



# BCE

## Q4 2009 Results Conference Call and 2010 Guidance Session

George A. Cope  
President and Chief Executive Officer

Siim A. Vanaselja  
Executive Vice-President and Chief Financial Officer

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to BCE's conference call on Fourth Quarter Results and 2010 Guidance.

I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, Mr. Fotopoulos.

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### Thane Fotopoulos

Thank you, Anne. Good morning everyone and thank you for joining the call today. As you know, earlier this morning we issued a news release announcing our Q4 and full year 2009 results, as well as our 2010 financial guidance. The release as well as the slide presentation for this call are available on the Investors section of our website at [bce.ca](http://bce.ca).

As always, joining me today is George Cope, President and CEO, and Siim Vanaselja, our CFO. Siim will begin with a quick overview of our Q4 results before he moves into discussing 2010 guidance. George will then take you through an overview of the business and the strategies that we've laid out for this year before we open up the floor to Q&A.

However, before we begin, I'd like to remind you that today's remarks will contain forward-looking statements with respect to items such as revenue, EBITDA, adjusted EPS, free cash flow, and capital intensity. Several assumptions were made by us in preparing these 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 such assumptions and risks, please consult [BCE's Safe Harbour Notice](#) concerning forward-looking statements, dated February 4th, 2010, filed with both the Canadian Securities Commission and with the SEC, and which is also available on the Investor Relations section of our website. Any forward-looking statements made today 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'm making this cautionary statement on behalf of both George and Siim, whose remarks today will indeed contain some forward-looking statements.

On that note, I'll turn it over to Siim to get us started. Siim?

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### Siim Vanaselja, Executive Vice-President & Chief Financial Officer

Great. Thanks, Thane, and good morning everyone. Thank you for joining us. So, I'll start with a review of the results that we issued this morning, on slide seven.

First, I'd say that we're delighted to finish 2009 with a strong fourth quarter. Financially, we met or exceeded all of the increased financial guidance targets that we set for the company at the end of the second quarter, and we balanced that financial performance with good subscriber growth from strong holiday sales. All of this, then, gives us excellent momentum as we begin the new year and lets us set higher expectations for our performance for 2010.

Revenue growth of 4.8% in the quarter was driven largely by the inclusion of The Source in our results, as well as by progressively improving wireless revenue trajectory, reflecting stronger postpaid subscriber loadings, and an improvement in the year-over-year trending of ARPU compared to the previous couple of quarters. While the economy continued to impact our business performance in the fourth quarter, I'd say it did so to a lesser degree this quarter.

Our EBITDA growth of 1.1% this quarter included the reversal of our accrued obligation in respect of Part II broadcast license fees, which I spoke of at the end of the third quarter. Those were for the last three broadcast years, resulting from the industry settlement with the CRTC. Now, offsetting that was higher year-over-year Olympic expenditures, higher pension expense, and higher F/X charges, all of those amounting to in excess of \$70 million of year-over-year impact in the quarter. And this quarter we also incurred more marketing and acquisition spending on promoting the launch of our

HSPA network and other growth services. So the result was that this quarter, we activated 85,000 more wireless and TV subscribers year-over-year, and we extended upgrade contracts to a significantly greater number of existing customers.

With the launch of our HSPA network at the beginning of November, capital spending was lower year-over-year in the quarter, but still at a healthy level of investment in the amount of \$640 million. That reflects our accelerated deployment of broadband fibre as well as ongoing network upgrades and grooming. On a full year basis, we increased our total capital investment on key strategic priorities while maintaining our capital intensity, more or less at the higher end of our guidance range at 15.9%.

On earnings, statutory EPS for the quarter increased to \$0.46 per share—that's from a loss of \$0.06 per share last year—and you'll recall that in the fourth quarter of 2008, we took valuation write-downs of some \$372 million, or \$0.47 per share, related to non-core investments. In addition to these write-downs, the year-over-year improvement was also supported by lower restructuring costs and gains on divestitures. The higher level of restructuring costs last year of about \$0.15 per share compared to \$0.06 per share this quarter, and those were to accrue obligations related to our workforce reduction and real estate downsizing on the implementation of our 100-day plan, as well as a little bit towards Bell's rebranding that took place last year.

This quarter, the gain on divestiture related to the sale of our remaining portfolio investment in Clearwire—we have now completely exited that portfolio holding. Proceeds in the quarter amounted to \$48 million, and that brings our total proceeds for Clearwire to \$109 million.

Adjusted EPS before net investment losses and restructuring costs was in line with expectations at \$0.51 per share for the quarter compared with \$0.55 per share last year. EPS in last fourth quarter included \$0.13 related to lower tax expense from the favourable resolution of past tax positions and the impact of statutory rate reductions. And this quarter, by comparison, we had about \$0.03 of such favourable impacts. Now, apart from those year-over-year tax items, adjusted EPS this quarter reflected improvement in EBITDA, lower interest expense, and the accretion from fewer BCE common shares outstanding.

Finally, free cash flow. Even with higher pension funding year-over-year and increased investment in working capital this quarter, we generated robust free cash flow of \$515 million for the quarter. That's before taking into account the voluntary \$500 million pension contribution that we made at the end of the year—end of last year.

So in assessing the quarter, I'm quite pleased with our overall execution. And let me now turn to our segmented results, starting with the wireline business.

We are reporting our best wireline revenue growth quarter of the year at 4.2%, owing to the contribution of The Source and, as well, continued good momentum at both Bell TV and our residential home phone business, where the pace of voice erosion has remained stable. This was the ninth consecutive quarter of improved year-over-year retail residential NAS loss, owing to the strength of our service bundles and home phone packages. Through customer winbacks and decreasing CLEC port losses, we drove higher attach rates for growth service RGUs, which contributed a healthy 9% increase in average revenue per household.

Bell TV continued to outperform on all fronts, reporting its best net additions in four years and double-digit revenue growth of 11.2%. That's on higher ARPU driven by programming upgrades and the flow-through of some price increases. All of this helped grow TV EBITDA 46%, or by 18% year-over-year when excluding the favourable one-time impact of the Part II broadcast fee recovery.

Our Internet business, I'd say, stayed the course in Q4, adding a stable number of net new subscribers year-over-year. And despite a competitive and maturing broadband market, and some sales cannibalization from wireless sticks, our residential Internet net adds were up 25%. That was driven by lower churn and stronger Internet attach rates on the customers that we're winning back.

Residential Internet ARPU increased 3%, notwithstanding some continued aggressive price discounting in the market. That ARPU increase reflects a growing mix of customers on premium service tiers as well as upside from usage-based

pricing, and that ARPU increase will certainly be carried into 2010 and supported by some of the further price increases that we implemented at the beginning of January this year.

In our business markets, quickly, we saw much the same trends that have been affecting performance through the course of 2009. Even though we are not yet seeing significant signs of sustained turnaround in enterprise spending or usage volumes, I do think that we are encouraged that the rate of NAS loss erosion slowed in our business markets this quarter. And also, we saw the backlog and funnel in that segment starting to build up again, so good signs.

On slide nine, for the 2009 year overall, our wireline segment revenue remained essentially unchanged year-over-year. The revenue lift from Video and Internet growth and from higher product sales in the back half of the year from The Source was largely offset by declining voice revenues and the pullback that I mentioned in the business market spending. Still, our household marketing strategy, together with improvements in service delivery, did help reduce the total number of residential line losses by around 13%, from 382,000 in 2008 to 334,000 losses in 2009, and that slowed the annual rate of erosion to 7.9%. Our service bundles contributed to this improving trend with almost half of all bundle orders in 2009 now having at least one new product attached to it.

Wireline EBITDA grew 1% year-over-year—that's very much the direct result of managing through the pace of erosion in the voice business. Through continued strong execution in our efficiency programs, we reduced overall labour expenses significantly, G&A, and discretionary spending as well. And with that, wireline margins were essentially unchanged year-over-year at 36.6%—a level, I'm happy to say, that we've maintained now through the past five years. So again, underlying trends in our wireline business and the prospects of improvement in the economy are encouraging as we move into 2010.

On the next slide, a pretty strong quarter overall for Bell Wireless. We successfully launched our new network in November, in an aggressive—but I'd say, still disciplined—manner, activating a record number of gross activations in the fourth quarter, which increased 11.3% to 523,000. And this was one of our best December performances ever, reflecting good market response to our expanded device lineup, which includes the iPhone and the BlackBerry Bold, and growth in demand for wireless turbo sticks. Our postpaid momentum has progressively improved through the course of the year, and that carried over into the fourth quarter, with postpaid gross adds increasing 19%, net adds improving 38%, all on stable churn. So that, as well, will translate to stronger revenue growth for 2010.

In terms of ARPU, clearly the single biggest factor affecting it this year has been the economy and competitive re-price. In the fourth quarter, we continued to see voice ARPU decline, but at a slower pace than in the past few quarters, and that improvement can be attributed partly to the fact that the economy began to weaken in the fourth quarter of 2008, so obviously the year-over-year comparisons are easier. But I'd add that it also reflects reduced customer migrations to lower rate plans and higher smartphone activations, which improved the mix of our higher ARPU-generating customers. In fact, data now represents around 18% of our wireless services revenues, up from 13% in 2008, and we had a 67% year-over-year increase in smartphone subscribers, so they now make up close to 15% of our total customer base. Also notable is that even with the increased smartphone adoption, our COA per gross add was down 5.8% in the quarter, demonstrating that we effectively optimized all of the acquisition cost components.

So in our wireless business, we clearly gained some momentum in the marketplace. Over the course of 2009, we grew our market share of postpaid net additions, among the three national carriers, from 19% in the first quarter to 29% in the third quarter. And in the fourth quarter, we neutralized our network and handset disadvantage, deploying our new HSPA network. And in January 2010 this year, we've begun rolling out The Source as a distribution channel for both Bell Wireless and Virgin.

To finish up on the quarter, a few quick comments on the wireless financials on slide 11. We had a better service revenue trajectory in the fourth quarter with growth of 2.1%; not still where we'd like that to be, but an improvement over the second quarter and third quarter, and we see that momentum growing as we enter 2010. And wireless product revenues were up 43% in the quarter, mainly reflecting our full ownership of Virgin. As I explained, wireless EBITDA decreased this quarter with the stepped up activations, and we also invested more in call centres to better support a rapidly growing base of data customers.

That's it for the results. Let me turn to where we stand with our capital structure and capital markets objectives, and then I'll turn to our 2010 financial guidance.

So, I'm on slide 13. As you know, we've now established a very clear set of capital structure policies to provide you transparency on how we will manage the company financially, and how we will position ourselves in the capital markets. There's four key elements of that. First, we will maintain an investment grade credit profile consistent with our credit metric policies. Second, we'll maintain a strong level of liquidity through committed credit facilities, and a very, very manageable debt maturity schedule. Third, we'll continue to be balanced in growing free cash flow while maintaining appropriate investment spending levels in our business. And lastly, we'll look to increase shareholder value in two ways: one, by growing our dividend through growth in EPS and free cash flow; and secondly, by applying surplus cash principally to share buybacks.

I believe the company has never been as focused in its capital markets strategy, or been as well positioned to execute on every element of it as we are today. But let me explain why.

On slide 14, you can see that our balance sheet and liquidity position are extremely healthy. During the year, we funded the acquisition of The Source, Virgin, and the Montreal Canadiens for \$391 million. We repaid \$2.1 billion of long debt and \$265 million of capital lease obligations. We repurchased approximately 40 million shares for close to \$900 million, and we contributed \$500 million in special funding to our pension plan. And after all common and preferred dividends, we still closed 2009 with a cash balance of \$660 million.

Slide 15 shows that we have a dividend coverage of more than 1.5x free cash flow, which is the highest among all major North American telcos, offering what we believe to be an attractive BCE dividend yield, now over 6%. And with our debt maturity schedule, we do not expect to be in the debt markets for at least the next year.

On slide 16, you can see the track record of this management in returning cash to our shareholders. And we'll continue on this same path, reviewing our dividend on a regular basis relative to our payout policy, and reviewing our application of surplus cash balances also on an ongoing basis. Finally, you'll see that our 2010 plan calls for higher EBITDA growth, lower pension expense, and lower interest expense—I'll get into that in a minute. But that, in turn, will further strengthen our key credit ratios, already comfortably in our policy range, and provide greater financial flexibility to execute on our capital markets objectives going forward.

So with that, let me now turn to our 2010 outlook and our financial guidance, starting on page 18. First, in terms of how we see 2010 unfolding, the economic contraction that we experienced in 2009 appears to be on a path to stabilizing, so we expect to see a gradual strengthening of the economy, but really with momentum only beginning in the second half of the year. That should help support improving performance in our business markets, and a step up in wireless revenue growth, driven by strong postpaid subscriber acquisitions in 2009, higher expected smartphone penetration, and increased data usage. Moreover, as the economy improves, we expect voice ARPU erosion to slow and roaming revenues to pick up consistent with higher rates of employment and travel.

In our revenue guidance, we are nevertheless maintaining a conservative outlook until we see how the year unfolds. So we're calling for revenue growth at Bell to remain relatively stable in 2010 at 1% to 2% growth.

For Bell's EBITDA, our expectation for 2010 is for growth in the range of 2% to 4%, which is a step up from 2009. Supporting that improvement is lower year-over-year pension expense and ongoing cost reductions, particularly in procurement, as we renew a number of key supplier contracts. And that guidance range leaves us a good degree of cushion, I should say, to continue pursuing higher wireless activation levels with our new network and with The Source as a channel.

In our capital spending plans, we'll continue to invest intelligently, building for the future while maintaining Bell's capital intensity at or below 16% of revenues.

At the BCE consolidated level, our guidance is for adjusted EPS to grow between 6% and 10% over 2009, and for free cash flow to be in the range of \$2 billion to \$2.2 billion.

Overall, the financial guidance that we're announcing today, I'd say, reflects a well balanced business and financial plan which will generate good EPS and free cash flow growth, while making significant reinvestment for the future of our business. All of this provides a strong foundation for executing our capital markets strategy. So with that, let me give you a little bit more colour on each of the components of our guidance, starting with revenue.

Our revenue guidance of 1% to 2% growth includes the contribution from The Source and Virgin, which we began to fully consolidate in the third quarter last year. That contribution and growth will mostly be in the product sales line in our wireline segment, and will mostly impact us in the first half of the year. Our revenue plan assumes a stabilization in residential NAS line losses, reflecting bundling and winback opportunities, while business NAS erosion is expected to improve as the economy begins to strengthen gradually in the back half of the year.

Our revenue growth projections also reflect continued strong TV subscriber growth as we continue to leverage our high-definition leadership, pursue our MDU penetration strategy, and drive higher ARPU through higher premium box penetration and the flow-through of price increases that we put through at the start of the year.

And while we expect Internet market growth to moderate a bit overall in 2009, we intend to continue to grow our base of FTTN subscribers, and to continue growing usage-based Internet revenues. And we also expect improved data and ICT service revenue performance in our business market where, as I said, our funnel is building nicely at the moment.

For wireless, our revenue forecast reflects increased subscriber loadings on smartphones and associated increases in data revenue growth, and a higher market share of inbound roaming revenue—all this helping towards countering the continued downward pressure that we would expect in voice ARPU and the impact of new wireless entrants in the marketplace.

Overall, I'd say a conservative revenue outlook, but prudent in the context of our operating environment.

Turning to slide 20, as I mentioned, EBITDA for Bell is expected to be 2% to 4% higher than 2009. On the cost side, we expect an overall increase in wireless subscriber acquisition and retention costs from higher subsidies associated with increased smartphone adoption and from increased customer upgrades.

Also reflected in our guidance is incremental expense associated with being the network provider and lead sponsor for the Vancouver Olympics. And, importantly, I should mention that we expect to incur approximately \$60 million to \$70 million of Olympic-related expenditures in the first quarter of 2010, so you'll see that in our first quarter reporting. As these expenses will not recur next year, I'd say we already have some upside built into our EBITDA plan for 2011.

Netting these pressures against increased contribution from our growth segments and further cost reductions, we expect EBITDA margins to remain, again, relatively stable year-over-year. In addition, we should also benefit from a year-over-year appreciation in the Canadian dollar, given the size of our US dollar purchases of wireless devices, video set-top boxes, and cross-border roaming traffic.

Lastly, we expect pension expense to be approximately \$110 million lower in 2010, benefiting our EBITDA—and I'll ask you to turn to slide 21 for me to cover that. So the improvement in pension expense can be attributed to two factors. First, as we announced on December 17th, we made a \$500 million special defined benefit plan contribution—this decreased our 2010 pension expense by about \$45 million. And secondly, our pension plan delivered a strong 15% return on assets for 2009, which also improved the fund's valuation position.

I should mention that we expect to report a one-time credit against pension expense in the first quarter of 2010. That's reflected in our guidance—but in the first quarter, we will have a valuation allowance adjustment to recognize the surplus in one of BCE's pension plans. We're still in the process of finalizing that adjustment, but we have estimated it to be an amount of some \$25 million to \$50 million, and that will help to partially offset some of the Olympic expenditure pressure that I also spoke of for the first quarter.

In terms of cash pension funding, Bell's solvency deficit at the end of 2009 was reduced to about \$1.2 billion, \$1.3 billion, and the pension plan solvency ratio improved to 90%. After the impact of a decline in our discount rate, we expect our overall pension funding to decline in 2010 to approximately \$500 million. I should point out that with a steepening yield

curve hopefully on the horizon and an improving interest rate outlook, a 1% increase in future discount rates would substantially eliminate our pension deficit. And again, that underscores how sensitive our pension funding is to a change in interest rates, as well as highlighting the importance of that special pension contribution that we made at the end of last year to reduce volatility.

Finally, to close off on pension, you'll recall that all new employees since 2004 are now enrolled in our less costly defined contribution plan. And, as well, as we phase out post-retirement benefits for all employees, we should begin to see that reflected positively in our results beginning in 2011.

Moving to our tax outlook, we don't see a significant step up in cash taxes as we expect total payments in 2010 to be around \$200 million, compared to \$168 million in 2009. And that 2010 number reflects the tax deductible nature of the special pension funding that we made—that saves us about \$135 million in cash taxes in the first quarter of 2010. We also have a pool of unused R&D tax credits remaining in the amount of around \$400 million, \$440 million, which are available to use against taxable income at the Federal level, and we expect to fully utilize those by 2012. So our cash tax liabilities remain quite manageable over the next couple of years, with only a modest step up.

In terms of our accounting tax expense on the P&L, we do benefit from a statutory tax rate reduction to 30.6% in 2010, from 32.3% in 2009, owing to both Federal and Ontario level reductions. In consolidating the non-taxable earnings of Bell Aliant, we project an effective accounting tax rate for 2010 around 22%, so that's higher than 2009. But our tax adjustments and recoveries in 2010 will be lower, probably in the vicinity of \$0.20 of EPS for 2010 versus the \$0.30 of tax adjustments that we posted in 2009.

On slide 23, we expect to see 2010 adjusted EPS between \$2.65 and \$2.75 per share, or 6% to 10% year-over-year growth. That growth is coming from essentially three areas. First, stronger EBITDA performance. Second, earnings accretion generated from our share buyback programs—and that amounts to about \$0.03 of EPS this year. And lastly, we will have an improvement in net interest expense stemming from an overall decrease in long-term debt outstanding, with a lower average cost of debt through some of the refinancings that we did last year. All in all, good expected earnings growth which supports the increased \$1.74 common dividends that we announced effective for 2010—all while keeping our payout ratio still at the low end of our payout policy.

On slide 24, I've provided the details of our free cash flow generation for 2010, which we're forecasting to be in the \$2 billion to \$2.2 billion range before common dividends. The year-over-year improvement reflects higher EBITDA before pension expense, as well as an appropriate level of capital investment focused on our strategic priorities. The increase in 2010 cash taxes will be more than offset by lower interest payments on long-term debt and lower restructuring costs—we think restructuring costs will be in the range of \$200 million to \$250 million for 2010. Our free cash flow will also benefit, as I referenced, from a meaningfully stronger Canadian dollar. We expect favourable F/X impacts in 2010 on our US dollar spending, which has been substantially hedged now at an average exchange rate of \$1.10 versus \$1.17 for 2009. So our cash flow remains strong and reliable, with growth opportunities from business performance, continued efficiency gains, and ongoing tight working capital management that has served us well over the last couple of years. And we expect to end 2010 with further surplus cash in the range of \$500 million to \$600 million.

On the next slide, just for your purposes and clarity, I've provided a breakdown of the key reconciling items between projected EBITDA and our free cash flow. I won't go through that—I think you'll see that it all lines up reasonably well with the guidance that we're providing this morning.

And on slide 26 and 27, for your reference, we've provided you with the key economic and market assumptions framing our 2010 outlook, as well as the main financial and operating assumptions that underline our guidance.

And lastly, before I turn it over to George to talk about our business operations, and progress on our five strategic imperatives, I did want to conclude by briefly addressing the requirements that come into effect next January for all Canadian public companies to change over from Canadian GAAP to International Financial Reporting Standards. At Bell, we've been preparing for that transition. Updates on our progress and the reporting impacts that the changeover will have on us have been disclosed in our 2009 MD&As, and will continue to be disclosed in each of our quarterly reporting through the course of 2010. Importantly, the adoption of international standards require certain accounting policy choices to be made, and that will have an impact on the presentation of our financial statements—not just us but for all Canadian

companies, irrespective of the industry. So it'll have an impact on our financial statements, and the calculation of our operating results that we're currently in the process of assessing and quantifying. Consequently, what we would like to do is hold an analyst information session after the end of the second quarter and we will outline for you the major changes that impact us, and summarize those impacts as well as the transition rules, and the impacts that those transition measures will have on our reporting.

So, thank you, and let me turn it over to George.

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**George Cope, President & Chief Executive Officer**

Thanks, Siim. Good morning, everyone. I'm on slide 31 and what I'd like to do over the next 15 minutes or so is take you through an update on our imperatives for 2010—some new announcements and a little insight into where I view the business at as well.

So on page 31—and no surprise to our investment community, I'm sure—is our focus for 2010 continues on our five strategic imperatives. We made measurable progress on all these imperatives in 2009, and that will be the focus in 2010. Success on these five strategic imperatives drive our ability to sustain the dividend growth model which, as you know, is the strategy for the company from a shareholder perspective.

Turning, first of all, to broadband network and services, page 33, as Siim had mentioned, we have had a step up in our RGU growth in the fourth quarter—174% increase versus last year—with the increase in wireless net adds, TV net adds—strongest we've had in years—and residential Internet net adds up, and a migration of our Internet base more towards our FTTN network. It is clear to us that our 4P strategy of execution across brand, distribution, pricing and product is starting to work in the marketplace for the company as we begin to regain share the last half of the year in a number of key areas of the company and the market.

Turning to page 34—and again, in our imperative in investing in broadband networks and services—as you know, in 2009, we launched the new HSPA network, we continued our rollout of fibre-to-the-node, and announced in 2009 that we would deploy fibre in the condominium marketplace. For 2010, this morning we're going to make a number of announcements as well on the area of fibre-to-the-home for new neighbourhoods and in aerial neighbourhoods in Quebec—I'll talk about in a moment—as well as a planned launch of IPTV for 2010.

Turning to slide 35, just give everyone a bit of an update on our fibre deployment strategies. At the end of this quarter, we will complete Toronto and Montreal from an FTTN perspective. At the end of the quarter, 1.8 million of our homes will have 25-Mbps capability, with VDSL2 deployed in all 1.8 million homes. At the end of the year, 100% of our network will have VDSL2 cards available in all of our FTTN footprint.

We will continue the execution of our MDU strategy of fibre-to-the-building over the next number of years such that by the end of 2012, about 1,600 MDUs will have fibre.

We've also made a decision that all new neighbourhoods in urban markets in Ontario and Quebec in the future, starting in the second half of 2010, we will build out—executing on a fibre strategy, whether or not aerial or inground for new neighbourhoods. Simply put, because we have the ditch dug, we will put fibre in the ground versus copper to the home, and that will begin in the second half of the year. In addition, in looking at the unique layout of our network in the city of Quebec, we have made a decision that we will deploy fibre-to-the-home using our 85% aerial footprint we have there, and 15% in the ground. And you can see here on the slide that it costs us approximately \$250 more to do that per home passed. But when we account for the fact that we expect operating savings, based on results from other carriers who have deployed fibre, we frankly think the economics are very close now in terms of a footprint where you are 85% aerial. And in such, given the benefits of fibre, we will execute that strategy as well.

So if you turn to page 36, a little more colour on the Quebec City decision versus deploying fibre-to-the-node—because, again, we have a unique footprint there, with 85% of the footprint aerial—quite frankly, consistent with what Karen is doing at Bell Aliant where, looking at their footprint, they had a similar design—that the costs, quite frankly, get very close between fibre-to-the-node and fibre-to-the-home, I think everyone would agree, from an investment perspective, than

deploy fibre-to-the-home; and that's what we're going to begin to do so that Quebec City, within three years, will be 100% fibre market. We will also do all this while executing our strategy of 16% capital intensity this year.

In addition, turning to page 37, as we will have deployed—as we mentioned already—VDSL2 for all of Toronto and Montreal, and have built out our FTTN footprint for Toronto and Montreal, we will begin launching IPTV services later this year. We'll do that within our capital envelope of 16% as well. We selected Microsoft MediaRoom which has clearly become the standard in IPTV. We will avoid—and I quote, "Being on the bleeding edge of this technology", we are following companies who have launched this successfully in the US, and we think it's a complete complement to our satellite business. We have four times the market share outside the core downtown urban areas with our satellite service, and if we're able to execute that same type of market share with IPTV, obviously the stickiness for our other services and our enhanced relation with our customers in the marketplace will only grow. And given we have close to two million TV subscribers already, we can amortize some of the significant startup costs over the core TV business we already operate today.

Turning to slide 38, it's important for investors to understand that we are executing our strategy of fibre-to-the-home now in Quebec City; fibre-to-the-node continue to be rolled out, and IPTV all within the capital envelope of a 16% capital intensity. And some people have wondered whether or not that intensity should be higher. Well, I just wanted to clarify here, you can see we are consistent with the other major carriers on a North American basis, where their guidance looks roughly 14.5% to 16% for 2010—and were running their businesses as close to the way we ran our businesses in '09. I anticipate this year we get some help on the HSPA network and our capital intensity simply because we have an empty network that we've built out. Long term, we expect the capital intensity of wireless to be 11% to 12%—and obviously that's an X% of our overall capital. And the other part of that, obviously, from the wireline side—therefore, it's higher than 16%—so we end up at a number of 16%. And so, we're comfortable with that. And 80% of our capital expenditures, as last year, are focused on our five strategic imperatives.

Turning to wireless on page 40. Our wireless in 2009 was really a year of significant accomplishments in—if you will—positioning the company to compete strategically for a market share that's consistent with the other incumbents. We now have, we believe, the leading wireless network not just in Canada but in the world. We lead from a distribution perspective at the consumer level, given our acquisition of The Source; we have a handset lineup that is competitive and second to none because we have both CDMA and HSPA; and we think our new branding has been well received by the marketplace, and we think in the flanker brand we're really well positioned because of our acquisition of Virgin. So 2010, of course, is about executing against those strategic initiatives of '09.

On page 41, a few quick comments about our wireless trends. Net adds are up 6.3% in '09—within the last half of the year, you'll see up 27%. We only executed the launch of the new network for 60 of the 90 days in the fourth quarter, yet we had our best net adds in a long time and a record gross add. Our cost of acquisition being lower year-over-year is quite an accomplishment for our management team, given the launch of the smartphones that we launched on the HSPA network. And as you can see, the continued focus on cost discipline, where we were able to actually—in a year that was very tough from an ARPU perspective—have our EBITDA-to-service revenue margin actually slightly increase.

So turning to 2010, our goal, really, from a market share perspective is quite simple. We want to achieve a third of the net adds in the postpaid market relative to our incumbent competitors. We've begun to make traction on that in the third quarter. There's no way to know how we've done in the fourth quarter till our competitors' report, but certainly we're pleased with our fourth quarter results, and have begun the rollout towards that market share and the new Source stores with Bell product—with the removal of Rogers as of the end of December.

One of the really exciting parts—and yes, costly at the same time—parts for us is the incredible growth we're seeing on wireless data. We exited the year with 18% of our ARPU on the data side—Siim had mentioned 32% growth year-over-year. Interesting stat: we think HSPA+ gives us an opportunity to start to attract higher ARPU clients. Our ARPU of our first clients on HSPA network in the first month was north of \$90, so we know we're attracting the right client base to that new network. And, of course, we're seeing the ever—the growth—the usage of the Internet with the Internet sticks. And I think the really, really important thing for investors, which we are obviously following and executing on, is making sure that it's a usage-driven model—and that's the model that we're pursuing, and at this point, the model that the Canadian market is pursuing. And that's important to make sure we monetize this significant opportunity for our investors, and at the same time, for our customers from a great service perspective.

Turning to page 44, a number of priorities. I'm just going to talk to the competition one, to the far right on your slide—really just talking about the new entrants. Our focus is really four areas of competitive advantage: the fastest network in Canada with the largest footprint; our ability to bundle services as required; competing on innovation, distribution, brand, and a handset line second to none; and we will use our flanker brands when required to compete on price in the marketplace, and we'll react, obviously, competitively to the market to make sure our flanker brands maintain their market share as required to compete with new entrants.

Turning to slide 46, an important part for value creation is our management of our NAS erosion. We are obviously very pleased to see that our residential line loss continued to reduce year-over-year for the ninth consecutive quarter—and on a year-over-year basis, you can see here as well. We'd like to see that to continue, at a minimum, stabilize. I know a number of the analysts expect that number to accelerate this year. That is not our plan. Our plan is to try to stabilize or continue to see it to improve. Where we would like to see a turnaround—and expect it, as Siim said—in the second half of the year is a reduction in the NAS losses on the business side as we look to the economy to improve and see some growth, we would hope, in the second half of the year in the SMB market where, quite frankly, as I think I've said every quarter, has just been very soft, particularly in the Ontario marketplace.

Turning to slide 47—quite frankly, we'd just like to replay in 2010 of our 2009 TV results. We had a tremendous year on every metric: ARPU; increasing EBITDA; increasing market share; obvious growth with our net adds of 113,000 versus 30,000 last year; new distribution from The Source; from our strategic relationship with Telus; and with a continued focus on our HD leadership in Canada, and then complementing that later on this year with those distribution channels in various markets in Toronto and Montreal beginning to have the ability to also sell IPTV in the marketplace.

Turning to slide 48, I think everyone knows it's been a tough market for the business market, and it has certainly for us as well this year, particularly from a revenue perspective. I thought investors would find it interesting to note, though, our significant cost reductions have really helped here as, in fact, our EBITDA margins grew 3% during the year. We reduced our capex in that business, and so have been able to maintain, actually, EBITDA growth, even with the revenue pressure, through significant cost alignments, such as the consolidation of Bell West, SMB, and Enterprise under one leadership team and one integrated operation at the midpoint this year.

From a competitive perspective, we did see a year in 2009 where we did not lose any major contracts. We expect 2010 to have, if you will, a reduction in competitive intensity in this area, where we've seen one of our competitors sell their professional services business recently. Our focus, of course, will be to continue to be profitable, and hopefully, if there's some improvement in the economy, we capture our continuing leading share on this segment of the telecom marketplace.

Turning to slide 50, a couple of quick comments on service. We're not done, but we had a tremendous year on service improvement. The launch of Same Day Next Day, of all three of our home products, where 90% of the homes have seen Same Day Next Day service completion. This has driven a significant reduction in our cost while we've been able to improve service. Calls handled by our residential business this year were down 16%, our satisfaction of our customers was up to 82%, and so what we were really, in summary, able to do was reduce cost and improve service dramatically at the same time.

That investment will continue in 2010—on page 51—where we will invest \$140 million in new technologies to continue our journey on improvement of service. Our Same Day Next Day repair service now offers intervals as well. We reached a number of labour agreements in 2009 to give us labour stability going into 2010 and '11. And on the home consumer side, continuing to focus our call centre more and more around the house than around the product portfolio, and again, working through technology to streamline our call routing to reduce even further the call volumes that we handle, while at the same time improving our service level. And we're clearly beginning to see the impact of this in our reduction of churn in our Internet business, in our satisfaction of our client base in the market, and we believe we have an in-home installation service second to none now in the telecom industry, and all the markets we compete in. You'll begin to see us talking a little bit about our new service journey in the coming months, just to start to build some brand equity back in our ability to deliver service to the marketplace—something that, quite frankly, we've suffered on not long ago.

And finally, but clearly not least important, our continued focus on a competitive cost structure and managing our cost. Turning to page 54, you can see here that our workforce was reduced 5,800 people since the introduction of the 100-day

plan in June of 2008. We have now reduced our management count 22%—the initial 100-day plan, as you may recall, was 15%. In the fourth quarter, we reduced our workforce an additional 830 people, and in the second half of the year implemented a 5% management reduction program that has now been completed. And so, some of these reductions in labour in the last half of the year obviously flow through to year-over-year expense savings for the entire year in 2010. We also will continue to aggressively manage our outsource contracts down, manage our fixed versus variable costs—through focus on variable pay performance—and not, if you will, as people leave the organizations for different reasons—making sure we're holding our headcount as stable as we can without rehiring resources. We've also de-risked our overall operation where we now have over \$300 million of compensation at risk in the company, so that has dramatically changed the culture of the company, and also provided obviously significant flexibility because if we don't perform, then those type of expenses aren't being spent.

Page 55, continue that work in 2010, particularly in the area of our vendors. As Siim had talked about, we anticipate a total savings of \$50 million to \$60 million in 2010 simply from our IT outsource contract negotiations we had done over the last few years with all of our vendors. We will benefit from the Ontario sales tax harmonization. We will benefit from the reduction in labour because of the reduction in our overall staffing in the second half of 2009. We benefit from a lower capital tax rate, and we benefit from improved currency—and, quite frankly, just the culture at Bell now that's about lowering cost on a continual basis.

In summary, I am, quite frankly, really pleased with our fourth quarter and our year. We met all of our financial guidance. The EBITDA growth of our wireline business, I think, stands out as second to none in North America. We are making the appropriate investments and beginning to see the benefits of those investments in RGU growth, and today are deploying additional strategies around fibre-to-the-home for Quebec City, the deployment of our VDSL2, the decision to launch IPTV, and the continued investment in our HSPA+ network. Our capital markets strategy will continue to be executed in 2010. Our guidance indicates we're at the low end of our payout ratio—that's important because it gives us, obviously, future flexibility for dividend increases, which is consistent with our strategy—and the ability to generate over \$2 billion of cash flow, giving us a dividend coverage of 1.6x, highest among North American telcos, we think, and attracting the yield that the stock is offering in the marketplace. It's about management executing against that strategy in 2010, and we'll leave the market to decide where the stock should be after that.

With that, thanks very much.

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### **Thane Fotopoulos**

Okay, thanks, George. Before I hand it over to Anne to begin the Q&A session, I would ask that participants limit themselves to one question and one brief follow up so we can get to everybody on the queue. If any time remains, we'll then circle back for another round, and it goes without saying that I'm available for any clarifications, follow ups, or questions we don't get to after the call.

And with that, Anne, can you please explain the polling instructions? We're ready to start.

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### **Q & A**

#### **Operator**

Our first question is from Greg MacDonald from the National Bank Financial. Please go ahead.

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#### **Greg MacDonald, National Bank Financial**

Good morning, guys. Higher level capital structure question. What's different about BCE, to a certain extent, is that you don't have a lot—actually quite marginal debt maturities in the next few years. You have just shy of \$700 million of cash in the balance sheet right now; free cash flow \$2 billion to \$2.2 billion, net of dividends and buybacks you'll produce

probably a couple of hundred million, maybe as high as \$400 million—suggesting, kind of, a billion in cash at the end of 2010. A 20 million share buyback looks like it—there could be some upside. I mean, is that still an option in the second half of the year if things turn out to be the high end of that range? Or is there another reason to stockpile cash? Thanks.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Yeah, Greg, we are forecasting that we will finish 2010 with a cash balance in the range of \$500 million to \$600 million, so your number of a billion is on the high side. One of the things you may recall is that we have a debt maturity in 2010 in the amount of \$600 million that needs to be funded. That might be one of the differences—sorry, \$400 million—that might be the difference to reconcile with your numbers. But we're happy to work with you on that.

So, with regard to the share buyback that we announced, our intention is to execute that evenly over the course of 2010. And as I said in my remarks, we'll continue to evaluate the performance of our business, how our surplus cash position builds throughout the course of the year and where our credit metrics are, and we'll make further decisions on the use of that surplus cash as it builds.

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**Greg MacDonald, National Bank Financial**

Okay. Thanks, Thane—or sorry, Siim. As a quick follow on—I guess I got the answer, you plan to pay down maturities in 2010. So I would ask the question on top of that, you know, where are you guys thinking about in terms of your targeted leverage ratios, particularly given how attractive the market is right now? I mean, I might suggest that there's an opportunity here—you know, quite unique opportunity—to refinance. Is that something you're considering? And if that's the case, does it change your answer?

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Well, yeah, Greg, we're always looking for interesting refinancing opportunities in the marketplace, and we took advantage of an attractive market last year when we raised the billion dollars of debt that we did. So we're using that debt that we raised towards debt reduction. We've repaid \$600 million of one series of debt in 2009 from those proceeds, so as I said, the remaining \$400 million will be repaid in 2010. That refinancing saved us approximately \$25 million of interest expense annually going forward. As we look at the markets today and, you know, what the breakage cost would be with other debts, we don't see particular opportunities today to do further debt refinancings. But we'll continue to monitor that.

To your question on at what point are we comfortable with the credit metrics and capital structure of the company, I think we're kind of there. Once we pay off this remaining \$400 million, our credit ratios are very comfortably at the higher end of our policy—it's where we want to be. As you commented, our debt maturities are way out in the future, so I think it really puts us into a strong position to execute, when it comes to surplus cash, more in line with our capital markets objectives to return cash to shareholders.

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**Greg MacDonald, National Bank Financial**

That is helpful. Thanks.

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**Operator**

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

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**Simon Flannery, Morgan Stanley**

Thanks very much. Good morning. You've had about a month now with WIND in the market. Perhaps you could—and obviously you've put some implications there in your guidance—can you talk a little about where you think the pressure will be in 2010? Is it more prepaid than postpaid—the extent of wireless substitution on the landline versus the wireless share loss, and any ARPU impact? What are your early, sort of, thoughts on the impact of WIND and then the likely other competitors over the rest of the year? Thanks.

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**George Cope, President & Chief Executive Officer**

Well, I think as we think through the question—and it's obviously an important one, and one that we're going to have to gauge as we see in the marketplace, I mean, our strategy, as I mentioned, you know, is pretty clear, and that is, the new network we have, the advantages we have, the distribution we've put in place, the new branding—all those elements are there. And the acquisition of Virgin were driven—the Virgin particularly—by the anticipation of the new entrants and making sure we had a strong flanker brand to compete.

Clearly, a new entrant sets the floor on pricing, generally based on what they're all saying, and so the ceiling is a gap between their product price and what our top products can charge, and then our flanker brands can compete head-to-head. And we're just going to have to monitor it. At this point, it's having literally no impact at all. But there are a number of new players coming and in Quebec, one of our significant competitors, so it will have some implication for sure for us in the market, and that's reflected, obviously, in our guidance.

And we're certainly very happy we got our new network launched and out prior to the first quarter, which had been our initial plan, and we've begun, as I've said, on the distribution side with the new channels that we've put in place. So at that point, it's going to be, you know, straight on competition, and we're ready to compete at every level—and that's why we've got the different products and portfolios we have.

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**Simon Flannery, Morgan Stanley**

And any early read on The Source as part of that strategy?

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**George Cope, President & Chief Executive Officer**

Sure. The Source—we were not allowed to go in with Bell product until January. And so the rollout—every night we do 20 to 30 stores—I think we were close to 350, 400 stores as we ended January—training the people. We now just announced Virgin with HSPA, and Virgin's now in the stores. And we would anticipate momentum on The Source building into March, and start to see some of the sales from that that used to go to our competitor going our way, and we're already seeing some early positive results.

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**Simon Flannery, Morgan Stanley**

Great. Thank you.

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**Operator**

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

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**Vince Valentini, TD Newcrest**

Yeah, thanks very much. The question is on the smartphone subsidies. I was very surprised to see your COA down 6% in the fourth quarter. Wondering also if you can flush out what retention costs may have been—I didn't see that in the note yet.

And looking forward into next year, I mean, was there anything unusual in Q4? Did you have some tremendous procurement savings or other savings to your distribution chain that came in to offset the initial costs of the iPhone and the other expensive smartphones? Because every other carrier we've seen launch it had sort of a wave of people upgrading to the device that costs money, and then obviously a surge of new customers taking it. It's a nice problem to have, given the lifetime economics, but still, it creates a bit of a near-term depression on margins. It doesn't seem to be impacting your numbers in Q4 or your guidance for 2010, so just wondering if you can talk about that a bit.

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**George Cope, President & Chief Executive Officer**

Sure. Well, I mean, first of all, not to highlight a negative, but we did have—you know, we didn't have EBITDA growth in wireless this quarter. So, clearly, that's part of what's driving it.

A couple of things happened on COA—and it's a good question. Our gross adds were the strongest we have ever had, and of course, you amortize your advertising expense over your gross adds. And so, that helped us—even though, I think, people would say—who would have certainly seen the campaign knows we were pretty aggressive in spending advertising dollars—we were amortizing over a gross add number that, quite frankly, we were thrilled to achieve—helped us out.

Secondly, we did—and it's a good question, Vince—we did over the year enter into some new agreements on the distribution side with some of our key channels to lower our cost of commissions. So that's in there and that will be, for us—that's a continuing new agreement for us, and so that was helpful as well.

And then, you know, it is important—it was only two of the three months that we had the new network up, and so I don't think we've discovered some, you know, magic bullet to this issue for sure. And so that's part of it.

And then we don't really report our upgrade cost, but there's no doubt they're increasing, and that is what the pressure you see on the EBITDA that's there. Our expectation in 2010 is to really, really aggressively continue to manage our costs in the ILEC to give us the flexibility to drive the market share we're looking to achieve on wireless. And as Siim said, you know, the 2% to 4% guidance has left us some, if you will, wiggle room there in terms of the amount of gross adds we may do as a result of the new network.

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**Vince Valentini, TD Newcrest**

Great, thanks.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Yeah, Vince, I'd just add that, you know, the big benefit that we got was the Part II tax savings that helped offset the increased subscriber acquisition cost, the additional spending on the Olympics, the higher pension, and the higher F/X in the quarter.

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**George Cope, President & Chief Executive Officer**

But that wouldn't, obviously, be in our wireless EBITDA.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

It wouldn't be in the metrics.

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**George Cope, President & Chief Executive Officer**

Yeah.

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**Thane Fotopoulos**

Okay, thank you. Next question?

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**Operator**

Thank you. Our next question is from Bob Bek of CIBC. Please go ahead.

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**Bob Bek, CIBC**

Thanks. Good morning. George, could you please talk a bit more about the decision to do the fibre-to-the-home in Quebec? I mean, obviously, the aerial construction is an opportunity there. How much of this is geared towards your expectations for competing in that market for a quad play fairly soon? And related to that, are there any other larger markets in your footprint that would have a similar, or at least an advantageous, aerial construction makeup?

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**George Cope, President & Chief Executive Officer**

Yeah, sure. I'm glad you asked, actually. We looked at this for quite a while. Quebec City, we had actually just started to begin to do fibre-to-the-node and we said we've got to relook at this because of this 85%-15% issue. And when we ran the numbers—and believe me, we ran them over and over for the obvious reason—the capex is higher—and it's on page 35—to do a new neighbourhood with fibre-to-the-home with aerial versus the fibre-to-the-node of the existing neighbourhoods to the tune of a couple of hundred dollars—\$250 per home passed. The issue is there's an operating savings that we will benefit from through doing the entire city fibre-to-the-home. And by the way, it won't just be home—it'll be all of business as well that we will do, so that the entire city is done. And once we've done that city, we believe, based on our discussions with other companies who have done fibre, there's an opex savings that can be as high as \$80 to \$100 a year per household passed—per household that you have as a subscriber. And so you have to present-value that back against it—then you say, okay, now you're at this choice, and one's fibre-to-the-home and one's fibre-to-the-node, and, you know, any small assumption of any type of improvement in market share or ARPU swings the business case, because of the 85% aerial, to doing the fibre-to-the-home. And that's why we've done that.

Then your second question—there are other areas, principally in Quebec, that have the same type of footprint. And rather than disclose that today, for competitive reasons, we really would like to see the Quebec rollout—learn. We're going to follow what Karen's doing at Bell Aliant where she has a similar type of 85%-15% footprint, and then use some of those early results to look at other areas in the province of Quebec where, quite frankly, it is more aerial than anywhere else we have footprint.

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**Bob Bek, CIBC**

Okay, thanks. And notwithstanding the aerial makeup and your comments about your capex spending relative to your North American telco peers, any thoughts on—I mean, you've got tons of cash, the balance sheet's in great shape. You know, is there any thoughts to accelerating capex just for the prospect, even—notwithstanding fibre-to-the-home, but even further on the fibre-to-the-node?

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**George Cope, President & Chief Executive Officer**

Well, at the moment, the pace that we're going at is, frankly—we've accelerated the pace on all areas. You can tell with IPTV there's going to be some additional operating cost to launch that business. And, you know, our sense is success of RGUs can obviously breed a different discussion with our shareholders and investment community. But right now, we're pretty comfortable that 16% is where we want the discipline and the target in the company.

And frankly, we benchmark still a little high relative to other carriers on a global basis. There are carriers in Europe, as people on this line would know, who are running, you know, 12%, 13%, 14%. Now, there are differences, clearly, in every market. And so, you know, at this point, we find it hard to justify spending more than the 16%, and it's what we can execute successfully on as well, given the resources we have in the company—and that's an important new discipline that we've tried to bring into the organization.

And, of course, obviously surplus cash—we're going to constantly look at uses of that cash with a key strategy, obviously, to making sure we can grow our dividend model.

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**Bob Bek, CIBC**

That's helpful. Thanks very much.

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**George Cope, President & Chief Executive Officer**

Thank you.

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**Operator**

Thank you. Our next question is from Phillip Huang of UBS Securities. Please go ahead.

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**Phillip Huang, UBS Securities**

Great. Thanks very much. Just wanted to make sure I understand your thoughts on the dividend. I know it's still early in the year, but given your strong EPS guidance, the payout looks quite conservative. Is it fair to assume that, you know, you will not rule out a dividend increase in the second half if everything goes according to plan? And maybe you can identify, sort of, the major item that you need to have greater visibility on before making that decision?

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**George Cope, President & Chief Executive Officer**

We won't rule it in or rule it out; we're just going to operate the company with the strategy of a dividend growth model that keeps us within our EPS results. And so, obviously, if, in one way or another, our earnings were better than we'd anticipated, it would be inconsistent to not consider that. Likewise, if we're in our payout range, then it would be inconsistent to consider increasing it. And so we've got to see the year unfold. And, you know, hopefully people have

seen over the last year-and-a-half, we are committed—provided we are executing real growth—that means real EBITDA and real cash flow growth—and executing all these fibre strategies first and foremost—to then return money to shareholders as we can in a prudent and timely way.

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**Phillip Huang, UBS Securities**

Got it. And maybe just a quick follow up on the residential line erosion. It continues to accelerate this year in Q4. Was just wondering if you could give us a sense how much of the erosion this quarter, or in 2009, is related to wireless substitution? And, you know, what's your view on—or assumption on wireless substitution?

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**George Cope, President & Chief Executive Officer**

Yeah, we're about 10% on wireless substitution—is what we see in the market today in Canada. Our acceleration, as you use the term, in NAS erosion has not been our retail franchise. What has accelerated is wholesale. NAS additions for us have just basically dried up in the economy. So we were actually having some, if you will, NAS adds through wholesalers that just aren't happening now. And so, our consumer product division—what we call BRS—actually had its ninth quarter of improving NAS. And so, where we actually need to see some turnaround, from our perspective, in 2010, is in the business side. And, you know, I've mentioned on every call that until we see some economic growth in the small-medium business, that has an impact on our NAS, because organizations just aren't adding, you know, offices, resources, etc.

And so, you know, we've basically said here today that we would like to see—and I think if Kevin, who's our President, was on the line, he wants to see an improvement year-over-year—we would like to see it stable, given the uncertainty around the substitution that I think everyone keeps talking about. And we're obviously a large NAS service provider, so if that does accelerate, we could be impacted, and that's why we would like to see that line be stable on the consumer side.

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**Phillip Huang, UBS Securities**

Got it. Thanks very much.

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**George Cope, President & Chief Executive Officer**

You're welcome.

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**Operator**

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

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**Dvai Ghose, Genuity Capital Markets**

Yeah, good morning. It's Dvai Ghose. Sorry, I just want to revisit Vince's question on HSPA sales in the quarter. I'm seeing some contradictory data here, and I'm very confused as to how many HSPA devices you actually sold. On the one hand, as you said, you had good growth in net adds and equipment sales are up 43%, all suggesting you did pretty well. On the other hand, I assume that HSPA is focused on smartphones and postpaid. So if 43% of your gross adds were prepaid, 33% of your net—which is pretty much what it was a year ago—your COA is down, and I believe that your COR, from your IR people, was about 4.5% of network revenue in the quarter, versus 10% to 12% for peers. And also, on the sub side, you did write off 37,000 subscribers, which may have artificially boosted the subscriber growth in the quarter. So I'm just very confused. I was wondering if you could just clarify the issue by telling us how many HSPA devices you sold in the quarter.

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**George Cope, President & Chief Executive Officer**

Well, okay. First of all, I'm sorry you're confused, but let me try to clarify it for you.

The sub write-off had nothing to do at all with the results—it didn't artificially inflate anything—those are prior period. We went right across all the organization, you'll see other areas too where we did the same thing—opening sub adjustments for stuff from previous years, with just a consistent scrub through our controller's office to get every one of the measurements consistent across all the BUs. So it had no impact whatsoever on our fourth quarter results.

I'm not going to disclose our HSPA sales, because no one would like to know more than our competitors. All I can tell you is that for our gross adds to be up, as we've said, year-over-year to the number that we're focusing on, we're really happy. So I don't know why there would be confusion. The confusion might be that our COA's lower because our handset prices are higher than our competitors—that could be part of it—because we're now actually—if you look at BlackBerry pricing, we have the highest BlackBerry pricing in the market, and yet we were able to grow our gross sales. I indicated that we re-executed our distribution contract with one of our core channels, which lowered our COA. And so, you know, by and large, we are absolutely ecstatic with the quarter from a wireless perspective, with the 60 days of the 90 taking place. And obviously, the higher COA and gross adds flow through and impacted our EBITDA.

And on COM, Dvai, yeah, it is up—there's no doubt. We're not disclosing it, but there's no doubt that our cost of upgrades went up, particularly with the iPhone, where we've had, you know, people who have access to that unit now. And we would rather have them move to us, obviously, than move to the competitor.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

And, Dvai, while we do not disclose the number of smartphone activations, I did say in my comments that we had a 67% year-over-year increase in smartphone subscribers in the fourth quarter. So I think that's pretty indicative of the kind of mix we had in our activations in Q4.

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**George Cope, President & Chief Executive Officer**

Yeah. I think the other thing that maybe, Dvai, helped on the wireless—for the first time in a while, we saw a little bit of network service revenue increase and, you know, that's been pretty tough to come by with a decline in ARPU. So maybe that's the difference.

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**Dvai Ghose, Genuity Capital Markets**

No, that's a fair point.

Just quick follow up to Siim. You mentioned also, on a consolidated basis, how the impact of the subsidies is offset by the Part II fee rebate at ExpressVu—as George pointed out, it's a different line item—but when consolidated, it offset. Can you qualify that as well? You said \$40 million on a previous call, but based on your earlier comment, it seems it was less.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Yeah, the total amount of Part II fee recovery was \$54 million, of which \$40 million related to past period because this was a settlement in respect of the prior three regulatory periods.

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**Dvai Ghose, Genuity Capital Markets**

Right. That makes sense. Thanks very much. Appreciate it.

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**Operator**

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

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**Glen Campbell, Merrill Lynch**

Yes, thanks very much. A question on pensions. Siim, you gave some helpful information on the balance at the end of the year and the outlook for 2010. You used smoothing, though, and I was wondering if you could give us a sense of what the solvency deficit would be excluding the impact of smoothing. And if there's no change in assumptions, and if the plan delivers what it's supposed to this year—i.e., in line with assumptions—what would funding be like over the next couple of years? How much would it rise from the 2010 level? Where would it peak, and so on? Thanks.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Yeah. So, on an unsmoothed basis, as I said, the deficit is \$1.2 billion, \$1.3 billion—we haven't finalized the valuation. On a market value or unsmoothed basis, that would increase by close to a further billion dollars.

Now, under the new pension reform measures that came into effect, what they did was eliminate the use of smoothing, or that market-related value methodology. But they replaced it with a calculation that enables us to use a three-year average of solvency ratios in calculating pension funding. And, in addition, they allowed that past deficits will effectively get a fresh start for purposes of the five-year funding rule. So what we do now is take the remaining old deficit at the end of a particular year, and rather than amortizing that straight line over the next four years, you add to it or deduct to it in the following year what the incremental change in deficit is, and then, that new deficit, you get a fresh start in amortizing it over five years.

So that actually gives us a benefit in our pension funding. And, you know, with that, we would expect that our level of pension funding, although highly dependent on what asset returns are and what interest rates—you know, if those sort of stay within the range that we're in, we could see a modest increase in pension funding going forward for the next couple of years, but nothing of substance.

It could go from the \$500 million to the \$600 million level.

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**Glen Campbell, Merrill Lynch**

Okay. And I guess a way to think about that is to—you know, all things being equal, the present value of that funding would equal the, say, roughly \$2.2 billion that you outlined?

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Under the new rules, it would be less.

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**Glen Campbell, Merrill Lynch**

Okay. And then just a quick follow up. You talked about some benefits by changing the entitlements of retirees, getting rid of the post-retirement benefits and so on, and the changeover to defined contribution. If we look out two, three years, what sort of savings on annual operating expense could we expect from that?

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

The biggest one is the change in post-retirement benefits that begins in 2011. I think that sort of gets fully phased in by around 2012, '13. And if I recall correctly, that should add something in the range of \$5 million to \$7 million of EBITDA pickup per year for us.

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**Glen Campbell, Merrill Lynch**

Okay, so not a big number. Thanks very much.

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**George Cope, President & Chief Executive Officer**

Yeah, and Glen, the only last thing, I think it's important that—to Siim's point—the discount rate has such an impact. If we do see an increase in interest rates—as Siim said—I think a 1% change and we don't have—any deficit funding, so, I mean, that's how significant that change could be.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Just to give you an indication, if you go back only a few years, we were using a pension discount—a solvency discount rate of 5.5%. In 2008, that had gone down to 4.85%. In 2009, we're going to have to use a rate of 4.5%. So we're at very, very historic low levels of discount rate. And if we, over the next few years, manage to get anywhere back up to the 5.5% range, our deficit would be eliminated.

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**Glen Campbell, Merrill Lynch**

Good. Fair point. Thanks very much.

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**Operator**

Thank you. Our next question is from Maher Yaghi of Desjardins Securities. Please go ahead.

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**Maher Yaghi, Desjardins Securities**

Yes, good morning. This is Maher Yaghi from Desjardins. Just have a question on your top line revenue growth forecast for 2010. Can you strip out any of the acquisition numbers in there and give us, maybe, what is your expected organic growth on the top line?

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

No. I mean, we acquired The Source in the middle of 2009. I indicated that for the first two quarters of 2010, we will get some benefit from incremental pickup in revenues from The Source. There's not a lot of contribution, if any, that that delivers to EBITDA, and certainly none to our earnings. But when you look at The Source's performance quarter by quarter, their year, being in the retail business, is really all about the fourth quarter. And as we've put our 2010 plan, just like all our other business units, The Source is now integrated and consolidated into those results. So we're just providing our overall revenue guidance of 1% to 2%.

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**George Cope, President & Chief Executive Officer**

You know, the only other thing I'll add is what—you know, and Siim said in the beginning, and it's on page seven—there's two core areas of revenue growth that we're looking. Obviously, one, we get the benefit you raised, which is The Source. And the other is with the improvement in postpaid momentum in our wireless business in the last half of the year, and again, an outlook that would say we don't expect ARPU to continue to decline at the rate it did from '09 versus '08 in '09 to '10. Those are the two key areas of revenue growth we're looking for.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

And what you'll see each quarter, as we customarily do in our reporting, is our service revenues, which is the real contributor to the profitability of the business. And those service revenues do not include any Source in it.

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**Maher Yaghi, Desjardins Securities**

Okay, great. And just a follow up question on—maybe if I can ask you guys about your views on how BCE approaches a potential change in foreign ownership rules in the telecommunications sector in Canada. If that were to happen, as some suggest, as early as—you know, in a stepwise manner—how do you expect BCE to benefit from that change?

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**George Cope, President & Chief Executive Officer**

Well, I mean, I think rather than speculate on that. Having been in the industry as many years as I have, if the government looks at a review of foreign ownership rules, then obviously we'd be a key participator in that process. And at the end of the day, we would just have to respond to what the government made a decision on. And, you know, an increase in foreign ownership, the theorists would say it opens up access to more capital, but I would say that Bell doesn't suffer from access to capital. But we would just have to follow that development, to be as transparent as I can be.

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**Maher Yaghi, Desjardins Securities**

Would you change your capital allocation if the foreign ownership rule is open only to new incumbents—new entries in the wireless sector? And would that impact how you plan to, you know, spend your capital into deploying FTTH and other wireless ventures?

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**George Cope, President & Chief Executive Officer**

Well, as I said, first of all, that would be a very, very poor decision by a regulator to do that. It would be not in the interest of any of the major Canadian companies that employ the majority of people in the industry if they were to have two sets of rules, as what you're implying. And then second, we'd just have to react accordingly. But my instincts are the strategy wouldn't change at all, but that's just an instinct to your question. We'd have to think about it.

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**Maher Yaghi, Desjardins Securities**

Okay, thank you.

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**Thane Fotopoulos**

Anne, as we're running out of time, this will be our last question.

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**Operator**

Thank you. Our last question is from Peter Rhamey of BMO Capital Markets. Please go ahead.

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**George Cope, President & Chief Executive Officer**

Hi, Peter.

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**Peter Rhamey, BMO Capital Markets**

Hi. Good morning. Thanks for taking the question, I just got in under the wire. Two questions, if I can, since it's the last question.

George, I was hoping you could address the whole issue of pricing power in the market. I think we're hearing from other carriers that the ability to increase prices has been somewhat reduced and so people are treading lightly. Yet you've got upgrades in terms of services in IPTV, of course, into richer packages, and on high-speed—Internet speed packages into higher speed. So I was hoping that you might be able to give some additional colour in the Bell territory, both in Quebec and Ontario, what you're seeing there and what your prospects—what are you assuming on the second half of 2010 in terms of any improvement? Thank you.

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**George Cope, President & Chief Executive Officer**

Well, yeah. Okay. The thing we're seeing is people using more of our services is what's driving the increase in household ARPU for our consumer business. You know, the migration of people to our higher speed FTTN products drives a higher ARPU because people are using the service, obviously, more and more. And our usage-based billing model is starting to generate some revenue for us as well. So it's not necessarily price increases so much as it also is people using those services more, and then generating more revenue.

The best example—that's probably our TV product. You know, we've had a \$10 increase in revenue per customer in the last two years. We've not had a \$10 ARPU price increase over that period. So certainly, that's what we have seen driving the revenue for the company on some of the improvement in our household ARPU.

On top of that, depending on each of the markets, on a competitive perspective, we have in some cases been able to pass price increases through in the marketplace. And it's a function of whether or not the market absorbs them. And if we go too far, then we have to adjust accordingly. And some of those price increases that we do have happen on an annual basis, and some happened in January on some of our products—in the area of our Internet and some of our phone services. And likewise, some of our competitors, I guess, have done some different things. But yeah, it is so competitive. It's really about getting your customers using the services to drive the incremental revenue.

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**Peter Rhamey, BMO Capital Markets**

Great. And thank you. And just a more factual question for Siim on the tax rate—22% statutory in 2010 is your call. What would it be if Bell Aliant was fully taxed? Because I'm looking at the transition in 2011 and trying to model out effective tax rates in that year. Thank you.

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**George Cope, President & Chief Executive Officer**

Do we have it? Or could we get it for Peter?

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

We can get that for you. It would be closer to the statutory tax rate adjusted for approximately \$0.20 of upside—\$0.20 of EPS upside from one-time tax adjustments that we're expecting in 2010.

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**Peter Rhamey, BMO Capital Markets**

Great. I'll get the details offline. Thank you.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Okay.

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**George Cope, President & Chief Executive Officer**

Thanks for everyone's time. I know it was a long call but I appreciate everyone listening in.

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**Siim Vanaselja, Executive Vice-President & Chief Financial Officer**

Yeah. Thanks, everyone.

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