

CORPORATE PARTICIPANTS

Zeda Redden

Vice President, Investor Relations

Karen Sheriff

President and Chief Executive Officer

Glen LeBlanc

Executive Vice President and Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Maher Yaghi

Desjardins Securities

Greg MacDonald

Macquarie Capital Markets

Phillip Huang

UBS

Dvai Ghose

Canaccord Genuity

Glen Campbell

Merrill Lynch

Drew McReynolds

RBC Capital Markets

Peter Rhamey

BMO Capital Markets

Vince Valentini

TD Securities

Adam Shine

National Bank Financial

PRESENTATION

Operator

All participants please stand by; your conference is ready to begin. Good afternoon ladies and gentlemen. Welcome to the Bell Aliant Incorporated Fourth 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. Good afternoon everyone and welcome to Bell Aliant's Q4 2011 Results and 2012 Guidance Call. Earlier today we issued our news release and Q4 2011 MD&A and Supplementary Information package which are posted on SEDAR and also on our website. 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 and several assumptions have been made in preparing these statements and there are risks and uncertainties that could cause our actual results to be materially different from these forward-looking statements. The financial results for Q4 and the 2011 year discussed in this call are unaudited and our 2011 audited financial statements and MD&As are expected to be available on March 6th. Additional information about the risks and assumptions can be found in the 2010 annual MD&As of Bell Aliant Regional Communications Income Fund and Bell Aliant Regional Communications Holdings Limited Partnership, as well as our Q4 2011 MD&A and news release, all of which are posted on SEDAR and also on our website. 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.

Karen Sheriff, our President and Chief Executive Officer, will provide a recap of our fourth quarter results and then Karen and Glen LeBlanc, Executive Vice President and Chief Financial Officer, will speak to our guidance for 2012. 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 Zeda and good afternoon to everybody. Let me start off by saying that I am very pleased with our 2011 results. This has been a tremendous year for us and before we get into the results of Q4 and the 2012 outlook, let me take you through the highlights of 2011 in the context of our overall strategy which will provide a good backdrop for our plans going forward.

2011 was a year of solid execution for us. As I said a year ago, our objective at this stage in our business cycle is to build a foundation to turn our revenue and profitability trajectory around. Going into 2011, we set out an aggressive plan with a focus on growing broadband with 2011 as the first year of our accelerated Fibre to the Home expansion. I am pleased to say we executed and not only achieved the targets that we set out a year ago, but we exceeded in many areas. In 2011, we had great success with FibreOP passing even more homes with Fibre to the Home than our original accelerated target, with higher penetration rates than expected, all while keeping costs in line, and FibreOP has been rated number one in customer satisfaction in FibreOP markets.

FibreOP is starting to make a difference. We saw Atlantic residential revenues return to positive growth after several years of decline with improving rates of NAS decline in FibreOP markets.

We managed to hold our non-pension operating expenses to a less than 1 percent increase, thanks to productivity initiatives throughout the organization that largely offset normal inflationary pressures as well as pressures from the ramp-up of FibreOP.

We executed a highly successful voluntary retirement offer to a large group of our unionized colleagues which will help us further contain costs going forward while providing new opportunities for employees within our organization, and we took advantage of the low interest rate environment to issue new preferred shares, the proceeds of which were largely used to make lump sum pension contributions, all of which helps to strengthen our balance sheet and solidify our investment grade credit standings.

So as you can tell, I'm pretty pleased with our 2011 accomplishments, however most importantly, I am pleased to see that our longer-term strategy is working. In 2009, we set out a new strategy with five strategic objectives and we have stuck to it. Each year we have made progress and in 2011 we began to see the beginnings of a turnaround in our revenue trajectory, so I am feeling like we are doing the right things. We are on the right path so we are going to keep going on that path.

With that as a backdrop, let me give you an overview of our fourth quarter 2011 results as they continue trends that carry over into our outlook for 2012.

Turning specifically to our financial results on slide 5, while on the surface the year-over-year trends for the

quarter look soft compared to earlier quarters of 2011, as we have said for several quarters, we expected the year-over-year trends for revenues and EBITDA in Q4 to be relatively soft compared to the prior quarters of 2011. This is because the fourth quarter of 2010 included out of the ordinary events that favourably affected that quarter's results. The fourth quarter of 2010 benefited from favourable revenue adjustments arising from two regulatory decisions on contribution revenues and pole attachment fees as well as the recognition of SR&ED credits and expenses that did not recur in 2011. Excluding these out of the ordinary events, our revenue in the fourth quarter of 2011 was essentially flat to the same quarter in 2010 while the EBITDA decline was similar to that which we saw in the prior quarters of 2011.

In the fourth quarter of 2011, increases in Internet and TV revenues largely offset declines in our legacy voice revenues from the same quarter in 2010. We also continued 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. Continued investment in our next generation network technology and the evolution of IP connectivity is a key enabler of continued improvement in this area and we are encouraged by these improving trends.

Capex in the fourth quarter of 2011 was down from the same quarter in 2010 but, as you will recall, the fourth quarter of 2010 included the one-time \$57 million repurchase of an interest in telephone poles in Newfoundland. Excluding this, our capex was up \$32 million in the fourth quarter of 2011 compared to 2010 which was driven by our Fibre to the Home rollout.

The year-over-year changes in quarterly free cash flow were driven primarily by the changes in capex from 2010 to 2011. The \$26 million improvement in free cash flow for the full year 2011 compared to 2010, excluding lump sum pension contributions, was driven by strong improvement in working capital management and lower regular pension funding.

Getting a bit more into some of the revenue details of the quarter, on slide 6 our local services revenues declined 6.6 percent with NAS declines of 5.3 percent from a year earlier. Adjusting for contribution revenues mentioned earlier, our local revenue decline was similar to the prior quarters of 2011. NAS erosion from new competitive openings and intensifying competition, particularly in our non-fibre markets, continued to be the driver of the local revenue decline. Local revenues were also somewhat negatively affected by the effects of bundling which tend to increase overall household ARPU as we retain the

customer and sell more services but results in a lower portion of the bundle revenue being allocated to local service; benefit is in a standalone service product.

Turning specifically to Internet on slide 7, Internet revenue had its best quarter of 2011, growing by 8.7 percent compared to the same quarter in 2010 with increasing average revenue per customer being the driver. Residential high-speed ARPCs continued its upward climb, reaching another new high of 8.2 percent over the same quarter in 2010. Pricing action and an increase in the number of customers and higher tiered services and bundles, including FibreOP, drove the increase in ARPCs.

Overall, high-speed net additions in the quarter were about 2,500, down from 5,000 in the same quarter of 2010, similar to the trend we have seen over the last few quarters. Continued focus on FibreOP resulting in significant migrations from DSL, along with intense competitive activity, particularly in non-fibre markets, impacted net adds again in the quarter. So while the overall high-speed net adds in the quarter were low, as shown on slide 8, we had another quarter of very good FibreOP subscriber growth.

Our FibreOP Internet net adds have continued to grow each quarter as we expand our Fibre to the Home footprint and in the fourth quarter of 2011 we added 13,000 bringing total FibreOP Internet customers to 47,000 at the end of 2011. Migration of existing high-speed customers from our DSL and Fibre to the Node Internet services continued to account for more than half of the FibreOP net adds. As we've noted before, the migrations do not show up as new additions but do benefit long-term high-speed ARPCs and reduce churn.

The take rate of FibreOP TV continues at approximately 90 percent of FibreOP Internet customers as we added 11,000 new FibreOP TV customers in the quarter, bringing our total FibreOP TV customers to 42,000. We had net IPTV additions of 9,000 subscribers in the quarter as we are experiencing some migration from our FTTN TV service which also does not show up as net adds.

As we've said before, the important point with fibre, even with unit-neutral affected migrations, is that it gives us the ability to provide all communications and entertainment services to the customer and own the whole home which is the overall objective.

Where we have Fibre to the Home, we have significantly improved rates of NAS decline, higher high-speed customer growth and, of course, new TV customers.

2011 was a tremendous year for us in terms of accelerating our fibre strategy as we passed an additional 320,000 premises with the service to now reach over 458,000 homes and businesses. I am very pleased that our 2011 results are showing that the strategy is working and reinforces our resolve to continue to expand.

Now let me turn to our 2012 guidance. Let me start off by saying that our five strategic priorities remain the same in 2012, as they have been for the past three years, and 2012, like 2011, will continue to focus on our grow broadband strategic initiatives.

2012 will be another significant year for Fibre to the Home expansion. Because we expect minimal pension deficit funding and minimal cash income taxes in 2012, we are able to do this while maintaining strong free cash flow which Glen will speak to shortly. We now plan to pass approximately 650,000 by the end of 2012, up from our previous estimate of over 600,000. While all of our homes passed to date are in Atlantic Canada, as we announced yesterday, we will be launching FibreOP in Sudbury, Ontario later this year, which is our largest city in Central Canada.

Importantly for 2012, in addition to further expanding our Fibre to the Home coverage, we will be focusing on loading the network, increasing penetration rates by connecting more customers to the Fibre to the Home network than we did in 2011. The successful implementation of our Fibre to the Home strategy supports all of our other strategic objectives by helping us provide a better customer experience, retain customers, reset our cost structure and engage our people. While we have not totally turned the corner, we are progressively making improvements to turn our revenue and EBITDA trajectories around. We expect the year-over-year performance in 2012 to be better than what we achieved in 2011, so while I am not ready to say that we are back to growth, we are progressively getting there.

Turning to slide 11, revenues in 2012 are expected to be between \$2.7 billion and \$2.78 billion compared to the \$2.775 billion in 2011. We expect competitive activity to continue to be strong in all of our markets as we all compete using bundles to become the sole service provider to the customer. We are seeing improved rates of NAS decline in Atlantic Canada where we have FibreOP which we expect to somewhat mitigate losses in our non-fibre markets. We expect some further growth in the cable telephony competitive footprint and a slight increase in the effects of technology substitution from wireless and VOIP.

Overall, we expect NAS declines in 2012 to be similar to what we experienced in 2011. On the growth side, we expect Internet revenues to continue to increase, driven by strong growth in FibreOP customers and migration to higher tiered services. TV, of course, is also expected to be an area of substantial subscriber and revenue growth and when taking the bundling implications of TV into account, we expect to see increases in overall residential ARPC.

Now turning to EBITDA on slide 12, EBITDA is expected to be between \$1.285 billion and \$1.325 billion in 2011 compared to \$1.327 billion in—l'm sorry, in 2012 compared to \$1.327 billion in 2011. While the shift towards a lower margin revenue mix with declines in higher margin legacy services being offset by lower margin data services like FibreOP is expected, we expect to largely contain costs with ongoing productivity initiatives. The carryover effects of the union retirement offer and other operational changes that we've made in recent years will be key contributors to cost containment along with further procurement and other process improvements. We also expect to have significantly less EBITDA drag from FibreOP in 2012 than we had in 2011 with the carryover revenue benefits from FibreOP customer additions in 2011 largely offsetting the operating costs of our 2012 rollout.

Turning now to capital expenditures, we expect 2012 capex to be \$550 to \$600 million compared to \$573 million in 2011. We passed an incremental 320,000 premises with Fibre to the Home in 2011 and we'll pass somewhere around 200,000 more in 2012. Although we expect to pass fewer incremental homes in 2012 than we did in 2011, the capex savings from this will be offset as we incur slightly higher connection costs by adding more customers to our Fibre to the Home network than we did in 2011, start up costs for entering new territories and a higher cost-per-home pass as we enter slightly less densely populated markets. Our average cost-per-home's pass in 2011 was actually relatively low as it included much of the core of our largest, most densely populated city Halifax which was also an overlay build. The cost-per-home passed in 2012 is expected to be in the \$500 range, in line with our overall target.

In summary, 2012 will be another big building year for us, not just in terms of physical construction but in terms of growing our customer base and expanding the foundation for future growth. We are already seeing very positive results in our Fibre to the Home markets in Atlantic Canada with better NAS retention, increasing ARPCs, and better RGU growth. As I said last year, we now believe that more homes than this year's 650,000 will be economically viable. Assuming continued success, we

are now confident that over a million premises, or an additional 350,000 beyond this year's build, will make economic sense over time and we expect to progressively get there. Based on our experience, building an additional 350,000 or so more homes would cost under \$200 million, so a manageable amount for a company of our size. We will manage the pace as a function of the program's continued success, as well as the other needs of the business. Importantly, the larger the build the greater the value of our network and the more capability in delivering more future cash flow. Fibre to the Home is producing very strong results which we believe will support our long-term profitability and help ensure the sustainability of strong cash flow.

And with that, I'm going to pass it over to Glen to talk to you about free cash flow, pension and taxes.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Thanks Karen and good afternoon everyone. While Karen has covered off much of the operational highlights, I want to start off by saying that in addition to those successes, we also took steps in 2011 to mitigate financial risk. We took advantage of the low interest rate environment which has clearly created challenges for those of us with defined benefit plans to obtain relatively low cost financing for contributions, thereby solidifying our balance sheet strength and gaining us flexibility for future funding requirements. As you know, in 2011 we issued two new series of preferred shares and used \$315 million of the proceeds to make lump sum contributions to our defined benefit pension plans with the remainder used to reduce debt. By doing this, we improved our leverage ratios, increased the assets in the pension plans and thereby earning greater returns and created a pool of available funds that can be used to meet future pension deficit funding requirements. The pension contributions are also fully tax deductible which means they increase our tax loss carry forwards from what they would have otherwise been, further delaying our eventual payment of cash taxes. Accordingly, in 2012, we expect our cash funding for pension deficits to be virtually zero. Substantially, all of our 2012 pension deficit funding requirements will be met by drawing down the lump sum contributions. We will use a small amount of letters of credit for some of our plans which are made up solely of retirees and are at risk of flipping into a surplus position. While we expect to draw down on the lump sum contributions in 2012 deficit funding requirements, we do not expect to exhaust the balance and expect some further carryover for future years. On slide 15 we show our expectations for 2012 pension expense and funding.

Actuarial valuations will be completed around mid-2012 which will give us the specifics on our funding requirements, so these are only preliminary estimates.

With respect to income taxes, there are a number of factors at play. The utilization of accumulated tax loss carry forwards will result in minimal cash taxes being paid in 2012. However, we expect our obligation to pay cash taxes to begin in 2013 as we expect to have exhausted our tax loss carry forwards that year. Depending on future levels of taxable income, our normal annual range of cash taxes is expected to be \$125 to \$145 million. The change to the deferral rules associated with partnership income will likely result in a one-time, higher than normal cash tax year of about \$50 to \$60 million in incremental tax in either 2013 or 2014. The actual timing of the additional cash tax payment is subject to a number of legislative requirements, options and considerations which will be determined as we get closer to those time periods.

As shown on slide 17, we expect our free cash flow in 2012 to be between \$500 and \$560 million compared to \$557 million in 2011. Lower regular pension deficit funding, lower restructuring costs and improvements in working capital are expected to offset any free cash flow declines from lower EBITDA. Our payout ratio is expected to be within our long-term targeted payout ratio of 75 to 85 percent of our free cash flow.

And lastly on guidance, our adjusted earnings per share are expected to be in a similar range as 2011 at \$1.60 to \$1.80. Our adjusted EPS excludes the annual amortization expense related to the purchase price allocation of assets acquired in 2006 which puts a non-cash drag on our earnings per share in the range of \$0.30 annually. Because these intangible assets will largely not require cash investments to be replaced in the future, we believe this adjusted earnings per share metric is more meaningful.

And to conclude on guidance, slide 19 shows a summary of our guidance metrics for 2012 and we will update you quarterly on where we stand with respect to these as we move forward.

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

QUESTION AND ANSWER SESSION

Operator

Thank you. Questions will now be taken from the telephone lines. If you wish to ask a question and you are using a speaker phone, please ensure that you lift your handset before you make your selection. If you wish to ask a question at this time, please press star, one, on your telephone keypad. You may cancel your question at any time by pressing the pound sign. Please press star one at this time if you wish to ask a question.

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

Maher Yaghi, Desjardins Securities

Thank you for taking my questions. I just have two questions quickly, the first one on operating expenses in the quarter. Other operating expenses, you mentioned that they increased 30 percent compared to last quarter. You mentioned a few items there, the recognition of higher SR&ED credits, advertising costs, rollout of FibreOP. Could you maybe just split those in terms of what is recurring, what is not recurring just so that we can appreciate what's going on because it was a sizeable increase quarter-over-quarter there?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Good afternoon Maher, it's Glen. Yes, you're right. There's about an \$8 or \$9 million increase in the other operating expenses in the quarter. Approximately \$3 million of that was related to a one-time SR&ED recognition in 2010 so naturally that's not reoccurring. There's several million, about \$3 million of that in advertising and marketing expense as we continue to aggressively invest in rolling out fibre, and then there was some other small, one-time operating expenses of a couple of million dollars that would be non-recurring. So the lion's share of that were, one, lapping an event of 2010 on the SR&EDs and a couple of million of one-time operating costs around consulting that would be non-recurring.

Maher Yaghi, Desjardins Securities

Okay, thank you. That's helpful. And my second question is on Fibre to the Home rollout. Now when I

look at your rollout so far, a lot of—I'm looking at your footprint in terms Fibre to the Home and Fibre to the Node and what you say you have in terms of Fibre to the Home only deployment and from what I can gather here—and you can correct me if I'm wrong—a lot of the Fibre to the Home build-out that you did in 2011 came from transitioning Fibre to the Node footprint into Fibre to the Home. At the end of this year, you only have approximately 87,000 homes on Fibre to the Node that you can transfer on Fibre to the Home, so am I right in saying that going forward that's in terms of the next step to increase your Fibre to the Home expansion or footprint, it's going to require maybe more cap ex per home to transfer because you've used a lot of your Fibre to the Node footprint to transition to the Fibre to the Home?

Karen Sheriff, President and Chief Executive Officer

The quick answer is yes. So let me give you a sense as to the cost, Maher. We've been telling you for a while that our target for cost per home passed is about \$500, right? Well the reality is that last year because so much of the build—and I alluded to this a bit in my script, I just didn't give you the number—a lot of last year's build was overbuild in Halifax and that's much cheaper at actually slightly less than \$400 per home passed so you should assume that's one of the reasons our cap ex per home for our build is a little bit higher in 2012 because this year's build will be much closer to that average of about \$500.

Maher Yaghi, Desjardins Securities

Okay and you mentioned about what is economically possible in terms of build-out of Fibre to the Home longer term. Over how many years do you plan to undertake this expansion to achieve or cover that economical footprint that you think is feasible given the economics you're seeing right now.

Karen Sheriff, President and Chief Executive Officer

It took you a hell of a lot longer to ask that than I thought it would. I would have thought that would have been first.

I actually—I'm not sure of the answer to that. I have a whole bunch of different scenarios and as I said in my script, it's going to depend on the other needs of the business; it's going to depend on where our pension is, it's going to depend on a whole bunch of stuff. It's also going to depend on the strength of our activations versus

build, so I have scenarios that could make that last as long as five years and I have scenarios that are shorter than that and we're going to have to watch the continued success this year, what how the build goes in Sudbury to give us a sense as to building outside of Atlantic Canada and are we as good at it outside of Atlantic Canada—outside as we are within, so I don't really know the length of that build. It could be longer or it could be shorter.

Maher Yaghi, Desjardins Securities

Thank you very much.

Operator

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

Greg MacDonald, Macquarie Capital Markets

Thanks and good afternoon guys. I wanted to ask a similar question to what Maher asked in that if I make an assumption—I'm looking at the \$200 million for the marginal 350,000 homes and I'm going to make an assumption that if you can, you'd like to go in the shorter end, so let's say two to three years. If I include that marginal capex, the cash tax scenario and then relatively little flexibility in terms of what's going on in the pension side, I'm getting a free cash payout on the dividend very much at the high end of your target range, and the question is this: is that target range high end absolutely set in stone relative to the risk that you're seeing in the non-fibre areas right now? Because I'm getting a sense that the erosion from subscribers in those non-fibre areas remains dangerously high and that's really what you're trying to focus on here. So I'm trying to get a sense of what the risk is on the dividend payout on the high end there. Is that somewhat flexible or is that a hard number that you absolutely won't go beyond and which probably impacts your decisions on capex?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Good afternoon Greg, it's Glen. We set a target when we converted back to a corporation that 75 to 85 percent payout of free cash flow was the right long-term target for Bell Aliant. We still maintain that that is the right target for Bell Aliant in the long term. That said, I would not say any target that you set as a long-term objective means that you would not see yourself potentially, in a year or

two, be outside of a range, be that below or above. What is absolutely critical for Bell Aliant is that Karen talked about the turnaround and the progression of our revenue trajectory and the beginning of a turnaround in our EBITDA trajectory. If you don't turn those things around then no payout is sustainable I guess in to perpetuity. So we are absolutely convinced that fibre is the right way to go. The results we're seeing are extremely exciting and we are going to look at passing upwards of a million homes and doing that, as Karen said, we've got several scenarios of how we get there sooner rather than later but, to answer your question, if we had to move away from a payout range for a year or two, certainly wouldn't be something that we would shy away from if it was investing in the health of the business.

Greg MacDonald, Macquarie Capital Markets

That makes a lot of sense and I can appreciate the answer in the competitive dynamic. I guess the one thing to help out investors then—and I do appreciate that you're starting to give out some of the marginal subscriber numbers—but maybe metrics on things like where your net access line erosion is in-territory versus out-territory, ARPU differences, things like that to help us really crystallize what the ROI is on the fibre build areas. What's the timeline for giving out that kind of information? I know it's competitively sensitive but it really is what's necessary for us to—and investors to judge the ROI here.

Karen Sheriff, President and Chief Executive Officer

Greg, I don't think you should hold your breath. I think I've told you before a lot of that is competitively very sensitive and that's the main reason that I won't give it out and I actually don't agree that it's really necessary to understand the ROI. The thing you guys need to see is the turnaround and I think you are just beginning to see the hints that revenue has been going the right way and that EBITDA is going to go the right way and that's really what you need to see. I don't think you really need that minutiae data and for all sorts of reasons I just—I can't give that to you. I have said it without giving you numbers that our churn is much lower where we have fibre customers, it's lower in fibre cities but I cannot quantify that for you for competitive reasons. I think the other thing that should be really clear as you look at us and you look at carriers all around the world is that where you only have DSL you've got an issue. It's really tough and churn is not going down with the rollout out and the expansion of DOCSIS 3, it's getting tougher and tougher where we don't have fibre.

Greg MacDonald, Macquarie Capital Markets

I can appreciate that. Maybe one last quick question. Last time I checked I think the cable competitive footprint was about 1.8 million homes. Is that changing? Is that growing still and what's the outlook on that?

Karen Sheriff, President and Chief Executive Officer

Well the cable competitive footprint is up 3 points year-over-year; we're at about 72 percent overlap, and it did go up just a touch more this quarter than it had in the prior quarter, I think 0.8 point quarter-over-quarter and again 3 points year-over-year. It has slowed down so the good news, it's not a 10 point jump year-over-year, it's only 3, but it's 3 and not zero and that is still driving some pressure on our NAS.

Greg MacDonald, Macquarie Capital Markets

Okay but it seems much more—it seems like this is kind of the trajectory now. It's not going to be 5 growing any time soon.

Karen Sheriff, President and Chief Executive Officer

I think we've told you guys before, we expect this thing to kind of top out in the 75 to 80 range and we haven't changed that.

Greg MacDonald, Macquarie Capital Markets

Okay. Thanks guys.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Thank you.

Operator

Thank you. The next question is from Phillip Huang with UBS. Please go ahead.

Phillip Huang, UBS

Hi, good afternoon guys. Thanks for taking my question. I wanted to ask you about your Fibre to the Node footprint. I think you—I'm trying to get back into the number of subs, DSL subs that you lost in the quarter. You grew FibreOP Internet subs by 13 but your overall high-speed net add was 2,000 so I'm assuming that implies 9,000 DSL subs which is an acceleration from the number of subs that you lost in Q3. I think it was like 7,000 in Q3. Is it fair to assume that most of these DSL subs lost were migrations to FibreOP service?

Karen Sheriff, President and Chief Executive Officer

You bet.

Phillip Huang, UBS

And my other related question is that to the extent that you're seeing more pressure within you DSL Fibre to the Node footprint, to what extent do you think that you need to allocate a bit more marketing dollars back to that footprint in order to moderate the subscriber pressures there as you ramp up your Fibre to the Home footprint?

Karen Sheriff, President and Chief Executive Officer

That's a great question. It's actually a little bit more complex than that. So I think I had said several times that we are really focusing our energy and our effort right now on fibre and that's where the bulk of our marketing money is going, that's where our energies are going. Outside of fibre footprint, we continue to market to help grow support and defend our DSL. The big change that's causing some of the changes in these numbers is that in all of our fibre markets, we are not doing any DSL marketing. Zero. And that is because of the focus on fibre and we still think that that is really the right thing to do. The place for us to focus our DSL marketing is in non-fibre markets and we are—we are doing that. The other change year-over-year that I think we forget about is we're just building a lot less DSL new footprint than we have in the past. I'm not sure that you guys have understood in your models how much of our DSL growth was coming from new footprint expansion of DSL and without that growth, that's putting some downward pressure on us as well. So the marketing thing is a great question. We are still really confident that we're doing the right thing in fibre markets and that's where a lot of our money is going.

Phillip Huang, UBS

So you don't see that changing in 2012 at all?

Karen Sheriff, President and Chief Executive Officer

No.

Phillip Huang, UBS

No, that was my question. Thanks.

Operator

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

Jeff Fan, Scotia Bank

Good afternoon. Thanks very much for taking my question. I've got a few. First for Karen, just the big picture; when you look at your FibreOP build and obviously the key thing is to get that revenue and EBITDA growth to turn positive at what point could we start to actually see that happen? Like is the 650,000 that you enter into 2013 going to give you that or are you going to see something between that 650 to a million before we start to see that trajectory turn positive?

Karen Sheriff, President and Chief Executive Officer

So I only give you 12 months of guidance and I think what we've given you in 2012 is better EBITDA. We haven't given you EBITDA guidance that turns the quarter—turns the corner and goes back the other way. I'm really not in a position to tell what without going down 650 what does 2013 look like but I think you need to trust what I said earlier: this thing is progressive but it's a straight track and it is going the right way. The incremental build would really, really help secure it.

Jeff Fan, Scotia Bank

And in the areas where you've had FibreOP for almost two years—I think you launched the first markets over two years ago—can you talk a little bit about what that

penetration is in some of those markets where you've been for a little bit longer?

Karen Sheriff, President and Chief Executive Officer

Good question. Overall, our penetration right now in total as you know is somewhere around 10 percent.

Jeff Fan, Scotia Bank

Yes.

Karen Sheriff, President and Chief Executive Officer

And in our older markets—I won't give you the exact number but our target has always been to be at or ahead of Verizon and just to recap the numbers for you that we see as the benchmark, AT&T is running about 25 percent penetration after 36 months; Verizon is a little bit above that with TV somewhere in the low 30's, 31, 32 percent and in our older markets we're not at 36 months yet but we are running at or slightly ahead of Verizon's pace.

Jeff Fan, Scotia Bank

Okay. A question for Glen on the balance sheet: I know you mentioned in your MD&A that the net debt-to-EBITDA ratio improved this year versus last year. I guess if we were to take into account the preferred and I guess there are various ways of accounting for that, but if we were to use kind of S&P's methodology of including half of the preferreds, the net debt-to-EBITDA ratio actually increased from last year to this year before including any pension deficit in their calculation. So the question is given the current rating and the current outlook that the agencies have, how comfortable are you that they're going to stick to that? Can you give us some colour on your discussions with them given your 2012 projections and cash flow and outlook and so forth? Thanks.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Thanks, Jeff. Well first of all, in your calculations, just one small flaw there is that we use the press to fund the pension so you can't add the press to the debt-to-EBITDA without recognizing we did that to reduce the off-balance sheet deficit that was growing in the pension

deficit. So you either have to look at it as a balance sheet debt and then if you look at that year-over-year you will see no change, as a matter of fact slight improvement in our debt-to-EBITDA, or you have to look at it in the manner in which an S&P would calculate it which would be taking the pension deficit, including that and using a 50 percent treatment of press and if you see that, you would also see that our debt-to-EBITDA is virtually unchanged.

Jeff Fan, Scotia Bank

Okay. So it's unchanged under their methodology if you use the half press and the pension deficit?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Unchanged. We're very, very pleased that despite the interest rate environment and the challenges that we've had with our pension deficit that we've been able to utilize our strong capital market reputation to go out and raise some capital and keep this in line.

Jeff Fan, Scotia Bank

Thanks for the clarity.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

No problem, Jeff. Thank you.

Operator

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

Dvai Ghose, Canaccord Genuity

Yes, thanks very much. Good morning, Karen—I guess good afternoon now. Your earlier comment about DSL not really cutting it and the necessity to overlay fibre, I'm wondering how you explain the situation in the West where your peer Telus obviously has launched Optik in mid-2010 on a VDSL base platform, has had tremendous TV subscriber growth, in fact in excess of 20 percent penetration or almost double yours, has much better

ADSL traction—obviously they don't have the cannibalization issue—and perhaps most importantly, very much reduced running at a loss versus accelerating in yours, because I'm a little confused and perhaps the real reason is because your footprint is relatively small with FibreOp as you've talked about earlier and you're talking about expanding it. But ultimately, the biggest impediment to your FTTH expansion is your dividend burden and you can borrow money to pay dividend for some point and go sub-investment grade or you can cut the dividend if you really want to achieve your objectives quickly. Would you ever entertain something like that?

Karen Sheriff, President and Chief Executive Officer

I'm going to let Glen handle that second part—after I do the first part. The big differences in the networks, if you compare our network, Dvai, to Telus's or to Bell's, is our loop links are too long to do FTTN or to get enough bandwidth to be able to deliver TV in a lot of our DSL footprint and so we have very much smaller FTTX footprint overall than the other guys which is why it's taking us a bit a longer to get up to their penetration and Fibre to the Home, as we've talked about in the past, is really the only viable way in our densities to do that.

Glen, do you want to talk about the other part?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Absolutely. Good afternoon, Dvai.

Dvai Ghose, Canaccord Genuity

Hi.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Dvai, when you look at a couple of hundred million dollar investment that's required to get us to what we now see as economically viable, never say only in front of a couple of hundred million, but let's put that in perspective to the size of—to that as that represents as a percentage of our market cap. We absolutely believe that 75 to 85 percent free cash flow payout is right for Bell Aliant. It was right when we set it, it's right for our long-term objective and it's certainly sustainable. Would you utilize your balance sheet strength, your reputation in the capital markets to potentially raise a couple of hundred million dollars to

finish what you see as your economically viable footprint on the technology of the future? Yes. Would you cut a dividend for a long-term dividend that is set for a short-term investment? That wouldn't sit well with me.

Dvai Ghose, Canaccord Genuity

No, that's fair but the couple of hundred million has to also be seen in the context. In itself, it's not a big deal but you're paying about \$130 million of annualized cash taxes by your own guidance from mid next year which is a bigger issue, the coincidental nature of the two events, plus even if you fulfill your greater homes passed target relatively quickly at about a million, you're still only half of your 1.8 million footprint and so you're not necessarily going to have the impact that you want when nearly half your competitive homes are not going to be covered by fibre.

Karen Sheriff, President and Chief Executive Officer

Well Dvai, remember, we still expect to be 20 percent at least, 20, 25 percent non-competitive so the math isn't quite right and at about a million homes, the percentage of our competitive footprint covered is pretty darn good.

Dvai Ghose, Canaccord Genuity

Sorry, I was—just to clarify that because I thought it was originally 600,000 or a third of your competitive homes so 1.8 million competitive homes, 1 million target is still just over half. Am I wrong in that many?

Karen Sheriff, President and Chief Executive Officer

That's about 60 percent, yeah.

Dvai Ghose, Canaccord Genuity

But it's still 40—but.

Karen Sheriff, President and Chief Executive Officer

It's pretty comparable with everybody else.

Dvai Ghose, Canaccord Genuity

Okay. Right, thanks very much.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Thanks.

Operator

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

Glen Campbell, Merrill Lynch

Yes, thanks very much. First, to follow up on the last question, for the portion of your network where you're not planning to do Fibre to the Home, what's the marketing and network strategy for that portion of your business? And then secondly, I just wanted to explore a little bit the relationship with Bell in this context. There were a few references in the MD&A to an updated commercial arrangement and I wanted to get a sense of how that's helped you, and then beyond that, as you push your footprint out, I mean have you—do you have say an unrestricted hunting license to go after satellite subscribers in those markets? Are you anticipating a change to what you can do on bundling with wireless? Could you give us a bit of a sense of what restrictions you might have there? Thanks.

Karen Sheriff, President and Chief Executive Officer

In non-fibre markets, the key is to expand our bandwidth as much as we can. We can get up to 10 or 12 megs which is helpful in those markets. The other strategy is obviously in the current DSL markets that don't have fibre, try to get fibre in as quickly as we can and lastly and probably most importantly, to do a better job with Bell utilizing satellite in those markets to help retain the whole home. So that's really the strategy in the non-fibre markets.

In terms of the Bell commercial agreement, there is really no news there, nothing new. We get benefit every year in terms of Bell's buying power and we share a lot of stuff back and forth but there's really nothing new there.

In terms of satellite, I wouldn't go fishing as broadly with Bell satellite customers as I would with cable because it doesn't make sense to me and I talked about this a little bit last quarter and the quarter before that. We have had

some migration from satellite to FibreOP but you have to assume that a Bell TV customer already has our NAS and if a big chunk of the business case for rolling out fibre is not only to drive incremental television revenue but also to improve NAS churn, the NAS churn is already better in those homes, so I actually do not specifically target Bell TV homes and I'd rather—I would rather—I don't turn them away if they come running in the door and they really want FibreOP, obviously we sell it to them but I would rather put my capex elsewhere.

Glen Campbell, Merrill Lynch

That helps and maybe just one quick follow up. As you go from 650,000 homes to a million homes, I'm thinking quite a few of the homes in that incremental build will be let's say fairly adjacent to Bell territory and would require sort of cooperation in the expansion of IPTV, say almost a shared build-out. Would that be fair or can you do this pretty much entirely on your own without tying into what they're doing?

Karen Sheriff, President and Chief Executive Officer

There's obviously coordination when we are building in our Bell-branded territory but we are leading the build and we have a lot of what we're doing that we're doing somewhat independently from Bell, but there is obviously coordination in that process.

Glen Campbell, Merrill Lynch

Thanks very much.

Operator

Thank you. The next question is from Drew McReynolds with RBC Capital Markets. Please go ahead.

Drew McReynolds, RBC Capital Markets

Yes, thanks very much. Good afternoon. Just two follow-ups here: first for you Glen, just a clarification on the cash taxes. You spoke about a \$50 to \$60 million kind of one-time bump up. Just to be clear, that doesn't reverse down the road so it's effectively your 125 to 145 plus this amount one-time and then we drive on from there?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

That's correct. It's the elimination in the 2011 federal budget, the government eliminated that ability to curtail corporate partners, the income, so we were able to defer the recognition of partnership income for tax purposes and when that opportunity was eliminated in the 2011 federal budget, there is going to be a one-time tax payment that's made and essentially, you know, you don't get that back.

Drew McReynolds, RBC Capital Markets

Okay. No, that's great. And just the second question for you, Karen, just noticed in the MD&A you talking about your FibreOP home phone and just wondering if you can just give us a little bit more on how this obviously fits in with the broader strategy versus legacy and is it really too optimistic to think you can kind of begin to turn off copper planned sooner rather than later as a result?

Karen Sheriff, President and Chief Executive Officer

God, I wish. And we all wish. We did finally roll out home phone in the fall. It's going quite well and it's really—it's an important part of getting some of our costs out of the fibre build. I think I have said in the past that we expect about \$80 to \$100 a year of cost savings every year per customer and some of that is just raw incremental stuff. It doesn't require you to turn anything off. A little bit of it is raw incremental maintenance savings you get because your home phone is now sitting on fibre rather than on copper. The copper costs come out more gradually than I think we all hoped or expected 10 years ago. Once we have—so for example, we start stealing pairs and we don't have to invest as much in copper maintenance but I don't think anybody has found that it's really easy to leap frog and just start ripping this stuff out, especially because the cost to force-migrate a customer onto fibre is very high. So if somebody doesn't want to buy Internet from us or TV from us, the cost to force him onto fibre just to give him home phone is cost prohibitive. So the cost will come out more gradually. We're actually seeing more benefit in capex than we are in opex because there's so much less investment we have to make in the copper network. We are seeing that already and over time we'll see some of the equipment in the field start to come down too.

Drew McReynolds, RBC Capital Markets

Thanks very much.

Operator

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

Peter Rhamey, BMO Capital Markets

I'd like to touch on trajectory. I think someone else talked about EBITDA but looking at revenue, the top end of your guidance range suggests that revenue could be flat for the entire year of 2012 which would be quite an accomplishment, a little bit perhaps ahead of comments you've made in the past, Karen. What does it take you to get there and what would the timing of that because to get there for the full year implies of course your rate exiting the year would presumably be a lot higher than going into the year?

Karen Sheriff, President and Chief Executive Officer

I don't think there's any one thing, Peter. We were actually—it may seem very small to most of the world; I'm glad you picked up on it. Man, would I be thrilled to be there, but it would actually just take every corner of the business to execute on their plan and a little bit more. I don't think there's any one place within the organization that could really, really reliably drive us over the top end, but the fact that it's within the range tells you that okay, we surprised ourselves a little bit in 2011, maybe we can reach a little bit more this year and it also tells you that the trajectory is going exactly, and even better, than we had hoped in the past. It is much better than we had thought it might be. So there is no one thing, Peter, but if we execute really well on our plans and a little bit more, I think we have a chance.

Peter Rhamey, BMO Capital Markets

And of course that assumes cable competition remains relatively...

Karen Sheriff, President and Chief Executive Officer

Cable competition has been—you know how this thing works. It's been intense as long as I've been alive almost

and it goes quarter to quarter so it's really hot and heavy one quarter and then we do well and then the other guy does well, so it assumes no different cable competition than we had for the last however many years, which has been hot.

Peter Rhamey, BMO Capital Markets

A definition question for Glen: free cash flow, is that before or after preferreds and when you talk about payout ratio, because there's a little bit new here with the preferred senior capital structure, when you talk about payout ratios, how are you treating the preferred?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

We include those in, Peter, so all-inclusive free cash flow.

Peter Rhamey, BMO Capital Markets

So free cash flow is net of preferred share payment?

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Oh, no. The free cash flow is not but when you calculate the ratio, when I say 75 to 85 percent free cash flow payout target that includes the prefs in that calculation.

Peter Rhamey, BMO Capital Markets

Right.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

But no, free cash flow would not include prefs so I have to add those back when I do that calculation.

Peter Rhamey, BMO Capital Markets

Very good. And last question, there was about \$60 million of potential savings because you're slowing your pace of Fibre to the Home build this year. Is there some way you could talk about how you're reallocating those costs into your organization? You talked about some of

these are greenfield builds, in Sudbury there's going to be greater costs there and there's going to be higher costs for home passes. Is there some way you could split up \$60 million into something that we could...?

Karen Sheriff, President and Chief Executive Officer

Peter, we can't give you the exact numbers but maybe I can sort of prioritize the list for you, okay? So obviously we're doing a few more builds in total than we had originally planned. We're going to do 650 in total instead of getting to 600. Doing more loads is also a part of it. I know we don't guide on the number of loads but we do expect to do more loads than we did in 2011. Just do the math—you can do the math. I told you it was \$400 per home pass last year, \$500 this year. Do that math, that's a chunk of money. And then lastly some of those start up costs.

Peter Rhamey, BMO Capital Markets

So the loads is the biggest swing factor or it's the swing from \$400 to \$500?

Karen Sheriff, President and Chief Executive Officer

I think \$400 to \$500 is probably a little bit bigger.

Peter Rhamey, BMO Capital Markets

Great. Thank you very much.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Thanks, Peter.

Operator

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

Vince Valentini, TD Securities

Thanks very much. Just one question on capex. So if you take the 200,000 homes and the \$500 figure, that's about \$100 million of your cap ex for 2012. Even if you

strip that out, the mid-point of your guidance of \$475 million of capex, that would still be 17 percent of the mid-point of your revenue which is still reasonably high in intensity. I'm just wondering if you can talk about why you're spending so much outside of just the Fibre to the Home build. I assume the loading is a part of that but that's going to be a recurring item even beyond once the footprint is done. Was it not the intention to try to really limit cap ex in other areas to sort of find money to invest in FTTH when you first started this?

Karen Sheriff, President and Chief Executive Officer

We are. I think that you are—you are right that we will always have loads. There is no way out in the future that as a percentage of our total footprint we will have as many new loads as we do at the beginning. It's much heavier at the beginning than it will be proportionately later when the number of subscribers on the network is much larger. So we have heavily constrained the rest of the organization to continue to plough as much money as we can into fibre and the build is slightly more expensive for home pass this year, as I said before, and the—starting outside of Atlantic Canada is costing us some money. It is probably not quite as expensive as it was when we first started in Atlantic but it's close because it's totally different systems, totally new geography and there's a fair amount of—there's a material amount of cap ex going there.

Vince Valentini, TD Securities

Can you remind us—given that loading is a big factor, can you remind us the sort of capex portion of a new install versus opex and I don't know if you're willing to disclose what that sort of...

Karen Sheriff, President and Chief Executive Officer

Sorry Vince, we really haven't. I think you could probably poke around at anything Verizon has disclosed but most of the guys are not disclosing costs per customer network—per customer added but it is materially larger than passing a home.

Vince Valentini, TD Securities

Yeah, but just in terms of your accounting policies then maybe like—maybe for Glen, is it—do you capitalize everything in terms of the truck roll and the box and everything?

Karen Sheriff, President and Chief Executive Officer

Yes.

Glen LeBlanc, Executive Vice President and Chief Financial Officer

Yes. Most of that is capitalized.

Karen Sheriff, President and Chief Executive Officer

That's all in there.

Vince Valentini, TD Securities

Thanks.

Karen Sheriff, President and Chief Executive Officer

The only thing that's not capitalized, Vince, is the advertising.

Vince Valentini, TD Securities

Great.

Zeda Redden, Vice President, Investor Relations

Operator, we have time for one more question.

Operator

Thank you. The last question is from Adam Shine with National Bank Financial. Please go ahead.

Adam Shine, National Bank Financial

Thanks a lot. Good afternoon. I'll start with one and maybe I'll try to squeeze in a second. Karen, just with respect to the timing of the pending Sudbury launch, was this sort of normal course or something perhaps that we can infer was triggered by maybe greater competitive pressures in the market?

Karen Sheriff, President and Chief Executive Officer

I'm not sure I know what you mean by the timing. The timing of the announcement or the timing of the...?

Adam Shine, National Bank Financial

The decision to basically go forward at this time with Sudbury as compared to maybe at a later point in time while focusing on more of your efforts in the Maritimes.

Karen Sheriff, President and Chief Executive Officer

No. Outside of Atlantic Canada, Sudbury is our biggest city. I know it doesn't seem big to you guys but it's big to us. It's been on the list for a while. We've made a lot of headway in Atlantic Canada and we're not done in Atlantic Canada but it is time to get something going outside of Atlantic Canada and that's why we chose to start with Sudbury. It's also very heavily aerial. It's 85 percent aerial so it's right in the sweet spot.

Adam Shine, National Bank Financial

Perfect. And maybe just a quick little follow-up. Just with respect to—obviously the guidance for NAS declines is supposed to be similar to 2011. I guess one incremental factor this year potentially is Eastlink and Wind coming into the market with their own sort of wireless offerings. Is that maybe a premature discussion? Maybe it's a non-issue from your perspective or are there steps that you guys are preparing to take in order to just mitigate that dynamic?

Karen Sheriff, President and Chief Executive Officer

I think it's premature certainly in terms of any impact for 2012. We really don't expect that much impact on us at all. We're obviously aware of it. We're obviously working with Bell on it so that we can coordinate our response but that really doesn't figure into my thinking heavily for this year.

Adam Shine, National Bank Financial

Great, thanks a lot.

Operator

Thank you. The question and answer period has now ended. I would now like to turn the meeting back over to Ms. Redden.

Zeda Redden, Vice President, Investor Relations

Thanks everyone for joining us this afternoon and if you have any follow-ups, you know how to get in touch with me, and I hope you all have a very good week. Thanks.

Operator

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