

CORPORATE PARTICIPANTS

Zeda Redden

Vice President, Investor Relations

Karen Sheriff

President and Chief Executive Officer

Glen LeBlanc

Executive Vice President and Chief Financial Officer

Eleanor Marshall

Vice-President & Treasurer

CONFERENCE CALL PARTICIPANTS

Phillip Huang

UBS

Maher Yaghi

Desjardins Securities

Greg MacDonald

Macquarie Capital

Peter MacDonald

GMP Securities

Dvai Ghose

Cannacord Genuity

Jeff Fan

Scotia Capital

Glen Campbell

Merrill Lynch

Peter Rhamey

BMO Capital Markets

PRESENTATION

Operator

All participants, thank you for standing by; your conference is ready to begin. Good afternoon, ladies and gentlemen. Welcome to the Bell Aliant Third Quarter 2011 Analyst Conference Call and Webcast. To begin this afternoon's call, I would like to introduce Zeda

Redden, Vice President, Investor Relations. Please go ahead, Ms. Redden.

Zeda Redden, Vice President, Investor Relations

Thank you, Operator, and good afternoon, everyone, and welcome to Bell Aliant's Q3 2011 results call. Today, Karen Sheriff, our President and Chief Executive Officer, and Glen LeBlanc, Executive Vice President and Chief Financial Officer, will be taking you through our third quarter results. Earlier today, we issued our news release and Q3 2011 MD&As and supplementary information package, which are posted on SEDAR and also on our website; and also posted on our website is a slide presentation that we'll be taking you through on this call.

As always, we caution you that today's comments will contain forward-looking statements related to the finances and operations of the Company. Several assumptions were made by us in preparing these statements and there are risks and uncertainties that could cause our results to be materially different from our statements today. Additional information about the risks and assumptions can be found in the 2010 annual MD&A of Bell Aliant Regional Communications Income Fund and Bell Aliant Regional Communications Holding LP, which are posted on SEDAR and also on our website, as well as in our Q3 2011 MD&A and news release. Any forward-looking statements made by Bell Aliant represent expectations as of today and, accordingly, are subject to change after such time. Except as may be required by Canadian Securities Law, we do not undertake any obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

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

And with that, I'll turn the call over to Karen.

Karen Sheriff, President and Chief Executive Officer

Thank you very much, Zeda, and good afternoon, everyone. Let me start off by saying that I'm very pleased with our third quarter results. We are continuing to make progress on our strategic priorities and the improved trends in our financial performance that we have achieved thus far this year reflect solid execution by our team. We have strong momentum on our fibre-to-the-home expansion with very strong customer demand –

so much so that we are now planning to pass more homes and connect more customers in 2011 than we originally anticipated. We had good financial performance this quarter, with the best year-over-year revenue trends that we have seen in several years, thanks in part to the timing of revenue recognition between quarters. We expect 2011 to be a year of solid financial performance and the results year-to-date position us well to deliver on that. However, as a profiling reminder, our Q4 results will have larger year-over-year declines than we have experienced in the first three quarters of this year due to some one-time benefits that we had in the fourth quarter of 2010 that we do not expect to recur this year.

We are and have taken another major step in further resetting our cost structure by making a voluntary retirement offer to our retirement-eligible unionized staff in Atlantic Canada, which has been widely accepted. All of these developments put us in good stead for future periods. We still have a lot to do, but I am very pleased with the progress we are making.

Turning specifically to fibre-to-the-home, we passed an additional 104,000 homes and businesses in the third quarter to now pass almost 400,000 homes and businesses with this upgraded technology. The demand for this service from customers is very strong. As a result, we are moving more of our expansion plan into 2011 and are now targeting to pass approximately 450,000 homes and businesses by the end of 2011, up from our earlier target of 430,000. We will take advantage of the momentum to add customers to the new network as quickly and as early as we can manage as the path to feeding our growth businesses.

Turning to revenues on slide 5. In the third quarter, we had better year-over-year performance than previous quarters this year in several revenue categories. The overall revenue decline in the third quarter was held to 0.5 percent from Q3 of 2010, as increases in Internet and TV revenues largely offset declines in our legacy voice revenues. We are also continuing to see improvements in our other data revenues, with growth in network services mitigating the effects of legacy circuit disconnects and some re-price due to pressure from competition and other technologies.

Much of the improvement in revenue trends continues to be driven by strong performance in Atlantic Canada, where residential revenue growth continued to be positive. Growth in Internet and TV are key contributors to the improvement and, while the still relatively small scale of our fibre-to-the-home coverage at this stage limits the amount of credit it can take, FibreOP is beginning to make a difference. In our FibreOP territories,

NAS decline is significantly lower than other areas of the business, Internet growth is stronger and TV is a new source of revenue, with retention benefits for overall revenue.

Turning specifically to Internet on slide 6, Internet revenue continued to grow, increasing 6.7 percent compared to the same quarter in 2010, driven by increases in high speed average revenue per customer. Our residential high speed average revenue per customer continued to climb, reaching another new high of almost 5.9 percent over the same quarter last year. Pricing action, along with continued customer migration to higher-tiered services, to new bundles with more features and higher usage, drove the increase in ARPC.

As we have said before, going forward, we expect increasing ARPC to be a larger contributor to Internet revenue growth than subscriber growth, as high speed footprint expansion slows and market penetration rates mature. Overall, high speed net additions in the quarter were 5,000, down from 10,000 in the same quarter of 2010. Significantly lower DSL footprint expansion than the same quarter last year, migrations from DSL to FibreOP, marketing focus on fibre, along with intense competitive activity, particularly in non-fibre markets, impacted net additions.

However, as shown on slide 7, we had very good FibreOP subscriber growth this quarter. Our FibreOP Internet net adds were 12,000, bringing total FibreOP Internet customers to 34,000. Migration of existing high speed customers from our DSL and FTTN Internet services accounted for more than half of the FibreOP net additions. As we've noted before, the migrations do not show up as new additions but do benefit long-term high speed ARPC. Also, as approximately 90 percent of our FibreOP Internet customers are also subscribing to FibreOP TV, we are gaining new TV customers, which add new revenues and ultimately increase our ability to retain the customer for all services.

Our IPTV revenue in the third quarter reached \$12 million and we had our strongest TV quarter to date, adding 9,000 net IPTV subscribers to bring our total to 68,000. This was entirely driven by the addition of 11,000 FibreOP TV customers, bringing our total FibreOP TV customer base to 30,000, the vast majority of which are new to us TV customers. Although we are experiencing some migration from our FTTN TV service, which does not show up as net adds, the impact of this is very small. The important point with fibre, even with unit neutral effects of migrations, is that it gives us the ability to provide all communications and entertainment services to

the customer. This allows us to own the whole home, which we believe is how the war will be won.

So, all in all, a very good quarter for FibreOP. The results support our strategy to continue to accelerate our fibre-to-the-home expansion, to have the best technology with the best services in our competitive territory so that we are the preferred service provider in our markets. While I am not in a position to give you specific future guidance on our overall fibre-to-the-home plan, we do get quite a few questions about it so here is what I can tell you at this point in time. When we originally announced our plan to pass 600,000 homes and businesses by the end of 2012, that was the number that paid out or made economic sense to do based on the assumptions and the data we had at that time. With our experience to date, and our take rates and costs coming in better than we had expected, we now know that more premises than the original 600,000 will pay out, so it is very likely that we will do more. But at this point, I cannot tell you how much more or how fast. And remember that there is build that will be expanded but also loads. It is safe to say at this time that we will do as much as we can as quickly as we can, gated by affordability, as the benefits are so compelling for us.

Turning to our traditional voice revenues as shown on slide 8, the rates of decline in our local and long distance revenues continued to compare favourably in the third quarter of 2011 to the rates of decline experienced in 2010. NAS declines continue to be the main driver of the lower revenues, with pricing action, increased features and bundling penetration and higher contribution revenue somewhat offsetting the lower NAS effects. Our net NAS declines in the quarter were 38,000 compared to 35,000 in Q3 of 2010, and NAS levels are down 5.2 percent from year ago. Aggressive competitor campaigns are in play by all competitors in our markets as we all grow our various service footprints and encroach more on each other's territories.

Importantly, our rates of NAS churn in our fibre territories are significantly lower than in our non-fibre areas, which again, emphasizes the significance of our fibre-to-the-home build.

Now, before I turn it over to Glen to talk more about our financial results, let me talk a bit about the retirement offer that we made in the quarter. We have over 900 unionized employees in Atlantic Canada who will be eligible to retire by 2013. As this is a large number for us and a critical time in our business, we've undertaken a plan to effect an orderly transition of our workforce. In late August, we made an offer to these retirement eligible staff which would enable them to retire with a severance

in either 2011, 2012 or 2013. Approximately 500 employees have accepted the offer and will be departing the Company over this timeframe. While most of the positions will not be backfilled, we do expect to hire about 250 new technicians into a lower tier technician pool, something we negotiated as part of our new union agreement. This, along with a freeze on union wages through to 2014, will help us contain costs over the next several years. We are very happy that we have been able to work with our union to bring this plan into action and their cooperation and assistance will help us manage the transition of employees to have minimal impacts on customer service and our fibre-to-the-home plan in particular. This offer makes good sense for employees and for our Company. It makes retirement a better option for those who are eligible, it helps us plan for the retirements in a proactive way and it helps us achieve cost savings and stability for the future.

So, in summary, I'm very pleased with the progress we're making. On our strategic objectives, we're making excellent progress on fibre-to-the-home, on our overall revenue performance in the quarter, with improved revenue trends in a number of areas which are encouraging. And these are all things, including improvements to our cost structure, which enable our success going forward.

So now I'm going to turn it over to Glen.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Thank you, Karen, and good afternoon, everyone. I am very pleased with our third quarter financial results as we continue to see a number of improving trends. Our revenue decline was held to 0.5 percent, the best year-over-year performance we've seen in several years. EBITDA continued to perform in line with prior quarters of this year and in line with our expectations. And we are making solid progress on our FTTH build while carefully managing our free cash flow. So overall – a good quarter.

Where Karen has covered off revenues, let me speak briefly to our expenses. Our non-pension operating expenses in the quarter were up 1 percent compared to the same quarter of 2010. Again this quarter, savings from productivity initiatives we have undertaken and continue to pursue allow us to successfully contain the effects of normal inflationary pressures, along with increased TV content costs and marketing and sales costs associated with FibreOP rollout. While we are ramping up FibreOP, we expect our expenses to be slightly elevated and we are connecting more than we

anticipated, which is further increasing costs in the short term. Also in the third quarter of this year, we incurred \$2 million of severance charges within EBITDA for retiring employees whose roles were backfilled. So in light of that, I am quite pleased with our expense performance this year.

Turning to EBITDA, excluding pension current service costs, EBITDA declined 1.9 percent, slightly better than the rate of decline in the previous two quarters. Increased pension current service costs arising from lower discount rates resulted in EBITDA, after pension costs, down 2.7 percent from the same quarter a year ago. This EBITDA performance is well within our expectations and, despite the decline, our EBITDA margin continues to be strong, at over 48 percent.

Looking forward to the fourth quarter, and as you will recall, our revenues in EBITDA in the fourth quarter of 2010 had some favourable adjustments related to regulatory decisions and very strong product sales. These one-time boosts of \$15-\$20 million will not recur this year and, as a result, we expect the fourth quarter of 2011 year-over-year revenue and EBITDA declines to be somewhat larger than the declines in each of the first three quarters of 2011. So while the fourth quarter of this year will look relatively soft compared to prior year, 2011 overall is expected to reflect solid performance as we continue to expect to be firmly within our guidance range of \$2.72-\$2.78 billion for revenues and \$1.3-\$1.34 billion for EBITDA.

Turning to capex, this was another big quarter for us. Capital expenditures in the quarter were \$162 million, up \$49 million from the same quarter in 2010, driven by our investment in fibre. With the success of the rollout we're having thus far, we plan to take advantage of the positive momentum and further accelerate our ramp up to pass approximately 450,000 homes and businesses by the end of 2011, up from our previous target of 430,000. As we open up more neighbourhoods and pass more homes, we also expect more customer connections. As a result, we're increasing our 2011 cap ex guidance to \$560-\$575 million, up from the previous guidance of \$520-\$560 million.

Free cash flow in the quarter was \$110 million, down \$34 million from the same quarter of 2010. The decrease in cash flow was driven by the increased fibre programs and lower EBITDA, which was slightly offset by lower regular pension funding. Although we're increasing our cap ex guidance, we continue to expect to be firmly within our free cash flow guidance range of \$525-\$575 million for 2011. The strength of our revenue and EBITDA

performance is allowing us to invest more in our FTTH network, while still meeting our free cash flow objectives.

Also in the quarter, we included a \$27 million restructuring charge associated with the retirement offer, which will be paid as employees leave the Company over the 2011 to 2014 timeframe. This charge will decrease our 2011 earnings per share by approximately \$0.08 from what it would have otherwise been. We continue to expect to be within our adjusted EPS guidance range of \$1.60 to \$1.80, although with the restructuring charge, we will likely be towards the lower end of that range.

And lastly, let me make a quick comment on pension funding, as I know many of you are watching the markets and interest rates very carefully, as are we. Unless there's a dramatic turnaround in the markets before the end of the year, we can reasonably expect that our required pension deficit funding for 2012 will increase from the required contributions for 2011. That said, we are very fortunate to have made a lump sum contribution of \$200 million to our defined benefit plans earlier this year, which provides us with the ability to draw down the contribution to fund future year requirements. So, although the markets at this stage are not helping those of us with defined benefit pension plans, we are in a position of having flexibility to draw down on this contribution and also to use letters of credit if we so choose to meet our funding obligations. Also important to note is that the three-year smoothing mechanism used in determining pension funding means that we will be dropping off the returns of 2008, which we all recall were not very strong, with the return of what looks to be another relatively weak year in 2011.

So, in summary, we are confident that we will be able to manage the 2012 expected required pension contributions, while still generating strong free cash flow.

And with that, I'll open up 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 and you're using a speakerphone, please lift your handset before making your selection. If you have a question, please press star, one on your telephone keypad. If at any time you wish to cancel your questions, please press the pound sign. Please press star, one at this time if you have a question.

There will be a brief pause while participants register. Thank you for your patience.

The first question is from Phillip Huang with UBS. Please go ahead.

Phillip Huang, UBS

Hi, thanks. Good afternoon, thanks for taking my question. A question on the growth of your op ex. Obviously, it's driven by the expansion of your fibre-to-the-home footprint, but I was wondering if you could provide a bit more detail, you know, in addition to the cost of passing and connecting homes, are you seeing a jump in your customer support costs? And to what extent do you see these costs coming down over time? Thanks.

Karen Sheriff, President and Chief Executive Officer

Well, the jump in expenses is partly driven by the growth of fibre. And the kinds of costs that go up during a heavy acquisition period are partly marketing costs, which are definitely related to a high-acquisition period. So, over a period of time, on a proportionate basis, those would go down. And also some customer service costs –when you first sign up, particularly for TV, there's a fair amount of calls into help desk to help you get set up. Again, those are very heavily correlated with the beginning of your tenure with us on TV and, over time, they would tend to go down.

Content costs tend to be pretty linear, and those will grow over time, and they will stay high. So, I can't give you the proportion of how much is each within the total, but a big part of the cost right now is acquisition-related. I think that we had mentioned earlier in the year on guidance that we expected about a one point of EBITDA drag this year from the launch of fibre. It's actually going to be a little bit higher than that because our acquisitions are stronger than we had anticipated. So that's really the story behind the expense drag. I'm actually really thrilled that we almost absorbed all of that, given our strong expense productivity in the quarter. Glen mentioned that we also took a couple... \$3 million of op ex from a restructuring charge that we absorbed, and that's really a big part of why expenses actually grew in the quarter.

Phillip Huang, UBS

Got it, that's helpful. And if I could also tag on another one. Even though I think the aggressive mass market price discounts from EastLink seems to have subsided, it

sounds like they had been doing a bit of a door-to-door campaign recently. Have you seen greater impact as a result towards the latter part of the third quarter and maybe even into the fourth quarter as well? Like, what have you seen so far, and are they gaining a lot of traction in your view?

Karen Sheriff, President and Chief Executive Officer

Let me talk about competitive response from both of our competitors in Atlantic Canada. It's obviously strong on both fronts. And I think the way to think about it... we have really focused our marketing, and we're very focused right now on fibre communications in our fibre markets and fibre distribution. And you can tell by our success in the quarter, we're doing just fine, thank you, okay. So we're doing really well on fibre. Where the competitors are having an impact is in our non-fibre markets, and they are having an impact on both NAS and on DSL.

Now that focus is something I've talked about, I think, for three quarters and it's important to understand what that means. It means I really have taken a lot of our marketing money and I'm putting it on fibre. Which means that particularly for markets where we currently have DSL, where we're probably going to be doing fibre in the future, we've made the decision to just pull back a little bit. And that is one of the reasons that our Internet net adds are a bit softer. We don't have as much marketing money right now chasing DSL. It's that simple. Because the investment is better made... even though the path is longer, the investment is better made to hang on to fibre. So I would say that across our territory in Atlantic, our competitors are fighting really hard. I think we're doing great where we have fibre and we're feeling it a bit where we don't.

Phillip Huang, UBS

Got it. Thanks very much.

Operator

Thank you. The next question is from Maher Yaghi with Desjardins Securities. Please go ahead.

Maher Yaghi, Desjardins Securities

Yes, thank you for taking my question. Maybe just to talk a little bit about the guidance. Correct me if I'm wrong,

but you're implicitly raising your operating cash flow guidance by about \$40 million since your free cash flow's not changing, while your capex is increasing by \$40 million. Given that the EBITDA guidance is not changing, where is that \$40 million coming from?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Good afternoon, Maher. We're having a very strong year on working capital management, so one of the things we've been able to do is we've had good success on EBITDA. Now, what you said is we're not changing our EBITDA guidance, you know, but internally, we're doing very well on our expectations of EBITDA. We're doing extraordinarily well on our working capital management. And had some great gains there that are exceeding our internal objectives. So we're taking advantage of the success we're having in revenue and EBITDA and working capital, and we're investing it back in fibre and still able to make our free cash flow guidance. So some good success there in underlying business.

Maher Yaghi, Desjardins Securities

On the working capital – is that in terms of the set-top boxes, or is it in terms of the actual outlay of the equipment to hook up each house? Where is it mainly coming from?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

It's a number of things. Better management of DPO – our day's payable outstanding – really pushing hard on that. We did very aggressive negotiations this year with suppliers, our procurement group, really trying to nail longer payment terms when we were entering into new contracts. Our day's sales outstanding has come in very, very nicely on accounts receivable. And that is not by accident. We've really put a dedicated team on that this year, trying to reduce the percentage of receivables that were sneaking out into 90 days. And we're enjoying the fruits of our labour.

Maher Yaghi, Desjardins Securities

Okay. Okay, great. And maybe on the FibreOP opportunity here, when you look in your disclosure on your presentation, you say you have so far about 34,000 customers on FibreOP Internet. Is there a way to break

up that number in terms of new customers and existing customers?

Karen Sheriff, President and Chief Executive Officer

Well, assume that most of the TV is new, okay? So for Internet customers, figure about two thirds are migrated from our own Internet and the rest are new, largely.

Maher Yaghi, Desjardins Securities

Two third, one third.

Karen Sheriff, President and Chief Executive Officer

Yeah, and largely cable.

Maher Yaghi, Desjardins Securities

Okay. And so far, you mean in terms of penetration, you're hitting the 9-10 percent range. Can you maybe discuss what would be a normalized—I mean if you look two, three years down the road when a lot of the benefit is coming—you know, customers understand the benefit of FibreOP versus cable, etc. Can you maybe discuss what penetration rate you think you can achieve with FibreOP in terms of Internet?

Karen Sheriff, President and Chief Executive Officer

Yeah, I can't give you the end state, partly because I wouldn't—partly because I wish I knew. We are assuming that we're going to do as well as Verizon does, and I know I've said that all along and they had about a two-year penetration rate of 20 to 22/24 percent. We will hit or beat that. And I can tell you, almost two years in now, that our markets are not slowing. So I have a lot of confidence that we will be able to drive this thing pretty far.

Maher Yaghi, Desjardins Securities

Okay. Okay, great. Thank you very much.

Operator

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

Greg MacDonald, Macquarie Capital

Good afternoon, guys.

Karen Sheriff, President and Chief Executive Officer

How are you?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Hi, Greg.

Greg MacDonald, Macquarie Capital

Good, thanks. Question's for Glen. Glen, if we assume no change in long bond rates or plan assets – let's assume fiscal year ends right now – are you comfortable saying it's highly unlikely or ruling out another lump sum special contribution for late 2011, early 2012? Or is that still under consideration?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Well, Greg, wouldn't I like to predict where December 31 is going to be, but...

Greg MacDonald, Macquarie Capital

But, assuming it's today.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Well, if it's today, I mean you can see it on our balance sheet. We would have a much larger deficit than we did this time last year.

Greg MacDonald, Macquarie Capital

Yeah.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

The pension contribution we made was—you know, we spent a lot of time considering that and putting that \$200 million lump sum in has bode very well for us. We did it because we could afford to do so. We had the balance sheet that allowed us to do so and it gave us tremendous flexibility into the future to use that to draw down. Is it something that you'd consider? Look, if someone could tell me that this low interest rate environment is going to continue and you can get your hands on capital at very, very reasonable rates, and you believe you can earn a better return than that in your pension fund, then you should consider it. And I think that's where we're at. Always considering. But we've made no decisions because, my goodness, September was an awful month in the markets, and then we seem to rebound a bit in October but, you know, we're going to assess all of our options here in fourth quarter.

Greg MacDonald, Macquarie Capital

Okay. And just a quick follow-up on that. I know that, I mean, this might be a question for Eleanor, but—tax deductibility of lump sum pension contributions, if you were to make one in late '11 or early '12, can you defer that to '13 when you start paying cash tax?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

We certainly can. It's tax deductible, so it really just extends that...let me call it a tax holiday, if you will. So it's deductible in the year that we would begin paying taxes, which is, right now, '13.

Greg MacDonald, Macquarie Capital

Great.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Thanks, Greg.

Operator

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

Peter MacDonald, GMP Securities

Thanks. I'm going to stick with the pension questions, if I can. First, is it still about \$100 million per 25 basis point change in the interest rate on the liability?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

That's correct, Peter. That's about right.

Peter MacDonald, GMP Securities

And then what interest rate product? Is it the Canada 10-year bond? Is that what you use?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

I'll flip that over to Eleanor and let her give you answers on the interest rates.

Eleanor Marshall, Vice-President & Treasurer

Hi, Peter, it's Eleanor. It's actually a blend of seven-year, 10-year and 30-year that affects the solvency valuations.

Peter MacDonald, GMP Securities

And it's Canadian, not U.S.

Eleanor Marshall, Vice-President & Treasurer

Correct.

Peter MacDonald, GMP Securities

Okay. And what timeline do they use? Do they pick the January 1st rate? Is that—for the comparable period, or do they use March, or how does that work?

Eleanor Marshall, Vice-President & Treasurer

Well, it's actually December 31st, but some of the factors start getting decided October 31st. And then there's always flexibility used, or I should say judgment used in guidance provided by the Canadian Institute of Actuaries on spreads that are applied. So we're working with our actuaries and watching all of that as we come into the end of the year.

Peter MacDonald, GMP Securities

Okay. If we want to do some back-of-the-envelope calculations, could we use January versus where we are now to get an understanding? Would that be fairly good?

Eleanor Marshall, Vice-President & Treasurer

Yeah, back-of-the-envelope, we're somewhere between – depending on which rate you use – 50 to 90 basis points down from year-end last year.

Peter MacDonald, GMP Securities

Okay. And on the asset side, the averaging, three-year averaging, is that done '08 plus '09 plus '10 divide by three? Or is there a different way that's calculated?

Eleanor Marshall, Vice-President & Treasurer

It's actually no longer just the assets that are smooth; it's the entire solvency ratio itself...

Peter MacDonald, GMP Securities

Okay.

Eleanor Marshall, Vice-President & Treasurer

The comparison of assets to liabilities as a ratio. And the 2008 ratio drops off, and the three years of '09, '10 and '11 would be used for the new ratio.

Peter MacDonald, GMP Securities

Okay. And I think last quarter you gave us an estimate of where your asset was compared to the beginning of the year. Is that a reasonable question to ask, or does it completely reset at the beginning of the year because of the averaging processing?

Eleanor Marshall, Vice-President & Treasurer

The assets?

Peter MacDonald, GMP Securities

Yeah, on your plan assets.

Eleanor Marshall, Vice-President & Treasurer

I think you could use market rates of return year-to-date and our asset mix that we gave in our year-end financial statements to come up with a pretty good proxy of what our return would be year-to-date.

Peter MacDonald, GMP Securities

Okay. Can you tell us what that asset—what your estimate of the asset is? I think you gave us that last quarter.

Eleanor Marshall, Vice-President & Treasurer

I think, at September, our year-to-date return was about flat, and in October, it's up.

Peter MacDonald, GMP Securities

Okay. And there's just the last question. The early retirement, is there an impact on the pension solvency related to that? Is it material—if there is, it is material?

Eleanor Marshall, Vice-President & Treasurer

There is an impact. It's not material.

Peter MacDonald, GMP Securities

Okay. Alright, thank you.

Operator

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

Dvai Ghose, Cannacord Genuity

Yeah, thanks very much. Good morning, good afternoon. Just wanted to start with the TV question. Karen, you pointed out that virtually all your TV customers are new to you, which makes sense; you had a very small base to begin with. But if I look at the bundles in Atlantic Canada, I assume there were a number of customers who took your voice and Internet services and Bell ExpressVu for video as you were selling that as part of a bundle and still are. So to what extent is your customer base coming on TV from Bell ExpressVu, and how do you manage your relationship with Bell Canada given they're your controlling shareholder?

Karen Sheriff, President and Chief Executive Officer

The vast majority, Dvai, are cable, so I'm not even sure I know the penetration of – you'd have to ask them – of Bell TV in the market. But the vast majority of the market is cable. We do have some customers that come over from Bell TV but, as you can imagine, a Bell TV customer probably already is a low flight-risk for NAS.

Dvai Ghose, Cannacord Genuity

Right.

Karen Sheriff, President and Chief Executive Officer

Which means the business case is not that good for us. I mean, it's okay if somebody really wants to come over, but it's not the first place I target. So we actually don't explicitly—we did for awhile, but we don't anymore explicitly target Bell TV customers. We try to stay away because our capital is better spent elsewhere. But the vast majority of the market is cable.

Dvai Ghose, Cannacord Genuity

I understand that for defence but presumably, at some point, you want to make money on TV, so for offence, presumably, you do have to encroach on their subs?

Karen Sheriff, President and Chief Executive Officer

Well, again, if somebody wants to walk in the door, obviously, we take them. And I don't know—at some point, when capital is free and I have a ton of it? Maybe.

Dvai Ghose, Cannacord Genuity

Yes, fair enough.

Karen Sheriff, President and Chief Executive Officer

But until then, it's—I think I had mentioned to you guys last quarter that if I had any constraint, I was a bit capacity-constrained above and beyond the capex. So in a capital-intensive, capex-constrained, capacity-constrained world, I just—I don't need to go there.

Dvai Ghose, Cannacord Genuity

No, fair enough, but my next question's related. So you have a wonderful fibre opportunity. It's highly capital intensive, upfront; are you prepared to dividend out—I assume you don't want to pay your dividend—so are you prepared to have in excess of 100 percent free cash flow payout in the near term and increase leverage in order to fulfill your objectives of fibre-to-the-home, or are you restrained by the dividend?

Karen Sheriff, President and Chief Executive Officer

Well, you're asking a question about future guidance, which I really can't do right now. We're really pondering what the right pace is, Dvai, and what the right thing is. I have to tell you that we are paying very close attention to our pension obligations, and that will weigh into how we feel about the future, and the kind of risk we want to take, and at what point we want to take that risk. We really don't have much of an issue for 2012. Because we don't have any taxes due. So we're going to take off—we're going to take our time to ponder all of that.

Dvai Ghose, Cannacord Genuity

No, that makes sense, get some time. Two quick factual ones, if I may. So the \$26.5 million charge that you took in the quarter for headcount reduction... I guess normally your payback is about 12 to 18 months in headcount reduction, but this one should be longer because it's a staggered employee departure process over three years. So what would be the payback?

Karen Sheriff, President and Chief Executive Officer

Yeah, you should assume about three years.

Dvai Ghose, Cannacord Genuity

Yeah, that would make sense. And then last but not least, the \$15-\$20 million of one-time that was on revenue in Q4, I assume that was relatively low margin because it was mainly product sales, or am I wrong?

Karen Sheriff, President and Chief Executive Officer

No, that was actually—it was a mix. It's a mix of—you may or may not remember, we had some regulatory one-timers.

Dvai Ghose, Cannacord Genuity

Oh, yeah.

Karen Sheriff, President and Chief Executive Officer

The pole decision and contribution, that's very high margin. And then also the part of that that's product is lower margin. But the part that's regulatory was very high margin.

Dvai Ghose, Cannacord Genuity

So, we'll assume the average margin sort of thing? Ao a \$20 million hit is a, I don't know, \$8 million EBITDA hit or something?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

You're in the ballpark if you blend them, Dvai.

Dvai Ghose, Cannacord Genuity

Yeah, okay, sounds good. Thanks a lot.

Operator

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

Jeff Fan, Scotia Capital

Thanks and good afternoon. My question is on—just a quick clarification and then maybe a longer, bigger picture question. On the clarification, Karen, when you mentioned that you're seeing increased competitive intensity in your non-fibre footprint, are you talking about the FTTN footprint, or in the traditional DSL?

Karen Sheriff, President and Chief Executive Officer

Traditional.

Jeff Fan, Scotia Capital

Traditional DSL. So, maybe on the bigger picture question, then, it looks like, when I look at your FibreOP build, there's been a bit of an increased emphasis on overbuilding your fibre-to-the-node areas. If the competitive pressure is coming in your traditional DSL, why are you going after and overbuilding FTTN? And why wouldn't you go after some of the traditional DSL to limit the, I guess, the impact on your overall high-speed subscriber number?

Karen Sheriff, President and Chief Executive Officer

So, let me clarify my DSL comment. There is a lot of fighting in our—I mean, we don't have all that much FTTN, right Jeff? It's mostly, it's Halifax; there isn't all that much and we're almost done. There was a lot of fighting, and the cost to build is actually lower, which makes the payout better, which makes the payout faster, which gives me more money to do other stuff, which is why we

want to do it sooner rather than later. And we also want to secure the TV in the homes where we have it to make sure the TV stays there. That's why we are doing the overbuild. And I'm not sure I would prioritize one ahead of the other; they're both an issue.

Jeff Fan, Scotia Capital

Okay. And then when I look at your high speed Internet total subscribers, you had 860,000 high speed subscribers at the end of the quarter. About 34,000 is FibreOP. Again, probably not a huge number on the FTTN. You still have a pretty significant base that's in traditional DSL. Do you see that as a risk? I mean, when you look out and think about how many homes you need to pass for FibreOP, is that really—the key is to try to protect those traditional DSL subscribers from cable competition long term?

Karen Sheriff, President and Chief Executive Officer

Oh, absolutely. And I think that's why we believed at the beginning, and we still believe, getting as much fibre out as fast as we can is really the key. And, so we do believe there is risk there. Now, that said, competitors are fighting harder. We still have a lot of areas where our customers are very happy on the service they have. We do have the ability to drive a bit of extra bandwidth into the DSL we have, so that it's not strong enough to drive TV over, but we can get it up to 10 or 12 megs, which in a lot of our territories, will be plenty. So we are doing that. But the real key is as much fibre as we can.

Jeff Fan, Scotia Capital

And could you give us a number on what your penetration is on the Internet for the FTTN at this point? Or how many sales you have on FTTN for Internet?

Karen Sheriff, President and Chief Executive Officer

I actually do not have that in front of me but we can get that for you.

Jeff Fan, Scotia Capital

Okay. Thank you.

Operator

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

Glen Campbell, Merrill Lynch

Yes, thanks very much. Just a question on your capex guidance for the year. If I take the mid-point, it looks like there's a step down in the spend rate in Q4, and I'm wondering, I mean, is that because you're just—you're spending in order to hit your free cash flow guidance? Or is there actually a season—a need to slow down seasonally in that FTTH deployment? And then I have a follow-up, thanks.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Hi, Glen, it's Glen. As you see in the trend of spending in our business for many, many years, you build when—you make hay when the sun shines. And in our territories, October, November and December, there are times that the weather does not allow us to construct at the same pace we do in the summer months. So, nothing more than seasonality.

Glen Campbell, Merrill Lynch

Okay, fair enough. And then, more broadly, Karen, everything we've heard about the FTTH build out and the take-up so far has been positive on the revenue side and the cost side. What we're hearing about the exposure you have outside that footprint I would say is maybe negative at the margin. When we look out west at how IPTV is doing against cable, it's a very good story. The question I feel I have to ask is how—you know, is there anything more you're still wanting to learn about FTTH to make your decision about how far to go? Or is it really at this point just a question of the financing side?

Karen Sheriff, President and Chief Executive Officer

That's a great question. I think, every six months we re-look at our markets to see if we have thought of anything brilliant to make an old market that didn't pay out and see if we can find a way to make it pay out, Glen. I think that we are really convinced right now that there is a material pass of homes beyond 600,000 that will pay out, and the only thing in my way is just physically and financially getting there. So, on the margin, there are still some

issues because there will always be some homes that kind of pay out, kind of don't pay out—is there anything brilliant we can do with the way we construct to reduce cost and all that kind of other good stuff? But I think, for a big chunk of future expansion, we know that there is opportunity out there; we just have to get at the physics of the build and then make sure that we manage the timing so we can swallow it financially.

Glen Campbell, Merrill Lynch

Okay, great. Thanks very much. And just a quick final question on pensions for Glen. If you didn't have the benefit of the \$200 million voluntary contribution, you know, and if today were December 31, let's say, how much would your funding likely go up for 2012?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Well, again, because of the three-year smoothing, it wouldn't be overly large. I think we've said that, you know, 2011 funding is in that \$100-\$110 million range.

If today was—I'll say today because it's better than September 30th—was December 31st, you know, you'd be maybe \$10 million more, maybe \$15 million more. But it's not huge because of the three-year smoothing. And you're dropping a really bad year in '08, and picking up what I hope to be a better year in '11, but—so, not overly large. Let's call it \$10-\$15 million.

Glen Campbell, Merrill Lynch

Okay, that's great. Thanks very much.

Operator

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

Peter Rhamey, BMO Capital Markets

Great, thanks for taking the question. A few questions, if I can, first on incremental cap ex guidance. I think you've taken the guidance range up somewhere between \$50 and \$40 million and when I look at the footprint expansion, Glen or Karen, it seems that it's a very high price per home. So I was wondering how we should look

at the guidance increase relative to the footprint's expansion.

Second point I'd like to ask about: I think you mentioned you have 500 people signed up of the 900 targeted. What's your line of sight on getting the full complement of people signed up, and how should we think about the cost savings net of backfilling that you're going to have? Thank you.

Karen Sheriff, President and Chief Executive Officer

Okay. If I forget the third one, Peter, remind me, okay? On the first one, you're not the first one to ask that today. Remember that we are expanding not only footprint build, but acquisitions. We're expanding loads, and loads are more expensive than build. Our build cost is actually right around where it has been. It's about \$500. It's actually great. But it's the net adds - it's the acquisitions - that are driving more cost as well because we're adding significantly more customers than we expected. So that is the answer on capex.

Peter Rhamey, BMO Capital Markets

Perfect.

Karen Sheriff, President and Chief Executive Officer

On the retirement offer, the offer is now—this particular offer is closed. So, we put an offer out there, made it available to the 900 eligible employees. We had 500 decide to take it and now that they've signed up, they are actually bound to leave. So those 500 will leave under the terms of the agreement. There are 400 other employees who will be eligible during this timeframe, but they have chosen to continue to work, which is their right. They may change their mind at some point in the future. At some point, they will certainly retire; the issue is when, but there will not necessarily be an offer available when they choose to do so.

And, Glen, do you want to talk about the cost savings on retirement offer?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Yeah, as Karen had alluded to, we're expecting about a three-year payback on this, so what you'll—because there's some replacements here – it was mentioned

earlier on the call that historically you see more like 18-month paybacks on offers like this. This will be closer to two and a half to three years because we are doing some replacements, and we expect to enjoy that about evenly over the next three years. So, you know, it's very important for us controlling our cost structure. This will certainly help 2012 in controlling our costs and maintaining our margins, as will the fact that we—we're entering a year with zero wage increases that we negotiated in the collective agreement last year.

Peter Rhamey, BMO Capital Markets

Great, thanks. And just two clean-up questions. Some of the U.S. RBox got hit by storm expenses. The storm did impact Quebec. Is there anything unusual this quarter that we should be aware of? And as well, Glen, maybe you could update us. Is the pole situation—I'm sorry I haven't read the MD&A yet—with Newfoundland, is that cleaned up as well?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

The latter one, yes, is cleaned up and everything is proceeding as we laid out last year. Karen, do you want to handle the storm.

Karen Sheriff, President and Chief Executive Officer

No, no, there's—I mean, we had—our hurricanes were worst last year, so certainly on a year-over-year basis, there's nothing incremental. We did have a little bit of storm activity, Peter, but it's kind of becoming a bit of the base and not nearly the devastating magnitude of what they saw on the flooding in the U.S.

Peter Rhamey, BMO Capital Markets

Right, great. Thank you very much. Appreciate it.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Thanks, Peter.

Operator

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

Zeda Redden, Vice President, Investor Relations

Thanks, once again, everyone, for joining us today, and as always, I'm available for follow-up questions, if you have any. So thanks and have a good week.

Operator

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