to expect distributable cash to be up significantly in 2009, to the \$750 to \$790 million range. Our year-to-date pay out ratio is 86 percent, (unintelligible) have remained unchanged as we continue to determine the course of action for 2011 and beyond, while preserving our liquidity and financial flexibility.

As noted in our news release and earlier this quarter, we successfully issued \$350 million of medium-term notes in May that mature in February of 2015, with a coupon rate of 6.29 percent. The issue was bought up by a broad base of investors and allowed us to effectively fix the interest rate on all of our long term debt and remove any major refinancing requirements until 2011. We are pleased to see that credit markets have become open for business again, and we will continue to monitor opportunities to tap the debt markets if the right market conditions exists as we progress towards 2011.

Lastly, I want to give you an update on our actuarial funding valuations for our DB pension plans. The final estimates we now have indicate that a required funding for 2009 will be in the \$70 to \$80 million range, down from the \$90 to \$110 million we had estimated earlier, primarily due to higher than expected liability discount rates, and therefore a lower deficit than we had predicted. We will be refining our actuarial funding strategy leading up to the time we file our valuations later this year, but we are very pleased that the 2008 deficit and the 2009 funding will be lower than we planned.

As for future years, we have mentioned on many occasions that there are many largely uncontrollable factors to consider when trying to predict pension deficits and funding requirements. Discount rates, asset performance and the outcome of the federal government's current project on long term pension reform all have the possibility to result in pension deficit funding for 2010 that is quite different from the \$70 to \$80 million required in 2009.

Let me conclude with slide 17, which reiterates our guidance for 2009. We are on target to deliver results within these ranges for this calendar year. With that, I'm ready to open the call up for questions. Operator?

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**QUESTION AND ANSWER SESSION**

**Operator**

Thank you. We will now take questions from the telephone lines. If you're using a speakerphone, please

lift your handset before making your selection. If you have a question, please press star one on your telephone keypad. If you decide to cancel your question you may press the pound sign. Once again, if you have a question, please press star one on your telephone keypad.

The first question is from Greg MacDonald from National Bank, please go ahead.

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**Greg MacDonald, National Bank Financial**

Thanks, good afternoon guys. The question I'd like to ask is on access lines, specifically on the business side. Karen you made mention of it, that 5,000 of the roughly 12,000 access line losses were related to government contracts.

Could you give us a little more detail on the total 15 that you expect to lose? Were there any in the first quarter? I'm not remembering if that was the case, and how you see that phasing in throughout the rest of the year.

And then secondly, just in terms of over and above that, because there were an additional 7,000 access lines lost on the business side. Trends there continue to get worse. I'm trying to get a handle on how bad that is. Is there a correlation between the lower IT sales in the quarter? I know there is lumpiness there, I know you are up year-to-date, but is there anything that you're seeing in the second quarter that might give us a sense of what the outlook looks like for the second half of the year on the business access side?

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**Karen Sheriff, President & CEO**

Yes, let me, how are you?

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**Greg MacDonald, National Bank Financial**

Good thanks, how are you?

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**Karen Sheriff, President & CEO**

Good. Let me talk about the government lines first and the trending. We saw, of the 15 we saw 1,000 in the first quarter, five in the second. The bigger bulk of the remainder, you never know exactly how these come in but we think we'll see probably more in third quarter than we did in the second and then it'll start to tail off towards

the end of the year. There's also some other competitive lines that we took in the second quarter, and probably about 3,000 of them, again another large institution of our total.

We talked for awhile about the increase in pressure on SMB, and that trend hasn't changed a lot competitively except in the economies that are struggling a little bit more and largely in central and with some of the natural resource customers that we have in Atlantic Canada we are seeing a little bit more of an effect from the economy, but those are really the only trends Greg, that we are seeing. It's a pretty continual upward trend on SMB, but the biggest impact this quarter is certainly the large losses in the government contracts.

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**Greg MacDonald, National Bank Financial**

So if I can paraphrase, you're not seeing a lot of changes in the trends. There is some lumpiness to the impact on some of these.

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**Karen Sheriff, President & CEO**

Yes, correct.

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**Greg MacDonald, National Bank Financial**

And could you just give us a little detail on what the government losses are? I'm trying to understand whether there's more risk there. Was that a competitive loss or was that from ...

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**Karen Sheriff, President & CEO**

It was the government of Canada.

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**Greg MacDonald, National Bank Financial**

Was that downsizing?

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**Karen Sheriff, President & CEO**

It's, Heather, give me the details.

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**Heather Tulk, VP of Customer Solutions**

Right it was the government of Canada account that went up for renewal. And we won it in part of our territory and lost it in another part of our territory, and so this is the migration of the piece that we lost.

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**Greg MacDonald, National Bank Financial**

Any other large chunks coming up for renewal in the near term that could result in a positive or negative outlook?

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**Heather Tulk, VP of Customer Solutions**

Well there's always coming up, you know, there's always ongoing renewal but certainly, that loss was actually in 2008, and we haven't had any subsequent loss of large accounts, and we're in good shape right now.

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**Greg MacDonald, National Bank Financial**

That's it for me, thanks guys.

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**Karen Sheriff, President & CEO**

Thank you.

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**Operator**

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

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**Vince Valentini, TD Newcrest**

Yes thanks very much. On the improved pension funding, Eleanor do you have any details on what the discount rate changed to versus what your original assumption was and what drove that? Was it just interest rates in the market or was there any change in sort of what the actuaries allow that we could maybe read through to the entire industry as opposed to being just specific to you guys?

And then second to that is, I mean you obviously saved a little bit of cash from that. You also sold these two businesses for just over \$20 million. I'm wondering are you going to allow your debt to EBITDA ratio to dip down a little bit this year or is there any potential for some share buybacks with that excess cash?

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**Glen LeBlanc, CFO**

Good afternoon Vince, it's Glen, I'll touch on this and I'll ask Eleanor to jump in.

Our assumptions were a discount rate of about 4.65 percent, came in at about 4.95 percent and I'll let Eleanor comment on the reasons for that. And obviously it's specific to our plan and our, the solvency discount rate related to retirees.

As far as your second question, we continue to be committed to the investment rate and, as you've known, I've said many many times a few times, debt to EBITDA has been determined to be right for our business and we remain committed to that.

Yes we did have some proceeds from the divestiture of a few businesses, small proceeds, a little over \$20 million. And if you'll recall at the beginning of the year, because we did have a fairly large restructuring, as well as the restructuring charge we took as well as the pension deficit funding requirements, it was our expectation that we would have modest borrowing requirements this year. With the great news that we have that pension funding will be lower by \$20 or \$30 million than we anticipated, coupled with the \$20 or so million that we had in proceeds from divestiture, that's reducing my borrowing requirements and getting me a heck of a lot closer to where I want to be, which is zero.

Would I entertain share buybacks? Well that would warrant me borrowing to do share buybacks and I think a comment before that that's never something we've done, and that's something I wouldn't think we'd start now.

And with that maybe Eleanor you can comment on...

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**Eleanor Marshall, VP & Treasurer**

I don't think you should take our conservatism on estimating this and extrapolate it to others. First of all, as Glen mentioned it was the solvency discount rate, specifically as it's applied to retirees. We have a very heavily retiree-weighted demographic in our plans, and so a miss in estimating that discount rate's going to have proportionately larger impact on our estimate than it will others.

As well, just on how that was estimated, it was determined by the Canadian Institute of Actuaries in April. The time we were making our estimates in December, so

between December and April what was going on was, the underlying government of Canada interest rates came down, but the normal spread that is added on top of government of Canada's has always been around 40 basis points. We estimated that maybe this year because of higher corporate bond spreads that would go up to 90, but when it was actually published by the Institute of Actuaries the spread was placed at 140. It really was a higher bond spread, corporate bond spreads impacting that.

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**Glen LeBlanc, CFO**

Does that answer your questions Vince?

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**Vince Valentini, TD Newcrest**

Yes that's great, thanks.

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**Glen LeBlanc, CFO**

Thank you.

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**Operator**

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

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**Nima Billou, Bloom Investment**

Good afternoon. Just wanted to talk about the margins following the cost cutting. Karen or Glen, do you feel that this is a sustainable level or is it going to come under pressure in the future given the competitive landscape?

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**Karen Sheriff, President & CEO**

Well I think we have been driving productivity out as a company and as an industry for quite some time and, particularly in our market, because we are still in a marketplace where competitive footprint is growing. We expect that pressure to stay on us for awhile longer, a good two, three years longer because in some other territories competitive footprint isn't growing but for us it still is, which means we're going to have to be as aggressive as we can to hang on to customers but also be very cognizant of costs and continue to drive productivity over time, which that's why it's one of our five

key strategies. This is something we're going to continue to do over time.

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**Nima Billou, Bloom Investment**

And just an update on the number of television customers that you have now?

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**Karen Sheriff, President & CEO**

We're right around 25,000

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**Nima Billou, Bloom Investment**

Around 25,000. And on the business line loss thing you've done a good job in outlining the fact it's tied to specific government contracts. Is there any, what's the competitive response? Are you looking to win that business or are you wanting to walk away because it's not as profitable or are there other areas that you can grow to offset that loss?

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**Karen Sheriff, President & CEO**

Well no we're always trying to hang on to that business, win it back. Frankly over time, we haven't lost a lot, so this is relatively new for us. There aren't that many accounts to win back. The real challenge for Bell Aliant is to hang on to what we have and we are aggressively trying to do that.

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**Nima Billou, Bloom Investment**

Thanks very much.

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**Karen Sheriff, President & CEO**

Thank you.

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**Operator**

Thank you. Our next question is from Dvai Ghose from Genuity Capital, please go ahead.

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**Dvai Ghose, Genuity Capital**

Yes thanks very much. Good afternoon Karen. Congratulations on the margins in the first half, you've done a great job in staving off a lot of the organic pressure.

Just following up from the last question, as you yourself have acknowledged, you know, getting rid of 500 middle managers, which is 5 percent of the workforce and 15 percent of all managers is a pretty hefty cut, and probably not one that you're going to do every year. But the pressures on your business, as you suggested yourself are unlikely to ease.

What can you do in 2010 and onward if you're going to do this level of headcount reduction in order to sustain margins as your pressures are recurring in nature?

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**Karen Sheriff, President & CEO**

Wow. I can't really tell you, I don't think this is the right time divided to be talking about the details of what we're going to do in 2010, but I do believe that there is more opportunity for productivity across the business, and we're going to continue to drive that productivity out.

I don't think we're in a position and I think we talked earlier in the year that we were at least \$130 or \$150 million off of benchmark in the amount of expense in the organization. We haven't taken that much out yet, and there's more opportunity there. And additionally the benchmarks continue to move worldwide.

I think, we all continue to surprise ourselves a little bit on the amount of opportunity out there and we're going to continue to go at it as we believe we have opportunity left.

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**Dvai Ghose, Genuity Capital**

Okay that's and I'll wait for more on that.

I guess my second question may be difficult to answer but it's to do with the transition into corporation from an income trust, which is, I guess less than 18 months away now so it becomes more pertinent. As analysts, we obviously spend time looking at valuations, not just absolute but comparative, and, even as they've been held up by your yield but, on a valuation basis if you include pension expense you're trading about six and a half times EBITDA. Most incumbent telco trade at five or less. You're trading about 12 times your run rate earnings so really about 17 times on a fully taxed basis. Most telcos trade at about 10, and even your free-cash

flow yields support, you know, you've got about 10 percent yield at the moment, when you tax it's about seven. You're really expensive on every measure when compared to others, including your parent, BCE.

Is there a risk in your mind that when you turn into a corporation you start trading in line with your peers, your stock price as available then it goes below 20, and is there anything that you can do to stave that off because, otherwise it does look like you're very over-valued doesn't it on a fundamental basis?

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**Karen Sheriff, President & CEO**

We have felt for awhile that we were appropriately valued. We have a, we do have a very high yield, and we think we are getting compensated for that and recognized for that in the marketplace.

I can't predict what will happen as we go through conversion. I talked about it a little bit at our annual meeting, and will give you a lot more, a lot more input on that later in the year or early part of 2010.

Our challenge right now Dvai is really to do the same thing we've been doing for several quarters, and that is to run the business, drive as much value into the business as we can, and we'll let our unit holders take care of the rest.

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**Dvai Ghose, Genuity Capital**

Now that makes sense. And then the last question just related is, I think you've said in the past that you'll cut distributions as you turn into a corporation in early 2011, even though you have two years of tax shield that goes beyond the income tax expiration because of pension deficits and so on. Do you still have two years beyond the expiration of the income tax shield, and if so why wouldn't you delay the cut in distributions until you actually lose all your tax shield?

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**Karen Sheriff, President & CEO**

Glen I'm going to let you respond to that.

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**Glen LeBlanc, CFO**

Good afternoon Dvai, it's Glen.

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**Dvai Ghose, Genuity Capital**

Hi.

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**Glen LeBlanc, CFO**

We said that we would be evaluating with our board what the appropriate use of our funds would be in 2011. Certainly it is an option to reduce in 2011 to a long term sustainable level if you have a 25% tax bill coming. We still believe we have 24 months of shelter, meaning that we will be taxable in '13, but it is not a decision that we've made yet of when or, certainly can't provide 18 months forward-looking guidance of our intention on distributions.

The decision for us will be to look at our structure, find out what our sustainable distribution is, what the implications of tax will be, and determine at that time whether we'd be rewarded for maintaining distributions or whether it would be in the best interests of all of our stakeholders to reduce it upon conversion to a long term sustainable level. It's balancing off all of our stakeholder needs and it's a discussion that, you can imagine will take up a great deal of time with our board around strategy discussions.

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**Dvai Ghose, Genuity Capital**

It makes sense, good luck with that discussion. Thanks.

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**Glen LeBlanc, CFO**

Thank you Dvai.

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**Karen Sheriff, President & CEO**

Thank you.

Operator are there any more questions?

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**Operator**

Thank you. The next question is from Michael Mills from Beacon Securities, please go ahead.

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**Michael Mills, Beacon Securities**

Good afternoon guys.

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**Karen Sheriff, President & CEO**

How are you Michael?

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**Glen LeBlanc, CFO**

Hi Michael.

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**Michael Mills, Beacon Securities**

Very good thanks. Just on the cost side of things I'm wondering what further benefits might be able to be realized given the union reductions that were announced in May in Ontario. I don't think it was ever disclosed in terms of, hard and true numbers, but is there more downside on the expense side?

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**Karen Sheriff, President & CEO**

I'm not sure which reductions you're speaking of in Ontario. Are you referring to the Bell reductions?

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**Michael Mills, Beacon Securities**

No I believe in your MD&A you talked about there's some selective unionized, you know, early retirements in Atlantic Canada and some of those were announced in Ontario and Quebec I believe in May is what I read.

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**Karen Sheriff, President & CEO**

The Ontario and Quebec were very very small.

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**Michael Mills, Beacon Securities**

Okay.

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**Karen Sheriff, President & CEO**

A handful and in total, we're not talking more than a hundred, 150 people. You'll see that in our run rates for the rest of the year, but it's small. We limited the number

of retirements that we were going to accept so we could make sure we could deliver service.

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**Michael Mills, Beacon Securities**

The run rate that we saw in Q2 is probably what we'll see in the back half of the year?

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**Karen Sheriff, President & CEO**

Yes.

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**Michael Mills, Beacon Securities**

Okay.

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**Karen Sheriff, President & CEO**

And as long as you adjust for that one time adjustment of \$3 million yes.

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**Michael Mills, Beacon Securities**

Right, right. And then maybe one for Heather just on the marketing side and, with such a large university population certainly in Atlantic Canada and in your region, I'm wondering how important that September, back to university period is overall and if, if the trends in terms of line losses or people leaving in May and then returning in September how significant that actually is.

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**Heather Tulk, VP of Customer Solutions**

Yes it's a great question Michael. We certainly have in Atlantic Canada a, we're over-indexed surprisingly for a lot of people per use, particularly in our major markets, most particularly Saint Johns and Halifax are highly over-indexed for the use market, because of the size of the universities in those two markets.

We definitely do have a, you know, back to school period that's very important to us. We have a number of I'd say seasonal bumps, through the cycle. We also of course across our territory, also including Ontario and Quebec very strong cottage countries, see a lot of offsetting opening at a cottage country that kind of is contra-seasonality to students. They tend to smooth themselves out so that neither one is a huge story.

That being said both the direct university market, but also the general consumer population, the buying season is definitely the back half of the year. And I think that, you know, if you go back through our numbers and how we've reported to you in the past, certainly back to school and the holiday season in November and December are very important for us in capturing the growth that exists in the marketplace, most especially for the internet and TV business.

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**Michael Mills, Beacon Securities**

That's great, thanks.

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**Karen Sheriff, President & CEO**

Thank you Michael.

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**Operator**

Thank you. Once again if you do have a question please press star, one on your telephone keypads.

The next question is from Glen Campbell from Bank of America, please go ahead.

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**Glen Campbell, Bank of America**

Yes, thanks very much. I had a couple questions on broadband. First starting with rural broadband it looks like around the end of the year we're going to have three wireless operators ... with 21 big networks in your region, and the potential to offer a, you know, a DSL substitute in small towns and rural areas.

I'm wondering if you, do you consider that to be a competitive challenge and what your response will be in terms of your DSL offering you're going to roll out in those markets. And then I had a couple follow-ups, thanks.

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**Karen Sheriff, President & CEO**

It's obviously in the mix for us in Atlantic Canada, there isn't a whole lot of rural left. There's a little bit more

rolling out in terms of competitive offering. We think we've got the right offering today, but frankly we don't see it as being a big issue for us, short term. And it goes a little bit further out before it becomes a big deal, but it's not a big deal for us short term.

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**Glen Campbell, Bank of America**

And the changeover time is around pricing and capability or...?

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**Karen Sheriff, President & CEO**

Yes.

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**Glen Campbell, Bank of America**

And then on the urban side I was just wondering if you'd give us a little bit more of your thinking on the, fibre the premise announcement's quite exciting clearly. You've indicated that the economics are close to doing fibre to the node, yet, you know, the fibre to the node numbers we've looked at would suggest say \$300 a home pass. It looks like your costs are, you know, maybe double that based on the headlines numbers you've given. I want to get a sense of how you equate those.

And then, if you could really talk about under what circumstances you might consider extending that fibre or the premise build out beyond the two cities you've initially announced. Thanks.

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**Karen Sheriff, President & CEO**

Okay, good. The costs in the cities we're looking at for fibre to the prem (phon) or fibre to the node in those cities are actually quite close. We've never really talked a lot about fibre to the node costs, but as you start to get a little bit less dense, the fibre to the node costs creep up and fibre to the prem and fibre to the node become quite close.

We are very confident that because of our incredibly high aerial mix in this geography it's really the right thing to do. The other thing that happens over time, maintenance costs come down and a whole bunch of other good things happen. In the cities that we are launching in the costs are quite comparable and then you get the long term benefits of having fibre to the prems.

Beyond the two cities we are talking about now there's

really nothing to talk about at this point. We've got to see how this thing goes in, get comfortable that the costs come in where we expect them to, that the usability is where we expect it to be, and then we can revisit in the future. Right now there's nothing else to announce or talk about.

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**Glen Campbell, Bank of America**

Okay thanks. One final follow up on a different subject. We've got the couch wars going on in Ontario between Rogers and Bell, and I wondered if you could talk about where you've had to align your pricing or chose to align your pricing let's just say with what Bell has done on the internet and TV and where it's different and how you see that going forward.

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**Karen Sheriff, President & CEO**

The pricing in the Ontario market is the same between Bell's territory and Bell Aliant. In Atlantic Canada, we're using the same bundles and the same pricing we have in the past and the difference in the way we are competing here is with just more awareness marketing to get the value of our product out there, and so far so good.

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**Glen Campbell, Bank of America**

Thanks very much.

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**Operator**

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

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**Vince Valentini, TD Newcrest**

Yes thanks, sorry just a couple quick follow-ups. The fibre in the home build, can you give us any sense of how much money if any that you've already spent on that in the second quarter? And then I believe your plan is but please confirm that you've spent about half of the 60 this year and half next year.

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**Karen Sheriff, President & CEO**

Right. It's about half and half and we've spent under 10 in the first quarter, in the, I'm sorry the second quarter this year in this past quarter.

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**Vince Valentini, TD Newcrest**

And another one, maybe this is unfair but just throw it out, if you have any preliminary comments on your review of IFRS and what that could do. Have you seen anything to this point that would suggest there would be any material change in any of your reported metrics?

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**Glen LeBlanc, CFO**

Good afternoon Vince. Yes, I, to say the least IFRS is going to change materially the way everyone reports. We're doing great in our IFRS preparation and understanding the impacts. It certainly has the potential to mean, you know, looking at everything from, good will and the manner in which that is calculated, due to impairments but, I honestly think what it's going to drive the focus to is, is free cash flow pay outs ratios versus earnings pay out ratios because I think for a substantive adjustment period organizations are going to take big adjustments to retain earnings. It's going to change the way you depreciate the straight line, and that is going to have implications on amortization and depreciation and that's going to really make comparability to earnings difficult for a period of time.

My learnings and training through this right now is really driving me to the expectations that the market will really focus on free cash flow pay outs, and that's I think probably the best way to describe I think how IFRS is going to impact us. We're in great shape. We'll spend 2010 producing parallel books, both under GAAP and under IFRS, and be ready to go for conversion in 2011.

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**Vince Valentini, TD Newcrest**

And Glen on that so, given free cash flow is the most important certainly in my mind, I think most people's, there shouldn't be anything in IFRS that would materially change your free-cash flow, is that correct?

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**Glen LeBlanc, CFO**

That's 100 percent correct; it is accounting treatment, not cash flow.

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**Vince Valentini, TD Newcrest**

Great, thank you.

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**Glen LeBlanc, CFO**

Thanks Vince.

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**Operator**

Thank you. The next question is from Dvai Ghose from Genuity Capital, please go ahead.

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**Dvai Ghose, Genuity Capital**

Yes I just wanted to revisit the fibre to the home project. Two quick questions. Number one you've given us a price of about 650 Canadian per home pass. Verizon's guidance for 2010 is about 700 US. I assume that the differential is because of aerial plant, whereas theirs is about fifty-fifty.

Secondly if you look at Verizon's guidance, well it's about 700 to pass a home, it's about another 700 to actually connect the home. I'm wondering if that's a sort of number that you're seeing as well, and what the costs of connection are for fibre to the node versus fibre to the home. I assume they're a lot higher with fibre to the home.

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**Karen Sheriff, President & CEO**

Dvai you're exactly right on the likely reason between our numbers and Verizons. We're almost 100 percent aerial and they are not so we should be able to do this less expensively than they do.

On cost to connect, we really haven't talked about that and we won't. I think you should assume that we're going to do it competitively.

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**Dvai Ghose, Genuity Capital**

But are you going to connect any customers this year or next, because I'm assuming you're not just building the network to pass customers in which case...

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**Karen Sheriff, President & CEO**

Well for sure we're going to connect, but we're not going to talk about the cost to connect.

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**Dvai Ghose, Genuity Capital**

Okay, thanks.

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**Karen Sheriff, President & CEO**

Thank you for clarifying.

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**Operator**

Thank you. We have no further questions registered at this point. I would like to turn back the meeting over to Ms. Zeda Redden.

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**Zeda Redden, VP of Investor Relations**

Thank you everyone for joining us this afternoon and if you have any follow-up questions you know how to get in touch with me. That concludes our Second Quarter Call. Thanks again.

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**Operator**

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

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