Q2 2016 Results Conference Call

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made by BCE's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer during BCE's Q2 2016 Results Conference Call, as reflected in this transcript, are forward-looking statements. These forward-looking statements include, without limitation, statements relating to our 2016 financial guidance (including revenues, adjusted EBITDA, capital intensity, adjusted EPS and free cash flow), the expected timing and completion of BCE's proposed acquisition of all of the issued and outstanding shares of Manitoba Telecom Services Inc. (MTS), our common share dividend policy, our network deployment plans and related capital investments, our business outlook, objectives, plans and strategic priorities, and other statements that are not historical facts. Forward-looking statements are typically identified by the words assumption, goal, guidance, objective, outlook, project, strategy, target and other similar expressions or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, seek, should, strive and will. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws and of the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans and strategic priorities may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize and we caution you against relying on any of these forward-looking statements. The forward-looking statements contained in this transcript describe our expectations as of August 4, 2016 and, accordingly, are subject to change after such date. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this transcript, whether as a result of new information, future events or otherwise. Except as otherwise indicated by BCE, forward-looking statements do not reflect the potential impact of any special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after August 4, 2016. The financial impact of these transactions and special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business. Forward-looking statements were made during BCE's Q2 2016 Results Conference Call for the purpose of assisting investors and others in understanding certain key elements of our expected financial results, as well as our objectives, strategic priorities and business outlook, and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes. The forward-looking statements made during BCE's Q2 2016 Results Conference Call for periods beyond 2016 assume that economic, market, operational and financial assumptions as well as the material risk factors described in this transcript will remain substantially unchanged during such periods.

Material Assumptions

A number of economic, market, operational and financial assumptions were made by BCE in preparing certain forward-looking statements contained in this transcript, including, but not limited to:

Canadian Economic and Market Assumptions

- *Slow economic growth, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 1.3% in 2016, down forty basis points from an earlier estimate of 1.7%*
- *Sustained weak employment growth, as the overall level of business investment is expected to remain soft*
- *Interest rates to remain relatively stable for the remainder of 2016 after declining in the first half of the year*
- *Strengthened Canadian dollar since the beginning of the year to remain at or around near current levels. Further movements may be impacted by the degree of strength of the U.S. dollar, interest rates and changes in commodity prices.*
- *A sustained level of wireline and wireless competition in both consumer and business markets*
- *Higher but slowing wireless industry penetration and smartphone adoption*
- *Wireless industry pricing discipline maintained*
- *Soft advertising market expected due to variable demand, and escalating costs to secure TV programming*

Assumptions Concerning our Bell Wireless Segment

- *Maintain our market share of incumbent wireless postpaid subscriber activations*
- *Continued adoption of smartphone devices, tablets and data applications, as well as the introduction of more 4G LTE devices and new data services*
- *Earlier expiries under two-year contracts compared to three-year contracts, leading to an increase in the number of subscribers who are eligible for upgrades*
- *Higher subscriber acquisition and retention spending, driven by higher handset costs and more customer device upgrades, reflecting a higher number of off-contract subscribers due to earlier expiries under two-year contracts*

- *Higher blended ARPU, driven by a higher postpaid smartphone mix, increased data consumption on 4G LTE and LTE-A networks, and higher access rates from price increases*
- *Completion of the LTE network buildout to 98% of the Canadian population and expansion of the LTE-A network coverage to over 70% of the Canadian population*
- *Ability to monetize increasing data usage and customer subscriptions to new data services*
- *Ongoing technological improvements by handset manufacturers and from faster data network speeds that allow customers to optimize the use of our services*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireless business*

Assumptions Concerning our Bell Wireline Segment

- *Positive full-year adjusted EBITDA growth*
- *In the BCE 2015 Annual MD&A, we disclosed our assumption of positive full-year 2016 residential net customer additions within our wireline footprint. As a result of competitive pressures, in particular in our wholesale business, we are no longer assuming positive full-year 2016 residential net customer additions within our wireline footprint but rather positive full-year 2016 residential TV and Internet net customer additions*
- *Increasing wireless and Internet-based technological substitution*
- *Residential services household ARPU growth from increased penetration of multi-product households, promotion expiries and price increases*
- *Aggressive residential service bundle offers from cable TV competitors in our local wireline areas*
- *Continued large business customer migration to IP-based systems*
- *Ongoing competitive repricing pressures in our business and wholesale markets*
- *Continued competitive intensity in our small and mid-sized business units as cable operators and other telecom competitors continue to intensify their focus on business customers*
- *Growing consumption of OTT TV services and on-demand streaming video, projected growth in TV Everywhere services, as well as the proliferation of devices, such as tablets, that consume vast quantities of bandwidth, will require considerable ongoing capital investment*
- *Limited downsizing of current TV packages by customers as a result of the implementation of TV unbundling*
- *Realization of cost savings related to management workforce attrition and retirements, lower contracted rates from our suppliers and reduction of traffic that is not on our network*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireline business*

Assumptions Concerning our Bell Media Segment

- *Positive full-year adjusted EBITDA growth driven by the national expansion of our TMN pay TV service, labour savings from workforce reductions in 2015, and CraveTV subscriber growth, more than offsetting higher TV programming and sports rights costs, continued CraveTV investment and the financial impact of TV unbundling*
- *Continued scaling of CraveTV, including a successful direct-to-consumer launch*
- *Ability to successfully acquire highly rated programming and differentiated content*
- *Building and maintaining strategic supply arrangements for content on all four screens*
- *TV unbundling and growth in OTT viewing expected to result in moderately lower subscriber levels for many Bell Media TV properties*
- *No material financial, operational or competitive consequences of changes in regulations affecting our media business*

Financial Assumptions Concerning BCE

The following constitute BCE's principal financial assumptions for 2016:

- *total post-employment benefit plans cost to be approximately $300 million to $350 million, based on an estimated accounting discount rate of 4.2%, comprised of an estimated above adjusted EBITDA post-employment benefit plans service cost of approximately $230 million to $270 million and an estimated below adjusted EBITDA net post-employment benefit plans financing cost of approximately $70 million to $80 million*
- *depreciation and amortization expense of approximately $3,525 million to $3,575 million*
- *net interest expense of approximately $875 million to $925 million*
- *tax adjustments (per share) of approximately $0.05*
- *an effective tax rate of approximately 26%*

- *non-controlling interest (NCI) of approximately $40 million to $60 million*
- *total pension plan cash funding of approximately $400 million to $450 million*
- *cash taxes of approximately $675 million to $725 million*
- *net interest payments of approximately $875 million to $925 million*
- *other free cash flow items, which include working capital changes, severance and other costs paid, preferred share dividends and NCI paid, of approximately ($50) million to $25 million*
- *average BCE common shares outstanding of approximately 870 million*
- *an annual common share dividend of $2.73 per share*

The foregoing assumptions, although considered reasonable by BCE on August 4, 2016, may prove to be inaccurate. Accordingly, our actual results could differ materially from our expectations as set forth in this transcript.

Material Risks
Important risk factors that could cause our assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in, or implied by, our forward- looking statements, including our financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our financial guidance, essentially depends on our business performance which, in turn, is subject to many risks. Accordingly, readers are cautioned that any of the following risks could have a material adverse effect on our forward-looking statements. These risks include, but are not limited to:

- *regulatory initiatives, proceedings and decisions, government consultations and government positions that affect us and influence our business, including, in particular, those relating to mandatory access to networks, net neutrality, spectrum auctions, approval of acquisitions, broadcast licensing and foreign ownership requirements*
- *the intensity of competitive activity, including from new and emerging competitors, and the resulting impact on our ability to retain existing customers and attract new ones, as well as on our market shares, service volumes and pricing strategies*
- *the level of technological substitution and the presence of alternative service providers contributing to reduced utilization of our traditional wireline services*
- *the adverse effect of the emerging fundamental separation of content and connectivity, which is changing our TV and media ecosystems and may accelerate the disconnection of TV services and the reduction of TV spending, as well as the fragmentation of the advertising market*
- *competition with global competitors, in addition to traditional Canadian competitors, for programming content could drive significant increases in content acquisition costs and challenge our ability to secure key content*
- *adverse economic and financial market conditions, a declining level of retail and commercial activity, and the resulting negative impact on the demand for, and prices of, our products and services and the level of bad debts*
- *the inability to protect our assets, including networks, IT systems, offices and sensitive information, from events and attacks such as cyber threats, and damage from fire and natural disasters*
- *security and data leakage exposure if security control protocols applicable to our cloud-based solutions are bypassed*
- *the inability to drive a positive customer experience resulting, in particular, from the failure to embrace new approaches and challenge operational limitations*
- *the complexity in our operations resulting from multiple technology platforms, billing systems, marketing databases and a myriad of rate plans, promotions and product offerings*
- *the failure to optimize network and IT deployment and upgrading timelines, accurately assess the potential of new technologies, and invest and evolve in the appropriate direction*
- *the failure to continue investment in a disciplined and strategic manner in next-generation capabilities, including real-time information based customer service strategies*
- *the failure to maintain optimal network operating performance in the context of significant increases in capacity demands on our Internet and wireless networks*
- *the risk that we may need to incur significant capital expenditures beyond our capital intensity target in order to provide additional capacity and reduce network congestion*
- *the failure to implement or maintain highly effective IT systems supported by an effective governance and operating framework*
- *the failure to generate anticipated benefits from our corporate restructurings, system replacements and upgrades, process redesigns and the integration of business acquisitions*
- *events affecting the functionality of, and our ability to protect, test, maintain and replace, our networks, IT systems, equipment and other facilities*
- *in-orbit and other operational risks to which the satellites used by our Bell TV business unit are subject*

- *events affecting the continuity of supply of products and services that we need to operate our business from our third-party suppliers and outsourcers*
- *the failure of our procurement and vendor management practices to address risk exposures associated with existing and new supplier models*
- *the quality of our products and services and the extent to which they may be subject to manufacturing defects or fail to comply with applicable government regulations and standards*
- *the failure to attract and retain employees with the appropriate skill sets and to drive their performance in a safe and secure environment*
- *labour disruptions*
- *the inability to access adequate sources of capital and generate sufficient cash flows from operations to meet our cash requirements, fund capital expenditures and provide for planned growth*
- *uncertainty as to whether dividends will be declared by BCE's board of directors or whether BCE's dividend policy will be maintained*
- *the inability to manage various credit, liquidity and market risks*
- *pension obligation volatility and increased contributions to post-employment benefit plans*
- *higher taxes due to new tax laws or changes thereto or in the interpretation thereof, and the inability to predict the outcome of government audits*
- *the failure to reduce costs as well as unexpected increases in costs*
- *the failure to evolve practices to effectively monitor and control fraudulent activities, including unauthorized use of our content and the theft of our TV services*
- *unfavourable resolution of legal proceedings and, in particular, class actions*
- *unfavourable changes in applicable laws and the failure to proactively address our legal and regulatory obligations*
- *health concerns about radiofrequency emissions from wireless communications devices*
- *the inability to maintain customer service and our networks operational in the event of the occurrence of epidemics, pandemics and other health risks*
- *the failure to recognize and adequately respond to climate change concerns or public and governmental expectations on environmental matters*
- *the expected timing and completion of the proposed acquisition of MTS and of the proposed subsequent divestiture of certain postpaid wireless subscribers and dealer locations of MTS to TELUS Corporation are subject to closing conditions and other risks and uncertainties, and there can be no certainty that the anticipated benefits will be realized*

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. We encourage investors to also read BCE's 2015 Annual MD&A dated March 3, 2016 (included in the BCE 2015 Annual Report), BCE's 2016 First and Second Quarter MD&As dated April 27, 2016 and August 3, 2016, respectively, and BCE's news release dated August 4, 2016 announcing its financial results for the second quarter of 2016 for additional information with respect to certain of these and other assumptions and risks, filed by BCE with the Canadian provincial securities regulatory authorities (available at Sedar.com) and with the U.S. Securities and Exchange Commission (available at SEC.gov). These documents are also available at BCE.ca.

The terms "adjusted EBITDA", "adjusted EBITDA margin", "free cash flow" and "adjusted EPS" used in this transcript are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other issuers. Refer to the section "Non-GAAP financial measures and key performance indicators (KPIs)" in BCE's 2016 Second Quarter MD&A for more details.

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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to BCE's Q2 2016 Results Conference Call. I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead.

Thane Fotopoulos – Vice President – IR

Thank you Wayne. Good morning to everyone on the call. With me here today as usual are George Cope, our President and CEO, as well as Glen LeBlanc, our CFO. As a reminder, our Q2 results package and other disclosure documents including today's slide presentation are available on BCE's Investor Relations webpage. An audio replay and transcript of the call will also be made available on our website later today or tomorrow.

However, before we get started I would like to draw your attention to the Safe Harbour statement on Slide 2. Information in this presentation and remarks made by the speakers today will contain statements about expected future events and financial results that are forward-looking and therefore subject to risks and uncertainties. These forward-looking statements represent our expectations as of today and accordingly are subject to change. Results may differ materially. We disclaim any obligation to update forward-looking statements except as required by law.

A discussion of these factors that may affect future results is contained in BCE's filings with both the Canadian Securities Commissions and the SEC and are also available on our corporate website.

So with that, over to George for a review of the results.

George Cope – President and CEO

Great. Great. Thanks Thane. Good morning everyone. Thank you for joining us. I am on Slide 4 of the presentation. In terms of the quarter, 113,000 Wireless and Wireline and Broadband and Net customer additions, obviously consistent with this type of quarter where you traditionally see softer on the Internet side with the school outs at the end of quarter, but overall at 113,000 we know we would have taken market share in the Broadband space.

We had exceptional Wireless financial performance with 7.7% growth in EBITDA; a strong revenue flow-through driving a 1.4% increase in service margin to 48%.

Importantly, it was the eighth consecutive quarter of positive Wireline Adjusted EBITDA growth with a 1.1% increase in our margin to 42.7% , giving us ample room to make the necessary capital investments in fibre going forward.

We had a strong overall contribution from Bell Media with revenue up 5.3% , driving EBITDA growth of 3.7% . So all three groups again delivering positive EBITDA growth.

Independent surveys continue to highlight our network leadership, both from a Wireless perspective and our FibeTV, both in the surveys identifying Bell as the leader in network on both those products.

Overall, service revenue increased 1.3%, and that combined with our focus on profitable subscriber growth and cost management delivered 3.2% higher EBITDA and an increase in our margin to 42.5%. Our steady execution of the Company continues. That is the 41st consecutive quarter of year-over-year EBITDA growth for our investors.

Turning to Wireless results, very, very strong results, both financially and from a net add perspective. Seventy thousand postpaid net adds, up 14.4% year-over-year; a reduction in our churn across the base; a

continual increase in our average revenue per unit as customers migrate to the LTE Advanced network and use the handsets more. We did see a tick up in the cost of acquisition, principally driven by, again, the higher mix of smartphones and also a weaker Canadian dollar.

Retention spending was down to 11.9% of service revenue, and that is quite positive given churn was reduced as well, and of course we lapped the double cohort.

Overall, as I said, excellence performance driving increasing market share with postpaid net adds growing, a lower churn, 7.7% increase in EBITDA, and I think notable in the quarter is our ability to grow both subscribers and EBITDA which has been quite different than some of our peers in recent quarters.

On the Wireline side, 43,000 IPTV and Internet adds in the quarter; 35,000 IPTV net adds. It certainly was not a strong promotional quarter in Quebec as it was last year, and with the minimal footprint expansion, 35.3 k net adds, it would be consistent with the footprint that we now have today.

Satellite losses improved slightly. Importantly, in our footprint itself we added 10,200 overall TV net adds, so clearly the losses of satellite continue to be more outside our traditional Wireline footprint.

Seven and a half thousand Internet net adds in the quarter. Really two issues: we saw a decline in our Wholesale net adds of about 10,000 year-over-year and of course the revenue off of that sub base is about 45% or 40% of our Retail revenue, so not significant from a financial perspective. Also, we chose not to match some of the aggressive pricing we saw in the market in Toronto from one of our competitors and continue our focus on profitable subscriber growth, and as you can see we are leading in Broadband share between our Internet and TV net adds.

Remarkably, a significant improvement in our NAS losses of 24,000 year-over-year, so heading in the right direction there. Of course that will continue to see a decline in NAS though as we go forward.

Strategically we just launched the Virgin Home Internet product on July 5 in Ontario and that will be focused on the discount Internet market on the Wireline side.

Also I want to announce a couple of new products this morning that we are really quite proud of that we will launch in August. First of all, we are launching, to our knowledge, the first fully wireless IPTV service. So we had had one set-top box, if you will the PVR, that was not wireless; it now is, and to our knowledge the only all-wireless IPTV service globally available. It will be launched this month and also clearly reduces some of our install time, provides remarkable flexibility for our customers. It also will integrate the 4K Netflix app into this 4K PVR, making it available on all five TV receivers that we now have in the marketplace. So we continue to maintain our leadership position with IPTV with these unique products in the marketplace.

Just importantly on the Broadband side, on the next page, is the launch of a home Hub 3000 modem. It is by far the strongest modem we have ever launched. It will have three times the WiFi power that we currently have in the marketplace. It will be compatible with both FTTN and FTTH. It launches in August. Importantly, reduces for our fibre install what is currently five different pieces of hardware down to one, all integrated into this one modem. It will reduce our install time at least 30 minutes and also reducing the devices from five to one. Overall, we expect our demand capital requirements for fibre to drop anywhere from 10 to 12% as a result of this new modem, and also we believe that it will be for sure the strongest modem and improve access in the home for all of our customers.

We are also going to move forward with installing a fibre jack when we install Fibe into all condominiums and homes so that Fibe service remains there for the life of the actual premise as opposed to the life of the customer. So it will simply be a self-install after that as the second owner of that property would move, setting up for really quite a remarkable cost structure when we go forward over the years.

Turning to Bell Media, as I mentioned, a strong quarter in both revenue and EBITDA. Finished the year, CTV, again as the number one in Canada with 14 of the top 20 programs, and seven of the top 10 series. We have a very strong lineup leading in to the fall season and we also just on our out-of-home business were recently awarded the Toronto Pearson Airport contract which basically puts the Company as now we believe the largest

outdoor advertising company in the country. So, it really takes us to six different airports across the country, driving our ability to sell consolidated advertising to our clients across all of our platforms, radio, TV and outdoor.

Turning to MTS, just a quick update for everyone. The shareholder approval took place on June 23 with literally almost 100% of votes cast in favour. Court approval was received June 29. We are in the midst of the regulatory process and we anticipate, expect closing in either late this year or early 2017.

With that, let me turn it over to Glen. Thank you.

Glen LeBlanc – Executive Vice President and CFO

Thanks George, and good morning everyone. I will begin with a quick summary of Q2 financials on Slide 12.

Our consolidated results for the quarter demonstrate a clear focus on subscriber profitability and price discipline as highlighted by our continued steady service revenue and Adjusted EBITDA growth, margin expansion and higher earnings and free cash flow, all of which are consistent with the guidance targets we provided at the beginning of this year.

Total service revenue increased 1.3% led by the strong top line performance of Bell Wireless and Bell Media, as well as higher Internet and TV revenues. Product revenue was down $49 million or 12.3% year-over-year due to fewer Wireless customer upgrades as the double cohort was lapped at the beginning of June, lower mobile device pricing and reduced sales of Wireline business data equipment.

Adjusted EBITDA increased a very solid 3.2%, reflecting positive year-over-year growth, as George mentioned, in all three operating segments.

This drove a 1.2 percentage point improvement in overall margins to 42.5% on the back of a tremendous service revenue flow-through to EBITDA of 113%. That was driven by solid Wireless ARPU growth, higher revenue per household and a 1.8% reduction in total consolidated operating costs.

Given our highly competitive markets, we continue to exercise good spending and pricing discipline across all of our customer and product segments. Higher EBITDA drove 8% growth in adjusted EPS to $0.94 from $0.87 last year, and was also a key contributor to the free cash flow generation of $934 million this quarter, even with the seasonal step up in Capex, typical of the busy Q2 summer construction period.

Consistent with our plan for the year, Capex spending this quarter increased year-over-year as we continue to expand both our Broadband fibre footprint as well as our Internet and Wireless network capacity to support customer and usage growth.

With that overview, let is turned to the detailed results of Wireless segment you will find on Slide 13.

Not much in the way of extensive commentary from me required for Bell Wireless as our strong financial performance truly speaks for itself. Service revenue increased 4.6%, driven by higher LTE data usage and a greater percentage of customers on two-year contracts while product revenue was down 23.5%, primarily on the lower volume of handset upgrades as I mentioned previously, which contributed to a 1.7% reduction in Wireless operating costs this quarter.

From a profitability perspective, Wireless Adjusted EBITDA grew an exceptional 7.7%, yielding a revenue flow-through to EBITDA of 77% and an impressive 1.4 percentage point improvement in margin to 48%.

Lastly, Wireless Adjusted EBITDA less Capex, or what is referred to in the industry as simple free cash flow, provided a very strong contribution to BCE's overall cash generation in Q2, increasing 11.3% year-over-year to $589 million.

So, overall, another great set of financial results in what is now been a long line of excellent quarters for Bell Wireless.

Moving to Bell Wireline on Slide 14, the pace of Wireline revenue decline was directionally similar to Q1, decreasing 2.1% this quarter. Overall top line performance was impacted by the sale of a contact centre subsidiary in September of 2015, reduced spending on service solutions and data products by our large enterprise customers, as well as softer Wholesale revenues attributed to competitive pricing pressure, and a higher volume of off-net traffic compared to last year.

Excluding the $15 million revenue loss from the call centre sale I just referenced, we generated positive residential service revenue growth of 0.5% in Q2. This was driven by continued solid Internet and TV growth which combined delivered 5.2 year-over-year increase in revenue.

In our Business Markets unit, although the rate of EBITDA decline improved as a result of the cost management initiatives, overall revenue performance continued to be impacted by customer repricing demands and a slower pace of new business investment.

Wireline Adjusted EBITDA was up 0.6%, or as George said earlier, our 8th consecutive quarter of positive year-over-year growth while margin expanded 1.1 points to 42.7%; certainly worth repeating. This reflected a 4% decline in operating costs from ongoing spending controls and service improvement efficiencies, including workforce reductions undertaken in the fourth quarter of last year.

Turning to Slide 15, Bell Media contributed positively to the overall consolidated BCE Adjusted EBITDA and cash flow growth this quarter with a strong set of financial results that were underpinned by industry-leading TV audience ratings and viewership levels.

Total revenue grew 5.3% year-over-year, mainly on the strength of subscriber revenues and year-over-year growth at Astral Out of Home. Subscriber revenues were up 13%, driven much like they were in Q1, by the expansion of The Movie Network into Western Canada, as well as the continued steady CraveTV and TV Everywhere growth.

Although advertising demand for conventional TV and radio remained soft across most sectors, total advertising revenue was up 0.3% in Q2. This growth was driven by the higher audience levels for TSN and RDS, given the Toronto Raptors deep playoff run, Euro Cup Soccer, and some shift in spending to Bell Media's specialty sports properties with no Canadian NHL teams advancing to post-season play.

Adjusted EBITDA increased 3.7% on the flow-through of the higher revenue as well as the workforce restructuring labour savings that effectively offset year-over-year increases in sports broadcast rights and CraveTV content costs.

Overall, Bell Media's performance in 2016 is meeting all of our expectations, both in terms of financial performance with two consecutive quarters of positive revenue, Adjusted EBITDA and free cash flow, and in terms of the strategic opportunities to improve the growth profile of Bell.

Slide 16 summarizes our adjusted EPS for Q2 which was $0.94 per share or 8% higher year-over-year. EBITDA accounted for $0.06 of the EPS growth in the quarter. Lower net interest expense due to lower average cost of debt and mark-to-market gains on our equity derivative contracts driven by BCE's share price appreciation in the quarter also contributed to higher adjusted EPS.

This was partly offset by our year-over-year depreciation expense, consistent with a higher capital asset base, as well as no favourable tax provision adjustments compared to the $0.01 per share we recorded last year.

Additionally, overall EPS growth in Q2 was moderated by a higher share count due to the $863 million equity issuance we did last December, which, just like last quarter, resulted in a dilution of approximately $0.03 per share.

With our strong Q2 performance, year-to-date adjusted EPS is up 4.7% over last year, keeping us on track to achieve our full-year 2016 guidance objective for growth of approximately 3% to 6%.

Turning to free cash flow on Slide 17, consistent with our plan for Q2 we generated $934 million of total cash, driven primarily by growth in Adjusted EBITDA. Free cash flow this quarter also reflected the benefits of lower interest paid, lower cash pension and lower cash taxes. Although cash pension and cash taxes decreased year-over-year, this was due primarily to the timing of payment and therefore continued to track in line with our full-year guidance assumptions.

Capex was 3.9% higher year-over-year, reflecting higher planned spending, as I discussed earlier. But even with the step up in spending in the quarter, we continue to track comfortably towards our 17% capital intensity target for 2016.

Lastly, a decrease in our working capital position related mainly to the timing of supplier payments also moderated overall free cash flow growth in the quarter.

To wrap up, on Slide 18, looking ahead, with the financial performance we reported in the first half of 2016, all of our operating segments are tracking well to deliver on the guidance targets that we provided back in February. We see good operating momentum taking us forward in the second half of the year, and we remain confident in our ability to execute and grow the overall business with a continued expectation for positive Wireless, Wireline and Media Adjusted EBITDA growth for the full year of 2016, as well as an accelerating free cash flow trajectory in the back half of the year that fully supports higher planned capital spending within the capital intensity level I mentioned of around 17%. All of this providing a solid, strong foundation for continued execution of our dividend growth objective in 2017.

With that, thanks to everyone for joining us today on the call and I will turn the call back over to Thane and the Operator to begin the Q&A period.

Thane Fotopoulos – Vice President – IR

Thanks Glen. Before we do start the Q&A period, just to keep the call as efficient as possible, I ask that you limit yourselves to one question and a brief follow up. To the extent we have time, we will circle back at the end of the queue and take more questions.

With that, Valerie, we are ready to take our first question.

QUESTION AND ANSWER SESSION

Operator

Thank you, Mr. Fotopoulos. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift your handset before making your selection. If you have a question, please press star one on your telephone keypad. If at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

Our first question is from Richard Choe with J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Thank you. Another strong term performance in the quarter of 1.15%. Can you give us a sense of what is driving the low churn rate? Is it that customers are just not as active, or is it something you are doing on your side?

George Cope – President and CEO

Our belief is it is really a number of core things. First of all, it is the third I think survey in the last 12 months by independent agencies saying that our network is the superior network in Canada, and so obviously superior network drives a lower churn rate. That is clearly what we are seeing.

I think secondly, our customer service metrics continue to improve fairly significantly so that is clearly driving it, and I think thirdly, structurally in the industry, the fact that we have now lapped the double cohort, there is some math that clearly would help us drive that churn to be lower as well.

I think those are really the three drivers.

Richard Choe – J.P. Morgan – Analyst

Then in areas where you have LTE Advanced coverage, are you seeing a pick-up in usage versus LTE, or is it relatively the same?

George Cope – President and CEO

No, we are seeing an increase in usage when folks move to LTE Advanced. If I do not have it, Thane will certainly share with you after the call, but we definitely are seeing usage increase. About 40% higher is what Thane has just told me, the difference as people are moving to. Thank you.

Operator

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

Simon Flannery – Morgan Stanley – Analyst

Thank you very much. Good morning. George, I wonder if you could just give us an update on the fibre rollout. Where are you in terms of your projections? What are you seeing from customers in terms of your take rates? There is a lot more talk about the need for speed and 100 megs being sort of table stakes here. Any colour you

could give about what people are really responding to, how your new adds are—what sort of speeds they are taking and how you see that evolving. Thank you.

George Cope – President and CEO

We are at 2.6 million premises that have access to fibre today in our total footprint. We will end at around 3 million at the end of the year. The significant part of the particular project in Toronto 416 will have an enormous amount of household additions clearly in 2017 as we have laid the foundation in 2016 in the marketplace.

We have heard different commentaries about 100 Mpbs. It is funny, we see huge demand at 50 Mbps still in our base. Obviously at the 1 Gbps service we see demand there. A lot of very positive results where we have the fibre in terms of net adds.

One of the things, we think we saw some migration to some of the other speeds. One of our competitors talking about is that is where they were offering unlimited Internet without billing for access, so that would drive customers to that particular tier, not necessarily driven by the speed, and so that is one of the competitive differences you see off and on in different promotions in the marketplace.

But there is no doubt, where we have IPTV and where we have fibre is where we see the best market share growth for us.

Simon Flannery – Morgan Stanley – Analyst

Great. Thank you.

Operator

Thank you. Our next question is from Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning. Thanks for taking my question. George, I just wanted to focus a little bit on the Ontario market in Wireline. Obviously elevated levels with competitive intensity. Can you just talk about what is going on in terms of Internet and TV? Is it that you are seeing—are you seeing an uptick in churn there? Is it simply that the gross adds are kind of a little bit tougher to come by, particularly in Internet given sort of the promotional offers that are out there?

George Cope – President and CEO

It would probably—it would not even be specifically Ontario. It would probably be fair to say in the core market with one of our competitors where we saw some aggressive pricing in the marketplace and ultimately that probably causes some switching between the two carriers; we think we saw some of that in the quarter.

Having said that, we continue to drive product differentiation instead of pricing in our approach. We have vastly superior TV product. That is why we saw the 35,000 or so net adds on the IPTV, and where we have IPTV combined with our Internet is where we are positive RGUs quarter-over-quarter. So, we continue to be pleased there.

I think it is important for investors to understand that 10,000 of the reduction in the Internet was Wholesale and the Wholesale revenue stream is much less for us and clearly that is not a focus of ours because our focus is on bringing IPTV and at the same time pulling the Internet through.But clearly, we saw some aggressive pricing in the Toronto market.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Great. Thank you.

Operator

Thank you. Our next question is from Greg MacDonald from Macquarie Capital Markets. Please go ahead.

Greg MacDonald – Macquarie Capital Markets – Analyst

Thank you and good morning guys. Wanted to ask a question on the Wholesale side of Internet. George, you mentioned about 10,000 of the impact was on Wholesale. Was that an unusual number? Are you losing Wholesale customers in previous quarters? Would that suggest that we should see a bounce-back in the 3Q? Then I have kind of a follow-on on Satellite, just trends there.

George Cope – President and CEO

Wholesale is kind of a hard one to be honest with you. It is fairly volatile. It does seem to move because wholesalers can move between carriers. We have seen some volatility on that. Our core focus is obviously on the Retail business. We also, as you would have noticed, just launched the Virgin brand in the Ontario marketplace to focus on the discount market of Internet. That will be a brand that we will carry into the marketplace there like we did in the Wireless world. I think you saw one of our competitors as well do that with one of their brands. So I think you will see us focusing, and then that would become Retail for us so we will compete in that space as well.

It is a hard one to know from quarter-to-quarter what is going to happen there.

Greg MacDonald – Macquarie Capital Markets – Analyst

But from your overall planning perspective, a sub-10,000 a quarter number is not a usual number. We should be thinking higher than that.

George Cope – President and CEO

Actually, I did not give the actual number. I just said the reduction was 10,000. It is a hard one to give you complete guidance on because it is volatile in the numbers. In terms of our revenue streams? Our core revenue streams obviously come from our retail Internet and our retail TV, which is really what ultimately is driving the Company.

Greg MacDonald – Macquarie Capital Markets – Analyst

Got it. On the TV side, I think we have a decent understanding of IPTV and the trends there based on the buildouts. What I am trying to figure out is you still have a little over 1.4 million Satellite customers. I am trying to figure out mix of the customers that are in urban type markets that might rather take a digital product from the Wireline side, ie your Fibe product, relative to those that are in more rural markets that do not have the option. You know, 33,000 net losses is kind of the number that most people expected. Is there a support level that we can expect at some point where that number might decline soon relative to the mix that we are probably seeing go away from urban and in rural?

George Cope – President and CEO

Yes, we would think—intuitively we would think so. I cannot give you guidance on it but as this product matures out and the IPTV footprint matures out, clearly the Satellite business and a lot of our footprint will be competing against the other satellite operator. We are working our way through that issue, the urban versus rural footprint on Satellite in terms of our net add reduction. But it is not just in our urban markets where we see the reduction; it is also in other urban markets across the country where we had Satellite before there was IPTV, so that is still working it through.

Probably best is when you look at our numbers, you can see we are 10,000 in our Wireline footprint net adds. You can do the math to say how many Satellite we obviously would have lost outside of our own footprint. You are right; the split is the same and I would say that a percentage of our base that is in our IPTV footprint obviously just continues to decline. So, at some point there will be stabilizing but it is a very hard one for us to make a call on when that will be.

Greg MacDonald – Macquarie Capital Markets – Analyst

At some point suggest then there is still a relatively large urban Satellite ...

George Cope – President and CEO

I did not say that, you did.

Greg MacDonald – Macquarie Capital Markets – Analyst

Okay. All right, thanks a lot.

Operator

Thank you. Our next question is from Jeffrey Fan with Scotiabank. Please go ahead.

Jeffrey Fan – Scotiabank – Analyst

Thank you. Two quick ones. One, just a clarification first on the subscribers on the Wireline side. I think, George, you alluded to customer moving in the second quarter. Just wondering on the accounting, maybe for Glen. When a customer moves in Q2 and then reconnects in Q3, does the customer count as a churn in Q2 and then a net add in Q3? Just maybe a clarification on that one. Then secondly …

George Cope – President and CEO

On that very specific one, that is something I think that one of our competitors in Quebec over the years has talked about, that they take the loss in the one month and the addition in the—we do not. The day something deactivates and activates are in our numbers, so there is no bridge between quarters for us.

Glen LeBlanc – Executive Vice President and CFO

Exactly.

Jeffrey Fan – Scotiabank – Analyst

So if they deactivate and reactivate, they are not a churn in Q2.

Glen LeBlanc – Executive Vice President and CFO

Correct.

Jeffrey Fan – Scotiabank – Analyst

Correct, okay. Then just a follow up on the kind of question on pension. We heard on the MTS call and they gave us some disclosure around their pension deficit, it looks like due to the lower rates their deficit increased by about three times since the beginning of the year. I am wondering if you can give us a bit of an update for Bell and whether your free cash flow guidance includes any of the voluntary or a special contribution that you may have to make.

Glen LeBlanc – Executive Vice President and CFO

Good morning Jeff. You are absolutely right that we have seen volatility in the interest rate environment and when you look at it from a solvency deficit we have seen probably about an 11 basis point decline in the discount rate used on our largest plan, the Bell plan. So we are inside of 3% now and of course you know that has sizeable impacts on the liability, but on the asset side we generated a 3.6% return in the quarter and 4.7% year-to-date, so net-net where we find ourselves is with a solvency ratio of approximately the same place, about 91% funded. We have stayed around that number, as you know, for some time, north of 90%.

As far as future funding of the pension goes, that is a decision we make every year with our excess free cash flow is what is the best usage of it, and as we approach the year-end that will be one of the options for us is to consider using our excess free cash flow to fund the pension. We know it is tax deductible but it is a decision that is in front of us that we will make when the time is right.

Jeffrey Fan – Scotiabank – Analyst

Great. Thank you.

Glen LeBlanc – Executive Vice President and CFO

You are welcome, Jeff.

Operator

Thank you. Our next question is from Drew McReynolds with RBC Capital Markets. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Thanks very much. George, just wanted to focus on just the Wireline revenue performance in the quarter. I think it was a little worse than what we were expecting; obviously not significantly worse.

More big picture, can you comment on just your visibility on Wireline revenues going forward? Obviously a lot of moving parts in the segment. Then my actual question is, over time, are you confident that your cash flow

growth from other segments can offset any emerging pressure in Wireline cash flow should that happen due to some revenue pressure? Thank you.

George Cope – President and CEO

The end of the question is we are completely confident in our ability to execute, as we have shown over the years, EBITDA growth on Wireline the last couple of years and the free cash flow generation, particularly if you look forward on telco cost models and what we are seeing on the service side in Fibe which is our continual strategy that we have shared with our Investors, and is seen by the fact that even with those local access line declines, our margins have stayed stable over the last seven years, and in fact improved to give us the free cash flow room.

In terms of revenue, I mean Glen talked about it. There was definitely some noise in the quarter because of the one-time call centre stuff not there; Wholesale, not exactly revenue we are dying to have that was impacted as well. Of course on the product side, you can see the decline in the Wireline number. I do not want to say irrelevant; that is a little harsh, but literally it is on the product side.

So overall on Wireline service revenue, it is always about Internet and TV being enough to offset NAS and any decline we see in business, and that is the work. It is the same work the last few years and we are confident that we will continue to balance that. The one math equation for us is, over time, as everyone knows, local access line revenue becomes less of a share of our overall weighing in Wireline and that lets us see our way forward to not just through costs but also see some of it through revenues.

Drew McReynolds – RBC Capital Markets – Analyst

Okay. That is helpful. Then just to follow up, George, just on the NAS improvement in the quarter, I know this bumps around quarter-to-quarter. Any additional granularity you want to provide on that?

George Cope – President and CEO

The only thing I would say is there is no doubt when we launch fibre in a market and we add the IPTV pull-through in the Internet, we see a slowing of NAS losses simply because households that were triple households versus maybe going to one of our competitors stays, so there is a little more stickiness there, but that is not a prediction that local access lines are not going to continue to decline.

Drew McReynolds – RBC Capital Markets – Analyst

Thanks very much.

Operator

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

Maher Yaghi – Desjardins Securities – Analyst

Thank you for taking my questions. George, I wanted to ask maybe—I am not trying to get a guidance on a quarterly basis, but with the negative revenue growth in the Wireline, do you see it going back to positive? If you do, when should we expect it to turn positive? I mean you have done a great job on reducing costs and EBITDA is growing on the Wireline side, but I am just wondering with your investments you are doing on fibre, when should we expect to have Wireline revenue growing on a sustainable basis?

George Cope – President and CEO

First of all, residential Wireline revenue growth is positive. We have been reporting that on a quarterly basis, and it is a mix issue against the Wholesale and BBM. We are just not going to give guidance on it; we do not for any of our BUs. We never have on revenue. We have a consolidated guidance number and I think the most important revenue number for our investors is our service revenue growth investment. It is quarter-over-quarter at 1.3% and obviously it is a mix of all three of our businesses and that is how we view the Company.

But clearly, residential positive. That has to be enough to offset the BBM side of it, the business side, and we are close quarter-to-quarter, and we will just keep working at it. Of course ultimately for us, it is the EBITDA flow-through that we are seeing because the costs to deliver these Wireline services is coming down through technology and that is allowing us to provide margins that are giving us capital coverage for fibre investments that, quite frankly, at margins that are superior to any of our peers, be it Wireline or Cable.

Maher Yaghi – Desjardins Securities – Analyst

Okay. Just on the Wireless margins, how much of these margins that we are seeing right now are sustainable, or some of it is maybe some gains related to the costs that were incurred last year for the double cohort. Can you maybe talk a little bit about margin sustainability on Wireless, which was very strong in the quarter?

George Cope – President and CEO

Yes. You know margins are a hard one to predict. At the end of the day our strategy continues to be the same. We want more than a third of the net adds of postpaid, yet we want more than a disproportionate share of the EBITDA growth and we are seeing that. We clearly have an execution formula that is finding the right balance, which is customers use our phones more because the network is superior. That drives the usage which drives the EBITDA flow-through.

The margins, where they are now, would I be predicting higher margins? No, because it is a very competitive marketplace, so really it is about managing the revenue and cost structures like we have done in the past.

I think for investors the free cash flow we are generating is clearly excellent growth on a free cash flow perspective, but it is a consolidated business. It is a little bit like the Wireline answer. I mean it is one consolidated P&L and it is taking that free cash flow, reinvesting it in fibre so that our Wireline business continues to be in a position to be a leader going forward.

Maher Yaghi – Desjardins Securities – Analyst

Thank you.

Operator

Thank you. Our next question is from Tim Casey with BMO Capital Markets. Please go ahead.

Tim Casey – BMO Capital Markets – Analyst

Thanks. Good morning. George, can we go back to those two new product launches? You mentioned the Wireless PVR and then the new WiFi modem. You made a comment that you thought it could have some positive implications for spending. I am just wondering if you could provide a little more colour on those

products and then put that comment in context. I am assuming you will find other places to spend the money, but just if you could just sort of flesh those out a bit. Thanks.

George Cope – President and CEO

Yes, I am smiling. That is a good point; we always do find other places to spend the money. The capital intensity number will not come down because of it.

What is important, particularly on both devices, but you take the Home Hub 3000, it really is, you can just—everyone I think can imagine what the install time now will drop anywhere from 30 to 45 minutes because you go from it can be four or five devices in the home to one. So that combined with the cost of this unit relative to five separate units we think sees anywhere from a 10% to 12% reduction versus our current demand capital cost or versus say what Bell Aliant would have been paying to install fibre the last four or five—three or four years they have been in the market as we have seen in our Quebec. That will just help us on demand capital going forward, and we get a little bit of help also in the Wireless PVR as well because again we do not have to deal with the install through the wall. We simply have to put the device in and then connect it onto the modem. So, I think both will take some install costs out.

Demand capital, it is $700 to $900 a home. You can take the math on that and assume a 10% to 12% reduction on that going forward with this change.

Then the thing I am really excited about it is also putting this Bell Fibe jack in the premise. It sets us up for the life of the household, not the life of the customer, which I think is sometimes in the investment models. It should be expected the life of the home, not expect the life of the customer.

Then the other one, the great thing about the modem, it is for FTTH and FTTN, and it has speed capabilities well beyond 1 Gig speed. So, as speeds go beyond 1 Gig, we will not have to change that modem out again until we go to a whole other level of speed, which obviously is not in this particular modem.

So, I hope that gives you a little more color on it. We are quite—you can tell, very excited about it. We think the modem and the WiFi in the home is going to be a real battleground. We have gone from three devices to 12 now connected in the home and this will dramatically improve that service in the home for everyone, and we think it is a world leader.

Tim Casey – BMO Capital Markets – Analyst

Thank you.

Operator

Thank you. Our next question is from Robert Peters with Credit Suisse. Please go ahead.

Robert Peters – Credit Suisse – Analyst

Hi. Thanks very much for taking my question. George, just on the strong postpaid net additions, I was wondering if you saw any particular region driving that growth and if there was any kind of difference inside your Wireline footprint versus outside in the quarter.

George Cope – President and CEO

You know, I would actually say no. It was pretty consistent across the board. I think it is fair to say we saw it a little softer year-over-year in Alberta and that is for two quarters in a row now we have seen that. So I think that

would be the one callout I would make. Not maybe as dramatic as some people might think but clearly it was not a strong quarter in Alberta relative to other places in the country.

Robert Peters – Credit Suisse – Analyst

Perfect. Thank you. Maybe to follow up on the Wireless and maybe focus a bit more on the margin side. I know you highlighted there it is pretty difficult to predict, but in terms of the retention spend declining in the quarter, you highlighted I believe the double cohort being lapped. Was there anything else driving that, or was it all really—should we really all attribute that all to the double cohort?

Glen LeBlanc – Executive Vice President and CFO

I will take that question. When you look at the retention spending, it decreased about 1%, as we mentioned, in the quarter down to 11.9%. But yet device upgrades were down 64,000 in the quarter and that is the primary driver here that you are seeing. Less promotional intensity in quarter; it was a little less aggressive compared to what we saw in previous quarters, but ultimately 64,000 less device upgrades.

Robert Peters – Credit Suisse – Analyst

Perfect. Thank you very much.

Glen LeBlanc – Executive Vice President and CFO

You are welcome.

Thane Fotopoulos – Vice President – IR

I do not believe, Valerie, there are any further questions at this time, so with that we would like to thank everybody who participated this morning, and of course I will be available throughout the day for any follow up questions and clarifications. With that, thank you and have a great day everyone.

George Cope – President and CEO

Thank you all for joining us.

Operator

Thank you, gentlemen. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.
