Q2 2018 Results
Conference Call

George A. Cope
President and Chief Executive Officer

Glen LeBlanc
Executive Vice President and Chief Financial Officer

August 2, 2018

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 2018 Results Conference Call, as reflected in this transcript are forward-looking statements. These forward-looking statements include, without limitation, statements relating to BCE's 2018 financial guidance (including revenues, adjusted EBITDA, capital intensity, adjusted EPS and free cash flow), BCE's common share dividend payout policy, anticipated ARPU levels, our network deployment plans and related capital investments, BCE's 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 2, 2018 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 2, 2018. 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 2018 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 2018 Results Conference Call for periods beyond 2018 assume that the 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 its forward-looking statements contained in this transcript, including, but not limited to:

Canadian Economic and Market Assumptions

- *Lower economic growth, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 2.0% in 2018*
- *Employment gains expected to slow in 2018, as the overall level of business investment is expected to remain soft*
- *Interest rates expected to increase modestly in 2018*
- *Canadian dollar expected to remain at 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 higher level of wireline and wireless competition in consumer, business and wholesale markets*
- *Higher, but slowing, wireless industry penetration and smartphone adoption*
- *A soft media advertising market, due to variable demand, and continued escalation of costs to secure TV programming*
- *Ongoing linear TV subscriber erosion, due to growing cord-cutter and cord-never customer segments*

Assumptions Concerning our Bell Wireless Segment

- *Maintain our market share of incumbent wireless postpaid net additions*
- *Continued adoption of smartphone devices, tablets and data applications, as well as the introduction of more 4G LTE and LTE-A devices and new data services*
- *Higher handset cost, driven by a higher sales mix of premium devices, increased new customer activations and more customer device upgrades attributable to a higher number of off-contract subscribers due to earlier expiries under two-year contracts*
- *Wireless revenue growth driven by postpaid subscriber base expansion and a higher volume of handset sales*
- *Expansion of the LTE-A network coverage to approximately 92% 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*
- *Continued growth in residential IPTV and Internet subscribers*
- *Increasing wireless and Internet-based technological substitution*
- *Residential services household ARPU growth from increased penetration of multi-product households 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 markets as cable operators and other telecom competitors continue to intensify their focus on business customers*
- *Traditional high-margin product categories challenged by large global cloud and OTT providers of business voice and data solutions expanding into Canada with on-demand services*
- *Ongoing deployment of direct fibre and growing consumption of OTT TV services and on-demand streaming video, as well as the proliferation of devices, such as tablets, that consume vast quantities of bandwidth, will require considerable ongoing capital investment*
- *Accelerating customer adoption of OTT services resulting in downsizing of TV packages*
- *Realization of cost savings related to management workforce attrition and retirements, lower contracted rates from our suppliers, reduction of traffic that is not on our network and operating synergies from the integration of MTS*
- *No material financial, operational or competitive consequences of changes in regulations affecting our wireline business*

Assumptions Concerning our Bell Media Segment

- *Revenue performance is expected to reflect an improving TV advertising sales trajectory supported by our broadcast of the 2018 FIFA World Cup, further CraveTV subscriber growth and continued growth in outdoor advertising*
- *Operating cost growth driven by higher TV programming and sports broadcast rights costs, as well as continued investment in CraveTV content*
- *Continued scaling of CraveTV*
- *Ability to successfully acquire and produce highly rated programming and differentiated content*
- *Building and maintaining strategic supply arrangements for content across all screens and platforms*
- *Increased revenue generation from monetization of content rights and Bell Media properties across all platforms*
- *TV unbundling and growth in OTT viewing expected to result in 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 2018:

- *total post-employment benefit plans cost to be approximately $335 million to $355 million, based on an estimated accounting discount rate of 3.6%, comprised of an estimated above adjusted EBITDA post-employment benefit plans service cost of approximately $270 million to $280 million and an estimated below adjusted EBITDA net post-employment benefit plans financing cost of approximately $65 million to $75 million*
- *depreciation and amortization expense of approximately $4,000 million to $4,050 million*
- *interest expense of approximately $975 million to $1,000 million*
- *an effective tax rate of approximately 25%*
- *NCI of approximately $50 million*
- *total pension plan cash funding of approximately $400 million*
- *cash taxes of approximately $700 million to $750 million*
- *net interest payments of approximately $950 million to $975 million*
- *other free cash flow items, which include working capital changes, severance and other costs paid, preferred share dividends and NCI paid, of approximately $25 million*
- *average BCE common shares outstanding of approximately 900 million*
- *Common share buybacks totalling $175 million*
- *an annual common share dividend of $3.02 per share*

The foregoing assumptions, although considered reasonable by BCE on August 2, 2018, 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 2018 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2018 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:

- *the intensity of competitive activity, including from new and emerging competitors, and the resulting impact on the cost of retaining existing customers and attracting 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*
- *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, spectrum auctions, approval of acquisitions, broadcast licensing and foreign ownership requirements*
- *the inability to protect our physical and non-physical assets, including networks, IT systems, offices, corporate stores 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 adverse effect of the 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, and changes in, 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 failure to optimize network and IT deployment and upgrade 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 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 maintain optimal network operating performance in the context of significant increases in capacity demands on our Internet and wireless networks*
- *the failure to implement or maintain highly effective IT systems supported by an effective governance and operating framework*
- *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 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 to provide our satellite TV services are subject*
- *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 payout 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*
- *online content theft and piracy and the absence of effective legal recourses to combat them*
- *events affecting the continuity of supply of products and services that we need to operate our business and to comply with various obligations from our third-party suppliers, outsourcers and consultants*
- *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*
- *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*

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 2017 Annual MD&A dated March 8, 2018 (included in BCE's 2017 Annual Report), BCE's 2018 First and Second Quarter MD&As dated May 2, 2018 and August 1, 2018, respectively, and BCE's news release dated August 2, 2018 announcing its financial results for the second quarter of 2018 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", "adjusted EPS", "free cash flow" and "dividend payout ratio" 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 "Notes" in BCE's news release dated August 2, 2018 announcing its financial results for the second quarter of 2018 for more details.

CORPORATE PARTICIPANTS

George Cope
President and CEO

Glen LeBlanc
Executive Vice President and CFO

Thane Fotopoulos
Vice President - IR

CONFERENCE CALL PARTICIPANTS

David Barden
Bank of America Merrill Lynch – Analyst

Richard Choe
J.P. Morgan – Analyst

Jeffrey Fan
Scotiabank – Analyst

Simon Flannery
Morgan Stanley – Analyst

Aravinda Galappatthige
Canaccord Genuity – Analyst

Philip Huang
Barclays – Analyst

Sanford Lee
Macquarie Capital Markets – Analyst

Batya Levi
UBS – Analyst

Drew McReynolds
RBC Capital Markets – Analyst

Vince Valentini
TD Securities – Analyst

Maher Yaghi
Desjardins Securities – Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE Second Quarter 2018 Results Conference Call. I would like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, Mr. Fotopoulos.

Thane Fotopoulos – Vice President – IR

Thank you, Donna. With me here this morning are George Cope, BCE's President and CEO, and Glen LeBlanc, our CFO.

As a reminder, our second quarter results package and other disclosure documents, including today's slide presentation, are available on BCE's Investor Relations web page. An audio replay and transcript of this call will also be made available on our website. However, as usual, before we get started, I want to draw your attention to our Safe Harbor 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. Factors that may affect future results are contained in BCE's filings with both the Canadian Securities Commission and the SEC, and are also available on our corporate website.

With that, I will turn it over to George.

George Cope – President and CEO

Thanks, Thane. Good morning, everyone. Thank you for joining us. I will just begin with a quick overview and then hand it over to Glen.

First of all, clearly, we had an excellent quarter in terms of broadband growth from a year-over-year perspective, 154,000 subscribers, being Wireless postpaid, Internet and IPTV, up 44% on a year-over-year basis, and, importantly, all three categories had some significant improvement on a year-over-year basis. The 2% EBITDA growth for the company also helped drive a slight margin improvement to the 42%.

On the Wireless side, we just continue to see strong financials and strong Wireless net additions. The net additions of 122,000 postpaid are our highest in 18 years, in terms of the growth that we saw, and of course, even within that, we achieved some reasonably strong EBITDA growth and, again, slight margin improvement, albeit the accounting of the industry has changed year-over-year, as everyone knows.

Our Wireline, good quarter, EBITDA up 1.1%, driven by some strong residential revenue growth, and, again, with tight management of costs, saw our margin increase slightly there, continue to have a margin that leads from a North America perspective, and giving us the headroom for the Capex program that we have focused on fibre.

On the fibre side, the strategy continues to pay dividends for us, external testing from external organizations validating that our product is now the fastest in the market. We added about 47,000 new customers to our FTTH footprint in the quarter, and this morning we announced the next evolution of our fibre product, where later this month we will have a 1.5 Gigabit service available in Ontario, followed by Québec, Atlantic Canada, and then Manitoba. A positive about this is any client who has purchased our fibre product over the last couple of years will not require a change in their modem. They will be able to just naturally go through an upgrade in speed, and this is part of the evolution of this fibre technology, which really is quite remarkable in terms of the speed we will be able to bring to both business and the home. On track for our free cash flow growth of 3% to 7% for the year, and with this type of RGU growth, should position us well for our dividend growth model by end of 2019.

Turning to Wireless, I mentioned the Wireless net additions up approximately 38% year-over-year, driven by strong gross additions in the marketplace. On the prepaid side, continue to see some improvement there. The Lucky Mobile product is doing what we expected it to do strategically. Late July, we also rolled out Lucky Mobile to the remaining provinces in the country. We are now in all 10 provinces and we would expect our prepaid performance to continue to improve on a year-over-year basis, and as I mentioned before, that is important, because we really were not in this space and it just stops the decline of that revenue in that particular category for us.

The term ABPU, the new—I guess it used to be what we would call ARPU, the real metric still for people in terms of our subscribers, we saw 0.6% growth year-over-year. I just want to call out for the analysts that—everyone knows we have this large federal contract that we are bringing on board. The contract is six years and there is no churn. Excluding the subscribers in that contract base, our underlying ARPU growth was 1.7% on our traditional business, so it is basically in line, excluding that large account, which has obviously a significantly different ARPU, but a significantly different churn profile.

On the network side, we continue to roll out LTE Advanced services, now at 90%, expect to be at 92% at the end of the year.

Turning to the Wireline side, FTTH expansion and the TV leadership drove 31,000 Internet and TV net additions in the quarter, year-over-year up 76%. Importantly, on the Internet side, we saw approximately 11,000 Internet additions in the quarter, a seasonally light quarter with the outs from the universities, etc., but on the retail side, 13,000 net additions year-over-year, as our wholesale additions declined year-over-year and is not a focus of our business given the revenue profile of the wholesale segment.

I mentioned the fibre 47,000 additions in the quarter. That is up, actually, 45% year-over-year, so the strategy continues to unfold, as I mentioned, as expected, and we should be at about 4.5 million premises by the end of this year.

We had a really strong quarter from a TV perspective. In our Wireline footprint, we actually saw 7,000 net new TV subscribers. IPTV up 25% year-over-year, and in our IPTV, of course, is our new product Alt TV, and also significant improvement in our satellite business, where our losses improved 33% year-over-year. In fact, if we exclude our wholesale satellite relations that we have with one of our telcos in Western Canada, we actually had a 43% improvement in our satellite losses year-over-year. So, again, the losses on the satellite business continued to slow as a result of the IPTV footprints generally being completed by the telcos across Canada.

We also had this—we ran a unique Wireless trial in some markets, leveraging our footprint in areas that we have not really been competitive in the rural footprint in the past, had some very positive results, so we are rolling out to 30 additional rural communities. The great thing here is the fibre that we are building for our Wireless network to these towers, we, as a result, can offer a fixed wireless solution into the home, as well. The speeds customers will see will be 25 Mbps to 50 Mbps. These will be markets for us that we might have anywhere from 5%, maybe 10%, 15% market share, and so these rural markets, it is a great solution for us, the tests went very well, and so we are going to do 30 additional communities. You will hear more about that and additional communities over time, as we think it is a real way for us to get at the rural markets with a fixed wireless solution. Leveraging the fibre backhaul that we have put in place, it will also, obviously, help drive 5G in our mobile network going forward.

On the Media side, continue to have very strong viewership results, as CTV again continues to be the number oneconventional TV network. TSN has returned to being the number one sports network. Our news is leading the country. Overall, we had a very strong result from the World Cup. We also made a strategic call to allow TSN and RDS to be available direct, albeit at $25 direct, but a product that is now available also in an over-the-top format, and overall consistent, continue to generate significant cash flow for us, but clearly is under some structural challenges, for sure, in the marketplace.

With that, let me turn it over to Glen.

Glen LeBlanc – Executive Vice President and CFO

Thanks, George, and good morning to all and thanks for joining us. I will begin on Slide 9, with a quick overview of our consolidated Q2 financial results.

We delivered another solid quarter, consistent with plan, led by continued strong Wireless operating profitability, an improved organic Wireline growth trajectory, and a healthy contribution from Bell Media to overall consolidated free cash flow. This all contributed to total revenue growth of 1.7%, which drove a 2% year-over-year increase in adjusted EBITDA. Consistent with this growth in EBITDA, as George mentioned, margin also improved, expanding to 42% on a high revenue flow-through, increasing broadband Internet scale, improved wireline business markets performance, and disciplined spending on subscriber acquisition and retention, even as the level of competitive intensity remained high throughout the quarter.

Adjusted EPS of $0.86 was in line with plan, but down from the $0.89 last year, due to the pick-up of some operating losses from our minority interest equity investments, which can be variable and lumpy from one quarter to the next. As a result, net earnings were lower year-over-year despite good growth in adjusted EBITDA, which, frankly, is the key factor underpinning sustainable free cash flow generation going forward.

Consolidated free cash flow of just under $1 billion was in line with plan for the quarter and reflected a timing-related decrease in working capital, as well as a seasonal step-up in absolute dollar capital spending, characteristic of the busier Q2 summer construction period.

So, all in all, very well balanced operating and financial results once again this quarter.

Slide 10 details the results for Bell Wireless, which we are very pleased with overall. Total revenue increased 5%, driven by continued strong subscriber base growth and a greater proportion of postpaid users in the customer mix compared to last year, as well as increased sales of higher value smartphones.

In terms of operating profitability, Wireless EBITDA was up by a healthy 6.2%, while margin increased 50 basis points to 44.2%, reflecting both the high revenue flow-through of 55% and spending discipline on new subscriber acquisitions and upgrades. This was achieved despite a 4% increase in operating costs that reflected higher product cost of goods sold, driven by more customer transactions year-over-year, as well as an increased network operating expense in customer support costs, attributable to the strong postpaid subscriber and data usage growth.

As we head into the seasonally busier Q3 back-to-school period, our postpaid momentum remains strong, with growth opportunities from our industry-leading LTE Advanced network, which now covers over 90% of Canadians, a great device lineup, and an expanding Canadian Wireless market.

Let us turn to Slide 11, looking at Bell Wireline financial results for Q2. you will notice a better organic revenue growth trajectory compared to both the previous quarter and Q2 of last year. Our Residential Wireline unit saw improved performance trends this quarter, with revenue up 1.6% year-over-year, and combined TV and Internet revenue growth of around 4%. In Business Wireline, the rates of revenue and EBITDA decline improved year-over-year, supported by the cost management actions, as well as stronger IP broadband connectivity and professional service solutions growth, that benefited from the contributions of the G7 Summit and Ontario election.

With increasing broadband subscriber scale, more favourable business markets results and relatively stable year-over-year operating costs, Wireline EBITDA was up a very respectable 1.1%. This drove a 20 basis point increase in our North American leading margin to 42.1%, which provides ample operating leverage to fully cover our $2 billion in planned broadband fibre spending in 2018. More impressively, I would like to add that this extensive fibre build-out, which is the largest program of its kind in North America, is being executed at a Wireline capital intensity below that of our direct cable company peers.

Moving to Bell Media, on Slide 12, overall performance was consistent with industry trends, reflecting a reduction in spending by advertisers on traditional linear TV, and ongoing audience declines as viewership continues to move increasingly to online platforms. Total Media revenue was down 0.6% on 1.7% year-over-year decline in advertising. This was moderated by revenue generated from the recently concluded 2018 FIFA World Cup and continued steady growth in outdoor advertising. We also enjoyed relative stable growth in subscriber revenue, which increased 1.9% this quarter, driven by continued CraveTV and TV Everywhere growth, as well as revenue generated from our new TSN Direct and RDS Direct sports streaming services that George alluded to earlier. Lastly, consistent with the expectations of the quarter, adjusted EBITDA decreased 8.5%, mainly as a result of higher costs for sports broadcast rights, including the World Cup, and CraveTV programming expansion.

So, despite the structural pressures facing the industry, Bell Media remains well positioned to navigate this changing landscape with its powerful brands, market-leading content and consistently strong ratings, while generating over $500 million of simple free cash flow annually, which we are redirecting into strategic capital investments that will support the long-term growth of our business and capital market objectives.

EPS, Slide 13 provides the key components of the adjusted EPS, which was $0.86 per share for the quarter, as I mentioned, down $0.03 year-over-year. The higher adjusted EBITDA drove $0.04 of EPS growth, but was effectively offset by higher depreciation and amortization expense, as well as an increased net interest expense. Depreciation and amortization increased $0.03 per share over last year, the result of higher capital asset base, while interest expense was up $0.01, reflecting the higher average level of outstanding debt. Also negatively affecting adjusted EPS in the quarter, as I mentioned, was the higher year-over-year losses from our minority interest equity investments, principally related to MLSE, which, in total, amounted to $0.03 per share. Year-to-date adjusted EPS of $1.66 is in line with plan, keeping us comfortably on track to achieve our guidance target of $3.45 to $3.55 per share for calendar 2018.

Turning to Slide 14, on free cash flow, we generated free cash flow of $994 million in the quarter, driven by adjusted EBITDA growth and lower cash pension payments. This quarter's results also reflected higher planned capital expenditures, as I referenced earlier, and a decrease in cash from working capital, due mainly to the timing of payables—that will largely reverse out in the back half of the year. With year-to-date free cash flow of more than $1.5 billion on track to deliver full year growth target of 3% to 7%, we see accelerated free cash flow generation through to the end of the year, giving us significant financial flexibility to support the execution of our strategic capital investment programs within a consolidated capital intensity level of around 17% and higher dividend.

To wrap up, on Slide 15, the financial performance we reported in the first half of 2018 demonstrates a clear focus on subscriber profitability and price discipline. With continued strong wireless industry subscriber growth ahead and a wireline business that is competitively well positioned and getting stronger with increasing broadband scale, we see good momentum to take us through to the end of 2018 and into next year. Given this outlook, I am reconfirming all of our financial guidance targets for 2018.

With that, I will turn the call back over to Thane and the Operator to begin the Q&A portion.

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 would ask that you limit yourself to one question and one quick follow-up, so we can get to everybody on the call. If we have additional time, we will circle back.

With that, Donna, we are ready to take our first question

QUESTION AND ANSWER SESSION

Operator

Thank you. 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 1 on your telephone keypad. To cancel the question, please press the pound sign. Please press star 1 at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Phillip Huang from Barclays. Please go ahead.

Phillip Huang – Barclays – Analyst

Hi, thanks, good morning. First, a clarification on Wireless. George, thanks for the colour on the ABPU growth, excluding government contracts. I just was wondering how Lucky Mobile is doing and if you expect its growth to be a factor in ABPU growth going forward. Then, my question on the FTTP footprint expansion. you guys seem to be ahead of schedule, having already completed 500,000 households of the targeted 800,000 households for the year. Do you think you could do more than 800,000 households this year? Thanks.

George Cope – President and CEO

Yes, on the—let me do the second one first. No, I do not think we will be able to get beyond. There is really two things. One is the capital element, but, two, also the seasonality. We are really—as you can imagine, when the spring hits and through the summer, we are going pretty hard. For our guests out of the U.S., that ground gets pretty hard up here later in the year, so we end up not being able to do as much. So, I think we are on track, I do not think we will—if we are over, it will be very small, almost immaterial, for the Street to see it.

On the Lucky side, yes, as you can see, the prepaid is improving. With all the problems of not having the product available, it is going to, or should turn our prepaid business to not being a drain from a revenue perspective for us, which it has been for many, many years, due to a real focus issue for us on postpaid. Over time, of course, as we build the prepaid base up, the strategy there is to do some of that migration to postpaid, which we do think one of our peers has done very well, and an opportunity for us to do that with the Lucky brand.

On an overall ARPU base, of course, our mix will change, as prepaid would, arguably, become at least a stable portion of our mix, it would not decline on a quarterly basis, and, obviously, prepaid subscribers are a lower ARPU in total, if that is helpful.

Phillip Huang – Barclays – Analyst

Right, no, that is very helpful. A quick follow-up on the Wireline side. There is still some neighbourhoods in Toronto that have yet to passed for FTTP. I am just wondering if we should think about—how we should think about the way you prioritize the build through the city. Thanks.

George Cope – President and CEO

So, Toronto. I think we are going to end the year at about 88% of Toronto, '416' should be completed by the end of this year. Then, the last 10%, it really is about getting right of ways approved, or one particular condo that might be slow to respond to yes, or some of those issues, but I think from an investor perspective, we will have Toronto completed, fully completed, basically, at the end of this year, with a little bit of add-on, as there is new premises built in the city. The rest are really things we call "denials" or areas we just cannot get in, and those would take five to six years to sort through. It is the same in every market we go into.

Phillip Huang – Barclays – Analyst

That is helpful. Thanks very much.

Operator

Thank you. Your next question is from David Barden from Bank of America Merrill Lynch. Please go ahead.

David Barden – Bank of America Merrill Lynch – Analyst

Hey, guys, thanks for taking my questions, I appreciate it. George, just following up on the Toronto build for fibre-to-the-premise, obviously, this was the quarter where the mass marketing began. Could you talk about how that might have contributed to the better video/broadband performance in the quarter, and are we at run rate, do you think, in terms of where we are in the Toronto market?

Then, if I could, just a follow-up on the Media business in terms of kind of outlook. Can we see this flattening out, now that we got the World Cup expenses behind us, or is this kind of a slow trend downwards and it is more about playing defence in that business right now? Thanks.

George Cope – President and CEO

Okay. So, on the first question, first of all, there is no doubt, where we have the fibre footprint, when you see almost a 50% addition to our fibre subscriber on a year-over-year basis, that is helping drive our broadband growth, but without a doubt helping us drive up IPTV. I mean, for us, a lot of our products are sold that way through a bundle, and particularly now, with Alt TV, where it is basically a product with no set-top box, a different price point than traditional TV—because we are saving a $300 set-top box, we are passing all that savings over to the consumer and now offering those that would not want a set-top box service with something similar to streaming, every conventional or specialty TV capability is there in that product, and so you bundle that with the fibre—we think it is a very compelling offer in the ‘416’ core for us. It will be in other markets, as well, but particularly here, we have such strong growth in the condo development area, so absolutely it is pulling it through.

Then, in terms of broadband, there is seasonality in broadband always for all of us and our peers. The second quarter gets impacted by the outs from the schools and the third quarter is always one of the stronger quarters, and we would expect that historically to continue, what has happened historically going forward. So, it should not be a run rate from this quarter. We should, over time, see the seasonality pick up in our broadband numbers.

Then, on the Media business, definitely, we have work to do on that. We have our consolidated guidance, which is probably what we are going to stick to, in terms of an overall comment to that, but we are doing some pretty creative things with Alt TV, which drives Media revenue for all of our—and also our peers—because we are now we are pursuing the non-set-top box marketplace, or OTT, as people would use the term, with an opportunity for our Media business then to see growth in subscribers there. You are seeing some of the direct stuff that we have done very carefully with both CraveTV and with now TSN and RDS. So, it is all about adapting that model to that profile to try to turn that business and not be, as you said, in some type of decline on a perpetual basis. That will be what we will be working at this year and next year and going forward with that asset.

David Barden – Bank of America Merrill Lynch – Analyst

Thanks, George.

Operator

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

Simon Flannery – Morgan Stanley – Analyst

Great, thank you. George, you talked about the improvement at the satellite TV business. So, is that business sort of right sized now and focused on the more rural? Is that how we should think about this stabilizing more over time?

Then, just a quick one for Glen. How should we be thinking about your leverage targets over the next few years, with spectrum auctions, etc., coming up? Thanks.

George Cope – President and CEO

Yes, on the satellite, I would agree with your comment. There is still some growth in IPTV footprint from us and our peers, but not at the level it was. We have our own internal numbers that show us how many satellite customers are still remaining in our IPTV footprint, and it is obviously now down significantly, and that is why you are seeing the stabilization. We are not stable yet, but you are seeing an improvement in the losses of satellite, and we would expect that, hopefully, to continue.

Also, as I said before, the acquisition a few years ago of Bell Aliant and the acquisition of MTS have helped that business, because in those rural markets, we were not as strong at selling our satellite services. We are now, under the leadership of those teams. So, that is helped it, as well. Of course, Q2 always gets a little bit of help with seasonality, because up here, again, the cottage country opens up and the satellite business always gets a little bit of help, but on a year-over-year basis, there is no doubt there is some structural improvement.

Simon Flannery – Morgan Stanley – Analyst

Thank you.

Glen LeBlanc – Executive Vice President and CFO

Simon, thanks for your question on leverage. As you have heard me say many, many times before, we are absolutely committed to the BBB-high rating that we currently have and are not going to take on any actions that jeopardize that, but we see over the next number of years using our free cash flow to be able to address the current leverage and migrate closer to the stated policy objective. One big thing to remember is the last decade has resulted in over $4 billion of pension injections that we have had to make, and certainly, with the healthy state of our Bell Canada pension plan now, I would see that being not the same type of burden it has been historically. So, absolutely committed to the BBB rating, BBB-high rating.

Simon Flannery – Morgan Stanley – Analyst

Thank you.

Operator

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

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning. Thanks for taking my question. In terms of Wireline EBITDA growth, we see that you are back to sort of positive growth, even on an organic basis. I suspect the number is something close to 1% even if you exclude AlarmForce. I wanted to explore, George, the possibility of—or the prospect of getting that growth number up to maybe a 1.5% or a 2%. When you think about the sort of improvements you are talking about in Enterprise, potentially better subscriber trends, and, at least from our perspective, it looks like the promotional intensity in the market on the Wireline front is a little less than it was maybe a year ago. Then, on top of that, the cost reduction, do you think that is a realistic prospect as you look beyond 2018, or are there just too many headwinds that would kind of get in the way of that?

George Cope – President and CEO

Yes, first, thanks for the question. I would not, on the modeling side, model more than the 1% right now, without giving guidance, but you are asking me about the 1.5% or 2%. Really, the challenge still for us is just the mix. We still have a significant NAS business, although I do with the analysts and the investors kid, you know, at the beginning of the quarter—you want the revenue at the end of the quarter, you are glad you have less in the mix from a numerator/denominator math side. So clearly, that is the challenge. Our growth profile of our growth portfolio is strong.

Then, on the other side, I think it is clear to say that the great revenue growth we saw off the traditional linear TV is not at the same level that we would have seen two or three years ago, and we now have a new competitor in that—or new products coming into that space.

Our goal here is to be positive on the Wireline side, because that is what makes the contribution to the company so significant, because of our scale. I think the fibre strategy should enable us to do that with some type of cost management, but I think it is a little too early to talk about things that have a 2% in front of it on the Wireline side.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Great, thank you.

Operator

Thank you. The next question is from Maher Yaghi. Please go ahead.

Maher Yaghi – Desjardins Securities – Analyst

Thank you for taking my question. George, you mentioned the ARPU, it looks better if you exclude the contract with the government, but I am getting about 1% help—you do not provide postpaid ABPU numbers, but the mix shift that I am calculating is helping you by about 1% in the quarter, so postpaid ABPU growth is looking to be between 0% and 0.5%. Do you suspect that this should trend higher going forward, and what are the pressures that you are seeing on the business itself that is pushing down the growth in that number in the market?

My second question, on Wireline, can you maybe talk a little bit about your strategy for WTTP?

George Cope – President and CEO

Sure. On the ARPU, I think the way I would describe it, as we said in the last number of calls, we have said we anticipated about a CPI improvement in ARPU on a year-over-year basis. I think it is fair to say the federal government contract does not have that type of ARPU in it, so we just—just for the purpose of the Street, to give everybody colour, we are probably, roughly, on that number, excluding that contract. That contract is so unique, because it is six years and no churn, so a very different ARPU profile and subsidy profile than the traditional type of account we would have.

So, I think that is how I would answer that, and the all the mixes of pre and post, and all that, that is a modeling thing you and Thane can work on, but from an investor perspective, we thought we would see CPI. I guess I was trying to say underneath that one contract, that is roughly what we are seeing. Clearly, the migration to the higher speed devices and LTE Advanced, a lot of that has happened in the country, so the type of growth we saw the last couple of years on ARPU of 2% and 3%, I think we have been pretty clear on that the last number of calls, that is not what we anticipate seeing in the marketplace. That is kind of our view there.

The other question was about the fixed wireless. So, the fixed wireless, as I mentioned, we did some trials in some small markets. The cost of this service now looks quite attractive. Part of it is, because we are doing fibre backhaul to all of our Wireless cell sites, we could not really offer this fixed service without that fibre there. So, now, with the fibre there in these rural markets, we can leverage some fixed product. We did a few trials and, frankly, we saw a pretty significant share in markets, although very, very small markets, and so we are just going to roll it out in these rural markets where we, quite frankly, do not have an alternative that would be cost-effective, such as even FTTN or FTTH. We got a small number being done, 30 communities. We will see how they go, and if that goes positive, we will do more and more of those communities, and it gives people speeds of 25 Mbps to 50 Mbps, which is way beyond what anyone is offering in those particular very rural communities now. So, more to come on that file.

Maher Yaghi – Desjardins Securities – Analyst

What is the addressable market in terms of size for that technology, in your view?

George Cope – President and CEO

We still have not finalized it, but probably people would be safe—I think we have 1 million, 1.25 million households, possibly, we could get at with this technology, but that is not what these 30 communities do. But we want to learn from that 30 communities, and as we roll fibre out—because, obviously, we do not have fibre to every single rural site today—that also lends this opportunity for us, from a fixed wireless perspective, to offer a product that, quite frankly, is vastly superior than what is available in the market from anyone. Those are markets where we have high satellite share, obviously traditionally local access share, but very, very low Internet share. As I said, in some of those markets, we were at 3% and 5%, and so we are just now trying to roll that out in these 30 markets, and then we will come back to the Street with more information as it evolves, but not too much, so our competitors do not know everything we are doing.

Maher Yaghi – Desjardins Securities – Analyst

Okay, all right. Thank you.

Operator

Thank you. The next question is from Sanford Lee from Macquarie Capital Markets. Please go ahead.

Sanford Lee – Macquarie Capital Markets – Analyst

Hi, good morning, and thanks for taking my question. On the Internet and TV sub strength that you are seeing right now, that is good, but what I notice is that the Wireline data revenue was only up 3%, the Q1 2018 data revenue was up 6%, so sort of seems to suggest that there is ARPU pressure on Internet or TV, or possibly both. Now that you got the Ignite TV product just launching out, can you—and it is early days, obviously, but can you give me an idea of what you are seeing as far as the pricing environment on Internet and TV?

George Cope – President and CEO

Yes, actually, I think you got to look at last year's quarter, not the quarter. We got—MTS in all those numbers for the last four quarters, so that would be—not having it right in front of me—that would be roughly be the 6.3%, probably, organic versus not. So, that is the first point.

On the second, actually, we talked about it—I think in one of the notes there, we talked about 9% — 4% revenue growth, sorry, between TV and Internet, and that would be in those numbers. So, highly competitive marketplace. I would not say—someone had said on one call less competitive than other quarters. I would not say that. We think it is pretty competitive, because of our product is clearly—fibre is clearly superior to anything in the market and Alt TV is obviously a very creative product meeting the demands of the consumer, and the offset of that, as you just said, is we have now got some peers in the marketplace who are offering some new TV services to be competitive. So, a highly competitive market, I certainly would not say less competitive, but I have not seen anything in our actual results that concerns us year-over-year, which is a little bit where you were going.

Sanford Lee – Macquarie Capital Markets – Analyst

Great, thank you, and if I could ask one quick one on Wireless. Of the 122,000 postpaid subscribers, can you say how many are related to the shared services contract?

George Cope – President and CEO

No.

Sanford Lee – Macquarie Capital Markets – Analyst

Is there more to come from the government?

George Cope – President and CEO

Yes, there is actually many more of those customers still sitting with our competitor, although I think they say they are not in the subscriber numbers, but they are sitting there, not with us, and so this will take a fair amount of time for all these customers to move over. It is a very different type of client. It is a fantastic client to have. It is corporate. It sets us up for Wireless solutions that go deeper into the federal government. The most important part of it is, what for us is significant and why the pricing is so different than other clients, is that it really has no churn attached to it. But we are not going to give quarter-to-quarter results on any customer profile. I did call out the ARPU, in fairness to everyone, because I knew we would get the question, for all the analysts on the modeling issue.

Sanford Lee – Macquarie Capital Markets – Analyst

Great. Okay, thank you.

Operator

Thank you. The next question is from Jeff Fan from Scotiabank. Please go ahead.

Jeff Fan – Scotiabank – Analyst

Thanks. Good morning. Just a quick clarification and then a bigger picture question on Media and Internet. On the clarification, George, just on the Canada government contract, did you say this was a six-year no churn?

George Cope – President and CEO

Yes, six-year, yes, basically, a six-year contract. Actually, it has renewals after that, but you never know if you would get them.

Jeff Fan – Scotiabank – Analyst

Okay. Just on Media, an Internet-related question. Some of the U.S. operators are now starting to shift their focus to Internet-only services, trying to shift away from the bundles. Just given the vast amount of direct-to-consumer video OTT services that have popped up in the U.S.—and I am not saying that Canada has the same number of direct-to-consumer services, but you are now starting to do some of the direct services, like TSN. I guess my question is really wondering, in a world like that, where the market may be going to Internet-only, how do you look at that from an ARPU per household or ABPU, however you want to define it, that you could get from the household, when there is no traditional television services attached, and how that affects the revenue opportunity for the fibre investment?

George Cope – President and CEO

Okay. So, a couple things. I think, first of all, the underlying strategy of Alt TV is exactly addressing the consumer's change in how they want to view video, and the product, of course, is currently restricted to simultaneous streams, so that focuses very, very much on the condominium market, or, as traditionally people use the term, cord-cutter market or cord-never market. That is a subscriber where, frankly, the TV product is, as I said—to a customer, the present value savings is about $300 or more over any 24-month, 30-month period, because the TV product is anywhere from $10 to $20 cheaper. So, you are adding Internet plus the video for much less cost overall, and that is because we are passing that savings through. So, we are expecting a lot of bundled Alt TV, Internet, fibre subscribers going forward, and so you end up, arguably, with a different or a lower overall ARPU, but you are also not providing set-top boxes in your capital program. So, that is really our strategy, and then, of course, we will continue on the linear TV market, which is still significant for us, providing some growth, and obviously there are still some additional features on the linear side that we cannot fully provide in the OTT world that we do not today.

Then on the direct for Media, it would not make sense. The more important thing for our Media assets is to make sure that content, of course, that content and other content are in a successful Alt TV launch, because that is what will drive subscribers to the Media business.

Jeff Fan – Scotiabank – Analyst

So, I guess what you are saying is the Alt TV contribution is as good as the linear TV contribution?

George Cope, President and Executive Officer

Net-net, that would be the goal, right? Obviously, we absolutely want to get to that type of number. Frankly, early on, it is more cash flow accretive, because we are not putting the cash up for the set-top box, Frankly, one of the important things in Canada—you know, the average ARPU for Canadian TV has been around CAD $60. That is a lot different than US$90. Obviously, Alt TV is below that $60. We think that makes some of the OTT offers you are seeing in United States not look any more attractive than what we are now offering in Canada with Alt TV, and we think that, combined with fibre, puts us in a great competitive position.

Jeff Fan – Scotiabank – Analyst

Okay, thanks, George.

Operator

Thank you. The next question is from Drew McReynolds from RBC. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Yes, thanks very much. Good morning. George, I just want to kind of touch on residential wireline. Clearly, the battle over time here moving beyond traditional telecom services to more of the smart home and owning the home. Can you talk to kind of what the roadmap looks like for Media room and Media first along those lines, and to what extent does your M&A focus shift here, as you kind of look more broadly in terms of servicing the home?

George Cope – President and CEO

Yes, well, I think, as everyone knows, we did the first investment on the security side, really, to give us a platform. I think some people here in the market probably would have seen some of our rebranding there. We are starting to offer something that we call Connected Home Services there, and that is in early days. That product, combined with our fibre, is really about getting the overall households.

In terms of acquisitions, frankly, I think we have our head down now, pretty focused on the organic assets that we have. As we have said, there is small things, but nothing of the scale that we have done in the past. If you look at the geography of Canada and what we have been able to put together here, we think we are really happy with the portfolio we have, and I do not mean to be—hopefully, that is helped to answer the question.

Drew McReynolds – RBC Capital Markets – Analyst

Yes, no, that is great, and maybe a follow-up for Glen. Can you just comment on what the impact in the quarter was with respect to the G7 and Ontario election, and maybe a bigger picture just on the business markets. We are clearly seeing a pretty robust U.S. economy overall. I am just wondering if that business markets, you know, you are a little bit more optimistic in and around it going forward here.

Glen LeBlanc – Executive Vice President and CFO

Yes, look, we have seen—as I said in my remarks, we have seen a turnaround in business in that we are not seeing the same level of decline we have had in the past. I said before one quarter does not a trend make, but this has been a few in a row, so we are optimistic that we are starting to see some improvement in the economy, it is playing well. Our business markets has done a remarkable job of maintaining the market share that we have, and that is despite the pressure on reprice, we are able to manage that reprice better than we have in the past, while maintaining the market share. So, optimistic that our business performance is going to start to hold.

As far as the G7 and the Ontario election, I am not going to call that out, specifically. Obviously, Drew, it is not overly material in the big scheme.

George Cope – President and CEO

They are also confidential contracts.

Glen LeBlanc – Executive Vice President and CFO

Yes.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, understood.

Glen LeBlanc – Executive Vice President and CFO

It would still be positive, regardless.

Drew McReynolds – RBC Capital Markets – Analyst

Yes, no, understood. Thank you.

Operator

Thank you. The next question is from Vince Valentini from TD Securities. Please go ahead.

Vince Valentini – TD Securities – Analyst

Thanks. One clarification and one question. The fixed wireless service you talked about, George, is that just using your traditional mobile spectrum or are you contemplating using some of the higher up spectrum, in the 3.5 GHz or millimetre wave bands? Then, a bigger picture one, still on Wireless, would be 5G. I have not heard you talk much about it. I mean, you obviously have the biggest scale in the business in Canada, you always seem to have a leadership position, as you are doing right now with the biggest fibre build-out. Can you talk a bit about your 5G plans, or do you think of 5G as just being a dumb pipe in the future, or given your scale, can you start to think about being a leader in generating some of these applications for connected cities and whatever other applications? Can you talk us through anything you are doing in the early stages on that? Thanks.

George Cope – President and CEO

On the fixed wireless, we are using the spectrum we have, which is our 3.5 GHz spectrum that we are using for that, because cell sites have, frankly, shrunk so much in even these rural markets, it lends itself out with the fibre backhaul to give this an opportunity for us and that is why we are pursuing it. That is probably covered now a couple different ways, but it is early days. As we said, it is a way to get to a million plus households with a service that we do not have a strong share on.

On 5G, it is interesting, we have done 5G trials. We think we are going to be—we are in the best positioned telco, maybe, in North America, because every cell site, we are finished. All this fibre build we are doing is going to serve as an underlay for our 5G mobile network. We do not think in urban markets 5G fixed will be the same as in the United States. Because of how deep fibre is going here in Canada between us and our peer in Western Canada, who is following a pretty similar strategy, in the next 36 months, Canada will probably be the most fibre-connected country in the world. So, the 5G fixed opportunity at one Gigabit is not comparable to today's launch of 1.5 Gigabit already into the home with fibre.

On the mobile side, obviously, absolutely, the next evolution of service for us will be 5G, but that will be as the handsets and the protocols are set in a way that they are commercially readily available, and then we will do an overlay of our network with that.

Then, on the whole area you are going to, which is the whole IoT area, yes, we think it is a huge opportunity for us with our vertically integrated Wireline and Wireless businesses, and that will be in our numbers going forward, and we will have more to say as that technology evolves. But, we think we have just set our assets up perfectly for that, because we think this fibre investment we are making in Wireline, in one sense, is going to make our Wireless business, which would have had to bear the burden of this, really now it will just be obviously a cross-charge from one entity to another.

Vince Valentini – TD Securities – Analyst

That is good, George, but would you already have in your numbers some investment in not just the network? We see what you are doing with fibre and your cell cites, but, actually, on the software and applications side, to think about some of those future IoT applications, is that just wait-and-see for standards, or do you already invest in that today?

George Cope – President and CEO

We are already investing today. I will not go much further, because there is a lot going on in the company in that space. We are starting to see, actually, some early wins. They are not 5G wins, but they are IoT wins. I am probably just not going to go further than that, other than we talk a little bit about some smart city work we are doing, etc., in the marketplace. So, yes, very excited about the opportunity, a lot of strategic work going on in the company, all which—at this point, the only one really interested in this is my competitor, so I am not going any further.

Vince Valentini – TD Securities – Analyst

Okay, thanks.

Operator

Thank you. The next question is from Batya Levi from UBS. Please go ahead.

Batya Levi – UBS – Analyst

Great, thank you. One on Wireless first. You mentioned that the strong momentum continued after the quarter. Can you provide more colour, if most of those gross additions are coming on the phone side, or tablets and connected devices are helping, as well? Churn remains very low. Can we see any improvement in that, or this is kind of like a good level to attain? And maybe a little bit more strategically on the Media business, how do you think about that longer term, given that there are some regulatory restrictions to add more scale? Do you think that you need more scale to perform better in that business? Thank you.

George Cope – President and CEO

On the mix, a significant amount, vast majority, almost of all it is significant postpaid smartphone additions that would be driving a lot of that volume.

The second question?

Glen LeBlanc – Executive Vice President and CFO

Churn improvement.

George Cope – President and CEO

Oh, yes, sorry. On the churn side, frankly, we would still like to do better. We are working hard every single quarter to try to see those numbers improve. Having said that, as you said, at 1.1% we are pleased, but we want to just keep, obviously, trying to drive that churn down with our retention programs. Canada has a structure that lends itself to these type of churn numbers, but there are some U.S. carriers doing better than us on that space, we pay attention to it and we want to work to get to those type of numbers over time.

On the Media side, yes, we were disappointed in the investment we were looking to make in Québec, the strength in our position there, but overall we are actually quite—we think our Media asset investments give us the portfolio we need to execute there. Of course, also the ownership of our sports teams has been nothing but a tremendous investment for us. I mean, our vertically integrated P&L on the sports side is pretty positive, because we own the sports teams, we own the number sports broadcaster in both French and English, and of course we are now offering that product as customers want it, on even a direct basis. So, we think we are well invested on the Media side and there is nothing significant there that we need to do, other than now try to monetize that asset as the market changes with products like Alt TV and CraveTV in the marketplace.

Batya Levi – UBS – Analyst

Allright, thank you.

Operator

Thank you. Your next question is from Richard Choe from J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Great, thank you. I wanted to ask, how should we think about Wireline margins as you finish the Toronto build, and then longer term, as the fibre build ramps down, where could we see margins go from this 42% level that you have been very consistently posting?

George Cope – President and CEO

Thanks for the question, Richard. We probably would not change where we are now. I do not want to give guidance on margins, but the challenge, obviously, on the margin side for us is the local access line decline. We still have a base there, and everyone on the line, analysts and investors, would know the margins on those historically. The offset is, when you are putting broadband in, the margins are very high there, too, but of course the Capex is significant. So, to do much better, when we look at the global Wireline margins, it is almost hard for us to forecast, though obviously we work to try to improve it. On the cost side, though, I think it is fair to say, as you are now indicating, we roll out the fibre, we will ultimately see savings, because the truck roll costs will drop, simply because fibre requires less repair work than the traditional technologies that we leverage. But, I am not prepared to say the margins are going to get even better. I think we saw a little increase this year. Also, the synergies of the MTS deal and what we did with Bell Aliant have clearly helped us overall to hold these margins, as we have seen the NAS has declined.

Richard Choe – J.P. Morgan – Analyst

As a quick follow-up, in terms of the Opex, in terms of the build-out costs, that will eventually go away, but it is going to probably take some time, but when it does, that is—

George Cope – President and CEO

A lot of the costs right now are in the capital costs, right? So much of this is the capital to connect the home. There is no doubt on—even on the modems, those type of devices, a lot of that is caught in our capital, not as much in the Opex, but there is clearly—I think we have talked before, you know, we are hoping over time to see a 5% operating cost savings versus our traditional broadband to fibre, but we need to continue to get the scale that we are now getting to really see that benefit. But there is no doubt, where we have fibre, there are less truck rolls, which is going to ultimately save us money. Frankly, the work becomes in the home, not out of the home now, because some homes just do not have the capability for this type of speed, based on what wiring they may have in the house.

Richard Choe – J.P. Morgan – Analyst

Great, thank you.

Operator

Thank you. There are no further questions registered at this time. I would like to turn the meeting back over to Mr. Fotopoulos.

Thane Fotopoulos, Vice President, Investor Relations

Thank you, Donna. Before we sign off, I just want to thank everybody for their participation and interest in BCE this morning. I will be available throughout the day for any follow-up questions or clarifications. So, with that, thanks all and have a great day.

Operator

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