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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the Bell Aliant Inc. First Quarter 2011 conference call and webcast. To begin this morning's conference call, I would like to introduce Ms. Zeda Redden, Vice President, Investor Relations. Please go ahead, Ms. Redden.

Zeda Redden, Vice President, Investor Relations, Bell Aliant Inc.

Thank you, Operator, and good morning everyone. Last evening we issued our new release and Q1 MD&A and

supplementary information package, which are posted on SEDAR and also on our website; and also posted on our website is the slide presentation that we'll be taking you through on this call.

As always, we caution you that today's comments will contain forward-looking information related to the finances and operations of the Company, and there are significant risks and uncertainties that could cause our results to be materially different from our statements today. Our discussion is qualified by the cautionary statements on Slide 1 of the presentation, and those listed in the MD&A and news release, and we would ask you to review those statements and our underlying assumptions that are described in those documents.

Today, Karen Sheriff, our President and Chief Executive Officer, and Glen LeBlanc, Executive Vice President and Chief Financial Officer will be taking you through our first quarter results. 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 Karen.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Thank you, Zeda, and good morning everybody. Thank you very much for joining us today. Let me start off by saying that I am very pleased with our first quarter results. We're now one quarter into what will be a big year of delivery for us, and our focused execution of our strategic initiatives has us on the right path to establishing a solid competitive advantage with our Internet and TV service capabilities. This is fundamental to our future success and our progress thus far bodes very well for us in the future.

Turning to Slide 3, so far this year we have furthered our strategic agenda by increasing our fibre-to-the-home footprint by an incremental 40,000 homes and businesses, launching Fibre Op 2.0, which will make our existing fibre op Internet and TV services even better, and continuing to remove costs from our ongoing operation as we continue to reset the cost structure. The cost reductions may not be readily evident in looking at our results, but I will get into more detail on that in just a little bit.

As a result of these efforts, in the first quarter we saw the continuation of some good trends that started a few quarters back. Our net NAS declines improved from the same quarter a year earlier for the fourth consecutive

quarter. The take rate on TV continued at over 90 percent of new fibre op customers, which is key to us owning the whole home. High-speed ARPs continued to climb, reaching a new high again this quarter, and TV and Internet subs continue to grow. All of this has led us to the point where we are beginning to see a change in the revenue trajectory as shown on Slide 4.

In the first quarter of 2011, our total revenue declines were held to 1 percent, and our Atlantic residential revenues, which are those most impacted by the rollout of fibre-to-the-home thus far, increased approximately 3 percent, from the same quarter a year ago after several quarters of year-over-year decline. While quarterly results may bounce around and not remain at this high of a growth rate, as I told you in February, we do expect Atlantic residential revenue growth this year to be positive; and in terms of NAS churn, the rate we are seeing in our fibre territories is significantly lower than what we typically experience in our non-fibre territories. Considering that we still have a significant portion of our accelerated fibre-to-the-home rollout ahead of us, this is very encouraging.

Turning to Slide 5, we've now past 178,000 homes and businesses in Atlantic Canada with this technology, and will expand to over 600,000 throughout our territory by the end of 2012. Building this scale along with our recently announced launch of Fibre Op 2.0 with Microsoft Media Room for TV and symmetrical Internet speeds, gives us an advantage over the competition. We believe this will become vitally important in the future as customers demand more bandwidth for both their entertainment and communications needs. We will be at the forefront in our markets.

Turning to Slide 6, with Fibre Op 2.0 customers will see Internet speeds increase and have the ability to upload as fast as they download, a first in Canada. For example, our most popular fibre op Internet product moves from 25 megs down and 5 megs up, to 30 megs each way, so a customer can upload as fast as they download. This is in addition to our existing fibre op Internet range of choices of speeds, which will enable customers to not only download music and movies and share videos or photos faster than ever before, but also accommodate the growing need for multiple users within the home.

Fibre Op 2.0 also provides enhanced functions and features for TV, including one PVR that powers the whole house. Customers can start watching a recording in one room and finish in another, and also have the capacity to record up to four shows at the same time. Customers can control their PVR from any location in the home. The new TV product also includes easy-to-use features like

picture-in-picture browsing and advanced search capability.

Fibre Op 2.0 introduces more speed and functionality to customers for the same price as our current fibre op services, and we plan to migrate all of our fibre op subscribers to 2.0 this year.

To date, the industry has been very focused on download speeds, but with all of the video traffic movement we believe that adding symmetrical upload functionality is a clear differentiator of increasing importance, and we will be the first in our markets with this capability, and it could be some time before other technologies can do this, if ever. As well, it is much more efficient and effective for us from a maintenance and customer service perspective to have all of our fibre op subscribers on the same technology platform. So the value to us is in the competitive advantage that will help us keep and gain customers, coupled with keeping our costs down by having a consistent fibre op platform to serve.

This competitive advantage, along with continued progress on our cost structure and customer service initiatives, will move us toward a future with improved profitability, ensuring sustainability of our business model, and continue solid returns to investors. That said, this will take some time. As I said, I'm very pleased with our first quarter results and I'm confident we are on the right path; however, we continue to expect our financial results for the year to be in line with the guidance ranges we gave you in February. I do expect some pressure on EBITDA throughout the balance of this year because competitive intensity is strong and incremental start-up costs will continue and ramp up as we ramp up our fibre op rollout.

Our industry is competitive, which makes it essential for us to make the investments we are making to gain the significant competitive advantage, and in the interim we expect our shorter term financial results to be under pressure as we build the scale we need to grow our profitability.

That said, we're thrilled with the results for the quarter, and again, very optimistic about the path that we are on. So with that, let me give you a bit of an overview of our first quarter performance.

Turning to Slide 7, net NAS declines in the quarter were 33,000 compared to 38,000 in the same quarter a year ago, with improvements in both residential and business NAS declines. Growth in our competitive footprint has slowed substantially, standing at 69 percent again this quarter with very marginal growth over the last several

quarters. This slowing of competitive footprint growth coupled with better bundling and the expansion of our fibre op services has not only improved retention but has resulted in significant win-back gains. In fact, our traditional voice business comprised of our local and long distance revenues had its best revenue performance in two years, with a decline of only 3.7 percent compared to a decline of 5.5 percent in the first quarter of 2010. Improving net NAS declines along with some selective pricing actions helped achieve this result.

Turning to Slide 8 on Internet, our Internet revenue, not including TV, increased 7 percent with an increase in high-speed customers of 3.8 percent from the end of March 2010. High-speed net additions in the quarter were 9,000, down from 12,000 in the same quarter of 2010, a pattern not unlike that seen across the industry. The slow down in high-speeds adds compared to prior year is the result of a maturing market and less expansion of high-speed footprint.

Approximately 85 percent of homes in our territory now have access to high-speed services; however, our fibre op coverage is expanding and as we open more territory with fibre op, we are seeing fairly significant migration from traditional DSL to the new technology. And while migrations do not add to the overall number of subscribers, the good news about this migration is that fibre op carries a premium price over DSL Internet service, as well as encouraging use of other features, all of which boost ARPs. And as I said earlier, high-speed ARPs reached another high point this quarter in part due to the migration to higher value services, and in part due to selective price increases.

The really good news about DSL migrations to fibre op is that well over 90 percent of new fibre op Internet customers are also subscribing to fibre op TV. Most of these are new TV customers to us, so this is huge as this helps us own the whole home, which grows revenue, improves retention as customers become entrenched, and helps provide us with a long-term customer loyalty that helps us grow and sustain our business.

Turning now to IPTV on Slide 9, our TV revenue in the first quarter reached \$9 million and we added 4,400 net IPTV subscribers. Substantially, all of these were new fibre op TV customers. As we are now in the stages of our fibre-to-the-home rollout where we are upgrading certain areas of our fibre-to-the-node network to fibre-to-the-home, our first quarter IPTV net adds included some migration from FTTN service, Bell Aliant TV; and like our DSL to fibre op Internet migration, the IPTV migration demonstrates positive demand for the premium services. This migration, along with some seasonality of movement

from the Christmas season into the first quarter, contributed to lower TV adds in the first quarter compared to what we saw last quarter. In total, we now have 54,000 IPTV customers or about 14 percent penetration in our total fibre footprint, including FTTN and FTTH. With over 70 percent of our announced FTTH expansion still to come before the end of 2012, we expect to see strong TV growth going forward.

Now, before I turn it over to Glen to talk about the specifics of our financial results, let me talk a bit about our costs in the quarter. Our non-pension operating expenses in the quarter were flat to the same quarter of 2010. We have continued to take costs out of the business, and although we have come very far over the last two years in re-setting our cost structure, I believe we still have room to go further. The benefits of restructuring and continued productivity enhancements that we continue to pursue help us to continue to take significant ongoing operational costs out of the business in the quarter.

The cost savings were masked by several factors. First of all, first quarter 2011 experienced a year-over-year increase in incentive costs as 2010 expenses included a reduction in share-based compensation from forfeitures within management and mark-to-market adjustments. Secondly, we had good growth in product revenues and, as you saw, in wireless across our revenue segments, which drove an increase in our cost of goods sold; and thirdly, as I mentioned with our 2011 guidance last quarter, we'll see EBITDA pressure from our fibre op ramp-up with higher cost of sales primarily from sales and call centre and service, as well as the growth in TV content costs as we scale as we acquire new customers for our fibre op networks.

New users of new technology need more attention in the short run, but this will subside over time and these types of cost increases driven by increased business activity are a good thing for the long run, and a necessary part of our turnaround plan. My bottom-line message on expenses—we are not out of gas on finding cost reductions. Re-setting our cost structures continues to be a strategic priority. We still have more to go; however, as we grow our fibre op customer base and change our revenue mix, the cost reductions will be somewhat masked, and we will see pressure on EBITDA. The cost pressure from this accelerated growth will subside once the accelerated fibre expansion is complete; but in the meantime, we will continue to pursue operating efficiencies throughout the business.

Also before I hand it over to Glen, as you all know, the CRTC released a decision this week on contribution and

other matters. This will take us some time to digest and determine the precise implications; however, that said, we are quite hopeful that this decision will offer us some positive upside over the near and the medium term.

Now, let me turn things over to Glen to talk specifically about the financials.

Glen LeBlanc, Executive Vice President, Chief Financial Officer

Thank you, Karen, and good morning everyone. As Karen has said, overall we are pleased with our first quarter results. We have had a strong start to what will be a very important year for us as we make what we believe will be a business-changing investment in fibre-to-the-home.

Looking out the balance of the year, we expect our EBITDA will come under pressure with the increased customer acquisition costs and as we lapse some favourable adjustments we experienced in 2010, particularly in the fourth quarter. We continue to expect to be within all of our annual guidance ranges as we continue our fibre-to-the-home expansion and deal with the higher cost and the ramp-up phase that will accompany it.

Turning specifically to our financial results on Slide 12, our revenue declines were held to 1 percent from the same quarter in 2010 as growth in Internet and IPTV largely offset declines in local and long distance. EBITDA before pension current service costs declined 2 percent from the same quarter in 2010, as a result of the revenue declines and as we move to a revenue mix with lower margin revenues. Our non-pension expenses in the quarter were flat, as Karen has already mentioned, as cost reductions from productivity programs were offset by incentive adjustments that benefited 2010 expenses, higher cost of goods sold from growth from product sales and increases arising from our accelerated fibre-to-the-home fibre op rollout.

EBITDA was negatively impacted by a \$2 million increase in pension current service costs, despite fewer active employees in our defined benefit plans, as a result of lower interest rates in 2011, compared to those in 2010.

Our capital expenditures in the quarter were 120 million, up 25 million from the same quarter in 2010 as we accelerate our expansion of our fibre-to-the-home network. As we've stated in our guidance earlier this year, we expect our overall 2011 capital program to be in the range of 520 to 560 million, and consistent with the

seasonal patterns of other years, we expect capital spending in the coming quarters of 2011 to be higher than first quarter as we enter peak construction season. This is particularly relevant this year as we plan to expand our FTTH coverage by approximately 300,000 homes in 2011, of which 40,000 were completed in this past quarter.

Free cash flow in the quarter was 88 million, up from 57 million in the same quarter of 2010. The increase in free cash flow was driven by a \$48 million increase in cash provided by changes in working capital. The improvement was driven by higher accounts receivable collections, lower inventory purchases, and lower outflows from accounts payable than a year earlier, as the first quarter of 2010 included a high repayment of severance associated with the late 2009 restructuring. This improvement in cash from changes in working capital more than offset the cash-flow effects of our increased capital program in 2011.

Our adjusted earnings per share in the first quarter as a corporation, which excludes the amortization of purchase price allocations, was \$0.44. This puts us on track to be in line with our guidance expectations for adjusted earnings per share of \$1.60 to \$1.80.

Also, as you would have noticed, this is our first quarter reporting our financial results under IFRS. There are a quite a number of changes in our 2010 restated statements, particularly on the balance sheet as we are not only affected by IFRS but, of course, by the conversion from an income trust to a corporate structure. While some of these prior year adjustments can cause 2010 to look somewhat unusual, going forward our reporting should be somewhat simpler and more comparable to others in our industry.

Now before I open for questions, let me comment on two financing transactions we have undertaken this year to solidify our balance sheet. In March, we successfully issued 287.5 million in preferred shares. The proceeds of the issue were partially used to make a \$200 million contribution to our defined benefit pension plans, bringing our average funded ratio to approximately 90 percent, a significant improvement in our funded status over recent years. By making this lump-sum contribution, we have gained flexibility in managing future year deficit funding requirements, improved our balance sheet at an attractive financing rate, and of course improved pension security for our employees. We plan to draw down on this lump-sum contribution to meet a portion of our 2011 deficit funding requirements which are expected to be between 100 and 120 million, which will leave us some cushion for future years.

Related to this, in late March the Federal government announced the April 1, 2011 implementation of the long-awaited amendments to pension regulations, allowing the use of letters of credit for meeting certain solvency deficit funding requirements. Because we were able to take advantage of the favourable market conditions in first quarter to issue preferred shares, we were able to make this large lump-sum contribution to our pension plans, reducing our financing risk and at the same time, removing our need for increased use of letters of credit this year. We have no immediate need or plans to make use of this in 2011; however, we may choose to take advantage of this option in future periods, particularly in our pension plans, which are entirely made up of retirees to avoid moving these plans into surplus positions with slight changes in interest rates. So, we are glad to have this added flexibility but have no immediate requirement for or plans to make use of it.

Also in late April, we issued 300 million of seven-year medium-term notes carrying a rate of 4.88 percent, the proceeds of which were used to partially redeem the remaining 4.72 percent medium-term notes maturing in September of this year. The original MTN was a five-year, \$700 million issue completed in 2006. In September of '10, we redeemed 345 million of these notes, and with this further redemption only 105 million of the original issue remains outstanding. We expect that the balance that matures in September will be repaid with a combination of free cash flow and short-term debt. Taking this action early has allowed us to further reduce our financing risk profile at very attractive rates.

And to conclude, Slide 14 shows a summary of our guidance metrics for 2011 that remain unchanged, and we will update you quarterly on where we stand with respect to these as we move forward.

And with that, I'll open the lines for questions. Operator?

QUESTION AND ANSWER SESSION

Operator

Thank you very much, Mr. LeBlanc. As you said, we will now take questions from the telephone lines. If you're using a speakerphone, please lift your handset before making your selection. To ask a question, please press star, one on your telephone keypad. Should 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 Jeff Fan from Scotia Capital. Please go ahead.

Jeff Fan, Scotia Capital

Thanks, and good morning everyone.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Good morning, Jeff.

Jeff Fan, Scotia Capital

I have a couple of questions. First, is on the TV subscribers, and thanks for disclosing what those numbers are. Now, the 54,000 I understand is likely a combination of your fibre op and fibre-to-the-node, so I was wondering if you can just help us break out a little bit, even if it's qualitatively, the penetration between what you're seeing in your fibre-to-the-node on TV adoption penetration versus fibre-to-the-home. Maybe give us a base of what the fibre-to-the-node homes are so that—or breakdown of the TV subs.

My other question is related to Atlantic—you disclosed some Atlantic Canada numbers again, which is great. Just try to review what percentage of your overall base is in Atlantic Canada, and more specifically, what are the revenue trends in your non-Atlantic Canada? Are you seeing stabilization in that part of the business so that as the Atlantic Canada revenue improves, that we could see the overall improvement on your overall revenue base?

And just lastly, a quick question on the LD – what was the one-time billing adjustment that was made to the quarter? Thanks.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

That's a threesome, and if I forget one of them, Jeff, just remind me, okay?

Jeff Fan, Scotia Capital

Yes, okay.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

I don't mean to be mysterious on TV. We have 13,000 fibre-to-the-home customers right now, so of the 50,000-some, 13,000 are now fibre. And the benchmark I think many of us have used for some time on good fibre-to-the-home penetration is Verizon. They have something about 20 percent penetration after two years; and at this point for the longer open footprints, we're on track to beat that.

Jeff Fan, Scotia Capital

Okay.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

So we're doing great on fibre-to-the-home penetration. The way to think about our market is take Atlantic versus central, business versus res, and you've got four quarters of the pie about. And so this is a decent-sized burden on one segment, to invest in one region, one segment and turn around the whole company, which is why it's going to take some time and why our expansion in the residential segment has ultimately got to get outside of Atlantic Canada. So that's really what's going on.

Are the trends stabilizing elsewhere? I think overall, yeah. Our NAS trajectory is better, and fibre is still really small as a percent of the total. So as you see the total NAS decline settling out, it certainly can't be from fibre-to-the-home; it's from everything else. So I think—but the slowdown at footprint expansion is huge for us, and I've been saying that now for almost three years, right? But enormous growth in footprint was huge for this company and something that our other, like, peers in country haven't seen because of how strong our market share was, even five years, six years ago. So, that's the proportion.

And LD, there was one big credit reversal that occurred in the quarter, and there was also—when we say one-time, there is some new revenue that we received in the quarter that actually will continue, just not something we've seen in the past. And it was a deal that came out of our central region that gave us a little bit of upside. The big change in LD in the quarter is just pricing, and the pricing seems to be sticking and doing a really good job for us in the quarter.

Jeff Fan, Scotia Capital

Sorry, so what was the billing adjustment? What was the dollar?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

It's small, Jeff. I mean, pricing is huge in here. I think the billing adjustment was under half a million, couple hundred thousand, something like that. It's small. Yeah, it was small.

Jeff Fan, Scotia Capital

Okay. And Atlantic Canada, roughly 25 percent of—

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

That's really, really rough; but that's close.

Jeff Fan, Scotia Capital

Okay, great. Thanks.

Operator

Thank you, and the next question is from Greg McDonald from Macquarie Capital. Please go ahead.

Greg MacDonald, Macquarie Capital

Thanks. Good morning, guys.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

How are you?

Greg MacDonald, Macquarie Capital

Good, thank you. Question similar to Jeff's on the breakout of TV. It's nice to see that, so we're going to be able to get some sense of what the growth is, but in

addition traction. So the question I want to ask is on pull-through benefits for access lines and for Internet, not seeing a dramatic change there. But I guess the question I want to ask is it safe to say that we've seen the worst on absolute access line erosion for the resi side, and could we—is it safe to say we're going to see stability on the existing absolute growth for Internet, possibly some growth down the road as a result of the pull-through from fibre op? And then I have a definitional question after that.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Wow, seen the worst. I think you know me well enough to know I won't—it will be a while before I say yes. You know, we still have—we still have very low wireless substitution. That will continue to grow, and I think at some point that will become a bigger issue than our (inaudible) declines. Do I feel comfortable we're not going to stare at another spike in getting worse? Yeah, I'm pretty comfortable we're there; but am I positive we're at absolutely the low point in the trough? Our competitors continue to fight very hard and it will depend on how quickly and how effectively and how—that we can get our fibre out there, so that we really can fight as effectively as we need to for the whole home.

In terms of stability in Internet, part of the growth of fibre-to-the-home, as I mentioned before, is net new win-backs or net new adds in Internet and part of it is migrations; and the migrations are great because they help us insulate and protect that Internet connection. But it will tend to reduce the number of net adds that we get.

Now this—the remainder of this year, first quarter less so, this is a huge build year for us so you should see these numbers grow across the year, and net adds will continue to grow. But in terms of—I'm not even sure, Greg, what stability in Internet means. I think we're actually approaching a period of Internet growth, and some of that is going to come from net adds. Some of that will come from ARPs and some of that will come decreasing churn.

Greg MacDonald, Macquarie Capital

What I was really getting at is on an absolute basis, Internet growth is negatively affected by maturity, positively affected by what you're doing on fibre op.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Right. So I'm going to kind of reiterate what I said. As we hit the peaks of fibre op growth, that's going to offset maturity and that will get bigger and bigger across the year.

Greg MacDonald, Macquarie Capital

Okay, you gave me some good colour on that. Thanks. The second is on definitional. You indicate that there are some definitional changes on Internet, other data, product sales and other revenue. I'm going to make the assumption that within the data segment, you had previously booked television revenue both within Internet and within other. Is that true?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

I'm going to give that to Glen.

Greg MacDonald, Macquarie Capital

Because those are the two that changed.

Glen LeBlanc, Executive Vice President, Chief Financial Officer

I'll have to look that up here, Greg. You know, just let me go back and look at my notes here—

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

TV has—in fact, we've disclosed it entirely within Internet in the past. In this quarter, we broke it out.

Greg MacDonald, Macquarie Capital

Okay. Could you then talk about the other category within data and the other category within revenues, because the other category within other revenues also saw a change relative to—this could be IFRS. It could be just definitional changes overall. But what I'm really

looking for is what is the majority of what makes up other revenue within data now, and other revenue within other? Just so I can think about trying to model this stuff.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

We're going to take a minute to make sure we are locked and loaded on the definitional changes, and we're going to come back to you during the call.

Greg MacDonald, Macquarie Capital

Okay, thanks.

Operator

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

Maher Yaghi, Desjardins Securities

Yes, thank you. I just wanted to maybe take a—any thoughts about customers who are opting for fibre op taking about 90 percent of them your other services. Can you discuss how—are you able to attract customers who don't have any services that you offer them? You know, new customers or most of the customers you're getting on the TV side are customers who have a Bell Aliant home line but TV elsewhere.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Well, remember that most of our expansion—that's a great question. Most of our expansion so far is in New Brunswick and we have huge market share in New Brunswick. So by definition, most of the people we get are going to have our NAS, like the vast majority are going to have our NAS because the vast majority of the people in the province have our NAS. But what we are getting—I mean, clearly the TV is almost entirely net new, and a lot of the Internet is net new. And if you go and you poke around in some of Verizon's disclosure, I think you'll find that they also saw a lot of migration on DSL—from DSL to fibre-to-the-home, and we're seeing that as well. So I would say a lot of the NAS is not win-back. That will change as we grow a little bit more in Nova

Scotia where our share is a little bit lower, and it's pretty proportionate to the share that we have.

Maher Yaghi, Desjardins Securities

Okay, thanks a lot. And just a follow-up on how your competitors are reacting to this new reality. When I look at the pricing in some of the markets you offer fibre op in, I noticed that apart from the promotional activity you guys are doing for the first three months, the prices are similar to the cable companies. So can you maybe talk through about how customers are making that decision to switch? Is it based solely on having all the services with one company, or a lot of the switch is also happening because of the technological competitiveness that you guys offer on the TV side and the Internet side? And if that's the case, are the cable companies going to—do you believe the cable companies are going to face that competition on the pricing side or you're seeing some activity to upgrade some of the internet lines that they currently have in your network?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Another great question. The answer on why are they taking is both. We believe that polarization and the desire to have all of your services with one company is going to get bigger and bigger. But we're also seeing very strong demand to the product itself, to both the TV service and, particularly now with the launch of 2.0 on the platform that we have, very strong demand and very strong demand to the speed and the stability of the service itself. So I would say pretty evenly split between and that—there's no math behind that at all, but we're seeing both polarization as well as the technology.

In terms of competitive response, our competitors have been really aggressive for quite some time. The real change in the market is we're fighting harder than we ever did, and I think I mentioned to you—I don't know if I did or not in February, that our competitors were in some cases fighting really hard with price. So for example, in Nova Scotia we saw our competitor come out with a promotion giving away voice free for 12 months, and we stepped right up to that. And because we—I think maybe—I don't know if because or not, we stepped right up to that with free TV and effective a couple of weeks ago, that's been pulled out of the market and they're back to six months free, which makes way more sense.

So I think the good news again about our competitive structure is everybody wants the best ARPs they can,

and it's relatively rational, and everybody's trying all kinds of different techniques and the market is as intense today as it has been since I joined this company.

Maher Yaghi, Desjardins Securities

Okay, thank you very much.

Operator

Thank you. The next question is from Jonathan Allen from RBC Capital Markets. Please go ahead.

Jonathan Allen, RBC Capital Markets

Good morning. Karen, you talked before about the Atlantic mix being 25 percent or so, and just a back of the envelope calculation would suggest then that the Ontario and Quebec revenues would be declining something around 2 percent. Of course, I don't know what the business revenue is doing, so is that about right then, a 2 percent decline in the non-Atlantic region?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

I can't—I'm not going to give you that, Jonathan, because I don't really want to break out each of the sub-segments. So I'm hoping you guys don't make me regret disclosing my one. But yeah, you can do the math and everything else is the rest.

Jonathan Allen, RBC Capital Markets

Okay, another question, then. As far as the upgrade to Fibre Op 2.0, how many fibre op customers do you have right now? We see the—you broke out the TV subs. I assume it would be pretty close to that?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

If I told you that more than 90 percent are taking TV, it's pretty close.

Jonathan Allen, RBC Capital Markets

Okay. So the upgrade cost to 2.0 is not going to be a substantial operating cost, mostly just a cap ex cost?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Correct. Correct. I mean, there is—the expense impact is not related to 2.0. It's just related to the overall loads of all of fibre.

Jonathan Allen, RBC Capital Markets

But is there actually, like, set-top box—or sorry, not set-top box, but is there actually modem upgrades and things like that in the home, or is it all—

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Well, the thing that's so wonderful about the technology is upgrading to 2.0 is just a software download. It's really, really easy. There's no equipment swapping; there's no nothing. I mean, the only—it will take us some time to do with existing customers just because of the gating of the IT timing, which is why it will actually take us the summer and through the fall to get everybody upgraded who already has the product.

Jonathan Allen, RBC Capital Markets

Okay, appreciate it. Thanks very much.

Operator

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

Peter Rhamey, BMO Capital Markets

Good morning.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Hi.

Peter Rhamey, BMO Capital Markets

Hi. Just want to take another kick at the can on this revenue improvement that you seem to have been recording over the last couple quarters. A couple points I'd like to get perhaps Karen's view on them. First of all, competitive footprint, 69 percent. There was some thought that that would go up to 80 percent at some point in time, but it seems to be slowing much faster than anybody had anticipated, and that would be good long-term for your company if it actually resulted in competitors not rolling out to the same extent that we had originally thought. Is that a fair view to take, that perhaps the cable companies are going to be less aggressive in terms of just rolling out their consumer voice-over-IP product coverage over the next few years?

And second point on the upside here too is you talked about wireless substitution. You indexed below the national average; and Canada, of course, is below the U.S. And just looking at competitive footprint in many of your markets, there are probably not too many new entrants in those markets, and as well I don't think the flanker brand offerings are all that aggressively promoted in your territory. So would it be fair to say that wireless substitution won't be as big a factor for your company as other Canadian companies, and certainly the U.S.?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Thank you, Peter. Let me do the second one first. Yeah, I've been saying that and I still believe it. I think that we will have lower than Canadian average wireless substitution, and we'll be lower than the U.S. And I suspect the pattern will be very similar. I just saw some numbers recently about the difference between urban and rural in the U.S., and it was markedly lower in rural and I expect we will see the same pattern here for sure.

In terms of competitive footprint expansion, it has slowed and perhaps even more than we expected. But what I can't tell you is that's a lull because I don't sit in my competitors' boardrooms. I don't know if it's a lull or if we're really running out of steam. The only thing I do know is that we're going to be really, really competitive and try to hang on to as much as we can; and whether or not that factors into decisions others are making, I don't really know. But it has slowed markedly, absolutely.

Peter Rhamey, BMO Capital Markets

Okay. And let's just focus on the quarter for a moment. I think your total revenue—consolidated revenue decline was only 1 percent, which would be a very good performance when you look at North American (inaudible). Do you think that on a sequential basis for the remainder of this year and going forward, that that should steadily improve? It looks like the wind's at your back on many, many different fronts here.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

You know, we made a comment in our materials and you heard comments in the scripts for both of us, just cautioning everybody that our numbers are going to bounce around. Negative 1 percent is a number that we really, really like, and what I can't tell you is that, again, it's the bottom of the trough. But certainly we also feel like we're building some momentum here and things are moving the right way, and the reason for the caution, again, in the material and in our scripts is that it's going to keep oscillating a bit. But hopefully that momentum will keep moving us forward.

Peter Rhamey, BMO Capital Markets

Great. Thanks very much, Karen.

Operator

Thank you, and the next question is from Glen Campbell from Merrill Lynch. Please go ahead.

Glen Campbell, Merrill Lynch

Yes, thanks very much. A couple questions—Karen, you talked about the split between Atlantic Canada and the rest. A lot of us, I guess, are assuming that if you sort of split it between rural and urban, that your rural revenue growth would be pretty stable. Is that still the case, or are you starting to see some wireless substitution impact in that part of your market?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

I think we'd have to have a longer discussion about our definitions of rural. A lot of people think all of Atlantic Canada is rural. It's really not rural. It's actually rural-urban, and I think it just—the wireless substitution is still modest across our territory. And frankly, because it is still small, I have not spent a bunch of time with the team breaking up all of the submarkets. And as we just talked about, we just don't have a lot of the competitors anywhere in our market that some of our peers are facing. But the learning, again, from the States is that the more rural, the less substitution, and part of it has to do with a lack of competitors but part of that just has to do with the demographics as well as the wireless coverage itself.

Glen Campbell, Merrill Lynch

Okay, fair enough. And then a couple of probably quick ones—it looks like you're going to be stepping on the gas in terms of expanding your fibre coverage through the middle part of the year. You're going to be using union labour—your labour there to do it. Does that mean that we could see more capitalization of labour and therefore less expense in the middle quarters of the year, or will all of this spending be purely incremental?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Well, remember that the bulk of the build is capital for sure, but we're not just growing footprint; we're also going to grow loads with the footprint. And when you grow loads and you expand the number of markets, the marketing cost goes up, the sales cost goes up. And it's at that beginning—when you first bring somebody on board, they need help setting up and that drives call centre costs related to servicing, so we will see—we'll see both.

Glen Campbell, Merrill Lynch

Okay. And one quick last one—where fibre ops been sort of longest established, do you have a sense of what your broadband market share is in those communities?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

I can't tell you that.

Glen Campbell, Merrill Lynch

Okay. Thanks very much.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Thank you.

Operator

Thank you, and the next question is from Dvai Ghose from Canaccord Genuity. Please go ahead.

Dvai Ghose, Canaccord Genuity

Yeah, thanks very much. Financial question followed by a TV question, if I may. On the financial side, Glen, I'm having some trouble reconciling your free cash flow in the quarter with your guidance, and I apologize—I'm a bit befuddled by this IFRS transition. So if I take your 112 million of negative free cash flow reported, add back the 200 million one-time pension payment, which is included in your guidance, add back the 29 million of working cap, which is obviously volatile and generally negative in Q1, you get to a normalized level of about 117 million. If I annualize that, that's 468 million. Your guidance is 525 to 575, and you repeatedly talked about cap ex and op ex going up because of more aggressive fibre rollout during the course of the year. What am I missing?

Glen LeBlanc, Executive Vice President, Chief Financial Officer

Good morning, Dvai. I'm not sure exactly what you're missing. I'll have to walk through that reconciliation with you. Naturally, Q1 for us is always a drain on free cash flow, as you alluded to. We—it's a cash usage quarter. There's high prepayments in the quarter that we make. But I'll see if I can—

Dvai Ghose, Canaccord Genuity

Because I've normalized the working cap, so I think that's taken care of.

Glen LeBlanc, Executive Vice President, Chief Financial Officer

Oh, I know one thing you wouldn't have had, is interest payments that are made in the quarter.

Dvai Ghose, Canaccord Genuity

That's what I'm trying to get at, because this is our estimate. We didn't model your cash-flow interest payments above and beyond your net income, so can you just explain that to me and how that gets reversed—

Glen LeBlanc, Executive Vice President, Chief Financial Officer

Well, the interest payments are not in working capital, so we make two payments twice a year. So first quarter is one, and I want to say third quarter—yeah, third quarter is the other.

Dvai Ghose, Canaccord Genuity

Okay, so that net interest payment is about 30 million, if you take the positive and the negative. So that should be in Q3 and Q1 and not in Q2 and Q4?

Glen LeBlanc, Executive Vice President, Chief Financial Officer

Correct.

Dvai Ghose, Canaccord Genuity

All right, that makes it a lot easier. Thanks very much.

Glen LeBlanc, Executive Vice President, Chief Financial Officer

No problem, Dvai.

Dvai Ghose, Canaccord Genuity

On the TV side, Karen, so you're introducing Media Room with its media gateways, one PVR for the home, remote PVRs this summer, I believe. Your cable competitors—to be fair, they've overpromised for a

couple of years, but they're threatening to introduce similar functionality, both Videotron and Rogers, I'm not sure about EastLink, this year. Are you seeing any evidence of that, and is there any fear that they'll introduce media gateways before you do?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

We actually, we've launched already—

Dvai Ghose, Canaccord Genuity

Okay.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

We're in the market now. We have—EastLink is promoting a whole home PVR, but it's not the same functionality. So I think everybody is going to come out with something that will be promoted similar, but I haven't seen anything yet that is as good as what we have in the market, and we are promoting it accordingly.

Dvai Ghose, Canaccord Genuity

Okay. And just on the related point, as you look at Telus versus Shaw, I mean, one of Shaw's issues is they have to upgrade cable customers to their home media gateways, which require capital; at the same time, build wireless. I mean, this could be the case for EastLink as well. Are you seeing EastLink perhaps spending more of their capital on upgrading cable and effectively competing against you on TV, or indeed in terms of building wireless?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

I think you need to spend some time with them. I believe that they did announce that they are ready—or getting ready to go on wireless. I know that there is a fair amount of focus from them in wireless, and much of the competition that we have seen is promotional and distribution competition as well as a little bit focused around the TV product itself vis-à-vis the PVR.

Dvai Ghose, Canaccord Genuity

Thanks very much. Congratulations on the improving trends.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Thank you.

Glen LeBlanc, Executive Vice President, Chief Financial Officer

Thank you, Dvai.

Operator

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

Vince Valentini, TD Securities

Yeah, thanks very much. A couple things—first, you talked about turning the ship in just one quarter of the business with the fibre op, and you need to expand that elsewhere to turn the whole thing. So are you giving more consideration to expanding the 600,000 homes and bringing that more to central Canada with the fibre-to-the-home, or maybe even going to some small, medium business segments where you don't have fibre right to the premises at this point?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

It's a great question. We are assessing this continually as we get data and longer term trends out of some of our early markets. It looks better and better, and one of the things I think I've said to you guys since the beginning when I was asked how'd you pick 600,000? Why are you stopping at the end of 2012? And the more time I spend with investors, that's the question I get—why are you stopping, and is 600,000 enough? And I think the obvious answer is no, 600,000 is not enough but the key will be whether more homes pay out. We're in the middle of that work right now, and you can—as we conclude that, you can expect us to talk about that more in the future.

Vince Valentini, TD Securities

Okay, fair enough. And then another question just on wireless build-outs in your territory. We heard MPS earlier has stated there's about an 18-month lag in their region for new networks like HSPA-Plus coming versus some of the bigger urban markets in Canada. Do you see a similar thing there, or do you guys have a pretty fully built HSPA footprint across your territory?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

In terms of—well, in terms of HSPA and the Bell network, really, it's fully built out in terms of competitors. I don't have an answer for you in terms of what they are going to do in our territory.

Vince Valentini, TD Securities

But Bell—the Bell and Telus shared network covers all the rural areas, and—

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

It's all done. In fact, the last piece to be built was mine. We had to build—finish HSPA in our own little footprint in Nordiques, and that is just finishing now. So if you look at our wireless subs, and our wireless subs did incredibly well in the quarter, we just rolled out HSPA in the Bell Nordiques footprint toward the end of last year.

Vince Valentini, TD Securities

Okay. One last little thing—you had that cap ex program on HSPA backhaul. I'm wondering as Bell and Telus move towards LTE now, is there an incremental program where you'll need to facilitate some wire line backhaul for them in your markets, or does what you've already built facilitate what they need?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

No, we're there.

Vince Valentini, TD Securities

Great, thank you.

Operator

Thank you. Once again, please press star, one if you have a question or a comment. And the next question is from Philip Basil from Beacon Securities. Please go ahead.

Philip Bassil, Beacon Securities

Hi, good morning, guys. I just wanted to get a little more colour on the IPTV and when you see the kind of scale delivering more positive bottom-line impact, specifically from IPTV, we're talking—you know, I know it's still early, but do you think it would take until end of 2012 before you'll see more out of IPTV in terms of positive impacts to the bottom line?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

What we're seeing is I think what we talked about last time, and that is we expect EBITDA drag this year because the growth is so significant. In our current plan for 600,000 homes, we start to dig out of that in about a year, and it starts to contribute positively.

Philip Bassil, Beacon Securities

Right. I guess I'm just trying to dig a little bit deeper in terms of IPTV specifically. We understand it's a tighter margin profile—

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Yes, that's actually—that is what I'm referring to. IPTV as a big negative EBITDA drag this year is from TV, and we expect to dig out of that in about a year.

Philip Bassil, Beacon Securities

Oh, excellent. Okay. Okay, and the other question, just one other one that wasn't covered. In terms of labour costs, overall labour costs increased slightly mainly because of contracting?

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Well, it's partly contracting but the big thing, the big shift this quarter is that year-over-year incentive change that I talked about, and that's right in the middle of the labour costs. So last year, we had a mark-to-market adjustment. We also had a reversal of some long-term incentives for management, so the year-over-year impact was actually quite material on this quarter and that impacts labour.

Philip Bassil, Beacon Securities

Fair enough. That's it for me, thank you.

Glen LeBlanc, Executive Vice President, Chief Financial Officer

Before I forget, Greg, I'm going to jump in now and give you some details that you were requesting on what is the details in other data. Just looking at a more detailed P&L I have here—legacy data would be in that line, IP broadband, managed network services and data product sales would be the primary revenues that are reported in the other data line. You also asked a question of what would be in the other revenues line, and it's certainly a catch-all bucket but I'll give you some highlights here—pole attachment revenues, large custom work orders that we do for large customers. We have a cable asset, you'll remember, in Belle Nordique, Cablevision. That's—revenues are reported there. We still do some work for Bell Mobility, service agreements we have, and that revenue from those service agreements are in there. So those are the big buckets. If you need any more details, Greg, be happy to give me a call after the call.

Karen Sheriff, President, Chief Executive Officer, Bell Aliant Inc.

Right. Operator, that's all the time we have for questions.

Operator

Perfect. Yes, so I'd like to turn the meeting over—back to you, Ms. Redden.

Zeda Redden, Vice President, Investor Relations, Bell Aliant Inc.

Thank you very much. As always, if any of you have any follow-up questions, don't hesitate to get in touch with me, and thanks once again for joining us this morning.

Operator

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