Q1 2016 Results Conference Call

George A. Cope
President and Chief Executive Officer

Glen LeBlanc
Executive Vice-President and Chief Financial Officer

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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 Q1 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), our common share dividend policy, our business outlook, objectives, plans and strategic priorities, our network deployment plans, 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 April 28, 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 April 28, 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 Q1 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 Q1 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

- *Gradual strengthening of the economy driven by activity in the non-resource sector, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 1.7% in 2016, representing a thirty basis point increase from an earlier estimate of 1.4%*
- *Sustained weak employment growth, as the overall level of business investment is expected to remain soft*
- *Interest rates to remain relatively stable through 2016*
- *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 on a higher expected number of customers with expired contracts resulting from the expiry of two- or three-year service contracts due to the mandatory code of conduct for providers of retail mobile wireless voice and data services in Canada (the Wireless Code)*
- *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 momentum 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 approximately 75% 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*
- *Positive full-year residential net customer additions within our wireline footprint, driven by continued IPTV growth and an expanded fibre-to-the-premise (FTTP) network that support the pull-through of fibre-based Internet service and residential NAS, resulting in higher penetration of multi-product households*
- *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 CraveTV growth, national expansion of our TMN pay TV service, and labour savings from workforce reductions in 2015, 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 April 28, 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 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*

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 Quarter MD&A dated April 27, 2016, and BCE's news release dated April 28, 2016 announcing its financial results for the first 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 First Quarter MD&A 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

Tim Casey
BMO Capital Markets – Analyst

Richard Choe
J.P. Morgan – Analyst

Bentley Cross
TD Securities – Analyst

Jeffrey Fan
Scotiabank – Analyst

Simon Flannery
Morgan Stanley – Analyst

Aravinda Galappatthige
Canaccord Genuity – Analyst

Philip Huang
Barclays – Analyst

Batya Levi
UBS – Analyst

Greg MacDonald
Macquarie Capital Markets – Analyst

Drew McReynolds
RBC Capital Markets – Analyst

Robert Peters
Credit Suisse – Analyst

Michael Rollins
Citi – Analyst

Maher Yaghi
Desjardins Securities – Analyst

PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to BCE's Q1 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 first quarter results package and other disclosure documents including today's slide presentation are available on BCE's Investor Relations web page. Also, because of our Annual General Meeting that is taking place this morning, we will be ending the call a little bit earlier than usual so we will take as many calls—or rather as many questions as time permits after George and Glen are done with their formal remarks.

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.

George Cope – President and CEO

Great. Good morning everyone. Thank you Thane, and thanks to everyone for joining us. I am under our first slide called Q1 Review. In terms of the quarter, the service revenue growth of 1.3% and the focus on cost management delivered a very positive 3.3% increase in BCE's EBITDA in the quarter and also very pleased with the margin expansion of the Company to overall 41%. I am pleased with our share of broadband customer growth in the first quarter with the 93,000 total combined Wireless postpaid, IPTV and Internet net subscriber additions, particularly on the Internet side where we saw some pretty intense competition in the last month of the quarter. I will comment on that in a moment and on the other results.

The Wireless financials once again were excellent with 5.3% service revenue growth and 6.9% growth in EBITDA, and there as well driving margin expansion on service revenue to 48.2%. On the Wireline side for the seventh consecutive quarter, we had positive EBITDA growth of 1.3%, and a 3.4% decline in our operating costs also gave us the headway for an expanded margin to 42% providing us ample room for our fibre investments that we are making across our footprint. Media had a very strong quarter with EBITDA up 2.8% on revenue growth of 2.1%, driven also through some significant restructuring that we did in the fourth quarter. In fact, even without some of the small acquisitions, we had organic EBITDA growth. I think most positively for us is the continued progress on the service agenda where we saw churn reduced on all three of our portfolios. And as we go through the market with the investments, we are seeing a reduction in our operating cost through those improvements.

All in all three of the divisions' positive EBITDA growth in the quarter and that is our expectation on the entire year that all three groups should remain EBITDA positive in 2016. It is our 42nd consecutive year-over-year quarterly growth of EBITDA and the first quarter although a long way from year-end is consistent with our dividend growth model and the strong cash flow in the quarter certainly gives us confidence that we are heading in the right direction for the continuation of our dividend growth model into 2017.

Turning to Wireless, very pleased with the 26,000 net adds in the seasonally slow quarter of the first quarter of Wireless, roughly almost two times that of our largest competitor. Also pleased again as I mentioned that our churn improved in the quarter, down to 1.15%, and we continue to see strong ARPU growth of 3.6% as customers continue to migrate to our LTE network and we continue to manage our prices in a disciplined way in the marketplace. Cost of acquisition was up 9.3% in the quarter. Part of that driven through the postpaid mix which is really where our focus is, and of course the weaker Canadian dollar. I am particularly pleased that our retention spend held stable year-over-year at 11.8% of service revenue even within—even though we are within that 12 month window of the double cohort. We actually even are holding that number constant as a percentage of revenue and able to see a reduction in churn. Our LTE Advanced services are now available to 49% of Canadians providing speeds effectively of 25 to 100 Mbps and at the end of the year, 75% of the population will have access on LTE Advanced.

Turning to Wireline results, I mentioned we had 20,000 Internet net adds in the quarter. Where we particularly saw it softer was on the Wholesale side. In fact a large part of the impact in the quarter was in the wholesale marketplace, and so we are fine with it because quite frankly the consumer direct retail is clearly where more the margin is for us and you can see that in the note that residential ARPU was up 10% year-over-year on the Internet side. Forty eight thousand IPTV net adds, very pleased with, and I thought it was important to draw out that we actually had 20,000 net adds in our footprint on TV and so the satellite losses obviously a significant number of those were also outside of our Wireline footprint and we would expect that to continue. The NAS losses improved slightly year-over-year.

So I mentioned on the Media side, a strong quarter. Continued leadership in audiences both on the conventional side and four of the top ten specialty channels on the English side of the marketplace. Very pleased that TSN and RDS were the most watched English and French language sports networks in the first quarter of the year, given how important that quarter typically is in the hockey area where clearly that is not all of our content. Also those two channels were number one in specialty in both of their markets.

We rolled out TMN nationally as we talked about last quarter on March 1. So off to a strong start there, and on that, the consolidation I think we literally added possibly one to three resources in terms of additional employees.

Canada continues to lead quite frankly in North America from 4K production. We are in a pretty good competitive battle but that is a benefit to the consumers where from our perspective we did our first broadcast in 4K of a Raptor game in January, we carried the first ever North American Award Show broadcast on the Junos and also carried the Masters in 4K.

We launched CraveTV direct-to-consumers as everyone knows in January. In the first 90 days, we surpassed 100,000 customers and we now know, this quarter, we have 100,000 paying subscribers as well. So off to a pretty good start there on the direct side, and remember everyone, that is to complement our distribution strategy through our BDU partners who also sell the product in the marketplace.

Turning to Slide 8, just a couple of comments on our continued service progress. We see two key things happening here. As we make the investments, our service metrics improve and cost come out of the operation. Calls in the quarter down 14% year-over-year. Self-service, 30 million visits in Q1, up 11% over a year ago. Customer complaints down 16%. Importantly residential assurance down 29%. Assurance would mean repairs. Where we particularly are seeing the benefits are, as we roll out fibre, now that we are at 2.5 million locations footprint, the amount of work required on assurance drops significantly. The residential churn down on Fibe TV; Internet churn down and Wireless postpaid churn down and our network rank—our Wireless network ranked by three independent organizations as the fastest in Canada. So all the customer service metrics moving the right way and the best evidence of that is quite frankly our reduction in churn across the board.

With that, let me turn the presentation over to Glen.

Glen LeBlanc – Executive Vice-President and CFO

Thank you George, and good morning everyone. I will start with a quick high-level review of our first quarter consolidated results on Slide 10.

A very solid start to the year with continued industry leading Wireless financial performance, steady Wireline growth and Media results that contributed positively to the healthy EBITDA and free cash flow growth that was in line with our plan.

Service revenue was up 1.3% driven by our growth services which collectively increased 3.1% year-over-year. Product revenues were down $31 million or 8% compared to Q1 of last year. This was a result of the intensely competitive promotional handset offers, particularly in the second half of the quarter and reduced spending by large enterprise customers. Of course these revenues carry little to no margins.

As George mentioned, but I cannot help but mention it again, EBITDA increased a very healthy 3.3% on positive year-over-year growth at all three Bell segments. This yielded a percentage point increase in our consolidated margins to 41%, which was driven by exceptional service revenue flow-through to EBITDA of 112% that reflected strong Wireless ARPU growth, higher revenue per household and well controlled operating costs.

Adjusted EPS of $0.85 per share was in line with plan, up 1.2% year-over-year, while free cash flow increased $187 million to $418 million, even with a 3% increase in capital spending this quarter.

So overall, a very solid quarter financially and consistent with our guidance targets we provided in February, underscoring our continued focus on subscriber profitability and price discipline.

Turning to Slide 11 on our Wireless segment, service revenues was up 5.3% on strong data revenue growth and reflected increased smartphone penetration, greater LTE data usage and a higher percentage of customers on two-year contracts. This drove industry leading ARPU growth of 3.6% making our 25th consecutive quarter of year-over-year growth, a truly remarkable achievement. Product revenue decreased 18.1% due to the competitors' rich promotional handset offers in the quarter that we matched and fewer year-over-year customer upgrades.

Wireless EBITDA was the financial highlight of the quarter, growing 6.9% and delivering a 70 basis point increase in service revenue margin to 48.2%. This result was driven not only on the back of higher ARPU but also by spending discipline as evidenced by our operating cost, which were essentially stable in the quarter, even with the $23 million in higher year-over-year spending on customer retention and COA. Bell Wireless also continued to contribute significantly to overall BCE free cash flow generation in Q1 with growth in EBITDA less capex of 6.8%, as we maintained the industry best capital intensity ratio of 9.6%. So another excellent quarter of Wireless results for Bell Wireless leading the industry once again on all key financial metrics.

Moving to Bell Wireline on Slide 12, similar to Q4, total revenues decreased 1.5%, as our Business Markets results continue to be impacted by competitive pricing pressures and reduced customer spending on service solutions and data products as a result of the soft economy. This was partly offset by the solid performance of our Residential Services unit which delivered revenue growth of 1%, our 10th consecutive quarter of year-over-year growth. Internet and TV revenue combined was up 6.6% in Q1, driven by continued market leading broadband subscriber growth and higher household ARPU. However, overall growth was moderated by the cable competitors' very aggressive promotional bundle offers and a $13 million loss in revenue from a sale of a call centre subsidiary last September. Normalizing for this, residential revenue was closer to 2%.

Wireline EBITDA increased a steady 1.3%. That represents our seventh consecutive quarter of positive year-over-year growth. This yielded a strong 1.1 percentage point improvement in margin to an industry best 42.1% reflecting a 3.4% decline in operating cost that was driven by savings from organizational restructuring initiatives taken in Q4, service improvements efficiencies, as well as Bell Aliant integration savings which are now expected to reach $150 million compared to our original estimate of $100 million.

Turning to Bell Media on Slide 13. Overall, a very good set of Q1 results highlighted by the trifecta of positive revenue, EBITDA and simple free cash flow growth. Total revenue up 2.1%, mainly on the strength of subscriber revenues and year-over-year growth of Astral Out of Home. Subscriber revenues increased 7%, driven mainly by the national expansion of The Movie Network in Western Canada on March 1, as well as continued CraveTV and TV Everywhere growth.

Consistent with our expectations, advertising revenue was down a modest 1.6% in the quarter. Q1 performance was impacted by general softness in the TV advertising market, reduced spending by some of our key customer segments and stronger ratings for World Junior Hockey in Q1 of 2015 as that event was held in Canada last year.

Radio advertising also declined year-over-year due mainly to weaker economy in Western Canada. Labour savings from workforce reductions in Q4 moderated overall operating cost growth for Bell Media in the quarter contributing to a year-over-year EBITDA growth of 2.8% in Q1.

Slide 14 provides the main components of adjusted EPS which was in line with plan for Q1 at $0.85 per share. Higher EBITDA across all Bell operating segments drove a $0.06 year-over-year increase in EPS. Also contributing to higher EPS this quarter was the net pension financing costs which decreased year-over-year, mainly as a result of the voluntary $250 million contribution we made at the end of 2015 that reduced our overall pension obligation.

As expected, depreciation and amortization expense increased versus last year due to a higher capital asset base in service, while tax adjustments totaled $0.02 per share, down from $0.03 in Q1 of 2015. Adjusted EPS also reflected a dilution of around $0.03 per share this quarter due to the higher share count as a result of our $863 million equity issuance last December.

Lastly, we also recognized an $0.08 per share mark-to-market gain on equity derivative contracts, resulting from the increase in BCE's share price in the quarter. However, this was offset by a foreign exchange loss on currency hedges related to our U.S. dollar denominated expenditures, reflecting the recent sharp appreciation in the Canadian dollar. While those forward contracts do not qualify for hedge accounting, all of BCE's U.S.-dollar denominated spending for 2016 has been hedged and around—well the majority of 2017 spending has been economically hedged as well, effectively insulating our free cash flow exposure from foreign exchange movements.

Turning to Slide 15, you will see that we generated free cash flow of $418 million this quarter, up $187 million compared to last year. This was driven primarily by higher EBITDA, a positive change in working capital attributable to the timing of supplier payments and reduced inventory and a decrease in cash taxes due to a lower final installment payment made for the 2015 tax year. This was partly offset by higher severance payments related to workforce reductions in Q4 and higher planned capex. Free cash flow and working capital in particular tend to be seasonally low in Q1, so our performance this quarter was consistent with our planned cash flow generation and remains on track with guidance for the year. We also took advantage of the favourable market conditions and sustained low interest rates to further bring down our average cost of debt and to achieve preferred share dividend savings.

On February 29, we issued a $750 million 10-year debenture with an after tax coupon of approximately 2.6%. That brought our overall average after tax cost of debt to under 3.4% and effectively completed our 2016 refinancing requirements. The net proceeds of that debt issuance were used to fund the early redemption of the MTN debt maturing in April and September, saving BCE $6 million in annualized interest costs.

With respect to our preferred shares, we have reset the fixed dividend rate on two different series of preferred shares so far in 2016. That brought the average dividend rate on these two series down from 4.4% to approximately 2.7%, resulting in an annual savings of around $10 million. We also will be resetting the fixed dividend rate on three other series of preferred shares having a total face value of $1.2 billion between now and the end of year.

Finally on pension, we have been very prudent in making voluntary contributions to our pension plans to address funding risk. Looking forward, an increase in interest rates in the range of 50 to 100 basis points would effectively eliminate BCE's solvency deficit and significantly de-risk future cash flow requirement of our DB pension plan. Should we get to a surplus position, there would be an opportunity to reduce ongoing pension funding requirements by approximately $200 million, as we would not be obligated to pay the annual current service cost of our plans. That would be a meaningful upside to free cash flow.

To wrap up on Slide 16, with another good start to the year, no fundamental changes in our overall outlook, a business that is competitively well-positioned across all services and in all markets, and our continued expectation for positive Wireless, Wireline and Media EBITDA growth for the full year of 2016. I am reconfirming all of our financial guidance for the year.

That concludes our formal remarks, and I will now turn the call back over to Thane and the Operator to begin Q&A.

Thane Fotopoulos – Vice-president – IR

Thanks Glen. So before we do start the Q&A period, I just want to remind participants of our time constraints this morning. So please keep your questions short and focused so we can get to as many questions as possible. So Wayne, we are ready to take our first question.

QUESTION AND ANSWER SESSION

Operator

Thank you. Please press star, one at this time if you have a question.

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

Phillip Huang – Barclays – Analyst

Yes, good morning. I am pleasantly surprised by how strong the Wireless margin was particularly given how competitive March was and both your postpaid churn and net adds were quite strong. But my question is actually on the fixed line side. How would you characterize the competitive environment in Ontario and Québec right now? Anecdotally, we are seeing increasing promotions from both Rogers and Bell in Toronto in Q1 and they seem to be extending into Q2. I was just wondering if you can give us an update on the development in Toronto and also whether the competitive intensity is similar in Québec. Then as a quick follow-on on that question, you have $800 million in excess free cash flow, after dividends every year under what circumstances would it make sense to accelerate your fibre-to-the-home expansion plans? Thanks.

George Cope – President and CEO

Okay, great. Certainly two very different questions. First of all, all the markets are clearly competitive both in Québec and Ontario and it certainly does move from quarter to quarter, sometimes month to month on the Wireline, the business side between the provinces. While we clearly saw some very aggressive pricing in the market, my view is that is evident in the financial results of our peers and we are going to be competitive in the marketplace and we will continue to make sure we are competitive in the marketplace and leverage our advantage of having the best cost structure in telecom in North America as a result of our service improvements.

So for investors, we will go at it any way in the marketplace require it. Having said that, given we have a superior TV product in the market as evidenced by our TV growth, we are going to continue to position that as the superior products in the market with the pull through of the broadband as our strategy, consistent with what we have done in the last three or four years and of course the broadband piece will become even a more prominent piece of our strategy as we continue to roll out 1 Gpbs fibre right to the home.

So in terms of the second part of the question, I do not think—we are not looking at an acceleration of that program. We talked about this year's guidance still keeping the capital intensity at approximately to 17% across the three groups. If we saw an acceleration in demand, that would be very positive. Of course that would take additional capital as well so it would be hard for me to see also then an acceleration in footprint. But having said that, if the metrics were as strong as we have seen in some of our Bell Aliant territories, where we have really mature fibre markets, then clearly we could look at something, but right now that is not currently in our plans or outlook.

Phillip Huang – Barclays – Analyst

Great. Thanks very much.

Operator

Thank you. The following question is from Simon Flannery from Morgan Stanley. Please go ahead.

Simon Flannery – Morgan Stanley – Analyst

Great. George, you were talking about your leadership on 4K and a number of other initiatives, LTE Advanced, etc. How about 5G? We are hearing a lot more now about potential applications for fixed wireless, etc. What are your network guys saying about the potential there?

George Cope – President and CEO

Yes, that is a good question. I mean I would say from our perspective as I think most of the analysts have read and even some of our peers around the world, I mean it is certainly early days where part of what is going on on a global basis when we look out at the roll-out now of the enhanced LTE and the speeds we are providing and the fact that we have done fibre backhaul to literally all of our cell sites, we think we are extremely well-positioned. The commercialization of 5G, the debate will go on as to when we really see that. Is it 18, 19, 20, 21? It is a hard read at this point. As has been seen in Canada, Canada's continued to lead the world on wireless technology. So if it becomes commercially something that is in the marketplace clearly, it is something that we will look at. Of course on the small cell capability, if you look at our footprint and our history of our other assets, we think that there will be a very important strategic piece for us of having a wireline and a wireless integrated company as 5G evolves.

On the other issue on 5G, it looks like it would be incredible technology in the rural markets but the challenge there of course is can you get to the cell site density. So we will see over the years on that. But thanks for the question.

Simon Flannery – Morgan Stanley – Analyst

Thanks.

Operator

Thank you. The following question is from Greg MacDonald from Macquarie Capital Markets. Please go ahead.

Greg MacDonald – Macquarie Capital Markets – Analyst

Thanks and good morning guys. So this is the first quarter in a couple of years that we have seen albeit a slight decrease in gross adds on the postpaid side on a year-over-year basis. So, look, I will acknowledge, George, you commented certainly the 1Q is a lower quality read-through and we actually did see some price increases go through in the quarter so that could be the impact there alone. We also saw a decrease in churn in the quarter. So I guess as a broad question what I am going to ask is, have we kind of seen the top of industry gross add growth which is going to force a shift toward churn as a greater focus for net add gross overall? If that is the case, it still seems like you guys have some downside on churn. As a stretch target, is it safe to say that a sub-1% postpaid churn target is something that you could achieve over time? Thanks.

George Cope – President and CEO

If we did achieve post 1% the financial results would—probably should be materially different than they are now and as you know they are top in North America in terms of what we are performing on. My perspective on the gross adds - and we were down 1.3% year-over-year and I think we did see some gross market share in March move but you can see that we are able to manage our churn down. I do think though philosophically it is about managing the bases that you now have relative to—you know, 26,000's a nice net add number but on a perspective of the size of our base, clearly our investment has got to be on how do we drive the churn numbers down. I think—and geographically, one of our challenges of course is some of our markets have more fourth players than some of our larger markets and so it makes it a little tricky to get down to sub-1. I will tell you that the Bell brand is quite frankly at basically 1% on postpaid churn. So it again of course gets weighted in a little bit by the numbers that we do through our positioning of the Virgin brand.

Greg MacDonald – Macquarie Capital Markets – Analyst

Just as a quick follow-on to that. Is it safe to say that the majority of your gross adds on postpaid are the Bell brand still or has that now shifted toward the flanker brand?

George Cope – President and CEO

It is actually been both. We do not split it out. We clearly see quarter to quarter different times of the year where the consumer market will be very strong. Like take a fourth quarter and there is no doubt there is a weighting of some of the Virgin-type brands and that type of mix into Q4 and in a first quarter where you do not see as much consumer activity, our quarter for instance would be a little more B2B focused and that is clearly 100% Bell brand.

Greg MacDonald – Macquarie Capital Markets – Analyst

Okay. Thanks very much.

Thane Fotopoulos – Vice-president – IR

Next question, please?

Operator

Thank you. The following question is from Maher Yaghi from Desjardins Securities. Please go ahead.

Maher Yaghi – Desjardins Securities – Analyst

Yes, thank you for taking my question. George, I wanted to just go back to a comment you made on the Wholesale side on Internet. What is driving this pressure, is it Rogers giving away more discounts to wholesalers to get more subs? I mean what is really the bottom line impact of those sub losses because likely you get a better profitability and on the residential side with multiple products sold to them rather than just Internet or home phone, right?

George Cope – President and CEO

Yes, I mean it was a competitive market in the quarter on Wholesale and I will not comment much more on that other than your other key point is you are right. I mean the ARPUs for us on a Wholesale customer because we are wholesaling it would be 50% over retail and so clearly different in the churn metrics on Wholesale are so dramatically worse relative to retail, and of course there is no bundling of the product. So that is one of the reasons I talked to it on the quarter and why our consumer revenue that Glen talked about was so strong because really it is broadband growth of IPTV, Internet on the retail side where we have got to be—where our focus has to be. We would have liked getting Wholesale customers but clearly we saw an impact in the quarter on that.

Maher Yaghi – Desjardins Securities – Analyst

How much more should we expect to see on that side in the next couple of quarters, and maybe what is really driving this shift?

George Cope – President and CEO

Yes, it is a hard one, one that we would not give a forecast, but it does seem to bounce around quarter to quarter. I think sometimes the wholesale market quite frankly will see churn probably go up at cable and come down at us and then it goes up at us and goes down over there and others can reverse back and forth but we have some quite frankly switching going on by wholesalers in the marketplace. We have seen that for a period of time and we certainly saw it go against us in the first quarter. But the money for the return on investment that we need for the country to have on broadband all comes from having a retail structure in the marketplace and the bundles that we are able to get to the consumer.

Maher Yaghi – Desjardins Securities – Analyst

Okay, thank you.

Operator

Thank you. The following question is from Drew McReynolds from RBC Capital Markets. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Thanks very much. Good morning. George, just on the Wireline side, saw a little bit more revenue pressure on the quarter but obviously offsetting that with pretty impressive cost efficiencies. Can you just comment on the key drivers of those cost efficiencies. Are they changing? How is fibre-to-the-home feeding into your ability to take cost out? Thank you.

George Cope – President and CEO

Yes. So on the revenue side, you know, important again for everyone to separate the hardware obviously from the service revenue, as Glen talked, because the hardware really there is nothing in it for us other than pulling through some additional services. Then on the cost structure, it is across the board. We really do see, as we have talked about, the telco of the future and what we are evolving to with the service tools we are putting in the hands of our customers and what fibre's doing in terms of we call it dropping the assurance rate, which again for everyone on the call would be the amount of times we need truck rolls for repair. Those numbers continue to drop and as a result our cost continue to drop and as you improve service of course the calls into the call centre come down and satisfaction levels go up. So it is a very interesting circle if you will in terms of what we are seeing. As a result, our cost continue to come down to deliver the service which is what we need in order to make the capex investments we are going to make on fibre and I think what to me was most encouraging is the margins we are producing gave us the headwind for the capital intensity levels we need to make sure the country has the best broadband networks and that is what we are positioning on. But we think we—you know, the margins are hard to say they will go up but what is most important is the cost of delivering some of the services come down as we improve service to the customer. This is really the fourth or fifth year in a row we have seen this.

Drew McReynolds – RBC Capital Markets – Analyst

Thank you very much.

George Cope – President and CEO

Last thing I should add, as Glen mentioned, we are seeing continued benefits of the Bell Aliant/Bell coming together. Just synergies across the board. Not necessarily all on the East Coast but just consolidating operations no matter where they are consolidated and seeing the benefits there as well.

Drew McReynolds – RBC Capital Markets – Analyst

Thank you.

Operator

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

Batya Levi – UBS – Analyst

Great, thank you. I want to ask something about the Wireless segment. Retention expense came down but cost of acquisition went up a little bit. As you mentioned, there were more handset promotions toward the end of the quarter. How should we think about those two levers into the second quarter?

George Cope – President and CEO

Retention spend was actually in absolute dollars it was up but it was flat as a percentage of revenue at 11.8%. So I think that is a fair—if you look at our year-over-year numbers, you might almost want to model in last year's but as a percentage of revenue. So we tend to think about it, if our revenue went up $15 million in a quarter on service revenue then we would multiply that roughly by 12% in that quarter and say that is where you might see the increase in retention. We are hoping we can keep it there. It can get pretty volatile.

On the gross add side, the cost per gross add was up 9.3% year-over-year, and that was really two things. We had more postpaid gross sales than prepaid which is a much higher cost for us, and secondly the dollar had an impact on our subsidy. So that actually went up but I think you mentioned it went down, so I just want to make sure we are clear. But the total gross sales of postpaid dropped 1.3%. It would not have been enough to take down though our total COA. What is interesting if you take our COA and COM, the $23 million that Glen talked about, out of our cost to wireless, our other operating cost clearly dropped year-over-year pretty significantly.

Batya Levi – UBS – Analyst

Right. COA I noticed that it went up and you mentioned that there were more promotions also from competitors. Do you expect that to continue into the second quarter?

George Cope – President and CEO

For my lifetime.

Batya Levi – UBS – Analyst

Okay, thanks.

Operator

Thank you. The following question is from Jeffrey Fan from Scotiabank. Please go ahead.

Jeff Fan – Scotiabank – Analyst

Thanks. Good morning. I wanted to just clarify, the residential ARPU was up 10% and that is a great, great number. Just wondering what the absolute dollar roughly is on the residential ARPU. Then just a quick follow-on related to that. You are overbuilding fibre in a lot of your fibre-to-the-node areas. I am wondering given the early results whether you are getting the incremental ARPU that you think is necessarily to kind of drive the return on fibre. Also, along with that on the ARPU side, whether customers are actually looking at a double-play service on FTTH versus a triple play just because, you know, there is less emphasis on phone and if they have a big broadband pipe they probably do not need TV. Just wondering if you can comment on that.

George Cope – President and CEO

Yes, a couple of points. One, we are not going to give our ARPU out on the consumer side. We just do not disclose that. Secondly, on—we have the Aliant experience, Québec City experience. Most people, as we said, a dramatic number are always taking a double and on the triple, it is about 63% in total. Then, in terms of the return on capital, we are just going where the market is going. This debate seems to be raised over and over. With our margins and our capital intensity numbers, our free cash flow, EBITDA-capex is by far the most superior in

North America, and as a result for our shareholders, it gives us the headroom to go where the market is going which is going to be 1 Gbps services, and as we roll these services out it will surpass 1 Gbps services and our competitors will have to even make their capital investments to do those. But the metrics we get of the markets we have done fibre are lower churn than FTTN, lower assurance levels, better ARPU and better penetration of subscriber results. In all of our markets where we are FTTN or FTTH, we are positive RGUs every single quarter. So the investment to us is quite frankly a bit of a no-brainer.

Jeff Fan – Scotiabank – Analyst

Okay, thanks.

Operator

Thank you. The following question is from Aravinda Galappatthige from Canaccord Genuity. Please go ahead.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning. Thanks for taking my question. Obviously just a little while ago we saw Rogers make the decision to sort of take SportsNet over-the-top. With respect to TSN, what variables would you be looking at in terms of making a similar decision? I was wondering if you can share sort of the pros and cons in your mind with respect to that? Thanks.

George Cope – President and CEO

I think that is a—It is a bit of a strategic question so I will be a little careful. We did clearly watch what was done by our competitor. We clearly watched the pricing on that which I think is obviously something that was thought through in the marketplace and we see that. We at the moment are very, very happy with the distributors we have carrying our product and the method they distribute the product. So at the moment we are not looking to compete with our distributors on TSN and we think that is a competitive advantage not competing with our distributors who are really, really important customers for us. As the market evolves, we will evolve with it and clearly that is one of the—as buying preferences evolve over time and we build fibre out, clearly some of our core products have the ability to go into that OTT world. We started that with our Crave product and that is really what that approach has been.

Aravinda Galappatthige – Canaccord Genuity – Analyst

Great. Thank you.

Operator

Thank you. The following question is from Bentley Cross from TD Securities. Please go ahead.

Operator

Thank you. The following question is from Richard Choe from J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Hi. I wanted to follow-up on the churn question. It is the first time in about a year where it has actually been down year-over-year versus being up over 10 basis points generally. Are we through the double cohort or is it more effective retention or is it just less customer activity? Any colour on that would be great. Thank you.

George Cope – President and CEO

Yes, I actually think it is—the three you hit are kind of what we saw happen. I mean double cohorts further along. First quarter does generally just the amount of consumer activity can be less. So you get the benefits of that and clearly these surveys that came out from three independent organizations that said our network is the fastest in the country, that is real and it helps you keep customers and we are the only I think other than two other countries in the world Bell is the only one who has launched Cat 9 devices and that means they are the fastest phones available literally on the planet and that leadership of course we use in our sales and we think that is part of what we get in seeing some improvement in churn. I mean I do not want to overplay it. It was not dramatic improvement but it is certainly moving in the right direction.

The one other comment just as we were earlier on talking about the fibre, we do have the fibre to the cell sites buildout as well and of course those fibre investments for us to the home are all a function of what we are doing now in the urban markets because we have got to compete and the expansion of that in the rural markets of course also becomes a function of making sure we have the right environment from a wholesale pricing perspective. As everyone knows we have appealed that particular decision and the cabinet are weighting on the response to that decision. Thank you.

Richard Choe – J.P. Morgan – Analyst

Thank you.

Operator

Thank you. The following question is from Robert Peters from Credit Suisse. Please go ahead.

Robert Peters – Credit Suisse – Analyst

Hi. Thanks very much for taking my question. Just wanted to kind of circle back, you know, we have seen pick and pay in the market for almost two months now. I am just curious what the initial feedback you have seen on both the wireline and media side of things, particularly some comments have indicated that if they have—if you have seen subscribers switch to pick and pay, it has generally been a very niche segment and they have been focused not necessarily on the sports side of things. I am wondering if you have seen that from any subscribers that you may see move over to the plan as well as kind of what you are seeing on the media side of things.

George Cope – President and CEO

I think you are correct, it has been—It is a service we have in the marketplaces but, you know, that could be—when you start—customers start to build packages up the way we have packaged our traditional products is trying to meet the demands of customers anyway. So it has been generally a niche product so far and not really that significant an impact on Bell Media or overall on Bell, it is just an additional choice, and some customers who really want that type of price point that we brought to the marketplace have that capability to purchase those products. But there is people's appetite for all the different media content we have now is really what is driving it. It is worth noting though, the Canadian TV ARPU on general in the country is $60 to $70, does run about $20 less than in the U.S. already. So we have a very competitive TV market and sometimes that is lost in

all this that Canadians are paying roughly $20 less a month for their Canadian—for their TV bill than in the United States based on publicly available ARPUs out of the U.S. TV providers.

Robert Peters – Credit Suisse – Analyst

That is great. Thank you very much.

Operator

Thank you. The following question is from Bentley Cross from TD Securities. Please go ahead.

Bentley Cross – TD Securities – Analyst

Hi guys. Sorry about that earlier. I wanted to ask a question on acquisitions. Obviously we are continuing to see Bell Aliant synergies run through. Just curious if you guys follow the same playbook. How far astray might you be willing to go from a quarter to quarter the next time around? Obviously in the U.S. we are seeing those guys go further and further from conventional telco and wondering what your thoughts are there. Thanks. Bye.

George Cope – President and CEO

We think there is ample opportunity in Canada with our fibre investment and our Wireless business. So our focus is heads-down making sure for our shareholders are actually treated well in Canada.

Thane Fotopoulos – Vice-president – IR

Next question? Actually this will be our last question, Wayne, given our time constraints this morning with our AGM.

Operator

Thank you. So the last question will be from Michael Rollins from Citi. Please go ahead.

Michael Rollins – Citi – Analyst

Hi, thanks for taking the questions. Just curious, as you think about ARPU performance in the postpaid market over time, what is your internal methodology to think about how that can grow? Do you look at it as an inflation business? Is it based on some analysis of usage that you do and you could see where the average customer is going maybe versus your most active customers? If you can give us some insight into how you look at that? Then is there any updates on other regulatory initiatives that are going on in Canada, for example the wholesale rate in wireless or on the fibre side? Thank you.

George Cope – President and CEO

So I will end on the first one. The one regulatory file as people I think know but just in case they do not, we have made an appeal to cabinet on our fibre investment asking that there not be mandated resale to the new fibre network that we are building and we are awaiting that response from cabinet over the next number of months. Whether or not they will send that back to the CRTC and ask them to take another look at that because quite frankly I think most people understand the urban investments would happen but on a national broadband strategy that we are focused on in the country, pretty hard to get returns on capital appropriate for the people on

this phone in rural markets if you are also forced to resell those services. So that is a decision we are watching and we will wait to see how that comes out.

I am sorry, the first question was?

Michael Rollins – Citi – Analyst

On the ARPU side, when you think of modeling your postpaid ARPU, the analog that you use for that whether it is an inflation-based methodology or if you look at your early adopters in terms of usage and think about how your average customer is going to migrate towards that over time.

George Cope – President and CEO

Yes, I would say certainly less on the inflation side and a lot of our pricing strategies are now more of a larger bundles and less variable out of the bucket for the customer base, and particularly that is also as we see the movement to WiFi making sure that we are getting the right ARPU returns from a fixed perspective for the investments that we are making. Then what we really just continue to see is from a Bell perspective usage growing as customers migrate to these advanced networks. That is why we are trying to lead on LTE Advanced because we see a higher usage. Secondly, in our positioning in the marketplace on the business market side and the SMB market making sure we are gaining market share there where quite frankly the ARPU and the churn metrics can be stronger. So that is really what our focus is. But we do not really particularly do it so much on a CPI basis. Certainly not yet. Of course if the industry starts to mature and we are getting there that would probably be a spot we will start to look at.

Michael Rollins – Citi – Analyst

Thanks very much.

Thane Fotopoulos – Vice-president – IR

Great. So thank you to all who participated this morning. I will be available later today after our AGM for any follow-ups and questions and clarifications. So, thanks again and have a great day.

Operator

Thank you. That concludes today's conference call. Please disconnect your lines at this time and we... All participants, the conference has now ended. Please disconnect your lines at this time and we thank you for your participation.
