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## PRESENTATION

**Operator**

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

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

Good morning everyone and welcome to Bell Aliant's Q4 2008 results and 2009 guidance call.

Last evening we issued our news release and Q4 MD&A and supplementary information package, which are posted on SEDAR and also on our website. Our audited financial statements and annual MD&As will be posted to SEDAR in early March once the annual audit is completed. Also posted on our website is a slide presentation that we'll be taking you through on today's call and today's agenda is listed on slide two of the presentation and in addition to the discussion of our Q4 results we will also be discussing our 09 financial guidance.

As always, we caution you that today's comments may contain forward-looking information related to the finances and operations of the Company and our discussion is tempered by the cautionary statements on slide three of the presentation and those listed in the MD&A and news release, which I would draw your attention to specifically, as it discusses some of the risks and assumptions related to our 09 outlook.

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

With that, I will turn the call over to Bell Aliant's President and Chief Executive Officer, Karen Sheriff.

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

Thank you, Zeda, and good morning everybody. I'm really thrilled to be here today and I look forward to our discussion this morning.

As far as our agenda today, I'm going to speak about the quarter's financial highlights before talking with you about changes to our strategy heading into 2009. I'll then hand it over to Glen LeBlanc, our Chief Financial Officer, who

will take you through some specifics of the financial outlook. Heather Tulk, Senior Vice-President, Customer Solutions, and Eleanor Marshall, Vice-President and Treasurer, are also with us today for the Q&A session.

Now starting with our fourth quarter highlights as shown on slide five of our presentation, our financial results in the quarter and the year continued the stable trend established over the past two years. Capital intensity and distributable cash were affected in the quarter by the investment we announced last quarter in network enhancements, supporting the evolution of our business partner, Bell Mobility's, national wireless network. We ended the year with our financial metrics squarely within our guidance ranges and I am pleased with our results for the quarter showing the consistency and stability of cash flow generation that Bell Aliant has been known for.

As shown on slide six, total revenue was down slightly in the quarter from the same quarter in 2007. Growth in data and internet continued to more than offset the decline in local and long distance revenues. Wireless revenue grew almost \$5 million in the quarter and was offset by declines in other revenues, driven by lower mobility outsourcing revenues of approximately \$11 million. So in fact the declines from these outsourcing revenues more than accounted for the overall decline in revenue in the fourth quarter. For the full year our revenue growth was slightly less than 1 percent, again squarely within the expectations we communicated with our 2008 guidance.

Turning now to slide seven, local revenues declined 1.2 percent in the quarter compared to the same quarter a year ago, with NAS down 3.4 percent from a year earlier. Local revenue declines were held to a fraction of NAS declines due to strong growth in features revenues through sales of our value packages and bundles as well as pricing actions in both the residential and business markets. Fourth quarter NAS declines improved by over 10 percent from the same quarter in 2007. This reflects the strength of our value packages and customer retention programs which we've implemented in the past year, capitalizing on the regulatory relief we received through forbearance. Offsetting the improvement in residential market NAS declines, our business market NAS declines have increased from the same period a year ago, driven by a number of factors. In the small business segment we're seeing growing competitive activity as cable companies are broadening their focus to include small business customers. We were also impacted in the quarter by some business closures and rationalization in our territory, particularly in the resource sector, as well as line removals related to the federal election. Approximately 230,000 more households in our

territory have a cable telephone service offering than at this time last year, with competitive footprint growing by 9 percentage points over the last 12 months to now stand at approximately 57 percent. In the quarter, competitive footprint grew by less than 2 percentage points, which was lower than our expectation in the quarter, but we do expect competitive footprint growth to pick up again early in 2009.

Moving now to slide eight on information technology, revenue for the quarter was essentially flat compared to last year. Our services revenue grew approximately \$4 million in the quarter, driven by the healthcare contract in the province in Quebec that we've mentioned in previous quarters. Offsetting this were declines in IT product sales of \$3.6 million. As we mentioned in our Q3 results, our IT product sales were higher in that quarter than we expected as some product sales occurred earlier than we had expected rather than in Q4. Additionally, the fourth quarter of 2007 enjoyed very strong equipment sales, which we did not anticipate replicating this year. While IT revenue growth in the last quarter of the year was flat, overall 2008 IT revenues had strong growth of 20 percent over 2007, driven by the start-up benefits of the large healthcare contract and growth in product sales we've mentioned in previous quarters.

Slide nine shows another strong quarter for internet revenue growth at 13 percent, our high-speed internet customers grew 10.7 percent from the end of 2007, and our average revenue per customer grew 6.7 percent from the same quarter in 2007. This was the fifth consecutive quarter for improvements in residential average revenue per customer, continuing the trajectory we envisioned a year ago. We have accomplished this through the implementation of pricing action, new service offerings, and migrating customers from usage-based plans to higher-value plans. In the quarter we expanded our high-speed internet network to pass an additional 12,000 homes, bringing our internet coverage to 74 percent of homes passed, and we expanded our FTTN footprint by 14,000 homes, bringing the homes passed throughout our territory to 236,000. Our rate of expansion in 2008 has been slower than that which we undertook in 2007 and this influenced our year-over-year high-speed customer additions.

As we noted last quarter, like many of our peers, we are seeing overall high-speed subscriber growth slowing in our marketplace and we believe that the slowdown in our subscriber growth is related to this overall market softness rather than deterioration in share. With the slowdown in customer additions we've ramped up our focus on customer retention and are seeing very good results. In addition to increases in ARPC we are also

achieving reduction in churn or customer deactivations. In a market like ours with very little population growth and intensifying competition, retaining our customers is a very high priority. We have introduced numerous new programs in 2008 to reduce churn and are seeing the benefits. As an example, our high-speed internet churn rate in Atlantic Canada has improved by more than 15 percent when compared to a year ago, so we are pleased with our progress on this front and it will continue to be a key priority for us.

Moving to profitability, as shown in slide 10, EBITDA in the quarter was consistent with the same quarter last year and EBITDA margin was up 0.4 percent to 45 percent, bringing our annual EBITDA margin in line with that of last year. We successfully contained our costs to offset the unfavourable effects of revenue margin changes on our bottom line and are running the Company with less cash operating expenses than we have in the past.

Slide 11 shows our capital spending in the quarter and, as expected, the increase in the quarter compared to last year is almost entirely attributable to our network investment to support Bell Mobility's evolution of its national wireless network. Because of the high concentration of capital spending in this quarter associated with ramping up this investment, fourth quarter capital intensity reached 20.6 percent and we finished the year at 16.1 percent.

As shown on slide 12, distributable cash in the quarter declined 13.7 percent from the same quarter in 2007, driven by the increase in capital just mentioned. For the year, distributable cash reached \$716 million, up 2 percent from last year with a 92 percent payout to unit-holders. So, overall, well in line with the expectations Bell Aliant laid out for investors.

Now I'm going to turn to the more forward looking part of our call and talk about our outlook for 2009. And before I hand it off to Glen to go through our financial outlook, I first want to talk to you about our updated strategy.

Now that we are nearly three years into the life of Bell Aliant and events have unfolded as they have, we see that there are a number of changes that we must make in order to be successful going forward. We are building on significant enviable strengths and we will continue to prudently manage our financial position going forward.

First, we have long-standing relationships in the communities we serve going back over 100 years through our predecessor companies. Despite unprecedented increases in competition over the past

five years, our customer base is significant in size and our customers are loyal to us, driven partly by the wide range of high-quality dependable products and service we offer. Our research shows that our brands are highly recognized and reflect our community participation and commitment in each market we service in both telecommunications and IT. Our strong relationship with Bell Canada continues to provide the benefits of scale of a much larger company and the access to leading-edge technology. Finally, and perhaps most importantly in the current economic climate, we are financially strong and well positioned to ride out the recession. Glen will elaborate on our financial strength in a few minutes.

But all that is not to say that we are without challenges. The competitive footprint continues to expand, growing from 48 percent at the end of 2007 to 57 percent at the end of 2008, and we expect this to continue to grow over the next several years. We are seeing increased competition from expansion of the service footprint of our traditional competitors, new competitors entering our market, and introduction of replacement technologies for our legacy services. As a result of competition, our revenue mix continues to change, with lower margin services like IT representing a growing share of overall revenue while very high margin services like local and LD are shrinking. We have been able to grow top line revenue modestly; however, to retain profitability it is necessary that we focus on our cost structure to reflect the changing nature of our business.

Our success hinges on five strategic priorities: Firstly, continue to improve the customer experience; second, retain our customers; third, grow broadband; four, reset our cost structure; and five, engage our employees. I'm going to speak about the first four of these in turn and the first one, customer experience.

Delivering a superior customer experience continues to be a cornerstone of our strategy and is one of the most important things we can do. This experience is created by providing exceptional customer service, values of leading products and services, and being recognized by our customers for our involvement in the community. The support of our employees and our commitment to internal process improvement enables us to deliver on this strategic priority.

Second, retention. Our customer base is one of our most important assets. We cannot underestimate the importance of keeping the customers we have, which is why we've singled it out as one of the core strategies for the Company. In order to reduce churn we need to continue to develop extremely deep relationships with our customers, drive programs to intervene earlier at key

decision points for them, and continue to strengthen our brand.

Next, broadband. Broadband is the core growth area of our business. Our broadband network delivers the products and services that enable people to connect with each other and the information they need to be as productive as possible and enjoy life as much as possible. We will further expand our footprint and invest in bringing fibre closer to our customers. Despite a significant decrease in our capital spending, which I will speak about in a minute, our investment in broadband expansion and service development will increase in 2009 by over 20 percent. In 2009 we will work to strengthen the value proposition of our high-speed services, work with our customers to remove barriers to them for getting online, and introduce more value-added IT-based services.

Next, the cost structure. In order to be successful going forward we need to be more nimble and we need a leaner cost structure. Beginning in 2009, our plan reflects a significant trajectory shift in our spending levels. On January 12<sup>th</sup> we announced a new organizational structure where we will be organized more by function than by geography and, as a result, the number of senior executives within the Company has been significantly reduced. The new organization will bring all employees closer to the customer by reducing the levels of management, by increasing spans of control, and having one senior executive exclusively responsible for a particular function. Non-management frontline staff are not affected by these changes.

Community presence and recognition of the differences between the various communities and markets we serve will continue to be important aspects of our marketing and our sales programs. This restructuring will reduce management positions by 500 by the end of Q1 and is the most extensive productivity effort we have ever undertaken. Our Q4 financial statements include a \$60 million charge associated with this program and we estimate the pay-back period to be approximately one year. This is not entirely incremental to distributable cash, as these savings will be somewhat offset by some below the line pressures from interest expenses and declines in cash contributed by other income and discontinued operations that we had the benefit of in 2008.

In addition to these changes we are also reducing our CapEx to be between 13.5 and 14.5 percent of revenues. We have done a tremendous amount of prioritization over the past few months and have been very successful in right-sizing our capital expenditure to be much more in

line with industry benchmarks. As I mentioned, we will increase spending on broadband through footprint expansion and development of new IT services, but we will reduce spending on many of the peripheral areas of the business so that even while growing the areas we value the most, the overall spend will reduce.

So why do we think we can achieve this reduction in CapEx? This is an important one for you and it is for us, so I wanted to spend a minute on it. Firstly, in 2008 we completed a large number of IT projects and network-enabling projects associated with the bringing together of Bell Aliant, which delivered improvements in our customer experience and operational efficiencies and resulted in organizational synergies. We will continue to pursue productivity enhancements going forward but with much lower reliance on big IT spend. Secondly, improvements in our ability to manage our core and access network capacity will help reduce CapEx going forward. Thirdly, we will be taking a very aggressive approach to procurement, leveraging the Bell Canada purchasing power at every opportunity to lower costs of materials and equipment. And lastly, we continuously evaluate our levels of reinvestment in IT and network infrastructure by looking closely at our reliability and risk of failure, maintenance support costs, and (inaudible) backup requirements through the extent of the lifecycle replacement in selected areas, lowering our annual capital requirements without increasing risk at all. For these reasons we see these changes as achievable without hampering customer service or reliability. Importantly, our focus is on increasing profitability and cash flow.

So, in addition to focusing on the five objectives I just stated, there are a number of things that we are not doing. We are not pursuing industry consolidation, so growth through acquisitions is not currently part of our plan. We will not pursue business that does not contribute to increasing profitability nor will we chase top-line growth that provides little bottom-line contribution. We will continue to improve profitability of existing businesses and discontinue non-contributing facets of the business. With the assets we have we expect this will lead to a relatively stable total revenue profile, a lower cost structure, and increase cash flow generation. Our employees recognize the need for these changes and I am encouraged by their response to our communications on these issues. This is not an easy time for them but they are working through it and continuing to focus on providing great service to our customers.

Now I'm going to pass things over to Glen, who will take you through our financial guidance for 2009.

**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

Thanks, Karen, and good morning everyone. Where Karen has laid the foundation for our 2009 outlook, I'll take you through some of the specifics to give you a better idea of what we see in the coming year.

Looking at slide 19 you can see that we're expecting overall revenues to be in line with what we achieved in 2008. We expect growth in the internet and wireless to offset declines in local and long distance revenues. After several years of very strong IT revenue growth we expect this revenue segment to stabilize in 2009. This is partly due to a slowing of the economy but mainly as a result of the start-up benefits from a significant healthcare contract that we recognized in 2008. Other revenues are expected to decline in 2009, primarily as a result of the continued decline of the mobility outsourcing contract.

Specific to the competitive footprint, referring to slide 20, we expect the percentage of households in our footprint with a cable telephony offering to continue to expand at the same pace as we've seen in recent quarters. Expansion is expected throughout most of our territory, but with a large part of Atlantic Canada already having high competitive coverage the expansion is expected to occur largely in central Canada. With new markets opening up in this area we expect residential NAS declines to increase marginally from what we had experienced in recent years. We expect to begin to experience more business NAS decline because of this expansion, the loss of some government contracts that will affect our NAS counts in mid-2009, and business rationalizations related to the current economic uncertainty.

With respect to our internet business on slide 21, we expect revenue and customer growth to continue in 2009, but at a lower rate than experienced to date as a result of penetration reaching maturity in some of our markets and the slowing economy. As Karen mentioned, we plan to continue to expand our footprint, increasing our homes passed with high-speed internet and continuing to drive fibre deeper into our network. Average revenue per customer and customer retention will be the drivers of revenue growth, as will value-added service penetration and improved service capabilities. We now have over 25,000 customers for IPTV and have launched high-def, and just this week PVR, increasing our penetration and average revenue per customer, and we will continue to rollout more HD channels and services throughout 2009, further driving growth in this area.

Moving on to capital on slide 22, our capital intensity is expected to be in the range of 13.5 to 14.5 percent in 2009, down from 16.1 in 2008. Our capital plans include the continuation of our network expansion to support Bell Mobility's wireless service migration and continued spending on broadband initiatives. As Karen has described, we have undertaken a number of projects and initiatives in 2008 and we'll drive more in 2009 that will allow us to reduce our 2009 capital spending.

Turning to slide 23 on distributable cash, we expect it to be within the range of \$750 to \$790 million for 2009, from mid to high single-digit growth for 2008. This will come from the savings associated with increased operational efficiency and reduced capital expenditures. With respect to the restructuring benefits, as Karen mentioned, these are not entirely incremental to distributable cash. Our EBITDA is expected to grow in 2009; however we do expect some below-the-line pressures on distributable cash to largely offset the cash benefits of EBITDA growth. These pressures are primarily from higher interest costs, as we will need to borrow to fund an increased pension deficit, and from declines in cash from other income and discontinued operations that we had benefits from in 2008.

With respect to pension funding in 2009 on slide 24, let me address this in two pieces. First, our current service cost funding, which is fairly stable annual cost and is deducted in calculated distributable cash. It is projected to be slightly higher than 2008 than it was in—slightly higher in 2009 than it was in 2008. 2008's number was \$70.4 million. This is a normal pattern of expense growth as wages increase and active members accrue more service. The second piece, the deficit funding payment, is not included in distributable cash but must be funded through cash reserves or incremental borrowing. These payments will be significantly impacted by the asset returns experienced in 2008. Now we fared better than most in this respect, finishing 2008 with negative returns of about 11.4 percent, primarily due to the heavy bond weighting in our asset mix policy. For 2009 we expect the deficit payments to be between \$90 to \$110 million, up from the \$49 million in 2008. The actuarial valuations won't be completed until mid-year, but these are our assumptions based on what we're able to estimate at this point, including the assumed implementation of solvency funding relief measures by the federal regulator. Our plan is to draw on our dedicated pension credit facility to fund these deficit payments, enabling us to maintain more flexibility in the use of our day-to-day cash flow and revolving credit lines given the current state of the capital markets.

Now I know many of you are also interested in our pension expense for accounting purposes, even though this item can move differently than cash funding requirements. For example, you will see in our MD&A that our expense for accounting purposes is lower in 2008 than it was in 2007 by approximately \$53 million. The main driver of this year-over-year decrease is the reversal of a non-cash pension valuation allowance of \$21.4 million taken in the fourth quarter of 2007. This is a year-end adjustment required under Canadian GAAP in 2007 as one of our pension plans moves into a surplus position for accounting purposes and we were required to write-off the surplus against the balance sheet assets. This year none of our plans finished in a surplus position so the write-off must be reversed. You can read the details in our MD&A but suffice to say this is a non-cash balance sheet adjustment and does not affect cash funding requirements.

I realize pension funding risk has been a concern to some of you; however, let's consider it in context of our total cash flow and financial position. We have been using our short-term credit facilities to fund our day-to-day operating needs and have somewhere around \$300 to \$350 million of debt that we would otherwise, under normal market conditions, have probably termed out with a long-term debt issue by now; however, we have not had to borrow any significant incremental amounts to fund our business since it was created in July of 2006. We've been able to fund our pension deficit contributions out of cash flow. As mentioned, distributable cash is expected to be in the range of \$750 to \$790 million in 2009 and we use our cash reserve after the distribution payments to fund things like our restructuring program and pension contributions. 2009 looks like it'll be one year where the cash reserves will be non-sufficient to fund such things and we will have some incremental borrowing, but we have the facilities in place to accommodate this borrowing and it is not expected to be significant and therefore won't drive us away from our targeted two-times debt-to-EBITDA level. So financially we are strong and able to weather this current economic climate.

Also in this environment we do not believe that raising our distributions to unitholders would be prudent or very well rewarded. Our distributions will continue at a \$2.90 per-year rate. With increased distributable cash and a consistent distribution level our payout ratio will fall below the 90 percent level that we had targeted in the past. We need to be cognizant that challenges in the credit markets could potentially continue for some time. We feel it's prudent to maintain as much liquidity as we can to give us the greatest flexibility and most reasonable borrowing costs. As we look beyond next year to 2011,

when we will very likely convert from an income trust to a corporation, we have stated on many occasions in the past that we do not see needing to pay cash taxes in that first year as a corporation or even into 2012. Without presupposing what the board may decide about corporate dividend policy, with growth in our distributable cash during that time and with corporate tax rates continuing to be lowered, we do not see the onset of cash taxes as having as significant a negative impact on our ability to generate strong and stable cash flows, as some are projecting. We will remain a low growth, high free cash generating business and our distributions will very likely remain consistent with this profile. As mentioned, our leverage target remains at two times debt-to-EBITDA and we expect to maintain this throughout 2009. We continue to be committed to maintaining investment-grade credit rating, which we feel are more important than ever in today's credit markets. Let me take a minute to review our credit policy before I conclude.

As shown on slide 25, Bell Aliant has over \$1.1 billion in bank facilities. Our banking syndicate is made up of 12 banks and institutions with over 80 percent of the facilities provided by Canadian players. We have sufficient credit capacity to keep rolling over short-term borrowings as they come due. As shown on slide 26, we have a \$100 million bank loan that comes due in early July of this year. The credit markets continue such that we cannot refinance these borrowings with a fixed rate capital market issue on acceptable terms. We have the option to roll it into our revolving facility. We have no major refinancing requirements until September of 2011 where we have \$750 million of medium-term notes coming due. In summary, we have maintained a strong balance sheet with stable cash flows and sufficient liquidity execute on our plans.

Let me conclude with slide 27, which summarizes our guidance for 2009. We are undertaking some significant actions in 2009 to ensure we continue to provide stable and consistent performance our investors have come to expect from us. And with that I'm going to open the call for questions. Operator?

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## QUESTION AND ANSWER SESSION

### Operator

Thank you. We will take questions at this time. If you are using a speakerphone, please lift your handset before making a selection. You may press star one on your telephone keypad if you wish to ask a question and if at any time you wish to cancel your question you may press the pound key. Please press star one at this time if you

have a question. There will be a brief pause while participants register and we thank you for your patience.

The first question will be from Greg MacDonald from National Bank Financial. Please go ahead.

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**Greg MacDonald, National Bank Financial**

Thanks. Good morning guys. Let me jump to the juicy part of the question here on CapEx, CapEx guidance. So you're declining CapEx by, let's say, something in the \$50 to \$100 million range, 10 to 20 percent. That's a big number. You know, a cynic, and I have to admit that research analysts are cynics, might suggest that on the surface it looks like you're cutting CapEx to fund your pension solvency issue. Now I know that's not entirely the case and I know the issues involving pension solvency and the ability to fund through the credit lines but, you know, I think what we need in order to feel more comfortable here is some better description of what's being cut, particularly given the fact that the broadband spending is increasing 20 percent. So, Karen, you talked a little bit about the priorities here, some on the IT spending side, some of the core network side; I wonder if you just might give us more specifics there in order to give us some comfort that, you know, I mean the biggest concern here, cutting spending now some might suggest two to three years from now it starts to impact revenue growth, particularly on the legacy part of the business.

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

Greg, it's a great question and I hear in your question that you do know the two issues are not linked. CapEx is CapEx. I know you guys study benchmarks around the world, as do we, and I'm going to give you a little rule of thumb, and this doesn't mean this is where you ought to go but in studying RLECs and a whole bunch of folks around the world I look at it as a kind of base plus broadband benchmark. Outstanding base is 10 to 11 and then depending on where you are in your broadband expansion you probably need 3 points, maybe a little more, for broadband, and there are companies around the world operating at that level, and frankly I think you guys, many of you have noticed for a long time, we've been really high for a while, much higher than many RLECs.

So we did the work this fall one project at a time to prioritize and the kinds of projects that we have finished, we did do a lot of work—some of it with Bell, some of it on our own—following the implementation of Bell Aliant, some call centre tools, facilities management, some basic

tools, some bill presentment updates, and the spend was very high, like very high on those kinds of tools in a single year in 2008. Some other projects that were completed, port utilization—I can kind of run through the list for you but a lot of projects in IT were completed.

The other thing that we have gotten a benefit from in the past but I think we've been able now to find a way to boost it up is just our buying power by making sure we don't miss anything through procurement in Bell to make sure we get all the pricing we ought to get. So we believe we're going to get better productivity there. And then regardless of the timeframe you think you might need for replacements, getting into the right rhythm of how often do you replace a truck, how often do you replace a batter, and by tweaking that and again moving to some industry benchmarks we think we're putting absolutely nothing at risk and it was kind of amazing how much money we freed up to do all the stuff we want to do.

Our broadband spend is actually, on benchmark levels, kind of high right now, but we are in expansion mode. It needs to be relatively high because we're a bit behind. But we are very comfortable with where we are on capital and we found that we could actually just get there in one fell swoop rather than a migrated change over time. It's a great question, Greg.

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**Greg MacDonald, National Bank Financial**

Can I ask a quick follow-up to that then?

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

Sure.

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**Greg MacDonald, National Bank Financial**

CapEx for this company on an absolute basis has been over \$500 million since 2005, since we've gotten the pro forma on the new structure of the company; is it the case that a lot of these, I'm not going to call them one-time items, but certainly as you're describing them extra IT-type spending items, is it the case that they've been in place since that time? Is there a mix changing here relative to 05 versus now? I'm trying to get a sense of whether there's a possibility that you bounce back \$50 or \$100 million a year or two from now if times get better, particularly on the pension side.

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

I honestly can't take you back to 2005 but let me talk about 2007 and 2008. In 2007 you know we increased our spend to accelerate our broadband expansion and then in 2008 we reduced that pretty materially, and 2008 was really the big year for a lot of IT spend. We also, in 2008, agreed and heavily pursued the mobility build, which we're very excited we have the chance to do, and that's a 2008/2009 expenditure. Where we will go in the future I can't really tell you but I do, in watching the benchmarks I have a sense of what we ought to be able to do and we'll see how it goes from there, Greg. But there was a bit mix shift between 2007 and 2008 between broadband and IT.

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**Greg MacDonald, National Bank Financial**

Okay, thank you.

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**Operator**

Thank you. The next question will be from Peter MacDonald of GMP Securities. Please go ahead.

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**Peter MacDonald, GMP Securities**

Thanks. I really want to ask a question on pension but I have to go back to that CapEx. If I look at my model, which goes back to 1998, your CapEx level was much higher on a percentage of revenue throughout that whole timeline, and I would suggest that a lot of that has to do with your geography, and now when you look at your cable competition, the cable competition is a little different timeline with your area than it is with the other telcos' areas, so I really have to question, you know, as much as there's a rule of thumb with other telcos, would it not be fair to say that the sustainability of something in the 13.5 to 14 percent or 14.5 percent range is something you might not be able to keep a couple years out.

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

I probably know more now about rural capital economics than I ever thought I would in my life. I could actually tell you what the ratio is of power and maintenance in rural Canada versus urban, and there is a price, but I don't think it's—I really don't think that would be fair for us to claim that our much larger spend is entirely due to rural. I don't believe that at all. And, again, I can't predict what we might want to do if the world changes totally in two

years but, you know, our power is going to cost more than it costs an urban telco and our maintenance is going to cost us more because we have way more small buildings than they do, and our fibre costs a little bit more, because it costs more to do in rural, but frankly the IT projects are identical, and a lot of the big things, the network infrastructure is identical. So a lot of the rural-based economics I don't believe at all have been driving that high of a cost level and I think a lot of it is because you spend it when you can. So I'm not going to presuppose where we might go in a couple of years, Peter, but I think we're in really good shape right now.

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**Peter MacDonald, GMP Securities**

Okay. My pension question, I'll basically leave the details to others, but just some maintenance things. Can you tell us what the assumed deficit is, what the actual total funding assumption is for 09? And then I don't recall or not whether you use an averaging calculation but, assuming that your assumptions are maintained going into 2010 and 2011, does the funding requirement change substantially from what you're looking at in 2009?

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**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

Good morning, Peter, it's Glen, I'll handle some of this and I'll ask Eleanor to comment as well.

As I laid out in my comments this morning total funding is broken into two pieces. This 2008 current service funding was \$70.4 million and you seen in 2007 it was about \$68 million; I would think it's fair to assume a similar growth for current service funding into 2009. I also provided guidance on our deficit funding to be between \$90 and \$110 million. So those numbers are added, as you'll see, it's over between \$160 to \$180 million in total pension funding that will occur in the calendar year 2009.

Eleanor, do you want to comment on averaging?

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**Eleanor Marshall, Vice-President & Treasurer**

I assume, Peter, you're talking about the smoothing of assets for valuations and, yes, we do smooth the equity returns in our valuations. The bonds we do not, because those are designed to match the (inaudible) in the liabilities, but the equity returns we do smooth, and so we anticipate being able to take some advantage of the relief measures, proposing an increase to the cap on smooth asset values.

**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

And then your final question, Peter, was deficit and what the deficit level will be in 2009. As I mentioned in my comments, we won't have our actuarial valuations until second quarter, so I'll be able to report on that then.

**Peter MacDonald, GMP Securities**

Okay. And Eleanor, just to clarify the question, do we assume that there's going to be a material uptick in 2010 or 2011 as that averaging flows through into those years?

**Eleanor Marshall, Vice-President & Treasurer**

We haven't really and we won't until, as Glen mentioned, our valuations are completed have a complete forecast of our payment schedule, but the way these things work it's all else being equal and so we assume that nothing changes, the \$90 to \$110 million estimate would be good for the next five years anyway.

**Peter MacDonald, GMP Securities**

Okay, great. Thanks.

**Operator**

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

**Vince Valentini, TD Newcrest**

Yeah, thanks very much. Back in the CapEx two different angles, one, just on the HSPA, can you give us any sense of how much of that network build has been done already in 2008 versus how much is yet to come in 2009 and 2010?

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

Yeah. Peter, we're right on track. We told you last time it's about a \$50 million build, about half in 2008, which is about where we are, and about half in 2009, so we're right on track with this thing.

**Vince Valentini, TD Newcrest**

Great. And secondly on CapEx you mentioned elsewhere about focusing on profitable business and, you know, I notice you're expecting revenues to maybe be down a little bit in 2009 but EBITDA to be up slightly; is there any linkage there to the CapEx as well where you're consciously saying some contracts just don't make sense from a full return perspective, maybe giving up some wholesale or enterprise or IT business that maybe in the past the Company would have chased a little bit?

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

No, not really; in fact, I think a lot of the decision making there is actually quite good. The big shift in mix, as you know, next year is the lack of growth in IT and IT really wasn't dragging much CapEx with it. But because of the Quebec contract this year we won't see the same growth next year and we are also not pushing that business any harder than increased profitability will allow. We don't want to over expand it and cause it to actually be EBITDA negative. But there's no CapEx involved there.

**Vince Valentini, TD Newcrest**

Okay. And one last one for Glen I guess. I just want to make sure I clearly understand the guidance or if it was guidance you were trying to give us for 2012 distributions. Are you saying that the Company has made a decision that it will sort of firmly stick to an approximate 90 percent payout ratio and cash flow will be what it is with all the changes you make and with taxes kicking in at that time? Because I guess there's two real decisions here. One is what the tax impact would be and second will be what the Company wants to look like. There's not many corporations that pay out 90 percent of their cash flow as a distribution. So are you giving us sort of vague guidance that you would intend to keep the distribution payout that high?

**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

Good morning, Vince. No, I wasn't. Let me reiterate what I am trying to provide guidance on.

When we look out to 2011, obviously January 1, 2011, we would see no reason that we wouldn't convert back to a corporate now, and you understand the complexities of the trust structure. What I'm trying to drive everyone to understand is that, as you well know, we do have some

tax losses that will allow us to avoid paying cash taxes for the calendar year 2011 and some of 2012. When we get to that point of 2012, some of the reports that I have read people are saying, well, if you take \$2.90 and you get a 30+ percent cash tax bill then all things being equal is your distribution is not intending to drop to \$1.95. And what I'm trying to draw everyone's attention to is if we have until 2012 before we have cash taxes payable, if we continue to prudently manage our distributable cash between now and then, we grow into a number that's a heck of a lot larger than just taking \$2.90 and taking a 30 percent whack off it. We recognize our investors are yield players, they look for our yield, so when we think about what we will look like as a corporate structure we certainly anticipate having a yield characteristic, but it would be extremely premature for me to speculate on our board's decision of payouts in a corporate world.

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**Vince Valentini, TD Newcrest**

Okay, that's clear. Thanks.

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**Operator**

Thank you. The next question will be from Nima Billou from Bloom Investment Counsel. Please go ahead.

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**Nima Billou, Bloom Investment Counsel**

Thank you. Karen, this is a question for you. With respect to the 500 managers and just the human resource situation, how quickly did you discover that you could sort of get by with less people or that this was the right move to undertake? Was it an economic decision just given the current environment or is it given a certain amount you were able to assess the situation and realize that you can still maintain a strong competitive position but you can do it with fewer people?

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

That's a great question. Let me give you a bit of context. Stephen actually started some work well before I arrived, again, doing some good benchmarking, taking a look out at other RLECs and came to the conclusion that we were too heavy. But the issue was course and speed and throughout my career, especially my recent career, I've actually discovered that leaner makes you move faster and operate better and rather than torture an organization with multiple changes within some range of

reasonableness it's just better to get to where you think you need to go.

The other thing that I saw before I came in and relatively quickly confirmed is that the differing structures between the functional structure in Atlantic and the regional structure in Central really needed to change, because we had so much duplication. And so I think right after I got here we settled on a course and speed and decided to just fix it so that we could operate better and be more nimble than we have been in the past.

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**Nima Billou, Bloom Investment Counsel**

And I understand that obviously it won't result, you have an estimated one-year payback and it won't result in complete incremental cash flow, but can you run me through what the below-the-line pressures are associated with this decision or how much you can expect? Will you realize some significant incremental cash flow or is it just a wash?

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

Glen, why don't you go through that?

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**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

Absolutely. Good morning. As we had mentioned in our documents that went out, we do estimate about \$60 million will be a one-year payback, or 12 months, but when we consider that we're going to be first quarter before we complete that, if I look at the impacts in the calendar year 2009 we'll get about five-sixths of that, so let's call it \$50 million, of cash impacts to the restructuring that we're taking now. As well you have to consider that our business is capital intensive and that not all of that will hit a P&L. About \$40 million of that will impact the P&L with another \$10 million of the cash benefit in the calendar year, \$9 being capital benefits. So when you consider that, that's what flows through to the EBITDA or P&L.

And when I look also in 2009 the comments I made was that there were a few items in 2008 that won't repeat themselves, one of them being cash that we generated from discontinued operations, which is self explanatory. As well in 2008 we had some other income that we earned. We had over \$3 million of interest expense we earned on some tax returns that won't repeat itself. And then finally interest expense is going to be higher in 2009

if I have \$100 million of approximate special funding to do from the pension deficit than, naturally, if I'm drawing off that dedicated facility there'd be some pension expense.

So that was what I was alluding to in my remarks this morning of how that \$60 million restructuring investment plays through the P&L.

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**Nima Billou, Bloom Investment Counsel**

And when we look at the quarter, and I tried to add back the restructuring cost just assuming a tax rate about 35 percent, cash flow from operations prior to working capital still declined. Can you kind of just briefly describe what would lead to that?

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**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

I'll have to take that one away here.

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**Nima Billou, Bloom Investment Counsel**

Okay, fair enough. Thanks very much.

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**Operator**

Thank you. The next question will be from Peter Rhamey of BMO Capital Markets. Please go ahead.

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**Peter Rhamey, BMO Capital Markets**

Just following on the prior question is you had made reductions on the management side; Karen, how do you look at the non-management workforce over the next two or three years and how that fits into your labour agreement in the renegotiations that you'd undertaken? And I have a second question on broadband targets.

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

Peter, it's hard for me to predict where we're going to be on the non-labour front in two or three years. We obviously have to match our labour force with our revenue base, so as the revenue base on wireline declines some of that work will go away. And again, we also looked pretty closely at some benchmarks to get a sense of the art of the possible. Our biggest issue, we

believe, by far this year is management. We've been driving productivity in the non-management workforce for some time so you could probably expect to see some changes there that are consistent with historical levels over time. But that's really not my focus this quarter. So assume you'll see some changes over time but I wouldn't expect them to be huge.

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**Peter Rhamey, BMO Capital Markets**

When is your labour agreement up for renegotiation?

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

2011.

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**Peter Rhamey, BMO Capital Markets**

2011. So quite some time. On broadband targets, I don't think you've—number one, you've talked about increased spending on broadband; does that include the HSPA overlay spend?

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

Yes it does.

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**Peter Rhamey, BMO Capital Markets**

So when you take a look at your broadband—

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

No, I'm sorry, let me answer that—CapEx does, broadband does not. Broadband spend does not include HSPA but the CapEx spend—

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**Peter Rhamey, BMO Capital Markets**

Okay, all right, very good. Now what are you targeting in terms of households covered this year in terms of incremental coverage for broadband?

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

Heather, you want to take a crack at that?

**Heather Tulk, Senior Vice-President, Customer Solutions**

Yeah. In fact, year over year our increase in households passed will be very consistent. In 2008 we increased our broadband footprint by about 70,000 homes and we would expect that to be about the same in 2009 and the incremental spending we're really driving toward on the service development side and really looking at development of applications and services that run over our network.

**Peter Rhamey, BMO Capital Markets**

So when you take a look out longer term is this the type of pace that you envision having for the next three to five years?

**Heather Tulk, Senior Vice-President, Customer Solutions**

Certainly for the next three years that we would see this kind of pace in (inaudible) and development. Obviously as we get into the limit, and we would have talked about this in the past as we've given you guidance in terms of the percentage of our territory that we would see are economically viable for broadband, certainly we'll push up against that in the next few years.

Now that being said, as you know very well, there are a lot of programs back from just as recent as last week where various levels of governments are continuing to be involved in partnering with organizations to drive footprint into territories that wouldn't otherwise be economic and certainly we're very involved in that and looking forward to that as well.

**Peter Rhamey, BMO Capital Markets**

Right. And those service developments, is that a one-year project or do you see that as recurring over the medium term?

**Heather Tulk, Senior Vice-President, Customer Solutions**

I guess it would be a mix of both and certainly we've got some things lined up this year that will bump it up a little bit this year, but I'd say the total broadband spend that we're talking about we would see staying consistent in

some mix between footprint and service development over the next few years.

**Peter Rhamey, BMO Capital Markets**

Very good. Thank you very much, Heather.

**Operator**

Thank you. The next question will be from Dvai Ghose from Genuity Capital Markets. Please go ahead.

**Dvai Ghose, Genuity Capital Markets**

Thanks very much. Let me return to the CapEx question if I may. So really your 13.5 to 14.5 percent guidance is really nearer 12.5 to 13.5 because of the unusual Bell Mobility HSPA back hold. Is that correct?

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

Yes.

**Dvai Ghose, Genuity Capital Markets**

Okay. So that's pretty low in your own benchmarks. I guess specifically, and you've given us some good explanations as to why you think it's sustainable so low, obviously there's some questions around it, but what is your assumption regarding DOCSIS 3.0 and channel bonding on the competitive side? Because one would assume that if your competitors are going to introduce DOCSIS 3.0 that you have to accelerate your broadband.

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

Well we have accelerated our broadband and that's exactly why we did it, Dvai, so none of the cuts at all have anything to do with broadband and broadband as a percentage of our total spend is way up. We haven't touched broadband at all and we're accelerating it.

**Dvai Ghose, Genuity Capital Markets**

Well the homes passed, for example, are going to be the same incrementally this year as last year, so that's not really accelerating, is it?

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

The total spend on footprint and service development will go up. So some of what you're going to see is footprint and some of what you're going to see are new services that we think we need to compete.

**Dvai Ghose, Genuity Capital Markets**

Okay. So, Glen, let me ask you a question if I may about the sustainability of your distribution, because on the surface it looks pretty good. You have a distributable cash flow target of \$770 million, which is about an 85, 86 percent payout ratio on your distributions of about \$660, \$661. But let's take away \$100 million for pension solvency, which you've just said is probably a recurring item, not just a one-year item, and let's take away another \$60 million for restructuring, which I assume can't be just a one-year item given all the competitive pressures in your business, so you're now down to \$610 million versus a distribution of \$661 million. Would that be a fair assessment? And, if so, how is it sustainable over time?

**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

Good morning, Dvai. I don't think it's a fair assessment because we—first of all, it's special funding in the pension and I can't predict where that's going to go. It went from \$49 million—and you watched how our deficit behaved. It was \$450 million when we started Bell Aliant, went down as low as \$300, and suffice to say it's not \$300 now. It's difficult for me to predict. Our funding requirement this calendar year was \$49 million; next year I'm predicting it to be \$90 to \$110. It will turn around at some point and I don't think that that is going to be a required funding into perpetuity. It will change at some point.

The restructuring, let's put in perspective the remark that Karen discussed today. We took out 15 percent of our management workforce. That we certainly couldn't repeat every year. So that was a massive undertaking. As Karen said in her remarks, it was the biggest workforce reduction productivity program that we have taken on. So, no, I don't see that as recurring.

Your numbers are right, \$750 to \$790 in cash. We pay out approximately \$660, \$659 in distributions. We're being very prudent in our actions we're taking right now in order to address the deficit and the cash requirement for

the business so that there is a long-term sustainability of high payouts.

**Dvai Ghose, Genuity Capital Markets**

Okay, and that being said, just to clarify, so you're looking at about \$50 million of additional borrowings net in 2009 as per my math.

**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

It's something very—very insignificant to that level, Dvai, that's about right.

**Dvai Ghose, Genuity Capital Markets**

All right, thanks very much.

**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

You're welcome.

**Operator**

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

**John Henderson, Scotia Capital**

Yes, thank you. Just on the broadband homes expansion, is that also IPTV homes expansion? Or could you give us sort of what your IPTV footprint is at the end of this year and then looking forward?

**Heather Tulk, Senior Vice-President, Customer Solutions**

John, the broadband expansion I was talking to (inaudible) the question of the expansion of the overall footprint, of course building out the TV footprint and homes passed with our fibre network occurred within the broadband footprint and is really an overlay to that. So we'll expand the total footprint by about the same amount as this year.

With respect to TV, our TV business is performing very well. We're pushing up against a quarter of a million homes passed so, you know, feeling very good about that. Our penetration rates are growing quite nicely for us and as our (inaudible), as I believe Glen mentioned in his remarks, we just yesterday launched PVR. We also in the quarter have announced we're up to 20 high-definition channels and we'll be expanding that as well this year. So very, very pleased with the way that product is progressing and we remain very committed to it.

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**John Henderson, Scotia Capital**

Did you say a million homes passed now?

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**Heather Tulk, Senior Vice-President, Customer Solutions**

A quarter of a million.

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**John Henderson, Scotia Capital**

Yeah, that's better.

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**Heather Tulk, Senior Vice-President, Customer Solutions**

I wish. We'll get there.

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**John Henderson, Scotia Capital**

Okay. And how much do you expect that to expand over the next year?

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**Heather Tulk, Senior Vice-President, Customer Solutions**

We're still finalizing our plans on that but it'll be pretty consistent with the expansion that we have this year.

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**John Henderson, Scotia Capital**

Okay. And could you tell me what your broadband household total homes is then? I mean you increased it by 70 but what base is that on?

**Heather Tulk, Senior Vice-President, Customer Solutions**

I can get that for you right now... Right now we're at 1.8 million homes passed at DSL.

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**John Henderson, Scotia Capital**

Okay, great. Thanks. And, Glen, just on pension, I just wondered if you could give us the estimated pension expense for accounting purposes in 09.

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**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

Good morning, John. As you'll recall, in my remarks I mentioned that albeit we don't provide guidance on pension expense, because most are focused on funding and you know how both can move in different directions and pension expense can be so volatile, what occurred in 2008 was an oddity. We booked a \$21 million pension expense hit in the fourth quarter of 2007, reversed that in fourth quarter of 2008, so you've seen pension expense being down in 2008. Obviously that won't repeat, so I expect pension expense excluding that to be greater. But again, can't really provide any more additional guidance than that.

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**John Henderson, Scotia Capital**

Okay, fair enough. Thanks a lot.

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

Operator, we have time for one more question.

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**Operator**

Certainly. The last question will be from Chris Li of Merrill Lynch. Please go ahead.

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**Chris Li, Merrill Lynch**

Hi, good morning. Just a few questions left. Can you share with us, you know, last year on average how much CapEx was spent per home passed in terms of expanding your fibre-to-the-node footprint?

**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

Good morning, Chris, it's Glen. Unfortunately that's not something I can provide. It's a level of detail we don't provide in our public guidance.

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**Chris Li, Merrill Lynch**

Okay, that's fine. And just on depreciation expense, it was up about \$12 million sequentially. I gather from the MD&A that about \$11 million sounds like it's more one time in nature. Just more for financial modelling purposes, you know, what is a good run rate to use for 2009?

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**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

Hi, Chris. It wouldn't be one time in nature. What we do is every three years we review the life of every one of our assets and it's on a three-year revolving schedule, so once we finish it you get the luxury of starting all over again. What we did in the calendar year 2008 is looking at some of our lives we shortened the lives on a small number of assets, it's not a large number when you consider the size of our depreciation base, which resulted in a prospective increase in depreciation that you alluded to of around \$12 million. So that will continue for the foreseeable future.

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**Chris Li, Merrill Lynch**

So the \$190 this quarter, it's a fairly reasonable run rate for the year then.

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**Glen LeBlanc, Executive Vice-President & Chief Financial Officer**

That's correct. It might be a little bit higher in the quarter because that life study was done in the fourth quarter for the full calendar year 2008, but materially you're correct in that statement.

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**Chris Li, Merrill Lynch**

Okay, just last minor one; it's on the wireless post-pay churn. It spiked up from 1.2 to 1.9 percent in the quarter. Can you explain why?

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

Chris, it's Karen. There were a lot of one-time outs in the quarter. The turndown of the analog network caused some outs as well as the loss of one major customer, and all that drove the churn way up in the quarter.

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**Chris Li, Merrill Lynch**

Okay, so excluding that would you say it was kind of—

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

It was comparable.

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**Chris Li, Merrill Lynch**

Comparable, okay. Thanks very much.

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

Thank you. Operator, that's it for the questions.

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**Operator**

Certainly. I'll return the meeting back to you, Ms. Redden.

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

Thank you everyone for joining us today and we look forward to following up further with some of you over the next couple of days.

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**Operator**

Thank you. The conference has concluded. You may disconnect your telephone lines at this time. We thank you for your participation.