



Bell

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2010

Q2 2010 Results Conference Call

August 5, 2010

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Siim Vanaselja

Chief Financial Officer

Q2 financial review

| Bell | Q2'10 | Y/Y |
|-----------------------------|-----------------|----------------|
| Revenues | \$3,792M | 4.5% |
| <i>Service</i> | \$3,454 | 2.0% |
| <i>Product</i> | \$338 | 39.3% |
| EBITDA | \$1,498M | 3.3% |
| <i>Margin</i> | 39.5% | (0.5 pts) |
| Capital expenditures | \$538M | 20.8% |
| Capital Intensity | 14.2% | 4.5 pts |

| BCE | Q2'10 | Y/Y |
|-------------------------------------|---------------|--------------|
| Statutory EPS | \$0.78 | 73.3% |
| Adjusted EPS⁽¹⁾ | \$0.77 | 32.8% |
| Free Cash Flow⁽²⁾ | \$566M | \$46M |

⁽¹⁾ Before restructuring and other and net gains (losses) on investments

⁽²⁾ Before common share dividends and including Bell Aliant's cash distributions

- **Revenues up 4.5% in Q2'10**
 - Includes The Source and Virgin acquisitions
 - Double-digit wireless service and TV revenue growth
 - Solid IP broadband and ICT growth in business with upside from G8/G20 Summit
- **EBITDA improves 3.3% y/y even with accelerated wireless subscriber growth**
 - Higher revenue growth and cost reductions keep margins essentially stable y/y
 - As expected, also reflects lower pension expense y/y
- **Lower capex due to higher spend in 2009 on HSPA+ network build**
 - Higher y/y investment in Q2'10 on fibre deployment and network grooming to support IPTV
 - Increased spending planned for 2H'10 vs. 1H'10
- **Adjusted EPS up 32.8% y/y to \$0.77 per share**
 - Higher EBITDA and lower tax expense
 - Accretion from share buybacks
 - Tracking favourably to 2010 guidance
- **Strong Free Cash Flow of \$566M in Q2'10**
 - Reflects lower capex, decreased restructuring and reduced interest payments y/y
 - Tracking to high end of 2010 guidance

All financials tracking comfortably to 2010 guidance with revenues and Adjusted EPS ahead of plan



Wireless financials

- **Double-digit wireless service revenue growth of 10.8%**
 - Reflects larger postpaid subscriber base, higher ARPU and Virgin acquisition
 - Wireless data revenues up 45% y/y on higher usage and increased smartphone penetration
- **Product revenues down 4.5% y/y, despite higher volumes**
 - Lower average handset pricing in response to competitors' aggressive acquisition offers
- **EBITDA reflects 77k more gross activations and 78k more customer upgrades y/y**
 - Higher y/y subscriber acquisition and retention spending of ~\$62M
 - Higher expenses to support subscriber growth and significantly higher data usage

| (\$M) | Q2'10 | Y/Y |
|---------------------------------|--------------|----------------|
| Revenue | 1,210 | 9.6% |
| <i>Service</i> | 1,114 | 10.8% |
| <i>Product</i> | 84 | (4.5%) |
| Operating expenses | 753 | (18.4%) |
| EBITDA | 457 | (2.4%) |
| <i>Margin (service revenue)</i> | 41.0% | (5.6 pts) |
| Capex | 83 | 62.9% |
| EBITDA-Capex | 374 | 53.3% |

Strong revenue growth and disciplined cost control result in EBITDA margin of 41%, even with increased acquisitions



Strong wireline performance

| (\$M) | Q2'10 | Y/Y |
|------------------------------|--------------|----------------|
| Revenues | 2,632 | 2.2% |
| <i>Local & access</i> | 758 | (4.8%) |
| <i>Long distance</i> | 233 | (14.0%) |
| <i>Data</i> | 909 | (1.1%) |
| <i>TV</i> | 434 | 11.6% |
| <i>Equipment & other</i> | 219 | 84.0% |
| EBITDA | 1,041 | 6.0% |
| EBITDA margin | 39.6% | 1.5 pts |
| Capex | 455 | -- |
| Capital Intensity | 17.3% | 0.4 pts |
| EBITDA-Capex | 586 | 11.2% |

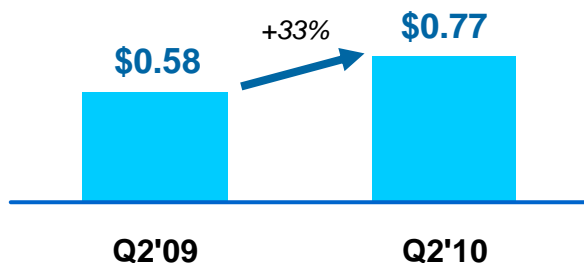
- **Higher y/y product revenues from The Source acquisition**
- **Residential continues to deliver solid results**
 - Maintaining competitive position in the market
 - Voice revenue decline improving
 - Average revenue per household up 12% y/y, driven by higher TV, Internet and Home Phone ARPU
- **Reasonable Business Markets performance in line with expectations**
 - Spending remains soft given current economic cycle
 - Stable business NAS and improved legacy data erosion
 - Volume decline and competitive pressures in connectivity, offset by IP growth, higher ICT spending and G8/G20 Summit
 - Successfully retaining large business customer contracts
- **EBITDA growth of 6% and margin improvement of 1.5 pts underpinned by cost reductions**
 - Flow-through of labour force reductions in 2009
 - Procurement savings and other operational efficiency gains

**Wireline performance on track with plan,
despite competition and slow economic recovery**



Growth in Adjusted EPS

Adjusted EPS⁽¹⁾



⁽¹⁾ Before restructuring and other and net gains (losses) on investments

Earnings walkdown (per share)

| | <u>Q2'10</u> | <u>Q2'09</u> |
|-----------------------------|--------------|--------------|
| EBITDA | 1.44 | 1.39 |
| Depreciation & amortization | (0.64) | (0.64) |
| Net interest expense | (0.13) | (0.14) |
| Tax adjustments | 0.09 | 0.01 |
| Change in tax rate | 0.01 | -- |
| Preferred share dividends | (0.03) | (0.03) |
| NCIB | 0.01 | -- |
| Other | 0.02 | (0.01) |
| Adjusted EPS | 0.77 | 0.58 |

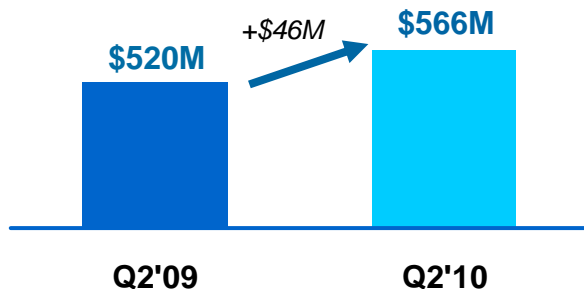
- Adjusted EPS up 33% y/y, or \$0.19 per share
- Higher EBITDA driven by opex savings, increased revenue growth and lower pension
- Accretion from lower share count
 - 2010 NCIB program now 66% complete
- Effective tax rate of 18.5% in Q2'10
 - \$0.09 of tax recoveries in Q2'10 from favourable resolution of uncertain tax positions
- Effective tax rate for FY2010 expected to be at ~20% or slightly below
 - Tax adjustments for FY2010 expected to be ~\$0.25, up from guidance provided on Feb. 4 of ~\$0.20
- Additional upside in Q2'10 from F/X gains on U.S. dollar hedges and equity pick-up from Montréal Canadiens minority investment

Adjusted EPS ahead of plan



Strong free cash flow generation

Free cash flow



Free cash flow walkdown (\$M)

| | <u>Q2'10</u> | <u>Q2'09</u> |
|-------------------------------------|--------------|--------------|
| EBITDA ⁽¹⁾ less capex | 1,002 | 835 |
| Preferred share dividends | (27) | (27) |
| Net interest | (205) | (233) |
| Cash pension | (137) | (83) |
| Cash taxes (net of ITCs) | (65) | (63) |
| Restructuring | (38) | (73) |
| Working capital & other | (36) | 91 |
| Bell Aliant distribution | 72 | 73 |
| Free cash flow⁽²⁾ | 566 | 520 |

⁽¹⁾ EBITDA before pension expense

⁽²⁾ Available to BCE common shareholders

- **FCF of \$566M in Q2'10 on track with high end of guidance**
- **Reduced capital spending y/y**
 - Higher wireless capex in Q2'09 as a result of HSPA+ network investment
 - Wireline CI of 17.3% in Q2'10 as spending on broadband fibre and IPTV preparations ramp-up
- **Decreased net interest payments due to lower average level of debt outstanding y/y**
- **Pension payments in Q2'10 higher y/y**
 - Lower actuarial valuation from \$500M special contribution in Q4'09 will start reducing pension payments in Q3'10
- **Higher restructuring payments in Q2'09 from workforce and real estate reductions**
- **Continued focus on working capital**
 - Higher A/R balance due to increased wireless revenues
 - Reduced inventory levels due to higher sales volume and better inventory management

Ample free cash flow supports execution of business plan and dividend growth model



Improved 2010 financial guidance

| | February 4 Guidance | August 5 Guidance |
|-------------------------------|-------------------------------|--------------------------------|
| Revenue growth | 1% to 2% | 2% to 3% |
| EBITDA growth | 2% to 4% | No change |
| Capital intensity | ≤ 16% | No change |
| Adjusted EPS ⁽¹⁾ | \$2.65 to \$2.75 6% to 10% | \$2.75 to \$2.80 10% to 12% |
| Free cash flow ⁽²⁾ | ~\$2,000M to \$2,200M | High end of range |

* Revenue, EBITDA & capital intensity guidance for Bell excluding Bell Aliant

⁽¹⁾ EPS before restructuring and other and net gains (losses) on investments

⁽²⁾ Free cash flow before common share dividends and including Bell Aliant's cash distributions

- **Increased revenue guidance reflects step-up in wireless revenue trajectory**
 - The Source and Virgin acquisitions now fully reflected in results
- **No change in EBITDA guidance**
 - Revenue and expense reduction headroom used to invest in growing wireless
- **No change to free cash flow guidance, but expect to be at high end of guidance range**
 - Reflects improved cash tax outlook of ~\$120M for FY2010 from finalization of 2009 tax return
- **Higher capital investment in 2H'10 vs. 1H'10 aligned to strategic imperatives**
- **Adjusted EPS guidance increased**
 - Lower effective tax rate due to increase in favourable tax adjustments

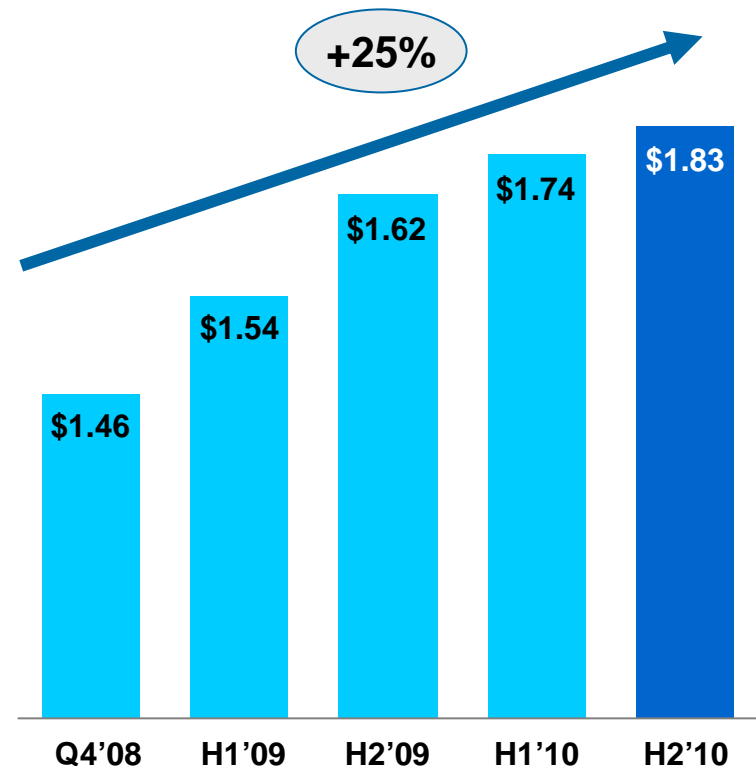
Upward guidance revision and dividend increase enabled by execution of business plan and outlook for 2H'10



Dividend increase

- 5% dividend increase effective with October 15, 2010 payment
- 2nd increase in 2010
- Reflects favourable YTD earnings and free cash flow performance
- Readily funded from free cash flow
- Higher dividend keeps payout ratio⁽¹⁾ at low end of 65%-75% target range

Delivering on dividend growth model
(Annualized common dividend per share)



⁽¹⁾ Payout ratio based on Adjusted EPS, which is equivalent to EPS before restructuring and other and net gains (losses) on investments

Higher dividend supported by Adjusted EPS outlook



Share buybacks

NCIB program

| | # of shares purchased | Cost | Status | Average price per share |
|-------------|-----------------------|--------|---------------|-------------------------|
| 2009 | 40M | \$986M | Completed | \$24.65 |
| 2010 | 11.2M | \$329M | 66% completed | \$29.42 |

- **2010 share buyback program for up to \$500M to be executed over course of year**
- **Accretive to EPS and surplus cash**
 - Contributes ~\$0.03 to Adjusted EPS in 2010
 - Annualized dividend savings of ~\$30M from buybacks in 2010
- **51.2M shares repurchased and cancelled since December 2008 for ~\$1.3B**

Provides attractive value for shareholders



George Cope

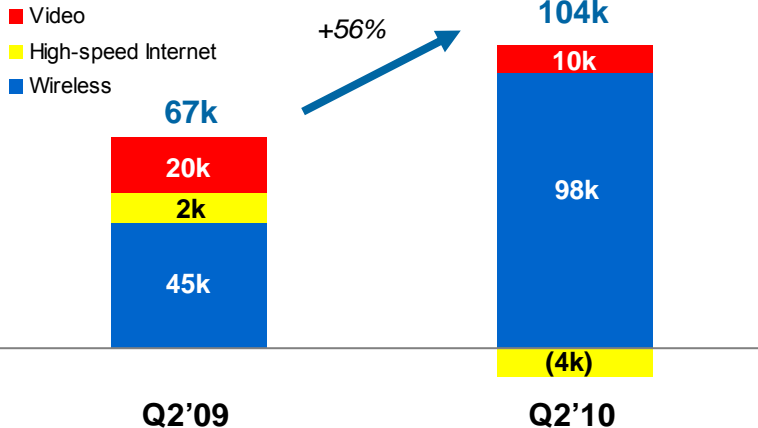
President & Chief Executive Officer



Expanding base of customers on Growth Services

Revenue generating units (RGUs)

Growth Services net additions



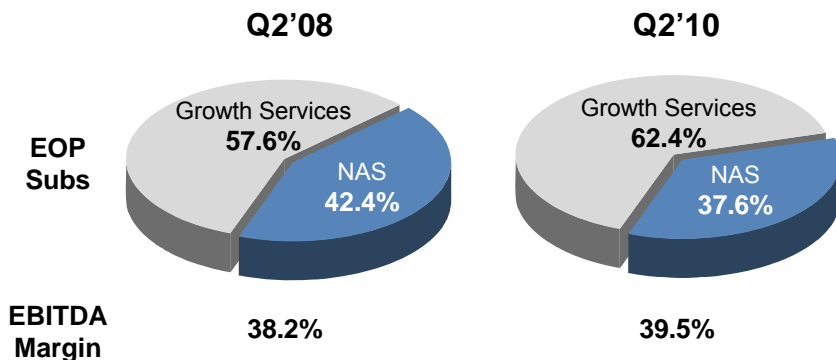
- **RGU net additions, excluding NAS, up 56% y/y to 104k**

- Highlighted by strong wireless results
- Competitive product offers and effective sales channel execution
- Maintaining customer churn levels stable, despite heightened competitive intensity

- **NAS line losses improve 2.6% y/y**

- Improved residential performance
- Business NAS stabilizing

Bell Customer Mix



- **Customer mix evolving, while improving EBITDA margin**

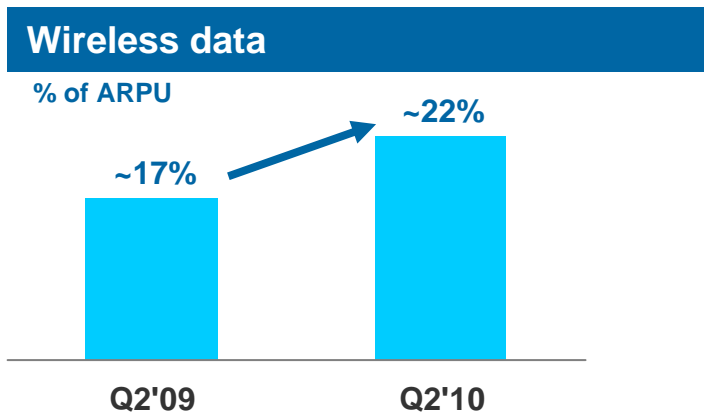
Delivering on 4P marketing strategy



Continued strong wireless market momentum

| Metrics* | Q2'10 | Y/Y |
|---------------------------------|----------------|----------------|
| <i>Postpaid gross additions</i> | 301k | 23.2% |
| Total gross additions | 481k | 19.0% |
| <i>Postpaid net additions</i> | 103k | 60.1% |
| Total net additions | 98k | 120.2% |
| <i>Postpaid ARPU</i> | \$63.66 | 1.9% |
| Blended ARPU | \$52.12 | 3.3% |
| <i>Postpaid churn rate</i> | 1.3% | -- |
| Blended churn rate | 1.8% | -- |
| COA | \$374 | (12.3%) |

* Metrics reflect Virgin's results at 100% on a pro forma basis

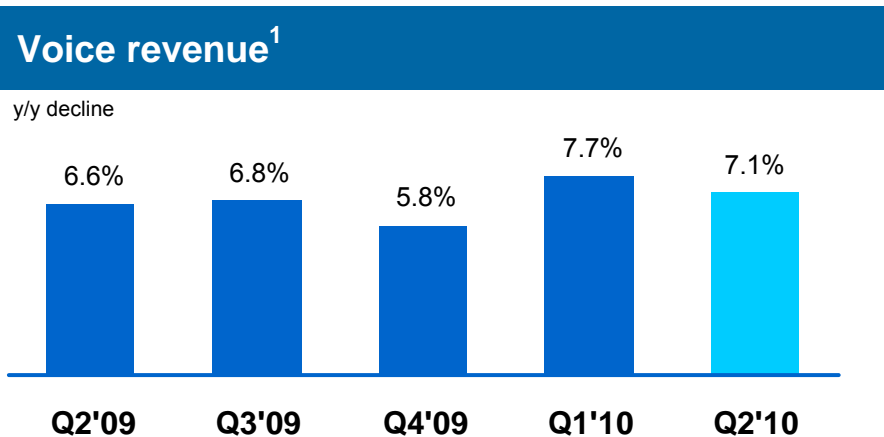
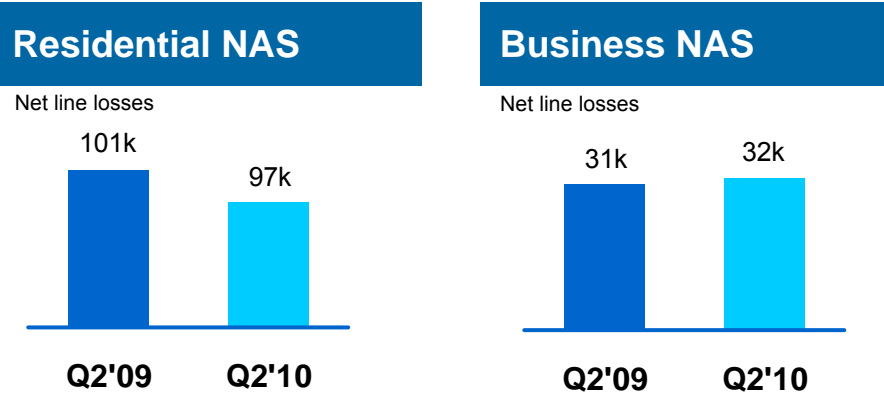


- **Total net additions more than doubled in Q2'10**
 - Reflects 19% higher gross adds y/y with stable churn
- **Postpaid driving higher acquisitions y/y**
 - New HSPA+ network and expanded distribution
 - Smartphone subscribers up 66% y/y in Q2'10
- **Blended ARPU up 3.3% y/y to \$52.12**
 - Second consecutive quarter of y/y growth
 - Reflects higher postpaid and smartphone mix
 - Data ARPU up, while voice decline slows
- **COA consistent with higher y/y postpaid and smartphone mix**
 - Increased product subsidy reflects higher y/y smartphone sales and competitive pricing
- **Expanded handset line-up**
 - 10 new devices introduced in Q2 by Bell Mobility, including Turbo Hub and iPad
 - iPhone 4 launched on July 30th
 - Introducing Samsung Galaxy S on August 6th – exclusive to Bell in Canada for Q3

Accelerated postpaid subscriber acquisition with improving ARPU



NAS decline stable



¹ Voice revenue is comprised of local and access and long distance revenues

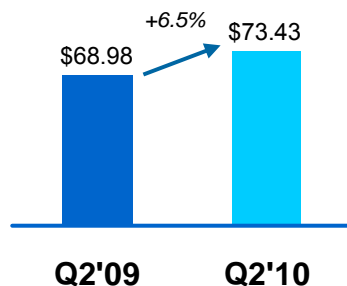
- **Residential NAS losses improve 4.3% y/y**
 - 11th consecutive quarter of reduced y/y retail residential NAS losses
 - Québec driving y/y improvement, reflecting good move season performance
 - Increased multi-product household penetration
- **Business NAS losses essentially flat y/y**
 - Erosion rate remains relatively stable q/q, despite increased competitive intensity
- **Local revenue decline continues to improve**
 - Fewer NAS line losses
 - Best residential voice ARPU since Q3'05, driven by Home Phone package price increases (Jan 1)
- **Long distance revenue erosion stabilizing**
 - Network charge increase offsetting lower usage revenues from shift to fixed-price residential plans
 - However, continued volume and rate pressures in business and wholesale

Slowing voice revenue decline

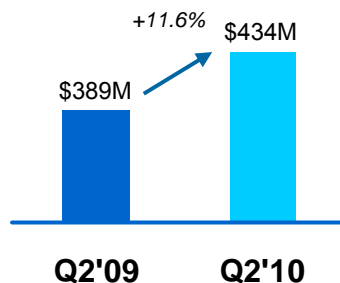


Bell TV

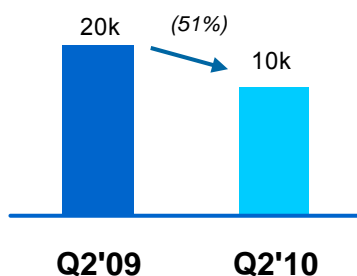
Retail ARPU



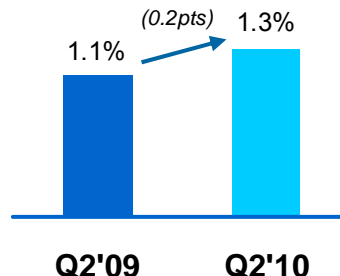
Revenues



Net additions



Churn rate



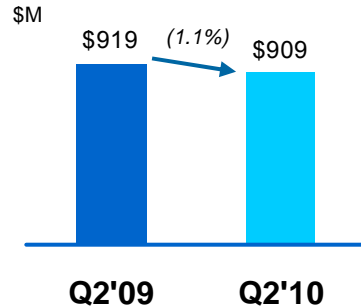
- **Double-digit revenue growth of 11.6%**
- **ARPU up \$4.45 or 6.5% y/y to \$73.43**
 - Driven by programming upgrades and price increases
- **Net adds of 10k in Q2'10**
 - Gross activations 6% higher y/y
 - But, increased churn due to competitors' aggressive acquisition offers
- **Enhancing our competitive position**
 - HD leadership with 108 channels
 - More French content
 - “Another reason to switch” campaign
- **Bell IPTV in market trials in Toronto and Montréal**

Continued strong financial performance

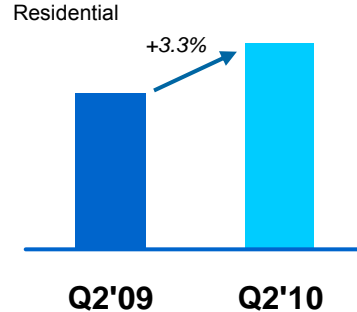


Wireline Data

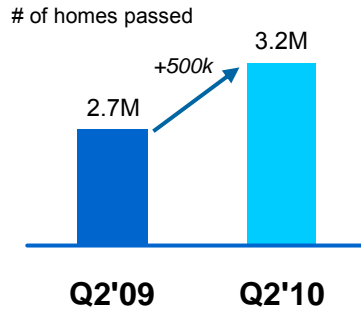
Total Data revenues



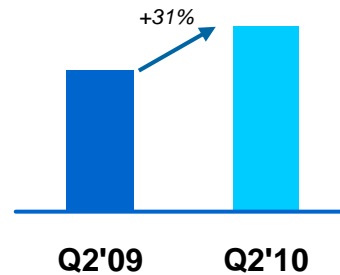
Internet ARPU



FTTN deployment



FTTN subscribers



Residential Services

- **Data revenue growth of 3.8% in Q2'10**
 - Internet ARPU up 3.3% y/y, driven by 71% increase in bandwidth usage revenues and plan mix
- **Lower Internet customer churn y/y**
 - Bell Fibe product line-up and reduced slippage
- **Net customer loss of ~4k reflects aggressive competitive offers and market maturity**

Business Markets and Wholesale

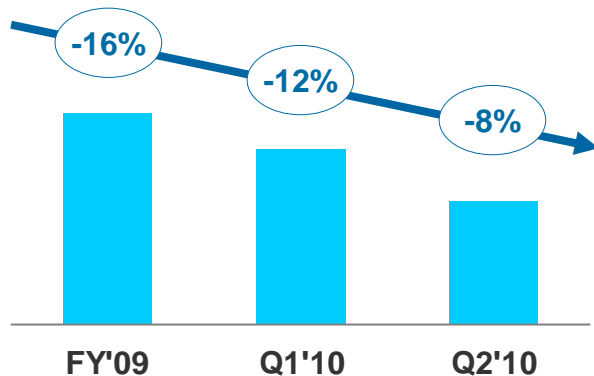
- **Business data revenues up 1% y/y**
 - Solid IP and ICT growth, despite soft spending
 - Slower legacy decline
- **Wholesale data revenues down 11.5% y/y**
 - Performance impacted by pricing pressures and volume decline

Solid revenue growth in Residential and Business Markets moderated by weaker Wholesale performance

Executing on our Service and Cost Strategic Imperatives in Q2

Improve customer service

- Fewer customer calls into Bell's Residential Services call centres



- 95% completion rate on Same Day Next Day for Bell Residential services
- Single point of contact for multi-product customers for billing inquiries
 - Launched July 12 in Ontario
 - Launching in Québec in Q3
- Improved call centre routing and transfers through implementation of “All Call Distributors”
 - 6 sites deployed in Q2

Achieve a competitive cost structure

- Wireline operating costs* down \$92M y/y in Q2
 - Flow-through of labour force reductions
 - Procurement savings from vendor contract renegotiations
 - Lower capital taxes and real estate costs
 - Fewer customer calls and other productivity improvements
- Disciplined spending on wireless subscriber acquisition and customer upgrades
- Lower workforce y/y, while growing subscribers and revenues
- Sharp focus on working capital
 - DSO improvement of 2.4 days y/y
 - Reduced inventory levels* by ~\$30M

* Excluding The Source acquisition

Improving service, while lowering costs



Q2 Summary

- **Continued successful execution of 5 strategic imperatives**
- **Positive trends for wireless and wireline results**
 - Increased wireless ARPU
 - Strong postpaid subscriber growth
 - Stable NAS erosion
 - Continued strong financial performance in TV and Internet
- **Cost reductions helping EBITDA growth and providing margin support**
- **Broadband investments positioning us well for future growth**
 - Higher capital expenditures in back half of 2010 focused on fibre deployment and IPTV
- **Effectively managing competitive pressures and economic factors**
- **Increased guidance targets for revenues and Adjusted EPS**
 - Reflects step-up in wireless revenue trajectory and continued solid wireline outlook

YTD financial results and outlook support dividend increase

