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BCE Inc.

Q3 2004 BCE Earnings Conference Call
03 Nov 2004 08:00 (ET)

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Pierre Blouin - Bell Canada - Group President, Consumer Markets
Isabelle Courville - Bell Canada - President, Enterprise Market
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Bernard le Duc - Bell Canada Enterprises - VP Investor Relations

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Vince Valentini - TD Newcrest - Analyst
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Operator

Good morning, ladies and gentlemen, welcome to the BCE third quarter results conference call. I would now like to turn the meeting over to Mr. Bernard le Duc. Please go ahead Mr. le Duc.

Bernard le Duc, Bell Canada Enterprises - VP Investor Relations

Thank you Lisa. Good morning everybody. Thank you for joining us. I am joined here today with Michael Sabia, our CEO and Siim Vanaselja, our CFO as well as Pierre Blouin from Consumer Markets, Isabelle Courville from Enterprise, Karen Sheriff from SMB, and Stephen Wetmore from National Markets. We would like to take you through the presentation today that is available on the website, after which we will take questions that you may have. Today's call is being taped and will be available in replay mode for about a week. It is also being webcast and the archive will be available on the web site.

Before we start I would like to remind you that today's remarks contain forward-looking statements concerning matters such as BCE's 2004 financial outlook. There are risks that the actual results will differ materially from those contemplated by the forward-looking statements. For additional information on such risks, please refer to BCE's 2004 first quarter MD&A as updated by BCE's 2004 second and third quarter MD&A, all filed by BCE with the US Securities and Exchange Commission under Form 6-K and with the Canadian Securities Commission.

The forward-looking statements represent the expectations of BCE and its subsidiaries as of today, November 3, 2004, and accordingly are subject to change after such date. However, we assume no obligation to update or revise any forward-looking statements whether as a result of any new information, future events or otherwise. With that behind us, I would like to now turn the call over to Michael Sabia.

Michael Sabia, Bell Canada Enterprises - President & CEO

Thank you Bernard, and thanks everyone for joining us this morning. I would say in the third quarter, this company had a great deal of work to do, and as a result of that, I think we have also made some very significant progress on a great many and important fronts. Overall, I would say this has been a period in which we have made some very significant investments in the future of this company, and by investments, I mean that in the very broadest sense of that term.

Let me just hit some points here quickly, in terms of the strategic objective we have with respect to Winning the Broadband Home, a substantial step up in Broadband sales, of Bundle sales of about 70% over the second quarter of this year. The pace of those sales is accelerating. We have injected I think meaningful new momentum in our Video business. We have seen solid gains in DSL, but at least equally important a continuing ramp-up in our value-added services over DSL, all of those things are important building blocks, important pieces of momentum in our plans to win the Broadband home on wireless.

Clearly the implementation of the new billing system has been one of our biggest challenges in the quarter. There is no doubt that that has disrupted some of our customers, but we believe now that we are making good progress and working our way out of what has been a very complex implementation. Despite that, 109,000 net ads in wireless.

On IP, another one of our core priorities, as you know, 60% of our core traffic now on IP. So we have achieved a quarter early our year-end target. Value-added services (VAS) in that area continue to ramp up 10% overall, in the business market, I think about 19% in Enterprise alone. We are seeing more and more of our large Enterprise customers purchasing value-added services today, about two-thirds of them. So good momentum.

With that plus my comment about value-added services with respect to our residential customers, all of that are important ingredients in our plan to make sure that this company becomes the leading communications integrator. And that is such an important part of our future. I might just say, as an aside, I think, we have also made an important investment in the quality of our brand during the course of the quarter as well with the extension of our 8-year agreement with the Olympic movement, that's an important piece of building the power and value of that brand which we believe is strategically very important, and a great opportunity for us going forward.

Turning to the performance in the quarter itself. Revenue at the BCE level up 3.3% reflecting our step-by-step plan to improve our revenue performance. Is that enough? No. Are we satisfied? No. We have more work to do there clearly. In particular, more of that revenue growth needs to come from Bell, and we're continuing to work on that. You do see some quarter-over-quarter, a continuing pattern of improvement there, but we have more to do there clearly.

EBITDA stepped up 2.2%, but really given the Aliant strike and what that cost us in the quarter, EBITDA stepped up a little over 4%. So as we make that step-by-step improvement in revenue performance, we are being able to do that at a time, and to hold our EBITDA performance, pretty much in the range that it's been in from the outset of the year. That's an important objective that we are able to ramp up our revenue step by step, and continue to hold, I think, quite strong, quite good, EBITDA performance.

So all of that, I think, is good progress in building important momentum for 2005, but I think we accomplished a couple of other things that were really important in this quarter. First, the labor agreement that we reached with our technicians, very important, and the resolution of Aliant's long and very difficult labor dispute with their technicians are both very important building blocks of the future, and the fact that those agreements are in place until 2007 is clearly an advantage for us and very important.

Finally, we started and finished in the quarter a very important employee departure program. This has been a very major undertaking in the company over the last number of months as a result. This we announced this morning, approximately 5,000 people will be leaving the company. That represents about 11% of the total work force of the company. This is not an easy thing. These are good people. These are people who have served our company well, but I believe that they are leaving with a sense of having been fairly treated, of having had their choices respected, and I think that their colleagues who remain in the company understand that, and that that is a very important message to them as well.

What we have done here is substantively important, the “What” of what we have done is important, but the “How” we have done it is at least equally important. Difficult though this may be, and it always is, as you all know, the times are very much changing in this industry. Market realities are changing. We have to get faster, simpler.

We have to put a competitive cost structure in place, and we are determined to do so. The $390 million that this would save us is a very important step in accomplishing that with some very attractive payback on a cash basis less than a year. And I think all of that reflects the fundamental commitment we have, which is to not just keep pace with the rate of change, but, in fact, to stay ahead of it, and that's what we will continue to do across every aspect of the business.

So I would say overall, this has been an unusually demanding quarter, but a great deal has been accomplished strategically. We have put some very important building blocks and very important pieces in place that will help us in 2005 and beyond, and I think given all of that, also, performed well in terms of our short-term financial objectives in the quarter itself.

Let me just turn now to a few comments on the Consumer business. Again, I think continuing progress there in bringing together and building the platforms we need to act that we use in our Galileo initiative in the company to act with the Power of One.

We have seen new tools being implemented in our call centers to further enable our people there to cross-sell and upsell more efficiently. We have seen the implementation of common order fulfillment tools across all the platforms of the Consumer business. We continue to work on simplifying One-Bill, and we will have more to say about that in the coming months. All in all, in bringing together and assembling the infrastructure we need to expand, what we're doing in the area of Bundles and fundamentally, to become better and better at the integration of services, because communications integration is so much a part of the future of this company.

On Bundles, as you can see in the numbers, we're now over 300,000 since we began this in 2003. 250,000 so far this year with the pace accelerating. Significantly more to come. We are very comfortable that we will comfortably exceed our year-end target on Bundles for 2004. The LD Bundle that we introduced is helping to drive that, you see, really on a sequential basis the step-function change in the rate of sales. We were running at about 60,000 - 70,000 a quarter, but now stepping up to a little over 100,000, so a big improvement there.

Similarly, another kind of step-function change just to use another example in what we are doing in the area of home networking. We're doubling those run rates on a week over week basis from what we were running to what we ran through the course of this quarter, so, again, strong performance and accelerating performance.

On revenues overall, many of the same trends that you have seen before in our legacy business, our local is off about 1.4%. That has been pretty steady through the course of the year. LD off about 9%. That reflects reductions in both minutes and ARPM, and if you are wondering, the LD Bundle, we believe, had a very negligible impact on this, it's calculated about $0.0018 on ARPM, so in other words, extremely modest impact and the strategic benefits of that far outweigh any of that sort of negligible benefit. So legacy trends pretty much as they were, but again the growth drivers of the business in Consumer wireless, DSL, video more than able to offset them.

One of the things you do see in the revenue performance in Consumer through the course of the quarter is that we have now left the revenue lift associated with some of the price increases that we put in place in 2003. They have now worked their way through, and that's one of the reasons why that number has come down a little bit. Overall, though, given the performance of that business, and again, continued good discipline and cost management, a reasonable step up in operating income of a little over 3%. We can talk some more if you like in the Q & A to put some more context around that number.

Turning to Mobility, I think all in all, pretty reasonable in what has been a very long string of solid quarters in Mobility, revenues up, subscribers up 11.5%. About 85%, I think, of those 109 net ads were post paid. Now, one thing that’s important to understand here is given the size and complexity of the billing platform implementation, we clearly have been managing growth in the quarter, and we have been attempting to strike what I would describe as a fair balance between the complexities and our best management of that implementation. Again our continuing interest in growing that business, so we have been trying to strike a balance there.

Again, across Mobility, good discipline in churn continues to be very strong. 10% improvement in COA. Overall, quite good performance in EBITDA up over 30%, about 33% margin at an all-time high, at a little over 45% of that despite some of the costs associated with the implementation of NM1. On the billing platform itself, you know, as I said, this clearly isn't easy, and we know that we have disrupted some of our customers, and clearly we regret that, but this has been and is a very necessary change, and a very important building block of how we will run this company going forward.

Let me just go back and take this in steps. You recall in our last call at the end of the second quarter, we talked about the importance that we assigned to ensuring that the billing engine was running accurately, and therefore we were holding back invoices until we got comfortable that it was operating well. As we worked our way through that, and then began sending out invoices, we began, and you can see it on the chart, sending out a growing volume of invoices very early in the fall and that ramped up quite substantially over the long run run-rate of about 500,000 invoices a week. It peaked just under 2 million, so as you can appreciate, quite a substantial volume and that ran for a period of about four or five weeks. Exactly as expected that drove a significant volume of calls into our call centers and that peaked over the last few weeks.We did take a number of measures which Pierre can describe, to prepare ourselves to handle that as well as we could, but certainly given the volume of those calls has been, you know, I think, it is probably fair to say a bit of a bumpy ride in terms of customer service associated with that.

Now, as you can also appreciate though as the volume of invoices now is declining and declining substantially to the point where the volume of invoices is now back to normal, we are now also seeing a step-by-step reduction in the volume of calls, and that's being reflected in a number of different indicators, and all of those indicators, as we speak, are quite positive. Now, so that no one mishears me on this, the indicators being positive, and trends being in the right direction is no cause to declare victory and we are certainly not declaring victory.

We need to continue to be very vigilant, we have more work to do, and we certainly have work to do with some of our customers, all of whom are not as well treated as we would have liked through the course of this implementation. But nonetheless, this has been a huge investment of time, and effort and focus in the company, and as I said, it will be a very important building block for us, and how we will run the Consumer business going forward.

Let me turn quickly to DSL: 96,000 net adds there in what we believe is a somewhat softer market, but pretty good performance, especially in light of the fact that, again, the Aliant strike probably cost us something on the order of about 4,000 adds, and last year's number is distorted a little bit by the “double-cohort” in Ontario with young people going to university. So regional performance, good.

Good discipline as I think we have seen across the whole business, COA down significantly, our call center performance very good and very good at being able to convert customers from basic to high speed when they call in wanting basic, where I think we are achieving a very high level of success. So connectivity, good progress, but especially good progress on services and applications. Value-added services up over 100%.

Now about 453,000 units that represents about 20% of our DSL base. I think it's probably fair to say that that as extensive or more extensive of the DSL base of any operator in North America. So that's important for us. We have made significant advances in the quality and nature and diversity of the content that we are offering over DSL or Sympatico, and implementations going extremely well. Traffic is up substantially there. The e-mail conversions are going well, so, again, continuing step by step progress in building the ability of this company to serve well as an applications and services as a company.

On Video, again, real strengthening there, I think, net adds virtually doubled from 17,000 last year in the quarter to 33,000 this year. Revenues, ARPU, all up. COA trending down on a sequential basis with more to come there, as we continue to work with our friends at EchoStar, and that will be an important initiative. That improvement in our adds, driven by a couple of things here, probably many things, but I will just touch on two of them. The 2TV bundle and the Bundle from Bell, we are finding that the ExpressVu-Sympatico Bundle is the most popular, about 36% of our total.

But the other thing that changed this quarter that helps to explain why we are where we are, I think a significant different market positioning of the video product where we are now from a marketing point of view focused much more on the programming and programming packages than on equipment and hardware. I think that's the right place to be, because at the end of the day, the product is programming, not hardware. Beyond Q3, while you don't see this in the results of the quarter itself, the changes that were announced at the end of the quarter really constitute a major revamping of ExpressVu in terms of simplified pricing, simplified programming packages, simplified electronic program guides, all of those things great examples of simplification of work.

Very briefly, on VDSL, some growing momentum there. We said now in 220 buildings, very much on track for the target that we set for the year of 300 buildings. Significant step up, I think we have doubled the number of buildings provisioned now to 105. Equally important, perhaps more important, as we begin now to market more and more buildings, we are seeing a pretty reasonable penetration rate of the buildings marketed in the quarter. It is something just over 20% on average for the whole base, something in the 16 to 17% range overall. So pretty encouraging for the new product area for us and we feel pretty satisfied with that. But again, as everywhere, more work to do.

Very quickly, just let me turn to Business. Three to four points here, I guess, one on revenues. On the surface, I think, you know, what you see there is a continuation of the trends that we have seen. A lot of strength in IP connectivity up 35%, wireless up 13%, value-added services across business overall up over 10% and that balances the continuing pressures that we have seen in the legacy area of LD off 9% and legacy data off more than 10% and hence, the balance between those strengths in the legacy decline leads to the appearance of the flat revenue picture that you see there.

But I just remind you and we have talked about this before this year that below that, particularly in Enterprise, are a number of businesses, a number of areas that we have exited, about $50 million worth in the quarter, which was like cable and other things that we talked about in the past. Now I mentioned this not to suggest, you know that the revenue picture isn't flat. It's flat, but when you think about the trajectory of the business as we think about the trajectory of the business, we are seeing the beginnings of an underlying change there, and that is affecting our outlook and our thinking about 2005, where we do think we see the elements of a different picture.

Second point in business - very good discipline across both SMB, Enterprise, National Markets, their COGS, in Enterprise alone improved $70 million, good progress on SG&A, overall contract profitability order-to-cash improvements and all of those things, a lot of hard work across the whole organization there has contributed to I think a very substantial improvement in operating income at 27%.

In Enterprise, the third point, good progress in Galileo, about 40%, I think, of total data now represented by data and applications over IP. That's double what it was in 2003, so very good progress there. Continuing to roll out new products, I won't mention them all. Isabelle can elaborate on that but IPVPN clearly a centerpiece flagship part of that. Same day continuing to rollout whole series of new value-added services which seem to be getting quite good traction that I mentioned 19%, a step up in that area.

And then finally, continuing disciplined effort on our part to exit some of our legacy businesses where we are stopping new sales in a variety of different products; digital private lines, Datapac in the coming quarter, in the fourth quarter, all of those pieces are bringing the family of our data products down from seven families of data products now to about three as we simplify and go forward with our Galileo agenda in that area.

Small and Medium Business, the growth continues, despite about an 8% step down in long distance but we are seeing good growth in wireless, again, value-added services. I think we sold 23,000 units in the quarter, that's twice what we did throughout all of 2003.

Again, I think building very good platforms for the delivery of our Technology Advisor, Virtual CIO strategy there, working with a small company that we acquired Charon that we are enabling our salespeople to integrate more effectively IT and telecom we are seeing significant revenue there, about 20% as a result. Good work with Microsoft and hosted applications. The announcement with Aliant of the creation of an innovation center, all of those things, again, important buildings blocks to advance the company's agenda in the coming period.

And then finally, very quickly on Globemedia and Telesat. Globemedia had excellent ratings, continues really all of the three most important hits of the fall season on CTV, and those ratings have helped drive revenue performance in what has clearly been a softer advertising market in the third quarter. We do see significant strengthening in the fourth quarter in advertising and that does leave us with a positive outlook for Globemedia for the current quarter and beyond.

Very good increase in operating income and EBITDA. EBITDA up about 19% and that accommodates some important settlements that we reached on some long-standing disputes, with Videotron, with Shaw etc. so overall quite good. Telesat, Anik F2 up and operating, so that is a major success there. I think the financials and the numbers in Telesat speak for themselves. So enough from me for now, but I look forward to your questions. Siim, I will turn it over to you.

Siim Vanaselja, Bell Canada Enterprises - CFO

Thanks Michael and good morning, everyone. I'll start with just a few more details at the higher-level financial picture view. On an overall basis, BCE and Bell Canada revenues increased for the third consecutive quarter. Year-over-year, BCE's consolidated revenue growth increased 3.3%, which is a steady improvement over the second quarter growth of 2.3% and first quarter growth of about a 0.5%.

BCE's revenue growth for the third quarter reflects higher revenue growth at Bell, which had 1.2% growth year over year, and as well a higher revenue contribution from Telesat, BGM and CGI, with CGI's revenue growth really resulting substantially from its acquisition of American Management Systems.

Aliant estimated that its work stoppage negatively affected revenues by about $17 million in the third quarter, and therefore BCE's revenue growth, it's 3.7% in the absence of that Aliant strike. With the new collective agreement in place and the unionized employees back to work, Aliant is positioned to regain momentum in Atlantic Canada.

I should mention that the revenue trajectory in our Wholesale business, which Michael didn't talk about, continues to improve. In this quarter, wholesale revenues declined by about 1.5%. That compares to declines well over 10% in the past few quarters, so the traditional Wholesale business drivers are showing some stabilization. In particular, I’d say that in Wholesale long distance, minutes are trending up slightly, but we're still seeing a lower international component to those minutes and those carry higher average revenues per minute.

On the EBITDA side, growth this quarter was 2.2% at BCE and 2.1% at Bell. That was accompanied with EBITDA margins of 40.5% and 44.1% for BCE and Bell. EBITDA growth at both BCE and Bell exceeded 4% before the impacts of the strike at Aliant, which was estimated to have a dampening impact of EBITDA of about $35 million.

I will now turn to our earnings performance on the next slide. Our statutory EPS was $0.09 in the third quarter but before gains and restructuring charges, our operating income was up $56 million in the third quarter and therefore our EPS contribution was $0.52 per share and that's a $0.04 improvement over the third quarter last year and would represent a 15.6% overall return on equity.

We completed two significant sales in the quarter. We realized about $217 million of gains from the sale of our 16% interest in Manitoba Tel. That generated proceeds just under $600 million at an average price per MTS share of just under $43. Secondly, we also sold our remaining 3% interest in the Yellow Pages Group. That triggered proceeds of about $123 million, and we realized the gain of $108 million. So in total, those two gains contribute the $0.35 to EPS that you see on the chart.

Most significantly however in the quarter, we incurred restructuring charges and other charges in the quarter that totaled $725 million after tax. That charge, as Michael indicated, relates to our employee departure program and it also includes about $45 million of charge in respect of some excess long-term lease space that we don't expect to fully recover through subleasing, so we took out a provision there. Our Employee Departure Program is a very major step in enabling our move toward substantially lowering the cost operating models for Bell, so let me take you through the details of that program some more.

As you know, we announced the two-phase workforce reduction plan back in June. Separation arrangements have now been entered into with the 5,050 employees. They will be leaving the company over the next few months. About 1,800 of those are management employees and 3,250 unionized non-management employees are also leaving the company. As Michael said, I think that represents about 11% of the total work force excluding Aliant, and Aliant is expecting another 400 employees to accept the early retirement offer, which it announced last week.

So we're very pleased with the take rate for our program, and as I said, it's a crucial step, just a very crucial step in delivering our plans to generate substantial cost savings as we move to a much simpler network infrastructure and as we streamline all of our processes, our OSS and the way we interface with our customers. And as we said before, our objective is to reset the cost structure of the company by taking out at least a billion dollars, and hopefully more of annual run rate operating costs by the end of 2006, and I can say that we're well on our way to doing that. 11% of the employee base certainly does sound substantial, but I can assure you that we put in place the appropriate plans, business unit by business unit to manage the transition in an orderly way, in line very much with the delivery of our IP migration and process reengineering initiatives.

The overall gross cost to the departure program is $985 million and the cash component of that is $314 million. That's for severance payments, which will be paid as employees depart. Most departures will take place around year-end. We calculate that those departures will save us about $390 million in salaries, bonuses, paid benefits and other direct costs on an annual basis, and therefore, the pay back period on that cash basis is certainly less than a year and quite attractive. Out of the $390 million in annual run rate savings, I would say about 75 to 80% of that is operating savings, and 20 to 25% is savings that would be on account of capital.

The larger portion of the charge, about $670 million pretax, represents the cost of enhanced benefits and post employment benefits that we granted under the early retirement component of the plan, and that cost is going to be borne by the Bell pension fund and it will reduce the pension surplus of the plan. You may recall that at the beginning of the year, our Bell pension plan had a solvency surplus of about $900 million. We will undertake a formal actuarial evaluation of the plan again at year end, and we expect that with the surplus reduction and based on the current asset returns, the pension fund should still remain in a positive position, but significantly reduced surplus position.

So those are the details of the work force reduction plan. Clearly, with the program finalized, the new labor agreement also in place with technicians through to 2007, the benefits will be very substantial and not just in terms of cost savings, but also in terms of moving the company towards a much more flexible and mobile work force. Before I leave this slide, I will also mention that we expect to report, as Aliant announced, the further pretax restructuring charge of about $40 million, relating to Aliant's early retirement plan in the fourth quarter.

This was also a very successful quarter in terms of cash generation for the company. We realized free cash flow after common dividends of $673 million in the quarter bringing our year to date free cash flow to close to a billion dollars and essentially hitting our target for the 2004 year. And when you compare it to last year, this year's free cash flow has been generated mainly from recurring sources. The non-recurring components this year consist of really two things, the $75 million cash settlement from MTS, and then secondly about $179 million of insurance proceeds earlier in the year from Telesat.

Through the year-to-date in September, we have essentially achieved the same level of recurring free cash flow as last year. That's pretty good, given the temporary working capital impact that we're still feeling relating to the implementation of the new billing platform, and on that front, I think Michael reviewed the progress that we've made, importantly accounts receivable balances are expected to return to normal by year end.

Now all that said, we are not expecting any appreciable increase in free cash flow for the fourth quarter with higher than expected CAPEX levels in the fourth quarter at Bell and also at Aliant, in particular, as it catches up after spending more aggressively after its strike and will also have higher than expected cost of acquisition expense, given the seasonally higher growth in subscribers that we're looking at. We should, therefore, still be out about a billion dollars of free cash flow by the end of the year before we get to year-end. Our free cash flow in the fourth quarter and in the first quarter next year will also be impacted by the funding requirements of the cash component of the employee departure program that I spoke of.

CAPEX, this quarter, you can see $811 million or 17% of revenue. That's a level similar to last year. On a year-to-date basis, our CAPEX spending has increased very much according to our plan as we continue to invest in strategic initiatives like our national IP-MPLS network, our DSL, VDSL rollout and so forth. And our operating performance this quarter did lead to further improvement in our net debt to capitalization ratio improving to 42.1%. That's an improvement of close to 2 percentage points since the beginning of the year.

I'll also mention that our accounts receivable and the accrued liabilities, if you look at our balance sheet, have increased this quarter, nothing unusual there. That's attributable to a couple of things. First, the accrued -- the accrual for the cash portion of the employee reduction program, as well as to, what I call kind of a normal seasonal build-up in the third quarter for accrued interest in taxes. Much of our debt carries interest that's payable semi-annually in the second and fourth quarters of the year. Also, our tax accruals are up significantly higher than at the beginning of the year, and that's normal given that we didn't have an installment base for last year.

On a consolidated cash balance basis, at the end of the third quarter, you will see $1.4 billion reported on our balance sheet. The closing of the 360networks-Group Telecom acquisition is expected in November. That will use about $275 million of that cash. We also have some scheduled debt maturities coming up in the range of say $350 million, and we will be incurring the $300 million-plus cash portion of the employee departure program around year end, but we will have more to talk about at our December 15 analyst day, and we will be reviewing at that time our cash generation and cash deployment plans for 2005 with you in a great deal more detail.

So let me conclude then with some comments on our priorities and looking out to what's left for the balance of the year. First on priorities, you know, our focus is clearly going to be on driving customer acquisitions and Bundle sales as we enter the peak season for subscriber additions, and certainly that's going to help drive revenue growth into 2005.

Secondly, we're going to complete our ongoing CAPEX program, including as I said some catch-up at Aliant, continue laying the strategic groundwork for 2005. We expect capital intensity will peak in the fourth quarter just as it did in the fourth quarter of 2003, and lastly, we'll get fully caught up in our wireless segment on accounts receivable, with invoicing cycles now back to normal, and with the peak of the call center inquiries behind us.

In terms of our guidance for 2004, no changes there, still expect to continue to improve on revenue growth rates in the fourth quarter. EPS growth in 2004 will be within our guidance, mid to high single digits, notwithstanding the higher levels of customer acquisition and activation expenses anticipated in the fourth quarter and the Aliant strike impact that we've borne. And we expect to be able to maintain our $1 billion dollars of free cash flow that we've generated year to date, recognizing some of the higher needs that we anticipate for the fourth quarter, and lastly, on capital intensity, we will fall within the guidance range of 17 to 18%. So with that, I'll turn it back to you, Bernard.

Bernard le Duc, Bell Canada Enterprises - VP Investor Relations

Thank you, Siim. We would now like to move to Q&A. Please, as always, try to restrict yourself to about one question. We will try to answer rapidly and make sure we cover everybody. So operator, could you just remind us of the logistics of placing a question and then move on to the first person in the queue.

Questions and Answers

Operator

[Operator Instructions]. The first question is from Richard Talbot of RBC Capital Markets. Please go ahead.

Richard Talbot, RBC Capital Markets - Analyst

Thanks very much. Good morning, I would just like to understand a little bit more about the implications of the restructuring provision. I have actually got a couple of parts to the questions, which are relatively short. The $390 million of savings, is that something you would expect to realize in '05? Second point would be, do you expect a pension expense increase in '05 versus '04 and will there have to be any kind of cash top up to the pension?

The third point would be - is the $390 million figure, is that net of any hire backs? And then finally I guess a question which would be the $390 million of savings, which includes some CAPEX as well, if you could have any additional comments on how you see that ramping up to a billion dollars, I appreciate it, thank you.

Michael Sabia, Bell Canada Enterprises - President & CEO

Let me touch on a couple of points. Richard, I would say we are not anticipating a substantial amount of, what you describe as hire-back activity in 2005. In a few areas, particularly within our operations group, there will need to be very some very short time part- time kind of arrangements, in selected areas I would say something perhaps through 2005 on the order of, say, 10% of the total number that the work force is being reduced by that is a very temporary and at a very different cost structure than would otherwise have been the case, so other than that, Richard, we would anticipate the overwhelming portion of that number to be relevant to us and to be helpful to us in 2005. Siim, do you want to talk about pension expense?

Siim Vanaselja, Bell Canada Enterprises - CFO

Richard, to your question of whether pension expense will increase in 2005,it certainly isn't going to increase in any material way as a result of the downsizing that we have announced, but because we do bring into our earnings the impact of pension asset returns over a four-year period, and we have had a couple of low years of return, that will continue to have a bit of a negative drag on pension expense going into 2005, and we will quantify that for you on December 15th.

Your second question was, are we going to require a cash top up? As I said, our best estimate right now is that we're going to end the year with a positive position, in our pension fund, and, that's going to be sensitive, between now and the end of the year to what kind of rates of return are generated for the balance of the year, and we'll see the impacts of that. It's not our expectation at this time that we would be funding for 2005.

Michael Sabia, Bell Canada Enterprises - President & CEO

And then quickly on the billion, this creates an important piece of that amongst the other things that occur and we'll talk more about that when we see you in December to talk about the future, but certainly in areas like procurement, supply, costs, there are substantial opportunities for us to improve cost performance of the business. We will lay that out for you when we see you in December with a step by step outline of areas where we see those savings coming as Siim says, essentially on a line item and expense line basis.

Richard Talbot, RBC Capital Markets - Analyst

OK. Thank you very much.

Operator

Thank you, the following question is from Vince Valentini of TD Newcrest. Please go ahead.

Vince Valentini, TD Newcrest - Analyst

Thanks very much, questions on your data revenue. I notice it is up 1% year-over-year but you mentioned in the text that Consumer data is up 20%, suggested that the business component of data is down 3% or so. Maybe you can help us understand that a bit better and talk about some of the cabling and Hydro-Quebec issues. Do those fall into data, and can you give us an underlying growth rate excluding those somewhat non-recurring factors?

Michael Sabia, Bell Canada Enterprises - President & CEO

Yes, we can. Isabelle, why don't I turn to you.

Isabelle Courville, Bell Canada Enterprises - President, Enterprise Market

You're right, the business numbers, are down 2% on for that. And if you exclude the items the - well I'll include everything, include those one-timers, the data revenue are up 5%, so that is the operating revenue for the business. So, the two issues, one is the loss of a major contract was done in a way that generated a lot of revenue that's Hydro-Quebec, but the other one is really a decision we made last year to exit a portion of our cabling business, the electrical portions, we have talked about that many, many times and the bulk of the work has been done in the third quarter last year towards the inputting of this GTAA, a construction of the GTAA airport in Toronto. So all in or all out if you prefer is a 5% growth, we are satisfied that there is a lot of momentum in the IP area; Michael mentioned 35% growth year-over-year, starting to offset the decline of legacy.

Vince Valentini, TD Newcrest - Analyst

Great, thank you.

Operator

Thank you, the following question is from Greg MacDonald of National Bank Financial. Please go ahead.

Michael Sabia, Bell Canada Enterprises - President & CEO

Hi, Greg.

Greg MacDonald, National Bank Financial - Analyst

A quick question for Michael on the strategic side. We are starting to see more companies, primarily U.S. focused, accelerating in their fiber deployment strategies. Some of them are talking more about fiber-to-the home. I wonder if you might comment. Do you have a concern that the current ADSL 2+ plus strategy will not provide enough bandwidth to compete effectively with cable in your non-MDU strategies and is there a chance that fiber-to-the-home or even VDSL as a strategy could be announced as a result of that?

Michael Sabia, Bell Canada Enterprises - President & CEO

Greg, I don't think there's a silver bullet answer to that question. We believe that the plans we have of deploying 400 OPI-DSLAMs so this year, well we will do many, many more. Next year, we will talk about that when we see you in December but it will be substantial multiple of that number. That, we believe, has the capability to deliver significant enhancement in our bandwidth capability and as we think about next year, we're also thinking about the ongoing work that we do and ensuring the quality of copper in the network and all of those things being able to fully employ the fiber-to-the-node or strategy that we are utilizing today, but, you know, are we increasingly thinking about, for instance, on new builds, things like that, Greenfield areas of utilizing fiber?

Of course we are --we think that's the prudent thing to do while we continue to look for opportunities to cost effectively deploy more fiber in the network? Yes, of course we will. But we continue to believe that the right path for the foreseeable future is to push bandwidth into the network using the fiber-to-the-node plan that we have, and therefore, I think I can say you will not see a substantial step up in CAPEX associated with fiber-to-the-home deployment for 2005.

Greg MacDonald, National Bank Financial - Analyst

Just as a quick follow-up, Michael, how much of an influence does the IPTV initiative with Microcell have on your strategy?

Michael Sabia, Bell Canada Enterprises - President & CEO

Well, actually, we are doing that with Microsoft, not Microcell.

Greg MacDonald, National Bank Financial - Analyst

Sorry.

Michael Sabia, Bell Canada Enterprises - President & CEO

Well, a little more confidence there. Well, it's an important piece, and we are, you know, we now have prototypes up and running, and it's a --I must say it's a pretty impressive product and I think provides, as we integrated into our ExpressVu product offering and it offers a pretty compelling customer experience. We are encouraged by what we are doing. We are especially encouraged by the decisions of some of our colleagues in the United States, in particular, SBC to join with us and others in our work with Microsoft to drive this thing forward.

I think this is becoming a very high priority in Redmond, and that's important to us, so we very much look forward to that, and hopefully we will be able to be commercializing some of that and showing the power of that capability in strategically selected focus areas next year as we continue to roll out our presence in video and the range of delivery technologies that we will use to be a presence in the video market.

Greg MacDonald, National Bank Financial - Analyst

OK, thanks. I look forward to that.

Operator

Thank you. The following question is from Peter McDonald of GMP Securities. Please go ahead.

Peter MacDonald, GMP Securities - Analyst

Thank you. You talked about the $5 pricing plan having a negligible impact in the quarter compared to the benefits that it offers but I am wondering more on the impact that will have on the perceptional value on the rest of your business. And if you look at the retaliation by Rogers and Primus and particularly with Rogers and you consider their launch of telephony in '05 and the likelihood that competition will be based on simpler "One-Bill" Bundles rather than segmented pricing. Is there not a risk that the $5 plan is simply just set a lower price point for future competition when you know the cable guys have clearly signaled that they would prefer not to compete on price, but obviously will have to go to a lower priced bundle compared to what you are offering those services?

Michael Sabia, Bell Canada Enterprises - President & CEO

It's not about competing on price, it's competing with the quality of the services and the customer service that we provide and the quality and ingenuity that we use and how we integrate those services into the future as we win the Broadband home. So, it's not about price. It's about simplification and that's the competitive strategy of this company, and it will continue to be. On long distance, the fundamental proposition on our part on long distance is that business is, as you know, and I think everyone is persuaded of this, structurally declining. The issue for us is in effect, transforming or transferring the residual value of our long distance business into other areas and other platforms today that we believe have greater long-term value to us as a company so, strategically, that's a very important decision on our part, and you will see it reflected in other areas of the business as well.

So I really want to encourage, I'll turn to Pierre for further comments but I really want to encourage you to think about the LD Bundle not as a pricing issue. The LD Bundle is a strategic issue from our prospective with respect to converting the value of the structurally declining business into other platforms. It is very different than the way you articulated it.

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

I can only reinforce what Michael said which is let's not forget the requirements to obtain that $5 price to buy multiple services from Bell and sign a long-term contract. And I think you are seeing something similar from Rogers may be the concern we have there is that the percentage discount that they're attaching to their bundle which applies to everything, which is even more aggressive than ours, but that's a requirement to attach yourself to Bell for multiple years is not setting a price, in terms of market price, but much more as

Michael said, asking a customer to give us something and get something in return which is the $5 LD.

Now the second thing to remember that type of pricing is already out there in the market by Voice-over-IP players, and it's clearly showing the trend of where it's going, and I think you know as you look at the offering coming out in North America from Voice-over-IP players, long distance is something that's just given out for free or for flat rate with very little limitations.

Peter MacDonald, GMP Securities - Analyst

Is it fair to say then that the risk -- that the hurdle to receive the plan won't drop considerably or even marginally within the next say year or two years?

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

Well, two things. First, overall market, that market in terms of LD is still coming down fast, so regardless of our bundle action, it's coming down, and it's actually from what we see all over the world. But secondly, we will do everything we can to have more two and three product customers at Bell. So, drop in LD is largely going to be because of this I don't think so but anyhow it's a part of it and we will try to have as many customers on the bundle as we can for sure.

Michael Sabia, Bell Canada Enterprises - President & CEO

But in the question you know on that point is whether or not -- what Pierre has said about having customers convert and make a commitment to the company with respect to other products. That logic is going to continue.

Peter MacDonald, GMP Securities - Analyst

OK. Thank you.

Operator

Thank you. The following question is from Peter Rhamey from BMO Nesbitt Burns. Please go ahead.

Peter Rhamey, BMO Nesbitt Burns - Analyst

Yes, thanks. Good morning. A two-part question. One focusing on the -- Michael, you made an interesting comment with regards to data and the outlook for the business side, looking out, and I'm just wondering whether what I took away from that comment was that you are feeling better about business than you had been in a while on the revenues side. I'm wondering whether that's because as Siim had pointed out Wholesale is less of a drag on your revenues, or is it more to the fact that perhaps Enterprise has actually improved? And I note that some carriers in the U.S. have indicated that Enterprise spending may be up.

Michael Sabia, Bell Canada Enterprises - President & CEO

Thanks, Peter. I can't resist the opportunity to say this. I am feeling better not just about our Enterprise business I am feeling better across the board given the amount of progress the company has made in the third quarter. So, thanks for the opportunity for me to say that.

Peter Rhamey, BMO Nesbitt Burns - Analyst

You are welcome.

Michael Sabia, Bell Canada Enterprises - President & CEO

Thank you. I think your perception is right. My comment is not driven by improvement in Wholesale, per se, although we do see a better performance there as well. Now, we see that as we look on an underlying basis in the performance of Enterprise and the traction that's occurring and as we work our way through a number of these areas where we have exited businesses, exited contracts, etc. We do see some reason to believe that the outlook for our Enterprise business is meaningfully better today than, say, six or eight months ago. Isabelle, you want to elaborate?

Isabelle Courville, Bell Canada Enterprises - President, Enterprise Market

Well, maybe just put in perspective the key number that has been mentioned and I think they are the key numbers. The first strategy is going to move rapidly to IP. And that produces very good results already now. I think the 35% of IP connectivity is an outstanding number. I feel pretty good about that. Of course that comes with some re-price in the market. And the re-prices are substantial. But our strategy is to move as fast as possible so we are behind the curve and we are moving up into growth mode as early as possible. The strategy for now is progressing very well. The other data point I just mentioned and is very important is the percentage of businesses that run over IP were already at 40% and that's key too. Because when that number goes up and passes the 50% mark, you can see that the strategy we have produced get the right results.

Another number that is mentioned that is key is that the business is changing from pure connectivity to solutions where there is 19% growth in those solutions businesses. Let me give you an example on the kind of deal that we are doing. For example, we signed an outsourcing agreement with our friends at CGI, still contracts are substantial as $160 million per eight years. We signed this I think in the press release that you have been a management contract with a new product of ours Enterprise Workflow Management where customers will give up the full management of their networks without necessarily outsourcing their assets. So, another substantial contract and long-term contract.

A few examples of IP migration with Atomic Energy of Canada, a huge international IP contract that we signed a $68 million contract for the next three years. So a lot of momentum on that front. And on the VAS, the contract sizes are smaller but there are a number of them in the call center area, and in the wireless IS/IT area with, for example, the Ontario government, where we signed a deal that gives the ministry the ability to, control their natural resources and then the firefighter groups over there as well.

So a lot of activities are in the solutions area, and what is very key, I think is that are customers really gave Bell and Bell Enterprise in particular, permission to market, permission to deliver those solutions. And we are ramping up, and I think I will close with one number that for me is very key - 60% of our Enterprise customers now do buy those new solutions from us, so we are clearly in that market for real.

Peter Rhamey, BMO Nesbitt Burns - Analyst

Right. Thank you very much.

Operator

Thank you. The following question is from Daniel Henriques of Goldman Sachs. Please go ahead.

Daniel Henriques, Goldman Sachs - Analyst

My question is about wireless growth. When do you think you will be in a position to potentially accelerate wireless growth, once again, without fearing potential negative consequences from the billing system? The reason I ask that is because - just would like to know when you have this flexibility if you choose to maybe accelerate growth, because maybe some other players are tied up with consolidation. If you could just comment on that, please. Thank you.

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

In terms of wireless growth, while we may have focused more on resolving some of our billing issues, I think we believe that we have delivered some substantial growth and still are on track to deliver that. Now we are getting into Q4, so clearly that's a large quarter for any wireless service provider, and we have no intention of slowing down for Q4, and we believe some of our billing issues are over, and can deal with that. So, it is obvious to say that I don't think our performance has been affected that much in terms of growth and clearly Q4 will be an important quarter for all of us, in fact, and I have all intentions to win the quarter.

Daniel Henriques, Goldman Sachs - Analyst

So in the fourth quarter we shouldn't expect any -- measures to basically try to still manage growth because of the billing system? You're back to what would be more normal strategy in terms of growth?

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

Correct.

Daniel Henriques, Goldman Sachs - Analyst

OK. Thank you.

Operator

Thank you. The following question is from Dvai Ghose of CIBC World Markets. Please go ahead.

Dvai Ghose, CIBC World Markets - Analyst

Yeah, thanks very much. A question on your wireless results, which, given the billing system challenges, I thought the net adds were quite decent. I though the return and margin were very good. But your ARPU is flat year-over-year, all your peers are showing ARPU growth. You have done some quite aggressive things in October, in terms of promotions. You are publicly admitting to per second building now for corporates in the West. And you haven't matched Rogers and Telus's voice mail price increases. There is a lot of growth in this industry, I'm wondering why you seem to be satisfied with the third highest ARPU in the sector, and a 5% discount to

Rogers today, let alone 18% - 19% discounts for Telus.

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

First, I don't think we have changed our pricing strategy, so, for months and years we are on very similar strategy. That strategy, I think up to now, has produced solid results, a very solid improvement this year. I don't think a quarter will make winning or losing the business over time, so I take your point, but you know we're working on a long-term strategy here. Under where we're going to get, and how we're going to grow, and how we're going to retain customers in the long term, which are on the trend side, I think we are still seeing, that we are having, I think, you know market leading performance. But on this, let me address your point.

First, on the per second billing, that you're mentioning, which is related to large Enterprise deals. I think there you understand, that those deals are all unique and they are all on a one on one basis, and in our case even they are often combined with other parts of Bell Canada in terms of doing an integrated deal, so there is other stuff that gets into the equation when we sign with a customer, and I don't think you can look at it in isolation, and that some specific, one in the West versus the East, or whatever.

So on that side, I think I am less concerned, and I don't think that you are seeing a reflection of that in our results because of their size, but secondly, in terms of ARPU, you know, I still think at the end of the day, our ARPU performance is good. You know, post paid went up by a dollar. However prepaid went down by a dollar. That's due to less usage, so, but at least the right one is going up. The more profitable one is going up. And with that, we're turning some solid margin performance, I think a solid growth and solid improvement and data revenues.

And in terms of price changes in the business and some, what you call aggressive pricing action in October, I don't think they had impact on these results, but secondly, you know, the wireless market, as any of our other markets and that you know very well, is very competitive. From time to time one is in the lead, in terms of pricing action. Their short-term when often, and you know, we have to look at it in all the rate plans and on the full performance of the company, which I think we are looking at as well, but all this to say that, you know, I think our results are solid.

I think we are looking at the year results also, and year over year, you know we think we are going to continue to improve our performance. And again, we haven't changed our pricing strategy in terms of turning more aggressive or not, you know we are looking at the fundamentals of the business, maybe there are some differences with our competitors in terms of acquisition costs and discounts at the beginning versus what we ask our customer to pay in terms of flat rate or additional charges over time, and that's for additional pricing action, I think, you know we're going to complete our billing conversion and then we'll see.

Dvai Ghose, CIBC World Markets - Analyst

OK, that sounds good. Can I just quickly follow up on wireless with the Virgin deal and CDMA push-to-talk initiative. It doesn't look as if either is going to be launched this year. I am wondering if you can give us a revised timetable? And also, do you have a qualification of the billing system issues, in terms of impact on wireless revenue or EBITDA?

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

Yeah, at least up to now, in terms of the billing side, I don't think there is any material impact that we've seen in the business in terms of EBITDA, in terms of revenue as well. It's hard to say, I would turn as you see in the result. Our churn numbers under change and we are performing in similar ways than our competitors, so nothing there, I think that we have seen up until now. As for push-to-talk, and Virgin, I think Virgin has not announced the date of its launch, and, you know we are working with them, but I am just again getting the Wholesale revenue from Virgin, when they launch. So I think you can expect sometime next year since we haven't seen them until now.

As for push-to-talk, you know we are starting a trial of it, to make sure that, that product is working the way we want it to work, and that it is competitive with the market and meeting our customer's requirements, or what they are telling us the requirement is, so we'll launch as soon as we are ready on this one, but clearly not sure we want to conflict with what we're doing right now in terms of Q4 and closing on some of our billing issues as well.

Michael Sabia, Bell Canada Enterprises - President & CEO

Dvai, you were asking a question about some of the direct expenses, I may have misinterpreted your question, some of the incremental expense associated with the implementation of NM1. I think in the order of magnitude is something in the $6, $7, $8 million range, for us, in the quarter, in terms of incremental expense. We try to manage the situation as best we can.

Dvai Ghose, CIBC World Markets - Analyst

OK. Thanks for the clarification. Appreciate it.

Operator

Thank you, the following question is from John Grandy of Orion Securities. Please go ahead.

John Grandy, Orion Securities - Analyst

Let's talk for a moment about the ExpressVu business, and you signaled that EBITDA is turning negative as a result of the required investments for the MDU strategy, which I guess is not a surprise. I wonder if you could dig down deeper for us in terms of what sort of costs are being incurred at this stage. Is it primarily marketing? Is it installation and to what extent are costs being capitalized to see as you roll this out?

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

Well, two things. First, in terms of VDSL, and our MDU strategy, which is expanding fast, what you are seeing in the video results, which include especially in VDSL, a portion of the negative EBITDA performance is indeed due to our growing of that business, which is a very competitive market and the cost of acquisition of customers mainly due to subsidy on set-top boxes and things like that to match what our competitors are doing.

I can tell you it's a very aggressive market. For some of the MDU's we are seeing our competitors offering two free VDR to their customers, which is something that is very, very aggressive, so no doubt it is a very competitive market, so that's a portion of the negative EBITDA on video. The other portion is the larger number of activations that we have done in ExpressVu, which we think is on track now to grow faster and we are working hard with customer activations on the ExpressVu side as well, I have signed a new deal with EchoStar to help us take costs down and new hardware and all this stuff. You have seen as well our new pricing there, which is the repackaging of our pricing and is not price decreases I think we have showed some of you or all of you some of that in the past few weeks.

Michael Sabia, Bell Canada Enterprises - President & CEO

John, I want to add one thing. One of the phrases you used made me think you might be trying to draw a conclusion that from the perspective of our video business that we are entering a negative EBITDA zone and we are going to stay there. That would not be true, and we will talk more about our outlook for '05 when we see you and talk to you on December 15th. I think you will see there that that is not an outlook that we have for our video business going forward, so you shouldn't draw any conclusions about trend here.

John Grandy, Orion Securities - Analyst

That's good to know. One brief follow-up, you say that you are no longer offering ExpressVu services to customers who don't take a contract for at least one year. Can you tell us what percentage of your customer base is on contract today?

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

Of the normal customer base, I think we have to look at that and get back to you, but on the current activation and this year's activations, clearly we are at 85%, and right now, about all the customers are signing contracts.

John Grandy, Orion Securities - Analyst

OK, thank you.

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

I think a large of that proportion are on two year contract.

John Grandy, Orion Securities - Analyst

Great.

Operator

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

Glen Campbell, Merrill Lynch - Analyst

Thanks, just a couple of quick ones. On Telesat, could you talk about how the new satellite will impact revenues going forward? And then my impression from what you said earlier is there is no ARPU impact from the billing system issues. Can you confirm that?

Michael Sabia, Bell Canada Enterprises - President & CEO

Well, Telesat, you know, again, we'll have more to say about that in December, but you will see, but not dramatically in '05, realistically from the Ka-band capability of F2 that we will begin to see some revenue impact as we go through the year. There is further work to be done with respect to the terrestrial side of F2 and the terrestrial side of the high-speed Internet capability that Ka will offer. That is being done through the course of the first part of next year, so by the time we're in revenue in full operation point of view in a commercial sense, it will be a little bit into next year and hence, the revenue impact will not be dramatic in a Telesat context, but it will again we will elaborate quite a bit on that when we see in December.

Glen Campbell, Merrill Lynch - Analyst

And on wireless, can you talk about ARPU and whether there are any sort of billing credits or other issues related to the system?

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

In terms of ARPU, in the third quarter, in terms of usage has no impact -- it is not impacting the service to our customers, which is the largest part of the ARPU. In terms of if there is some possible impact, as our call center agents did not spend as much time trying to sell customers traditional value-added services or options things like that. In terms of bad debt and credit and things like that, we haven't seen anything material in the quarter.

Glen Campbell, Merrill Lynch - Analyst

OK. Thanks very much.

Operator

Thank you. The following question is from Joe MacKay of Desjardins Securities. Please go ahead.

Joe MacKay, Desjardins Securities - Analyst

Good morning, guys. It's been some time since you have declared the Globemedia and Encore, and they continue to do pretty well in their operating environment, can you update us where you are in terms of your thinking on that asset or it fits into the company right now?

Michael Sabia, Bell Canada Enterprises - President & CEO

No need to update. Thinking hasn’t changed.

Joe McKay, Desjardins Securities - Analyst

OK. Thank you.

Operator

Thank you, the following question is from John Henderson at Scotia Capital. Please go ahead.

John Henderson, Scotia Capital - Analyst

Good morning. I wanted to ask the follow-up question, which you invited, on adding some color around the operating income growth of just 3%. If you could provide some of the impacts year-over-year that explain that.

Michael Sabia, Bell Canada Enterprises - President & CEO

I will make a couple of comments and I'll turn to Pierre in the event he wants to elaborate on that. It's a whole series of things, John. First, the year over year comparison gets affected a little bit by the blackout of last year at end of the summer in August in Toronto, that had an impact in driving a significant of incremental, long-distance and another things, so that is one. Second, just to the same point I made with respect to the revenue performance, that there were a number of price increases put through in 2003, and they have now worked their way through on a quarter over quarter basis, and therefore, you don't get the revenue lift associated with that, the operating income or EBITDA lift associated with that, so that too is a factor in the operating income performance of the business.

Pierre, do you want to elaborate?

Pierre Blouin, Bell Canada Enterprises - Group President, Consumer Markets

I think you just stated the main reasons, and those account for 7 or 8% of the change quarter over quarter, and that's in addition to increased activation, particularly in ExpressVu, which are having some impact. But at the end of the day, our business, in terms of growth in activation and the trend that we have followed is still and exactly the same spot as we were in the previous quarters and those year over year differences due to price changes are really the main impact, nothing fundamental is changing the business.

John Henderson, Scotia Capital - Analyst

OK. That's great. Thank you.

Operator

The following question is from Jeffrey Fan of UBS. Please go ahead.

Jeffrey Fan, UBS - Analyst

Thank you very much and good morning. I want to ask a couple of questions, related questions on the wireline business side and specifically about the margins. The first part is sort of more short term. Going into 2005, you mentioned $390 million savings as a result of the headcount reduction. In the past, I think you talked about trying to maintain margins in 2005 versus '04. Do you think the $339 million in savings helped you maintain the margins, or do you think you will be able to help increase that going into '05? And then the second part of the question is more long term. Michael, you talked a lot about being a communications integrator. I guess when you look at some of the IT's, services industry, integrators tend to generate lower margins because a lot of their products that they sell, what you mentioned in terms of value-added services, are developed by some of your partners and some of other software developers, so essentially you are becoming a bit of reseller or integrator in a sense. Can you talk a little about what the long-term margins look like as an integrator rather than simply a connectivity provider? Thanks.

Michael Sabia, Bell Canada Enterprises - President & CEO

Siim, why don't you talk about the first part of that and then I will take the second part.

Siim Vanaselja, Bell Canada Enterprises - CFO

The $390 million in savings are really just the kind of the run rate annual savings from, you know lower salaries, benefits, direct employee-related costs. But as we move in to 2005, you know, clearly we're looking at some substantial savings relating to some of the process reengineering initiatives that we're undertaking. We're looking at the whole supply and procurement function of the company. We're looking at real estate and how we can run our fleet operations more efficiently. When you look at the Consumer segment, a whole host of initiatives that we're in the process of implementing, including things like consolidating call centers, and other contact centers, in order to just bring, you know what today are a number of distinct separately-run businesses, all under one kind of common front office, back office, infrastructure. So in terms of, you know, the margins for 2005, certainly the $390 million is going to be a contributor towards EBITDA, but we will, on December 15th, talk more fully about the dollar value that we would attribute to those other initiatives and exactly how much of our billion dollar overall cost reduction target, that we set for ourselves through 2006 will be realized in 2005. I think that said, in terms of where we're looking at, looking at margins going over the next 12 months, certainly our objective is to continue to maintain and grow those margins a little bit as a whole for the company.

Michael Sabia, Bell Canada Enterprises - President & CEO

And then just very quickly, going forward, you know, I use the phrase communications integrator, not systems integrator. I think that's an important distinction which we can talk about some more in the future, but there is no doubt that with respect to applications and applications integration, service integration, that those activities are going to involve lower margins than telecommunications companies have traditionally enjoyed, and that's one of the big challenges that we have, which is to manage our cost base, to lower it, and to variablize it, all of which we are doing, because we all believe that the cost structure of the company is the essential ingredient enabling the growth of the company, and we do believe that there is substantial growth and a substantial competitive differentiation opportunity associated with the quality of the broad-scale integration that we will do for all of our customers, be they in the business market or residential market. So is there going to be margin pressure associated with that evolution in the nature of the services and roles of the telecommunications companies or for that matter cable companies and others? Yes, there will be, and our job is to prepare the company for that, but margin pressure, absolutely.

Jeffrey Fan, UBS - Analyst

Great. Thank you a lot. Thanks very much.

Bernard le Duc, Bell Canada Enterprises - VP, Investor Relations

Operator, I think we have time for just one more question, please.

Operator

Thank you. The following question is from Rob Goff of Haywood.

Rob Goff, Haywood Securities - Analyst

In terms of your statement, that you are seeing elements of a different picture on business, could you sort of look at that in the framework of volume or demand or the impact of re-price or a reflection of the competitive intensity in the marketplace?

Michael Sabia, Bell Canada Enterprises - President & CEO

There is and there continues to be a fair amount of pricing pressure. We see in LD a significant decline, both in Enterprise and in SMB. Isabelle has already alluded to the re-price issues associated with the IP transitions. So we are not, when we think about the future, we're not thinking about it in a world where there's some magical termination of downward pressure on pricing. That's going to be a factor here. We're not seeing the same kind of volume reductions, volume pressures that we have in the past. That, we think is improved somewhat, but I think the big driver here, and some competitive intensity, we also don't believe is diminishing and that's related to the issues that I talked about in terms of pricing pressure. But we do see substantial opportunities to expand and extend our business and extend the capabilities that we have in many of the areas and Karen and Isabelle are working on in terms of value-added services, and I think Isabelle used an important phrase, we are getting “permission from our customers”. The door is open for us to enter those areas and work with our customers on them. We are seeing substantial traction so far the work we are doing and the changes in the volume situation is leading to a picture that, and I don't want to sound celebratory here, because we're not, and we have a great deal more of work to do, so don't mishear me, but we do see and hear a change in tone and complexion.

Karen Sheriff, Bell Canada - President, Small and Medium Business

Let me talk a little bit about SMB's. We have always believed that this was the market that we have understood, not just by the carriers but really by the industry, because the products were not there, that they could afford. They were late to enter into Broadband, the existence of IP is minimal, at best, even the legacy data infrastructure is sparse, is symptomatic. As the products roll into the market that are targeted more to SMB like the ProConnect product that we launched this fall, there is huge opportunity here to cast demand that wasn't there before, because they weren’t products that they could afford. Similar to what Isabelle talked about in Enterprise. As you look at applications and some of the traditional IT applications like E-mail, same story there. There are demands that are clearly untapped. And really good opportunities going forward.

Michael Sabia, Bell Canada Enterprises - President & CEO

OK, everybody. I think we have to cut it off there. I have to get to a Board meeting. Thank you all for your interest. We look forward to hopefully seeing many of you on December 15th and we can talk a little bit more then about the future direction and where we are all headed. Thank you very much.

CAUTION CONCERNING FORWARD-LOOKING STATEMEMTS

Certain statements made in the attached presentation are forward-looking statements and are subject to important risks, uncertainties and assumptions. The results or events predicted in these statements may differ materially from actual results or events. The forward-looking statements in the attached presentation address, among others and without limitation, the following subjects: financial outlook with respect to revenues, earnings per share, free cash flow and capital intensity; the opportunities (including anticipated reductions in expenses) expected from, and Bell Canada's plans for migration to, IP technology; our expected annual savings relating to Bell Canada’s recent employee voluntary departure program; and generally, the benefits and growth opportunities expected to result from the strategies, plans and priorities of BCE Inc. and its subsidiairies (collectively "BCE"). Certain of the risk factors which could cause results or events to differ materially from current expectations are discussed in the next paragraph. The forward-looking statements made in the attached presentation do not reflect the potential impact of any special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after November 3, 2004. The forward-looking statements contained in the attached presentation represent the expectations of BCE as of November 3, 2004 and, accordingly, are subject to change after such date. However, BCE disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Other factors that could cause results or events to differ materially from current expectations include, among other things: our ability to complete within our targeted timeframe, and the impact on our financial results of, the migration of our multiple service-specific networks to a single IP-based network; our ability to implement our strategies and plans in order to produce the expected benefits and growth prospects, including meeting targets for revenue, earnings per share, free cash flow and capital intensity; general economic and market conditions and the level of consumer confidence and spending, and the demand for, and prices of, our products and services; the intensity of competitive activity from both traditional and new competitors, Canadian or foreign, including cross-platform competition, which is increasing following the introduction of new technologies such as Voice over Internet Protocol (VoIP) which have reduced barriers to entry that existed in the industry, and its resulting impact on the ability to retain existing, and attract new, customers, and on pricing strategies and financial results; the ability to improve productivity and contain capital intensity while maintaining quality of services; the ability to anticipate, and respond to, changes in technology, industry standards and client needs and migrate to and deploy new technologies, including VoIP, and offer new products and services rapidly and achieve market acceptance thereof; the availability and cost of capital required to implement our financing plans and fund capital and other expenditures; our ability to retain major customers; our ability to find suitable companies to acquire or to partner with; the impact of pending or future litigation and of adverse changes in laws or regulations, including tax laws, or in how they are interpreted, or of adverse regulatory initiatives or proceedings, including decisions by the Canadian Radio-television and Telecommunications Commission (CRTC) affecting our ability to compete effectively, including, more specifically, decisions concerning the regulation of VoIP services; the risk of litigation should BCE stop funding a subsidiary or change the nature of its investment, or dispose of all or part of its interest, in a subsidiary; the risk of increased pension plan contributions resulting from Bell Canada's recent early retirement program and from the risk of low returns on pension plan assets; our ability to manage effectively labour relations, negotiate satisfactory labour agreements, including new agreements replacing expired labour agreements, while avoiding work stoppages, and maintain service to customers and minimize disruptions during strikes and other work stoppages; events affecting the functionality of our networks or of the networks of other telecommunications carriers on which we rely to provide our services; stock market volatility; our ability to increase the number of customers who buy multiple products; our ability to implement the significant changes in processes, in how we approach our markets, and in products and services, required by our strategic direction; Canadian government action in respect of the foreign ownership restrictions that apply to telecommunications carriers and to broadcasting distribution undertakings; the risk that the amount of the expected annual savings relating to Bell Canada's recent employee voluntary departure program will be lower than anticipated due to various factors including the incurrence of outsourcing, replacement and other costs; and launch and in-orbit risks, including the ability to obtain appropriate insurance coverage at favourable rates, concerning Telesat's satellites, certain of which are used by Bell ExpressVu to provide services.

For additional information with respect to certain of these and other factors, please refer to BCE Inc.'s 2004 First Quarter Shareholder Report dated May 4, 2004, as updated in BCE Inc.'s 2004 Second Quarter Shareholder Report dated August 4, 2004 and in BCE Inc.'s 2004 Third Quarter Shareholder Report dated November 2, 2004, all filed by BCE Inc. with the Canadian Securities Commissions (available on BCE Inc.'s site at www.bce.ca and on SEDAR at www.sedar.com) and with the U.S. Securities and Exchange Commission under Form 6-K (available on EDGAR at www.sec.gov).

The term "EBITDA" (earnings before interest, taxes, depreciation and amortization) used in the attached presentation does not have any standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Refer to BCE Inc.'s 2004 Third Quarter Shareholder Report dated November 2, 2004 for more details on EBITDA including a reconciliation of BCE Inc.'s and Bell Canada's EBITDA to operating income.

The term "free cash flow" used in the attached presentation does not have any standardized meaning prescribed by Canadian GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Refer to BCE Inc.'s 2004 Third Quarter Shareholder Report dated November 2, 2004 for more details on free cash flow including a reconciliation of BCE Inc.'s free cash flow to cash from operating activities.