Q2 2014 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 2014 second quarter earnings conference call, as reflected in this transcript, constitute forward-looking statements. These forward-looking statements include, without limitation, statements relating to our 2014 financial guidance (including revenues, Adjusted EBITDA, capital intensity, Adjusted EPS and free cash flow), our business outlook, objectives, plans and strategic priorities, BCE's targeted dividend payout ratio, our network deployment plans, the expected timing and completion of the proposed acquisition by BCE of all of the issued and outstanding common shares of Bell Aliant that it does not currently own (Privatization) through a common share tender offer (Common Share Offer), certain strategic and financial benefits (including expected synergies, and earnings and free cash flow accretion) expected to result from the Privatization, and other statements that are not historical facts. 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 we caution you against relying on any of these forward-looking statements. The forward-looking statements contained in this transcript describe our expectations as of August 7, 2014 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 7, 2014. 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 2014 second quarter earnings conference call for the purposes 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 GDP of 2.2% in 2014, based on the Bank of Canada's most recent estimate, a ten basis point decrease compared to an earlier estimate of 2.3%;*
- *a faster pace of employment growth compared to 2013*
- *a sustained level of wireline and wireless competition in both consumer and business markets*
- *higher, but slowing, wireless industry penetration driven by the increasing adoption of smartphones, tablets and other 4G devices, the expansion of LTE service in non-urban markets, the availability of new data applications and services, as well as population growth*
- *a softer advertising market*

Assumptions Concerning our Bell Wireless Segment

- *higher, but slowing, wireless industry penetration in Canada*
- *maintaining Bell's market share of incumbent wireless postpaid net activations*
- *continued adoption of smartphone devices, tablets and data applications, as well as the introduction of more 4G LTE devices and new data services*
- *our ability to monetize increasing data usage and customer subscription to new data services*
- *further expansion of our 4G LTE wireless network in rural areas and in more urban markets across Canada*
- *ongoing technological improvements by handset manufacturers and from faster data network speeds that allow customers to optimize the use of our services*
- *no material financial, operational and competitive consequences of adverse changes in regulations affecting our wireless business*

Assumptions Concerning our Bell Wireline Segment

- *increasing wireless and Internet-based technological substitution*
- *aggressive residential service bundle offers from cable TV competitors in our local wireline areas*
- *stabilizing residential NAS line erosion rate as we leverage our broadband investment in Fibe TV to drive three-product household penetration, increase our MDU market share, and generate higher pull-through attach rates for our residential Internet and Home Phone services*
- *higher revenue per household and flow-through of market-based price increases across residential products from increasing penetration of three-product households*
- *faster pace of employment and economic growth compared to 2013*
- *continued business customer migration to IP-based systems*
- *ongoing competitive price pressures in our residential, business and wholesale markets*
- *ability to realize cost savings from management workforce attrition and retirements, call centre efficiencies, field service productivity improvements, reduction in supplier contract rates, lower print and mail costs, content cost management and reducing traffic that is not on our own network*
- *growing consumption of OTT TV services and streaming video, projected growth in TV Everywhere as well as the proliferation of devices, such as tablets, that consume vast quantities of bandwidth, will require considerable ongoing capital investment*

Assumptions Concerning our Bell Media Segment

- *softer advertising market for Bell Media*
- *escalating costs to secure TV programming and sports content*
- *ability to successfully acquire highly-rated programming and differentiated content*
- *market rates for specialty content generally increasing*
- *building and maintaining strategic supply arrangements for content on all four screens*
- *full realization of cost synergies from the integration of Astral into Bell Media*
- *no material financial, operational or competitive consequences of adverse changes in media regulation*

Assumptions Concerning our Bell Aliant Segment

- *economy continues to rebound*
- *competitive activity in both consumer and business will continue to be intense*
- *wireless substitution for wireline services will increase in Bell Aliant markets, but is expected to lag behind other regions of Canada*
- *NAS net decline stabilizing*
- *steady demand for FibreOP service driving Internet and IPTV customer acquisition at similar levels as 2013*
- *cost reductions achieved through productivity initiatives will continue, largely offsetting cost increases associated with growth in IPTV customers and associated TV content costs and normal inflationary pressures*

Financial Assumptions Concerning Bell (Excluding Bell Aliant)

The following constitute Bell's principal financial assumptions for 2014:

- *the maintenance of a relatively stable consolidated Adjusted EBITDA margin;*
- *increasing wireless Adjusted EBITDA contribution and margin expansion;*
- *an improving year-over-year rate of decline in wireline revenue and Adjusted EBITDA;*
- *Bell's total post-employment benefit plans cost to be approximately $310 million, based on an estimated accounting discount rate of 4.9%, comprised of an estimated above Adjusted EBITDA post-employment benefit plans service cost of approximately $220 million and an estimated below Adjusted EBITDA net post-employment benefit plans financing cost of approximately $90 million;*
- *total pension plan cash funding of approximately $350 million;*
- *cash taxes of approximately $600 million;*
- *net interest expense of approximately $775 million, instead of $750 million;*
- *net interest payments of approximately $775 million; and*
- *working capital changes and severance and other costs of approximately $175 million.*

Financial Assumptions Concerning BCE

The following constitute BCE's principal financial assumptions for 2014:

- *BCE's total post-employment benefit plans cost to be approximately $390 million, including approximately $80 million for Bell Aliant, comprised of an estimated above Adjusted EBITDA post-employment benefit plans service cost of approximately $280 million and an estimated below Adjusted EBITDA net post-employment benefit plans financing cost of approximately $110 million;*
- *depreciation and amortization expense approximately $115 million higher compared to 2013;*
- *net interest expense of approximately $925 million, instead of $900 million;*
- *tax adjustments (per share) of approximately $0.04;*
- *an effective tax rate of approximately 26%;*
- *non-controlling interest of approximately $280 million; and*
- *an annual common share dividend of $2.47 per share.*

The foregoing assumptions, although considered reasonable by BCE on August 7, 2014, 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 2014 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, financial results and operating metrics such as ARPU*
- *the level of technological substitution and the presence of alternative service providers, contributing to reduced utilization of traditional wireline voice services*
- *the adverse effect of new technology and increasing fragmentation in Bell TV's TV distribution market and Bell Media's TV and radio markets*
- *variability in subscriber acquisition and retention costs based on subscriber acquisitions, retention volumes, smartphone sales and handset discount levels*
- *regulatory initiatives and proceedings, government consultations and government positions that affect us and influence our business*
- *economic and financial market conditions, the level of consumer confidence and spending, and the demand for, and prices of, our products and 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 ratings/audience levels*
- *the complexity of our product offerings, pricing plans, promotions, technology platforms and billing systems*
- *our failure to satisfy customer expectations and build a low cost operational delivery model*
- *our failure to carry out wireline network evolution activities, and to meet network upgrade or deployment timelines within our capital intensity target*
- *our failure to maintain network operating performance in the context of significant increases in broadband demand and in the volume of wireless data-driven traffic*
- *our failure to anticipate and respond to technological change, upgrade our networks and rapidly offer new products and services*
- *our failure to implement or maintain, on a timely basis, effective information technology (IT) systems, and the complexity and costs of our IT environment*
- *our inability to protect our data centres, electronic and physical records and the information stored therein*
- *employee retention and performance, and labour disruptions*
- *our failure to execute our strategic imperatives and business development plans in order to produce the expected benefits, including to continue to implement our targeted cost reduction initiatives*
- *ineffective change management resulting from restructurings and other corporate initiatives, and the failure to successfully integrate business acquisitions and existing business units*
- *pension obligation volatility and increased contributions to post-employment benefit plans*
- *events affecting the ability of third-party suppliers to provide to us, and our ability to purchase, critical products and services*
- *the quality of our network and customer equipment and the extent to which they may be subject to manufacturing defects*
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- *events affecting the functionality of, and our ability to protect, test, maintain and replace, our networks, equipment and other facilities*
- *in-orbit risks of satellites used by Bell TV*
- *unfavourable resolution of legal proceedings and, in particular, class actions*
- *unfavourable changes in applicable laws*
- *our capital and other expenditure levels, financing and debt requirements and inability to access adequate sources of capital and generate sufficient cash flows from operations to meet our cash requirements and implement our business plan, as well as our inability to manage various credit, liquidity and market risks*
- *our inability to discontinue certain services as necessary to improve capital and operating efficiencies*
- *our failure to evolve practices and effectively monitor and control fraudulent activities*
- *the theft of our direct-to-home (DTH) satellite TV services*
- *copyright theft and other unauthorized use of our content*
- *higher taxes due to new taxes, higher tax rates or changes to tax laws, and our inability to predict the outcome of government audits*
- *health concerns about radio frequency emissions from wireless devices and equipment*
- *our inability to maintain customer service and our networks operational in the event of the occurrence of epidemics, pandemics and other health risks*
- *BCE's dependence on the ability of its subsidiaries, joint arrangements and other entities in which it has an interest to pay dividends or otherwise make distributions to it*
- *uncertainty as to whether dividends will be declared by BCE's board of directors or BCE's dividend policy will be maintained*
- *stock market volatility*
- *the expected timing and completion of the Common Share Offer and the Privatization are subject to closing conditions and other risks and uncertainties and there can be no certainty that anticipated benefits will be realized*
- *the benefits expected to result from the Privatization are subject to the successful and timely integration and consolidation of Bell Aliant's operations, procedures and personnel*
- *the expectation that the Privatization will be accretive to BCE's free cash flow is subject to the risks faced by Bell Aliant's business following completion of the Privatization, certain of which risks are described in BCE, Bell Aliant and Bell Aliant Regional Communications Inc.'s (Bell Aliant GP) respective MD&As for the year ended December 31, 2013, as updated in BCE, Bell Aliant and Bell Aliant GP's quarterly MD&As.*

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 2013 Annual MD&A dated March 6, 2014 (included in the BCE 2013 Annual Report) and BCE's 2014 First and Second Quarter MD&As dated May 5, 2014 and August 6, 2014 respectively, and BCE's news release dated August 7, 2014 announcing its financial results for the second quarter of 2014 for additional information with respect to certain of these and other assumptions and risks, filed by BCE with the Canadian provincial securities regulatory authorities (available at Sedar.com) and with the U.S. Securities and Exchange Commission (available at SEC.gov). These documents are also available at BCE.ca.

The terms "Adjusted EBITDA", "Adjusted EBITDA margin", "free cash flow" and "Adjusted EPS" used in this transcript are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other issuers. Beginning with Q2 2014, we reference Adjusted EBITDA and Adjusted EBITDA margin as non-GAAP financial measures. These terms replace the previously referenced non-GAAP financial measures EBITDA and EBITDA margin. Our definition of Adjusted EBITDA and Adjusted EBITDA margin are unchanged from our former definition of EBITDA and EBITDA margin respectively. Accordingly, this change in terminology has no impact on our reported financial results for prior periods. Refer to the section "Non-GAAP Financial Measures" in BCE's 2014 Second Quarter MD&A for more details.

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PRESENTATION

Operator

All participants please stand by. Your conference is ready to begin.

Good morning ladies and gentlemen. Welcome to BCE's Second Quarter 2014 Results conference call. I would now like to turn the meeting over to Mr. Thane Fotopoulous. Please go ahead.

Thane Fotopoulos – Vice-president, IR

Thank you, Wayne, and good morning to everybody on the call and webcast. As usual, I'm joined here today by—with George Cope, Bell's President and CEO, as well as Siim Vanaselja, our CFO. We did release our second quarter results earlier this morning. All the usual information, including the news release and slide presentation for this call, are available on BCE's website, and following our review of the slide presentation by both George and Siim, we'll move on to the Q&A portion.

However as usual before we being, I'd also like to remind all listeners that today's presentation and remarks by both George and Siim will contain certain 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 statement except as may be required by Canadian securities laws. A number of assumptions were made by us in preparing these forward-looking statements, which are subject to risks. Results may differ materially. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statement. For additional information on such risks and assumptions, please consult BCE's 2013 annual MD&A, as updated in our Q1 and Q2 2014 MD&As, as well as our news release of today announcing our financial results for the second quarter of 2014, all of which are filed with the Canadian Securities Commission and are also available on our website.

So with that, over to George to begin a review of the quarter.

George Cope – President and CEO

Great, thanks Thane. Good morning everyone. Thank you for joining us today. Let me turn to Slide 4 and just start with a quick overview of the quarter.

The Company certainly had a good quarter and we are on plan for the year and met our expectations. The EBITDA growth of 4.9% obviously supporting our growth model, but importantly from my perspective is holding our consolidated margins consisting year-over-year of 39.4%. The strong 5.7% wireless service revenue growth drove the 9.5% EBITDA growth that we saw in the quarter, and based on all results now the leading EBITDA growth in the industry in Canada, so really pleased with that.

The wireline EBITDA decline continues to improve year-over-year as we grow the residential services side, and we expect that improvement in wireline EBITDA to continue through the second half of this year. It was the third consecutive quarter of positive residential service revenue growth. We also continue to see significant cash flow contribution from our Bell Media division with an increase of 27% year-over-year, driven of course by the inclusion of the Astral acquisition. The strategy continues to be to expand our fibre footprint and launch as many new LTE markets as we can as quickly as we can.

As everyone on the call knows, we announced the privatization plan for Bell Aliant on July 23rd. This transaction, as we mentioned, will be accretive to BCE earnings and our free cash flow, and supports our dividend growth model for 2015 and forward. Important this morning, we want to announce that we've received Competition Act clearance. That was obtained on August 5th. As you may recall, because it's a company that we already controlled, there was no Industry Canada or CRTC approvals required. The one approval required was the Competition Act, and we have now received that clearance.

Turning to the next slide, from the wireless perspective the net adds of 66,000, representing about 36% of the market share in the quarter against our incumbents, growth of 3% year-over-year in terms of market share, and consistent with our objective of obtaining at least a third of the postpaid market. The metrics were very strong, some of the best we've had in years. Churn on postpaid the lowest we've seen in over six years, the ARPU growth the highest we've seen in seven years, and been able to maintain retention spending and cost of acquisition fairly stable on a year-over-year basis. Also in new revenue sources, we continue to lead the country with mobile TV subscriptions at 1.5 million now, and working with now four Canadian banks who have moved towards mobile payment systems where using your smartphone and tapping it, etc. are part of the technology going forward, which will obviously over time drive some incremental revenue for our wireless business as well.

Turning to the next slide, just a few comments. Our LTE build-out continues across Canada. We now cover 82% of the Canadian population. Our focus now is in the rural communities and starting to deploy our 700 MHz spectrum as well. As noted a few weeks ago, we did announce a real focus in Atlantic Canada where over 100 communities will see access to LTE by the end of 2015. We now expect our 700 MHz rural build-out of LTE and all of our LTE coverage to be completed by the end of 2015, one year ahead of our government commitments on 700 MHz, and we'll reach over 98% of the Canadian population. Also over the next two to three, four weeks, we will announce through spectrum aggregation of AWS spectrum that the speed on our LTE network will increase by approximately 50% for our customer base.

Turning to Slide 7, on the residential side we continue to see an improvement year-over-year in residential RGU losses, an improvement of 12% year-over-year. The Internet was up slightly over last year, but quite frankly as you saw our competitors' results in our territories, the quarter is traditionally soft as we see the student networks quite frankly driving that number; so although up slightly, clearly not at the growth rates we want to see going forward.

On the Fibe perspective 46,500 net adds, pleased with the number. Down a little bit, particularly down in the Province of Quebec, up in the Province of Ontario. In Quebec, there was some very aggressive pricing by one of our competitors and we chose not to match it in the quarter, and quite frankly we're pleased with the growth that we're seeing in Ontario and we expect to see an acceleration of Fibe TV as we move forward.

Overall NAS losses improving on the consumer side. On the business side, up a bit, again as we continue to migrate our corporate and mid-customers to IP, and also believe it or not, some of our small business clients moving from dial-up to different Internet services now having some impact on that as well. Most importantly in the quarter from my perspective is in our IPTV footprint where we have that, we continue to be RGU-positive and that's the most important metric for us. The strategy is keep growing that IPTV footprint.

Just thought I'd make a quick comment pro forma Bell Aliant, you can see the strong metrics of the combined organization with 59,000 IPTV net adds pro forma and 18,000 Internet net adds, and importantly the decline on a combined basis of the RGU net losses as well. Also worth mentioning that the net adds for wireless would go up just slightly as we integrate one of the smaller wireless parts of Bell Aliant pro forma the acquisition when that takes place.

From the media perspective, continue to see some softness for sure on the advertising market. I think our numbers would say that we are competing very well in the Canadian marketplace in terms of audiences for the top five shows between the ages of 25 and 54 are carried on our media assets. We've secured 11 new series for next year, and we'll have again the leading number of top 20 hits in the country going into the season in September.

On the TSN side, as we announced earlier, we are expanding from two to five national feeds to recognize the consumer demand for more and more sports content, and we continue to add more sports content to TSN and RDS, recognizing that demand by our customer base.

In terms of our overall mix, again our growth services, quite frankly, are really driving some top line revenue growth for us—$300 million or 7.8%, even pro forma the acquisition. You can see our mix does change slightly, as I said on the call a few weeks ago, from 81% of our revenue from growth services to 79% because of the increase in our local access lines as a result when we close the Bell Aliant transaction. Of course, the offset to

that is our rate of wireline decline will improve because of the competitive Fibe footprint that's been put in place at Bell Aliant.

So with that, let me turn it over to Siim.

Siim Vanaselja – Executive Vice-President and CFO

Thank you, George. Good morning everyone. I'll begin with a review of our consolidated second quarter financial results, and I'll first bring to your attention a terminology change in our financial reporting starting this quarter. So consistent with the recent requirement of Canadian securities administrators, going forward you will see us replace the term EBITDA with the new term, Adjusted EBITDA. There's no change, however, to how we calculate or define that term and no change to previously reported numbers, just that we will now refer to it as Adjusted EBITDA.

Beginning on Slide 12, in the second quarter we grew service revenues at Bell by 5.8%. That was driven by our growth services which collectively increased 7.7% year-over-year. Revenue performance was led by Astral's contribution to Bell Media, accelerated wireless revenue growth, and as George said, a third consecutive quarter of positive wireline residential service revenue growth. Bell Adjusted EBITDA increased 4.9% this quarter, reflecting the inclusion of Astral, a strong contribution from Bell wireless as well which delivered year-over-year growth of 9.5%.

Our wireline segment had a fifth consecutive quarter of year-over-year improvement in the rate of Adjusted EBITDA decline. Bell's consolidated Adjusted EBITDA margin remained stable at 39.4% as the contribution from wireless and wireline growth services offset the decline in higher margin wireline voice business and the lower margin media contribution from Astral. The higher Adjusted EBITDA drove 6.5% growth in adjusted EPS to $0.82 from $0.77 in the second quarter of 2013, and that was a key contributor to free cash flow generation of $815 million this quarter.

Consistent with our plan for the year, capital spending stepped up in the second quarter as we continued to expand our IPTV footprint, increase Internet and wireless network capacity to support customer and usage growth, and we began deploying advanced 4G LTE mobile services to rural communities and small towns across Canada. So overall, it was a very good financial quarter with healthy results across all our segments, and I'll now turn to the highlights of each of our operating segments.

On Slide 13, wireless service revenues were up 5.7% this quarter. That was driven by 4.6% higher ARPU. This is the 18th consecutive quarter of year-over-year wireless ARPU growth. The increase reflects a greater mix of postpaid subscribers in our customer base, higher rate plans, and strong data revenue growth of 21%. Wireless Adjusted EBITDA grew 9.5%, yielding a revenue flow-through to Adjusted EBITDA of 76% and a 1.6 percentage point increase in service margin to 47.5%, so that was our best wireless margin performance in at least 10 years. Bell wireless continued to make a strong contribution to Bell's overall free cash flow with growth in Adjusted EBITDA less capex of 5.9%—another overall excellent quarter of wireless performance on financial results and with solid postpaid operating metrics.

Moving now to the wireline segment on Slide 14, the rate of wireline revenue decline continued to move closer to achieving break-even with a year-over-year decrease of 0.8% in the quarter. Residential wireline revenue grew 1.3%. As George referenced, this reflected improvement in net subscriber losses and higher ARPU across all our consumer wireline services. TV and Internet combined delivered 6.1% higher revenues year-over-year. Voice erosion continued to slow with fewer NAS line losses over last year and higher sales of international long distance minutes.

In business wireline, the rate of Adjusted EBITDA decline improved, which was supported by cost control actions and business IT connectivity saw good growth in the quarter of 3.4% on revenues; however, overall business market results continue to be impacted by re-pricing and slow economic growth. Total wireline Adjusted EBITDA in the second quarter decreased 2.7% year-over-year, which represents improved performance over both the first quarter of this year and the second quarter of last year. Bell's wireline Adjusted EBITDA margin was on plan at 38.4%. As we look forward to the second half of the year, we do expect the

wireline segment to deliver positive revenue and Adjusted EBITDA growth benefitting from continued acceleration in Fibe, pricing discipline, and cost control.

On Slide 15 for Bell Media, the second quarter marked the last quarter of incremental year-over-year contribution from Astral, so beginning with the third quarter, Astral will be fully reflected in our results year-over-year. On a pro forma basis for the second quarter when including Astral in last year's results, Bell Media revenues were down approximately 2% year-over-year. That's excluding a one-time $10 million retroactive video-on-demand revenue that we recognized in the second quarter of 2013, which was from broadcast agreement renewals with certain BDUs.

Total reported advertising revenues were up 29% over the second quarter last year. Again, pro forma Astral, advertising revenues for conventional and specialty TV in aggregate were down approximately 5%, and that reflected the generally soft advertising market as well as fewer NHL hockey playoff games which were broadcast on TSN and RDS. The quarter was also impacted by movements in advertising spend to the 2014 World Cup coverage.

Subscriber revenues in media were up 5% year-over-year on a pro forma basis. That was on specialty TV rate increases, growth in Bell Media's expanding array of TV Everywhere products, and growth in mobile TV subscriptions. Reported second quarter Bell Media Adjusted EBITDA growth of 34.6%. Pro forma Astral and before the $10 million non-recurring item that I mentioned, Bell Media Adjusted EBITDA was stable year-over-year, reflecting higher content costs for TV programming and sports broadcasting.

On Slide 16, adjusted EPS of $0.82 per share this quarter was a solid 6.5% increase year-over-year. The growth was driven primarily by higher Adjusted EBITDA which reflected a strong contribution from Bell's growth services. We recognized a mark-to-market gain of $0.02 per share this quarter on equity derivative contracts resulting from the appreciation in BCE's share price, and that compares to a $0.06 loss on equity derivatives that we recorded last year.

Depreciation expense for the quarter increased $0.03 over last year, consistent with our higher capital asset base and the asset base from the Astral acquisition. Higher year-over-year interest expense that you see is due to the Astral acquisition, and with the Canadian dollar's appreciation in the second quarter, we recognized a $0.02 per share foreign exchange loss on currency hedges entered into manage the financial exposure on our US dollar capital purchases. Those hedges on capital expenditures did not qualify for hedge accounting.

Lastly, tax adjustments contributed $0.02 to EPS in the quarter compared to $0.05 a year ago, resulting in an effective tax rate of 25% in the quarter versus the statutory rate of 26.6% for the current year. We see minimal tax adjustments of approximately $0.01 per share for the balance of the year.

Year-over-year adjusted EPS of $1.63 per share represents growth of 5.8%—that's on a year-to-date basis, and that's in line with our plan and remains on track to meet our guidance for full year EPS growth in the range of 4% to 7%.

Turning to free cash flow on Slide 17, we generated $815 million of free cash flow in the second quarter, driven by growth in EBITDA and the year-over-year improvement in our working capital position. This quarter's results also reflected higher planned capital spending, as I discussed, and a step-up in cash taxes in line with our full-year 2014 guidance assumption and higher cash interest payments. All of that is on track with our guidance for the year and our plan, which calls for accelerated cash flow generation in the second half of the year.

So to wrap up, I'd say we've seen no changes in our outlook for the second half. The operating performance of all our segments is tracking well to deliver our guidance targets. Wireless financials and postpaid operating metrics remain strong. We expect to see good improvement in wireline financial performance through the third quarter and the fourth quarter. In Bell Media, Astral's contribution, as I said, will be reflected in both 2013 and 2014 results, so year-over-year performance in media will normalize in the second half but with the impact of increased programming costs. Given that outlook, I'm affirming all of our 2014 financial guidance targets.

Lastly, for your reference, on Slide 19 I've provided an updated summary of our key financial assumptions. As you will see, the only change is on net interest expense which we now expect to be approximately $25 million

higher for the full year, and that's because we see less capitalized interest on the 700 MHz spectrum that we acquired earlier this year, which we've begun to deploy and which was at a favourable cost relative to our expectations. Notwithstanding that impact, we are maintaining our adjusted EPS guidance range.

So with those comments, I'll turn it back to Thane and the Operator to begin the question and answer period.

Thane Fotopoulos – Vice-president, IR

Thanks Siim. Wayne, if you could now provide instructions to the participants, we're ready to open up the queue to questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and are using a speakerphone, please pick up your handset before making your selection. If you have a question, please press star, one on your telephone keypad. You may at all times cancel your question by pressing the pound sign. Please press star, one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

Our first question is from Simon Flannery from Morgan Stanley. Please go ahead.

Simon Flannery – Morgan Stanley – Analyst

Great, thank you very much. Very nice results, particularly on the wireless side. Impressive churn reduction, wireless margins. Can you just talk through the sustainability of that, because we've seen it at other carriers both north and south of the border. Is this really reflecting the fact, as you've said, that there's no new devices—we've got a big iPhone upgrade coming here— or do you think we've got a maturing of this industry where some of these churn gains are going to be more sustainable? Anything you can add on tablets or other broadband devices and what they're contributing here as well would be great. Thanks.

George Cope – President and CEO

Yeah, so on the second point, the tablets are a very, very small share still of our net adds. Ours are literally almost all smartphone net add penetration, so that's also what's driving the improvement in our ARPU. On the churn side, part of it from our perspective is the enormous investment in the last six years in our service agenda to the customer base. We see it in our customer service satisfaction metrics, and they've just improved dramatically on our wireless business and the tools we put in our customers' hands has also, in terms of service applications, has really helped us on the service side.

The other point, I think, the part of the structure—I mean, the LTE networks that we're offering in the Canadian marketplace are second to none in the world. I think customer satisfaction probably at a high level and structurally in the industry; I think that's also what we're seeing. Hard to forecast where the industry will go on churn, but our expectation is that churn will continue to be quite positive on the postpaid side.

Simon Flannery – Morgan Stanley – Analyst

Great, thank you.

Operator

Thank you. The following question is from Richard Choe from J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Great, thank you. On the wireline side, just wanted to confirm you think that revenue and EBITDA is going to be up in the second half; and given the little bit of slowdown both in high-speed Internet and video, what makes you confident in the re-acceleration of that growth?

George Cope – President and CEO

Yeah, and I think it's important to note the second half of the year, we do expect, as Siim said, both wireline revenue and EBITDA to breakthrough positive, and in my own instincts, you'll see it will build in the third quarter into the fourth quarter, so the second half will be positive. Frankly, it's just the continual growth of our TV and Internet business, that growing against that NAS base being a smaller proportion. Some improvement, as Siim talked about, on our business side where we're seeing the rate of improvement on EBITDA, although even still there's work to do there, there has been improvements there. So we believe in the second half of the year, which is important for the analysts between quarter to quarter, second half of the year that wireline EBITDA will break through and be positive, and part of that is, as I say, just the growth we're seeing and the seasonality in the second half of the year you see on—what you see in the second quarter on Internet, you see the benefits of Internet and Fibe TV in the second half of the year on the student return market.

Richard Choe – J.P. Morgan – Analyst

I guess the build of Fibe TV slowed a little bit, or are we still on pace to hit that 5 million number by year-end?

George Cope – President and CEO

The household coverage we're on, the Fibe TV definitely a little slower in Quebec than we had wanted, and part of that quite frankly was tactical, given what we saw some pricing responses once people saw our previous quarter results. We were positive growth in Ontario, and the ARPU of course between the provinces are a little bit different, and we will continue to see the footprint expansion.

Richard Choe – J.P. Morgan – Analyst

Great, thank you.

Operator

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

Dvai Ghose – Canaccord Genuity – Analyst

Yeah, thanks very much. George, as you know, you've had 10, I think, dividend increases since you became CEO, which has been really positive. The concern going forward is that you're overly reliant on acquisitions incrementally, so free cash flow and dividend growth and overly reliant on wireless. It's encouraging to hear your wireline comments; I assume you believe in 2015 you should produce some pretty decent wireline EBITDA growth. My questions really are on wireless and media.

On the wireless side, as you know, the significant concern amongst my peers is that you may not be able to increase wireless EBITDA if there is a fourth recapitalized player. Do you believe that? Last but not least, do you consider media still to be a growth asset? Do you think there is room for pro forma EBITDA growth next year with Astral and CTV combined?

George Cope – President and CEO

Okay, thanks Dvai. As you would know, I'm not going to get into 2015 guidance, but let me give some context to your question. I think if you look at the mix of our portfolio and the growth on the free cash flow we've talked about, the integration of Bell Aliant and investing in telecom assets to grow that, and that's the privatization of Bell Aliant which will be free cash flow accretive next year, I think our track record on free cash flow generation

and keeping our payout ratio at around 70% speaks for itself, so I think the street's expectation for our ability to manage that is our responsibility and we expect to continue to do that.

In terms of the wireless marketplace, I think the one comment I will draw out for investors—it's important to note that 18 of Canada's top 20 markets today have four carriers, so there is some confusion here that at least I pick up. People keep writing that we're suddenly going to have a new fourth carrier. We've had a fourth carrier in those 18 markets for six years, and the results that we're reporting reflect that. How they're capitalized, how they're not capitalized, how they're successful in execution will just remain to be seen in the marketplace, but I did want to mention that. I think it is important that there are four players in those markets in what we've seen, so that's really the one comment on that.

Then overall, the media business as we go forward, we've talked about for sure there's some challenges there in terms of the rate of rapid growth we've seen historically, and we don't think we'll see that pace on the wireline side. You'll see improvement in the second half, and we'd like to see that continue to drive the cash flow; and on the wireless, I think the results speak for themselves.

Dvai Ghose – Canaccord Genuity – Analyst

Thanks George. Congratulations.

Operator

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

Maher Yaghi – Desjardins Securities – Analyst

Yes, thank you. Good morning. A follow-up question on wireless, more on the long-term perspective here. Overall, we're seeing declines, continued declines in gross activations in the sector, especially on postpaid; and this is not just seen by Bell but also by Telus and Rogers. So you have been benefitting from the lower churn rate and improving ARPU, which continues to build into probably next year, and that's going to help you next year. But when you look longer term, what can you do as an industry to increase penetration of wireless in Canada, and if you can't, if that wireless growth is coming down, how will you be able to replace that growth to help your consolidated results?

George Cope – President and CEO

Well part of it, of course, is the portfolio we have of assets. But you know, specifically on the wireless industry side, my own opinion—and we're seeing it—is the Canadian consumer's adoption of smartphone and usage of these devices, and as I mentioned the improvement in our speed of our LTE by 50% over the next four or five weeks, that is only going to drive more and more demand for usage of the product. The ARPU that we're seeing in the marketplace is not from price increases; it's generally from pricing discipline, but also just increased usage of the product, so I think that provides for the growth.

In terms of penetration, I think one of the interesting things for Canada, of course, is because we still have penetration in front of us, we probably haven't been as aggressive in things like the tablet market, and what have you. I think you'll see that evolve and over time start to look probably a little more like the US, so there's incremental revenue there. I probably am as optimistic today on wireless growth as I have been over the last 10 years. I still think it's early days for this industry.

Maher Yaghi – Desjardins Securities – Analyst

Thank you.

Operator

Thank you. The following question is from Jeff Fan from Scotiabank. Please go ahead.

Jeff Fan – Scotiabank – Analyst

Thanks and good morning. Perhaps two quick ones, on both wireless. The installment plan we're seeing in the US seems to very popular. I'm wondering if you have any renewed thoughts on whether you see that as an opportunity for Canada. Secondly, the BYOD—the Bring Your Own Device—I'm wondering if that's becoming a bigger portion of your activations as customers bring their own device and going on to a month-to-month plan.

George Cope – President and CEO

Sure, and just to add—the one thing I didn't mention on wireless that we're seeing in our results, and I'll come back to that, is the tools we're using with our customer service is driving costs out of running the operations as well because customers, quite frankly, want to use smartphone for service and not necessarily call into call centres, and that is driving some of the margin flow-through that we're seeing.

In terms of Bring Your Own Device, yeah, there is no doubt we've seen some of that in Canada for sure, people moving from carrier to carrier and bringing their device with them, so that is helping, obviously, the things such as cost of acquisition and what have you. For sure we've seen on that.

On installment plans, we're watching the developments in the US and we'll see. I have no comment on our competitor over a market launch other than making sure we clearly understand the true cash flow cost of those programs as opposed to what they might do from an accounting perspective. I really want to know what the costs are from a cash perspective, and if it's going to accelerate net present value for our shareholders, we'd obviously take a serious look at it.

Jeff Fan – Scotiabank – Analyst

Thanks George.

Operator

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

Glen Campbell – Bank of America Merrill Lynch – Analyst

Yeah, thanks very much. So a metric that you probably take a look at and we don't get to see is how the ARPU for your incoming customers compares to your base across your services, and leaving aside, say, the temporary promotional discounts, my sense is that in wireless it may have flip-flopped so that your new customers may now be generating better ARPU than your existing. My sense is on TV that you're probably lower because your basic package is actually quite a generous TV package; and on Internet, I'm not sure. Could you give us a bit of colour directionally on what that might look like?

George Cope – President and CEO

Sure. Yeah, we use the term, Glen, vintage of our customer base to look at that, so your insights are frankly on the wireless pretty accurate. What we're starting to see now, part of that, as you know, we moved from three to two-year contracts and handset prices didn't really change in Canada, but postpaid base in entry level prices did change, and so we are clearly seeing customers coming on, using LTE by the way, which drives higher usage and drives higher ARPU, and seeing as a result of that new customers coming on generating some better ARPU.

On the Internet side, it's really about people migrating to higher speeds, so what we see there is revenue growth, not as much—you know, you do the base and the net adds for us and for the industry aren't significant, but what we are seeing is customers wanting higher speeds and that is ultimately they migrate up to those higher speeds, that drives ARPU.

On the Fibe TV side, the real answer there is we continue to see a little over $60 ARPU on our Fibe TV product, but really in most of that service offering, we do it on a triple or a double and the discount is on the total package. But we're continuing to see IPTV north of $60 on the ARPU side.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Okay, thanks, and just to confirm, that $60 would be clean of any discounts, or is the discount built in there?

George Cope – President and CEO

Actually no, that would actually be our monthly ARPU with the discounts in them; and of course, it's a bit of a numerator-denominator issue, because the more net new adds you have, so we over time that number will grow as those promos as a percentage of our base come off.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Okay, and just a quick follow-up—just roughly speaking, what proportion of your Internet subs would be on the Bell Fibe Internet 25 and up plan?

George Cope – President and CEO

You know what, Glen? For competitive reasons, I'm not going to give that, but we are seeing a migration to people wanting to use higher speed products.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Okay, great. Thanks very much.

Operator

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

Drew McReynolds – RBC Capital Markets – Analyst

Yeah, thanks very much. Good morning. George, just two questions from me. The first one—you've done a great job with mobile TV with the 1.5 million subscribers. Just wondering if you can shed some light on usage

underneath the hood, just the types of programming that folks are watching. Do you see any negative effects on usage due to the Wi-Fi?

The second question, I just wanted to circle back on a comment you made on the Bell Aliant call just in terms of the benefits of wireline and wireless integration. Is this about strengthening the wireless backhaul to improve your LTE performance, or are there other financial strategic benefits that come into play from integrating the networks? Thanks.

George Cope – President and CEO

Okay, so on mobile TV, let's deal with that first. I don't have a streaming number to give you, but I can tell you the volume was up significantly. Although a lot of it, some of it starting even in this quarter, when you see things like the World Cup, it is very, very event-driven, mobile TV. So people add it to their base plan, it can be $5 for the 10 hours, and you'll have a period of time where people aren't using it much, and then there will be some type of event, a world event, and it can be a positive sport event, it can be some of the political events, and then we see an explosion in usage for those types of events. So it's an event-driven service, which makes sense given the way we product—the product size, etc., in the marketplace, and we continue to see that accelerate, that growth, and it adds to the LTE experience for our customer base. We think it's great differentiation in the market, and we now hear some of our competitors want to enter that space, so we're happy to have that leadership position.

In terms of Bell Aliant and Bell, yeah, the comments—really what we've said, if you look out and you think about the bundling market on the consumer side in eastern Canada, although we've been able to do it, it's always been a little trickier with two public companies than the ability to bundle in now IPTV with wireless when it's all one organization. So those are really the—you know, there's an example of one of the strategic benefits that we'll get of that.

You make the point on the backhaul and the access, but the reality is we've had that. We've always been buying that access from Bell Aliant, so I guess from an integrated perspective we'll be there. There were a lot of articles, a lot of—some people wrote that this was all done as a result of something to do with the fourth wireless carrier, and I frankly—that was not any of the strategic intent on doing this. The strategic intent we talked about was the things we took the group through—the free cash flow, accretive for our shareholders, we don't need two public stubs. If you look at the Fibe footprint and now the IPTV growth off that platform that we'll have putting it together, those are really the driving reasons.

You know, just one number, our streaming for instance is up 6% year-over-year on our mobile TV, so—

Siim Vanaselja – Executive vice-president and CFO

6%.

George Cope – President and CEO

They just handed me a note—up 6% year-over-year on the streaming, and I know in the month of the World Cup, the guys were really pleased with the results.

Drew McReynolds – RBC Capital Markets – Analyst

Thanks very much, appreciate it.

Operator

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

Vince Valentini – TD Securities – Analyst

Yeah, thanks very much. My question on wireline capex—so the intensity of 23.9% this quarter, a bit elevated. Can you give me a bit more details on some of the buckets of where you're spending and maybe some directional comments for the future? It seems like that number is a bit above where you'd want to be longer term.

George Cope – President and CEO

Well, the real issue is it's an annual number with us, and we're trying to accelerate IPTV as quick as we can. But the best way to guide is the capex guidance that we've given for the year will be right in that range, and I think we're in a 16% to—what's the range, Siim, that we're kind of on that guidance?

Siim Vanaselja – Executive vice-president and CFO

Yeah, 16% to 17%.

George Cope – President and CEO

Yeah, so we'll be right in the 16% to 17%.

Siim Vanaselja – Executive vice-president and CFO

Probably at the higher end of that range.

George Cope – President and CEO

Yeah, and the wireline side is obviously where the capital is being accelerated as quickly as we can. But the lumpiness in the free cash flow is just quarter-to-quarter. We are really trying to get IPTV done as fast as we can because it's so present value accretive for us, but there's no change in the outlook of our capex.

Vince Valentini – TD Securities – Analyst

Thanks.

Thane Fotopoulos – Vice-president, IR

Wayne, this will be our last question.

Operator

Thank you, so the last question is from David McFadgen from Cormark Securities. Please go ahead.

David McFadgen – Cormark Securities – Analyst

Yeah, when I look at your wireless business, you're lowering your operating costs, increasing your margins, which is pretty good. In your opinion, is there kind of a theoretical threshold where you could take the wireless service margin to?

George Cope – President and CEO

No, there isn't. There will be some number, obviously—sorry, I don't mean to say it that way, but there's not really a—you know, our goal is, as we've said, just strategically for us on wireless is to make sure we exceed the 33% of the postpaid market share, that ultimately we close the gap, and I think we now have, with our competitors, and capture a leading position in EBITDA growth in the industry. If we're doing that, we think we're executing.

The margins, of course, can change pretty quickly in this business, up and down depending on new handsets, and I think one of the things not so much on margins but there are some new smartphone devices coming in the latter half of the year, and maybe that helps see some acceleration on the subscriber side for the whole industry. We'll just have to wait and see. Thank you for the question.

David McFadgen – Cormark Securities – Analyst

Okay, thanks.

Thane Fotopoulos – Vice-president, IR

Very good. So on that, thank you so much for participating on the call today, and I'm available throughout the day for any clarifications and follow-ups. So thanks again and have a good day.

Operator

Thank you. That concludes today's conference call. Please disconnect your lines at this time and we thank you for your participation.