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**Jeff Fan**

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## PRESENTATION

**Operator**

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

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

**Zeda Redden, Vice President, Investor Relations**

Thank you, Operator and good afternoon everyone and welcome to Bell Aliant Second Quarter 2011 Results Call. Earlier today we issued our news release and Q2 MD&As 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 one of the presentation, and those listed in the MD&A and news release, and we would ask that you 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 second 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.

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**Karen Sheriff, President and Chief Executive Officer**

Thank you, Zeda, and good afternoon everybody. Let me start off by saying that our second quarter financial results look a whole lot like our first quarter results. I am very pleased with our financial performance so far this year and believe the focused execution of our strategic priorities is moving us towards where we want to be.

With our second quarter results we have a revenue trajectory that continues on an improved track. Our internet and TV growth are increasingly offsetting the declines in our legacy voice and data revenues with our grow broadband initiatives broadening our coverage areas and the services that we sell.

In Atlantic Canada, our residential revenue had another solid quarter compared to the same quarter a year ago, continuing to return to a positive trend that we saw in Q1. Our residential high-speed average revenue per customer continued its positive trend, again reaching a new high in the second quarter of this year. And while fibre-to-the-home is still too small to take a lot of credit for this improvement from the trends of recent years, it is

helping by contributing to the retention of customers and the expansion of new services.

As you've heard me say earlier this year, 2011 is a year of huge execution for us. We have an aggressive fibre-to-the-home expansion plan underway which is fundamental to our future success. And as you would have read in our news release from earlier today, we made giant strides in the second quarter on that expansion plan.

In the second quarter, we added 116,000 incremental homes and businesses to our fibre-to-the-home footprint - more than we added in all of 2010. We now pass 294,000 premises with this world-class technology, and with our launch of FibreOP 2.0 in April of this year, we have improved the service even more, giving customers the fastest internet upload and download speeds available in those markets, and the best-in-class TV experience with Microsoft Mediaroom.

Most FibreOP customers are taking both our Internet and TV service and they are subscribing to our higher value bundles, additional theme packs, and more services. We have announced that we will pass over 600,000 homes and businesses with fibre-to-the-home by the end of 2012, so we still have a ways to go with over one half of the expansion to come. This bodes well for continued revenue growth going forward.

Glen will cover off our overall financial results shortly, but first let me speak specifically to our key revenue and subscriber metrics.

Turning to slide five, our revenue decline in the second quarter was again held to 1 percent from the same quarter a year ago, just like last quarter. As we saw in Q1, in Atlantic Canada the revenue trajectory has improved such that we are now experiencing positive growth after a period of decline. The growth in the second quarter compared to a year ago was even better than the growth in the first quarter.

Also halfway into the year we're seeing better than expected performance in a number of areas including contribution revenues, pole attachment fees, long distance, Internet, TV, other data, and product sales across the various lines of business. All of these factors give me increasing confidence that our overall revenue trajectory is improving and, as you would have noticed in our news release, we are revising our 2011 revenue guidance upwards to reflect this improved outlook. So I'm quite pleased and I'm optimistic about the trends that are emerging.

Now turning to slide six, our internet revenue continued to grow increasing 7.2 percent compared to the same quarter in 2010. This quarter, our residential high-speed average revenue per customer reached another new high, increasing 5.2 percent over the same quarter last year. The increase in ARP is a result of more customers moving to higher tiered services, movement to new bundles with more features, higher usage, and selective price increases.

As we have said before, going forward we expect increasing ARPs to be a larger contributor to internet revenue growth and subscriber growth. This high-speed footprint expansion slows and market penetration rates mature. We expect FibreOP to be a big contributor to ARP growth as we expand our fibre-to-the-home footprint.

Overall, high-speed net additions in the quarter were 4,000, down from 8,000 in the same quarter of 2010. The drop in high-speed additions that we experienced this quarter compared to a year ago was the result of a significant decline in the number of incremental homes passed with high-speed internet in the second quarter of this year compared to last year, and an active competitive environment, particularly in our DSL-only footprints where we have vulnerability to compete in cable technology. As usual our competitors were aggressive and we felt their presence in the quarter.

Year-to-date, our net high-speed adds are down about 7,000 from a year ago, so we will likely be a bit soft versus last year for the entire year.

With our marketing focus shifting more to fibre, we are having very good success in our FibreOP markets with our penetration rates exceeding our forecast. In fact, our main challenge with FibreOP at this point is keeping up with the demand.

As shown on slide seven, FibreOP Internet net additions in the quarter were 8,000 bringing total FibreOP Internet customers to 22,000. The majority of the FibreOP net adds came from existing customer migrations from our DSL and FTTN Internet services, which wouldn't show up as new adds. However, this migration does benefit ARPs and with the high attachment rate we are experiencing on TV, not only adds additional revenues, but also increases our ability to retain the customer.

All of these points of course underscore why it's so important for us to get on with our fibre-to-the-home expansion, to have the best technology with the best services for customers in our competitive territory, so we

can grow revenues and retain and grow our customer base.

Turning to IPTV, revenue in the second quarter reached \$10 million and we added 5,000 net IPTV subscribers, more than all of which was driven by 6,500 FibreOP TV net adds. Although some of the FibreOP additions came from migrations from our fibre-to-the-home, no TV service, the vast majority are new TV additions. In total, we now have over 59,000 IPTV customers, or about 13 percent penetration in our total fibre footprint including FTTN and FTTH. About 20,000 of these are FibreOP TV customers and with much of our TV footprint just freshly opened, FibreOP 2.0 is just in the early stages of being rolled out, and although one half of our announced expansion still to come, we are optimistic about the revenue growth potential.

We often don't mention our other data revenues, but this is another area where we're seeing a bit of a change in revenue trajectory this year. The level of other data revenue decline is less than a half of what it was in 2010. While the decline is primarily driven by movement to other technologies and competitive activity, we are seeing data demand growth in Atlantic Canada which is slowing the rate of decline. So we are seeing improvements across various segments of the business which is encouraging.

Turning to our traditional voice revenues as shown on slide eight, the declines in our local and long-distance revenues in the second quarter continue to compare favourably to our experience in 2010, a continuation of an improving trend we saw in Q1 and the declines continue to be the main driver of the lower revenues. However, both local and long distance are declining at slower rates in 2011 than 2010. Our local revenues are benefiting from an increase in contribution rates arising from regulatory formula changes, increased features penetration and selected pricing action. Long distance has also benefited from selected price increases.

As the year progresses and we begin to lap the periods where price increases were implemented, the year-over-year decline will likely change to more closely mirror the rate of NAS decline. Our net NAS declines in the quarter were 32,000 compared to 24,000 in Q2 of 2010 and NAS levels are down 5 percent from a year ago.

As you will recall, for the last four quarters we were experiencing improvements in our net NAS declines from the corresponding quarters of the prior year, which we attributed largely to slowing growth in the competitive footprint, better bundling and the expansion of our FibreOP services, which improved retention and

generated winbacks). This quarter was different; our net NAS declines were higher than the same quarter a year ago in both the residential and business segments.

So what changed this quarter? After a year long lull in competitive footprint growth, the growth in competitive footprints that we had expected to occur over the last several quarters showed up in Q2 with an increase of about 2 percentage points this quarter. Some of the competitive footprint expansion occurred in rural areas where we have no DSL internet service and this, combined with competitive activity, show our NAS declines at higher levels than the same quarter in 2010.

Even without competitive activity, changes in technology will lead to NAS declines. Our task is to manage the pace of NAS decline while we are investing in new revenue sources such that we can replace the revenue effects of lower NAS with growth in other revenue generating units, or RGUs, like Internet and TV customers. Again another reason why our fibre-to-the-home network build is so important.

Now before I turn it over to Glen, I want to talk a bit about our costs in the quarter. Our non-pension operating expenses in the quarter were flat compared to the same quarter of 2010. The flow-through for benefits of restructurings and continued productivity enhancements helped us successfully contain the effects of normal inflationary pressures along with increased TV content costs from higher TV subscriptions and increased marketing and sales costs associated with the FibreOP rollout.

In the quarter, we also had a year-over-year increase in incentive costs arising from mark-to-market adjustments for share-based compensation plans. What this really means is that the share price went up in the quarter, increasing our liability for incentives that are based on share performance. So not a bad story for investors.

Resetting our cost structure continues to be a strategic priority to maintain strong EBITDA margins. We will achieve more reductions in our operating expenses through continued productivity initiatives; however, while we are ramping up our FibreOP rollout, the cost reductions will not be as evident in our reported results as they have been in prior years. We've taken significant costs out of the business over the last three years, which has enabled us to maintain our financial performance at the level it is today. As we turn the corner on revenue growth, the cost structure improvements will become more evident.

So in summary, our overall revenue results for the quarter again exceeded our expectations with improved trends and contribution revenues, pole attachment fees, Internet, TV, other data and product sales. We are continuing to make major strides in our fibre-to-the-home rollout with solid growth in FibreOP subscribers - so much so that we are pushing to do as much as we can as fast as we can. All of this gives us confidence in improved revenue trajectory for the year compared to our earlier expectations and we are revising our guidance to reflect our improved outlook.

Now let me turn things over to Glen to talk specifically to the financials and our revised revenue guidance.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Thank you Karen and good afternoon everyone. I am very pleased with our second quarter financial results and as already discussed they look quite a bit like our first quarter. Once again our revenues are down approximately 1 percent from 2010 as Internet and TV revenue growth largely offset declines in our traditional voice and data revenues. Improved ARPC as a result of more customers on bundles, customer demand for higher value services, and selective price increases have all contributed to deliver a respectable revenue result for the quarter.

We are achieving better than expected revenue results across a number of revenue categories, as Karen has already discussed. And now that we are halfway through the year, we expect the overall revenue trend to continue. As a result, we are revising our 2011 revenue guidance upwards to a range of \$2.72-\$2.78 billion from a previous range of \$2.65-\$2.75 billion.

The EBITDA decline of 2.8 percent in the quarter was driven by the decline in revenues and an increase in pension current service costs with other operating expenses remaining flat. Even with the decline in our EBITDA, margins year-to-date continue to be strong at 48 percent. We expect that the EBITDA decline in the second half of 2011 will be slightly higher from a year-over-year perspective, particularly in Q4 as the fourth quarter of 2010 benefited from some favourable regulatory rulings that boosted revenues and EBITDA in that quarter.

In line with where we are in the quarter and year-to-date, we continue to expect our EBITDA margins for 2011 to be approximately 1 percent lower than 2010. With respect to EBITDA guidance, we expect good flow

through to EBITDA in 2011 from the expected improvement in revenues from our earlier guidance. We will be taking the opportunity this affords us to invest in incremental growth for our FibreOP services which, as with any new product ramp-up, has EBITDA drag in the early stages. We expect to finish the year firmly within our EBITDA guidance ranges rate released in February.

This was a big quarter for capex with our capital expenditures in the quarter at \$154 million, up \$30 million from the same quarter in 2010 driven by the expansion and connection of customers to our fibre-to-the-home network. To the end of June, we have added about one half of the incremental premises we are targeting for the year. We plan to continue the fibre-to-the-home expansion on an accelerated pace and now expect to exceed our target of 430,000 homes and businesses passed by the end of 2011. We expect the third quarter to be another big construction quarter and customer connections to continue to escalate.

With the strong FibreOP additions and high TV attachment rates we are experiencing, we now expect our annual capex to be at the high end of our guidance range of \$520-\$560 million as we accelerate our network build and connect more customers to our FTTH network.

Free cash flow in the quarter was \$191 million, up \$10 million for the same quarter in 2010. The increase in free cash flow is driven by lower regular pension deficit funding and an increase in cash provided by changes in working capital which more than offset the cash flow effects of the increased capital program and the lower EBITDA in 2011. We do expect a fair amount of the favourable working capital improvements we've experienced thus far this year to reverse in the second half as is normal with working capital fluctuations. We continue to expect to be firmly within our free cash flow guidance range of \$525-\$575 million.

And before we open for questions, I'll give a brief update on our pension funding. We have filed our actuarial valuations and our required deficit fundings are expected to be \$105-\$110 million, or towards the lower end of the \$100-\$120 million range we stated in February. Of this we expect to draw \$55-\$85 million from our previous \$200 million lump-sum contribution, and to make \$25-\$50 million in additional cash contributions in 2011.

We have not made use of the letter of credit option for any further funding although we may at some point in the future. Interest rates continue to remain low, so we are fortunate that we have the lump-sum contribution or letters of credit to draw upon should 2012 funding requirements remain in this range.

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

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## QUESTION AND ANSWER SESSION

### Operator

Thank you, Mr. LeBlanc. Questions will now be taken from the telephone lines. If you have a question and you are using a speaker phone, please ensure that you lift your handset before you make your selection. If you have a question, please press star one on your telephone keypad. And if at anytime you wish to cancel your question, please press the pound sign. Please press star one at this time if you have any questions. There will be a brief pause while our participants register. Thank you for your patience.

The first question is from Maher Yaghi with Desjardins Securities. Your line is now open. Please go ahead.

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### Maher Yaghi, Desjardins Securities

Yes, thank you for taking my question. So when we look at your FibreOP build, it's certainly showing significant signs of success so far. I guess the question is at this point in time, given your plan to hook up 600,000 fibre-to-the-home subscribers to the network, do you believe the trends you're seeing and the customers that are switching represent—basically, when you switch 600,000 subscribers to fibre-to-the-home, will those be enough to make your EBITDA turn into the positive side?

Basically, if we continue to see those NAS declines continuing as cable penetration increases in a rural territory, I guess my question goes to the fact that is 600,000 enough? It seems to me you need to build more towards maybe \$1 million or \$1.2 million in order to make sure your EBITDA line has stopped declining. And if so, what are the plans to finance? How are we going to finance that build up to \$1 million or \$1.2 million fibre-to-the-home subscribers?

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### Karen Sheriff, President and Chief Executive Officer

That's a great question and I get that from almost every investor that I talk to. Not the last part, I get the first part. So the question I get from investors frankly is Karen, why are you stopping at 600,000? And if you guys remember when we launched this, we told you at that time we targeted 600,000 because that's what paid out and those

were the only homes in terms of the current cost and current penetration rates and everything else we were looking at, there's only 600,000 that we ought to do, but that we would relook at that as we went along to determine whether or not we needed to go farther. We're still in the process of doing that, but clearly we're really, really happy about where we are.

The costs are coming in better than we expected. The penetration rates frankly are better than we expected. Everything is going really well, and 600,000 is not bad for making a dent, but would I like to do more? Yes, I would like to do more and in the fullness of time, we can talk about what went where and what we're going to do. I can't tell you how we're going to finance it because frankly there is no plan right now for how much further we ought to go and when we ought to do it. And we're just focusing right now on get the 600,000 done, load it up as much as we can, and frankly even in this year Glen mentioned that capex would be at the high end.

We'll probably do some extra connections this year and extra homes passed than we originally planned because the build is going so well itself and part of that is just physics. When you're on a roll with a build you don't stop, you keep going. So we are going to do a little bit more than we originally planned this year and get that 600,000 done a little bit faster than we originally expected. So do I agree that more would be better? Absolutely, and I think in the fullness of time we can talk about what and when.

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### Maher Yaghi, Desjardins Securities

Right, but I just wanted to maybe touch base on the fact that by the time you finish hooking up 600,000 subscribers, you're going to start paying cash taxes. So that's going to take out about \$125-\$150 million out of your free cash flow. The cushion you have right now to finance that fibre-to-the-home expansion will need to be coming from somewhere else. Any thoughts to, you know, how are we going to do it?

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### Karen Sheriff, President and Chief Executive Officer

Let me bounce that over to my favourite finance guy.

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### Maher Yaghi, Desjardins Securities

Okay.

**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Hi there, how are you? Look, you know, your math is right. We do have cash taxes payable in 2013 and, you know, approximately \$125-\$135 million, but we have a strong balance sheet, we're taking the necessary actions this year, we did some tremendous financing earlier this year, did a great pref. offering. We have options and the best problem I think we could have is that the success we're having and enjoying in our FibreOP footprint is so good that our business case continue to improve such that we want to go beyond 600,000 homes. And I think we have many, many options to enter the capital markets and look at financing alternatives. And when we are convinced that the economics pay out to go beyond that, those are discussions we'll begin having with our board and I think they're options that are available to us.

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**Maher Yaghi, Desjardins Securities**

Okay, great. Thanks.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Thank you.

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**Operator**

Thank you. The next question is from Greg MacDonald with MacQuarrie. Please go ahead.

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**Greg MacDonald, MacQuarrie Capital Securities**

Thanks. Good afternoon, guys.

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**Greg MacDonald, MacQuarrie Capital Securities**

Hi Greg.

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**Karen Sheriff, President and Chief Executive Officer**

Hi.

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**Greg MacDonald, MacQuarrie Capital Securities**

Let me just get a quick add on to that previous question and then I have a question on pricing power. Presumably before making any decision or announcing any decision to go beyond the 600,000 you'd be breaking out more metrics on the IPTV build and what kind of customer retention you're getting and what kind of ARPU's and things like that. Is that something we'll see in the next two quarters, or is it something we're going to see after the next two quarters?

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**Karen Sheriff, President and Chief Executive Officer**

I don't think you'll see anything different, Greg, in the next couple of quarters on metric. We're already giving you a fair amount and one of the reasons I'm showing you total revenue growth in Atlantic is because of the implications for the impact of fibre and the ARPU's that it's bringing to the table. So I haven't really thought through exactly which metrics, whether I'm even going to add any beyond what we are doing now. I don't know that I will or that I won't, but the key thing here is for us to continue to feel confident that this thing pays out, pays out well and is contributing in a positive way, it's contributing return and we feel that it is. So don't expect any changes in the next couple of quarters on metrics.

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**Greg MacDonald, MacQuarrie Capital Securities**

Okay, and so let me then go onto the second question which is kind of related. Obviously, you're pretty happy with what kind of traction you're seeing in FTTH, and that's having some benefit. You were commenting on pricing power on the high-speed data side contributing to some of the revenue growth, some price increases that you put through historically contributing to revenue growth on the access line side and long-distance side.

Can you talk about pricing power in those two or those three products specifically? I'm guessing with the lower subcount that you got on access lines this quarter, that you think you're probably losing some pricing power there or that pricing power remains weak there, as opposed to high-speed data. Am I reading this correctly? I'm just trying to effectively ask, it sounds to me like the access line erosion number, on the consumer side in particular, is probably what we should be expecting as a run-rate going forward.

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**Karen Sheriff, President and Chief Executive Officer**

Correct me as I answer you if I'm on the wrong track, okay?

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**Greg MacDonald, MacQuarrie Capital Securities**

Sure.

**Karen Sheriff, President and Chief Executive Officer**

I think you're asking about elasticity and do we have an elasticity problem? Is that what you're asking?

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**Greg MacDonald, MacQuarrie Capital Securities**

No. I'm just saying if you put through price increases on local over the last year and all of a sudden cable competition is heating up again, that's probably contributing to the increase in access line erosion. So you're losing pricing power on the access line side of things. You know, you're not going to go back and bring those prices back down, so we should probably assume that consumer access line erosion will be as bad as or probably worse than last year. Am I right in assuming that?

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**Karen Sheriff, President and Chief Executive Officer**

Well, I wouldn't call it losing pricing power. I would—some of this has less to do with pricing power and more to do with what I call tonnage in the market and in competition, and raw marketing and distribution weights between ourselves and our competitors, and as you know that ebbs and that flows. But ARP's are holding and I think they're holding for everybody.

The price increases across the board are strong whether they're ours or whether they're competitors like Eastlink and so are ARP's high for the entire industry? I don't know. But the elasticity is certainly high, but we have seen—I think what we saw this quarter is a change in weight in the amount of competition in the marketplace. We have four great quarters in a row and the competitors fought back a little bit more this quarter than they had in the past.

So I think what you should expect is it's something that I've said before, it's going to bounce around. And we are certainly not at the point yet where we are flatter or we're going to have positive net NAS or positive RGUs. For the entire company it's going to bounce around a lot. Some of the quarters will be better than others, but the trajectory particularly from the contribution of fibre in helping us to generate some positive RGU growth is really encouraging.

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**Greg MacDonald, MacQuarrie Capital Securities**

Got it. So to paraphrase—new competition in certain markets is resulting in the access line loss?

**Karen Sheriff, President and Chief Executive Officer**

Yes.

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**Greg MacDonald, MacQuarrie Capital Securities**

Not price increases in markets that you've already (inaudible).

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**Karen Sheriff, President and Chief Executive Officer**

No, I don't think so. I do ask myself because we've all had a lot of big price increases in the last six months, so you do ask yourself—it's the elasticity question that I go to.

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**Greg MacDonald, MacQuarrie Capital Securities**

Yes.

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**Karen Sheriff, President and Chief Executive Officer**

And I'm not convinced yet that we have an overall market elasticity issue, I think we have a tonnage issue.

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**Greg MacDonald, MacQuarrie Capital Securities**

Okay, that's helpful. Thanks, Karen.

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**Operator**

Thank you. The next question is from Dvai Ghose with Canaccord Genuity. Please go ahead.

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**Dvai Ghose, Canaccord Genuity**

Yeah, thanks very much. If I could follow on—so Karen, the 2 percent increase in the competitive footprint, could you give us an idea as to where and which cable operator and whether you think there's going to be a further

increase in the near term? Obviously, you're not privy to your cable operator's secrets, but what do you expect? And you also mentioned that you don't have DSL in that incremental 2 percent. Is there a necessity to increase investment in rural areas that you haven't planned before?

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**Karen Sheriff, President and Chief Executive Officer**

The big increases in this quarter were in Newfoundland. And they were—some of this is subsidized footprint and it's Eastlink. And so is there—do we need to revisit? No, we play the...we are a player in the government subsidy opportunities ourselves. As you know we've done a bunch of them in Ontario, and sometimes we win and sometimes we don't win.

And DSL is not a big part of our expansion plans anymore, but we will continue to invest where it makes sense and it tends to make the most sense in some of those areas where subsidies are available and DSL is really the only thing that pays out. So I don't think there's a change in strategy going forward, it's just a matter of who gets the subsidy and for whom it actually makes sense in the bid process.

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**Dvai Ghose, Canaccord Genuity**

It makes sense. If I could also follow up on the elasticity NAS pricing question. To date it's really been a cable competitor in each market by and large. I don't believe any new entrant is launched in your market yet on the wireless side and therefore I don't believe you have any unlimited wireless price plans in any of your markets, correct me if I'm wrong. But Eastlink has announced I think an early 2012 launch. Assuming that they launched some unlimited prices like Videotron in Quebec, are you concerned about the fact that substitution may lead to negative re-price in terms of NAS?

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**Karen Sheriff, President and Chief Executive Officer**

I think that while Eastlink launching is inevitable and some competition in our markets is inevitable, but we still believe that as wireless substitution hits Canada that we will continue across our territories to have a little bit less than the rest of our peers, and we will have less wireless substitution than our peers. But that said, it's going to go up and we know it's going to go up which is why every so often, Dvai, some of you guys try to push me into are NAS declines going to stop? No, they're not going to stop. As we deal with the high market shares we've

always had, substitution will continue to grow, I just think we're going to grow less than our peers will and certainly as Eastlink launches, we will likely have a bit more of it than we have had in Atlantic Canada.

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**Dvai Ghose, Canaccord Genuity**

That makes sense. Last question is to do with cannibalization. So as you noted, your internet net additions are down year-over-year for a number of reasons, such as maturation, but also because of net migrations. So some of your capacity is being used to migrate existing DSL customers to a FibreOP platform. Now I can understand the uplift in ARPU, but aren't you—especially given the fact that you've talked about, you know, FibreOP costs being very similar to DSL in your FibreOP territories because of the aerial plan. Does it really justify the double capex?

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**Karen Sheriff, President and Chief Executive Officer**

I'm sorry, I'm slow to respond to you, but I'm trying to unwind your question. I think the—it absolutely pays out.

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**Dvai Ghose, Canaccord Genuity**

Right.

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**Karen Sheriff, President and Chief Executive Officer**

Every place that we are doing it. And even though the migrations are the majority now, over time there will be less migration and there will be more incremental adds, so it won't always stay at that level. It's just the easiest place to go at the beginning and it helps inoculate the base from attrition.

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**Dvai Ghose, Canaccord Genuity**

Right.

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**Karen Sheriff, President and Chief Executive Officer**

And at attrition it's just so expensive that it makes this thing pay out and that's why having term rates with our FibreOP customers that's so much lower is what we really need to see and it's what we are seeing.

**Dvai Ghose, Canaccord Genuity**

Right, and presumably not only the ARPU increases, but the OpEx reduces over time as well, yeah.

**Karen Sheriff, President and Chief Executive Officer**

Exactly, exactly.

**Dvai Ghose, Canaccord Genuity**

All right, makes sense. Thank you very much, Karen. I appreciate it.

**Karen Sheriff, President and Chief Executive Officer**

Thank you.

**Operator**

Thank you. The next question is from Jeff Fan with Scotia Capital. Please go ahead.

**Jeff Fan, Scotia Capital**

Thanks very much and good afternoon. Just to follow onto that question for a bit here. I'm curious to talk a little bit about what's happening with your fibre-to-the-node territory. It looks like the number of homes that's being passed by FTTN is declining, and I presume that you're migrating those households over to FibreOP, as was just mentioned. But when you look at the subscriber base, you know, the fibre-to-the-node TV, and it looks like the high-speed might be declining as well. So can we get some comfort that those are all migrating to your FibreOP products, or is there some competition within even your fibre-to-the-node territory, where the cable guys are taking some of your older fibre customers?

**Karen Sheriff, President and Chief Executive Officer**

Yeah, that's a great question. So absolutely there's a lot of—with the overbuild, there is migration occurring, so connect the numbers out just a little bit. If we have 116,000 new fibre-to-the-home prems, it's really 90,000 incremental fibre prems because of overbuild. So you've got about 25,000 overbuilt, and so we are starting to get

some of those migrations. But certainly there's a lot of competition in our legacy fibre TV footprint, in advance of our fibre rollout, a lot of competition there. And we are not spending as much marketing money on our legacy areas, we're just putting the lion's share of it into fibre because that's really the place where we have to invest, so we do have DX in our legacy footprint.

We also - even though we've launched Mediaroom, we haven't rolled it out to our legacy customers yet. We have made Mediaroom available to our new fibre-to-the-home customers, but that rollout to our legacy FTTN TV customers is going to happen over the rest of this year. But it's not happening as quickly, which makes that area vulnerable. Not a surprise, I just need to get the build done and get in there, so that I can really compete.

**Jeff Fan, Scotia Capital**

So is the ratio that you sort of gave on the 116 between incremental versus overbuild, if we look at the subscriber adds on FibreOP TV and high-speed, is that the same kind of ratio that you're seeing on migration versus new subscribers, at least currently?

**Karen Sheriff, President and Chief Executive Officer**

I don't think so, but I can't think that fast in my head. Yeah, so that's, I think—that's why we gave you the total net TV adds, the fibre adds, which tells you that there's a—that the nets on legacy are not great.

**Jeff Fan, Scotia Capital**

Right, okay. Got it. And just a question on the phone service within your FibreOP territory. For the customers that are on the triple play, you know, running phone, are you still using the copper into those homes, or are you running those voice data now over your fibre network?

**Karen Sheriff, President and Chief Executive Officer**

Still using copper. Getting ready for fibre.

**Jeff Fan, Scotia Capital**

At what point do you think you can move those customers off the copper to the fibre?

**Karen Sheriff, President and Chief Executive Officer**

Pretty darn soon. I think I told—I told you guys before we were going to rollout mid-summer. We're kind of there.

**Jeff Fan, Scotia Capital**

Okay.

**Karen Sheriff, President and Chief Executive Officer**

So we're just coming out of the gate on that.

**Jeff Fan, Scotia Capital**

Okay, so that's when you start to see some of the cost-savings.

**Karen Sheriff, President and Chief Executive Officer**

Yes.

**Jeff Fan, Scotia Capital**

In those territories?

**Karen Sheriff, President and Chief Executive Officer**

Exactly right.

**Jeff Fan, Scotia Capital**

Okay, thank you.

**Operator**

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

**Jonathan Allen, RBC Capital Markets**

Thanks very much. Just a couple of cleanup questions. Karen, in your remarks you mentioned the last long distance price increase last year and that at some point this year we're going to lap it. Was the rate increase in

Q4 last year?

**Karen Sheriff, President and Chief Executive Officer**

It was actually Q3. So this is the fourth quarter, Jonathan, so we should expect—starting next quarter the year-over-year will be more similar to the overall rate of decline that it has been.

**Jonathan Allen, RBC Capital Markets**

Okay. So back to sort of 6-7 per cent, something like that?

**Karen Sheriff, President and Chief Executive Officer**

Well, maybe a little better than that, but –

**Jonathan Allen, RBC Capital Markets**

Overall.

**Karen Sheriff, President and Chief Executive Officer**

But not 2.

**Jonathan Allen, RBC Capital Markets**

Okay. And second question, I recall seeing recently that the pull sale in Newfoundland I think was blocked by something or other. Correct me if I'm wrong. Was there something going on there?

**Karen Sheriff, President and Chief Executive Officer**

Yeah, the pole transaction had to be approved by the public utility board and, similar to when we sold the poles 10 years ago... when we sold the poles 10 years ago, the first time out of the box, the PUB did not approve the transaction. It took a second filing to get it approved. So this is really not our issue; it's Newfoundland Power's issue and the PUB did not approve the transaction, so Newfoundland Power is trying to figure out how to deal with this and try to go back and get it approved.

**Jonathan Allen, RBC Capital Markets**

Okay. So there won't be any implications for Bell Aliant then?

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

At this stage Jonathan, we see it as a delay in the process. So additional information is being stopped by PUB, and we're working very closely with Newfoundland Power to try to get the information they require.

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**Jonathan Allen, RBC Capital Markets**

Okay. Sounds good. And Glen, one last question for you. With the pension filing, just wondering if you could update us on your current solvency deficit as well and whether that's changed?

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Certainly, Jonathan. As you'll recall, we ended or opened 2011 with about a \$500... I think it was a \$507 million deficit. Right now it'd be a little over \$300 million. We would have made \$240-\$245 million in contributions year-to-date, but our return on assets is running a little lower than our objective at about 2.2 percent. So I'd say about \$315 million is where the deficit is right now.

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**Jonathan Allen, RBC Capital Markets**

Okay. Perfect. Thank you very much.

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**Karen Sheriff, President and Chief Executive Officer**

Thanks.

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**Operator**

Thank you. The next question is from Peter Rhamey with BMO Capital Markets. Please go ahead.

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**Peter Rhamey, BMO Capital Markets**

I want to go back to—hi, Karen. I would like to go back to a previous question on DSL, just so that I totally understand is you added eight FibreOP on your data

product, but you made four overall, so that implies a negative four loss on DSL. Does that include migrations, or is that pure and simple negative loss, organic loss to cable or people moving away from Internet? And then I have a follow-up question. Thank you.

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**Karen Sheriff, President and Chief Executive Officer**

The negative four on DSL would include the migrations to the fibre.

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**Peter Rhamey, BMO Capital Markets**

Okay. So it's not as—you're not losing necessarily that size a number. Do you have a sense that you're still adding DSL outside your territory net?

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**Karen Sheriff, President and Chief Executive Officer**

Barely.

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**Peter Rhamey, BMO Capital Markets**

Barely, okay, break even. Second question is in...you took up your revenue guidance and I think you put a lot of color in your presentation around what's going well. I just was hoping for you to go through—and maybe this is a question for Glen. When you take a look at—basically you took up the bottom of that range, you took up the top-end of the range a little bit. What's driving the top-end of the range? What does it take for you to achieve the top-end of the range? Is it the data that's going to drive that, or is it reduced losses in legacy services?

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

I think the shortest answer I can give you Peter is yes. It's going to be a combination of all of that. We went through a great colour commentary today to say we've had favourable experiences across the board from contribution, to pole attachments, to internet, to TV revenues. We've really had, you know, a good first six months of the year. We see some of those trends continuing and we think that will fit us nicely into the new range that we gave you. To give you anymore than that - I really can't provide too much more colour than that. It's been right across the board, everything from—all product lines are behaving slightly better than what we

anticipated when we started 2011, and it's a great place to be.

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**Peter Rhamey, BMO Capital Markets**

Last question, this is more for Karen, fibre-to-the-home looks like it's a homerun in terms of success. Capital spending looking out beyond 2011, is it reasonable to take sort of run-rate capital spending that you've done in Q2 and expectations for Q3 and apply it going forward? Or is that over –

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**Karen Sheriff, President and Chief Executive Officer**

I wouldn't do that.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

I think it's too early to discuss 2012 guidance. We're having a heck of a good time right now with fibre.

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**Karen Sheriff, President and Chief Executive Officer**

Yeah, but I think the other thing to remind you guys. And I know this is—maybe it's hard to remember, I just don't know why. In general - this isn't for you, Peter - but in general, none of you guys ever really get the profile right. The first quarter is always soft for us because it's winter and there's snow and we don't do our big builds in the first quarter. So we're always lower than you expect in the first quarter and then we're always less than you expect in the second quarter, which is the biggest—you know, the first, second, and the third quarters are the biggest couple of quarters. So again because of the lumpiness of big build, I know it is hard for you to project going forward, that's why Glen tried to give you a sense as to where we thought we would be in the overall guidance range.

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**Peter Rhamey, BMO Capital Markets**

Very good, thank you.

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**Glen LeBlanc, Executive Vice President and Chief Financial Officer**

Thanks, Peter.

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**Operator**

Thank you. The next question is from Vincent Valentini with TD Securities. Please go ahead.

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**Vince Valentini, TD Securities**

Yeah, thanks very much. I want to go back to something you said earlier, that you're—one of the problems you've had with FibreOP is just keeping up with the demand. Two questions. One, can you give us an update on the install times; when somebody gets a whole home installed for TV and for Internet, how long that's taking you and how that's changed over the last few months. And the second aspect of it is the box giveaways or promotions upfront that you give away. Can you—I don't know if there's one general promotion, or if you can characterize it in any sort of general way of sort of how much freebie you give away upfront? And if demand is really that strong and the product is obviously fantastic, have you given consideration to maybe a little less promotion and just let the product sell itself a bit more?

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**Karen Sheriff, President and Chief Executive Officer**

Those are really good questions. The install times are now down on a full install TV/Internet house. They're just under five hours for the TV and for Internet. It's about two... and Vince, it's about two and three Internet and TV. And on a really heaved up house. In terms of the box giveaways, there's really no big giveaway on boxes. It's a—there's one box included and you pay for the rest, and then it depends on which package you buy, so it's a \$99 for three month promo and then you go up to—it depends on which package you buy, whether you buy the what we call the good, the better, or the best.

What we're finding is that the vast majority now are taking 'better' or 'best' which is why our ARPUs are so good which means they're paying for this and you're right, there is always a balance between the promo pricing and getting the loads right and I think right now we are just slightly out of whack. But we're ramping up capacity because there's also the pressure because we—that we really want to load the network, right? And when you're spending this much money on a network, you really do have to load it. So our ARPs are actually quite healthy, we're with the market, and are better than the market. And we think we can deal with the capacity issue in relatively short order. We're just a little bit out of whack

right now, but it's exactly the right thing for us to be looking at.

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**Vince Valentini, TD Securities**

That's very helpful. Again just the five hour thing. Maybe you went back 6 or 12 months, would that have been six hours or seven hours or has it been stable?

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**Karen Sheriff, President and Chief Executive Officer**

Well, it was seven.

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**Vince Valentini, TD Securities**

Okay, thanks.

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**Zeda Redden, Vice President, Investor Relations**

Operator, we have time for one more question.

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**Operator**

Thank you. The next question is from Philip Basil with Beacon Securities. Please go ahead.

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**Philip Basil, Beacon Securities**

Hi, guys. Thanks for taking my question. Just a follow-up on the last question. In terms of the fibre rollout, the cost per home, we were looking at \$550 roughly. Are you seeing that maybe coming down in the next few quarters? And my second question is related to competitive response in your key markets, are you seeing—specifically fibre - are you seeing any change in offerings in the packages in those competitive markets?

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**Karen Sheriff, President and Chief Executive Officer**

On the cost for home path you should assume we're at about \$500 and it just keeps getting better and better, so we're pretty happy with where we are. It does move around a little bit as we deal with—most of our markets are heavily aerial, but as you hit the aerial parts of the market, it's the cheapest when you do the buried part. It goes up a little bit more in doing Halifax. That's cheaper and so on and so forth, but it's somewhere around \$500.

And competitive response, it's hard for me to summarize specific offers for you, and it's really all—it's all over the board, Eastlink and Rogers and our DSL territories and our fibres territories. And as I said to Greg before, it's as much tonnage and advertising and distribution as it is offers.

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**Philip Basil, Beacon Securities**

Fair enough. Okay, thanks.

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**Karen Sheriff, President and Chief Executive Officer**

Thank you.

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**Operator**

Thank you. There are no other questions registered at this time. I'd now like to turn the meeting back over to Ms. Redden.

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**Zeda Redden, Vice President, Investor Relations**

Thank you, operator. That covers off our Q2 results and if any of you have any follow-up questions, you know how to get in touch with me and thanks once again for joining us.

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**Operator**

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