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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Bell Aliant Regional Communications Second Quarter 2010 Conference Call. I would now like to introduce your

speaker for today, Zeda Redden, Vice-President, Investor Relations. Please go ahead, Ms. Redden.

Zeda Redden, Vice-President Investor Relations, Bell Aliant

Thank you, Catherine, and good afternoon, everyone, and welcome to our second quarter results call. Earlier today, we issued our news release and second quarter financial statements, MD&A and supplementary information package, which are posted on SEDAR and also on our website, and also posted on our website is the slide presentation that we'll be taking you through on this call.

Today's agenda is listed on slide 1 of the presentation and, as always, we caution you that today's comments may contain forward-looking information related to the finances and operations of the Company, and our discussion is qualified by the cautionary statements on slide 2 of the presentation, and those listed in the MD&A and news release. We have scheduled the call for up to an hour and following the presentation, we will have question and answer period.

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

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Thank you very much, Zeda, and good afternoon, everyone. As far as our agenda for today, I'll speak briefly to the progress we are making on our strategic initiatives and then we will turn specifically to our second quarter results. I will cover the highlights and I'll hand it over to Glen LeBlanc, our Chief Financial Officer, to take you through some more details on the financial results and give you an update on our guidance. Then, of course, we will open up the line for questions.

Slide 4 shows the five strategic initiatives that we established last year and are continuing to pursue and accelerate in 2010. I'm pleased that during the second quarter, we continue to make progress on all fronts. Our customer service metrics continue to show solid results and in terms of retaining customers, although NAS declines persist, they have slowed from that which we were experiencing over the last four quarters, with 26 percent improvement over the same quarter in 2009.

Our expansion of FibreOP continues on plan and over the last quarter we more than doubled our coverage, so

now have 74,000 homes serviceable with our FibreOP services at the end of June. We are exceeding our FibreOP sales objectives while achieving high whole home bundle sales with very high TV take rates. This, of course, is key to our customer retention strategy and we expect will ultimately help us return to a pattern of revenue growth.

The progress we have been making in resetting our cost structure over the past year and a half continues to produce results with our operating expenses \$21 million lower in the second quarter of this year than the same quarter in 2009.

In terms of employee engagement, following our conversion announcement in May, several members of the Executive Team joined me on an employee road show where we visited with approximately 2,300 of our people across six provinces to talk about the business strategies. These sessions were well attended, very interactive and greatly appreciated by both the employees and our Leadership Team. Our employees are interested and engaged; they want to know the challenges we are facing and have many, many great ideas on things we can be doing to improve our operations.

Our markets continue to be very competitive and we know we have work to do as we continue to face these challenges. However, I am pleased with the progress we are making and our results are in line with our expectations.

Now, before I get into our financial results, I do want to comment briefly on the status of our union agreement with our Atlantic unionized employees. As you know, earlier this year we had reached a tentative agreement with the Communications, Energy and Paperworkers Atlantic Communications Council, which represents about 3,000 of our unionized employees in Atlantic Canada. If this new agreement had been ratified, it would have come into effect this year and replaced the current agreement which is set to expire on December 31, 2011. In June, we received the results of the ratification vote and, unfortunately, the union membership rejected the tentative agreement. This was disappointing news, particularly because it was our preferred solution for significant savings and stability.

We have always been clear with employees that there were two paths for achieving cost reductions in Atlantic Canada. One was through an early collective agreement. Our intent here was to provide greater certainty to our future cost structure and greater efficiencies as we head towards 2011, while providing our employees with the

benefits of increased security and labour stability; that is, provide secure jobs and benefits in return for wage restraints. The second path was pursuing other alternatives within the bounds of our current collective agreement. This meant measures such as fewer people, more contracting out and reduced benefits. We are now on that path. We must take action to reduce our costs to remain competitive and these changes are just part of the solution. The lines of communication remain open with our union and we will participate as productively as we always have in our ongoing discussion.

Now, let's turn to the results of the quarter on slide 7, and as we've talked about before, we've made significant changes to our cost structure over the last 18 months and the benefits of that continue to be evident this quarter. As we expected, our revenues in the quarter were down from a year ago, but operating expense reductions largely offset this. Although reported EBITDA is down 2.8 percent from the same quarter a year ago, the second quarter of 2009 had a one-time boost from a non-cash adjustment which lowered senior management long-term incentive expenses. Excluding the effect of this adjustment, our EBITDA declined 1.9 percent from the same quarter a year ago, despite a 4 percent decrease in revenues, and our cost improvement is particularly evident in EBITDA margins again this quarter, improving from the same quarter in 2009.

Now, as I've said before, we expect it to be some time before investment in fibre gains sufficient scale to begin to turn our revenue trajectory around. In the meantime, we expect revenue and EBITDA to be under pressure. Our performance year to date is what we expected and is similar to what we expect for the balance of 2010.

Our capital spending this quarter was up slightly from the same quarter last year as the ramp-up of Fibre to the Home rollout essentially replaces our spending on the Bell Mobility HSPA Backhaul project that we completed last summer. Consequently, our distributable cash was down in the quarter, largely a result of our lower EBITDA and somewhat due to higher capex. As we stated in our 2010 guidance which we released in February, we expect our annual distributable cash to be in a similar range as last year. There is an adjustment to guidance related to the way we finance one of our operating expenditures, that Glen will speak to shortly—who would have thought we would be talking about telephone poles in 2010, but we are—but our overall financial outlook for the year remains unchanged.

Now, turning to the revenue details, as shown on slide 8, local revenues declined 4.7 percent, compared to the same quarter last year, and long distance revenue

declined 6.9 percent. The declines were mainly driven by the effect of NAS declines. With the acceleration in declines in 2009, we're feeling the flow-through effects now. However, the local revenue decline of \$16 million in the quarter also included, approximately, \$6 million of lower contribution subsidies. Excluding the effect of these declines, local revenues were down about 3 percent, 3.1 percent, compared to the same quarter a year ago, against the decline in total NAS of 4.9 percent. The carry-over effects of rate actions taken in 2009, bundle success and features growth helped to mitigate the impact of NAS declines on local revenues.

Our competitive footprint grew very marginally in the quarter, to remain at approximately 16 percent of households in our territory, up six percentage points from the same period last year. I'm satisfied with our NAS performance, where, as shown on slide 9, despite the annual growth in competitive footprint, our residential NAS declines in the quarter were essentially flat to the same quarter in 2009. We've been aggressively marketing our new bundles that are matching competitors' offers with good results. Our business NAS declines in the quarter improved significantly from a year ago as we are now past the migration out of government contract losses that we experienced throughout 2009. That said, with the expansion of competitive footprints and increased competitive activity; we expect NAS erosion to continue to get worse before it gets better. We will continue to fight hard as the battle is not over, and we'll continue for some time.

As expected, long distance revenue continued to decrease, mainly as a result of the flow-through effects of NAS declines and movement to lower or flat-rate LD packages. The decline is lower than that experienced in the first quarter, mainly due to price increases.

Turning now to slide 10 on internet and data revenue, internet revenue grew 7 percent over the same quarter in 2009, with our high-speed internet customers up 6 percent from the end of June last year. The rate of subscriber growth is definitely slowing with market saturation in many areas and the slowdown of footprint growth from the rate of expansion that we would have seen and would have undertaken over the last several years. The growth opportunity in internet continues to lie in migration to more and higher value services, as well as growth in TV revenues. Our residential high-speed average revenue per customer continued its positive trajectory again this quarter, reaching its highest point yet, up \$1.70 from the same quarter a year ago. This was driven by pricing actions and continued customer migration to higher tiered internet services.

TV revenues contributed to our internet revenue growth as a result of our expanded IPTV footprint and the launch of FibreOP. However, our TV ads in the quarter are one area where I would have liked to see more growth. In the quarter, we added about 3,000 TV subs, similar to prior quarters, bringing our total to, approximately, 39,000 IPTV customers. Although we're having great success in our FTTH footprint with FibreOP TV penetration rates, much higher than what we experienced with IPTV in FTTN markets, our growth in ads in the FTTN footprint slowed in the quarter. Our priority clearly remains the expanded rollout of FibreOp as it will provide the best experience in the marketplace and is the most attractive to our customers, and although it is very early days, our NAS churn in FTTH markets is materially better than both FTTN markets and the areas where we have no fibre.

Turning now to slide 11 on IT revenues, our results this quarter were not what we expected. After a very slow first quarter for equipment sales, we had expected that some of that shortfall in Q1 would come back into the second quarter. As is evident from the chart, this was not the case and equipment sales were essentially flat in the second quarter of this year, compared to the second of 2009. As well, slowdowns in our health care and the public service businesses drove declines in IT services revenue from the same quarter a year ago. We still expect that these trends will improve in future quarters.

Now, in terms of my overall take on the quarter, I'm very pleased with our progress on FibreOP, NAS retention and cost containment. Although there were some disappointments with our FTTN market, TV positions and our IT revenues, our results overall are in line with our expectations and we expect to finish the year within our guidance ranges. Importantly, we're moving ahead with changes we need to make in the business to improve our performance going forward, and now I'll hand it over to Glen.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Thank you, Karen, and good afternoon, everyone. As Karen has taken you through the revenue highlights, let me make a few comments on EBITDA, capital and cash flow performance.

As shown on slide 12, our EBITDA in the quarter was down \$10 million or 2.8 percent from the same quarter in 2009. As Karen mentioned, the second quarter of 2009 had a one-time favourable adjustment to senior management long-term incentive costs, without which the second quarter decline was 1.9 percent, compared to a year ago. Although our revenues were down 4 percent,

the strength of our cost reduction program was very evident again this quarter, with EBITDA margins of 47.4 percent, up from 46.8 percent in the same quarter last year. As we head into the second half of 2010, although the quarter to quarter EBITDA performance can be, and may be, somewhat lumpy, we expect our EBITDA trend for the year to be in line with what we've seen for the first six months of this year.

Turning to capex and slide 13, capital spending in the quarter was up slightly from the same quarter last year, as the ramp up in our FTTH rollout in 2010 replaces the spending we incurred in 2009 on the Bell Mobility HSPA Backhaul project. On a year-to-date basis, capex is down \$9 million from a year ago as the first quarter of the year did not include the HSPA Backhaul spending and we had not yet fully ramped up our FTTH expansion. Overall, for 2010, we expect our capex will be similar to that incurred in 2009, although I will speak shortly about a possible 2010 purchase that could affect our reported capex numbers.

Finally, with respect to our second quarter results, as shown on slide 14, our distributable cash was down 5.6 percent for the quarter and 1.6 percent year-to-date. The chart on the left shows that on a year-to-date basis our distributable cash remains strong, with a slight year-over-year boost from lower year-to-date capital spend offset by lower cash from EBITDA. There are no significant changes to our distributable cash outlook; we expect to be in a similar range as 2009, except for the possible capital spend I'll speak about in a moment.

In terms of free cash flow in the quarter, it improved 7.2 percent over the same period a year ago, mainly due to year-over-year changes in working capital requirements. On a year-to-date basis, free cash flow is down 10.5 percent. As with distributable cash, free cash flow remains strong. Although negatively impacted on a year-over-year basis by lower EBITDA and some increased below-the-line EBITDA costs, including interest and pension funding, we expect our free cash flow performance will also be comparable to that achieved in 2009.

Now, let me give you an update on pension funding requirements. We have recently received results from actuarial evaluations conducted using the new solvency funding rules which indicate that our pension deficit for 2010 will be at the low end of our projected range, at approximately \$85 million. We are still waiting for the approval from the federal government of the proposed changes to pension funding regulations that will allow us the use of letters of credit for the solvency portion of the pension funding requirements. The legislation required to

allow this was passed on July 13, but we now must await the process of establishing the specific regulations, so that we are still hopeful that the approval will be forthcoming in the near future, but, quite frankly, we're unsure when that will be. We estimate that this will reduce our cash funding requirement by up to \$45 million when implemented.

Lastly, a note on the adjustment we may need to make in our 2010 guidance. We currently have an arrangement whereby we pay pole attachment fees to the power utility in Newfoundland, where we have an option at the end of this year to repurchase an interest in the poles and not renew the attachment fee arrangement. Some of you may recall that we sold these poles in Newfoundland ten years ago under a ten-year renewable agreement. The purchase of the poles makes good economic sense for us now, as it will lower our overall annual cash outlays, immediately improve EBITDA and cash flow following the purchase. In essence, this is largely a change in the way we were financing this cost. We are moving from a perpetual lease situation back to being an owner. But, because the purchase will be recorded as a capital expenditure, it will affect our reported capex and, accordingly, our capital intensity and distributable cash. The purchase agreement is subject to Newfoundland utility regulatory approval. We expect the transaction will occur in either late 2010 or early '11. Should it occur in '10, it will increase our capital intensity by two percentage points and reduce our distributable cash by \$55-60 million.

Other than this adjustment, there are no changes to our outlook for 2010, and with that, I'll open the lines for questions. Operator?

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question, please press star, one on your telephone keypad. You may cancel your question by pressing the pound key. Please press star, one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

Our first question is from Maher Yaghi from Desjardins Securities. Please go ahead.

Maher Yaghi, Desjardins Securities

Yes, thank you for taking my questions. I just wanted to first ask you a quick question on your conviction about the fact that NAS declines will intensify in the second half of 2010. When I look at the cable competitive footprint, it seems to be reaching a plateau. Do you either think that the cable footprint is going to expand much quicker in the second half or you're seeing increased promotional activities on the ground that makes you believe that the NAS decline will intensify in the second half?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Good question. You know, I think none of us should assume that one quarter in a row makes a trend on slowing down the expansion, these things tend to be really lumpy, and there were a fair number of territories opened up in the last quarter and that's why expect—just based on announcements that have been made and things that we see, we expect that the competitive footprint expansion will continue and that's why I believe that we're not done, and I don't think this is a plateau. I could be wrong, it'd be wonderful to be wrong, but I'm not expecting that at this point, I think it's going to continue to go.

Maher Yaghi, Desjardins Securities

On the promotional activities, do you feel any more effects of promotional activities happening in your territory right now?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

We have had heavy promotional activities in our territory for a long time and I don't see much of anything different now from what I've seen in the past.

Maher Yaghi, Desjardins Securities

Did I hear you properly when you talked about the video TV net ads in the quarter? Did you mention 3,000; is that right?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

That's correct.

Maher Yaghi, Desjardins Securities

Does it seem a bit low to you and if so, what do you think needs to be done to get that number higher?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

What I mentioned in my comments is that we are seeing now a difference between, and kind of a material difference, between our success with TV and our FibreOP territories versus our FTTN territories. This quarter was slow, particularly slow in our FTTN, our older footprint. I can't tell you whether or not it's promotional, whether it's the product itself. We do know that the FibreOP product is superior, the experience is superior, it's been perceived incredibly well, and, frankly, that's where we're going to focus going forward and that's how we're going to deal with this in the future.

Maher Yaghi, Desjardins Securities

How many new homes were passed by FTTH in the quarter?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

We're at a total now of 74,000.

Maher Yaghi, Desjardins Securities

Thank you very much.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

You're welcome.

Operator

Thank you. Our next question is from Greg MacDonald from National Bank Financial. Please go ahead.

Greg MacDonald, National Bank Financial

Thanks. Good afternoon, guys.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good afternoon, Greg.

Greg MacDonald, National Bank Financial

Just a quick clarification question and then I've got one or two others. Can I assume that the cost savings, the OpEx cost savings on the pole acquisition is greater than the 5 percent, or thereabouts, cost of debt capital right now?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

You can, and I'll make it even easier for you, Greg. If you look to the notes in the financial statement, note 12 on commitments, and you take that note on operating leases and you compare that note to the note that would have been disclosed in our first quarter results, note 11, I think it was then, and you look at the difference, the difference relates to the pole transaction. You'll notice that for 2011 through '14, it ranges from about \$7-10 million in operating cost per year. That's the improvement that you would expect. So, if you go to those notes, you'll get the details.

Greg MacDonald, National Bank Financial

Thank you for that. The same question on business access lines. I know that there is an easier comp year-over-year relative to the government lines. Nonetheless, it's still a nice improvement. Is it reasonable for us to assume something like a 2,000 access line erosion on a quarterly basis as kind of the normalized run rate or was there something special going on in the quarter?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

I'm not sure that I would draw a straight line, Greg, but we did say that we expected a pretty material improvement in business lines this year, so we're not horribly out of the ballpark for what we expect. We've gotten through those big government disconnects and that was really the big driver, and we haven't seen the kind of run-up in SNB losses that other telcos have seen.

Greg MacDonald, National Bank Financial

It's been a while and there's no special seasonality impact we should be thinking about in the second half?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

No.

Greg MacDonald, National Bank Financial

And then just finally, this is a part of the business that's always difficult for us to model, and I suppose it's probably difficult for you because it's lumpy, but insight into IT and equipment sales, is there anything that you can help us out with in the second half of the year that might give us some insight, you know, business activity, anything like that, contract renewals that might be coming up? I'm just asking specifically should we kind of assume that the weakness that we've seen in the first half is expected in the second half.

Karen Sheriff, President and Chief Executive Officer

I think that that's the right thing to assume, and I can't point to any one thing in particular that has occurred or that will occur. We were really hopeful that we would get some of this stuff back, but it didn't happen in the second quarter, so I'm really reticent to tell you that it's all going to come back between now and the end of the year. So, I think we should assume it will come back, but probably not as strong as 2009, and that's probably the right way to think about it.

Greg MacDonald, National Bank Financial

Should we draw any conclusions on the economy, you know, maybe the cyclical impact in eastern Canada as hitting later than what it is in other ...

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

No, I wouldn't think that big with this. I think this is very tactical, lots of competition in a very tough business.

Greg MacDonald, National Bank Financial

Thanks very much, guys.

Operator

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

Jeff Fan, Scotia Capital

Thanks very much. I want to ask a question about the performance of the TV and the difference that you're seeing in your FTTH footprint versus FTTN. Karen, I'm wondering if this is related to just the overall suite of product that FTTH provides or is there anything different in the actual TV service that you are rolling out in FTTH versus FTTN, and whether you guys have rolled out the Microsoft Mediaroom in any of your territories yet.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Good question. The product works very well, we're not limited on a number of TVs, and that's been a real issue for us in our FTTN footprint, Jeff, but we are at a point now where we can load more TVs on HD, it's just hard to get the awareness up on that. If you remember the way we started, we were actually a one-TV product and then limited amount of HD. In a FibreOP territory, you can fly as high as you want to fly, and a very good experience. We are not yet on Mediaroom. I've talked about that before. We're working on that now and we expect rollout some time at the end of this year, into the early part of next year, and that'll just take the experience up one level more. We're in the process of putting together a network that's IPTV from the ground up, which means it's consistent, it's simpler, it's a great service experience, and then the quality of the product is very good today, crystal clear TV, but it'll get even better with Mediaroom.

Jeff Fan, Scotia Capital

The second question is on the cost cutting and the impact of the labour agreement. Is it fair to interpret that from a cost cutting perspective that you guys should still be able to achieve what you planned to achieve, it's just that without the labour agreement in place, perhaps it's a different route to getting to those cost savings?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

I can't tell you that we're exactly identical over four years. I can tell you that we are going to—whether it's passé, which was the original agreement which was defeated, or the alternative, we're still going to pursue very aggressive cost reductions. The biggest difference is, yes, the way we get there, which is why we preferred the original agreement, because it did such a good job of getting material savings productivity while saving jobs.

Jeff Fan, Scotia Capital

This agreement now, the current one, ends at end of '11?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Correct.

Jeff Fan, Scotia Capital

Thanks.

Operator

Thank you. Our next question is from Glen Campbell from Merrill Lynch. Please go ahead.

Glen Campbell, Merrill Lynch

Yes, thanks very much. I have a couple of questions on the fibre deployment. First, given the different experience you're having with the TV product, with FTTN and FTTH, are you sort of thinking differently now about whether you might overbuild chunks of FTTN with FTTH, or is it still too early to conclude that?

Karen Sheriff, President and Chief Executive Officer

I don't think this quarter's experience make us think very differently about anything. I think we've always said that if the business case was right to overbuild, we would overbuild, and when we're ready to talk about the markets, we will do that. There is a touch of overbuild that's occurring in News Brunswick. We don't have a lot of FTTN there, but we have a little, and that territory is being overbuilt, but it's really market by market.

Glen Campbell, Merrill Lynch

Thanks. Karen, you described, I guess, if I can call it a sort of U-curve in terms of revenue expectations, you know, setting our expectations, that it'll take time to see a return to revenue growth, but that's where the FTTH build-out should take you. If I think about it, in your main business you've got a revenue decline rate of somewhere between 2 and 3 percent, and if the kind of current target is to overbuild, say, half the competitive footprint, should we be thinking that you get to flat by continuing at negative two or negative three in half of the footprint and getting to positive two, positive three in the half that you overbuild? Is that a sensible way to think about it or how would you kind of change that?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Well, I can't go that far out, really, and give you guidance. There's nothing, you know, terrible in the math, but it's not necessarily 50/50 and the revenue amounts aren't exactly the same, but I think, intuitively, if we're going to cover the amount of our territory we're going to cover, we should expect pretty material growth from the territory we're going to cover, and we will have a lot less growth everywhere else. You can already see a difference in RGUs between the different territories that we cover and as we move more towards a whole-home environment, we will talk more about RGUs in the future. We will not do it this year, but we will probably begin to split the territories for you more, because the performances will start to vary, perhaps, materially. I just can't do it for you now, it's too small, but in the future it would be silly not to.

Glen Campbell, Merrill Lynch

Fair enough, and one last one. We've sort of made the distinction between these two territories, but both have cable competition. There's also the portion of your footprint that doesn't currently have cable competition and, as I understand it, there's not a plan to push DSL coverage out to that part of your territory. Is that because it's simply not economic to deploy DSL at that kind of density or is it your view that there isn't, say, a broadband revenue opportunity, even though you'd be, say, the only broadband provider in that part of the footprint? I just want to get a sense of your thinking about that type of your base and whether there might be a case for broadband out there, too.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

It's a good question. The criteria is entirely payout on the investment and whether there's a competitor, if there's a competitor, if there is not a competitor, and then how hard is the territory to reach, and there are parts of our territory that are just so difficult to build. With or without a competitor, it wouldn't really matter, if it's very difficult to build, and that's how we rank them. Over time, if costs change or the technology changes, the rankings may change and our ability or our desire to go further than we're going now may change, but as we sit here right now, it's entirely based on the payout.

Glen Campbell, Merrill Lynch

And is it kind of close call for chunks of this territory or are we talking about truly rural areas where even plain DSL just, you know, isn't close to making it?

Karen Sheriff, President and Chief Executive Officer

Well, in any list of territories there are a few that are a close call, right? Because, if you chunk it into 50 things, there's a couple right in the middle that will be a close call because they'll be right on the bubble, and then there's stuff that's on the bottom that you can't foresee for the rest of your life how you'd ever do, because the payouts are so difficult, unless there's some kind of government assistance you might do it, but otherwise you wouldn't. But, there's always going to be some in the middle where if you had another dollar you might, you might just do it, and right now, because of the funding and our approach on Fibre to the Home, everything that we can physically do is spoken for, but that will give us a little bit of time to continue to reassess.

Glen Campbell, Merrill Lynch

That's very helpful, thank you.

Operator

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

Vince Valentini, TD Newcrest

Thanks. First, just to close the loop on that last discussion, I'd assume that some of those marginal territories will become less interesting over time if these broadband satellite options start infiltrating those markets and then you'd have to look at a greenfield build in an area where there's already pretty high broadband penetration held by a competitor?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Likely.

Vince Valentini, TD Newcrest

The two questions I had before that were one for Glen. The \$45 million letters of credit, can you just clarify were those retroactive to the 2010, or just 2011 savings?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good afternoon, Vince. That's all of the information. We're waiting to find out as they lay out the details. We do not know whether the letters of credit will be retroactive. That is why we continue to provide guidance on, I guess, what we know and that currently our 2010 funding requirement is \$85 million. We plan on that in our cash flow. Anything that we get that would be retroactive relief would be a bonus and be additional relief to that, but we do not know if retroactive. All that said, the legislation was approved, so, again, we're very pleased about that and know that looking forward we will certainly be able to use letters of credit for relief.

Vince Valentini, TD Newcrest

Good concept. The other question is probably more for Karen. Any strategic update you can give us on the IT business and whether it needs to be there as part of your future?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

We've talked about the IT business off and on since I've been here. As you all know, we sold off a couple of

pieces of the business that we were not doing well in. The core of our business is telecom. IT and some of the fundamentals of the IT businesses we still have help us with our telecom customers, but it is not core and it is not fundamentally important to the earnings of the Company. We have produced the scope of what we do and we are trying to focus our folks and work on just making it perform better over time. So, that's really all I can tell you right now.

Vince Valentini, TD Newcrest

Fair enough, thanks.

Operator

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

Dvai Ghose, Canaccord Genuity

Thanks very much. Good afternoon, Karen. The first question is to do with the downsizing in light of the rejection of the collective bargaining offer. I think you said in your release at the time that you have a new cost reduction plan for nearly 3,000 unionized employees which involves greater outsourcing and aims to reduce the number of the call centres in the Atlantic portion from five to two. How do you actually execute this without a new collective bargaining agreement? Is this allowed under the terms of your existing agreement and if so, could you quantify some of the savings?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Well, if you remember, Dvai, we have already closed some contact centres on the current agreement and there are provisions within the agreement we have to offer our members the ability to move, which we will do. Some of them take us up on that that, some of them do not. Part of the benefit is the management overhead and having fewer locations. That's where some of the savings come from, for sure, so we are able to do that. I cannot quantify the savings for you at this point, but assume that we'll do that as we get closer to guidance for 2011.

Dvai Ghose, Canaccord Genuity

That's fair enough, but would you characterize it as a sort of major impasse and could we be heading towards work stoppages by the end of next year or do you think there'll be some sort of a compromise?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

We have said many times, we said it before the vote and we said it after the vote, that our employees had a choice to make. They made that choice in June and we're disappointed with that, so we are now on an alternative path. That said, the lines of communication with the union remain open and we will continue to talk to the union and if there's something productive we can do, we will do it. Otherwise, we will continue to pursue the path that we're now on. Regarding work stoppages, it's clearly something that nobody would really like to contemplate, but whatever we do, we're going to continue to do it within the terms of the collective agreement that we have and we will live by that agreement and keep the lines of communication open with the union and with our people.

Dvai Ghose, Canaccord Genuity

That makes sense. A couple of quick ones. You talked about how line loss could accelerate. You don't think that cable telephony overlap is going to max at 68 percent. I'm wondering if you could suggest where you think it will max? I assume it won't be 100 percent. But, also, is wireless substitution part of your assumption when it comes to potential acceleration in line loss?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

We've said in the past, and I think we still believe, somewhere in the mid 70's, and wireless substitution is part of that. We still believe that we will be impacted by wireless substitution, for sure, but less so than some of our peers who are in the larger metro areas.

Dvai Ghose, Canaccord Genuity

That makes sense.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

I think that experience is borne out in the States and we'll see the same thing in Canada, that we'll have less impact, but we're thinking mid 70's, upper 70's, somewhere in there. I don't think we're stopping at 68.2.

Dvai Ghose, Canaccord Genuity

I think that's a prudent comment. The last question is for Glen. Hopefully, you'll get good news on the letters of credit issue fairly soon vis-à-vis pension solvency, but two things; first of all, what is the cost of the letter of credit? Presumably, it doesn't come for free, although, it's obviously going to be less than the \$45 million cash contribution. Secondly, I know it's very early when it comes to next year, but if we look this year, interest rates are probably lower than they were last year, and planned return of assets are probably worse than they were last year, so to what extent do you think any regulatory relief may be offset by some organic pressures?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good afternoon, Dvai. Right now, when I look out to 2011, I really would be guesstimating, as you would, I'd have to start guesstimating on what is going to happen with interest rates and what's going to happen with planned returns. All that said, and I've said it before, we've gone through quite a period here of low interest rates and just looked out into the future. We have made significant contributions and are planning to make a significant contribution this year of \$85 million, which boost up the underlying asset base. We are starting to see some adequate returns in there. But, all of it is driven more by interest rate than anything else and rate assumptions around solvency rates. We anticipate that you'll see rates eventually start to move. So, will I say that it doesn't get any worse than this? I guess you never say never. But, we are anticipating that we are going to start to see some relief. So, no, I can't predict the future, but I certainly would not suspect that relief of up to \$45 million in a letter of credit would be all but absorbed by other requirements that we would have to make.

Dvai Ghose, Canaccord Genuity

That makes sense. So, what is the cost of the letter of credit?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

I'm just going to hand that over to Eleanor, who's here with me. Eleanor, the cost of the letter of credits are quite small.

Eleanor Marshall, Vice-President and Treasurer, Bell Aliant

We would pay, Dvai, under our existing agreement, about 60 basis points, and those are good through to 2011, when we have to redo them. I'm not sure what the rate will be. If we had to redo them now, it would be higher than that, somewhere around 200 basis points, perhaps.

Dvai Ghose, Canaccord Genuity

So, 200 bps on what, or all together? Sorry, I'm just confused as to what that refers to.

Eleanor Marshall, Vice-President and Treasurer, Bell Aliant

On the face value of the letter of credit.

Dvai Ghose, Canaccord Genuity

On the face value. Okay, thanks very much.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Thank you, Dvai.

Operator

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

Michael Mills, Beacon Securities

Good afternoon, guys. Just a follow-up on the alternative cost reduction area. In terms of some of the timing of implementing some of the measures, Karen, what are the thoughts there and has anything been set in stone?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

It depends on which one. There were several things that we are going to do. We've already initiated one of those actions, which is to hire more contractors to help us with our FibreOP expansion, and that's already underway right now, which is why we did the announcement when we did it; we wanted to make sure our employees knew everything that we were thinking of at the same time. The call centre initiative is likely beginning later this year and into 2011, and completed largely by the end of 2011. So, this is largely a 2011 initiative and we'll likely kick it off this fall.

Michael Mills, Beacon Securities

And the post retirement benefits, I think that's in there, as well; is that right?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

That's January 1.

Michael Mills, Beacon Securities

Then, just on the pole agreement, what does the rest of your territory look like? Are those leased poles, are those owned poles and is there any other, I guess, opportunity to do a similar transaction?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good afternoon, Michael. It's Glen. The vast majority of our territory, we have a joint use agreement where we have a shared usage with the pole. The only area of our territory that we ever sold poles was in Newfoundland and Labrador, two transactions that were done ten years ago. The largest transaction is the one that we've announced today, that we would be taking back. That leaves about around 15,000 poles or about \$5 million worth of value of poles that would still be leased, and that lease agreement expires in '11, so we would look at that, but what I'm telling you is that there'd be virtually no poles that we would be leasing any further.

Michael Mills, Beacon Securities

Very good. That's it, thanks.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Thank you, Michael.

Operator

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

Peter Rhamey, BMO Capital Markets

Yes, good afternoon, thanks very much. Just further on the pole question, savings of—Glen, we'll read the notes later, but \$5-7 million over the year, you're tying up some capital to do that, it looks like an attractive return, but I'm wondering what type of additional costs are incurred through pole ownership. Should we net something, you know, one, two, three, four million against that as the cost of ownership, or are there other synergies? If I understand this right, you own the poles. Do you become an owner of the poles exclusively or is it in partnership with someone else and what are the revenue implications of that to the extent that you reduce your payments to that entity? Thank you.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good afternoon, Peter.

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

That was a long sentence, Peter.

Peter Rhamey, BMO Capital Markets

I had to hold my breath to do it, sorry.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

The savings, as I alluded to in the note, is about \$7-10 million a year. The way the poles work is that in each of our provinces there's a joint use agreement where we essentially the poles with the power utility; we own 40 percent of all poles, they own approximately 60 percent, and that's about the split. The way it works is that in Newfoundland now we pay a pole attachment fee. By purchasing the poles, we will no longer have to pay that fee and we will actually enjoy some revenue because we will be charging others who attach the pole a fee, like

competitors who attach the pole, so there's some revenue upside. So, it's not just the lease payments that you see, that I allude to, the \$7-10 million, there's a little bit of revenue upside. That said, there's some additional maintenance cost. All of that said, it's still going to net us in the \$7 million plus range of opportunity a year.

Peter Rhamey, BMO Capital Markets

It sounds like a good deal. Karen, if I could ask you, in a shorter sentence, you mentioned that your focus would be on Fibre to the Home territory for rolling out TV. Yet, at the same time you're having some unusual slowdown in growth on the Fibre to the Node side. So, I was wondering have I misinterpreted where you're emphasising, because that would suggest to me that growth in the Fibre to the Node area will remain quite slow here?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

I'm not telling you that Fibre to the Node area will stay as slow as it is now, but I am pretty confident it won't catch up to the rate of growth of Fibre to the Home, and the rate of growth and the adoption of Fibre to the Home is so much higher, at least thus far, Peter, that it makes a lot of sense for us to do what our strategy has us doing, which is roll that stuff out as quickly as we can and really focus as much energy and resource there as we can, because it's so much more efficient.

Peter Rhamey, BMO Capital Markets

Does that view change with the rollout of Mediaroom? Can you deploy that on your Fibre to the Node infrastructure?

Karen Sheriff, President and Chief Executive Officer, Bell Aliant

Well, let's wait until we roll it out and we can talk you through that.

Peter Rhamey, BMO Capital Markets

Thank you very much.

Operator

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

Jonathan Allen, RBC Capital Markets

Thanks very much. I have a fairly straightforward question for you, Glen. In talking about rates and financing and costs, it brings to mind Telus just did a bond deal last week and raised some ten-year notes. I'm just thinking, as well, you've got a similar maturity coming up in September next year and just given the discussion of rates being low, can you remind us again what the opportunity might be for you to prefund some of that maturity, whether it makes sense to do it at the current yield and redemption price?

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Good afternoon, Jonathan. I should get your economic outlook for what you think rates are going to be, it'll help with the decision greatly. Just to remind you, Jonathan, as you know, September 2011, a \$750 million MTN comes due. We're carrying that at a 472 coupon. We are constantly watching the markets, as well as our short-term and long-term rate predictions of what we think rates are going to do, and what you're essentially doing is calculating a breakeven, and when you get to a point when you believe that financing at today's rate can overcome the penalty that you'd have to take, then it's go time. What I can tell you is that it's not lost on us and Eleanor and Karen and I speak about it weekly. So, we watch it very, very regularly, and when we see a point when we think it makes good economic sense to do it, we'll take advantage of the healthy capital markets.

Jonathan Allen, RBC Capital Markets

Great. A totally straightforward question. Thanks, Glen.

Glen LeBlanc, Chief Financial Officer, Bell Aliant

Thank you very much, Jonathan.

Operator

Thank you. We have no more questions at this time. I would like to return the meeting over to Ms. Redden.

Zeda Redden, Vice-President, Investor Relations, Bell Aliant

Thank you, everyone, for joining us this afternoon. If you have any further questions, you know how to get in touch with me and I look forward to speaking with you over the next couple of days.

Operator

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