

CORPORATE PARTICIPANTS

Zeda Redden

Vice-President, Investor Relations

Karen Sheriff

President and Chief Executive Officer

Glen LeBlanc

Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Greg MacDonald

National Bank Financial

Vince Valentini

TD Newcrest

Maher Yaghi

Desjardins Securities

Jeff Fan

Scotia Capital

Devi Goshe

Genuity Capital

Nima Billou

Bloom Investments

Peter Rhamey

BMO Capital Markets

Glen Campbell

Bank of America Merrill Lynch

Michael Mills

Beacon Securities

Peter MacDonald

GMP Securities

PRESENTATION

Operator

Good afternoon ladies and gentlemen. Welcome to the Bell Aliant Regional Communication Fourth Quarter 2'09 Conference Call. I would now like to turn the meeting over to your speaker for today, Ms. Zeda Redden, Vice-

President, Investor Relations. Please go ahead, Ms. Redden.

Zeda Redden, Vice-President, Investor Relations

Thank you. Good afternoon everyone and welcome to Bell Aliant's Fourth Quarter 2009 Results and 2010 Guidance Call. Earlier today we issued a news release and Q4 MD&A and supplementary information package which are posted on SEDAR and also on our website. Our audited financial statements and annual MD&A are expected to be posted on SEDAR in early March once the audit is completed. Also posted on our website is a slide presentation that we'll be taking you through today on this call.

Today's agenda is listed on slide two of the presentation and in addition to the discussion of our Q4 results we'll also be discussing our 2010 financial guidance. 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 qualified by the cautionary statements on slide three of the presentation and as listed in the MD&A and the news release, which I will draw your attention to specifically as it discusses the risks and assumptions related to our 2010 outlook.

We have scheduled the call for up to an hour and following the presentation we will have 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.

Karen Sheriff, President and Chief Executive Officer

Thank you, Zeda and good afternoon everybody. As far as our agenda for today I'm going to speak of our 2009 progress in terms of our overall strategy, briefly discuss the fourth quarter's financial highlights, and comment on our strategy heading into 2010. I will then hand it over to Glen LeBlanc, our Chief Financial Officer who will take you through some specifics of the financial outlook. Eleanor Marshall, VP and Treasurer is also with us today for the Q&A session.

Now as you'll recall from our discussion a year ago, we set out five key strategic objectives to make our business more competitive and sustainable going forward. These strategies were: improve the customer experience, retain our customers, grow broadband, reset our cost structure, and engage our people. Our 2009 results demonstrate that our strategy is working. In 2009 we improved

EBITDA despite a strong increase in competitive activity, compounded by a somewhat slower economy. We expanded our high speed internet coverage and undertook a major initiative in being the first to offer fibre to the home to an entire Canadian city, a technology that we believe will elevate our internet service to a premium experience compared to our competitors in those markets.

We took significant steps to reset our cost structure, reducing our operating and capital costs by over \$150 million in ways that we believe are sustainable going forward. And our customer service metrics have improved in almost every category and across all regions, demonstrating that service improvement and lower cost can indeed go hand in hand. And of course we would not have been able to accomplish any of this without the dedicated focus of our employees.

That said 2009 was not without its challenges. Our competitive footprint continued to grow and the level of competitive activity in terms of promotions, sponsorships, and aggressive advertising reached its broadest level across our territory. The softer economy meant all of us were hungrier and had to fight harder to gain or retain the customer. Despite this competitive pressure on NASs, we had success with win backs and continued to grow our internet and TV coverage which will provide with future revenue growth opportunities.

Our NAS declines grew in 2009 and we expect the battle to continue going forward. However, we've taken actions in 2009 to ensure we are up to the task. Overall, I am very pleased with our 2009 performance and strongly believe that the actions we have taken in 2009 position us very well as we head into a heightened level of competition and customer demand going forward.

Turning to our fourth quarter financial highlights results on slide six of our presentation, despite a decline in our operating revenues, our EBITDA in the quarter remained consistent with that of a year ago and improved over one per cent on an annual basis. This was largely due to the actions we took this year to reset our cost structure and improve our productivity.

Our capital intensity in the quarter was 15.4 per cent, reflecting a spend on fibre op in the latter half of the year and some typical seasonality of capital spend, bringing our annual intensity to 14.6 per cent at the high end of our guidance range but down significantly from 16.2 per cent in 2008.

Our distributable cash increased almost 25 per cent from the fourth quarter of 2008 and was up eight per cent on

an annual basis mainly due to our lower overall capital spending. We ended the year with all financial metrics within our guidance ranges and I'm pleased with our results, especially considering the increase in competitive intensity and a somewhat slower economy in 2009.

Now turning specifically to revenue details on slide seven, local revenues declined 4.1 per cent and long distance declined 8.6 per cent in the quarter compared to the same quarter a year earlier, with total NAS down five per cent from the end of 2008.

Over the previous 12 months our cable telephony competitive footprint grew approximately 10 per centage points but approximately 250,000 more homes having access to a cable telephony offering than a year ago. In many of our markets we have a competitor who has been in the market for one to two years now and has become more established as a possible alternative to us.

As shown on slide eight, our NAS losses in the fourth quarter stabilized a bit with some continued erosion in residential NAS, offset by improvement on the business side. Overall NAS declines of 44,000 in the fourth quarter were 2,000 higher than the same quarter a year ago. Residential NAS declines were 6,000 higher, primarily as a result of the growing competitive presence in our footprint and fewer new customers than in the same quarter in 2008.

Conversely, business NAS declines were 4,000 better than the same quarter a year ago due to the flow through effects of a provincial government win back we accomplished earlier in the year and the completion of the federal election and some business shut downs in the resource sector in the fourth quarter of 2008 which negatively impacted business NASs at that time.

Slide nine shows internet revenue growth of 7.2 per cent over the same quarter in 2008 but our high speed internet customers up seven per cent from the end of 2008, while 6.7 per cent, excluding a one-time favourable adjustment to customer accounts as a result of records reconciliation activity. We continued to expand our DSL coverage, bringing our high speed internet footprint to 77 per cent of homes passed.

Our average revenue per customer rose slightly from the same quarter in 2008, primarily as a result of pricing action and increased take up of new services. However, the increasing ARPC trajectory that we've been experiencing over the past two years dipped this quarter as a result of promotional loadings around the Christmas season. Although our internet business continues to grow, the rate of growth has slowed from previous

periods due to saturation in many of our larger markets and competitive offers in the marketplace.

Moving to slide 10 on information technology, as evident in the chart, IT product revenues can be quite lumpy and affect quarterly comparisons. Our IT product revenue for the quarter was up \$11 million compared to the same quarter in 2008, following declines experienced in the previous two quarters. For the full year, product sales were up \$19 million from 2008 levels, due to increased sales with global customers.

Our IT services revenue was down \$3 million in the quarter due to slowdowns in procurement activity in the healthcare sector. Declines in IT services revenue for the full year were driven primarily by the one-time recognition in 2008 of revenues associated with a large healthcare project. These declines in IT services revenue largely offset the increases from IT product revenue for the year.

Moving to EBITDA as shown on slide 11, the fourth quarter of 2009 was consistent with the same quarter in 2008. However, EBITDA margin was up a full percentage point to 46.5 per cent bringing our annual EBITDA margin to 46.2 per cent, up 1.5 points from 2008. Notably, excluding cost of sales which are driven largely by IT equipment sales activity, our operating costs in the quarter were down \$26 million from the same quarter in 2008 and down \$115 million for the full year as a result of actions we've taken to reset our cost structure. These included management restructurings, limited voluntary early retirements for union staff, productivity improvements through process redesign, improved procurement leveraging, and general overall cost management. We are very pleased with this performance, increasing our EBITDA in the face of a changing revenue mix, with competitive pressure, and a softer economy.

Slide 12 shows our capital spending in the quarter was down 27.5 per cent or \$46 million from the same quarter in 2008, despite our increased spend on fibre. Approximately half of the decline was due to the completion of the Bell Mobility HSPA Backhaul project in 2009 that started in the fourth quarter of 2008. While the rest was due to our spending through increased productivity and workforce management, stringent spending, and prioritization of capital expenditures.

And finally, with respect to our 2009 results, as shown on slide 13 our distributable cash performance was very strong this year as a result of our significantly reduced capital program and our improved operating results. We finished the year with \$773 million in distributable cash, up 8.1 per cent from 2008 and paid out 85 per cent to our

unit holders. 2009 was a reset year for us in terms of our cost structure improvements and our accomplishments in this area, along with strong cash management allowed us to generate sufficient cash to cover our pension funding and restructuring costs while paying a substantial distribution to unit holders.

Now let me talk about our outlook for 2010. I first want to give you an update on our strategy and then I'll comment briefly on our plans for conversion to a corporation. Simply put, there are no changes to our strategy from what we laid out for you in 2009. We plan to continue to build on the accomplishments of 2009 which were substantial but we are not done. Delivering a superior customer experience continues to be one of the most important things we can do. By providing exceptional customer service, value through leading products and services and being recognized by our customers for involvement in the community, we believe we will attract more customers and they will want to buy more from us.

Retaining our customers will always be a key priority for us. As we head into 2010 we expect our competitive footprint to continue to grow but we do believe we are nearing the end of competitive expansion and think it will be largely completed within the next two years. Some customers will migrate to competitors in new areas that open up and with the continued expansion and maturation of competitive footprint in our territory we expect overall NAS declines in 2010 to be slightly higher than those experienced in 2009. Our challenge remains to mitigate the pace of NAS declines.

Broadband is our growth business and we will focus on making our service the clear choice in our markets. Our launch of fibre op, our internet and TV service over fibre to the home technology went extremely well in the quarter and at the end of December we now pass 25,000 homes in the Fredericton area with the service. We are pleased with the results of our fibre op launch and we plan to increase our 2009 spending on fibre to the home technology by over 100 per cent in 2010 to \$65 million to pass 140,000 homes in total by the end of the year.

This will bring our total investment of fibre to the home to approximately \$95 million by the end of 2010, including approximately \$15 million of start up cost. The customer response to the product has been strong and we are already beginning to see improvements in our operating productivity with the use of this new technology. With this investment in fibre to the home we are accelerating and leveraging our natural assets of aerial footprint and low density geography to invest for the future. Our fibre op, internet and television services are strong today and give

us the ability to develop and provide more services in the future that are not even thought of yet.

Now moving to costs, we have made tremendous progress on resetting our cost structure with positive effects on both our operating costs and our capital expenditures. However, there continues to be opportunity as we realize the benefits of restructurings, such as that of our call centre operations, procurement savings, and as new fibre technology changes our operating practices and reduces our overall maintenance and capital costs. 2009 was a big year for cost reductions. I expect more in 2010 but as I have said before, not as high as that achieved in 2009. And of course the support of our employees and our commitment to operating on service improvement is integral to us delivering on all of these priorities.

Turning to slide 16, as we all know, an important event for us to manage and plan for throughout 2010 is our planned conversion to a corporate structure to be effective by January 1, 2011. We are continuing to move the conversion process along and expect the details of the conversion to be released in the near time frame per vote by our unit holders at the AGM which is planned for mid June. With the expected conversion to a corporate structure still almost a year away, there are a number of factors influencing our outlook.

While I can't give specific guidance on our dividend policy at this time, I can say that our objective is to deliver a sustainable, high payout dividend to our shareholders once we become taxable, while balancing our other business priorities, including continuing to invest in broadband and maintaining investment grade credit ratings. Another quarter of competitive and economic experience will help us as we shape our future dividend policy.

Although a reduction to our current distribution is expected, it is important to note as we have said in the past, if our taxable retail investors, dividends paid by a corporation are taxed at lower rates than the distributions we pay as an income trust. The dividend tax credit mechanism can be expected to mitigate to a large part the after-tax effect of a lower dividend for those investors. We estimate that approximately 40 per cent of our public units are held by these investors.

In closing, 2009 was a year of great change and accomplishment for us. We have positioned ourselves to make continued progress in 2010. We are confident in the path we are taking and we will continue to endeavour to maintain a sustainable, profitable business for our customers and investors going forward.

Now I'm going to pass things over to Glen who will take you through our financial guidance for 2010.

Glen LeBlanc, Chief Financial Officer

Thanks Karen and good afternoon everyone. While Karen has laid the foundation for our 2010 outlook, I'll take you through some of the specifics to give you a better idea of what we see in the upcoming year.

Looking at slide 18 you can see that we are expecting overall revenues to be down between one and four per cent from our 2009 results. For the full year we expect some of the decline in local and long distance revenues to be offset by increases in internet, IT, and wireless revenues as the economy recovers somewhat and we expand our service offerings.

Looking out to the first quarter of 2010, as we have said before, IT product revenues tend to be quite lumpy. The first quarter of 2009 had very strong IT product sales and we don't expect that to repeat in Q1 of 2010. And as we know, margins on product sales are quite low and its contribution to EBITDA is negligible.

Growing broadband will continue to be a priority in 2010 and as Karen mentioned, we plan to more than double our investment in fibre to the home to pass 140,000 homes with fibre op by the end of 2010. In addition to helping us grow market share, this technology is expected to help us increase penetration of our internet and IPTV services and will allow us to offer new services, ultimately increasing ARPC.

We will persist in our efforts to drive decreases in cost through the realization of the full year benefits of our restructuring program, further operational efficiencies and ongoing procurement initiatives. These expected benefits will help offset declines in our revenue margins from lower overall revenues and a changing revenue mix. Realistically, we do expect a decline in overall EBITDA from that achieved in 2009.

Turning to slide 20, despite the increase in fibre spending, we expect to have a similar capital intensity in 2010 as we had in 2009. We expect that the increase in fibre spending will be offset by decreases arising from the completion of the Bell Mobility HSPA Backhaul build in 2009, efficiencies achieved with the installation of fibre, procurement savings and continued prioritization of capital spending.

As a result, as shown on slide 21, we expect our distributable cash in 2010 to be largely in line with our 2009 guidance range of \$750 to \$790 million. Our planned distribution payout remains unchanged at \$2.90 per unit for 2010.

Turning to slide 22 on pension funding let me address this in two parts. The first part, our current service cost funding is projected to be approximately the same as 2009. The second piece, the deficit funding payment is not included in a distributable cash calculation but must be funded through cash we do not distribute. These payments are influenced by asset returns experienced in 2009 of approximately 14 per cent and a solvency discount rate in affect for 2009 funding valuations which we anticipate will be lower than the rate used in our 2008 valuations.

Taking these two factors into account, we expect the deficit payments would be somewhere between \$80 and \$110 million, up from the \$74 million in 2009. The actuarial valuations will not be completed until mid year but these are our assumptions based on what we are able to estimate at this point. These estimates do not reflect changes to funding rules announced by the federal government in October as these still not have been—still not been implemented or even clarified with sufficient detail to allow us to determine the impact on our funding requirements.

We do expect the new rules, if implemented, will allow wider use of letters of credit to fund a portion of our deficit payments, lowering our cash funding requirements. Our plan is to fund our pension payments from our cash flow and to make use of letters of credit using our pension reserve credit facility where permissible. When greater clarity on the new rules is provided we will provide an update on our cash funding estimates.

Let me conclude with slide 23 which summarizes our guidance for 2010. We plan to continue on the path we started down in 2009 to improve the sustainability of our business. Thereby helping to ensure we are able to continue to provide an attractive return to our investors.

In 2009 our unit holders enjoyed a 33 per cent total return which contributed to a 10 per cent annualized return we have delivered to our unit holders since October 31st, 2006 decision on taxing income trusts was announced. As we draw to the end of that four year grandfathering period for trusts and we look to make our conversion into a corporation at the end of this year, our objective is to deliver a sustainable, attractive return to our investors, sharing in the strength and stability of our cash flows. And we look forward to sharing more on that in May.

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

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you are using a speaker phone, please lift the hand set 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 participants register for questions. Thank you for your patience.

And the first question is from Greg MacDonald from National Bank Financial. Go ahead.

Greg MacDonald, National Bank Financial

Thanks, good afternoon guys. A question I have is on the guidance range, fairly wide again this year. Particularly, I wonder if you could give us some of your assumptions or try and give some colour on the assumptions going into the low end of the guidance range. I would have assumed specifically that you'd be looking for some traction on the investments that you've made in fibre to the home and so my assumption would have been that you'd be estimating roughly flat or maybe even a slight improvement in residential access lines. Am I being too optimistic in making that assumption or are there other things affecting your concerns at the low end of the revenue guidance? Thanks.

Karen Sheriff, President and Chief Executive Officer

Thanks Greg. Let me talk about revenue in general and if you take out all of the acquisitions we have done in the past, so 2008 was acquisition influenced and so was the very, very first part of 2009 and you look at the run rate on revenue that we've been on for the last few quarters, you're looking at a revenue range that's actually kind of consistent.

The thing that's going the opposite way of the positive side of the fibre build is the continuing growth in competitive footprint. Ten points of growth in a year is huge and until we get past that growth period in competitive footprint, I don't see a stabilizing occurring in

revenue because even though we're doing a great job on broadband, a great job on fibre op, it's very small still compared to the local revenue base that is eroding and it just can't compensate. So, that is really what's occurring.

The other thing that's occurring in 2010 that happened a little bit in 2009 but we expect it to get a bit worse is our contribution revenue. We had a bit of a decline this year. We're actually expecting a \$15 million decline in 2010 which obviously has a pretty material impact on the company. It's not competitively driven. It's just part of the way the contribution regime is moving and where we figure into it but that is impacting us as well.

But I think I've said this a couple of times before, we really need to get out of this heavy growth period in competitive footprint in order to give ourselves a chance for things to stabilize and the new products, like TV, have got to mature a little bit more so they're more material and can take up more of the slack.

Greg MacDonald, National Bank Financial

And can I ask a follow on? It's just on the implied EBITDA margin, you know, you don't give EBITDA guidance but I'm getting a sense from your communication and your reiteration of 2010 strategic focuses for the company that you probably wouldn't be happy if you saw a slip in margin. Is it safe to say that?

Glen LeBlanc, Chief Financial Officer

Good afternoon, Greg. It's Glen. You've heard me say this many times before that in the business that we are seeing revenue declines it's critical that we continue to focus on doing everything we can to try and maintain that margin. You heard in my opening comments that although we do anticipate some decline in EBITDA in 2010, our focus will be on trying to ensure that we do everything we can to maintain margins.

Greg MacDonald, National Bank Financial

Thanks very much guys.

Karen Sheriff, President and Chief Executive Officer

Thank you.

Operator

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

Vince Valentini, TD Newcrest

Yeah, thanks very much, one business question then two quick ones on the pension. On the business side, have you seen any evidence of East Link building out to the wireless business yet? Are you scared that they may launch sometime during 2010? Is that factored into your outlook at all?

And on the pension side, Glen, just curious, I know you can't give specifics on the government proposals but can you give us any ballpark on how big this could be if you're allowed to use letters of credit? I mean, could we see this \$80 to \$110 million drop in half perhaps or is it just you're talking small, \$5 to \$10 million moves that are possible?

And the last pension question, I'm just curious, BCE did this big \$500 million voluntary contribution in December and claimed there's all kinds of positives from the tax side and go forward funding side. Is there anything like that possible for you guys or anything you'd consider to make some one-time payments to use the go forward pay?

Karen Sheriff, President and Chief Executive Officer

I'll answer the first one for you, Vince. On the East Link front, nothing yet and there is a bit of an increase in wireless substitution built into our forecast. We still haven't seen much pickup, less than point of increase end of 2009 over 2008. We're assuming some growth but no big news there on that front yet.

Vince Valentini, TD Newcrest

Okay.

Glen LeBlanc, Chief Financial Officer

Good afternoon, Vince. It's Glen. I'll touch on your pension, your questions. So difficult for me to speculate on what the government rules are going to be on pension reform but we do anticipate that it could be quite substantial for us, maybe as much as \$30 million could be done through letters of credit from the solvency funding requirement that we have to do. So yes, we do

anticipate that it could be, you know, it's not fives and 10's. It's a fairly large number.

The second question you asked is do we ever entertain doing something like our parent company BCE did and do a one-time injection into the pension fund. BCE found themselves I guess in a fairly strong cash position. We don't have that type of free cash flow right now and you heard Karen in her opening remarks comment on how absolutely critical it is for us to maintain our investment grade credit rating. That's something that we're, you know, we're extremely focused on. So to go out and borrow right now to fund the pension fund is not something that we're looking. It's not in our short term plans for sure.

Vince Valentini, TD Newcrest

Great thanks.

Karen Sheriff, President and Chief Executive Officer

Thank you.

Operator

Thank you and the next question is from Mr. Yaghi from Desjardins Securities. Please go ahead.

Maher Yaghi, Desjardins Securities

Yes, thanks for taking my questions. I just have a question regarding your fibre to the home deployment. Can you give us a sense, now that you've got some sense behind you about the economics of the deployment, can you maybe tell us about what sorts of ARPU differences you're seeing between legacy and fibre to the home customers as using the services in terms of TV and high speed internet?

Karen Sheriff, President and Chief Executive Officer

So far the economics are coming in right where we thought they would be across the board or better. There have been a lot of discussion before around the cost of passing a home and again, we're doing a little bit better than we thought we would in the case. Because these products are higher speeds, the prices are a bit higher than the rest of our internet products in a fully loaded

package, so full package that includes internet and television. It's about \$20 higher than the package below it but that's driven by the fact that there's more broadband capability within it. So the ARPUs are quite strong.

Maher Yaghi, Desjardins Securities

And on the TV side?

Karen Sheriff, President and Chief Executive Officer

Consistent.

Maher Yaghi, Desjardins Securities

Same, around the same ARPU?

Karen Sheriff, President and Chief Executive Officer

Yes, it's consistent.

Maher Yaghi, Desjardins Securities

Okay and how about the cost side. Can you maybe tell us, give us an update on how much it's costing you per house?

Glen LeBlanc, Chief Financial Officer

Hi, hi there. Good afternoon. We at this point are not disclosing that. I know it's something we've touched on a number of times we've had calls like that but we're not disclosing that information at this point.

Maher Yaghi, Desjardins Securities

Okay and maybe just a follow up, in this quarter we saw your high speed internet average revenue per customer decline. Typically it's been around five per cent, you know, five, six per cent give or take. It's 1.7 per cent. Is there something specific that happened this quarter or that kind of growth is what you expect going forward?

Karen Sheriff, President and Chief Executive Officer

There were a lot of promotional discounts around Christmas this year and we're also, some of this is the timing of price changes. So, assume it's going to get a little bit stronger in 2010.

Maher Yaghi, Desjardins Securities

Okay, thank you.

Operator

Thank you and the next question is from Mr. Jeff Fan from Scotia Capital. Please go ahead.

Jeff Fan, Scotia Capital

Thanks very much. Just one quick question on numbers regarding fibre op and then a question regarding future expansion. On the cost of the fibre op, I just wanted to clarify, Karen, I think you mentioned \$65 million is the spending this year and that should get you to about 140,000 homes by year end. If I'm doing my math correctly that would mean that you guys are increasing the number of homes passed by about 90,000 by the end of last year at 25,000. So, that would mean \$65 million over 90,000. It works out to about \$720 per homes passed.

Karen Sheriff, President and Chief Executive Officer

The math is not quite right. Jeff, if you slow down for a sec, 140 minus 25, it's an addition of 115 and so if you take out our start up costs of \$115 million last year we're at about \$570 per home passed.

Jeff Fan, Scotia Capital

Okay, so no change there in terms of how—what was the original plan versus this year.

Karen Sheriff, President and Chief Executive Officer

No.

Jeff Fan, Scotia Capital

Okay. And then a bigger question, bigger picture question regarding fibre op and the kind of footprint you mentioned. It looks like you guys are adding a few percentage points in terms of homes passed from fibre op this year. You mentioned earlier the competitive footprint is roughly 75 per cent, I think.

So if you think of this long term, isn't this given the time to sort of accelerate the deployment, given that you have to catch up with fibre to make sure that you balance out the competitive footprint versus what you can offer in fibre and maybe a second part to that question is how, you know, how does this factor into when you decide on the payout and the dividend distribution going forward?

Karen Sheriff, President and Chief Executive Officer

When you say accelerate, Jeff, you're referring to accelerating fibre?

Jeff Fan, Scotia Capital

Yes accelerating...

Karen Sheriff, President and Chief Executive Officer

Yeah.

Jeff Fan, Scotia Capital

Percentage of homes that you can pass.

Karen Sheriff, President and Chief Executive Officer

Right well we agree with you, that's why we're spending twice as much this year than we have in the past. We're working right now within our level of affordability and we have the cap ex room to double so we will be at 140,000 homes by the end of the year. But we agree with you, the faster pace is very important in order to not just catch up but move ahead in the marketplace which is what we are trying to do and I think we can have—we will have a much more full discussion of the impact on our future payouts when we are talking in May.

Jeff Fan, Scotia Capital

So does this factor into that thinking though, in terms of...

Karen Sheriff, President and Chief Executive Officer

Everything that we do factors into how we're going to set our dividend policy and one of the reasons we want to wait to May is that it's quite early to be giving guidance for 2011. We'd like to see what the economy does. We want to see what our competitors do. Everything under the sun figures into what we are going to do because we would like it to be sustainable and we would, as I said earlier, we would like to have a high payout result.

Jeff Fan, Scotia Capital

Okay thanks.

Karen Sheriff, President and Chief Executive Officer

Thank you.

Operator

Thank you and the next question is from Devi Goshe from Genuity Capital. Please go ahead.

Devi Goshe, Genuity Capital

Yes, thanks very much. Good afternoon. Glen, sorry, I've got a few financial clarification questions, if you don't mind. First of all, if I take your 2010 guidance, I just want to clarify, if I take the midpoint of distributable cash flow at \$770 million minus \$95 million for pension solvency and \$41 million for cash free structuring—I understand the solvency may change—but I get to \$634 million or \$2.78 per unit versus distributions of \$662 or \$2.90. So I just want to clarify that you are budgeting about \$30 million of borrowings to fund distributions this year.

Glen LeBlanc, Chief Financial Officer

Good afternoon, Devi. Certainly I can't argue with your math but what we didn't provide guidance on today is really what that pension funding will be beyond, you know, the \$80 to \$110 million. I alluded to the fact that with reform it could be considerably less than that and the second thing that, you know, I know you're picking up the restructuring number from our 2009 but 2009 and 2'08 were very significant years in restructuring for us and

although we continue to look for every opportunity for efficiency we don't foresee them being as large in the coming year.

Devi Goshe, Genuity Capital

I actually have a follow up on restructuring but as you used two segues to my next question. On the 2009, I think there's some confusion as to what's your fully taxed free cash flow would have looked like in 2009 if you were a tax paying entity. Obviously people are looking at what sort of dividend you should set. So I'm taking \$773 million of distributable cash minus \$74 pension, \$66 of restructuring and I'm assuming cash tax is about \$140 million. So that's about \$494 million or \$2.16 per unit fully taxed. Would that be fair?

Glen LeBlanc, Chief Financial Officer

Well, you know what I'll point you to so that we try to clarify any confusion, let's go to—if you went to page six in the SIP, this is a heck of a good proxy for taxes and you took our pre-tax earnings that you would see on that page and you add back to that the non-controlling interest. And if you took the current tax rate that we would be paying if we were taxable at 33 per cent you are correct. You arrive at about \$140 million in taxes payable.

Now you've heard me say before that by the time we get to a taxable state we think that tax rate will be closer to 27-28 but you are right that that's a god, very good proxy on what taxes would be if we were paying taxes today.

Devi Goshe, Genuity Capital

Right and your guidance for 2010 gives you about \$2 to \$2.32, so pretty much in line with 2009.

Glen LeBlanc, Chief Financial Officer

Yes, as we said, our distributable cash we believe will be very...

Devi Goshe, Genuity Capital

Flat and so the other items kind of offset each other with the lower restructuring offset by the higher pension potentially, I agree.

My last question has to do with restructuring. I appreciate your bringing it up. So I guess, you know, covering Telco's for many years, the argument is generally if you do a \$1 of restructuring it's a one-timer and it leads to about \$1 of recurring savings. So, pretty good payback. So if that's the case and your aim is to keep EBITDA stable, you got about \$3.2 billion of revenue last year. You are guiding at the midpoint to about a 2.5 per cent revenue decline, so that's about \$80 million. So I know this is very simplistic math but to keep EBITDA flat given the current revenue declines, don't you have to do about \$80 million of restructuring every year?

Glen LeBlanc, Chief Financial Officer

That would be incredibly simplified math, Devi. As I said in my earlier comments, we will do everything we can to continue to take costs out. We have a tremendous track record of being successful in maintaining our margins and as Karen alluded to in her remarks today, actually improved EBITDA margin this year and I think that is quite extraordinary considering the challenges our industry faced and even the declines that our company faced.

Devi Goshe, Genuity Capital

And you do about \$80 million of restructuring.

Karen Sheriff, President and Chief Executive Officer

Let me add something on top. You're assuming the only place to remove cost is labour. That's not the only place to remove cost. There's contractor cost. There's procurement cost and we are hitting very hard on that front this year and we're going to be quite successful and to the extent we minimize the labour disruption, good thing for the work force, reduces severance and all that kind of other good stuff. So your math is too simplistic.

Devi Goshe, Genuity Capital

No, that makes sense. And the last one is a real factual one then I'll sign off. Part TV rebates, I know your TV asset is pretty small but did you get any rebates this quarter to include in EBITDA?

Glen LeBlanc, Chief Financial Officer

No, we did not.

Devi Goshe, Genuity Capital

Okay, thanks very much.

Glen LeBlanc, Chief Financial Officer

Thank you, Devi.

Karen Sheriff, President and Chief Executive Officer

Thank you.

Operator

Thank you and the next question is from Nima Billou from Bloom Investments. Please go ahead.

Nima Billou, Bloom Investments

Thank you. Just taking a look at the capital expenditures, in Q4 it may be seasonal but it ended up at the upper end of the range in terms of 15.4 per cent intensity. If you do get a small dip in sales next year and assuming you spend anywhere from the \$440 to \$460 given acceleration capital, will you not end up sort of at the upper end of the range? I know it's a roundabout way of asking guidance but it seems as if despite preaching capital efficiencies because of acceleration you're still going to be spending towards the higher end of your range with respect to guidance.

Karen Sheriff, President and Chief Executive Officer

One of the things that happens every year in almost every Telco is there's a bit of an uptake in the fourth quarter and that's sometimes because projects started late but it happens every year to every Telco. We also were a bit back end loaded this year on our fibre build versus HSPA. We're really comfortable with the guidance range on this and have not only the ability to bring it down because HSPA won't repeat, there's productivity that we know we will receive and there's also some efficiencies that we get just by ploughing in the fibre, by putting in the fibre there's savings in cap ex. So we're pretty confident with the range.

Nima Billou, Bloom Investments

When you're looking at the fibre cap ex spend, this year and next will probably be fairly, you know, equal. When do you see that coming down over time because you are, as you said, accelerating it and more front loading it towards '010 let's say. Will you start to see that decelerate in '011 or '012 or is that going to have to be kept fairly flat or maybe increase to increase your footprint?

Glen LeBlanc, Chief Financial Officer

It's a great question but it takes us out to 2011-12 guidance so certainly not going to go there now. As Karen mentioned, we—our goal is to continue to find efficiencies and to build out our fibre network.

Nima Billou, Bloom Investments

Okay. Finally, with respect to the number of customers you provided, I haven't looked through the full MD&A yet but what are the number of television customers and when are you going to start breaking that out separately?

Karen Sheriff, President and Chief Executive Officer

We're at about a little over 33,000 and we want this thing to get a bit larger, a bit more mature before we do that.

Nima Billou, Bloom Investments

Thanks very much.

Karen Sheriff, President and Chief Executive Officer

Thank you.

Operator

Thank you and the next question is from Peter Rhamey from BMO Capital Markets. Please go ahead.

Peter Rhamey, BMO Capital Markets

Yes, good afternoon and thanks for taking the question. Two questions, one on the competitive footprint and one on revisiting that cost question that was asked earlier on. So first on the competitive footprint, I see that you think that your competitive footprint, you thought it increased to 1,000 basis points, 10 per cent this year and I see in your guidance it's going to go maybe up another seven per cent next year. So my question is, is I keep hearing about intensifying competition but you know, on a footprint basis actually, it's a decelerating function here. So I'm wondering, Karen, if you could talk us through a little bit why so cautious, particularly if the economy is stabilizing or improving on top line performance relative to what you were able to do in 2009.

Glen LeBlanc, Chief Financial Officer

Yeah.

Karen Sheriff, President and Chief Executive Officer

Peter, that's a great question. There's a bit of a lag when footprint opens an area, when a competitor really has some mass in opening up enough footprint to really have impact. And so it's not just the footprint that opens in year, it's really the heavy impact of the footprint that's opened in the last 24 months. So if you look at the 10 points this year, about nine points west or another seven points there, it's a whole lot of relatively new competition to absorb and that's why we still expect some growth and some increasing pressure in 2010. It's not just what opens up last month. It builds and that's why we're feeling it so much now.

Peter Rhamey, BMO Capital Markets

Yeah and on that, when you look at your line losses, is it a matter of gross ads or is it more of a churn affect you're seeing from competition because one would be economic related, one would be competitive related.

Karen Sheriff, President and Chief Executive Officer

It's a little bit of both, heavier and churn.

Peter Rhamey, BMO Capital Markets

Okay. Second question is on cost reduction. I think if I recall right you said, Karen, that you had \$150 million of

cost reductions in 2009 and I think \$115 was realized during the year. So that means that going into 2010 that you might have \$35 million of incremental cost savings that have yet to flow through on a like-for-like basis in 2010, plus whatever new initiatives you're going to undertake for 2010. So I was hoping that a) you'd give us some insights into 2010 initiatives in terms of magnitude as, you know, one third of last year or two thirds, what have you and as well, whether my flow through concept here makes sense. Because if you're losing \$80 million to \$100 million of revenue there's probably a gross margin of 70 per cent that you're looking for and it looks like you're getting a large part of that back plus inflation. So maybe you could talk through that for all of us. Thank you.

Karen Sheriff, President and Chief Executive Officer

Yeah, I'm going to let Glen take you through the math on flow through. I don't think that's quite right but we'll let him take you through what's flow through from year to year.

In terms of the new things that we're going after this year, I mentioned a few of them during my comments up front. We do have some restructures that we've already announced, our contact centre restructure is taking place and that has impact at the end of this quarter. We have a significant amount of procurement savings. We have some cost savings we're already starting to achieve, not only in just general G&A but from our fibre rollout and other productivity initiatives that are happening across the company, so a really good mix of initiatives already well under way.

Glen, do you want to walk through the math?

Glen LeBlanc, Chief Financial Officer

Certainly. I'll give you some clarity, Peter, on the numbers Karen quoted earlier. When she said that we took out about \$150 million of cash costs in our business, that's a combination of both op ex, cost of revenues, and cap ex. The \$115 million was the cost reductions we took out of the business from our P&L in 2009. There was some of that would have been cost of revenues but the vast majority of it was due to the restructuring and, you know, the cost efforts we put forth in 2009.

So yes, when you do some of these initiatives throughout calendar year 2009 you're going to get some flow through. A lot of it was done early in 2009 but you will get some flow through but as I said earlier in my

commentary, we're optimistic that we have still lots of runway to take additional costs out but we do not believe that the opportunity will be as large as what we experienced in 2009.

Karen Sheriff, President and Chief Executive Officer

Yeah, I think the bottom line is there's less flow through and more new cost initiatives that are occurring this year. There was some flow through in the \$115 as well from the prior year.

Peter Rhamey, BMO Capital Markets

That would be great and you don't want to put a number on what the restructuring benefits would be?

Karen Sheriff, President and Chief Executive Officer

No.

Peter Rhamey, BMO Capital Markets

In 2010, no?

Karen Sheriff, President and Chief Executive Officer

No.

Peter Rhamey, BMO Capital Markets

Okay.

Karen Sheriff, President and Chief Executive Officer

Thank you, Peter.

Operator

Thank.

Karen Sheriff, President and Chief Executive Officer

Other questions?

Operator

And the next question is from Glen Campbell, Bank of America Merrill Lynch. Please go ahead.

Glen Campbell, Bank of America Merrill Lynch

Yes, thanks very much. Karen, I wanted to follow up with a comment you made about line losses in the first couple of years after cable competitors entered. Could you talk about what it looks like in the markets where cable competition is more mature? I'm thinking Halifax. Have we started to see a levelling out there? What sort of losses have you seen there in the last year?

Karen Sheriff, President and Chief Executive Officer

Good question. Some levelling out. Still some inroads by East Link but better than it has been but not flat. So slowing declines but not flat. More work on our team's part to slow what's going on. There are—it's a little bit not in Halifax proper but in the metro area there actually some new footprint pieces opening up that we are not in and that is hurting us but in the more mature footprint we are doing better than we were before.

Glen Campbell, Bank of America Merrill Lynch

If we were to model say something between a point and two points of share loss, would that be on the residential side, does that sound reasonable to you?

Karen Sheriff, President and Chief Executive Officer

I can't do that for you, I'm sorry.

Glen Campbell, Bank of America Merrill Lynch

Okay thanks. And a question on the cost side, I mean, the cost reductions in 2009 were fantastic, there's no question and you're guiding towards less cost reduction for 2010. You know, can you characterize that for us as being a function of a recovering economy or, you know, the gains are getting a little bit more difficult to attain? How should we think about that going forward?

Karen Sheriff, President and Chief Executive Officer

When you do what we did within the organization last year it's—it was a very tumultuous year. We had a significant restructure of our management team and some very major changes, some major changes in capital and particularly on the staffing front. You can't do that every year because you have to have stability. We are right sized for the functions that we need to have now but clearly as the business changes and the revenues change over time we will react to it but we made the decision purposely. The MPV is higher if we do more faster and that's what we did. So we drove a very high MPV in terms of cost reductions into the business but some of it you just can't do every year because the opportunity isn't there and it's just too destabilizing for the business.

Glen Campbell, Bank of America Merrill Lynch

But it sounds like, I mean, if you think of 2010 as being sort of a gentler year, you've got some top line pressure, we've got inflationary pressure as we sort of look out over a few years. Do you think it's realistic to think that op ex can come down or will be—will keep margins essentially flat or should we think of the model as being, you know, flat free cash flow but should take it out of cap ex. Op ex pressures will tend to, you know, reduce margins a little bit over time. What's the best way to think about that?

Karen Sheriff, President and Chief Executive Officer

To step into that a little bit. I do think there's opportunity there but clearly over time this can't go on for 20 years. There isn't that kind of runway but I do still think there's opportunity. There's also opportunity in cap ex and we would use the balance of both. Glen, do you want to speak to the margins?

Glen LeBlanc, Chief Financial Officer

Yeah, Glen, my comments I said earlier is that we continue and we have for a number of years been focused on margins. The guidance we provide here today is a declining revenue base of minus one to minus four and I did in my comments say that we would see some decline in EBITDA in 2010, so phenomenal 2009 cost containment. Took some exceptional steps to take costs out which allowed us to grow EBITDA. So in 2009, what you're hearing—excuse me—in 2010 what you're hearing from us is focus on maintaining margins but we do not believe that the cost containment can be as large and therefore grow EBITDA to the same magnitude we did in this past calendar year.

Glen Campbell, Bank of America Merrill Lynch

Okay, thanks very much.

Karen Sheriff, President and Chief Executive Officer

Thank you.

Operator

Thank you and the next question is from Michael Mills from Beacon Securities. Please go ahead.

Michael Mills, Beacon Securities

Good afternoon guys. Just a quick one on the anticipated line losses in 2010, I'm wondering if there's any large contract impact there, whether it be government or business.

Karen Sheriff, President and Chief Executive Officer

No.

Michael Mills, Beacon Securities

No, okay.

Karen Sheriff, President and Chief Executive Officer

We had a lot of that, as you know, in 2009 and that's why as we look out at NAS into the future we actually see business looking not too bad at all, better.

Michael Mills, Beacon Securities

Okay and just in terms of those large contracts, I guess especially on the government side, how often do those come up for renewal and you know, are there any coming in 2010?

Karen Sheriff, President and Chief Executive Officer

It varies a lot, Michael and I can't, I don't have the list of every single contract we have, whether it's government or large customer but I can tell you that what we experienced in 2009 in terms of some of the very large pressures we have, we were at a renewal point on contracts that we don't have as much renewal coming up in 2010 and not as much at risk and not as much as we knew about in 2009 coming out, so we're actually in a good position on the enterprise market in 2010.

Michael Mills, Beacon Securities

Okay and just a one off question. I know there's some Olympic sponsorship being done by Bell Aliant. I'm wondering if there's going to be any additional costs recorded in Q1.

Karen Sheriff, President and Chief Executive Officer

No. No, we're just absorbing that within our normal marketing budget. It's a replacement.

Michael Mills, Beacon Securities

That's great. Thanks.

Karen Sheriff, President and Chief Executive Officer

Thank you. Operator, we have time for one more question.

Operator

Thank you. So the last question is from Mr. Peter MacDonald from GMP Securities. Please go ahead.

Peter MacDonald, GMP Securities

Thanks. Glen, you talked about a potential \$30 million positive impact on the proposed pension changes. Is there a negative one that could transpire as well or is that fully in your numbers?

Glen LeBlanc, Chief Financial Officer

Good afternoon, Peter. What we attempted to do was try to use the best information we had and when I provided

you a guidance range of \$80 to \$110 million that is if nothing changes, if the government legislation did not offer us any upside that would be the full guidance range on what pension funding could be.

Then my commentary went to, you know, the internal optimist in me that says that the pension reform will be done and that we will see a pretty sizeable opportunity to mitigate some of that cash flow drain. So, no worse than what I said in the \$80 to \$110 million, that's for sure.

Peter MacDonald, GMP Securities

So the 30 would include any change or not allowing you to use the 10 year amortization schedule?

Glen LeBlanc, Chief Financial Officer

Yeah well, again, I don't want to speculate on what's going to happen here with the reform because there could be some opportunity to use smoothing. There could be some opportunities for—to utilize letters of credit, both which will positively impact us. I think it's a sizeable number. You know its \$30 million. Maybe it's even better than that but it's not small.

Peter MacDonald, GMP Securities

Okay and then just as the last one, you spoke a few times about maintaining your investment grade credit ratings, really in relation I guess to the conversion in the dividend. I was hoping that maybe you could share some of the parameters that the rating agencies are giving you in that context.

Glen LeBlanc, Chief Financial Officer

Certainly can't share any of the parameters they're giving us but I will share the same thing I've been saying for years is that Bell Aliant believes that maintaining investment grade credit is absolutely paramount to us. We do not want to take any actions that jeopardize that. We have sizeable refinancing that comes in calendar '11, you know, the same year that we convert back to a corporation and we've been carrying a debt to EBITDA of approximately two times and we've said for years we believe that's the right level and we don't want to go higher than that. So I think that's really the parameter that we've been communicating for years is we think that this is the right debt to EBITDA level for Bell Aliant and we're very focused on maintaining that credit rating.

Peter MacDonald, GMP Securities

Are they making any commentary to you about suggesting that a dividend is on a free cash flow percentage basis and you have to be within a certain range or is it really just the standard metrics?

Glen LeBlanc, Chief Financial Officer

No, they're not making any comments. That's something we can work with our board on.

Peter MacDonald, GMP Securities

Okay, thank you.

Operator

Thank you and I would now like to turn the meeting over to Ms. Redden. Please go ahead.

Zeda Redden, Vice-President, Investor Relations

Thank you everyone for joining us today and I look forward to talking with you over the next couple of days.

Operator

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