



BCE

Q2 2009 Results Conference Call

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PRESENTATION

Operator

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

Thane Fotopoulos

Thank you, Patrick. Good morning, everybody. Joining me here today is George Cope, our President and CEO, and Siim Vanaselja, our CFO. We did release our earnings earlier this morning and the purpose of the call today is to provide you with some additional colour on our results, as well as to answer as many of your questions as time will permit this morning. George and Siim will take you through a slide presentation that you'll find on bce.ca, and after that, we'll move to a Q&A session.

As usual, before we begin, I would also like to remind you that our remarks today will contain some forward-looking statements with respect to items such as revenue, EBITDA, capital intensity, free cash flow, EPS and dividends. Several assumptions were made by us in preparing those forward-looking statements and there are risks that our actual results will differ materially from those contemplated by the forward-looking statements. For additional information on assumptions and risks, please consult BCE's 2008 annual MD&A as updated in BCE's 2009 first quarter MD&A and BCE's 2009 second quarter MD&A, all of which are filed with the Canadian securities commissions and with the SEC and which are also available on our website. These forward-looking statements represent BCE's expectations as of today 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 any forward-looking statement, whether as a result of new information, future events or otherwise. And I would like to remind you that I am making these cautionary statements on behalf of each speaker whose remarks today will contain such forward-looking statements.

So with that out of the way, I'll turn the call over to both George and Siim for some brief introductory remarks and then we'll take your questions.

George Cope, President and Chief Executive Officer

Great. Thanks, Thane. Good morning, everyone, and thank you for joining us this morning. I'm going to turn now to our presentation, and I'm on page four, called *Delivering on Dividend Growth Model*. And obviously, we are happy this morning to be in a position to announce a mid-year dividend increase for our shareholders. The announcement this morning is consistent with the new capital market strategy we unfolded at our February investor conference where, when appropriate, we would look for opportunities to return cash to our shareholders through buybacks, or dividend increases, or a combination thereof, and at the same time, making sure that we maintain that dividend within our guided payout ratio. We are comfortable with the mid-year dividend increase, really for three reasons. One is this morning's adjusted EPS outlook being more positive than we had anticipated in February. Secondly, the ability to increase our EBITDA guidance now from being flat, or stable, year-over-year to a more positive outlook given the cost management across the Company. And finally, and I think most importantly, the successful completion also of our financing requirements for 2010 that we completed just in June, with the completion of the \$1 billion bond issue.

Turning now to slide five, it's briefly an update on our five strategic imperatives. We had another very strong quarter of service improvement year-over-year, and what's really starting to work for the company is we're seeing a significant improvement in service, while at the same time, driving out cost on the service side. So through the delivery of Same Day Next Day service, we're seeing a reduction, by way of example, in our call centres: significant reductions in terms of repairs given we're now out to see the customer much quicker, and doing those repairs once and out, in terms of the customers - any problems that they may have. So continuing to see progress there and, quite frankly, numbers that we have never hit before in terms of our service metrics, all which we think bodes well in the future for our brand and our position in the marketplace.

Second imperative that clearly we're making progress on is the cost structure, being more and more competitive in the marketplace. There's no doubt we've seen a cultural change in the company over the last year that has taken hold across all management levels and across the entire organization, in fact, in terms of making sure we're spending money where required and any discretionary spending, quite frankly, continues to be eliminated. Our Wireline labour costs down year-over-year and our G&A costs down year-over-year are just examples. As well, looking for further cost savings, on July 1st, we implemented the integration of our Enterprise, SMB and Bell West businesses, all under one business unit under Stéphane Boisvert's leadership. And we anticipate there approximately 300 less resources being required and a savings of close to \$30 million a year through that move. Also, even our new debt issue drives our annual interest cost savings of about \$25 million pre-tax when we get into next year.

On the Wireless side, I'll talk about the operating metrics in a moment and some of the challenges the industry's having, but in terms of strategically, very happy with where we are and setting up for next year: the completion of The Source acquisition and the Virgin acquisitions, the announcement of the Palm Pre, exclusive to Bell, where we will launch that later this month, and the launch of the BlackBerry Tour. And important for us, we've never had a response on our website like we're seeing now in terms of bringing the Palm Pre to the market; so hopefully, that bodes well for the future for the company in terms of net adds.

And then finally, this morning in the press release, you may have noted that we've announced that we've entered into a roaming agreement with AT&T when we launch our HSPA network, and that's important on two fronts for us. One is for our customers in the future having access to a tremendous network in the US; but more importantly for Bell also, is in the future, HSPA clients in the US on AT&T will have the ability to roam in Canada on Bell's new HSPA network, which as I said will launch, as you know, in early 2010.

Turning to page six. On the Wireline side, excellent quarter for our TV business, continuing to see a reduction in the number of NAS losses on the consumer side, down 20% year-over-year. Pleased to report that our Enterprise business had its ninth consecutive quarter of EBITDA growth, even in a very tough revenue environment, which is obviously evidenced today in some of our results. And also, strategically, did make a minority investment in the Montréal Canadiens. Just to give some colour now to the Street on that, it's approximately a \$50 million investment for a 15% to 20% equity position, and really was securing the positions that we have today with our brand involvement with the Montréal Canadiens, with obviously a leading brand in Québec and one that we felt very important to have this relationship relative to the competitive market here in the Province of Quebec.

Continue to invest our capital, principally in broadband, HSPA on track, as is FTTN on track for the household expansions we've talked about. Also strategically, our subsidiary, Bell Aliant, as you would have noticed, launched an aerial fibre to the home strategy in two markets. And we will obviously be watching that development very carefully, and learning also at Bell as we see them successfully roll that out in the marketplace.

Turning to page seven, on the Wireless side, clearly challenges on the metrics side in the industry. On gross adds, I'm actually relatively pleased seeing them flat year-over-year. Where we obviously are seeing the impact of the economy, one is in the area of post-paid churn: I believe that's economy plus competitive areas on smartphones, which we'll be addressing in the future with HSPA; and probably the most important metric, though, here being ARPU: seeing it down year-over-year. And that's really been driven by three key things, two which we relate to economy, one which we relate to competitive dynamics. We saw approximately a \$2 reduction in usage on ARPU; so people are actually using the product less in the economy from a voice perspective. And we saw an important development, and that is just in the summer in Canada, roaming revenue has always been important, and that had about \$1 impact as the amount of travel going on between the two borders is clearly showing up in roaming revenue, be it Canadians traveling to US or, likewise, US traveling to Canada, and I doubt very much that the passport rules have helped in terms of travel and, obviously, we see some of that impact. So those two, I would say, are economy driven. And the other area of ARPU is competitive market developments, although that's been largely offset by the data growth. It's hard to know when but with some comfort, I think, two of these three causes are, in fact, economic and, over time, should see stability there. Wireless data revenue growth of 28% now represents 17% of our ARPU. It was the strongest quarter we've had to date on data devices and, again, look forward to, with the launch of HSPA, even accelerating that data growth relative to our competitors in the marketplace.

Overall, seeing gross adds increase, ARPU come down, yet being able to actually grow our EBITDA margin, while you see gross adds up, shows that clearly it's not just our Wireline business focused on cost management, it's across the company. So obviously we like to see the ARPU stability, but you can see here, hopefully from an investor perspective, a real, real focus on our Wireless business from a cost management perspective as well.

Turning to page eight, on the voice side, I mentioned already nice again to see the improvement in our local access business on the consumer side. We think that's being driven by our branding work, our service improvement and our win-back bundling work in the marketplace. Worth noting that our local access revenue erosion slowed for the fourth quarter in a row, down from 8% Q2'08 to a decline of 5.8% in Q2'09. We are, however, seeing an acceleration in NAS losses for business. That is principally driven in our SMB segment and we believe not competitive reasons, but we believe principally the economy, and we also see that in our toll where SMB toll is also less than we had seen in the past and, again, we believe economically driven.

Turning to page nine, we had an excellent quarter in our Video portfolio, a quarter we would just like to bottle and repeat over and over again, if possible. Having revenue growth like we've seen here, with ARPU increase, and most importantly, now also seeing net adds of 20,000, and that's before the impact of the new wholesale agreement that we've entered into with TELUS which should start to help us even going forward with subscriber growth. Continue to focus on our HD leadership position in the marketplace with seven new channels launching, and obviously, this product is helping us on a bundling perspective with our Internet and our Home phone services.

Turning to Wireline data, I think a reasonable quarter in terms of data service revenue growth of 4.2% year-over-year. Hardware, obviously, a different story but low margin, and quite frankly, not a focus of the organization or something that we're concerned with. On the Internet side, residential up a little bit year-over-year, SMB down; so that the net adds, in essence, are up a little bit, but the most important element here is really the data revenue growth, where we saw an increase in ARPU on the residential Internet side of 10% year-over-year, and that's really being driven as clients move from DSL to FTTN, so that our investment in FTTN is starting to pay out as we see subscribers migrate to higher usage and higher ARPU rate plans in the marketplace.

So in summary, looking forward, we obviously want to continue to make measurable progress on our five strategic imperatives. It's a quarter that clearly, I think, indicates that we are all over our cost management, enabling us to drive the EBITDA growth of 3%, and in this economy revenue continues to be a challenge. On the Wireless side, I think we're putting in place strategic elements for the launch of the 2010 HSPA network. The introduction of Bell Mobility and Virgin to The Source stores will not happen till January 1st, 2010, even though we've closed that transaction because they have an exclusive arrangement with Rogers Wireless till then. We will, though, by the end of this quarter, have Bell TV in over 500 Source stores, and they will begin selling Bell TV's products. We mentioned already, the opportunity on roaming for HSPA and with today's announcement with AT&T, we think that bodes well for the future for us in terms of roaming revenue opportunities. And again, in summary, pleased to be able to announce today's dividend increase, given our outlook for performance for the remainder of this year.

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

Siim Vanaselja, Chief Financial Officer

Thanks, George, and good morning, everyone. I'll begin with the highlights of our overall financial performance for the quarter on slide 13. Our top line growth saw a slowdown this quarter that's clearly a reflection of the challenging economic environment we're in. Fortunately, the revenue decline is principally on the products side and, as you know, equipment revenues carry a nominal margin. Recurring service revenues were essentially stable in both the Wireless and Wireline segments. We delivered continued solid performance in Video, residential Internet, IP connectivity and ICT services, and we saw a continued slowing in the pace of residential line losses, which improved for a seventh consecutive quarter. While we continue to see challenges from the weaker economy in parts of our business, we are encouraged that the economic contraction appears to be on the path to stabilizing, and we remain very well positioned in each of our markets.

Importantly, we're executing very well in our cost reduction programs to reduce labour expenses, G&A and discretionary spending. And with that execution, EBITDA for Bell improved nicely to growth of 3% in the second quarter and that growth is after the impact of a lower Canadian dollar this year and higher pension costs. Pension and FX impacted year-over-year EBITDA growth this quarter by approximately \$65 million. In fact, I'm pleased to report that this quarter was our best pre-pension EBITDA growth performance in the past five years. Margin also improved, expanding by 1.8 points to 40% this quarter compared with 38.2% in the second quarter last year. And as George mentioned a moment ago, our ability to take costs out of our base is clearly becoming one of our key core competencies.

On capex, we increased our spending in the second quarter on planned investments and HSPA, the accelerated rollout of FTTN directly to residential neighbourhoods and fibre to MDUs. And in line with that higher level of investment, Bell's capital intensity ratio increased to 18.7% in quarter. While that's above our full year guidance level of 15% to 16%, we remain right on target on a year-to-date C/I basis at 16%.

A few quick observations on earnings. Adjusted EPS grew 9.4% year-over-year, or \$0.05 per share, driven by our higher EBITDA and the accretion from fewer outstanding BCE common shares. Depreciation was up, but in line with our expectation due to the commissioning of the Nimiq 4 satellite late last year and the new Bell campuses. Our statutory EPS for the second quarter was unchanged year-over-year at \$0.45, that reflects higher restructuring costs which amounted to about \$0.13 per share this quarter compared to \$0.06 last year, and of course, those restructuring costs are incurred to accrue obligations for work force and real estate downsizing, which will positively impact our performance for future periods. We generated \$520 million of free cash flow for the quarter, very much on track with our guidance. So on balance, we delivered a solid financial result with EBITDA and adjusted EPS coming in ahead of guidance for the year, and we remain in a very strong position with our balance sheet, liquidity position and financial flexibility.

So let me turn to our segmented results, beginning with Wireless. Wireless service revenues were largely stable year-over-year. This reflected the impact of lower voice ARPU, offset by growth in data revenues, which George discussed. So continued traction on the data side in Wireless, but a significant drag from the economy on overall service revenue growth. The highlight in the quarter for Wireless was EBITDA, which grew about 6%. That yielded a 2.8 point improvement in margin to 46.6%, evidencing the benefits of our disciplined spending on subscriber acquisitions and customer retentions, as well as tight control over labour costs. And that performance underlines our continuing commitment to grow our Wireless business with a disciplined focus on profitability.

Turning to the Wireline segment, Bell residential services continued to demonstrate good defensiveness to the economy. We maintained good momentum in Video and Internet subscriber acquisitions, and revenue growth, which contributed to a 9% year-over-year increase in average revenue per household. The pace of local voice revenue erosion slowed, as George discussed. Much like the first quarter of this year, we continue experiencing a more challenging environment in our business market. The softer SMB market in Ontario and Quebec resulted in higher local access line disconnections, reduced toll and fewer installations, and we saw a decline in low margin network data equipment sales as SMB customers continue to spend more cautiously.

In Enterprise, we experienced a continued trend of lower product sales as well; however, those declines in connectivity services as well were offset by good growth in IP broadband and ICT services to deliver good overall EBITDA contribution. Lastly, a very successful quarter in Wireline in terms of labour savings from work force reductions over the past year, and a continued focus on reducing G&A and discretionary spending to deliver Wireline EBITDA growth of positive 1.7% and a margin increase to 38.1% this quarter.

On the next slide, with adjusted EPS growth over 9% year-over-year in the quarter, and close to 5% higher year-to-date, we've got good support for our announcement of the higher common dividend. I wanted to bring your attention to the effective tax rate for the quarter, and our expectation for the balance of the year. At our February 2009 guidance session, you'll recall that I said that with expected favourable tax allowance adjustments from the resolution of past tax positions, we projected our effective tax rate for 2009 to be approximately 20%. It's important for me to point out that these favourable tax adjustments forecast to be in the range of \$0.25 to \$0.30 of adjusted EPS, are expected to occur in the second half of the year, so they didn't contribute to our earnings this quarter; therefore, you should expect to see our effective tax rate in the second half to be significantly lower than in the first half, all of that to get us to the average rate of around 20% for the year that we talked about.

On slide 17, free cash flow before common dividends was \$520 million for the quarter, bringing our free cash flow for the year-to-date to \$792 million, all very much in line with our plan. Higher year-over-year capital spending of \$96 million reflected increased strategic investment in HSPA, our fibre build, and our IP backbone network. And higher year-over-year restructuring payments of \$47 million were in respect of work force and real estate reductions. We incurred higher year-over-year cash pension funding in the quarter of \$41 million; again, that's entirely consistent with our plan.

On June 12th, the federal government guidelines on temporary relief measures for the funding of solvency deficits were announced. Those measures extended the solvency funding period from 5 years to 10 years and they deferred the filing deadline for actuarial valuations with OSFI from June 30th to the end of the 2009 year. And most importantly, we continue to await the outcome of the federal government's consultation process on pensions to see whether any additional policy reform measures are introduced before the end of the year. And, certainly, any reform measures would be welcome and represent upside to the funding trajectory that we have provided guidance on.

On the free cash flow walk down chart, I'd highlight the improvements we're making in working capital, which is from a very strong focus and discipline over cash collection. That effort has brought our receivable balances down and improved the aging of our receivables by approximately four days sales outstanding, or DSOs, year-over-year. So overall, then, we're clearly on track with where we need to be in order to deliver our free cash flow guidance for the year.

Turning to the next slide, with our focused execution on cost reduction through the first half of the year, the delivery of EBITDA and adjusted EPS ahead of guidance, the completion of The Source and Virgin acquisitions which will now begin to be fully consolidated into our financial results in the third quarter, and with the confidence in our positioning as we enter the second half, we are revising our 2009 financial guidance for revenue, EBITDA and adjusted EPS upward. Our increased revenue guidance from stable to growth in the range of 1% to 2% reflects the impact of the acquisitions, as well as a modest step up in Bell's top line trajectory in the second half compared to the first half of 2009. In terms of EBITDA, we are increasing our guidance from stable to 1% to 2% growth. This principally reflects our substantial progress on cost reductions and the run rate going forward that will be generated. It also takes into account some potential margin pressure from higher revenues in the back half of the year, recognizing that any incremental EBITDA from the acquisitions of The Source and Virgin will really be nominal. Consistent with our improved outlook for EBITDA, we're now calling for adjusted EPS to be in the range of \$2.40 to \$2.50 per share. Our free cash flow guidance remains at \$1.75 billion to \$1.9 billion for 2009 and takes into account that we will be absorbing higher restructuring costs from the incremental headcount reductions we're undertaking. I'll point out that our 5% dividend increase maintains our dividend payout ratio within the lower end of our target range of 65% to 75% of adjusted EPS. And to close on guidance, I should mention that our revised ranges are sufficiently broad to allow for the economic uncertainty that we're up against, and the competitive dynamics that we see in the marketplace. So we live in volatile times and we've set the revised guidance ranges accordingly to give us appropriate head room for some upside or downside, depending on how the rest of the year unfolds.

Lastly before we move to Q&A, let me take a moment to discuss our solid balance sheet and liquidity position. During the quarter, we saw an attractive opportunity in the debt capital markets, and we raised \$1 billion of five-year notes to bolster our strong liquidity position at an interest rate of 4.85%; that's about 245 basis points below the 2010 debt that we were refinancing. And at June 30th, that put Bell into a cash balance of \$1.75 billion. In the second half of the year, we are funding the closing of our acquisitions, which amount to approximately \$360 million. We will be early redeeming \$600 million of Bell M16 notes that are due in 2010, and we will be repaying on maturity in December of this year, Bell series EC debentures of \$150 million. So after free cash flow to be generated in the second half, net of common dividends and some lease repayments, we expect to close 2009 with a cash balance slightly under \$1 billion and of that closing balance, \$400 million is earmarked to meet our remaining 2010 debt maturities. So with all of that, we project a surplus year end cash balance of approximately \$500 million.

Now as we execute against our plan in the second half of the year and gain more clarity on our outlook for 2010, we'll assess and make determinations on the use of that surplus cash. Those decisions, of course, will be consistent with our capital structure objectives and the capital markets model that we have established for the company.

And with that, I'll turn it back to Thane and the Operator in order to move to your questions.

Thane Fotopoulos

Thanks, Siim. So just before we begin, I want to ask the participants to limit themselves, please, to just one question and a brief follow-up. As always, I'll be more than happy to answer your questions separately after the call if there are any remaining questions. So with that, Patrick, can you please quickly explain the Q&A polling instructions?

Q & A

Operator

Our first question is from Jonathan Allen, RBC Capital Markets. Please go ahead.

Jonathan Allen, RBC Capital Markets

Thanks very much. George, a question for you on the dividend growth model that you had put up a slide earlier. It seems to me that cost cutting's been a huge benefit for the company, and it's great to see the 7% to 11% EPS growth that you're targeting this year, but it seems to me that it's harder to replicate going out into the next couple of years. Incrementally, I suppose, there's fewer low-hanging fruit on cost cutting; get's a little bit more challenging. You're still looking at more competition coming in the Wireless business, fewer tax benefits like you had this year. And I'm just wondering, how do you sustain that dividend growth model when, at least looking out, it seems to me that EPS is going to be challenged to continue growing in positive territory.

George Cope, President and Chief Executive Officer

A couple of things, Jonathan. I appreciate the question because, clearly, our focus for the shareholders should be, obviously, beyond this year and running the company. You know, a few things. Clearly, we do have to continue on the strategic imperative of lowering our cost structure continually, so that's part of that strategy; and, you're right, that it obviously gets tougher every quarter you go forward, but we continue to see opportunities, and we're going to execute on those going forward and into next year as well. That's part of that process. Secondly, with the capital intensity ratio that we're running the business at - at 16% - you'll notice that our depreciation and amortization's much higher than that, and ultimately, if you run the business at that C/I over the years, you get some help that way. Thirdly, reduction in our debt cost drives the ability for EPS going forward. And fourth, I am optimistic and very bullish, in fact, on the launch of our HSPA network and the strategic moves we made over the last year in our Wireless business that we will be getting our proportionate share of revenue and EBITDA going forward. And I think it's fair to say the type of ARPU decline we've seen in the industry, what we're really trying to understand - and I know every analyst is as well - how much is economy and how much is competitive dynamics. And our assessment would be, as I mentioned before, really the decline is the economy, and the competitive dynamics have been offset by the data opportunity that we've seen. And so any stabilization or return to something normal on the economy side or some growth we think we would anticipate seeing improvement in things like usage and roaming going forward, which we hope will bode well versus flat service revenue in Wireless which is clearly not a model we want to drive going into 2010 and 2011.

Jonathan Allen, RBC Capital Markets

Now, if I look at your 2009 guidance, though, it seems to imply that you're expecting a fairly big acceleration in revenue year-over-year through the back half of the year. Now I think Siim had mentioned that some of this was due to the acquisitions but, otherwise, you are expecting a ramp up. Is that linked to the future EPS growth that you are expecting a big acceleration? And if so, where is that coming from?

George Cope, President and Chief Executive Officer

Really, the back half, we think on the core Bell business, you know, the hardware side of that business we continue to think is going to be soft. On the recurring revenue side, our goal will continue to be to try to have stable revenue there, on the recurring revenue. That's really where the – as everyone knows on the line – where the profitability and cash flow is. And then the uptick is having The Source in our numbers - as Siim just mentioned in the back half of the year - does give us revenue, but in fairness, I think everyone knows, there's a really minimal EBITDA contribution that comes from that. That investment is for strategic reasons for Wireless growth and TV growth into 2010. The EBITDA growth really isn't off the back of that revenue improvement; the EBITDA growth is off what we're continuing to do, which is incredible tight cost management in the organization.

Operator

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

Vince Valentini, TD Newcrest

Yeah, thanks very much. Questions on Wireless and wondering what we might expect for the second half of the year? When you get the Pre and these other smartphones, are you guys going to start to push a lot harder on the COA expense? Because your results are obviously dramatically different than what we see from Rogers, where they have this huge drag on margins from smartphones. You guys don't seem to be seeing that yet. Is that just something waiting to happen and we should expect to see a little bit of margin pressure as you go through that initial smartphone ramp up?

George Cope, President and Chief Executive Officer

I think it's fair to say, you know, as we launch HSPA into 2010, there are some smartphone subsidies in that particular portfolio that we're not incurring. And we will see some of that, obviously, and we continue to see it, by the way, in our smartphone portfolio, but part of this also is we have changed compensation to our distribution channels, and what have you, to try to pull some of that back. And, clearly, the other side of it, from our end, is we absolutely have to keep the headcount and network operating expenses really in line so that we can offset things that we may see on these, either the COA or COM side. But I hear your point. I think, you know, quite frankly, our gross adds, if you compare us to the leader in the market at the moment, we see where the gap is, and we think we have strategies to close that gap. But I do think you're right, that there is a higher subsidy on some of the HSPA devices we'll be carrying forward, but that really starts to affect us in 2010.

Operator

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

Greg MacDonald, National Bank Financial

Thanks. Good morning, guys. Let me shift a question over to the access line count on the consumer side. I mean I'll say on the business side, I think what we're seeing is a continuation of the economy; George, you mentioned that. If there's anything else going on there, please let me know, but I really want to focus on the consumer side more. It seems like your trend on improving the year-over-year access line loss continues there. You mentioned win-backs, bundling particularly with the satellite product, I'm going to judge from that strong subscriber number, is the main thing. Could you indicate whether that, in fact, is the main impact on the improvement in numbers on the consumer side? There's also a couple of other things that continue to impact that number and I'm just wondering what the level of impact has been? One is gross losses to the cable side, from their numbers, particularly Rogers, it seems like that's declining. How much of an

impact is that having? And then this issue of Wireless substitution, which we haven't really seen much of in Canada, but in the US, clearly it's having a major impact. Can you give us a sense of those three major impacts on access line losses and whether you think any of those are going to change in 2010 relative to 2009?

George Cope, President and Chief Executive Officer

I'll try to give a quick answer to it. I mean, everyone knows we have a focus on branding and service and win-backs in that space, and so we're trying – and every month is a new month – trying to see stability and, as we've seen here, fortunately improvement year-over-year in the absolute number of local access lines that we've lost. And, obviously, our goal will be to try to maintain that into 2010 and until we get there we'll just have to see what happens. It's so hard to forecast that. The wireless substitution issue; we've not seen an acceleration, and I think we talk about it every call and I'm sure we'll continue to talk about it on every call. If you look at Ontario, and the results of our competitor and us, I mean, something tells us there may be a little bit of wireless substitution acceleration that we've seen relative to the past, or some of that, but it's really not been material yet. And so, obviously, if we see increase in substitution, you know, that's always the challenge on the NAS side. I think what we're trying to do, as everyone knows, is can we get that number down year-over-year or keep it flat and have it, as everyone knows, be less important, if you will, on our financials as a percent of our revenue base over time? And that's the number one challenge of every ILEC with a wireless asset that's there and that's our challenge. I think we're, on a relative basis, doing fine but we'd love to do better.

Greg MacDonald, NBF

That makes sense, George. Could you just... one last thing? Could you tell us what percent of the video sub adds are bundled?

George Cope, President and Chief Executive Officer

I can't give you the percent that are bundled, but I can tell you, literally, all of our net add video are in our incumbent ILEC footprint. And that is why we believe our distribution agreement in Western Canada with our competitor in wireless - but clearly a partner with us on the Wireline side - we think they'll do very well out West with that product and we're looking forward to that.

Operator

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

Glen Campbell, Bank of America – Merrill Lynch

Yes, thanks very much. Another question on Wireless. As we look ahead to 2010, we're going to have three competitors all with essentially now identical networks. The goal clearly is not just to get the customers who don't have wireless today, but the very good customers out there who are spending a lot of money. So my question is, you know, conceptually, how do you do that from where you are? Without disrupting pricing in the market? I mean I know distribution will be improving for you, but presumably, distribution isn't a key factor in your competitors retaining those customers.

George Cope, President and Chief Executive Officer

Okay. Well, Glen, I mean I know you so well, I think if I unveil that, we'll be unveiling our strategy against our competitor. I know that's not quite how you mean the question. I think it's a building blocks issue for us. We were under-distributed. People do re-buy, we all know on a 36-month basis, literally, everyone in Canada turns their handset over and because of

contracts, a lot stay with current carriers and because of the quality, quite frankly, of the networks all three offer in Canada, they stay with current carriers. But distribution, we think, is one element of that. We think the other element of that is branding, and we think we're doing some very positive work there. And we think the third element of that is making sure that our handsets and our network allow high-end users to use those devices everywhere in the world, and also to make sure that we're at no disadvantage on handset portfolio, and those type of things that we've struggled with over the last year and a half, as CDMA has, if you will, begun to run its course, we think we'll be in a very different position than we've been in the past there. And I think things like the AT&T roaming agreement for us are incremental revenue opportunities for us that we never would have seen and, frankly, are market share opportunities for us on revenue that we're going to work hard on a global basis to accelerate.

From then on, I think investors will have to watch, you know, our performance against the other two, and we think we're putting the building blocks in place to capture, as you know our target's been, a third of the subs, a third of the revenue and a third of the EBITDA or more than that on the EBITDA side through better cost management.

And we do believe that our capital intensity ratio in Wireless, because of our unique build in Canada with one of our competitors, should permanently be lower than one of our other competitors on a C/I basis.

Glen Campbell, Bank of America - Merrill Lynch

Okay, that's helpful. Thanks. And a follow-up, on the voice ARPU decline we saw, you gave us a bit of a breakdown in the introductory remarks. Could you give us a bit of a sense of, you know, how much of this sort of decline in usage in voice there, how much is overage, how much is LD and how much is the recurring monthly fee?

George Cope, President and Chief Executive Officer

Well actually, when I said the usage, that actually was usage, not the access fee. We would bucket the access fee where that declines in the competitive part I talked about and, that's been more than offset by the data side. The issues around economy, as I mentioned, you know, you've got a couple of dollars on the usage side and also on the roaming side, about \$1. And that's probably as detailed as I want to go for competitive reasons, but I really wanted investors to understand the separation between economy and competitive dynamics.

Operator

Thank you. Our next question is from Simon Flannery from Morgan Stanley. Please go ahead.

Simon Flannery, Morgan Stanley

Thank you very much. Good morning. George, nice to see the dividend increase. Can you talk about how you're thinking about balancing dividends versus buybacks? And is this sort of a one-time mid-year update? And will you still retain sort of year-end as being the main focus for any dividend increases? In other words, is there opportunity, you know, at the end of the year for you to revisit the dividend payout again? Or are you moving to sort of a mid-year cycle on the dividends? Thanks.

George Cope, President and Chief Executive Officer

We'll let Siim answer that.

Siim Vanaselja, Chief Financial Officer

So, Simon, the way we look at it is that dividend increases need to be funded out of sustainable earnings growth and free cash flow growth. And we believe that we can continue to look at the dividend on a regular basis, as we have been doing, and as our business progresses and delivers on our earnings and free cash flow growth objectives, that we'll have the ability to continue to see dividend increases. In terms of share buybacks, that's really a function of excess cash, free cash flow after preferred and common share dividends, and the issue for us there is to look at an appropriate balance of investment in the business, maintaining a proper capital structure for the company and then returning excess cash back to shareholders through our normal course issuer bids.

George Cope, President and Chief Executive Officer

And the only thing I'll add to it, we are not moving to a mid-year dividend annual increase model. You would anticipate us at our investor day to be clarifying our use of capital for shareholders and what we did, given the strength we have in our commitment to the shareholders, that we are going to return capital when we're within our guidance on EPS. We would have been below that payout ratio and we think that would have been inconsistent with what we actually just shared with everyone in February and that's why we increased the dividend.

Operator

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

Jeff Fan, Scotia Capital

Thanks very much and good morning. First question is on Wireless and it's for George. You gave us some very good breakdowns on usage and roaming decline and what caused some of the ARPUs. But it sounds like those are volume-driven, but when we look at your results, it looks like the MOU that's reported continues to be up moderately, I think about 3% to 4% on a year-over-year basis. Maybe you can just help us sort of reconcile the thinking, like what are some of the moving parts that's within that? And then the second part to the question is more longer term. When we look at just the voice part of Wireless voice business, and when we look at the usage of Bell versus its competitors, you know, when we look at the reported numbers, continues to be 100, 200 minutes below TELUS and Rogers, It does translate into higher voice revenue per minute. So with all the new competition directed at voice and at the lower end category, just wondering how you would look to protect that revenue stream going forward, and then how you can mitigate churn, potentially, down the road?

George Cope, President and Chief Executive Officer

Well I think churn mitigation is going to come from the incredible network we launch in the new year on a quality side; and I'm very comfortable with that. Back to the key question, on the voice, you could see MOU expansion. One of the main reasons is, literally, every subscriber today takes unlimited evening and weekend rate plans that can be anywhere from \$5 to \$15, and we always see that on every new add, and so that drives your overall MOU. But within the buckets on the principle time of the day is where you actually see the impact in the economy. You know, you have unemployment rise in Canada, and people on the business side where, frankly, you're close to 100% penetration in the business market. A decline in employment means a decline in use of wireless and we're seeing that. That's really the view there. And then I think on the MOU, voice versus our competitors, I just view that as opportunity for the company positioning with the handset portfolio into the future that allows us to access international roaming market in the corporate space in a way that we've been able to somewhat over the last year and a half with the global BlackBerries that we have, but not to the fullest extent we'll have as we go forward with our new network.

Jeff Fan, Scotia Capital

So do you think the gap is primarily driven by roaming? Is that sort of how we should look at it?

George Cope, President and Chief Executive Officer

No, I think the gap was also driven by... we were over-indexed in some of the low usage categories, because of the handset portfolio we had over the years that we've changed in the last 24 months. The handsets that you carry are a direct function of the ARPU you generate and so as people know, over the last two years, we've moved our handset portfolio significantly, and we know now it can compete. So we think it's part of that, and we think it's distribution. All fronts, we think it was branding, and we're working on all those elements, and it's all about results so it'll be either in the execution or not and that's what we've got to do going forward.

Operator

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

Dvai Ghose, Genuity Capital Markets

Yeah, thanks very much. Good morning, George. As a leader who's built his strong reputation on wireless profitability, I'm wondering how you feel about the smartphone subsidy model in Canada, in particular given the fact that, one, subsidies now seem to be recurring in nature with carriers offering upgrades just a year after the previous purchase, which was subsidized; two, the new \$99 iPhones on the market, which seems to be putting a lot of pressure on other smartphone pricing; Verizon reduced virtually all their smartphones to \$99 last weekend; and three, some of your own very aggressive pricing in the market, particularly targeted against Rogers; I think you have a \$45 Blackberry Tour price for voice as well as data. Does this really make economic sense in your mind?

George Cope, President and Chief Executive Officer

We would never do something that doesn't make economic sense. And that's the first principle; probably we should start on that and on your ending comment. I think the EBITDA margin we're generating in our Wireless business speaks for itself around our view of cost controls and how you try to get a balance. Not saying we got all the balances right. If ARPU had improved, not because of the economy, I think we'd have a different view of where we were standing but that's economics. In terms of the competitive dynamic on smartphone, I think we've all seen it. I mean it is an expensive product that brings about an improvement in ARPU, but up front has a high COA and, quite frankly, that's not dissimilar to what we all saw seven or eight years ago, I guess probably 10 years ago now when we migrated from analog to digital. Those who have been in the industry for years will remember subsidies, quite frankly, equivalent to today's smartphone subsidies. And over time, smartphone competition will increase as there'll be more smartphones in the market, and that subsidy, for competitive reasons, will come down. We're in a unique position right now where the market is dominated by very few on the smartphone side and I think, over time, things like the Palm Pre and other products in the market are what you're going to have to look to see some of that change. Clearly, upgrading clients who are on contracts on a 12-month cycle is a challenging model and we're not doing a lot of that and, frankly, EBITDA growth in the industry speaks for itself, and so if we don't see EBITDA growth in Wireless, you'll see people have to adjust their strategies, and I think that's where shareholders should take some confidence in Bell and its track record in knowing how to drive EBITDA growth in Wireless.

Dvai Ghose, Genuity Capital Markets

As a quick follow-up, George, to your ARPU comment, you said that, look, a lot of the ARPU pressure's because of the economy and that'll improve and that data is offsetting SAF. My observations and response are, don't you think that, as the economy improves, you're also unfortunately going to have new entrants coming in, as well as continued dilution from your discount brands? Isn't that going to offset the economic improvement? And while data may be replacing SAF, isn't it true to say that data margins are a bit lower than the 100% margin you get off SAF?

George Cope, President and Chief Executive Officer

Yeah, I agree with every one of your points. The point here is I don't think investors should be buying Wireless in Canada on an increasing ARPU model, which we saw for years. I think the issue is, to your point, the trick here is that, you know, can you not have a declining ARPU as you go forward in a competitive environment, it'll offset that. Then you got to run other cost, Dvai, tough to offset your point on margin on data. So I'm certainly not going to say the model's easier; it's got trickier going forward and we got to manage to that. And the last thing, you asked about pricing in the marketplace. There is some aggressive pricing in Toronto right now and ours is completely, as anybody who's followed it would know, it's a direct competitive response in the market, and we'll continue to be competitive and respond accordingly and, through that, that means you have to be the leader in cost reductions and we're clearly that, and we'll continue to be that.

Operator

Thank you. Our next question is from Bob Beck, CIBC. Please go ahead.

Bob Beck, CIBC

Thanks, good morning. Just a question on the Wireline. George, you talked about some of the early benefits on your FTTN network. Can you talk a bit more about your strategic plans longer term for that in relation to, I guess, what Aliant's doing with the FTTH? And tied to that, obviously your thoughts on the competitive environment given the DOCSIS 3.0 rollouts we're seeing from, I guess, most of your competitors at this point?

George Cope, President and Chief Executive Officer

Appreciate the question on the Bell Aliant initiative. On FTTN, you know, our goal, as we talked about, is to continue to add footprint. We see a number of things on the FTTN footprint. We see a reduction in churn, an increase in usage and an increase in ARPU, and we're very comfortable with our FTTN strategy with the rollout of the technology, that we have the capability for an IPTV rollover when we feel appropriate, or a layover when we feel appropriate. And so we feel pretty comfortable there. I would say the fibre to the premise on aerial; Aliant has a very unique footprint in North America, in fact, we couldn't find another footprint that was 92% aerial. You know, we if we were 92% aerial at Bell Canada, we too would be looking at that strategy that Karen's pursuing. What we are going to do, there are some of our markets today that we haven't done FTTN; they're not in our current FTTN projection that ultimately are more aerial, and the cost model that Karen puts in place at Aliant will be one that we'll follow really carefully and may give us an opportunity to expand our broadband footprint in a way we hadn't seen a few years ago because of the prohibitive cost of fibre, even with aerial at that point. When you get into a less dense population, in fact, there's a bit of a crossover we think we're seeing where the fibre direct to the home through aerial may be just as effective as the fibre to the node. So, you know, I would stay tuned for us to look at that. It doesn't mean we're changing our FTTN approach at all.

Bob Beck, CIBC

Okay, thank you. And the DOCSIS 3.0, any additional thoughts on that?

George Cope, President and Chief Executive Officer

Well we've got to compete with it, obviously, in the marketplace and meet the demands of the customer and that is what the FTTN strategy was driven by, and ultimately through bonding strategies is driven through that, and that's what we're going to have to do to compete with it.

Operator

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

Peter Rhamey, BMO Capital Markets

Good morning and thanks for taking the question. George, perhaps you could talk about - You've talked a lot about cost reduction - but I'd like to know how the costs trended through the year, the first half of the year and how they would compare to the second half of the year? And I noticed, I think Siim brought up the point that there is an additional 300 employee savings out of converging your Enterprise and SMB and your Bell West initiative. Is there more to come on that front? And how much could we expect in the back half of 2009 and perhaps run rate going into 2010? Thank you.

George Cope, President and Chief Executive Officer

Yeah, I can't give you quite all that, Peter, but just to give you a sense. I mean you may recall, people on the call, we had a retirement program we put in place, an offer that we put in place beginning of the year. Most of those people will actually leave the company at the end of this year, and so we actually will see a continual reduction in our number of people in the organization through that program that we put in place. And added to that is the point you've raised, on top of that is the integration that we're doing from July forward on our SMB, Enterprise, Bell West; and then, quite frankly, we are not adding, as resources leave the company through someone wanting to work somewhere else, or just leave the industry, we're also not adding resources back anywhere on a management perspective in the company. And so, you know, that's what you'll see. And then, you know, the 100-day plan work continues to flow through because, you know, the 100-day plan was launched last year, you may recall, in July and a lot of those reductions only began to show up in October, November. So some of that benefit flows through the remainder of this year as well.

Peter Rhamey, BMO Capital Markets

Further to that, George, what's your normal attrition rate? And it's specific to management, you're talking?

George Cope, President and Chief Executive Officer

Yeah, I'm not going to give you that. The point I think to try to give investors comfort is we're comfortable with the guidance on EBITDA and as people can tell that's principally being driven through cost. When we're talking about revenue on the services side, and trying to drive that flat, you can tell that we're doing it on the costs side.

Siim Vanaselja, Chief Financial Officer

I'd just add that in our earnings guidance, back in February, we had talked about restructuring costs due to work force reductions in the range of \$250 million to \$300 million. We now expect with the additional retirement incentive programs that we've announced that that number will be in the \$350 million to \$400 million range. That obviously doesn't change our overall guidance with respect to adjusted earnings and in terms of the cash restructuring costs, those haven't changed either because of the timing of exits. We still see the overall cash restructuring and other costs as being in the range of about \$375 million for the total year.

Operator

Thank you. Our next question is from Rob Goff, Haywood Securities. Please go ahead.

Rob Goff, Haywood Securities

A question for you on the AT&T deal. Can you go over the mechanics of it in terms of traffic volumes on the in-bound component of it?

George Cope, President and Chief Executive Officer

Sure, as best I can. We have a roaming arrangement we've entered into with AT&T which we are absolutely thrilled about. We think this is very important for us. It gives our customers access to clearly the leading network on the HSPA side in the US, and more importantly for us, future HSPA subscribers who buy handsets in the US, when we turn on our network, will have the opportunity to roam onto Bell in Canada. And so ultimately that will be revenue for us.

Rob Goff, Haywood Securities

Okay, so is this... in terms of exclusivity here?

George Cope, President and Chief Executive Officer

No comments on exclusivity; it's a roaming agreement. We just really look forward to having customers who buy products in the US, when we turn on the HSPA network, roam on Bell Canada in Canada.

Siim Vanaselja, Chief Financial Officer

It's reciprocal.

Thane Fotopoulos

Okay, so thank you very much for participating this morning. And once again, any other questions, feel free to give me a call. I'm always available for that.
