Q2 2013 Results Conference Call

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made by BCE's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer during BCE's 2013 second quarter earnings conference call, as reflected in this transcript, including, but not limited to, statements relating to our financial guidance (including revenues, EBITDA, capital intensity, Adjusted EPS and free cash flow), our business outlook, objectives, plans and strategic priorities, the benefits expected to result from the Astral Media Inc. (Astral) acquisition, the expectation that Astral will be accretive to BCE's earnings and free cash flow, the divestiture of certain of Astral's TV assets and of certain of Astral's and Bell Media's radio stations, our broadband fibre and IPTV networks investment and deployment plans, and other statements that are not historical facts, are forward-looking. Forward-looking statements are typically identified by the words assumption, goal, guidance, objective, outlook, project, strategy, target and other similar expressions or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, seek, should, strive and will. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws and of the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans and strategic priorities may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize and you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements contained in this transcript describe our expectations as of August 8, 2013 and, accordingly, are subject to change after such date. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this transcript, whether as a result of new information, future events or otherwise. Except as otherwise indicated by BCE, forward-looking statements do not reflect the potential impact of any non-recurring or other special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after August 8, 2013. The financial impact of these transactions and non-recurring and other special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business. Forward-looking statements were made during BCE's 2013 second quarter earnings conference call for the purpose of assisting investors and others in understanding certain key elements of our expected financial results, as well as our objectives, strategic priorities and business outlook, and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Material Assumptions

A number of economic, market, operational and financial assumptions were made by BCE in preparing certain forward-looking statements contained in this transcript, including, but not limited to:

Canadian Economic and Market Assumptions

- *Growth in the Canadian economy of 1.8% in 2013, based on the Bank of Canada's most recent estimate, a thirty basis point increase compared with an earlier estimate of 1.5%;*
- *a slow pace of employment growth and new business formation affecting overall business customer demand;*
- *a sustained level of wireline and wireless competition in both consumer and business markets;*
- *higher wireline replacement, due primarily to increasing wireless and Internet-based technological substitution;*
- *increasing wireless industry penetration driven, in particular, by the accelerated adoption of smartphones, tablets and data applications, the expansion of LTE service in most urban and suburban markets, the proliferation of 4G devices, as well as population growth; and*
- *a soft advertising market for Bell Media.*

Operational Assumptions Concerning Bell Wireline (Excluding Bell Aliant)

- *Stabilizing residential NAS line erosion rate as we leverage our broadband investment in FibeTV to drive three-product household penetration, increase our multiple-dwelling unit (MDU) market share, and generate higher pull-through attach rates for our residential Internet and Home Phone services;*
- *in particular, targeted retention and service bundle offers, customer winbacks and better service execution to contribute to the improvement in residential NAS line losses year over year, subject to the risk of more aggressive service bundle offers from our cable TV competitors and increasingly affordable Canada-wide unlimited wireless plans, which could lead to higher residential NAS line losses;*
- *increased subscriber acquisition at Bell TV to be driven by increased customer adoption of Fibe TV, as we further extend our IPTV broadband fibre footprint in areas of Ontario and Québec, and our ability to seek greater penetration within the MDU market,*

capitalize on our extensive retail distribution network, which includes The Source, and leverage our market leadership position in high definition (HD) programming;

- *improved subscriber acquisition at Bell Internet through increased fibre coverage and speeds as we leverage our significant network capital investment and the implementation of new technologies to drive greater Fibe TV expansion and Internet attach rates;*
- *gradual improvement in the performance of our Business Markets unit based on increased business customer spending, new business formation and higher demand for connectivity and ICT services driven by a strengthening economy and an improvement in employment rates, subject to the risk of business customers adopting more conservative strategies which could result in lower capital spending requirements and deferral of ICT projects;*
- *continued customer migration to IP-based systems, increased competitive intensity in mass and mid-sized business segments as cable operators and other telecom competitors continue to intensify their focus on the business segment and ongoing competitive reprice pressures in our business and wholesale markets; and*
- *cost savings to be achieved from management workforce attrition and retirements, call center efficiencies, field service productivity improvements, further reduction in supplier contract rates, lower print and mail costs, effective content cost management and reducing traffic that is not on our own network.*

Operational Assumptions Concerning Bell Wireless (Excluding Bell Aliant)

- *Bell Wireless to benefit from the flow-through of investments made in 2012 in customer acquisition and retention, along with continued strength in smartphone activations and data usage;*
- *continued aggressive competition as competitors attempt to maintain or gain wireless market share;*
- *wireless revenue growth to be underpinned by continued growth in our subscriber base and ARPU, driven by a higher mix of smartphone and higher-value postpaid customers, increased distribution in western Canada, new services, and continued disciplined price management;*
- *Bell Wireless to benefit from ongoing technological improvements by manufacturers in our handset and device line-up and from faster data speeds that are allowing our clients to optimize the use of our services; and*
- *the proliferation of more expensive and sophisticated wireless devices, as well as heightened competitive activity, to exert pressure on EBITDA, due mainly to increased handset discount resulting in higher subscriber acquisition and customer retention costs.*

Operational Assumptions Concerning Bell Media

- *The non-recurrence, in 2013, of significant events that occurred in 2012, including the London Summer Olympic Games, the NHL lockout and retroactive rate increases for specialty programming services;*
- *the intended launch, in 2013, of our TV Everywhere product, a strategic initiative aimed at enabling us to deliver the best live sports, news and other premium content exclusively to broadcasting distribution undertakings' (BDUs) subscribers;*
- *growth in subscriber revenues to be driven by contracted market-based rate increases for our specialty sports services;*
- *in conventional TV, building and maintaining strategic supply arrangements for content on four screens, continuing to successfully acquire high-rated programming and differentiated content to execute on Bell's multi-screen content strategy, producing and commissioning high-quality Canadian content, and producing market-leading news through investments in HD broadcasting and improvements to our news programming;*
- *increased costs to secure content in our sports broadcast operations as we face greater competition from both new entrants and established competitors, and as market rates for specialty content generally increase;*
- *in our non-sports English and French pay and specialty TV services, investment in quality programming and production, marketing and ongoing development of key brand partnership initiatives with respect to our existing services;*
- *pursuant to the Astral acquisition, the achievement of cost reductions by maximizing assets, achieving productivity gains and pursuing operational efficiencies; and*
- *the continued leverage of our strength in local radio and television markets to provide listeners and viewers with quality content, incorporating opportunities for multi-platform selling.*

Financial Assumptions Concerning Bell (Excluding Bell Aliant)

The following constitute Bell's principal financial assumptions for 2013. Where indicated below, assumptions have been updated from Q1 2013 as a result of the acquisition of Astral.

- *Bell's total employee benefit plans cost to be approximately $350 million, instead of $340 million, based on an estimated accounting discount rate of 4.4% and an expected return on plan assets of 4.4%, comprised of an estimated above EBITDA employee benefit plans service cost of approximately $230 million, instead of $220 million, and an estimated below EBITDA net employee benefit plans financing cost of approximately $120 million;*
- *total pension plan cash funding to be approximately $350 million;*
- *cash taxes to be approximately $325 million, instead of $300 million;*
- *net interest expense of approximately $750 million, instead of $700 million;*
- *net interest payments of approximately $720 million, instead of $700 million; and*
- *cash severance and other of approximately $150 million.*

Financial Assumptions Concerning BCE

The following constitute BCE's principal financial assumptions for 2013. Where indicated below, assumptions have been updated from Q1 2013 as a result of the acquisition of Astral.

- *BCE's total employee benefit plans cost to be approximately $430 million, instead of $420 million, including approximately $80 million for Bell Aliant, comprised of an estimated above EBITDA employee benefit plans service cost of approximately $290 million, instead of $280 million, and an estimated below EBITDA net employee benefit plans financing cost of approximately $140 million;*
- *depreciation and amortization expense approximately $50 million higher compared to 2012;*
- *net interest expense of approximately $925 million, instead of $875 million;*
- *tax adjustments (per share) of approximately $0.07;*
- *an effective tax rate of approximately 26%;*
- *non-controlling interest similar to 2012; and*
- *an annual common share dividend of $2.33 per share.*

The foregoing assumptions, although considered reasonable by BCE on August 8, 2013, may prove to be inaccurate. Accordingly, our actual results could differ materially from our expectations as set forth in this transcript.

Material Risks
Important risk factors that could cause our assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in or implied by our forward-looking statements, including our financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our financial guidance, essentially depends on our business performance which, in turn, is subject to many risks. Accordingly, readers are cautioned that any of the following risks could have a material adverse effect on our forward-looking statements. These risks include, but are not limited to:

- *the intensity of competitive activity, and the resulting impact on our ability to retain existing customers and attract new ones, as well as on our pricing strategies, ARPU and financial results;*
- *the level of technological substitution contributing to reduced utilization of traditional wireline voice services and the increasing number of households that use only wireless telephone services;*
- *the increased adoption by customers of alternative TV services;*
- *variability in subscriber acquisition and retention costs based on subscriber acquisitions, retention volumes, smartphone sales and handset discount levels;*
- *regulatory initiatives or proceedings, litigation, changes in laws or regulations and tax matters;*
- *our failure to maintain network operating performance including as a result of the significant increase in broadband demand and in the volume of wireless data driven traffic;*
- *events affecting the functionality of, and our ability to protect, maintain and replace, our networks, equipment, facilities and other assets;*
- *our ability to maintain customer service and keep our networks operational in the event of the occurrence of environmental disasters or epidemics, pandemics and other health risks;*

- *our ability to anticipate and respond to technological change, upgrade our networks and rapidly offer new products and services;*
- *our failure to implement, on a timely basis, or maintain effective IT systems and the complexity and costs of our IT environment;*
- *general economic and financial market conditions, the level of consumer confidence and spending, and the demand for, and prices of, our products and services;*
- *our ability to implement our strategies and plans in order to produce the expected benefits, including our ability to continue to implement our cost reduction initiatives and contain capital intensity while seeking to improve customer service;*
- *increased contributions to post-employment benefit plans;*
- *ineffective management of changes resulting from restructurings and other corporate initiatives and from the integration of business units and business acquisitions;*
- *the complexity of our product offerings and pricing plans;*
- *labour disruptions;*
- *employee retention and performance;*
- *events affecting the ability of third-party suppliers to provide to us, and our ability to purchase, essential products and services;*
- *the quality of our network and customer equipment and the extent to which they may be subject to manufacturing defects;*
- *capital and other expenditure levels, financing and debt requirements and our ability to raise the capital we need to implement our business plan, including for BCE's dividend payments and to fund capital and other expenditures and generally meet our financial obligations;*
- *our ability to discontinue certain traditional services as necessary to improve capital and operating efficiencies;*
- *launch and in-orbit risks of satellites used by Bell ExpressVu Limited Partnership;*
- *the theft of our DTH satellite television services;*
- *Bell Media's significant dependence on continued demand for advertising, and the potential adverse effect thereon from economic conditions, cyclical and seasonal variations and competitive pressures;*
- *the adverse effect of new technology and increasing fragmentation in Bell Media's television and radio markets;*
- *health concerns about radio frequency emissions from wireless devices;*
- *BCE's dependence on the ability of its subsidiaries, joint ventures and other companies in which it has an interest to pay dividends and make other distributions;*
- *there can be no certainty that dividends will be declared by BCE's board of directors or that BCE's dividend policy will be maintained;*
- *stock market volatility;*
- *our failure to evolve practices and effectively monitor and control fraudulent activities; and*
- *our failure to successfully integrate Astral into Bell Media and to achieve the anticipated strategic and other benefits.*

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. We encourage investors to also read BCE's 2012 Annual MD&A dated March 7, 2013 (included in the BCE 2012 Annual Report), BCE's 2013 First Quarter MD&A dated May 8, 2013, BCE's Second Quarter MD&A dated August 7, 2013, and BCE's news release dated August 8, 2013 announcing its financial results for the second quarter of 2013, for additional information with respect to certain of these and other assumptions and risks, filed by BCE with the Canadian securities commissions (available at www.sedar.com) and with the U.S. Securities and Exchange Commission (available at www.sec.gov). These documents are also available on BCE's website at www.bce.ca.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to BCE's second quarter 2013 results conference call. I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, sir.

Thane Fotopoulos – BCE Inc. – Vice-President, IR

Thank you, Audrey. And good morning to everybody on the call and the webcast. With me here today is Bell's President and CEO, George Cope, as well as our CFO, Siim Vanaselja. We released our second quarter results earlier this morning. All the usual information including the news release and the slide presentation for this call are available on BCE's corporate website. Following a review of the presentation by George and Siim, we'll move on to Q&A and take your questions.

However, before we begin, I want to remind you that today's presentation, remarks by both George and Siim will contain forward-looking statements that represent our expectations as of today and accordingly are subject to change. We do not undertake any obligation to update any forward-looking statements, except as may be required by Canadian Securities laws. A number of assumptions are made by us in preparing these forward-looking statements which are subject to risk. Results may differ materially. Details on these risks and assumptions are in our filings with the Canadian Securities Commission, and with the SEC, which are also all available on our website. So, with that out of the way, I'll turn it over to George.

George Cope – BCE Inc. – President and CEO

Great, thank you. Good morning, everyone. Thank you for joining us this morning. Let me just start by saying that I am very pleased with our second quarter results. The strong wireless service revenue growth and EBITDA growth supported through the healthy postpaid metrics that we're reporting this morning drove a strong quarter for the Company. As well, we saw an acceleration in our Fibe TV net additions, providing some improvement in our wireline operating trends. In a tough environment we saw Bell Media report this morning, some strong financial results in a tough advertising market.

Overall, our demand and pricing strategies combined with our cost discipline continues to support a steady growth of EBITDA and, importantly, stable Bell EBITDA margins of around 39%. Also, strategically, after obviously a lengthy process, we're successful in the completion of the Astral Media acquisition on July 5th. Overall, during the quarter we advanced all of our key six strategic imperatives forward in Q2.

Turning to slide 5, from the wireless perspective, all of the metrics moving in the right direction, particularly postpaid churn ticking down, ARPU growth, as we see customers migrate more and more to LTE devices and data usage. Tight controls on our retention spending, driving a strong quarter of 96,000 postpaid net adds and overall, as I mentioned, strong wireless growth supported through 21% wireless data revenue growth.

In terms of the wireline business, we had one of our stronger quarters from a wireline data growth perspective, driven by three areas of the business, most importantly Fibe TV with over 50,000 net additions in Q2. Supporting growth of data revenue, combined with continuing to see some steady improvement in our Internet results, particularly as we grow the IPTV footprint where we saw 12,000 net adds in the footprint of IPTV and clearly, therefore, negative adds outside the footprint. The solution to that continues to be the expansion of our IPTV footprint which will extend into this year and continue into next year. And, also for the first time in quite a period we saw a stronger result from our Bell Business Markets area, IP connectivity growth up 6.4% year over year. So, overall actually quite pleased from the wireline perspective in terms of data revenue.

As well, turning to the next page, we did see an improvement in losses from the NAS perspective, both on the consumer side and on the business side. And that reduction in our losses year over year, from a percentage term, allows us to see a slight improvement in the rate of decline on revenue. So, overall better results on NAS, and that again being driven from the pull through of our strong IPTV net additions. The media business, I think had a good quarter. And, as we mentioned, a tough advertising market.

Overall, the support of our subscriber revenue growth from our specialty TV business and BDU agreements that we've entered into, combined with the strong NHL end of the season with the playoffs, allowed us to grow in the quarter. Most importantly though, and the highlight of the quarter, of course, is the completion of our strategic acquisition of Astral giving us a strong position in the French-language market. As to remind everyone, we do retain about 77% of Astral's EBITDA and we'll be divesting other assets. And importantly, from a mix perspective, now 31% of our media revenue on the TV side would be non-advertising or subscriber revenue which obviously de-risks our revenue stream. Overall, the integration has begun after July 5 and, at this point, we're extremely excited about bringing the two teams together and executing in the marketplace on the growth strategy we've seen successfully executed at Bell Media the last three years.

Finally, just turning to slide 9, again, our revenue mix continues to improve. We now have 83% of our revenue from growth services, and you can see the growth services revenue in the quarter up 4.3% year over year or $148 million. And also, just as important, as we migrate our revenue mix in the quarter, now 8% of our revenues coming from consumer wireline voice. And, of course, that decline we anticipate will continue, but overall, therefore, our mix of revenue growth continues to improve. The growth portfolios are growing strongly to offset that cyclical decline we continue to see on wireline consumer. With that, let me turn it over to Siim for some comments on the financials.

Siim Vanaselja – BCE Inc. – Chief Financial Officer

Thanks, George, and good morning to everyone on the call. Thanks for joining us today. I will begin with our second quarter consolidated financial results on slide 11.

Our financial performance was solid across the board this quarter, all on track with our guidance. Total Bell revenue grew 1.9%. That was led by top-line performance at Bell Wireless and Bell Media and improving wireline services mix profile. Consolidated Bell EBITDA increased 1.5% this quarter, and I'd note that in the second quarter of 2012 our EBITDA benefited from favorable one-time adjustments totaling about $25 million, which were related to CRTC Part II fees and the local programming improvement fund fees that we pay. So those two adjustments curtailed EBITDA growth on a year-over-year basis this quarter. Bell's EBITDA margin remained stable year over year at 39.4%, reflecting the flow-through of higher wireless, ARPU, controlled subscriber acquisition and retention spending, and the increasing scale of Fibe TV, as well as discipline in our bundled promotion pricing.

BCE's adjusted EPS for the second quarter was $0.77 per share, and that compares to $0.97 last year. Earnings decreased year over year due to two factors. The first was the higher level of favorable tax resolutions in the second quarter of 2012. And then, secondly, mark-to-market losses on equity derivative contracts related to our share-based compensation plans impacted our EPS and that mark-to-market losses resulted -- as a result of the decrease in BCE share price in the second quarter. Lastly, free cash flow for the quarter was $903 million, that's up 12% year over year and a strong result reflecting higher EBITDA and lower year-over-year capital expenditures. I would say that our Capex outlook is for the pace of spending to accelerate in the second half of the year, again, consistent with our guidance for the full-year 2013.

Let me now turn to the highlights for each of our operating segments. Beginning with Wireless, the Wireless segment on slide 12, service revenues increased 6.1%, driven by 2.7% higher ARPU. That is now 14 consecutive quarters of year-over-year growth in ARPU. We continue to grow our mix of postpaid subscribers in higher ARPU geographies and customer segments, and increase our smartphone penetration. Wireless data revenue growth of 21% in the quarter continued to drive the solid service revenue results. Wireless EBITDA grew 8.9%, yielding a revenue flow-through to EBITDA of 66% and a 1.3 percentage point increase in service margins to 45.9%. This was our highest margin in four years and a good reflection on our emphasis on profitable postpaid subscriber growth. Wireless EBITDA less Capex provided a strong contribution to Bell's overall free cash flow, increasing 22.7% year over year. So overall, I'd say a very satisfactory quarter for Bell Wireless.

Turning to the Wireline segment on slide 13, the rate of Wireline revenue decline improved meaningfully in the quarter to 0.9% as growth in Fibe TV and Fibe Internet drove a considerable year-over-year increase of 6.2% in residential data service revenues. We saw a slowing decline in voice revenues, which is indicative of fewer NAS line losses compared to last year. In fact, through the first half of the year we've seen modest positive overall revenue growth in our residential Wireline unit. Our Business Market unit this quarter generated higher IP connectivity revenues which grew 6.4% year over year, and data products sales to large enterprise customers also increased.

We continue to successfully evolve the mix of Wireline service revenues toward our growth drivers more and more and that is benefiting our EBITDA profile. We maintain Bell's Wireline EBITDA margin on plan at 39.1% and while Wireline EBITDA declined 2.9%, 1 percentage point of that EBITDA decline can be attributed to the benefit I had mentioned that we realized in the second quarter of 2012 from an adjustment to Part II broadcast license fees payable to the CRTC. Apart from that impact, this was the best Wireline EBITDA result in about two years. And we expect our Wireline results to continue to show improvement in the second half of the year.

So, moving to slide 14, Bell Media's revenues grew 4.7% year over year, in the second quarter. Subscriber revenues increased 7.9% over last year, driven by step-ups in specialty TV rates. While advertising demand across the industry continues to be impacted by declining audience levels and reduced spending, Bell Media's overall ad revenues increased 0.8% year over year, reflecting the strength of CTV's conventional TV programming lineup and higher viewership levels, particularly for TSN and RDS. Ad revenue growth was supported by the NHL's condensed playoff schedule, which extended later into the spring, and greater playoff viewership given the number of Canadian teams that advanced to postseason play.

Bell Media's EBITDA was 3.3% higher year over year. As I referenced earlier, EBITDA in the quarter -- in the second quarter of 2012 I should say, benefited from accrual adjustments to CRTC Part II fees and the local programming improvement fund. Overall, Bell Media continues to perform very well. And with the Astral acquisition completed, Bell's growth mix profile will be further enhanced. With the financial synergies we are targeting, we expect Astral to be fully accretive to earnings and free cash flow, beginning in 2014.

On slide 15, we've provided the key components of adjusted EPS, which was $0.77 per share for the quarter. Tax adjustments contributed $0.05 of EPS this quarter, compared to $0.15 per share in the second quarter of 2012. There is no change to our outlook for tax adjustments of $0.07 per share for the full 2013 year, and we continue to work within a 26% effective tax rate. Mark-to-market losses on equity derivative contracts totalled $0.07 per share this quarter and that compares to a $0.03 gain for the second quarter last year. Before tax adjustments and derivative losses, adjusted EPS in the second quarter was stable year over year, with EBITDA growth offset by increased interest expense reflecting the increased long-term debt we arranged ahead of the Astral acquisition closing.

Our free cash flow summary is on slide 16. Cash generation of $903 million in the quarter was 12% higher year over year. Our working capital position this quarter reflected higher inventory levels from the introduction of several new wireless handsets, including the BlackBerry Q10 and Samsung Galaxy S4. We ended the quarter with over $2.2 billion of cash on the balance sheet, which included the proceeds from our $1 billion public debt offering of seven-year Series M27 debentures, which we issued in June, and that issue has an attractive after-tax coupon of 2.4%.

This cash, together with short-term borrowings which will be repaid from Astral asset divestiture proceeds, was used to fully finance the closing of Astral shortly after the end of the quarter. With the Astral closing, our leverage ratio is now at 2.4 times EBITDA, and I want to say that, that ratio should decline back to about 2 times EBITDA over the next 24 months as we generate growth in EBITDA and apply cash flow generation towards debt reduction. Finally, as you may have seen, we recently announced plans to redeem early, Bell's Series M20 debentures in the amount of $1 billion, and that is scheduled for August 9. The redemption will be funded with short-term borrowings and then refinanced with longer-term debt at an appropriate time.

Looking ahead, the financial performance of all our operating segments is on track very well to deliver the consolidated guidance targets that we provided back in February. With the Astral acquisition completed, we will begin to include Astral's operating results in the third quarter within our Bell Media segment. And, with that, we're revising our 2013 financial guidance for both revenues and EBITDA. With the inclusion of Astral for the second half of the year, we are increasing Bell's consolidated revenue guidance to the 2% to 4% growth range. Our EBITDA guidance is increased to the 3% to 5% growth range. We are maintaining our adjusted EPS guidance for 2013 at $2.97 per share to $3.03 per share.

Astral, as I said, will be accretive, but it will be modestly accretive to consolidated earnings in the second half of the year given that Astral will not be integrated onto Bell's IT, financial and HR systems and all of our governance policies aligned until the beginning of 2014. So, we don't expect to benefit significantly from any operating synergies until that time. As well, with the equity derivative losses we've absorbed in earnings this quarter, which I believe is attributable largely to market concerns and uncertainty over Verizon's possible entry into the Canadian wireless marketplace, we're maintaining our adjusted EPS guidance at the current range and that continues to be appropriate.

Our free cash flow guidance also remains unchanged for that 2013 year at $2.55 billion to $2.65 billion for year-over-year growth of 5% to 9%. We expect higher cash severance and other Astral-related acquisition costs to be incurred in the second half of this year. As well, there is some seasonality to Astral's working capital and, therefore, we don't see any meaningful free cash flow accretion from Astral, again, beginning until 2014, and we expect Astral to be fully accretive in that year. Astral operates at a lower level of capital intensity compared to Bell. Given the scale difference, however, our capital intensity guidance of 16% to 17% for revenues, again, remains appropriate. And lastly, for your reference, on slide 18 we've provided an updated summary of all of our key financial assumptions that underpin our 2013 guidance targets. And with that, let me turn the call back to George.

George Cope – BCE Inc. – President and CEO

Thanks, Siim. I'd just like to make a few comments before we open up to questions on the ongoing wireless issue in Canada around the upcoming auctions. We have been very public on this and I want to make a few comments this morning. If we turn to page 20, I want to make sure investors clearly understand BCE's position on this.

First of all, our opening position continues to be -- we are open to competition, of course, in the market. Any carrier who chooses to come into Canada, we welcome them from a competitive perspective and look forward to competing with them. However, we absolutely believe that it should be done on a level playing field. There is no justification whatsoever for a company -- as has been reported, Verizon's interest in Canada, a company the size of Verizon -- having any type of advantages over Canadian incumbents. And in particular, we've asked that three loopholes be closed in the regulatory arena that were put in place for the sole purpose of small startups and never intended for companies with the scale of Verizon. It's very clear that Verizon does not need government handouts, it is 4 times the size of Bell, TELUS, and Rogers combined. Also, Canadian companies have not been granted these same three loopholes for access into the United States.

Our solution is quite simple and quite clear, on page 21 -- these loopholes should be closed before September 17, the auction deposit deadline. And we're, again, simply asking that Canadian companies have the same level playing field and the same opportunities such that Verizon has no advantage in entering the market. So, we have suggested, one, which all wireless carriers should be able to bid for the same amount of spectrum. So, if Verizon can bid for two prime blocks of spectrum, so should we be able to bid for two prime blocks of spectrum. We believe that Verizon, with their ability to enter the market, or other global carriers and their access to capital, they certainly don't need access to our wireless networks. Their capital budget is 14 times the size of BCE's. So, accessing our product, being our network, we believe is unacceptable and should be changed. And if they plan to enter the market to compete with us, they should build their own networks.

And, finally, the third loophole -- if Canadian companies are for sale, Canadian companies should be able to participate in that process just as being allowed for American companies to participate in that process. So, again, on all three cases, all we're asking for is a level playing field. And we will continue to pursue this very aggressively, because we believe it is right for our shareholders, right for our customers, profoundly unfair to the Canadian marketplace and, quite frankly, a very reasonable request to ask for a level playing field. And that's my comments and with that we'll open it up for questions.

Thane Fotopoulos – BCE Inc. – Vice-President, IR

Thanks. Audrey, before we begin the Q&A period, I just want to ask that you keep your questions short and to the point, and mindful of the fact that a number of companies in your coverage universe are reporting today. We want to get to as many questions as possible in the time we have left, so thank you for keeping that in mind. Audrey, we're ready to start the Q&A.

QUESTION AND ANSWER

Greg MacDonald – Macquarie Research – Analyst

Thanks, good morning, guys. Wanted to ask a question on ARPU trends. Very nice sub -- posted sub numbers in the quarter, ARPU is a little light so I'm trying to figure out whether there are changes in the trends going on, vis-a-vis the revenue growth profile and the mix? A little light on ARPU relative to consensus numbers, relative to what I estimated, much of that in the data segment is -- we've heard a lot about the competitive dynamics recently. In the most recent quarter we heard a lot about that in Quebec, just to kind of profile one of the geographic segments.

George, can you talk a little bit about subscriber mix on the gross adds, is this a function of industry maturity where the subs coming in are just naturally lower ARPU subs? Is this more a function of the competitive dynamic where competition for the high end sub is getting higher, what's going on now and is it segmented geographic focused or is it kind of happening right across the country? Thanks.

George Cope – BCE Inc. – President and CEO

Yes, I think on the ARPU we're obviously pleased that ARPU continues to improve. We've not completely, but very close to closing the gap with our competitors from where we were six years ago, that continues to be the strategy. ARPU is increasing, not because of increases in price in the marketplace but customers are using the products, more particularly those migrating to LTE. And then, for the street, in terms of the increase in ARPU relative to where the street may have been, I actually would concur its competitive dynamic. We saw extremely aggressive pricing in the quarter, particularly on what are referred to I think as flanker brands or discount brands from one of our particular competitors, and we saw that in revenue growth so that always -- in terms of what other competitors have reported, and so we're comfortable with the growth we had in the quarter but their absolutely was an impact in the competitive marketplace.

Greg MacDonald – Macquarie Research – Analyst

And is it based on the industry maturity and what you saw from that one competitor being the most mature in the market? Can we now conclude that the competitive dynamic is here to stay?

George Cope – BCE Inc. – President and CEO

I think the competitive dynamic is probably as intense as ever. What I would say, though, I think is our strategy has been to close the gap with our two main competitors where we were $13 lower six years ago. I think we got it done into a range of $3 to $4. We want to get the gap closed from an investor perspective, and given the usage we're seeing from customers, we think over time that should include steady, still steady increase and blended ARPU and that's what we're targeting to have happen.

Greg MacDonald – Macquarie Research – Analyst

Okay that's helpful. Thanks, George.

Ric Prentiss – Raymond James – Analyst

Thanks, I want to follow-up on that you mentioned increasing usage, what are you seeing as far as increased usage on 4G versus 3G? And, when would you maybe need to add some capacity to the LTE network, not just coverage? Thank you.

George Cope – BCE Inc. – President and CEO

Well we're adding capacity now, all the time to our LTE network and, I don't have the numbers, it's something that Thane would be happy to report. We don't have it top of head but there's no doubt we're seeing an acceleration, frankly a significant acceleration in usage from those that move from HSPA plus to LTE, and we're now at 73% of the country covered. And of course, not to digress again back on the regulatory side but our goal, of course, is to cover the rest of the country with LTE, which of course won't happen for a new entry that comes in leveraging our network. So we'll focus on that and we are seeing expansion in usage but Thane's happy to show that with you afterwards, we'll go look up the data.

Ric Prentiss – Raymond James – Analyst

Any interest of voice over LTE as far as when that might become a priority?

George Cope – BCE Inc. – President and CEO

No announcement on that this morning, happy to come back and address that.

Ric Prentiss – Raymond James – Analyst

Great, thank you.

Jeffrey Fan – Scotiabank – Analyst

Thank you, good morning. I want to go back to the regulatory issue here. Since all the lobbying has started, the campaigns have started, with the new Minister having making statement it seems to suggest there's going to be no changes to the auction rules. My question is to George, whether you're a bit concerned that this is falling on deaf ears and whether there is any other tactics that you can think of that might change their mind?

And then, the second part to that question is, as you guys have pointed out, Verizon's position in the US is obviously very different from what their potentially maybe doing here in Canada, i.e., they are asking for no set aside in caps in the US while they may be taking advantage of provincial rules here in Canada, so there seems to be some inconsistency. Wondering if there's anything worthwhile there to -- that you can raise perhaps in the US regulator on that kind of inconsistency that's been brought on by Verizon?

George Cope – BCE Inc. – President and CEO

Yes. What I would say is this, we have -- the labor groups in the country have supported the position we're taking. The business groups in the country have supported the position that we've taken; the academic groups have supported the position that we are taking. I believe over 90% of Canadians editorial boards have supported the position we are taking because it is actually very straightforward. The position is we want a level playing field. So, I have -- being born and raised in Canada, I continue to be optimistic that a fair solution is the right solution and we'll continue to push for that.

That final decision won't rest with BCE it will rest with our government of the day, and I'm hopeful they'll see the inequity, the unfairness to our shareholders, customers and Canadians in this policy and we'll continue to pursue that. We'll use every avenue we can in a professional way to pursue it. We think Verizon is a world-class company, and obviously if there are inconsistencies in their position we'll bring those to the attention of the right regulatory bodies.

Jeffrey Fan – Scotiabank – Analyst

Okay, thanks.

Dvai Ghose – Canaccord Genuity – Analyst

Yes, thanks very much, George, I just wanted to follow-up on the pricing question. As you correctly pointed out, Rogers was obviously very aggressive in the first half and regained market share but was given some ARPU pressure as a result. It seems to me that since June they have been relatively conservative, their new pricing seems to be pretty similar to yours and TELUS's I'm wondering if that's a fair assessment? And also, on the wireline side, I'm wondering if you could give us an update as to both Rogers as well as Videotron pricing as your primary competitors?

George Cope – BCE Inc. – President and CEO

Sure. Well on the wireless side, the code of conduct, the wireless code of content that was announced by the CRTC, would shorten the life of contracts that customers can choose, of course means that the subsidy has to be covered over a shorter period of time. And as a result, we've seen some pricing changes we believe in the marketplace on the recurring revenue side and we've seen that across the board in the marketplace. So, it won't all flow-through to just the handset change and part of it will be through service revenues. So there have been some changes in the pricing environment at the beginning of the quarter. Of course quarters change, the beginning of the quarter, Dvai, is always quite different than the end of quarters but we'll see how it pursues. It certainly was a positive, right direction.

In terms of the wireline side, we continue, as I said, Fibe TV we had an excellent quarter, it is building for us from a momentum perspective. We have seen a little bit of pricing strength in the marketplace on the consumer side from our two competitors you just named. We view that as positive because clearly we are pushing very hard to try to get our wireline business on a positive revenue trajectory and of course, that is the scale issue we have relative to other players, particularly our size on the wireline traditionally, traditional NAS business. So we're feeling, quite honestly probably feeling more positive on our wireline position that I felt in a number of years in terms of not just doing the growth through a cost area there but also we're now starting to see some underlying strength in revenue on the wireline side. And then I have said particularly for us, on the business side, it was one of our better quarters in some time.

Dvai Ghose – Canaccord Genuity – Analyst

Thank you very much.

George Cope – BCE Inc. – President and CEO

Thanks, Dvai.

Simon Flannery – Morgan Stanley – Analyst

Thanks very much, good morning. Just following up on that last comment, George, the strength of the business markets, do you think that's something that we sort of turned a corner here? Is it macro? Is it sort of your legacy products are small enough, the growth products are big enough that we sort of turned a corner here from that perspective? And on the consumer side, talk about the economics of Fibe TV? We hear a lot of content cost pressure out of the US carriers, I don't think you have the same things but how is the profitability of Fibe TV looking? Thanks.

George Cope – BCE Inc. – President and CEO

Okay so, on the B2B side you are right, the last comment for sure the percent of our basis on legacy continues to decline and so that's helping us on the B2B side. I think we moved some market share in the quarter as well relative to some instability in one of the sales of one of the competitors of ours in that space. I think that's helped us. We also, over the last 24 months, have had some significant leadership changes in that particular unit in our company and we're thinking we're really beginning to see the benefits of that leadership team as well.

And then on Fibe TV the economics for us, there is no doubt there are content cost pressures because even for Bell Media their content that they are acquiring, in the US, continues to go up and cost, particularly also in the area of sports. And, their ability to pass those costs through to us as a customer and other BDUs continues to obviously put pressures on all BDUs, including our TV business as well. But, I would say the benefit we've had is consolidating it with our satellite TV business and with the scale we have, obviously we make sure that our BDU agreements recognize the scale that our Bell TV business is relative to some other providers in the marketplace. And more importantly than anything, 85% of the time, when people purchase IPTV they're taking a triple from us and of course, 100% of the time we're getting Internet and TV and that's where we're really seeing the strong ARPU growth. As Siim talked about, 6% plus growth on our data side on consumers is a very strong quarter for a company our size.

Simon Flannery – Morgan Stanley – Analyst

Thank you.

George Cope – BCE Inc. – President and CEO

Thank you.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Yes, thanks very much. A quick one on your TV ARPU, it's very strong, it remains to be a real driver. Do you expect to see, going forward, the potential for ARPU growth in TV? And I'm thinking particularly of your TV out of region. And I had a follow-up on Astral if you could give us a sense of how much depreciation might step up once it's integrated and what your current view is on synergies? Thanks.

George Cope – BCE Inc. – President and CEO

So, on Fibe TV we continue to have an ARPU that is north of $60 but Glen, one of the things, it is our base that's on promotion is still pretty significant because of the growth you're seeing quarter over quarter. So, percent of base on promotion is pretty high in that product portfolio and over time that should come down just as the math, denominator versus numerator math starts to take over and that will flow itself out and I think help us as we go into 2014. So, if we see ARPU increases on Fibe TV it won't be because of price increases, it will be more because of people moving off of things where there are 6 month promotions or 90 day promotions where they get discounts. On the depreciation side, let me turn it over to Siim.

Siim Vanaselja – BCE Inc. – Chief Financial Officer

So, Astral we anticipate will at about $50 million of depreciation in the second half of the year, but that is going to be offset by lower depreciation and amortization expense at Bell that comes from closing a number of capital projects later in the year than was originally contemplated in our plans. So overall, our guidance for depreciation and amortization will be unchanged. And then in terms of synergies for Astral, as I said, I think we really don't expect Astral to be fully integrated into Bell Media until the end of the year when we have an opportunity to have all of their systems onto our platforms and we get through the restructuring plans that we have in place. So the significant accretion on both EPS and free cash flow will come in 2014. It is material and I prefer to wait until we provide full year 2014 guidance, which we will do early in 2014.

Glen Campbell – Bank of America Merrill Lynch – Analyst

That's helpful, thanks. Just to clarify on the TV, George, is your comment about price increases on the TV platform, I think that was with reference to Fibe. If we think about Bell TV outside the satellite platform, would that comment and also hold relatively flat pricing going forward?

George Cope – BCE Inc. – President and CEO

Yes, that's again competitive dynamic that would grow drive that, Glen, as opposed to where we will see the most significant ARPU increases will be on Fibe TV because obviously when we're pulling a triple into service, we put our discount on the TV side just as our competitor puts it on the phone side. On the other business, I think it would be relatively stable subject to what's happening form a competitive perspective.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Very good, thank you.

George Cope – BCE Inc. – President and CEO

Thanks, Glen.

Maher Yaghi – Desjardins Securities – Analyst

Yes, thank you. I wanted to ask about IPTV, it seems it's starting to really take hold and improving your wireline results; I'm looking at revenue growth, revenue declining by 8.9% in 2Q that was down 3.7% exiting 2012. When you look forward, when can we think about that trajectory becoming positive? Do you have a timeframe that you can share with us about when that might occur? And also when you're looking at, from long-term perspective, are you thinking about maybe expanding your IPTV coverage higher than what you had initially expected to have since it's taking hold and customers are appreciating the product?

George Cope – BCE Inc. – President and CEO

Yes, so let me start with the back half. I think we are really pleased with the growth we're seeing in Fibe TV. We're also seeing the pull through and we're even seeing the benefit on the NAS side. So in 2014 we will talk about our future capital program for IPTV but if there was a direction we're heading it's the one you are talking to which is accelerating that footprint faster and into more footprint, because the results are really quite compelling. All that said, always within our Capex envelope of the 16% to 17% so no one on the call should be concerned. We're going to announce a knee in the curve of Capex to do that. We'll keep it within the range that we're talking about but certainly the dollars will be allocated, allocated there. And what was the first part of the question, sorry?

Maher Yaghi – Desjardins Securities – Analyst

Yes, just in terms of revenue, revenue trajectory. Do you -- when can we see or might anticipate some positive growth on wireline revenue? Is that late 2014 timeframe?

Siim Vanaselja – BCE Inc. – Chief Financial Officer

When you look at the wireline through the first half of 2013, Maher, it's actually just modestly positive and we continue to see that trend continuing through the second part of the year. Quarter by quarter EBITDA has continued to improve and our objective is to get that wireline unit to ultimately positive EBITDA growth as well.

George Cope – BCE Inc. – President and CEO

Residential. We should make that clear. That's the residential that was positive. You're just -- on the overall number. We don't want to provide guidance on that because it is so close to us now being positive revenue and the difference for us between one up and one down people will know given our size and scale, how tricky that is to call but we are definitely on the cusp of that important piece for us. And what's really, I think, most significant for us is that we've been able to do this while maintaining EBITDA margins on wireline that we know are best in class in North America, and that's the trick here is to pull both off and that's what we're trying to do.

Maher Yaghi – Desjardins Securities – Analyst

Yes, that's just my second question on the margin on the wireline. As your IPTV now is starting to really ramp up, how confident are you that you can keep that margin because we saw it in your competitors in Western Canada, that margin started to decline as they grew their IPTV footprint and customer base? Are you confident you can maintain that margin in the next year?

George Cope – BCE Inc. – President and CEO

Well, there's different mixes to the business. Our competitor has such a different mix out West and they certainly don't need any -- their execution so they know I'm questionable, so there's no comment around their structure. As you look at the structure of our asset base, the scale of our TV business, now well over 2.2 million subscribers, we are well into a positive EBITDA situation on our TV business today and I've always said that is different than even our US counterparts as well. We started with no TV and I think that's one of the reasons our margins are probably a little better.

Secondly, or position in the business market side is, I think, quite unique in North America. And, as much of that business isn't growing, it's for us a very sticky business because of the relationships we've worked on for many, many years to establish so I think that helps us as well. And finally, maybe where we are different than some of our carriers in North America, our focus on cost reduction as one of our imperatives has continued. Once again, our costs dropped in the quarter year-over-year and that we think is helping us hold these margins. But, I'm not going to forecast margins going out but clearly, we're really trying to do both and so far so good.

Maher Yaghi – Desjardins Securities – Analyst

Thank you.

Tim Casey – BMO Capital Markets – Analyst

Thanks, George. Going back to the regulatory issues, of the three initiatives that you are asking for from the government, could you provide a little color there? Which -- are any of those non-starters for you guys? Or how

would you prioritize those? And you have had an opportunity to meet with the new Minister, I recognize it was a private meeting, but are you more or less optimistic after a face-to-face that you can get some progress on what you're asking for? Thanks.

George Cope – BCE Inc. – President and CEO

I'm not going to comment out of respect for the Minister on meeting specifically with him. He is new to the portfolio, we've known the minister Moore and we're optimistic, continue to be as he digests this file. We are hopefully going to look at only because other than in that specific area there's no other group in the country that has studied this that says a level playing field isn't the way ago. In terms of the three particular, I think it's all three of the loopholes that are creating this unusual situation and so by definition it's only logical that all three should be dealt with.

I will tell you, that the second loophole of having access to our network, sits with us as a very uncomfortable thing because quite frankly our product is our network. I don't think someone is going to ask our competitors in the retail world like Canadian Tire, to give WalMart access to their stores when they entered Canada. I don't think anybody asked Tim Hortons to give Starbucks access to their coffee when they entered into Canada. So why we would ever have to give access to our network to Verizon when they entered Canada is, to me, makes no sense. And so, if you ask me to rank them, that would be for sure the most important one and then the other ones, are very important. And hard not to see equally so to me it's all three, but number two to me is just so wrong in so many ways.

Tim Casey – BMO Capital Markets – Analyst

Can you -- what options do you have if the government doesn't move in your favor? What recourse do you have?

George Cope – BCE Inc. – President and CEO

Well, I think we'll just -- I won't comment other than to say we continue between now and September to try to make it very clear that we're open to Verizon being in the marketplace or other competitors and I apologize for repeating the same position, but it is the position and we're going to continue to work optimistically that there will be a right decision here for the country. The interest of Canadian consumers and investors and shareholders, and we're just going to continue to work with Minister Moore to try to make that happen. There are no guarantees and in the end, people know on the call that is not a decision that he will be left to be made on his own.

Tim Casey – BMO Capital Markets – Analyst

Thank you.

Thane Fotopoulos – BCE Inc. – Vice-President, IR

Audrey, in the interest of time, this will be our last question.

Drew McReynolds – RBC Capital Markets – Analyst

Yes, thanks very much for putting me here. Just back to the wireline data growth and my apologies if I missed this earlier, but obviously up 4% really, really good performance. Was wondering, George, if there's any kind of particularly one driver in the quarter that did that? And, just maybe talk to the sustainability of that level of growth? And maybe just a quick one on Wireless TV, obviously with good Fibe performance in the quarter, to what extent is that helping that performance there? Thank you.

George Cope – BCE Inc. – President and CEO

Yes, so it is clearly all three on data. Fibe TV being number one. Secondly, a little better Internet result not where we need to be but better on the pull through. And thirdly, I think my own view most importantly in the quarter was a strong result from our B2B side. And the real question is can we sustain that particular one and that's the hard work and that will only be shown in our results, so let us see if we can execute on that.

And finally on the Wireless TV side, we're pretty excited about the launch of that product. It's creating a lot of interest for consumers, I think quite frankly, cell phones is one of our better branding positions we've taken in quite a period of time and what's really significant is the technical results are actually better than our product that is not wireless, and our install times are dropping dramatically because it's a wireless install other than one TV which has to be a main, the main one, everything else is through wireless. So we're -- it's beating our expectations on every metric.

Drew McReynolds – RBC Capital Markets – Analyst

Thank you.

Thane Fotopoulos – BCE Inc. – Vice-President, IR

Great, so thank you again for your participation this morning. I will be available throughout the day for any follow-up questions or clarifications from this call. On that, thanks and have a great day.

Operator

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