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Zeda Redden

Vice-President, Investor Relations

Karen Sheriff

President and Chief Executive Officer

Glen LeBlanc

Chief Financial Officer

Eleanor Marshall

Vice-President and Treasurer

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Bell Aliant Regional Communications Third Quarter 2010 Conference Call.

I would now like to introduce your speaker for today, Zeda Redden, Vice President, Investor Relations. Please go ahead.

Zeda Redden, Vice-President, Investor Relations

Thank you, Operator, and good afternoon everyone, and welcome to Bell Aliant's Third Quarter 2010 Results Call. Earlier today we issued our news release and third quarter financial statements, MD&As and supplementary information package, which are posted on SEDAR, and also on our website. Also posted on our website is the slide presentation that we'll be taking you through on this call.

As always, we caution you that today's comments 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 1 of the presentation, and those listed in the MD&A's news release. And we have scheduled the call for up to an hour, and following the presentation, we will have question and answer period.

And with that, I'll turn the call over to Bell Aliant's President and CEO, Karen Sheriff.

Karen Sheriff, President and Chief Executive Officer

Thank you, Zeda, and good afternoon everyone. As far as our agenda today, I'll speak briefly to the highlights of the quarter and our revenue results before I 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. Glen will also give you a sneak peak into what IFRS will mean for us in 2011. And then, of course, we will open up the line for questions.

We continue to focus on our five strategic initiatives, shown at the top of slide 3, which are all required to return us to a path of profitable growth. This focus is particularly important for us as we continue to face some challenges of competitive expansion and technology substitution, both of which put pressure on our revenues.

The revenue and EBITDA declines that we experienced in the quarter are in line with our expectations, and consistent with what we experienced in the first half of this year, so there are really no surprises here.

In terms of the highlights for the quarter, we achieved expense reductions of \$60 million from the same quarter of last year, as we continued to benefit from workforce rationalization, primarily associated with our contact centre consolidation that we initiated in the fall of last year, and other ongoing cost containment and reduction programs.

Despite the revenue decline, these expense reductions served to improve our EBITDA margins, which is particularly commendable as we face a changing revenue mix with lower margins than our traditional legacy business.

And although our NAS continued to decline, our performance in the quarter continues to show an improving trend. Both residential and business net NAS declines were lower than the same quarter of 2009.

You've heard me say that I expect our NAS declines to get worse before they get better, but we've had a couple of improving quarters, which is quite encouraging, however, I continue to be cautious in my outlook, as there is still NAS risk in many of our markets.

I'm very pleased with our progress on improving NAS declines, but need a little—at least a few more quarters of improving trend before I feel that the tide has actually turned.

Our FibreOP rollout continues on target and I continue to be very pleased with our performance. Importantly, the take-up of bundles, including Internet and TV, is strong, which is key to our objective of owning the "whole home"; to retain customers and grow our revenue base as our customers take more services from us.

And an important development for us this quarter was the ratification of a new collective agreement with our Atlantic unionized employees. This new agreement gives the company labour stability, a freeze on wage increases, and cost containment levers through to the end of 2014, while providing our employees with job security over that same time period. The agreement allows us to create a new customer service technician labour pool with more competitive wage rates, but will allow us to hire employees at a reduced cost from what we incur today.

As it will take some time to transition to this new cost structure, many of the financial benefits of the new agreement will become evident in the outer years, as our labour costs become more aligned with market.

In addition to the creation of the new labour pool, the agreement allows us to immediately begin to retrain more of our own employees to advance our fibre rollout, rather than using contractors. This allows all of us to work together now to focus on the best things for the company, and get on with the business at hand of serving our customers and growing our business.

And lastly, as far as key events, as we announced last week, we've reached an agreement with Bell whereby they will purchase our IT Division, xwave, in its entirety. This is a good move for both companies, as it will allow us to better focus on our core telecom business, while still being able to collaborate with our most strategic partner to serve customers, and it will give our xwave employees and Bell added scale to grow the IT services business.

We made the decision to sell now despite softness in our IT sector, to simplify our business and reduce our future business risk. Many of you are interested in the valuation metrics around this transaction, so let me give you the following. The 12-month trailing EBITDA for xwave is \$4 million, which of the \$40 million purchase price is a 10 times multiple consistent with other IT type transactions. The purchase price was assessed as fair value by Scotia Capital, who acted as an independent evaluator. We expect to have no stranded costs, as the costs associated with this business are neither large, nor difficult to address. And by turning more of our focus to our core telecom business, we expect our margins to

improve and to be better able to accelerate our strategic priorities.

The transaction is expected to close early in the New Year, and all of us are working together to ensure a seamless transition for our customers.

Now, turning specifically to our financial results beginning on slide 4. Note that within our results, xwave has been moved to discontinued operations, so the results focus primarily on the core business; our telecom results.

As we expected, our revenues in the quarter were down from a year ago, largely as a result of NAS declines, reducing our local and long distance revenues. EBITDA also declined, but operating expense reductions helped to mitigate the effects of the revenue declines, such that our EBITDA margin increased from a year ago to almost 52 percent in the third quarter of 2010.

As I've said many times, we expect it to be some time before investment in fibre gains sufficient scale to begin our revenue trajectory around, and in the meantime, we expect revenue and EBITDA to be under pressure.

Our capital spending in the quarter was essentially on par with that of the same quarter last year. Consequently, the decline in distributable cash is largely the result of the decline in EBITDA from the same quarter a year ago.

Overall, our performance year-to-date is as we expected, and we are on track to achieve our 2010 guidance.

Now, turning to the revenue details as shown on slide 5. Local revenues declined 4.8 percent compared to the same quarter last year, and long distance revenue declined 7.9 percent.

As with previous quarters, the declines were mainly driven by the effect of NAS declines, although the local revenue decline of \$16 million in the quarter also included approximately \$5 million of lower contribution subsidies. However, as we move more customers to bundles with higher attachment rates for other services, our overall average revenue per customer is increasing despite lower local and long distance revenues. Clearly, the addition of Internet and TV revenues is critical to offsetting NAS declines.

Turning specifically to the competitive footprint, we grew only slightly in the quarter to approximately 69 percent of households in our territory, up 5 percentage points from the same time last year. Growth in the competitive footprint is slowing, and this in combination with our increased focus on marketing new bundles, our

expanded TV footprint, and our new and better services are helping to stem the rate of NAS decline.

As shown on slide 6, both our residential and business NAS declines improved in the quarter from the same quarter in 2009. Residential NAS declines were over 10 percent better than the same quarter a year ago, with significant improvement in competitive losses.

The improvement in business NAS declines in the quarter was largely a consequence of now being past the migration out of government contract losses that we experienced throughout 2009. So as I said earlier, NAS continued to decline, but we are seeing improvement, which is encouraging.

We'll continue to pursue our own the "whole home" approach, as we believe that this is where the marketplace is headed; one supplier for all services, and where we will be most successful. Our goal is to be that supplier.

Turning now to slide 7 on Internet and data revenue. Internet revenue was 6 percent over the same quarter in 2009, with our high speed Internet customers up 5.2 percent from the end of September last year. The slowdown in the rate of high speed customer additions continues as Internet penetration rates mature.

Additionally, over the last year, our DSL expansion has slowed as we focus on upgrading to fibre technology, which limits the opportunity for new customer growth from growing DSL footprint coverage. This lack of DSL footprint expansion will provide more downward suppression on our high speed net adds in the next couple of quarters.

Our focus at this stage is on expanding our FibreOP penetration. So simply put, for another quarter or two, we expect our high speed adds to be lower than what we've experienced in the past until we scale FibreOP next year and net adds improve. In the meantime, ARPU continues to grow very nicely, driven by pricing, up-sells, and migration to FibreOP.

Our residential high speed average revenue per customer continued to climb this quarter, reaching a new peak of over \$40 per month, up \$1.93 from the same period a year ago.

TV revenues also contributed to Internet revenue growth, and I'm pleased with our TV adds of approximately 5,000 in the quarter, bringing our total IPTV subscribers to just over 43,000. A significant portion of the growth in the quarter was attributable to FibreOP.

Turning specifically to FibreOP on slide 8, we now pass over 106,000 homes and businesses with our FTTH technology, and we are on track to pass over 140,000 by the end of the year. FTTH penetration rates continued to track significantly higher than we experienced in our FTTM markets, with a very high percentage of customers taking both FibreOP Internet and TV. This, of course, is key to our own the "whole home" objective, as well as churn rates are low, and install times have reduced steadily as we gain more experience with the new technology.

A good portion of our FibreOP success in the quarter can be credited to our bundling efforts, with most customers choosing a bundle with higher Internet speed, more HD PVR, and, of course, higher ARPU. It is still early, but our FibreOP results so far are very positive, and bode well for us if we continue on this trajectory as we move forward.

So before I pass it over to Glen, let me summarize by saying we are continuing to focus on our key strategies, which are critically important to ensure we remain on track to manage our way back to profitable growth. The competitive pressures will continue, but we are taking what I believe are the necessary steps to ensure we have a sustainable business for our customers, investors and employees.

And with that, I'll turn it over to Glen.

Glen LeBlanc, Chief Financial Officer

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

As shown on slide 10, our EBITDA in the quarter was down 2.7 percent from the same quarter in 2009, despite a 3.7 percent decline in revenues. Our cost reduction programs continued to mitigate the effects on EBITDA, with EBITDA margins increasing to 51.9 percent, up from 51.4 percent in the same quarter last year.

We expect to achieve further cost reductions in Q4, but the opportunity for improvements are not as expected to be as significant as we have seen over the last 18 months.

As we have said, we expect to have some EBITDA drag while we roll out FTTH and ramp up our FibreOP customers. Until Fibre becomes more material, the

revenue trajectory is not expected to change. So the EBITDA trend we are currently seeing will likely continue for the medium-term, until the investment has sufficient scale to offset the revenue declines from our legacy business.

Turning to slide 11. Capital spending in the quarter was generally on par with the same quarter last year, with increased spending associated with our FTTH rollout, offset by lower spending on IT infrastructure and network investment.

To the end of the third quarter, cap ex is down 10 million from a year ago, and we expect this pattern to continue in the last quarter.

You'll recall that last quarter we discussed the potential one-time pole transaction of 55 to 60 million that will occur either late 2010 or early 2011. Should this occur in 2010, our capital spending in the fourth quarter will, of course, be higher than the fourth quarter of 2009.

And finally with respect to our third quarter results, slide 12 shows our cash flow performance. We continued to generate significant distributable cash, although lower than our 2009 results. The chart on the left shows a year-over-year boost to distributable cash from lower year-to-date capital spend, offset by lower cash from EBITDA.

Our free cash flow was similarly affected by it, but it also influenced by changes in working capital, which are quite lumpy from quarter to quarter, and each year include the payment of prior year's restructuring charges.

As we head into the final quarter of the year, we continue to expect our distributable cash to be within our guidance range of 750 to 790 million, again, excluding the effects of the possible pole purchase.

As you are aware, we did a seven-year, \$350 million MTN, at a 4.37 coupon earlier this quarter. As you can imagine, I'm delighted that we were able to place this debt, and never in my wildest dreams did I think we were going to do it at a coupon lower than the 4.72 coupon we had on our MTN maturing in September of '11.

We took advantage of the low interest rate environment to pre-finance some of this 750 million maturity, and we'll continue to be opportunistic as we look at our 2011 financing needs.

Slide 13 shows our updated guidance to allow for the reclassification of xwave to discontinued operations, which will affect our reported revenues and capital

intensity. As this is just a reclassification, there is no effect on our cash flow.

We continue to target to complete the pole purchase in Newfoundland in 2010, however, it is possible that it may not occur until early '11. Accordingly, we have shown guidance with and without this pole purchase. Other than the adjustments for the pole purchase and the reclassification in xwave, there are no changes to our original outlook for 2010.

Before I open the line for questions, I want to briefly talk to you about IFRS, as shown on slide 14, and the areas we expect to see the most significant changes in 2011.

As with other Canadian companies, starting in 2011, our financial statements will be prepared using International Financial Reporting Standards, or IFRS. At the same time, we will be converting to a corporation, so there'll be some rather significant changes to our financial statements in 2011. We have described the expected changes arising from IFRS in some detail in our MD&A, but let me make—take you through a few key points.

Of course, all of the numbers we have are estimates using our 2010 year-to-date data. The actual adjustments will differ from these, but this will give you an idea of the order of magnitude we're talking about.

The principal areas affected with the implementation of IFRS are capital assets, pensions and employee benefits. For capital assets, our depreciation policy will change from Equal Life Group, or ELG, to straight-line. This change in policy will be applied retrospectively, reducing our opening capital asset balances by approximately 300 million, with a net change after considering the tax implications of approximately 150 to retained earnings as a catch-up for the change in policy. Consequently, our ongoing depreciation will be about 10 to 12 million lower annually as a result of this IFRS change as the capital asset base will be lower.

Another change is the recognition of gains and losses on the dispositions and retirements, which will be shown separately from depreciation, but will be continued to be excluded from our determination of EBITDA.

With respect to pensions, things will become a little clearer as the balance sheet under IFRS will more closely reflect the actual funded status of our pension—our pension plans. Pension expense will no longer include amortizations of deferred amounts, gains and losses are recognized immediately and comprehensive income as part of shareholders' equity. There will be an opening adjustment to reduce retained earnings of approximately

540 million to reflect the changes required for pension accounting to meet IFRS requirements.

There are a number of other adjustments that will affect the balance sheet and income statement, and the MD&A has much more detail on all of this, showing the estimated changes to our year-to-date 2010 results for IFRS.

In summary, our net assets will be reduced by about 690 million as we transition to IFRS standards. Changes will also be made to liabilities and non-controlling interests as part of the transition. Importantly, these are all accounting adjustments only, and there is no effect on the management of our business, our cash flow, and there are no material changes to EBITDA.

And lastly, let me just say that our conversion to a corporation remains on track, and we expect it to be effective January 1st, 2011. The new entity will be Bell Aliant, Inc., and we'll trade under the same old BA. The last distribution payment from us as an income fund will be made on January 14th, and we expect our first dividend under the new structure to be paid at the end of March.

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

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please pick up your handset before making your selection. If you have a question, please press star, one on your telephone keypad. If you would like 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. Thank you for your patience.

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

Maher Yaghi, Desjardins Securities

Yes, thank you for taking my questions. Just wanted to go back to a comment you guys made on the call initially talking about the pressure on the EBITDA as you roll out Fibre to the Home. Can you maybe talk about looking

out into 2011 or later, when do you expect the pressure on EBITDA to start to get—to see some offset by the uptake of new services by your customer and your subscriber base? When do you think you're going to see that switch happening and start to see improvement in EBITDA? Maybe if you can maybe talk about it qualitatively, and if you can, give us something to look forward to in terms of timing?

Glen LeBlanc, Chief Financial Officer

Good afternoon. Yes, you're right, we did mention that there will be pressure on EBITDA as we continue to roll out Fibre to the Home, and that's to be expected with the development and rollout of any new services. I can't provide you specifics of when we—forward-looking guidance, or when we expect EBITDA to turn around, but I did say in my comments it will be some time. It will be—you know—it won't be in the short-term. It's going to—by the end of this year we hope to pass somewhere in the vicinity of about 140,000. We have said that by the end of 2012 we'd like to see that in approximately 600,000. So you can judge from yourself that the ramp-up that we're going to experience in '11 and '12 is going to be quite substantive.

So from that you can expect that it's going to be coming towards the end of that period before we start to truly have the footprint to enjoy the benefits of selling these new services, and therefore, that scale to start seeing the improvements in both revenue and EBITDA trajectories.

Maher Yaghi, Desjardins Securities

Okay. No, that's helpful. So—you know—basically looking at 2012 or end of this period that you expect to start seeing some improvement. Maybe just talk about on the wireless side, we saw increased pressure on ARPU in the quarter. Can you maybe talk about what, or how is the market behaviour in Eastern Canada at this point, and what has caused this pressure, and do you expect it to continue? I'm talking about the year-on-year average revenue per customer in wireless?

Glen LeBlanc, Chief Financial Officer

The wireless pressure we're seeing in the quarter was really driven by roaming, and it's—that is not uncommon for us; roaming rates. So I don't see this really continuing. We're very pleased with our wireless performance, and we think that we'll see some rebound there. But there has been some reduction in roaming

rates, and that's what's driving down the ARPU that you alluded to.

Maher Yaghi, Desjardins Securities

Okay, thank you.

Glen LeBlanc, Chief Financial Officer

Thank you.

Operator

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

Greg MacDonald, National Bank Financial

Thanks. Good afternoon guys.

Glen LeBlanc, Chief Financial Officer

Good afternoon, Greg.

Greg MacDonald, National Bank Financial

Question—two quick—well, one quick one, and then maybe a longer one. But the first quick one is just to make sure, did the xwave in any way—did xwave in any way have contracts that were connected to traditional telecom service? I'm just trying to ascertain whether there were any risks involved there. If Bell as the new owner tends to do things a little bit differently, do you have any relationship in your businesses across the IT consulting versus the more traditional business?

Karen Sheriff, President and Chief Executive Officer

We do have relationships, Greg. And when we talk about—one of the upsides for us on selling this thing to Bell is having a lot of comfort that we know how to go to market together. But it's less contractual and more relationship-based.

Greg MacDonald, National Bank Financial

Okay.

Karen Sheriff, President and Chief Executive Officer

So the key here and we will actually continue to go to market for Bell on this in Atlantic, so the key here is maintaining that relationship and helping our customers solve their problems together.

Greg MacDonald, National Bank Financial

Can you say whether you think there is higher than average risk relative to what you normally would've had, that you could see some further lumpiness in access lines, for example?

Karen Sheriff, President and Chief Executive Officer

No. I would say absolutely no issue.

Greg MacDonald, National Bank Financial

Okay, thanks. And then the second question is for Glen on pension risk. You know, I mean, look, rates are going down again in the second half of this year, and so that suggests that there might be some further pressure on cash pension funding for solvency purposes in 2011. Can you talk a little bit about what your outlook is there?

And then is there an update on the legislation side of things for letters of credit? I'm trying to ascertain whether there's risk that next year might include guidance of an increase in cash solvency funding as opposed to a decrease, as I think—what most of us expect?

Glen LeBlanc, Chief Financial Officer

Yes, I suspected we'd have our pension discussion today, Greg. Certainly, we are seeing rates go down, and increased pension deficit pressure. And let me share a little bit of what we're seeing right now. As you alluded to, we probably are seeing somewhere in the vicinity of a 50 basis point decline in rates, which is going to put pressure on the solvency discount rates, and in turn, funding.

I've said it before that about every 25 basis point reduction in rates leads to about \$100 million in liability—increased liability pressure, so if it was down 50 basis points you're looking at somewhere in the vicinity of a \$200 million in liability. And if you assume that that's solvency deficit and has to be funded over five years, then roughly \$40 million would be the exposure to increased cash risk, I guess, or cash flow.

That said, we have experienced over 10 percent return on our assets this year, which we're very, very pleased with. And you also alluded to the fact that we are going to have, and we—although the legislation has yet to be finalized, or the details on how the legislation will work, we are quite confident that we will have the ability to utilize letters of credit to deal with the solvency portion of that.

Long answer to say, Greg, there is increased deficit pressure with the declining rates, however, we believe we have the levers, both with the great numbers we're experiencing on returns, coupled with the use of letters of credit to mitigate the pressure on cash flow in the next year.

Greg MacDonald, National Bank Financial

And just as a quick follow-on to that, is there—does something have to happen between now and the end of the year on the legislation for you to be able—for that to affect guidance? I'm trying to understand—I'm not looking for guidance, but I'm trying to understand what the decision process is for guidance, because that's coming up pretty quickly, right?

Glen LeBlanc, Chief Financial Officer

It is, and we're not sure yet. We believe it'll be in place, and we believe it'll be something that'll be available to us in the calendar year of '11. I guess it's possible that it's not in place for January 1, but that doesn't mean that we wouldn't have access to it for the full calendar year, meaning there could be some retroactive nature to the way it gets applied.

Greg MacDonald, National Bank Financial

And is there anything politically that needs to happen? What's the stalling point here?

Glen LeBlanc, Chief Financial Officer

No, it's just a process. We understand that it's been approved, and we're just waiting—the devil's in the details.

That said, I mentioned it earlier, the only silver lining to all of this is that as rates are going down, it's giving us an opportunity to go out and access capital markets, and enjoy phenomenal rates on our borrowing. And we took advantage of that and we'll look to—if rates continue like this, we'll say is this an opportunistic time to look at how our other financing plans—needs for '11?

Greg MacDonald, National Bank Financial

Fair point. Okay, thanks, guys.

Glen LeBlanc, Chief Financial Officer

Thank you, Greg

Operator

Thank you. The next question is from Glen Campbell with Bank of America Merrill Lynch. Please go ahead.

Glen Campbell, Bank of America Merrill Lynch

Yes, thanks very much. First, a quick question on the Windows Media Room deployment. I think you were originally targeting that for sometime around the end of this year or early next. I was wondering if you could give us an update and clarification on whether that would be just to the fibre-to-the-premise areas, or also in FTTN, and any sense you can give us on what the set-top box costs might look like there?

Karen Sheriff, President and Chief Executive Officer

Thanks a bunch, Glen. It's still—it's actually early next year; still planned for early next year. I can't tell you exactly which month, but figure certainly in the first half of the year and towards the beginning part. It'll be not just in fibre-to-the-prem. It will be pretty ubiquitous, but we'll do that over time to migrate our customers over time and make it available for new customers as early as we can. And I can't—again, I can't give you the price on that yet.

Glen Campbell, Bank of America Merrill Lynch

Okay, thanks. The follow-up I was on the OpEx reduction. As you look out to 2011, could you talk generally about the areas where you see opportunities, or where you see pressure? Are you seeing ongoing reductions in call volumes, will attrition help you out, or are you seeing procurement savings still into 2011? Are there any offsetting pressures you see on marketing and other areas? Thanks.

Karen Sheriff, President and Chief Executive Officer

Yes, I can't give you—obviously I can't give you specific guidance for next year, but I think you should assume that the pattern we're seeing now is pretty consistent. There are opportunities, and there have been over the last year for our headcount—some headcount reductions. Those have occurred and a lot of that flows through into next year. Procurement savings continue into next year, and then just really some really good general operational productivity will continue into next year. So it's going to be a year a lot like this one, with a lot of little things in a lot of places.

Glen Campbell, Bank of America Merrill Lynch

Okay, thanks. Maybe one last one. Are you seeing any particular pressure from your cable operators targeted towards the market that you're not upgrading; I'm thinking promotions that might be special for those areas in order to take advantage of the fact that those markets have not yet seen fibre deployment?

Karen Sheriff, President and Chief Executive Officer

You know, I would say that across many of our markets we're seeing consistent pressure compared to what we have in the past. I have to say that with one of our competitors, particularly in Nova Scotia, we are seeing some pricing that surprises me, and going out towards the 12-month range with some free offers. Again, not the history of disciplined pricing that I am used to. So I would say there are some aggressive prices out there today, and they were pushed very hard by one of our competitors.

Glen Campbell, Bank of America Merrill Lynch

Okay, that's helpful. Thanks very much.

Operator

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

Jonathan Allen, RBC Capital Markets

Thanks very much. A few questions, Glen, about the deferral account. First, just wondering, we've seen the BCE or Bell Canada numbers, but just curious how much it is that Bell Aliant owes, and also wondering how we should account for this? Has it already been accrued and recorded as a liability? Should we look at higher cap ex numbers in the next couple of quarters to pay for the rural deployment, and should we expect a lower revenue number because of the rebates that are being offered?

Karen Sheriff, President and Chief Executive Officer

I think—I'm trying to figure out how to answer this. You should assume it's being recorded because the number is zero. They're really—there is no accountability for us. A part of the deal that created Bell Aliant, that accountability was absorbed by Bell Canada. So Bell is accountable for the rebates and for the build, so there really is no impact on us.

Jonathan Allen, RBC Capital Markets

Now, is there any sort of benefit then that you would receive since some of the rural broadband deployment that Bell would be doing would most likely be in some of your territory? Would there be any benefit for it? From the sounds of it, Bell would like to use the HSPA Plus for wireless, but is there any opportunity for you to provide backhaul, or anything like that?

Karen Sheriff, President and Chief Executive Officer

Very little. Most of the benefit, the cost will be there as the benefit will go to Bell. But we do have now in other areas, we do have an agreement with Bell on HSPA and the Hub, and we will become a distributor for them, and earn not just our usual finder's fee upfront, but we will get a residual on that as well.

So this is actually going to turn into a really nice opportunity for us, because, as I've said so many times,

there are areas of our territory that we just can't afford to build high speed; they just don't pay out. And we believe the Hub is—in many areas will be a more cost effective way to deliver service to our customers, and now there's some revenue in it for us to do so.

Jonathan Allen, RBC Capital Markets

Can I just ask a quick clarification to Glen? Glen, you mentioned in the IFRS comments in your presentation that there would be no material EBITDA impact. On page 24 in the MD&A though, you show a table with the income statement impact for it with revenue increasing by 16 million for the last nine months, and costs going down by about 10 million. So it looks like it should be roughly a \$27 million EBITDA increase. Is there something I'm missing in there?

Glen LeBlanc, Chief Financial Officer

I'll have to take a moment and get back to you on that one. Just get me to call up on the page here in the MD&A, and I'll get back to you on that one, Jonathan. I'll just take that and see if I can't get an answer for you before the end of the call.

Jonathan Allen, RBC Capital Markets

Okay. Thanks, Glen

Karen Sheriff, President and Chief Executive Officer

Thanks a bunch.

Operator

Thank you. The next question is from Peter MacDonald with GMP Securities. Please go ahead.

Peter MacDonald, GMP Securities

Thanks. Just a couple of just follow-up questions, and then my other question. On the pension, the—can you give us the dollar value of the 10 percent return on assets (inaudible) that the \$200 million rate impact?

Glen LeBlanc, Chief Financial Officer

Well, roughly you're dealing with about a \$2.5 billion asset base, so 10 percent of that asset base. So certainly not going to offset all of the pressures, but the point is we're—I was making is that we're very pleased with our asset performance year-to-date.

Peter MacDonald, GMP Securities

Right. And then on the IFRS impact, no impact on EBITDA, but for the pension, is there an impact on the income statement that we should use for adjustments to earnings when you have that?

Glen LeBlanc, Chief Financial Officer

There will be, and I've taken—to page 25 on the employee benefits note under D) that explains that. So there will be an impact on pension expense. Now, historically, Bell Aliant has really focused on our pension funding when we talk to you, not pension expense for accounting purposes. As we well know they're calculated differently. This is going to bring them closer in line to the way pension expense and pension funding is treated. So there will be an effective pension expense, and we'll see that—you know—likely going up year-over-year.

Peter MacDonald, GMP Securities

Does it go up materially without me having to read that note really quickly?

Glen LeBlanc, Chief Financial Officer

We're—without providing you guidance into next year, I would suspect there'll be some increase. Not to the same magnitude as funding right now, but there'll be some increase.

Peter MacDonald, GMP Securities

And then my other question is on guidance. So if I look at the revenue guidance, it's lowered by \$300 million at the low end and 350 at the high end. According to my forecast for xwave, I had it at about \$280 million, so just trying to figure out can I assume that—from that that you're lowering at least the high end of guidance on the

rest of the business, or is there something else that makes up for that difference?

Glen LeBlanc, Chief Financial Officer

No, there's nothing to make it up. We removed xwave and we thought we would narrow the range. Instead of having a \$100 million range out there with one quarter to go, we thought you would be appreciative of narrowing it to a \$50 million range, so that's it.

Peter MacDonald, GMP Securities

Okay. All right. Thank you.

Operator

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

Jeff Fan, Scotia Capital

Thanks and good afternoon. I just have two follow-up questions. On the pensions, Glen, if you can just review for us what your deficit funding objective for this year, and well as the service costs on the funding side—on the cash flow side?

And then the other follow-up question is regarding the cost reduction. Glen, in your comment you seem to have said there is less opportunities, but Karen, you mentioned that it sounds like things are going to be pretty consistent. So if I look at your OpEx reduction, excluding what's going on on the cost of sales, but on salaries and SG&A, it seems like you guys are generating consistently this past year about a 20 million reduction in OpEx per quarter this year. Is that the kind of same pattern that we should expect looking ahead? So that's the other question on costs. Thanks.

Glen LeBlanc, Chief Financial Officer

Good afternoon, Jeff. I'll handle your cost question first, and then Eleanor will jump in and handle your pension question. The point on our costs is that we have done a phenomenal job in managing our costs. And even seeing the improvement in the EBITDA margin from this quarter; I mentioned 51.9 percent versus 51.4 for the same period last year. We are continuing to see opportunities, but I

do believe that with the changing mix of our revenues, we will not be able to mine out the same amount of costs to be able to have that experience of improving margins that you've seen in this past quarter.

So opportunities still exist. Karen alluded to some of those that we see. We've had great success, and we have a management team that seems to really be able to mine costs out and gain productivity, but the opportunities are going to be a little less into the future.

Karen Sheriff, President and Chief Executive Officer

So think of it as a product mix issue. And we've seen growth in the margin, but as we shift to a higher and higher weighting of lower margin products, there still is expense reduction opportunity, but your—you shouldn't expect that margin to keep going up, is basically what we're telling you.

Jeff Fan, Scotia Capital

Oh, I see. And when you say product mix, you're talking about the rollout of FibreOP, and...?

Karen Sheriff, President and Chief Executive Officer

Yes, TV is a lower margin product, and it's not like LD, and so don't expect this thing to hit 60. It's just it's not going to keep going up at the rate it's been going up.

Jeff Fan, Scotia Capital

But looking at it all from a dollar perspective, I mean the OpEx—you know—pattern is still—you still see good opportunities there with respect to cost reduction just strictly on the dollars of OpEx?

Karen Sheriff, President and Chief Executive Officer

Yes, we do, but, again, not forever. But we're fine for the near-term.

Jeff Fan, Scotia Capital

Okay, got it.

Glen LeBlanc, Chief Financial Officer

And on that—your second question on pensions, Eleanor, do you want to...?

Eleanor Marshall, Vice-President and Treasurer

Hi, Jeff. This is Eleanor. I think your question was simply what will be the DB plan funding in 2010...

Jeff Fan, Scotia Capital

Right.

Eleanor Marshall, Vice-President and Treasurer

Which we're able to confirm, because we filed our valuations in September. Our deficit funding will come in at the \$85 million level, which we had given guidance earlier in the year of 80 to 110. And then there'll be current service cost funding of 54 million for the full year, and that's our DB plan.

Jeff Fan, Scotia Capital

Okay. Okay, great. Thank you very much.

Operator

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

Vince Valentini, TD Newcrest

Yes, thanks very much. Two questions. First is the use of proceeds from these recent divestitures, if I add up sort of DSA and Innovatia and xwave, I'm getting up—70 to \$80 million of proceeds. Are you doing anything with this money, or let it sit there to reduce net debt? I mean could you make a special pension contribution and maybe get some benefit out of that cash?

Glen LeBlanc, Chief Financial Officer

Good afternoon, Vince. It's Glen. Yes, there's some proceeds coming in, and as you know, we have a maturity coming due in '11—September of '11. We've

done the \$350 million of pre-financing of that, so certainly you could just use it to bring down your net debt. And with the interest rates environments the way and continuing the way it is, we will—you know—we're in the midst of our planning cycle now with our Board, and we'll continue to look at all options. And whether or not we would consider utilizing the strength of our balance sheet or cash flow to look at pension funding will be an option.

Vince Valentini, TD Newcrest

Okay, and the second one. The reason I didn't say would you use it for share buybacks is my second question would be counterintuitive with that. You guys have, I would think, a very strong asset in terms of your multiple that you trade at; much higher than most telcos in Canada and the US. Is there any consideration given to using that strong currently to go out and maybe make some acquisitions that would be pretty accretive given if you could use your paper where it's trading?

Glen LeBlanc, Chief Financial Officer

Well, and we've said it before, and we continue. If we have—we've always looked to be opportunistic. If something presented itself and made sense for our organization, we would look at that. However, right now our primary focus has been a substantive investment in FibreOP. And I've said it in—you know—numerous times, Bell Aliant believes it's absolutely critical that we maintain our investment grade, and we're not going to take on actions that lever ourselves up and put that in jeopardy.

So same message, best in fibre, ensure we maintain our investment grade credit, and look, if something presented itself we wouldn't ignore it, but we're not—you know—we're focused on fibre right now; our number one priority in our organization.

Vince Valentini, TD Newcrest

Thanks.

Operator

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

Dvai Ghose, Canaccord/Genuity

Yes, thanks very much. If I could just follow-up on the last question. I mean your EBITDA and your corporation P/E multiples seem much higher than your peers in a good currency, but I assume that any acquisitions you may incur in the future would have to be looked at in terms of free cash flow accretion. And your free cash flow yields or multiples are pretty much in line with your peers. Would that be fair to say, or how would you look at acquisitions?

Glen LeBlanc, Chief Financial Officer

I think that's fair, Dvai. You know how important free cash flow is to us. You know that our investors look to us for yield, and that is—you know—we are an attractive yield investment to investors, and cash flow is critical, so I think your points are well taken.

Dvai Ghose, Canaccord/Genuity

Yes, number two, on the tax question—you know—you have two years of tax holiday post the loss of income trust tax shield because of your pension deficit, so is there a positive offset if indeed your deficits rise next year because discount rates fall this year in terms of extending your tax holiday?

Glen LeBlanc, Chief Financial Officer

There would be for any—you know—the silver lining to pension deficit funding is yes, you do get additional tax relief, so it does extend tax losses for additional funding that we do under the pension plan.

Dvai Ghose, Canaccord/Genuity

Right. And then—but are you still looking at about a sort of early 2012 cash tax sort of payment, and what sort of tax rates would we expect on a cash basis? I know the statutory rates for 2011, and 26, 27 in 2012, but what sort of cash tax do you think you'd pay as you currently look?

Glen LeBlanc, Chief Financial Officer

Well, when we look—first of all, it'd be early '13 and not early '12 that we see the beginning of cash taxes.

Dvai Ghose, Canaccord/Genuity

Sorry, I meant early '13. My mistake. Sorry.

Glen LeBlanc, Chief Financial Officer

No problem. And then what we've said is that we anticipate that the—that the tax rate will be somewhere in the vicinity of 25, 26 percent when we get out there to that timeframe.

Dvai Ghose, Canaccord/Genuity

And is that cash, or is it income statement?

Glen LeBlanc, Chief Financial Officer

I think it's—we would see not a material difference from either.

Dvai Ghose, Canaccord/Genuity

Oh, okay. That makes sense. And then last but not least, just going back to Eleanor's point about a 54 million of servicing costs on a cash flow basis this year, I think you're at something like 50 million or so—51 million at the nine-month mark, so it's only going to be about a 3 million in the fourth quarter?

Eleanor Marshall, Vice-President and Treasurer

Oh, Dvai, sorry, it's Eleanor. A clarification. I think the 50 picking up includes DC and also our OPEBs costs when you look at it in the financial statements.

Dvai Ghose, Canaccord/Genuity

Right.

Eleanor Marshall, Vice-President and Treasurer

So the 54 is just DB. You've got another, say, I think it's running about 8 million on DC for a full year, and maybe 8 or 9 million on OPEBs for a full year.

Dvai Ghose, Canaccord/Genuity

So it should be the usual sort of 17 to 20 million we've seen in the quarter so far?

Eleanor Marshall, Vice-President and Treasurer

Correct. It's fairly smooth, yes.

Dvai Ghose, Canaccord/Genuity

Yes. All right, thanks very much. Appreciate it.

Glen LeBlanc, Chief Financial Officer

Thank you, Dvai.

Operator

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

Peter Rhamey, BMO Capital Markets

Yes, thanks for taking my question. Two, if I may. One on use of capital. I would've thought that the most tax efficient use of the funds that you've received would be pre-finance your pension deficit. And I was wondering if you could just elaborate on your decision-making there, and how that relates to why we haven't seen a bond issue fast and furious after your last issue just to get that maturity that comes due next year out of the way, given the historically low rate?

Second question segues into the margin question. What I read in your comments are margins will continue to increase given the cost reduction opportunities you have, offset by—in your core business, offset what's happening in Fibre to the Home and your IPTV initiative. I was wondering, perhaps, Karen, if you could just walk us through the—sort of the major cost elements as you see it, and how we should look at the fibre opportunity in terms of you weighing margin performance versus success in that business? Thank you.

Glen LeBlanc, Chief Financial Officer

Good afternoon, Peter. The commentary on use of capital, I'll repeat what I've already said, is that we recognize we have a maturity in 2011. We were delighted with the early pre-financing we did. We see where rates are today. We'll look in our planning with the Board of what opportunistic times we could take to do, and ensure that our remaining 2011 financing needs are met. We recognize that it is a tax deductible pension funding. Is that an opportunity to deploy some capital? Could be. All part of our 2011 planning. So I really can't provide you any more forward-looking information on that other than we're very well aware of it, and we are considering it.

As far as margin goes, without providing you a lot of detail on it, I mean my commentary on margins is that seeing margins growing from 51.4 percent in—last year, to 51.9 percent this year speaks volumes to our success in what we've done in cost containment in our business. However, we are investing heavily in advancing FibreOP, and in turn, growing our TV business, and we all know that's going to come in at a different margin. I'm not going to provide what margin that that product enjoys...

Peter Rhamey, BMO Capital Markets

Presumably you'd be EBITDA negative when it first launches?

Glen LeBlanc, Chief Financial Officer

Well, most new products certainly are. So you can imagine that's going to place pressure. Overall, what we think you'll see at Bell Aliant is that we'll continue to have great success in cost containment, but revenues are going to decline for the foreseeable future. I've already mentioned that we do expect EBITDA will continue to decline. I think what you'll see is pressure on margin.

Overall, I guess if you peeled the onion you'd say if you're taking costs out of your core operation, yes, your core EBITDA margins are going up while your new product development margins are down. But because we don't disclose that level of detail of product line margins, you'll not see us disclose that. But intuitively, your comments are accurate.

Peter Rhamey, BMO Capital Markets

Right, but...

Karen Sheriff, President and Chief Executive Officer

But you should assume—it's a little too early to do this in November, but with guidance, because we have gotten this question so often, we are going to try to frame for you how much EBITDA drag we expect next year from FibreOP and TV.

Peter Rhamey, BMO Capital Markets

I think that would be very useful for analysts trying to asses your company.

Karen Sheriff, President and Chief Executive Officer

Yes, we are going to do that for you guys in February.

Peter Rhamey, BMO Capital Markets

I look for to it. Thank you very much for your answers.

Karen Sheriff, President and Chief Executive Officer

Yes, thank you. Operator, are there any others?

Operator

We do have a question from Maher Yaghi with Desjardins Securities. Please go ahead.

Maher Yaghi, Desjardins Securities

Yes, just a follow-up question. It seems everybody's questioning and trying to find a house for MTS. I'll ask you guys the question directly. I mean everybody's trying to see who might buy that asset. Are you guys looking? Have you looked at it, and what are your thoughts? I mean from what I understand, you guys are basically looking intently at organizing your residential offering, and are you looking to expand your corporate enterprise activities in that business, or continuing to drive Fibre to the Home into the residential areas?

Karen Sheriff, President and Chief Executive Officer

I really can't—I'm not sure anybody that you'd ask that question who could actually answer it. I really have nothing to tell you on that.

Zeda Redden, Vice-President, Investor Relations

Operator, are there any further questions?

Operator

There are no further questions registered at this time. I would now like to turn the meeting back over to Ms. Redden.

Zeda Redden, Vice-President, Investor Relations

Okay. Thank you, everyone, for joining us this afternoon. And as usual, if you have any follow-up questions, don't hesitate to call me. And with that, thanks again, and I hope you all have a good week.

Operator

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