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PRESENTATION

Operator

All participants please stand by; your conference is ready to begin. Good morning, ladies and gentlemen. Welcome to the Bell Aliant Regional Communications First Quarter 2010 conference call. I would like to introduce your speaker for today, Zeda Redden, Vice President, Investor Relations. Please go ahead, Ms Redden.

Zeda Redden, Vice President, Investor Relations

Thank you, Operator, and good morning, everyone, and welcome to Bell Aliant's First Quarter 2010 Results call. In addition to the discussion on our Q1 results, we'll also be discussing our planned conversion to a corporation and our expected dividend policy beginning in 2011, along with some recent announcements we have made as they relate to our strategy.

Last evening, we issued our news release and Q1 financial statements, MD&A and supplementary information package, which are posted on SEDAR and also on our website. And posted on our website is the slide presentation that we'll be taking you through today on this call. Today's agenda is listed on slide one of the presentation and, as always, we caution you that the presentation will contain forward-looking information related to the finances and operations of the Company and our discussion is qualified by the cautionary statements on slide two of the presentation and those listed in the MD&A and the news release.

We have scheduled the call for up to an hour and following the presentation, we will have a question and answer period, and I would ask that you please limit the questions to one per caller.

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 morning, everyone. Good week for us and I'm thrilled that you are all with us today. As far as our agenda for today, we have several topics to cover, which I'm sure are of high interest to many of you, in addition to our first quarter results. I will speak to the progress we are making on our strategy in light of the recent announcements we have made and then go into an overview of our first quarter results. I will then hand it over to Glen LeBlanc, our Chief Financial Officer, to take you through some more detail on our results and, lastly, the conversion and our new dividend policy. And then, of course, we'll open up for questions.

Now, the overriding theme of our business strategy in 2010 is focusing on and accelerating our core strategies. On slide four, we show the five strategic initiatives that we established last year and are continuing to pursue in 2010. I think we've made tremendous progress over the last 18 months and more progress was evident in the first quarter, particularly in resetting our cost structure and growing broadband. Our customer service metrics are holding strong overall, even at the same time as we continued our cost reduction efforts and overcame some challenging weather conditions in the quarter that hampered some areas, particularly in Newfoundland and Labrador. And we continue to work with and engage all of our employees who are truly making the difference in our organization's performance.

Last evening, we made an announcement which I believe will accelerate our progress on all of our strategic initiatives, our plans to accelerate the rollout of fibre to the home technology. The capabilities of FTTH and our largely aerial infrastructure make it the ideal architecture to address the growing bandwidth needs of our customers. With our competitive environment increasing in size and intensity and the early success we've had in our Fredericton and Saint John markets, we believe that now is the time to accelerate our FTTH investment. FTTH will help us grow revenue, retain and gain customers, provide more and better services and reduce future costs. Most importantly, it can meet the technology demands of the future, giving us a clear, competitive advantage; that's why we call it future-proof.

As you know, we announced in February that we plan to invest \$65 million in 2010 to reach 140,000 homes and businesses with fibre to the home by the end of this year. Last evening, we announced our plan to invest a further \$350 million in FTTH over 2011 and 2012. While almost all of our customers in our competitive territory currently have access to our high speed internet service, this expansion will mean that by the end of 2012, over 600,000 homes and businesses, or about one third of these customers, will have access to the premium technology, including our IPTV solution. So not only will our IPTV footprint increase significantly, but this future-proof technology will give us a strong competitive advantage in terms of our internet capabilities. This accelerated rollout will add approximately \$100 million annually to our current capital spending run rate, or about 3 percentage points of the capital intensity. We estimate our average cost per home passed will be in the range of \$550 to \$580, in line with what we have experienced to date. And for clarity, the \$350 million investment includes development costs and the cost to connect what we expect will be significant additions to our FTTH customer

base. I am very excited that we are accelerating our FTTH program and believe that it is critical to the future of our business. It is the right thing to do and the right time to do it.

Now turning to slide six, another very important development that we announced last week is the reaching of a tentative agreement with the Communications Energy and Paperworkers Atlantic Communications Council, which represents about 3,000 of our unionized employees in Atlantic Canada. The existing agreement was scheduled to expire at the end of next year and this early establishment of a new agreement provides some greater certainty to our future cost structure as we head towards 2011. Management and the union leadership have worked together productively to address concerns on both sides of the table and have come up with what we believe is win-win agreement. If ratified, both the Company and our employees will benefit from increased security, labour stability and efficiencies over the next four and a half years. The new agreement will be key to meeting our strategic objectives, engaging employees, ensuring strong customer service and further assisting us in resetting our cost structure, all of which are important for us to remain competitive and successful well into the future. The ratification process is expected to be completed by mid-June.

Now turning to our results beginning on slide eight, the first quarter continued the pattern of steady performance that we have experienced over the last year. As we've talked about before, we've made significant changes to our cost structure over the last 18 months and the benefits of that were evident this quarter. As we expected, our revenues in the quarter were down from a year ago but declines in operating expenses that we were able to achieve largely offset this. Our EBITDA decline was held to 1.4 percent from the same quarter a year ago despite the 4.9 percent decline in revenues. EBITDA margin actually improved quite significantly, up 1.6 percentage points from the same quarter in 2009. The revenue decline in the quarter, to a large extent, came from the lumpiness of our IT revenue. IT product sales were down \$16 million from a very strong first quarter in 2009; however, as these revenues are relatively low margin, the effect of their decline on EBITDA was negligible. So although total revenues and total EBITDA were down from a year ago, our productivity improvements were evident in the improved margin percentage we were able to achieve.

As in other years, our first quarter capex is low relative to the rest of the year. Our capital spending was lower this quarter than the same quarter last year, driven largely by

the Bell Mobility HSPA back haul project that we completed last summer. The lower capital program resulted in distributable cash improvement this quarter compared to a year ago. As we stated in our 2010 guidance, which we released in February, we expect our annual distributable cash to be similar to that of last year.

Now turning to the revenue details, as shown on slide nine, local revenues declined 4.5 percent compared to the same quarter last year and long distance revenue declined 8.4 percent. The declines were driven mainly... driven by the effect of NAS declines, however, the local revenue decline of \$15 million in the quarter included approximately \$5 million of lower contribution subsidy revenue, resulting from the effect of 2009 deflation on eligible costs for contribution calculation. Excluding the effect of these declines, local revenues were down 3.1 percent compared to the same quarter a year ago, despite a decline in total NAS of 6 percent. The carryover effects of rate action taken in 2009 and features growth helped to mitigate the impact of NAS declines and local revenues.

Our competitive footprint grew marginally in the quarter to approximately 68 percent of households in our territory but is still up 9 percentage points from the same period last year. As shown on slide 10, despite the annual growth in competitive footprint, total NAS declines in the quarter were held relatively flat to the same quarter in 2009. On the residential side, NAS declines increased only slightly despite the increasing competitive footprint. We have been having success in new footprint openings, with retaining a larger share of customers through new bundles that are matching competitors' offers, particularly on long distance offers, the effects of which are evident in the year-over-year long distance declines. Our business NAS declines in the quarter improved a bit from last year, however, we have some migration out of government contract losses that we expected in 2009 that have yet to occur, which will slightly affect future quarters.

Turning now to slide 11 on internet revenue and data revenue, internet revenue had solid growth of 8.2 percent over the same quarter in 2009, with our high speed internet customers up 6.5 percent through the end of March last year. Our residential high speed average revenue per customer reached its highest point yet of 5.5 percent from the same quarter a year ago. This was driven by pricing actions undertaken in 2009 and continued customer migration to higher (inaudible) internet services. Growth in TV revenues – excuse me; it's allergy season – growth in TV revenues also contributed to the revenue increase as a result of our expanded IPTV footprint and the launch of FibreOP. Now with respect to FibreOPs, we completed our FTTH

build for the City of Fredericton in the first quarter and launched in St. John, New Brunswick with approximately only 35,000 homes serviceable with FibreOP at the end of March. Things are progressing extremely well as we are meeting or exceeding all of our FibreOP targets.

In summary, I am pleased with the results in the quarter. They were well in line with our expectations and we expect to finish the year within our guidance ranges. We are moving ahead with changes we need to make in the business to improve our performance going forward.

And now I'll hand it over to Glen to take you through the rest of the results.

Glen LeBlanc, Chief Financial Officer

Thanks, Karen, and good morning, everyone. As Karen has taken you through revenue highlights, let me make a few comments on EBITDA and cash flow performances.

Moving to slide 12, our EBITDA in the quarter was down \$5 million or 1.4 percent from the same quarter in 2009. Declines in revenues were largely offset by lower operating expenses, with the benefits of our restructuring and other productivity initiatives coming through. Because much of the revenue decline came from lower margin IT revenues, this, in combination with productivity improvements, increased our EBITDA margins quite significantly by 1.6 percentage points to 45.4 per cent. While we saw good EBITDA margin improvement in the first quarter of this year, we expect to lap the significant changes we made through restructuring as we head into the second quarter of 2010. Also, the second quarter of 2009 included a favourable \$3 million adjustment related to incentive plan accruals. So while we expect some further cost decreases as the year progresses, the year-over-year effect will likely be less pronounced than what we saw this quarter.

Slide 13 shows our capital spending in the quarter; it was down 11.7 percent or \$12 million for the same quarter in 2009, which was driven by the completion of the Bell Mobility HSPA back haul project in mid-2009. Capital intensity in the quarter reflects the normal seasonal first quarter pattern of relatively low capex due to the lower outside construction during the winter months. Our guidance for the year for capital intensity remains at 14 to 15 percent as we ramp up our spending as the year progresses.

And finally with respect to our first quarter results, as shown on slide 14, our distributable cash was up 1.9 percent, driven by our reduced capital program. As we

move towards our corporate structure in 2011, distributable cash will become less important metric for us as we will turn more to free cash flow, consistent with many of our corporate peers. As shown on the slide, our free cash flow in the quarter was \$51 million compared to \$200 million in distributable cash. The main differences between distributable cash and free cash flow are the exclusion of the cash effects of changes in working capital, pension deficit funding and restructuring charges. The chart on the left shows the magnitude of these differences for Q1 in going from distributable cash to free cash flow. Changes in working capital can vary significantly from quarter to quarter and, for us, are traditionally a use of cash in first quarter as large year-end accruals for interest and annual incentive payments and seasonable payments like property taxes are paid during the time period. As shown in the cart on the right, the changes in working capital vary from... varied from quarter to quarter in 2009 but balanced out over the year. As we move to a payout ratio based on free cash flow, the changes in working capital each quarter may tend to distort the picture so, for that reason, in our supplemental information package, we show free cash flow payout before and after working capital changes to give a somewhat clearer picture of where we stand. So while the payout on a free cash flow basis is very high in the first quarter, this will turn around as the effects of working capital changes reverse in the coming quarters.

And with that, let me turn to the next section on our conversion plan and expected dividend policy. While conversion to a corporate structure is technically not mandatory for us, we have determined, as have many other trusts, that is it's the right thing to do for several reasons. First, we lose our current tax advantages of an income trust structure whether or not we convert. Second, we expect the corporate structure to be simpler, reducing our administrative costs and making our financial reporting easier to understand. Third, we expect Bell Aliant will be more comparable to other similar publicly traded businesses, making it easier for us to be assessed relative to our peers, potentially increasing our marketability and liquidity and broadening the potential investor base.

As far as our go forward dividend policy, we believe we've taken a responsible and balanced approach to setting our new dividend policy. We have spent considerable time in developing this important aspect of our business model and I want to lay out for you the factors we considered when coming up with this plan. First, first of all in the setting the policy, our overriding consideration was the long-term sustainability of the dividend. As we've said previously, our objective is to ensure a sustainable dividend while maintaining a high

payout to our investors. In order to do this, we also need to balance our business priorities, including making required investments in our network and maintaining our investment grade credit rating. We have carefully considered our financial outlook in terms of the competitive environment we are operating in and our plans and expectation for the future. We have also considered the practices of our peers with respect to dividend policy.

Given that we will be subject to income taxes beginning in 2011, payout of about 100 percent of our free cash flow that we've made in recent years is not sustainable and changes to our payout policy only makes sense. We have been paying 100 percent of our free cash flow because of actions we've taken to reset our cost structure and the requirements to meet pension funding obligations. Although we do anticipate some relief on pension funding, these requirements are not going away completely in the near term. Our plan is to implement an annual dividend of \$1.90 per share paid quarterly, beginning in 2011. At today's unit price, this dividend would equate to a yield of approximately 7.5 percent. Although the dividend is lower than the current distribution, we have a very large base of retail unitholders and expect many will benefit from the dividend tax credit, which will offset to a large extent the effects of a lower dividend. We expect our new dividend will result in a payout of 75 to 85 percent of free cash flow. We believe that is important to improve our balance sheet, to ensure that we continue to benefit from the stability provided by investment grade credit rating and, thus, the remaining cash flow is expected to be largely used for that purpose over the near term horizon.

Because we're in the fortunate position of having sufficient tax shelter to defer the payment of income taxes until late 2012, we expect we'll be able to fund our accelerated FTTH expansion, while reducing our overall debt levels during the 2011, 2012 timeframe. We believe this is in the best interest of the long-term sustainability of the business model and the dividend we want to pay going forward.

Our timeline for conversion is outlined on slide 19. We expect the information circular with the details to be sent to unitholders no later than May 26th and the unitholder vote will occur on June 16th at our annual general meeting. We require no less than two thirds of the votes cast at the meeting to approve the conversion for it to proceed, in addition to other regulatory approvals. We expect this dividend policy will enable us to continue to invest in the business, ensure... and ensure our ongoing stability, while still paying a solid dividend to our investors. As well, our announcement today should

reduce much of the uncertainty for our investors that has existed since the government announced the upcoming changes to taxation in late 2006.

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

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you are using a speakerphone, please lift your handset before making your selection. Please press star one at this time if you have a question. You may also press the pound sign to cancel your question. So please press star one now. There will be a brief pause while participants register. Thank you for your patience.

Our first question is from Peter MacDonald of GMP Securities. Please go ahead.

Peter MacDonald, GMP Securities

Thank you. Can you just tell me what your pension solvency funding assumptions that you're, that you use to set the dividend? And then do you assume that the total pension funding and expense payments that you're making right now are the maximum that you will face? And if that's not the case, where do you find the flexibility should that change? Thank you.

Glen LeBlanc, Chief Financial Officer

Good morning, Peter. It's Glen. The solvency discount rates that we're using from 2009 are down from that used in 2008. For the active plans, it's 3.9 for the first 10 years, down from 4.2, and 5.4 percent, down from 5.7 for the balance. For the retirees, it is 4.5 percent, down from 4.95. Your question on the level of funding requirement as we look out to the future, (inaudible) I'll give you a little bit of insight on where we see this. In 2009, we paid about \$74 million in total special funding, which was quite high, and when we provided guidance for the 2009, or excuse me, 2010 year, we would have said, this could be as much as 80 to \$110 million as we still didn't have great insights on our valuations or what government legislation changes could look like. I would say, now we feel that it's probably on the low end of that and that is excluding changes to the legislation, that we are starting to gain confidence will occur.

What we expect will happen is that we will be permitted to use letters of credit for solvency funding payments and to give you an example of the magnitude of that, in 2009, that was \$34 million of the \$74 million. So I think, Peter, that will give you a pretty good insight of what we expect the funding requirements to be go forward.

Peter MacDonald, GMP Securities

And with the changes that you've referenced from the government on pension, is there a risk that you use... that you lose the amortization of... the previous amortization on the two issues that you had previously or do you think that's grandfathered?

Glen LeBlanc, Chief Financial Officer

Again, I'd be speculating on what the legislation changes are going to be so at this time, I don't know. I hope second quarter we'll be able to answer that.

Peter MacDonald, GMP Securities

Okay. Thank you.

Glen LeBlanc, Chief Financial Officer

Thank you, Peter.

Operator

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

Greg MacDonald, National Bank Financial

Thanks. Good morning, guys. I have allergies, too, Karen.

Greg MacDonald, National Bank Financial

So you're going to use the balance of the free cash to pay down debt and by my estimate, that's something north of \$100 million a year; my math might be a little bit off but... I guess the question I would have is that, is that enough? I would have thought that debt paydown was

more important, particularly given the fact that though there's comfort on pension reform, we still don't have certainty on it. Has anything changed with respect to the rating agencies or the bond market, Glen, that you gives you comfort on the ability to refinance that \$750 million in 2011 at attractive rates and that... and at the size that you need? Thanks.

Glen LeBlanc, Chief Financial Officer

Good morning, Greg. Your math is pretty good. We would see 200 to \$250 million of debt paid, being paid down over the calendar years of '11 and '12. We feel that our ratings are solid and the actions we've taken with this plan looking forward will only secure our ratings, and we are quite optimistic it'll secure our investment grade credit ratings. And we don't have any fear of the ability for us to refinance the 2011... I think it's September 11, we have \$750 million coming to them and we're quite confident we'll be able to refinance that at favourable rates. So I think the whole approach we've taken here is one of balance. Over the last of number of years, paying out over 100 percent of our free cash flow and having to fund the pension deficit has resulted in the debt to EBITDA starting to look like two times and even going from 2.0 to 2.05 or 2.1. Our goal is, I like it starting with a 1 and I've said it numerous times on these calls; 1.9 is where Karen and I are more comfortable than it creeping over the 2.

Greg MacDonald, National Bank Financial

And just as a quick follow-on, can I assume that you've had conversations with the rating agencies already; that's what you're referring to on your comfort level?

Glen LeBlanc, Chief Financial Officer

Well we meet with the rating agencies regularly, Greg, so that is something that we do every year.

Greg MacDonald, National Bank Financial

Yes, but on the planned conversion and the \$1.90 dividend, there have been meetings with them on that new structural outlook, right?

Karen Sheriff, President and Chief Executive Officer

Greg, that's a really good assumption.

Greg MacDonald, National Bank Financial

Thanks. And then just finally, can I assume that you're looking at the dividend as... or would you want to signal that your plan is to have a dividend growth model or is that still up to, you know, indicate... is that still up to what the next two or three years bring?

Glen LeBlanc, Chief Financial Officer

I think that's exactly right; it's up to what the next two or three years bring. We, we're very confident that 75 to 85 is the right policy, that \$1.90 fits us nicely there and that it continues to pay our investors a high yield, and obviously, we'll look to what the future can hold. But we know our investors look to yield so that's important to us.

Greg MacDonald, National Bank Financial

Great. Thanks very much.

Glen LeBlanc, Chief Financial Officer

Thank you, Greg.

Operator

Thank you. Our next question is from Maher Yaghi. Please go ahead.

Maher Yaghi

Yes, thank you for taking my questions and good morning. I wanted to talk to you about your FTTH rollout plans and your plan to, you know, be more aggressive in that. I guess the reason it's important, given the, you know, the cut in the dividend, you're allocating more cash to capex and I think it would be interesting to find out from you how your economic analysis of that build has been so far? You guys have talked about it in the past but maybe you can refresh us on... You mentioned about the cost so that... you know, we're fine with that but can you tell us about the ARPU lift that you're seeing from upgraded homes and if you're seeing extra services that are being added and what type of services are we seeing on that front?

Karen Sheriff, President and Chief Executive Officer

Great question and I appreciate your interest. We're obviously really excited about fibre to the home. For a lot of reasons, we are blessed with the perfect territory to do it because, with a virtually aerial infrastructure, it's the most cost effective place to put in fibre to the home, which is why our cost per home past is pretty compelling. And given our densities, it's cost competitive with fibre to the node and then you get all that... the future bandwidth growth potential on fibre to the home. It's way too early in the process to be talking about ARPU lift but the service mix is very straightforward. This gives us the ability to sell television in a way that we haven't been able to sell it before. Television has sold quite well in the early markets that we have rolled out and, as I mentioned before, we are meeting or exceeding every target that we've put in place for fibre to the home on both the sales side, the mix side, how much television we're selling, as well as costs. The guys are doing a really good job of getting it in. Now, it's still early days. We just started this in October, but clearly, we are comfortable enough with this – and it's not a brand new technology; many folks around the world have done it – that we are very confident now pushing forward aggressively because we do believe it gives us a competitive advantage and, frankly, the sooner we put it in, the better the payout, the faster the payout. So that's why we are moving forward the way we are now. It's not a fast payout; you can read... You guys read more than I do and you can look at anybody who's done this around the world. This is not a fast payout, but it does pay out and we're selecting the territories where the payouts are the best and that is where we have predominantly aerial footprint.

Maher Yaghi

Thank you for that but just one and maybe follow up with two short questions on that. The first one, from your experience so far and your calculation, what is the payback time for the upgrade? And the second question is, longer term, what is your goal for converting your customers as a percentage of your territory being served? And on... and how long it will take at these high level of capex to convert this plan, to make this plan happen?

Karen Sheriff, President and Chief Executive Officer

The payback is long; assume it's over seven, eight years. And it's coming in a little bit because of where our costs

are coming in so assume it's somewhere in the eight year range. In terms of the time it'll take to pass the territory, we will have about a third of our competitive footprint covered by the end of 2012 and I can't give you the customer conversion timeframe; that's just a bit too competitive and I'm not going to talk about penetration rates or how quickly we expect to have our customers online. But, again, so far, what we have heard from customers is that they like the product quite a bit.

Maher Yaghi

Okay, that's fair. Thank you very much.

Operator

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

Jeff Fan, Scotia Capital

Good morning and thanks very much. I guess my question is with respect to the fibre to the home as well. With the 600,000 homes that you expect in a few years time, I would imagine some of these homes are being converted from your existing fibre to the node to the fibre to the home sort of network infrastructure so wondering if you can talk a little bit about the plans around that because... I guess wondering what the incremental costs would be and how perhaps you can talk about the qualitative factors that go into how to convert that part of the plan to your FibreOP?

Karen Sheriff, President and Chief Executive Officer

Well, I think what I've said before – it's a great question – what I said before is many carriers around the world are learning that, at least for some period of time, we're going to maintain multiple networks and that is okay because we have an investment and we've recently upgraded our fibre to the node territory with VVSL2 and the product is working quite well. That said, in some locations where it pays to overbuild, we will overbuild and this will be city by city, depending on the density and depending on where we are in that area and I can't tell you where it'll... We will announce that as we announce individual locations that we are expanding to. But part of the infrastructure of the FTTN is they're actually reusable for fibre to the home and will reduce the cost per home passed in those areas. Not all of it but some of it is reusable, which makes it... make the economics more attractive. All that said, we're

not going to be in a gigantic hurry to undermine the FTTN investment; it's working quite well. But where it makes sense to overbuild, we will do that.

Jeff Fan, Scotia Capital

And just a quick follow-up on the difference between FTTN and FTTH; when you look at the footprint that you've done FTTN versus the footprint where you've done FTTH, how would you characterize the difference in terms of the customer take-up and your success and win-backs, etc.? Anything that you can give us to give us some comfort that FTTH is really the way to go.

Karen Sheriff, President and Chief Executive Officer

You know, it's too early. We're... It's like seven, eight months into this and my metrics are going to move around a ton. But all I can tell you is that there is a difference, I like the difference and that's why we're moving forward. But more importantly, it's just... If I was going to expand anything, it would be this product because, even though most of the products we have today work quite well on FTTN in the future, this product, FTTH, just gives me way more capability to support higher bandwidth needs of our customers. Most of our customers don't need that today but they do like the product and that's why we're rolling out but it's way too early to be giving you metrics like that.

Jeff Fan, Scotia Capital

Okay. Thanks, Karen.

Operator

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

Jonathan Allen, RBC Capital Markets

Thanks very much. Good morning. I just wanted to follow up, first on the fibre to the home capex spend beyond 2012. Not looking for specific numbers here but I'm just curious whether you expect the capex budget will revert back to sort of that \$450 million run rate that you had before the fibre to the home? Or do you expect that fibre to the home's just going to be an ongoing expansion

project beyond that and that we should be expecting a higher level of capital intensity?

Karen Sheriff, President and Chief Executive Officer

Great question, Jonathan, and good morning. The... Right now, we are announcing the largely aerial part of our footprint that makes economic sense to do and beyond 2012, unless the economics of the product change materially, we expect the investment to drop on an annual basis pretty materially to the run rate we're at today or even potentially lower, so there will be more to expand but not nearly at the run rates that we are pushing for in '11 and '12. All that said, if we have a great experience, if the business case changes, if more of the territory becomes viable, we may change that. But as of right now, we're expecting a pretty material reduction after 2012.

Jonathan Allen, RBC Capital Markets

Thanks. I just wanted to switch over to discussing some of the debt reductions, Glen, that you had been mentioned, 200 to \$250 million debt payment, or debt reduction between 2011 and '12. I assume that's after some of the forecast solvency payments as well, maybe like \$100 million a year?

Glen LeBlanc, Chief Financial Officer

Well, as I had alluded to in my comments earlier to Peter MacDonald, we are forecasting that our... you know, our solvency payments this year I said would be... or our deficit payments could be as much as 80 to \$110 million, probably on the low end of that guidance if we don't get, we don't get any relief from the government. But assuming relief where we could use letters of credit for solvency, that would... we would anticipate that to be much less than that, as I said, as much as maybe \$35 million less. So when I'm talking about debt repayment of 250, that's all in so that's net debt reductions.

Jonathan Allen, RBC Capital Markets

Okay. And as far as the 75 to 85 percent payout, I assume you're using... Are you going to continue using the same definition of distributable cash flow that you've been using now, or... which excludes some of the pension solvency payments?

Glen LeBlanc, Chief Financial Officer

No, Jonathan. I think, what's happened, by using distributable cash and running at an 85 to 90 percent payout, by excluding the restructuring and the deficit payment requirements, you know, I guess you get a false sense of security that you're in a better cash position than you are. We think it's better to use free cash flow, it's more transparent, it takes into consideration all of the cash needs of the business. So the metric we will use go forward is 75 to 85 percent of free cash flow, with the goal that free cash flow should be all of the cash costs, including our structuring and deficit payment.

Jonathan Allen, RBC Capital Markets

Okay. Thanks, Glen.

Glen LeBlanc, Chief Financial Officer

(Inaudible) Jonathan.

Operator

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

Vince Valentini, TD Newcrest

Yeah, thanks. Just following on that, Glen, could I just make sure I'm crystal clear on what's included in the free cash flow? Obviously, including deficit payments and restructuring costs; that's great. You're making an assumption of cash taxes that you would pay after your shelters expire and are you including or not including the fibre to the home sort of temporary capex, if you call it that?

Glen LeBlanc, Chief Financial Officer

Good morning, Vince. You're right on all your assumptions; it does include cash taxes when we do have to pay them, estimated to be in the 130 to \$140 million range. It does include the capex in the calendar years of '11 and '12 for this acceleration because we do have this tax shelter. So during those calendar years of '11 and '12, I wouldn't... I don't anticipate a cash tax bill

of the \$130 million, but we will have this additional \$100 million in capital each year.

Vince Valentini, TD Newcrest

Hmm, but will... you're not including both? You're... One offsets the other during those two years?

Glen LeBlanc, Chief Financial Officer

That is correct.

Vince Valentini, TD Newcrest

That's clear. The second follow-up on the fibre to the home, is there any government subsidies possible in this next wave of investment?

Karen Sheriff, President and Chief Executive Officer

You know what? I have nothing to announce at this point. We did have a fabulous partnership and we still do with the Government of New Brunswick and they contributed some extensions on our contracts and \$1 million in other support but I have nothing beyond that to announce at this time.

Vince Valentini, TD Newcrest

Okay. And one last one. When you finish this project, if you have a third of your homes pass with fibre to the home, you'll have a vastly superior network to most telcos in Canada and most in North America, except Verizon, but it won't necessarily translate into EBITDA right away or free cash flow. So I'm wondering if, during this interim period of investment, if someone were to come around trying to acquire your company, would the Board fight hard to get paid for this investment and do some sort of one-off analysis of what it's worth over and above the recurring cash flow the business is generating?

Karen Sheriff, President and Chief Executive Officer

Wow. You know, I can't... I can't answer that. I... You'd have to... If and when we will think about that; that's really not in my awareness set right now. But, clearly, the reason we are doing this is to add shareholder value and to build the long-term value of this

property, and I think you said it right; we have... We are in a unique position in Canada, even in North America with, go figure, a territory where this thing makes a ton of sense, and so we are going to move like a bat out of heck to build as much value as quickly as we can for all of our unitholders.

Vince Valentini, TD Newcrest

Okay. Thanks.

Operator

Thank you. Our next question is from Philip Wang of UBS. Please go ahead.

Philip Wang, UBS

Good morning. Thanks very much. You've already answered a few of my questions but just wanted to get back to the dividend. I wanted to get a bit more colour there. So you expect an initial dividend of \$1.90 based on 75 to 85 percent of free cash flow. Is it fair to assume that if you're able to achieve some savings on your capex or other areas, that you... would you peer to allocate the excess cash to taking your fibre to the home beyond a third of your competitive footprint? Or could we see... you know, or would you consider sort of an increase to the dividend some time in the next two years?

Glen LeBlanc, Chief Financial Officer

Good morning, Philip. Obviously, I'm not going to provide three-year guidance on our distributions or dividends beyond 2012 and '13. What we announced today was 75 to 85 percent payout policy on free cash flow and \$1.90 starting in January 1st, 2011, and that is something that we review every year with our Board of Directors. And so it's not something I can provide any great insight into, will there be future increases. It's something that we review every year.

Karen Sheriff, President and Chief Executive Officer

One thing, I want to add a little bit to that because I know this is a theme for many of you. And just to help a little bit, I think Glen said it before; I need to listen hard to what he said. We know yield is important to our investors, we know that. And we think we have selected a dividend

approach that gives us tremendous comfort that we can stable, we can be smart about what we are doing and should the environment loosen up in the future, we will revisit. So listen hard to what he said. Now, short term, likely not doable; long term, we hope it is doable.

Philip Wang, UBS

Fair enough. Thanks very much.

Operator

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

Glen Campbell, Bank of America/Merrill Lynch

Yes, thanks very much. Just some clarifications again on the fibre to the home. We've seen some pretty significant reductions in the cost to pass a home. I was wondering if you could elaborate a little bit on where those are coming from? And then on the eight-year payback that you referenced, is that taking into account triple play penetration gains or just penetration gains on the incremental products, such as TV? Is it taking into an ARPU or cost savings or all of the above? I just want to get a sense of how, you know, how fulsome the evaluation is that gets you to that eight years.

Karen Sheriff, President and Chief Executive Officer

Okay. On the cost per home passed, the thing that's really occurred over the last five plus years is Verizon and by ploughing as much ground as they have and expanding this as much as they have, not only have they helped to bring the cost, just the raw cost of the technology down but tremendous learning about how to install it well, install it effectively. Our folks have studied that hard, frankly, for a number of years and we have under Chuck Hartlen a phenomenal operations engine and they are... they're doing a fabulous job of figuring out how to install this thing efficiently. And, again, they are meeting all of our expectations. Some of the cost, as you know, is the fibre itself. A lot of it is labour so the amount of time that it takes to install is very important and we've very quickly gotten some international benchmarks that are pretty compelling on the amount of time it takes to install, so that's what's driving the cost.

In terms of... If I understand your question correctly on the payback and what's in, we're... we are assuming the

benefit of not just the revenue growth from the new products that we're selling but the retention benefit of having the fibre in our mix in a world where a competitive footprint is growing and wireless substitution is going to grow so all those things are factored in to the case.

Glen Campbell, Bank of America/Merrill Lynch

Just to follow-up on that, I mean you talked about benchmarking closely with Verizon. You know, they just put up a quarter with a 21.7 percent wireline margin. I mean, you know, obviously there's differences with their territory but, you know, one could assume that there's some longer term operating expense drag that (inaudible) is causing. Can you talk about what might be different as we go forward looking at your numbers?

Karen Sheriff, President and Chief Executive Officer

Yeah, it's really hard for me to comment on all of their financials and they deal with a competitive world that I don't have and I won't ever have. We will never be fully competitive in all of our territory. We don't think we will have as much wireless substitution because of the nature, again, of our rural territory and it's less attractive than many others on the continent. But there is a bit of expense drag and this is with the migration between FTTN and fibre to the home and the cost of having to maintain the two networks. Now, that said, I have a much higher percentage of aerial footprint than Verizon does and that has proven a bit of an issue for them, so they have ploughed in a lot of fibre to the home where they have a lot of aerial but they have a ton of buried, far more than I do. So I think that's one of the bigger issues and this migration between the two networks and wanting to be smart about how you let that migration go over time, that's... I think that's probably one of the big differences.

Glen Campbell, Bank of America/Merrill Lynch

Okay. Thanks very much.

Operator

Thank you. Our next question is from Dvai Ghose of Genuity Capital Markets. Please go ahead.

Dvai Ghose, Genuity Capital Markets

Yeah, thanks very much. If I could revisit the dividend question, you know, people are talking about growth potential and wondering about longer term sustainability for this reason. If you look at your... And, Glen, really appreciate your giving free cash flow numbers going forward. So last year, your free cash flow, ex working cap, was \$644 million. You suggested on the last call that \$140 million would have been about your cash taxes last year, which is about \$504 million of fully tax (inaudible) free cash flow of 220, 221 per unit so that's about an 86 percent payout ratio pro forma on the \$1.90 proposed dividend. So, number one, that's already slightly above the upper end of your guidance range. I perfectly accept that pension costs could go down but it also looks as if your EBITDA ain't going to go up any time soon and your capex could go up for more than the next two years. So, you know, I obviously don't think you want to be in the situation where people perennially debate the sustainability of your dividend but is 85, 86 percent really appropriate given your revenue mix and EBITDA mix seems to be in decline?

Glen LeBlanc, Chief Financial Officer

Good morning, Dvai. It's Glen. Obviously, we took into consideration all of those points that you brought forward when setting an important policy like a dividend policy of 75 to 85. First thing, I already alluded to and you made comment to, we want to focus on free cash flow, not distributable cash because we want to ensure sustainability and that is, take all of our cash costs into consideration. We've done that. We've also looked at this long-term sustainability of \$1.90. The numbers you allude to, sure, they're... I can't argue that, you know, what's in your model versus our forward-looking model but, you know, some of the points you brought up is, one was pensions; two was the size of the restructuring charges that existed in 2008 and '09 is larger than we anticipate go forward. All of that to say, whether it's the 85 or, you know, 80, I think, 5 percent is about 20 to \$25 million of cash so, you know, I don't think it's insurmountable when I look out three years. So I really... I do appreciate your comments, I hear them loud and clear and I can assure you, in setting that 75 to 85 percent policy, sustainability was in the forefront for us.

Dvai Ghose, Genuity Capital Markets

Okay, no, that's fair. If I could ask another question on fibre to the home, both one in terms of Verizon's experience and then one in terms of your costs on the incremental fibre to the home build that you just announced last night. As far as Verizon's concerned, you

know, fibre to the home looks very attractive in theory and increases your competitive ability but if you look at 2009, Verizon lost 12 percent of its residential lines and 11 percent of its total lines, I think the worst of any telco in the US, despite the fact that it has fibre to the home, which was somewhat unique. So where is the documentary evidence that it really does help you in terms of defending your legacy businesses?

And then on the actual calculation, I'm just trying to get some clarification here, because, from what I understand, you've increased your target to 600,000 homes from 140,000 homes so that's a net delta of about 460,000 homes. And you suggest it's about 500 to pass a home so that's about \$230 million, slightly higher than your \$200 million that you've given us, and it doesn't include any hook-up costs and you're suggesting that's also in the \$200 million. So could you just help me resolve those numbers, please?

Karen Sheriff, President and Chief Executive Officer

Sure. You know what? I can't give you the chapter and verse on Verizon's experience. I've talked to other people around the world, Dvai, and there are... Verizon isn't the only guy on earth that has fibre to the home. But I do know our numbers and they're very, very simple. Fibre to the home costs me the same as fibre to the node. And I do know that in territories where I don't have fibre, the results are very different than where I do. So this is a very simple issue for us. And I also know, or I suspect that my territory will never look like theirs competitively. I also have way more aerial than they do so there's a whole bunch of reasons why, for us, I think this is not only a very smart thing to do, I think it's the only thing to do. So that's my answer for you on the documented evidence.

In terms of the dollars, now remember we announced \$350 million over a couple of years; that includes the cost for the homes passed and it's... assume will be something around, a little bit more than 600,000 homes so figure 250 plus, \$280 million for the homes passed, given the costs that I've given you. The rest of that; there is some developmental cost in there as well because we're assuming in that that we have some aerial footprint in our central region and we will need some developmental costs for that and the rest of it is cost per home connect. So it really does add up.

Dvai Ghose, Genuity Capital Markets

So what... Sorry, what is the implied cost per home connect? Perhaps if you can give me that, I can work it out.

Karen Sheriff, President and Chief Executive Officer

No, we are... In order to do that, I'd have to tell you the penetration expectation (unintelligible).

Dvai Ghose, Genuity Capital Markets

Yeah, sorry about that.

Karen Sheriff, President and Chief Executive Officer

Too competitive. I can't do that.

Dvai Ghose, Genuity Capital Markets

Competitive, yeah. All right. Thanks very much. Appreciate it.

Karen Sheriff, President and Chief Executive Officer

Yeah.

Operator

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

Peter Rhamey, BMO Capital Markets

Hi, thanks very much. Just want to revisit the dividend. It came in a little bit lower than what we were expecting and I just wanted to get, maybe from Karen, how you waved off establishing the going in dividend rate and your fibre to the home investment on a go forward basis? The second thing is, when I take a look at those numbers that you were talking about, setting aside maybe \$70 million for development and success-based capital spending, is it fair to say that this is an incremental drag to EBITDA on a go forward basis, hence, if you take a look at the current trend in EBITDA, it's you know, unfortunately, negative, that that trend... it's a reasonable assumption to use that for the next three years, just as a base case? And if that's true, then how does the Board look at, yes,

you have a payout on free cash flow but if you've got a negative EBITDA trend, do they really look at free cash flow or do they want to see that turn positive before they can get more aggressive on increasing the dividend? Thanks.

Karen Sheriff, President and Chief Executive Officer

Great questions. You know, we actually didn't do this as a trade-off between dividend and fibre to the home. They're totally different issues. We set our dividend policy and agonized over it, because you guys have been asking us for God knows how many months, and we agonized over it for all those many months; dime by dime, what is the right dividend policy? And as Glen explained before, we selected the dividend policy looking at the prospects of the Company going forward, looking at the upsides and the downsides and the potentials for the next two, three years, with the desire to keep it as high as we could because we do want a high payout for our investors, but we want certainty in our own minds that we can keep it stable. And that's exactly how we selected the dividend policy. As Glen said to you before, we know our investors would like high payouts and, hopefully, the world looks really good in the future and we can do something even a little bit better than where we are today. But we wanted...

And this was the scrutiny given to us by the Board. You know, put in a dividend ratio at the beginning that you're really comfortable you can live with, regardless of what the world throws at you over the next few years. So there was no trade-off between the dividend policy and fibre, except that – and this actually answers your second question – fibre makes it better over the medium term. There is EBITDA drag short term but over the time horizon of three, four years, we start to get EBITDA upside because we have accelerated the fibre rather than letting it wait, and that actually helps our outlook and helps the... our comfort that we actually have a... we have something going here and the ability to sustain our dividend. So the Board actually liked the fibre because, over the medium term, it starts to deliver EBITDA upside; in the longer term, you know, the numbers are big. You know, it really starts to make some sense.

Peter Rhamey, BMO Capital Markets

And on that, Karen, actually, I know you're reluctant to give competitively sensitive information on fibre but maybe one that's less competitive sensitive would be just, what is the maintenance savings that you get with aerial fibre versus your previous plan? Is there

something you can put on a cost per line? I think Verizon's out with \$110 annually.

Karen Sheriff, President and Chief Executive Officer

Yeah, I think it's... Ours is still settling down and I'm reticent to do that. We will do that for you in the future but I'm a little bit reticent to do that for you now. Assume it'll be no worse than their number and their number kind of fed into how we started the hunt for the right number. And you know the reasons, of course, that it happened; it's so much more reliable and, frankly, we're already seeing this in Fredericton. We get fewer calls on the reliability of the fibre. It's... So you get fewer calls, you get fewer truck rolls. Those are the simple things that occur and then over the long term, the network itself is just cheaper to maintain.

Peter Rhamey, BMO Capital Markets

Great. And then just to flip over just for a minute, you've got a deal that you've negotiated with your unions. Appreciate that it's sensitive given it's going to a vote but I guess it's eliminated wage increases in the 2011, 2012 timeframe, right through to 2014; is that fair to say? So looking at your salaries and benefits, you've got a 1.5 percent savings on a go forward basis. Was wondering what type of trade-off you had to make in establishing... in gaining that from the union?

Karen Sheriff, President and Chief Executive Officer

You know, the... You know the sensitivity; we're in the middle of a ratification process now and I need to respect union and respect our people but what I can say is that we listened hard to the concerns that our union put forward that our people have and job security is a big deal for our people in a company like ours, with the competitive pressure that we are facing. So I think that we have structured a deal that provides for material security for our people and, at the same time, some certainty on the cost front for us to help us move the rest of the agenda forward. And that's really about all that I can tell you right now. But we're going through the ratification process now, and we will have... we'll have better visibility into this in about a month.

Peter Rhamey, BMO Capital Markets

Great. Thanks very much.

Operator

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

Michael Mills, Beacon Securities

Good morning, guys.

Karen Sheriff, President and Chief Executive Officer

Morning, Michael.

Glen LeBlanc, Chief Financial Officer

Good morning, Michael.

Michael Mills, Beacon Securities

I think most things have been covered off here. Just a quick one on IPTV and the number of current customers you have there?

Karen Sheriff, President and Chief Executive Officer

About 37,000.

Michael Mills, Beacon Securities

Okay. And how big does this business need to get before you might consider breaking it out?

Karen Sheriff, President and Chief Executive Officer

Bigger than it is now. It's still too small.

Michael Mills, Beacon Securities

Maybe 100,000?

Karen Sheriff, President and Chief Executive Officer

Yeah, I can't... You know what? We actually, Michael, to be fair, we actually have not talked through what number would be big enough for us to feel comfortable so I can't give you a coherent answer. It's just still too small.

Michael Mills, Beacon Securities

Okay. That's fair enough. Thanks.

Karen Sheriff, President and Chief Executive Officer

Thank you.

Operator

Thank you.

Karen Sheriff, President and Chief Executive Officer

Do we have one more?

Operator

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

Zeda Redden, Vice President, Investor Relations

Thank you, Operator, and we will be meeting with most of you over the next couple of days and look forward to discussing things further with you. And thanks, everyone, for joining us today.

Operator

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